

Q3 2022

PROSPERO WEALTH
QUARTERLY
LETTER

OCTOBER 1, 2022

2022 Q3

PROSPERO WEALTH

COILED SPRING

Financial planning. Excellent service. Fortitude through difficult patches. The best financial products. Attending your BBQs. These are what we're here; why we exist.

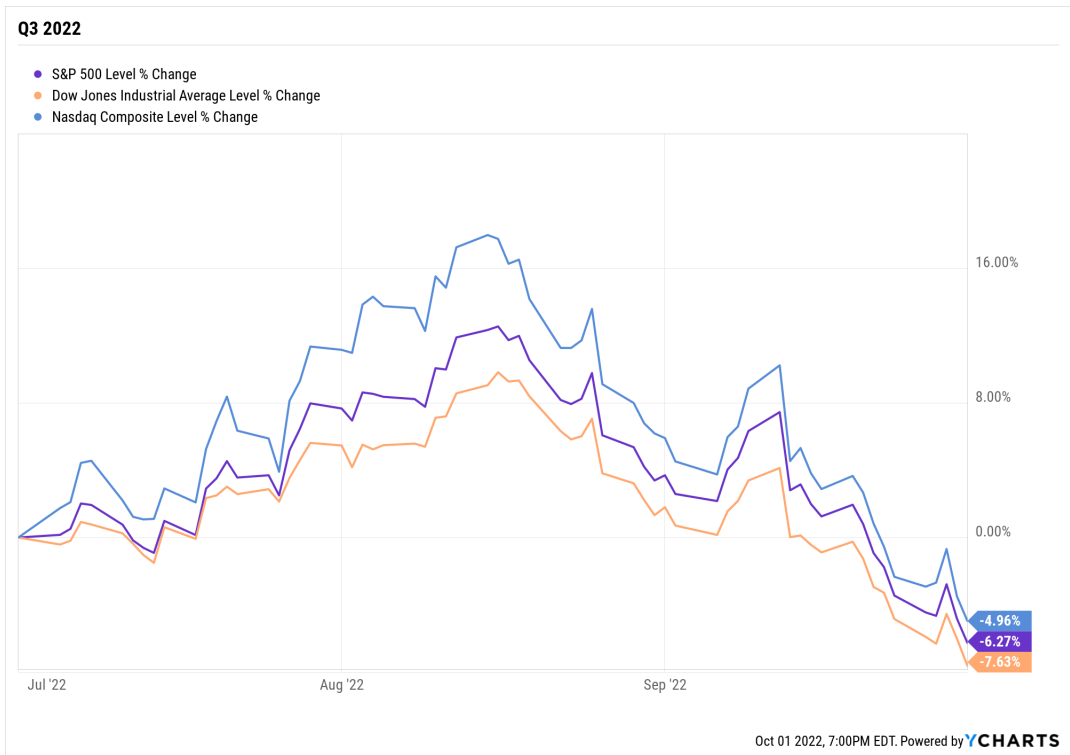
There are two kinds of forecasters: those who don't know, and those who don't know they don't know. – John Kenneth Galbraith

Do me a favor. Take your Google time capsule back 1 year ago and find me anyone accurately predicting mortgage rates at 7.5% or Fed interest rates at 3.25%. I'll wait.

