

Q2 2023

PROSPERO WEALTH
QUARTERLY
LETTER

JULY 30, 2023

Q2 2023 LETTER FROM PROSPERO WEALTH

A RISING TIDE DID NOT LIFT ALL BOATS

It might be difficult to remember the halcyon days a scant 4 months ago where most people believed a recession was imminent and that the Fed would certainly be cutting rates. How did those predictions fare?

Uhhhhhhh. By the end of Q2, we had no economic downturn, inflation remaining elevated, and even higher Fed rates (with a further increase in late July).

I've read that the hallmark of Q2 appears to have been divergent behavior in the markets. If you did not own the "Magnificent 7 (the replacement for the FAANG stocks, now made up of Meta, Apple, Amazon, Alphabet, Microsoft, Tesla, and Nvidia (dropping Netflix))" you missed out on the bulk of that rally and performance was relatively flat.

Magnificent Seven Responsible for Almost 3/4 of Market Gains in Q2

Name/Ticker	Index Weighting (%)	YTD Return (%)	YTD Contribution to Index Return (%)
Apple AAPL	6.05	43.01	2.27
Microsoft MSFT	5.34	37.66	1.83
Nvidia NVDA	1.68	178.11	1.75
Amazon.com AMZN	2.36	51.58	1.05
Meta Platforms META	1.16	131.40	0.96
Alphabet GOOGL	3.00	34.13	0.92
Tesla TSLA	1.26	95.69	0.86

Source: Morningstar. Data as of June 26, 2023

Within our managed account strategies at Prospero Wealth, the only position we had significant exposure to within those “Magnificent 7,” was Nvidia, which we have owned since the launch of our growth portfolio in January of 2019. The surge in “all things AI” this year, caused Nvidia to soar. We sold 75% of our position within the growth portfolio in late May to lock in those gains and redeploy to areas where we see more opportunity. I bring this up not to crow about the gain on that position, which was fantastic, but as indicative of how we are managing client portfolios as we move forward.

TO THE FUTURE!

When we look to redeploy capital more broadly, we look towards where we can find the most value capture. Right now, that continues to be in smaller companies, especially small value.

Morningstar Equity Research Price to Fair Value by Style Box

		Style			
		All	Value	Core	Growth
Size	All	0.95	0.84	0.99	0.98
	Large	0.97	0.86	1.02	0.99
	Mid	0.90	0.82	0.92	0.95
	Small	0.73	0.58	0.80	0.90

Source: Morningstar. Data as of June 26, 2023

What the table shows is Morningstar's estimates of price to fair value. Sectors above 1 are overvalued. Sectors below 1 are undervalued. The relative discount from 1 shows the discount or premium expected within that category.

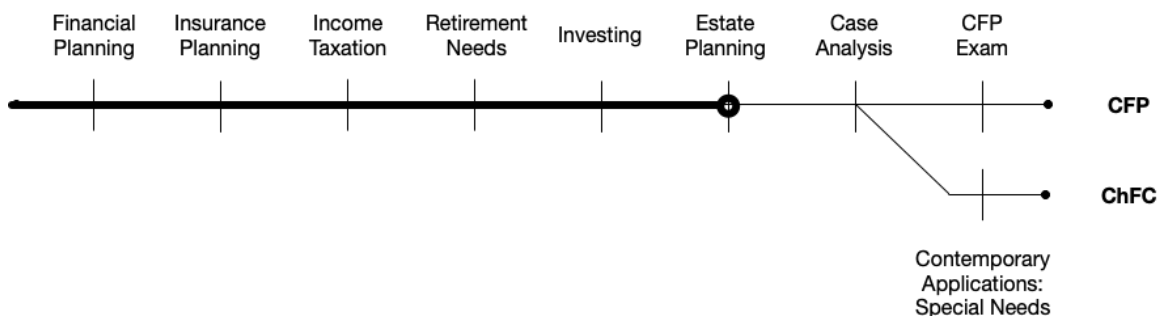
The core strategies we use with Dimensional products are naturally tilted towards small value, so we think we're in good shape that way. For those of our client who may have had too much exposure to our active Growth strategy in 2022, this is looking like a good time to peel back some of that exposure (since early 2023 surged back) and diversify into the smaller value sectors. As we review client portfolios in the weeks ahead, that's likely what we'll be looking at for many of you. Stay tuned.

UPDATES AND NEW OFFERINGS

1. New Tax Planning and Risk Management Software - As many of you who have been with us for a long time can attest, we keep rebuilding the airplane while it's flying. At the risk of extending an analogy to its breaking point, however, we think it's aligned on improving the quality of the service we are able to provide to you. We want you all to feel like you're on a private charter and not Spirit Airlines. In Q2, we started looking at a lot of our client's tax returns and analyzing those for opportunities in 2023. If you have not sent us a copy of your 2022 tax return and would like us to look at that for you, please let your advisor know. Later in the quarter, we made a large purchase of risk analysis software. This software is pretty incredible and has already driven some valuable client conversations that will help us better demonstrate alignment between a client's risk tolerance, their risk capacity, and their goals.

2. Certified Financial Planner (CFP) and Chartered Financial Consultant (ChFC) Designations - I wrapped up my investing course at the end of Q2 and will be starting up Estate Planning in early September. Still...plugging...away...

Certified Financial Planner (CFP) and Chartered Financial Consultant (ChFC) Curriculum



IN CONCLUSION

It is an honor to serve you, your families, and your loved ones; and it's a privilege to be building this business from your referrals. If you like what we're doing, let a friend or colleague know.

There's a lot more good stuff ahead. I look forward to updating you on some of the incredible things we already have underway for Q3.

Until next time,

A handwritten signature in black ink that reads "Eric Franklin". The signature is written in a cursive, flowing style.