

Q1 2023

PROSPERO WEALTH
**QUARTERLY
LETTER**

APRIL 18, 2023

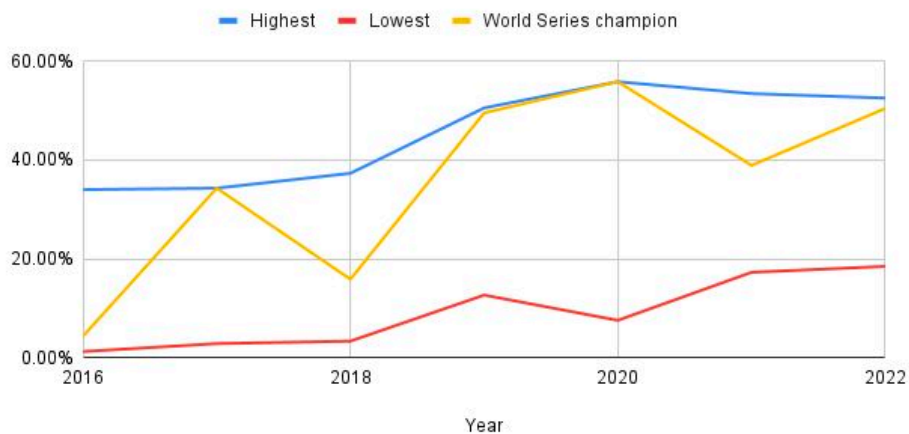
Q1 2023 LETTER FROM PROSPERO WEALTH

PUTTING ON THE SHIFT.

There's a concept in baseball called "the shift." Simply put, it's when the team on defense rotates players to the side of the baseball diamond that a given hitter is most likely to put the ball in play. This gives the defense a statistical advantage in fielding the ball and getting that hitter out. (It's also, incidentally, banned within MLB starting this year).

The concept of shifting became so dominant in MLB over the last 5-6 years that you can see an increasing trend of the eventual World Series Champions being practitioners of "the shift" over time.

Shift rate by year: highest % team, lowest % team, and WS champ



From [MLB Shift Rule 2023: When are teams allowed to shift?](#)

The same concept of shifting can, and in our opinion, should, apply to investing. Those of you who follow us, or who have been clients for a while, may remember [our post in March of 2021 containing our outlook on bonds](#). Spoiler alert: we thought the outlook for bonds sucked ([we were right](#)) and we made a definitive move to reduce our client exposure to bonds in the models we use for our allocations. We reduced client exposure to bonds by 50%, and sought diversification through other alternative investments like real estate. That shift played out very well. We only recently removed that shift on bonds in our model portfolios.

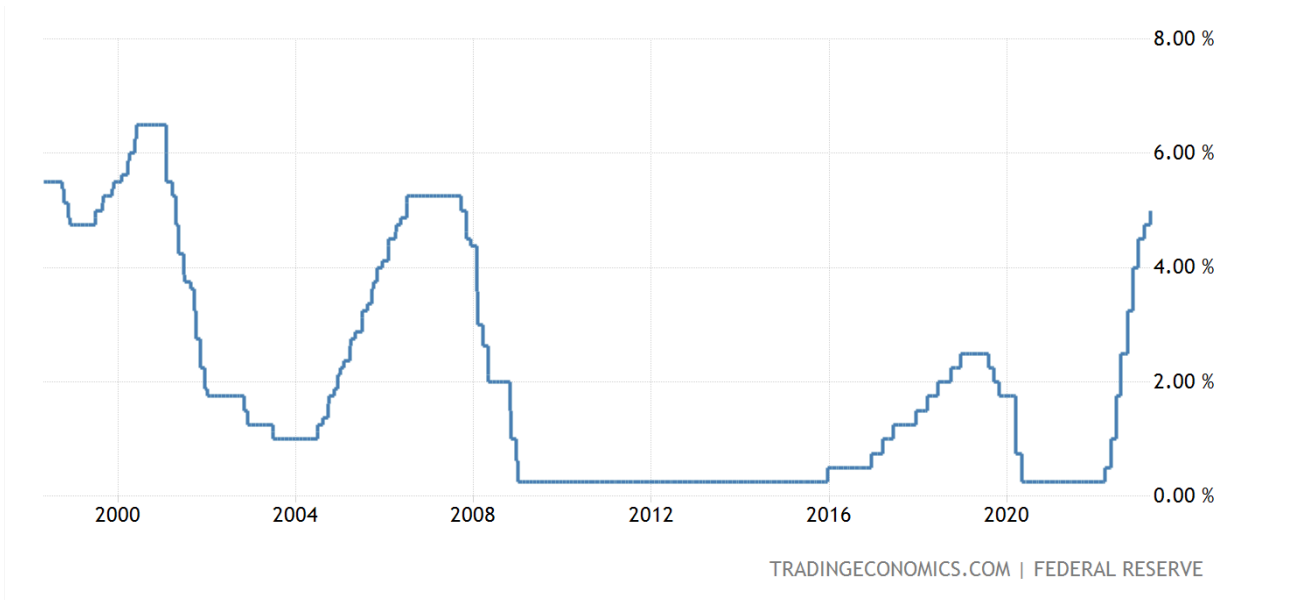
Sometimes it really is as simple as using long-term trends and statistics to figure out where to place your assets.