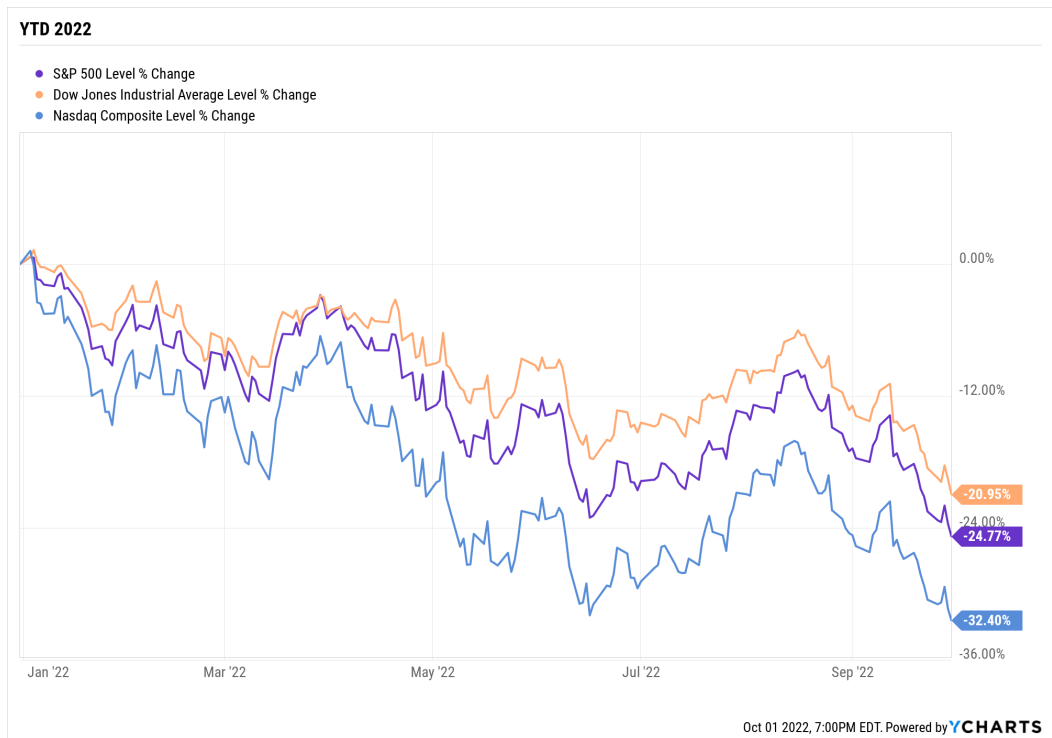
When it comes to forecasting; I admit that I don't know.

I bring this up, not as an excuse for failure to see the pain we are living through, but as a way of illustrating a core principle of how we think about investing at Prospero Wealth. We invest in the near-certainty of long-term trends, not the volatile uncertainty of short-term market cycles. We believe that, if you need money within a few years, the equities market is NOT the place to place those funds—period.

There is no escaping difficult times in the markets right now. It would be disingenuous for us to wave away any angst and anxiety you might be feeling—so we're not going to do that. Let's take a look at Q3 2022 across the major indices.



And just for good measure, let's also take a look at YTD across those same indices.



The Nasdaq is down more than 32% this year alone. Oof. The S&P 500? Nearly 25%

Those of you investing in our active stock-picking strategies are down similar (and in some cases, larger) amounts on these timeframes.

But markets are forward-looking and we need to be too. Those of you who went through the “Covid Collapse” with us have some idea of how this works. Markets over-react on the downside, throwing out great companies alongside mediocre ones. We, as asset managers, trade significantly more than is normal for us in these choppy moments, capitalizing on what we see as the irrationality of others. And then when the markets recover—and they will recover—our portfolios unleash like a coiled spring, ideally rallying more than underlying benchmarks. That’s the way those active allocations work, and its unfortunately the cost of long-term returns. I wish I knew of a way to get those returns more smoothly, but I don’t.

A ship in harbor is safe, but that’s not why ships are built.

But let’s talk about things you can do during times like this. In our view, there are few things more harmful than sitting on large wads of cash waiting for the market to get more favorable. That strategy is 100% guaranteed to diminish your cash at the rate of inflation.

People who think they will somehow identify the right moment to place their next dollars into their market are generally wrong. Market recoveries typically come before you’re ready for them and the cost of missing those bounce-backs, even by a day or two, can take years to make up in opportunity cost.

For most of our clients who are looking towards retirement in 10 or more years, the best strategy is to hold your nose and keep allocating diligently throughout the downturn. I know it’s hard to believe, but you will thank me when the market recovers and all those new dollars launch you to new highs.

That being said, if the allocation we have for you in is too volatile. If active investing is making you sick to your stomach, we have fantastic ways of ramping down the risk, and that’s what we’d recommend for new dollars. Talk to us if you want to hear more.

CHANGES AT PROSPERO WEALTH: ALL FINANCIAL PLANNING, ALL THE TIME

Now that we have the grim stuff done, it's time to move on to more exciting news about how we are changing our services here at Prospero Wealth to adapt to our client needs and build a practice we are proud of.

