

# MORAN MONTHLY DIGEST

## Insights From Our Founder

Dear Clients,

I hope this letter finds you well. As we near the end of February, I wanted to take a moment to update you on our thoughts regarding the current economic environment and how it may impact your investments.

Inflation continues to be the hot topic this month. As expected, the Federal Reserve slowed its pace of rate hikes in February, electing to raise its benchmark interest rate by only a quarter percentage point. This is the smallest rate hike increase since March of last year. This was welcomed news, signaling central bankers are recognizing price pressures are easing. In fact, Fed chair Jerome Powell admitted for the first time that “the disinflationary process has started.” The tight labor market continues to be the biggest obstacle for monetary policymakers. Because of this, we expect Fed officials to continue raising rates in small increments with perhaps two more in the pipeline this year.

While these factors may present challenges, we believe they also create opportunities for those who are well-informed. We believe there is a secular trend away from megacap growth stocks. We should expect value stocks, small-caps, commodities, and international equities will remain favorable.

I would like to formally welcome Tyler Hardt to the Moran Wealth Management team. As a 14-year industry veteran, CFA charter holder and Wharton MBA graduate, Tyler brings a wealth of expertise to our firm. We are excited for him to join our Investment Management Committee that helps guide our firmwide investment strategy. Tyler will also serve as Head Portfolio Manager for two of our new investment portfolios—Deep Value and Strategic Income. We are excited to expand our investment offerings through Tyler’s background in fundamental analysis. I encourage you to check out this month’s Economic Commentary authored by Tyler to get a sense of his deep understanding of the markets and the broader economic landscape. We believe Tyler’s expertise and leadership will help us continue to provide exceptional service and results for our clients.

We look forward to seeing you in March for our client dinners we will be hosting on March 8th and March 16th. During these events, we will have the opportunity to discuss the economy and other important topics in greater detail.

Cheers,  
Tom



**Thomas M. Moran AIF®**  
Chairman | CEO | CIO

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## ECONOMIC COMMENTARY

2022 was a challenging year for investors. Stocks succumbed to what may prove to be the opening stages of a prolonged bear market. The S&P500 Index peaked on January 3rd, and finished the year down -18%. Bond markets fared much worse, with U.S. Treasuries falling -31% as measured by the ICE U.S. Treasury 20+ Year Bond Index, registering their largest drop in 100 years. Commodities were the only major asset class to finish with a positive return in 2022.

Of course, it is impossible to know with any certainty when or if a bear market will materialize. However, looking back to the start of 2022, stocks in general, and especially growth stocks, were at record high valuations. There were clear signs of investor euphoria on display with the zeal associated with meme stocks, profitless tech companies, and SPAC issuers. Additionally, the monetary authorities were preparing to remove liquidity from the financial system by ending their quantitative easing programs and raising interest rates. I would not be surprised if the volatile markets we experienced last year continue into the first half of 2023 or potentially even longer.

In fact, from a fundamental perspective, I continue to see a clear disconnect between current stock valuations and interest rates. I can make this observation by using prevailing interest rates to arrive at an appropriate price-to-earnings (P/E) multiple for the S&P 500 Index and compare it to the actual reading. This is because the P/E multiple is effectively the reciprocal of the required return for equities. For example, a 10x and 20x P/E multiple represents a 10% and 5% required return on equities, respectively. In practice, the required return for equities is usually calculated as the 10-year treasury yield plus an equity risk premium to compensate investors for the added risk of owning stocks.



## ECONOMIC COMMENTARY

Currently, the S&P 500 Index is at 4,100 points. According to Bloomberg, consensus estimates for 2023 earnings for the S&P 500 Index are \$225 per share. Therefore, the prevailing forward P/E multiple is 18.2x (4,100 divided by \$225). The reciprocal of an 18.2x multiple corresponds to a 5.50% required return for stocks. The current 10-year Treasury yield is 3.70%, which implies the equity risk premium is only 1.80% (5.50% minus 3.70%). This compares to a historical range of 3-4% for the equity risk premium.

