



Q4 2022

PROSPERO WEALTH  
**QUARTERLY**  
**LETTER**

JANUARY 26, 2023

# Q4 2022 LETTER FROM PROSPERO WEALTH

## Q4 SILVER LININGS

Our Q3 letter started out with a bunch of doom and gloom, so I want to start this one on a more hopeful note. As you may have seen in our quarterly market summary a couple weeks back, we saw “across the board” improvements in market performance in Q4. (Please visit <https://www.prosperowealth.com/quarterly> for the full report.)

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Q4 2022	STOCKS				BONDS	
	7.18%	16.18%	9.70%	6.88%	1.87%	0.18%
						

This moderated what was a pretty terrible year for markets as a whole.

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	STOCKS				BONDS	
	-19.21%	-14.29%	-20.09%	-24.36%	-13.01%	-9.76%
						



So that's the year that "was." Let's talk about where we "are" entering the New Year. I attended a Morningstar end of year wrap-up for US Equities with an outlook on the year ahead. It was an excellent lens on how to look at things and had some great visuals. Let's take a look at a couple of those and discuss what we'll be doing with that data in 2023.

## US EQUITY MARKET TRADING AT 16% DISCOUNT! (AS OF 12/27/2022)

- U.S. stock market at price/ fair value of 0.84, a 16% discount to our fair value estimates
- Valuations suggest a barbell-shaped portfolio: overweight value & growth, underweight core
- Large- & mid-cap in line with broad market average, small-cap at 30% discount
- Market undervalued, but we expect markets will remain turbulent over near-term
- Projected economic recovery in second half of 2023 should allow equity markets to begin to recover toward our long-term, intrinsic valuations

**Morningstar Equity Research Coverage Price/Fair Value**  
Valuations of Morningstar's equity research coverage by Equity Style Box

		Style			
		All	Value	Core	Growth
Size	All	0.84	0.80	0.89	0.80
	Large	0.84	0.81	0.89	0.80
	Mid	0.84	0.79	0.89	0.80
	Small	0.68	0.60	0.72	0.75

Source: Morningstar. Data as of Dec. 27, 2022.

## IT IS RARE TO GET LARGER DISCOUNTS

**Historical Morningstar U.S. Equity Research Coverage Price/Fair Value Estimate at Month-End**

Near-term market dynamics will drive further volatility, but low valuations provide a large margin of safety.



Source: Morningstar. Data as of Dec. 27, 2022.

- 4 headwinds continue to pressure stocks
- Near-term outlook challenging, but based on our valuations, market trading deep into rarely seen undervalued territory
- Since 2010, market has traded at or below the current discount only 5% of the time.
- Large margin of safety for long-term investors
- In our view, we think the market is overly pessimistic regarding the long-term outlook

Now take a look at both of the highlights I made on those slides as I start to talk about what we do at Prospero Wealth. When we manage significant chunks of a client's investable assets, barbell-shaped portfolios are our default. Many of you have heard me refer to this as a "yin-yang" approach. The Dimensional Funds we use as our base-level allocation have a value tilt in what they buy. For clients who have higher risk tolerance and risk capacity, we pair that with one or more of our active growth strategies.

Broadly speaking, client assets in value-based approaches (Dimensional Funds, Income, High Yield) outperformed the dismal markets of 2022. This doesn't mean that they made money in 2022; it typically means that they lost less.

Client assets invested in our active growth and long-short strategies got kicked in the teeth and underperformed in 2022 (but have already seen a significant spike above the general market recovery in 2023). Over 5-10 year timeframes, we still expect those active strategies to be a really powerful additional to broadly diversified portfolios

Based on what I see in the full Morningstar presentation (which I am happy to discuss and share with any of you who are interested) the forward-looking view from here makes me very excited about what we're doing and how we're building our investment strategies.

If you have been stockpiling cash waiting to buy the markets at a discount, now is your time. We've already seen some initial surges in growth stocks in early 2023. Being in place for the eventual recovery is likely to be a fun ride. If you rode of the Covid collapse with us, you'll have a sense of what that can feel like.

## **BUILDING PROSPERO WEALTH**

2022 marks my first full year as a full-time advisor. In an "it was the best of times, it was the worst of times" kinda of way, the business was much more financially challenging than I had expected while also being much more personally rewarding. What an odd combo.

I made the decision to move full-time to Prospero Wealth at a time when all of our company metrics were pointed "up and to the right." Almost immediately after making that decision, I started getting my ass handed to me as the market performance of our

active strategies—which had enjoyed outstanding performance through the Covid collapse—rapidly deteriorated in the face of economic difficulties.