3 years ago we added Financial Planning to our product offering. Since then, we've had the pleasure of working with dozens of households on building out their plans. You know what? We love it. And so do you. This deeper planning relationship with our clients, across a broad range of their financial needs, is where we feel we provide the most value and so we're going to double-down on it.

With that in mind, we're excited to announce that **we are moving to being a financial planning centered practice.** This was already more or less the way things were working, we're just making it official.

SO WHAT DOES THAT MEAN?

Going forward, all new clients of Prospero Wealth will onboard with Prospero Wealth through financial planning.

Initial plans typically run \$1,500 - \$3,000 (determined by the complexity of your financial situation and modeling needs). If you are younger or have super-simple finances (or super-simple needs), we occasionally do a lighter version of planning at reduced cost. Once your plan is completed, we include updates and monitoring for the first year as part of that pricing.

Nothing about the initial planning process is changing.

What is changing, however, is that clients who place \$250,000 (or more) of assets with us receive all ongoing planning as part of our overall service.

If you maintain or build up over time to \$250,000 (or more) of assets under our management, planning will be included at no additional cost.

I will be reaching out directly to all of our planning clients over the next few business days delivering this good news and talking about what it means for them.

WHY?

Alignment of goals with our clients: One of the main reasons for this change is not to have to go back to clients each year and ask if we should update their plans. We don't want our clients weighing whether it's worth keeping their plans updated. We want all of our clients to reach out to when things change or they need a second opinion, not to be hampered by the thought of how much that update or question might cost.

Deeper engagement: Our goal with these changes is to build a practice where we have deep engagement and trust with our clients. We think that shifting our focus to comprehensive advising and planning is a big part of the equation.

Financial planning for everyone: We're excited to build out and update plans for a lot of you who haven't had any planning done or whose plans may be out of date.

Scaling personalized service: The changes will allow enable us to get more consistent in how we service all of you. Some of our clients contact us nearly weekly. Some reach out less frequently. Regardless of your communication preference or need, we want to be more visible with you on our planning communications and values.

Looking ahead: We'll be building out a communications and meetings calendar for all of our planning clients so that we can communicate on important plan-related subjects (e. Tax prep, Estate planning, Retirement planning, etc.) at the right times. We think this is going to be awesome and a huge benefit for all.

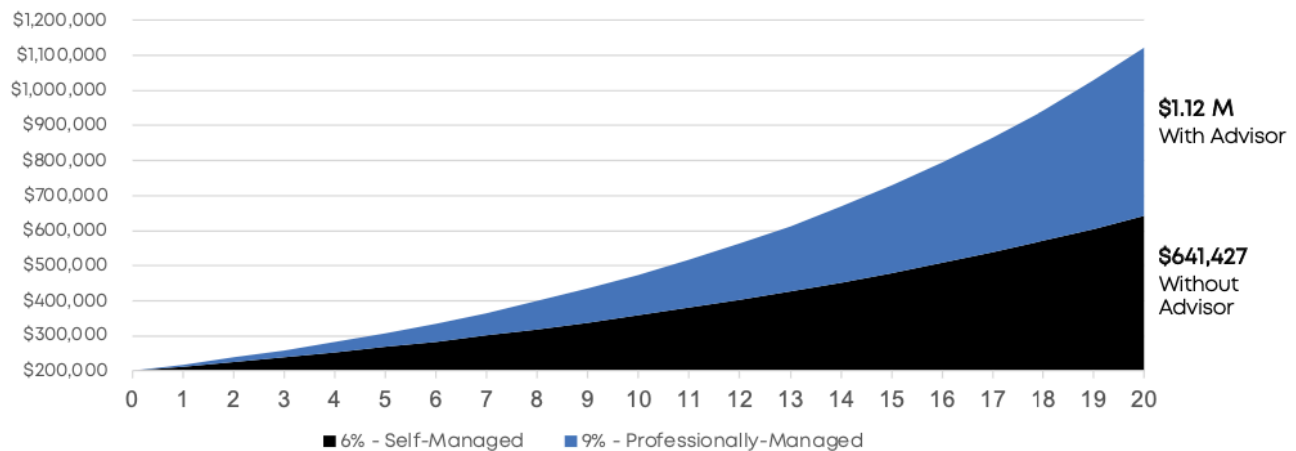
UPDATED AND NEW OFFERINGS

1. **Vanguard Personalized Indexing** - I could not be more excited to begin offering this product to our clients in Q4. Most of you know Vanguard already. Indeed, we have many clients who have done incredibly well for themselves just investing in Vanguard and staying the course (as many investment books will tell you to do). Personal Indexing is a step beyond what you get when you invest in Vanguard Mutual Funds or

