

AUGUST 2 0 2 3

## MORAN MONTHLY DIGEST

### Insights From Our Founder

Dear Clients,

I hope this letter finds you well and that you are enjoying your summer to the fullest. As we venture into the second half of the year, I wanted to take a moment to share some important updates and news from our organization.

Firstly, our summer internship program has come to a successful conclusion. We had the privilege of hosting a talented group of interns who brought fresh perspectives and enthusiasm to our organization. We are currently working on a feature highlighting their experiences during the internship, so keep a look out for that in your inbox.

With the summer coming to a close, we are eagerly preparing for next season in Naples, including our Welcome Back Receptions and Client Dinners. Save the dates will be sent sometime next month, and we are looking forward to welcoming you.

Lastly, please be sure to check out Senior Portfolio Manager Tyler Hardt's economic commentary in this month's newsletter. To summarize, we are growing concerned about stretched valuations of mega-cap stocks which are pricing in not just a soft-landing, but also significant economic growth and earnings power. The average P/E ratio of the "magnificent seven" stands at 42x expected earnings. Our primary concern lies in the weight of these stocks within the S&P 500 that are contributing to significant market overvaluation. We believe any reversal in their valuations could lead to significant drawdowns in both the S&P 500 and Nasdaq.

However, not all stocks are overvalued. With the other 493 stocks of the S&P 500 trading closer to 15x, there are opportunities for high-quality companies at attractive valuations, offering compelling returns. As a firm, we remain prepared to seize opportunities within the current market dynamics.

A photograph of Thomas M. Moran AIF®, Chairman | CEO | CIO, sitting on a silver metal stool. He is wearing a dark blue suit, a white shirt, and a red tie. He is smiling and looking towards the camera. The background is a solid blue color with a faint geometric pattern.

Thomas M. Moran AIF®  
Chairman | CEO | CIO

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## MORAN MONTHLY DIGEST

### Insights From Our Founder Cont.

In conclusion, your trust has fueled our journey so far, and we are committed to delivering excellence and innovation in every aspect of our relationship with you. We appreciate your partnership and look forward to an exciting second half of the year.

Warmest Regards,  
Tom Moran



## ECONOMIC COMMENTARY

While there are many wonderful advantages to living in Naples, our firm's headquarters, one downside is that our region of the country is frequently threatened by hurricanes. In the last 20 years alone, our area has been struck by three named storms.

Going through a hurricane can be a frightening and unforgettable experience. As the hurricane makes landfall, winds accelerate in series of surging gusts that howl ever louder. The power flickers incessantly before finally going out for good, plunging your house into darkness and with it your connection to the outside world and any information about the storm's progress. It is an exhausting and disorienting experience that builds up over several hours.

Then without warning, the wind quickly dies down, everything goes silent, and bright light filters through the small gaps in the storm shutters. You open the front door and walk outside to a perfectly beautiful day with sunny skies and calm weather. The transformation in conditions from just 10 minutes prior couldn't be more striking. This is the eye of the storm and can often be 20-60 miles wide.

Emotionally, you are overcome with an overwhelming feeling of relief as your anxiety dissipates and for the first time it feels like everything is going to be okay. Your mood lightens and there is a return to a sense of normalcy. It is easy to forget that the hurricane isn't over yet, and this is just a temporary reprieve. The back half of the storm is slowly approaching on the distant horizon.

For investors, the last year and a half has been like an economic hurricane. Stocks plunged into a bear market in January 2022. We endured crippling inflation that peaked at 9.1% annualized. The Federal Reserve responded by increasing interest rates by 5%, a level few could have imagined back in 2021. In just the last few months there have been several negative shocks including a bank panic and a debt-ceiling showdown that took the US to the brink of default. Additionally, over this entire period the economic data has steadily deteriorated, resulting in the persistent threat of a looming recession.

Nevertheless, it seems to us that the negative market sentiment that consumed investors since the beginning of 2022 has shifted rapidly since mid-May. Investors have promptly turned incredibly bullish if not downright euphoric. Economists are quickly abandoning their recession forecasts as the elusive soft-landing is now suddenly considered the base case.



## ECONOMIC COMMENTARY

Circling back to our hurricane metaphor, it is as if investors have broken through the 'eye wall' of the bear market and into fairer weather, and all they see now is smooth sailing. Certainly, the second quarter's strong equity performance has been a welcome reprieve from 2022's losses. However, this feeling that we somehow got away with it may prove illusory, and a resumption of the bear market may potentially lie ahead.

Frankly, we are concerned that the shift of market sentiment has gone too far, too fast, and the recovery in equity prices doesn't match the underlying fundamentals. We are seeing evidence of investor speculation and euphoria on par with some of the silliness we witnessed in 2021, just before the market top.

For example, there has been a significant increase in the price of stocks that we would describe as "speculative". The UBS Profitless Tech Index is up 61.8% and the Goldman Sachs Most Shorted Index has climbed 38.9% year-to-date. Even Meme stocks have rebounded sharply. The Roundhill Meme Stock Index jumped +65.3%. These outsized gains have left conservative investments like value stocks in the dust. By comparison, the Russell 1000 Value Index is up just 5% through June 30th.

The speculative frenzy has not been contained in lower-quality small-cap stocks. We have seen the mega-cap stocks surge even further. Collectively, Apple, Microsoft, Alphabet, Meta, Amazon, Tesla, and Nvidia are now being referred to as the "magnificent seven". This group has returned 72% year to date.

In our opinion, valuations for many of these mega-cap stocks are becoming stretched and appear to be pricing in not just a soft-landing, but a significant acceleration in economic growth and earnings power. Combined, the average P/E ratio of the "magnificent seven" is now 42x expected earnings. In the case of Nvidia and Tesla, their valuations are unjustified even under the most favorable business forecasts we can dream up.