My family had grown used to steadily and increasing financial awards from my prior career. This allowed us to stack away good savings for retirement, colleges, and even to enjoy small luxuries (good cars, travel, etc.). I knew that downshifting to a career paying me less than 25% (initially) of what I was making would be challenging, but I did not expect the challenge to be as sustained or result in so many daily impacts for my family.

But here's the great news! As difficult as 2022 was, we continued to acquire new clients (mostly through your generous referrals), improved our offering, and are entering 2023 in a substantially improved and more resilient position.

***“What ought one to say then as hardship comes? I was practicing for this, I was training for this.” - Epictetus***

Far beyond mere survival, our goal is to build a service-based company that will last longer than we as individuals do. We plan on being here for as long as you need us (and ideally, if we do a great job for you, be working with your children and grandchildren). If we fail to hit that bar, please let us know and we will do our best to fix it.

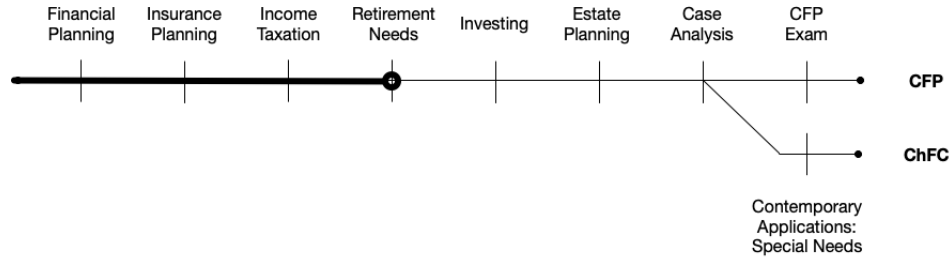
## **UPDATES AND NEW OFFERINGS**

1. **\*\*COMING SOON: New Client Portal with Improved Billing and Performance Reporting\*\*** - Part of building out our practice is the continual improvement in our client experience. In Q4, after more than a year of deliberation (and deeply assessing various software platforms), I made the largest purchase in the company's history and signed a contract with a company called Advyzon. I could not be more impressed with what the experience has been like. We just finished migrating all of our data into their systems a couple weeks ago. In the coming weeks, we will be reaching out to all clients with instructions on onboarding. The new portal will provide you an aggregated view of all of your accounts, an amazing document repository that automatically gets all of your statements and tax docs from Schwab, and an improved billing experience that allows us to seamlessly bill across all of our service providers. For the first time ever, you will also have access to a mobile app for Prospero Wealth.

## 2. New Offering: Personalized/Direct Indexing.

- 1. Vanguard now our lowest-cost provider.** In the Q3 letter, we talked about onboarding with Vanguard Personalized Indexing. They have been awesome to work with and recently lowered their pricing for this service by more than 40%.
  - 2. Available with Parametric (the most fully-featured).** If you know about Direct Indexing, you know about Parametric. We onboarded with Parametric in Q4 and now have access to probably the most full-suite of direct indexing options in the business.
  - 3. Available with Schwab (the provider with the lowest minimums).** We launched our first client with the Schwab Personalized Indexing solution in Q4. Schwab may not be as fully featured, but they have the lowest account minimums (\$100k) for this service and are cost-competitive.
  - 4. Available with Dimensional (our premium offering).** Dimensional offers massive customization with their trademark value and tilt overlays. They are also one of the only offerings allowing a single account to hold individual ETFs to round out a direct indexing allocation and to be managed as part of a model within a single account.
- 3. New Offering: Advised Company 401(k)s with Employee Fiduciary** - January 1st, 2023 marked the go-live date for the first 401(k) plan we designed and launched for a client. We partnered up with Employee Fiduciary for this offering because they have a comprehensive set of plan design options, lowest cost in the industry, and a fully customizable investment menu. If you are a company-owner/entrepreneur looking to maximize your tax-advantaged deferrals while also providing a great plan to your employees, please let us know.
  - 4. Certified Financial Planner (CFP) and Chartered Financial Consultant (ChFC) Designations** - I wrapped up the Retirement Needs class a couple weeks back and will be moving on to the Investing course in March or April. I am taking a short break to build out all of our company processes in our new software, mentor our new advisor, and enjoy the ski season with my family.

**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, that's the coolest thing ever.

Until next time,