ETFs. The benefits of this approach are significant tax optimization in taxable accounts (far above and beyond what you can get in any funds) as well as a high degree of personalization. This is a tax efficient way to move a lot of assets from a concentrated stock position (I'm looking at you, all of my Amazon peeps) or from a portfolio with significant gains. Part of setting up this strategy allows you to tilt towards industries you personally like and exclude stocks and industries you don't. You used to need many millions of dollars to get this type of strategy. This partially approach can be accomplished with a taxable account of \$250,000 or more. We'd love to show it to you.

- Managing your "Held Away" Assets with Pontera** - We have a lot of clients where we manage all of their assets except their 401(k) or 529 or HSA or... Pontera allows us to manage those assets and report on what we're doing with them, all using the same billing system we use for assets we manage at Schwab. If you want us to help you with your company 401(k), 403(b), variable annuity, or other held away account, this is a great way to do it.

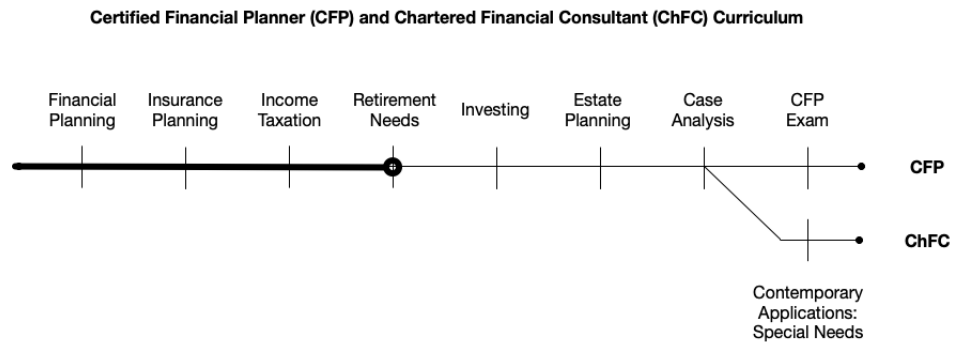
Did you know? Studies show that professionally managed accounts outperform unmanaged accounts by 3% or more, net of fees. For a 45-year-old participant, that could translate to 75% more wealth at age 65.¹



¹ Vanguard Vanguard. "Putting a Value on Your Value: Quantifying Vanguard Advisor's Alpha." February 2019. Russell Investments. "2021 Value of an Advisor Study." April 2021. Hypothetical performance calculations are shown for illustrative purposes only.

3. **Tax Preparation Services for 2022 (details coming soon)** - Many of you will recall that we trialed using a tax planning service last year. The service we used had mixed results so we've dropped them and are instead working with a tax preparation firm we know much better (Marcus and I have known one of the CPAs there for more than 20 years). We've spoken to them and have high confidence that they can handle our needs and provide value to our planning practice with all of you. All Prospero Wealth clients should expect an email in late October/early November with details on this new service.

4. **Certified Financial Planner (CFP) and Chartered Financial Consultant (ChFC) Designations** - As many of you may know, I am back in school in pursuit of these financial planning designations. It's a significant amount of work (but you're worth it). I have started the 4th of 8 classes in the education part of these curricula. It will likely be 18-24 months or so until I have both designations. Marcus, who has 8 years of prior planning experience, continues to be involved in reviewing our plans, as well.



5. **Schwab Migration Complete** - Thank you so much for everyone that helped us migrate accounts to Schwab. I am happy to say that all of the accounts have been moved, which means that Q4 2022 will be our first quarter that we can to run fees in a single location (hopefully!).

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 off of your referrals (we still have never done paid marketing). If you like what we're doing, let a friend know, that's the coolest thing ever.

Until next time,

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