I bring all of this up, because we're putting in another long-term shift right now: this time away from the standard US-centric approach to investing and towards more global diversification. While most macro reports call for continuing volatility in developed and emerging markets outside of the US (in no small part due to US-based economic stressors), we believe that the multi-year trends in the space play to our favor; both in terms of the diversification our clients will experience, as well as for overall growth prospects.

US markets, especially the growth sectors, went on an amazing run after the housing market collapse, right up until late 2021. Going forward, we expect that growth driven by technology will be more globally distributed. We see the US failing to implement strong policies incentivizing innovative companies and their founders to do business here. We don't like that trend, but we need to remain pragmatic about how deal with it.

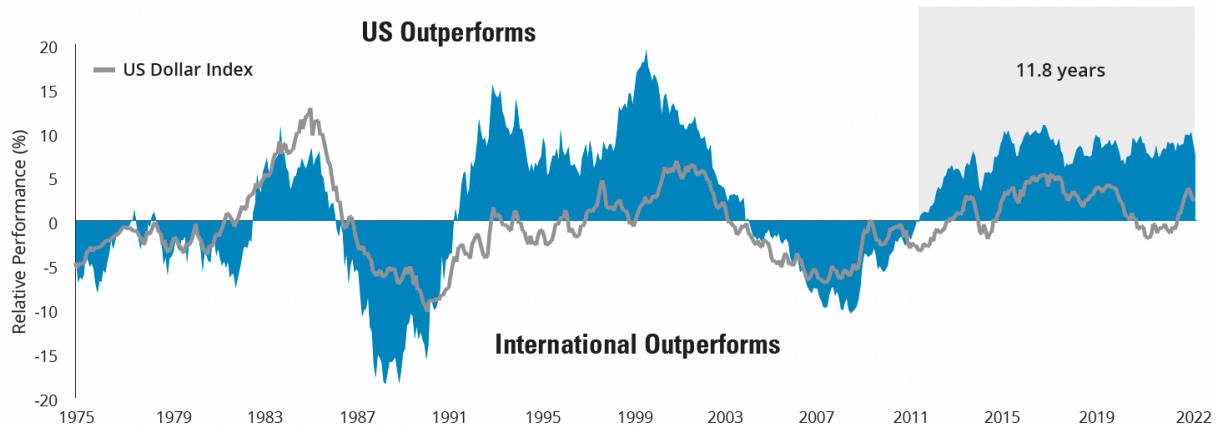
The last nearly 12 years of dominance by the US stock market (relative to International markets) was fueled by extremely low interest rates. We do not expect the realm of sub 1.0% rates to return anytime soon.

FED FUNDS RATE (LAST 25 YEARS)



As you can see in the 5-year rolling returns chart below, the US and International Stock Markets move in cycles. In 2022, after a decade of outperformance by US Markets, we saw International perform better. History has shown us that these swings tend to stick around for a while.

US Equity vs. International Equity 5-Year Monthly Rolling Returns (1/31/75-12/31/22)



The chart shows the values of the S&P 500 Index's returns minus the MSCI World ex USA Index's returns. When the line is above 0, domestic stocks outperformed international stocks. When the line is below 0, international stocks outperformed domestic stocks.

Data Sources: Morningstar, Bloomberg, and Hartford Funds, 12/22.

SO WHAT ARE WE DOING...SPECIFICALLY?

We've updated our core models to equally weight US equity exposure to non-US equity exposure. Outside of the US, we're generally looking at 2/3 of the equity exposure going to developed markets and 1/3 towards emerging markets.

