

May Wealth Advisors Quarterly Quip



Welcome to our Fifth Edition!

Welcome to our fifth installment of our quarterly newsletter and Happy 4th of July!

Ah, July. Perhaps the most patriotic of months. We look forward to this time of year for many reasons, but especially because of the Fourth of July and the ample opportunity the holiday brings to hear one of our country's most meaningful songs: the national anthem. This much-beloved tune has its roots firmly planted in our national history – and in the experience of one American, Francis Scott Key.

Attempting to negotiate the release of an imprisoned doctor, Key, an attorney, sailed out into Chesapeake Bay to meet with the British fleet in September 1814. Detained overnight, he and the doctor watched, horrified, as 1,800 rockets and bombs rained over Fort McHenry. The British had moved on Baltimore. Although defeat seemed imminent – fated, even – when dawn finally broke after the long night, Key saw a sight we all know well: the American flag, standing tall, still fighting.

Awestruck, Key scribbled down a poem whose words would become “The Star-Spangled Banner,” and later that same month his writing found its way into a Baltimore newspaper. The song, ironically set to the melody of a British tune, later became popular with the armed forces, and was formally adopted as the American national anthem in 1931.

Perhaps the above story is one you know well. Yet, every time I recall it – especially around this time of year – we can feel its importance. As the July Fourth holiday comes and goes, we hope you celebrate our freedom in the way you most enjoy, whether at a large gathering, a smaller celebration or otherwise. Oh, and we hope you find the opportunity to belt out a round or two of our national anthem. We certainly will.

As your advisory team, we're here to provide you not only with insight but also with advice on how we can help manage the effects of – and capitalize upon – the

markets' movements. We are watching the markets closely and will reach out should anything require immediate action. In the meantime, please feel free to get in touch if you'd like additional perspective or guidance.

Please feel free to forward this on to family and friends who may find our insights helpful. We welcome introductions to like minded individuals like yourselves who may want a second opinion of their portfolios especially considering the last few months.

As a reminder, we want to share your stories in this newsletter. Please send us yours.

As always we value our relationship with you, and appreciate your trust in us.

– Ron, Taylor, Patrick and Meg



Have you prepared your personal documents for an emergency?

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MARKET MINUTE

WITH MCGAREL



Dave McGarel, CFA, CPA
Chief Investment Officer

June 2023

Past performance is no guarantee of future results.

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The **S&P 500 Index** is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. **Forward Price-to-Earnings (P/E)** is the price of a stock divided by estimated forward earnings. **Forward Earnings** of S&P 500 Index is the next-twelve months consensus estimate.

By almost any account, the S&P 500 Index year-to-date performance has been incredibly narrow and concentrated. Just seven companies account for the entire 10% return. The other 493 companies combined are delivering a slightly negative return. *Stunning.*

The mega-cap stocks at the very top of the S&P 500 Index (Apple, Microsoft, Amazon, Google, and Tesla) that led the 18% decline in 2022 are back in a market leadership position and are accounting for the majority of the market's 10% gain in the first five months of 2023. Those five companies lost almost 4 trillion dollars of equity market capitalization last year. They were the five biggest losers on that metric last year. Yet, they have increased in value by nearly 2.5 trillion dollars this year. Today, they are five of the seven biggest winners in market cap gained. NVIDIA and Meta are the other two.

Why are these companies soaring when the rest of the market is flat and potentially starting to price in a recession? Most importantly, will it continue? First, let's consider the reason those stocks fell so hard last year. On average, they declined 42% in 2022. They had high valuations (61x forward earnings) at the beginning of 2022 and the Fed was raising interest rates to slow the economy. Pretty simple. Lower interest rates for longer was out and that meant valuations had to reflect slower growth. The entire market needed to acknowledge a lower equity risk premium in a higher cost of capital environment. The S&P 500 Index forward P/E multiple declined from 25x to 19x in 2022 while the top five ended 2022 at 29x.

Our problem with the path forward for these companies is we don't know what changed, yet they now trade at 42x forward earnings. Meanwhile the rest of the market has only gone from 19x to 22x forward earnings (driven entirely by those top five names). Interest rates are even higher today than when those stocks fell last year. We disagree that the Fed is anywhere close to cutting interest rates in any meaningful way. Additionally, earnings expectations are virtually unchanged since the beginning of 2023 for all five of these companies.

Absent an inflection upward in earnings forecasts for these stalwarts, the valuation of this group is hard to justify by the fundamentals. Further, the valuation spread between these mega-cap tech winners and the rest of the market has widened to unsustainable levels, in our opinion. We are wary of this concentrated trade to start the year and see much better opportunities in companies with modest growth and much better valuations.

Market Cap Gained/Lost



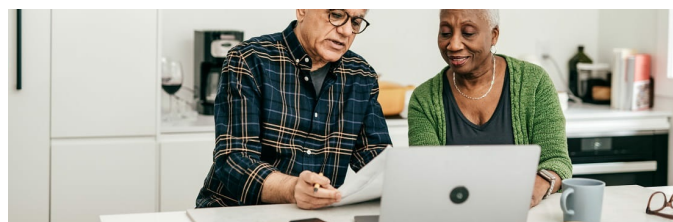
Source: S&P CapitalIQ. Data as of 5/31/2023.

Forward P/E	12/31/2021	12/31/2022	5/31/2023
AAPL	31.2x	21.0x	28.1x
MSFT	35.9x	24.3x	31.2x
AMZN	84.8x	60.2x	71.3x
GOOGL	26.6x	17.9x	22.0x
TSLA	125.6x	23.7x	56.2x
Average	60.8x	29.4x	41.8x
S&P 500 Index	25.3x	18.8x	21.6x

Source: S&P CapitalIQ. Data as of 5/31/2023.



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Congratulations to Wheelchairs 4 Kids on winning the 2023 Raymond James Charitable Grant Initiative!

Our team is a proud supporter of Wheelchairs 4 Kids. Wheelchairs 4 Kids is a nonprofit dedicated to improving the lives of children with physical disabilities by providing wheelchairs, home and vehicle modifications as well as other assistive equipment at no charge to the families through our [Let's Roll Program](#). They also have an inclusion program called [Wheely Fun Days!](#) They take the kids out for fun adventures such as going to the Bucs Training Camp and WWE events. They even take them indoor skydiving, zip lining and water skiing using adaptive equipment. To learn more about this wonderful organization, you can go to their website listed below.



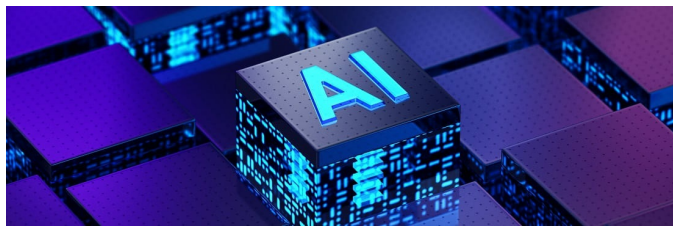
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Catalysts to watch to gauge the market's next direction

Review the latest Weekly Headings by CIO Larry Adam. Key Takeaways The Fed's tightening cycle may not be over Earnings trends will be key to watch for equity direction Corporate bond yields exceed S&P 500 earnings yields This past Wednesday marked the official start of summer!

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