These "magnificent seven" stocks have by themselves resulted in large gains in widely quoted market indices such as the Nasdaq and S&P 500; up 32% and 17% respectively in the first half of 2023. These rebounds have been large enough to encourage many media pundits and strategists to declare an "official" end of the bear market. Unsurprisingly, there are unmistakable signs of fear of missing out or "FOMO" amongst many investors.



## ECONOMIC COMMENTARY

Our concern is that the substantial weight of the “magnificent seven” stocks in the S&P 500 Index is contributing to making the entire S&P 500 Index, and by proxy the stock market, appear overvalued. Any reversal in the mega-cap tech stocks back to reasonable valuation levels could lead to substantial drawdowns in the S&P 500 and Nasdaq.

Of course, this does not mean that all stocks are overvalued, or represent poor investments. Quite the contrary. Periods of speculative excess such as these can often leave behind high-quality companies at attractive valuations, and more importantly, the opportunity to earn very attractive returns on both a relative and absolute basis. As a firm, we remain ready to take advantage of the opportunities that exist within the intricate dynamics of the current market.

Authored by:  
Tyler Hardt, CFA®- Senior Portfolio Manager  
Moran Wealth Management®  
as of 8/4/2023





## ECONOMIC COMMENTARY

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## RECOGNITION



### Haute Living

We are pleased to announce that our Founder, CEO, and CIO, Thomas Moran, has been recognized in the Top 100 Most Powerful People in Naples by Haute Living.

Haute Living is a leading network of luxury lifestyle publications, with bimonthly regional editions in New York, Los Angeles, Miami, and San Francisco. Haute Living Magazine provides content that's as sophisticated as their readers.

You can find the latest issue here: [Haute Living Top 100 Most Powerful People in Naples](#).



## CLIENT UPDATES



### **Broadridge Class Action Service Update**

Due to changes in SEC Regulation, Broadridge will cease filing claims related to Fair Funds Securities Litigation for clients of Moran Wealth Management®. Should you want to participate in any Fair Fund claims, you will now need to complete the necessary documentation on your own.

If you are a client who held or still holds qualifying shares, you will continue to receive notices and claim forms in the mail, however there is no action required on your part.

Please note, Broadridge will continue filing all other class action claims, excluding those related to Fair Funds Securities Litigation, on behalf of Moran Wealth Management® clients.



## FEATURED STRATEGY



### **Small Mid Cap Strategic Beta (SMID)**

Your financial advisor will begin building your portfolio by first identifying your unique investment style based on a variety of factors, such as income, risk tolerance, diversification, investment and financial goals, and preferred market exposure. This will help us select a suitable strategy for you, allowing us to use a personalized approach to asset allocation and securities selection that meets your needs and yields the desired short-and long-term results.

This month we would like to highlight our **Small Mid Cap Strategic Beta (SMID)**.

Our **Small Mid Cap Strategic Beta** strategy seeks to generate high risk-adjusted returns and long-term outperformance of the Russell 2500 Index by investing in US traded small- and mid-capitalization companies. The strategy uses a rules-based multifactor quantitative model to invest in companies that exhibit positive momentum, attractive valuations, strong fundamental qualities, favorable growth, and technical factors.

The strategy is a complex investment vehicle and may not be suitable for all investors. It does not represent a complete investment program.

For more information check out our [\*\*Small Mid Cap Strategic Beta Factsheet\*\*](#).

## WELCOME TO THE TEAM



### **Ben Hermiston - Associate Financial Consultant**

An Associate Financial Consultant with Moran Wealth Management®, Ben Hermiston is a graduate of Florida Gulf Coast University. Earning a BS in Finance with a Concentration in Analysis and Management, Ben recently completed internship stints with both Aviance Capital Partners and Pelican Wealth Financial before arriving at Moran.

An Iowa native, Ben made his way to Southwest Florida to run cross country at FGCU, academically achieving a spot on the Dean's list. During his time in college, he held multiple leadership positions with the athletic department including serving as president while volunteering his time at the FGCU Bloomberg Lab to become Bloomberg Market Concepts Certified. Ben credits his Midwestern work ethic and close-knit family for his continued success.

# PHILANTHROPY

♥ YOUR HEART BUILDS HOMES Now and For Generations to Come



## Featured Charity

Philanthropic giving is one of the many ways we can make a difference in our community. At Moran Wealth Management®, we are privileged to have served over 30 charities and counting through financial donations and volunteer efforts.

We seek to bring awareness, advocacy, and resources to those in need. Today we would like to highlight the [Immokalee Fair Housing](#).

The Immokalee Fair Housing Alliance's mission is to eliminate substandard and overcrowded housing for farmworker families and low-income residents of Immokalee, Florida. The nonprofit promotes community health, education, dignity, and financial stability through affordable, hurricane-resistant rental housing. It anticipates opening its first rental apartment buildings in January 2024! Inside will feature 128 two to three-bedroom rental units that will be Category 5 hurricane-resistant and a community center, including an athletic facility and study rooms. With initiatives including early learning activities, adult education, and wellness enhancements, the Immokalee Fair Housing Alliance strives to uplift our community.

If you are interested in taking a tour please contact, Chief Development Officer, Marcy Friedland at [marcy@immokaleefairhousing.org](mailto:marcy@immokaleefairhousing.org).



Please feel free to call us to schedule a private meeting [239.920.4440](tel:239.920.4440).

To learn more about Moran Wealth Management® visit our [overview page](#) or our [services page](#) for more information.

Stop by our office at [5801 Pelican Bay Blvd Suite 110 Naples, FL 34108](#).

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