If I apply the historical equity risk premium range of 3% to 4% to the current 3.7% 10-year Treasury yield, then the normalized range of the required return for stocks would be 6.7% to 7.7%. This would translate into a P/E multiple range of 13.0x-14.9x. Multiplying these multiples by consensus estimates of \$225 per share would imply a fair value for the S&P 500 Index of 2,925-3,350. As of this writing, the S&P 500 currently trades for a considerably higher 4,100, which implies that growth stocks are still expensive relative to prevailing interest rates.

Given the uncertainty surrounding the sustainability of inflation, the elevated probability of a recession in the next twelve months, and a ground war in Europe, a paltry 1.80% equity risk premium doesn't seem to be appropriately rewarding investors for the risk of owning stocks in general. If I dare to assume that interest rates stabilize near current levels of roughly 3.7% on the 10-year treasury, then there could be more pain ahead for the S&P 500 Index.

In my opinion, stocks appear to be pricing in a soft landing and returning to the era of low interest rates that existed for the last decade. While this is certainly a potential outcome, I believe it is a low probability.



## ECONOMIC COMMENTARY

Importantly, when I reflect on the prior decade's bull market, monetary authorities around the globe were solely concerned (some might say obsessed) with battling deflation and its negative influence on economic growth. The central banker's arsenal to combat deflation consisted of negative interest rates and endless "emergency" quantitative tightening.

Today, I think it is reasonable to presume that deflation isn't even on their radar screens. Central bankers are not concerned with deflation, and they no longer have a need or willingness to deploy the monetary tools to combat it. Until, the Fed Chairman begins delivering speeches on the risk of deflation, it is unlikely we will return to the "Free Money" era that embodied the investment environment of the last 12 years.

Conversely, the current macro-economic challenges facing central bankers include persistent levels of elevated inflation, shortages of both labor and major commodities, an overhaul of global supply chains, and declining confidence amongst corporate executives. We haven't seen a similar combination of risks since the 1970s.

It is evident to us that the market volatility over the prior year is a result of the increasing realization amongst investors that interest rates may not be headed back to zero. It is possible that the factors that drove above-average stock returns (particularly for growth stocks) in the prior decade could be undergoing a secular transition. These market regime transitions seem to unfold every other decade or so, and it isn't uncommon for months or even years to transpire before it becomes obvious the landscape has shifted.



## ECONOMIC COMMENTARY

I think 2022 may have marked a new regime transition as inflation returned after a multi-decade absence and value stocks widely outpaced growth stocks after a decade of underperformance. The gap in valuation metrics between the two investment styles had widened to their largest divergence since the internet bubble of the late 1990s. Between 2010 and 2021 the Russell 1000 Growth Index had a total return of 18% per year compared to a 12% annual total return for the Russell 1000 Value Index. In 2022, the value index dropped 7.6%, while the Russell 1000 Growth Index fell 29.1%.

I believe the rotation in market leadership towards value stocks could persist for the medium term. I see incredible opportunities in beaten-up value names that offer the potential for attractive future returns. These companies have above-average levels of profitability, strong balance sheets, shareholder friendly management teams, and in our estimation, stock prices that represent a discount to our estimates of their intrinsic values. Value stocks should outperform as real economic growth reaccelerates and interest rates remain near current levels.

Unfortunately, this outlook is not as favorable for more expensive growth stocks that relied on more accommodative monetary policies and sluggish economic growth. As the regime transition continues, we would expect that asset valuations could remain volatile and continue to decline in that environment. The bear market in stocks in general as measured by the broad S&P 500 Index and Nasdaq 100 Index may not yet have run their full course.

The silver lining of bear markets is that future long-run returns are getting better for investors, and they are certainly more attractive today than at the beginning of last year.

Authored by:  
Tyler Hardt, CFA® - Senior Portfolio Manager  
Moran Wealth Management®  
as of 2/13/2023



## ECONOMIC COMMENTARY

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A copy of MWM's current written disclosure statement as set forth on Form ADV, discussing MWM's business operations, services, and fees is available from MWM upon written request using the contact information contained herein or visit [advisorinfo.sec.gov](http://advisorinfo.sec.gov).