Every shift we make like this is with an eye towards multi-year time horizons. We don't expect changes like this to be harvested over the next few months. I fully expect this shift to take longer to play out than our shift away from bonds in 2021.

DIFFERENT. BETTER.

The willingness and capacity to make shifts in our core investment strategies (like those outlined above) is only one of the things that set us apart from other advisories. Here are a few additional things that set us apart from what you might find elsewhere:

1. **Connect forever.** Our goal is to work with clients...forever. We are actively building our practice to align with this. We do not believe in a "set it and forget it" approach (see previous discussion on our bond shift and #3 below). We always look forward to engaging with our clients. Our clients' situations and needs change over time and we want to be there for them when that happens.
2. **The power of "bespoke."** Similar processes yield highly differentiated outcomes. While we specialize in tech workers (a group which you might expect to be somewhat homogenous), every financial plan is unique and every investment plan starts with a clean sheet of paper. We may re-use components or strategies, but we assess and build our approaches from scratch, for every client.
3. **The right kinds of "active management" win.** The founders of Prospero Wealth have invested together since the late 90's. While we believe in low cost diversified approaches for everyone (and understand why many RIAs only offer those approaches), tactical shifts in models, such as the one we are implementing in our client portfolios right now, can produce improved results. For people with higher risk capacities and tolerances even better overall outcomes can be achieved by exposure to individual stocks.

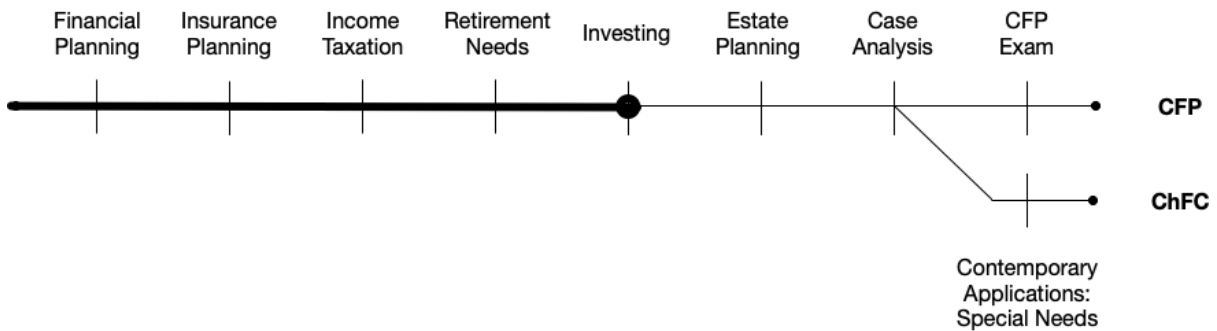
4. **Professional Money Management (even for the DIY investor).** We work with intelligent people, many of whom have done well with low-cost DIY indexing approaches. It's often difficult for a person who has done well over a long period of time to see where things can be improved (where paying an asset management fee may be justified). While nothing we do is impossible for the DIY investor, we have tools, training, and processes to help with: behavioral coaching, asset allocation, cost-effective implementation, rebalancing, asset location, and tax efficient income. Most individuals do not have access to, nor the expertise to implement in a rigorous way, all of these elements of their own portfolios. Vanguard estimates the sum of these areas to be worth up to, or even to exceed, 3% in net returns (we're happy to share the research with anyone that wants to dive deeper here).

When people ask you why Prospero Wealth is different, these are a few of the things we think you should tell them. You should expect us to continue to build and architect our services in-line with these differentiators over time.

UPDATES AND NEW OFFERINGS

1. **"Path to Prosperity" program** - We are looking to help tech workers transition to careers as financial advisors and have been putting together a comprehensive program covering training, compliance, tools, and oversight. If you (or a friend) are interested in building your own career in this space, please let us know. We'd love to talk.
2. **New Prospero Wealth Client Portal with Improved Billing and Performance Reporting now launched and shipped** - Q1 was our first full run of billing and performance on the new system. We hope you are enjoying the improved client portal and reporting experience. Please let us know if you see anything wonky or if you see an opportunity for improvement.
3. **Certified Financial Planner (CFP) and Chartered Financial Consultant (ChFC) Designations** - After taking Q1 off for ski season with my family, I am back to my next class.

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,

Eric Franklin