## WELCOME TO THE TEAM



**Tyler Hardt**

A Senior Portfolio Manager in the Asset Management division of Moran Wealth Management®, Tyler Hardt is a 14-year industry veteran. With a childhood desire to eventually become a professional investor, Tyler has led an extensive career to date. He founded and serves as the managing member of Pelican Bay Capital Management, LLC, which was recently acquired by Moran. Tyler earned his B.S. in Finance from the University of Maryland, and he is an MBA graduate of The Wharton School at the University of Pennsylvania with Honors in Finance.

In addition to founding his own investment management firm, Tyler previously spent nine years as an equity analyst with Artisan Partners. Among his most notable career milestones, Tyler aided in the acquisition of five companies that performed a geographic roll-up of competing Tire Wholesalers. He has been frequently quoted in publications including Barron's, Forbes, Fortune, and Bloomberg. Tyler is also a published author of Value Investing: A Disciplined Framework.

Having grown up in Naples, Tyler is right at home at Moran. He was previously recognized as one of Florida Trend's "People to Know in Southwest Florida" and is actively involved in the local community as a board member for both CFA Society Naples and Collier County Lacrosse Association (CCLA). In addition, Tyler serves as head coach for the Collier Coyotes lacrosse team and is a mentor for the FGCU Lutgert School of Business.

# RECOGNITION



## Naples Top 100

Making its first appearance in 1998, Naples Illustrated has become a premiere lifestyle magazine among the Naples community. Annually, Naples Illustrated recognizes the top business leaders within Collier County for their hard work and dedication that shapes “how we live, work, play, and give back.” This year, we are honored to announce that our Founder and CEO, Thomas Moran, has been recognized as one of the top business leaders in Collier County for the fourth consecutive year.

You can check out the latest issue here: [The Naples 100](#).





# CLIENT UPDATES



## 2022 TAX DOCUMENTS

Due to our firm's custodian transfer from Wells Fargo Advisors to Pershing | Bank of New York Mellon in 2022, Moran Wealth Management® clients will receive **two tax documents for each applicable account** this tax season.

Form **1099** may generate at **both institutions** for taxable accounts, as dividends & interest post throughout the year.

Form **1099-R** may only generate at **one financial institution**.

### **For example:**

- If you withdrew your 2022 required minimum distribution in **March of 2022**, your 1099-R would come from **Wells Fargo**.
- If you transitioned your accounts to Pershing |Bank of New York Mellon's custody in **July of 2022** and distributed your required minimum distribution in November, your 1099-R will come from **Pershing**.

Our clients with monthly distributions from their retirement accounts will have **two 1099-R's** this tax season. **If you rolled funds back into your IRA, from a 60-day rollover, or contributed to your retirement account, you will also receive a form 5498.**

Wells Fargo Advisors and Pershing |Bank of New York Mellon have begun mailing 2022 tax forms, and most clients should receive these by mail (if elected) during the **second and third weeks of February**, as the IRS mailing deadline for brokerage accounts is February 15, 2023.

## CLIENT UPDATES



### 2022 TAX DOCUMENTS CONTINUED

At Moran Wealth Management®, we may assist with providing your tax documents at **Pershing | Bank of New York Mellon**. However, we no longer have access to your Wells Fargo documents.

**Pershing 2022 tax forms** are now available on your [NetXInvestor online access](#). Please see the illustration below for navigation assistance.

If you do not receive your tax documents in a timely manner, you may request copies mailed by phone from **Wells Fargo** at [1-866-281-7436](tel:1-866-281-7436). When calling Wells Fargo, the representative will require you to verify your identity and provide a previous Wells Fargo 8-digit brokerage account number.

Clients may contact our office for **Pershing** tax documents at [239-920-4440](tel:239-920-4440).

\*Please note, **the IRS reportable dollar threshold is \$10.00**, and accounts that lack interest or dividends less than this may not receive a form 1099 to report income. This may apply to a taxable account that was minimally funded last year.

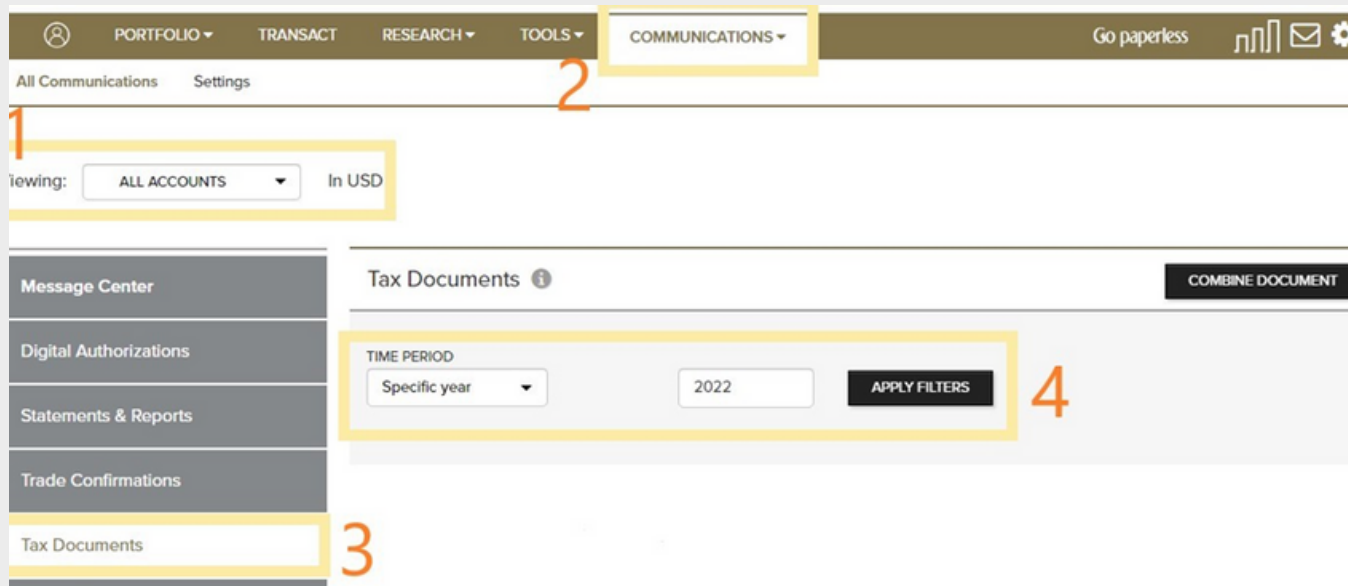
# CLIENT UPDATES



## 2022 TAX DOCUMENTS CONTINUED

Pershing | Bank of New York Mellon - [NetXInvestor](#) – Navigation to tax documents

1. Select Viewing of **ALL ACCOUNTS**
2. Select **COMMUNICATIONS** tab
3. Select **TAX DOCUMENTS** tab
4. Specify year and select **APPLY FILTERS**



## CLIENT UPDATES



### **Group Excess Liability**

Introducing a New Benefit for Our Clients: Group Excess Liability As a client or of Moran Wealth Management®, we are excited to offer you an opportunity to join a Group Excess Liability program, which provides protection over and above your automobile, homeowners, and watercraft insurance policies.

We have partnered with a local broker; **Sentry Insurance Advisors** to offer this important coverage. The insurance policy is issued by Vault Insurance (A.M. Best Financial Rating “A-” / Excellent) and the program administrator is NFIP Private Client Group.

Our dedicated enrollment [website](#) provides a full summary of coverage benefits, the group discounted pricing, and the required underlying limits of liability. The policy term is 12/15/2022 - 12/15/2023. You may join the upcoming term at any time on a pro-rated basis.

**PLEASE TAKE A LOOK AT THE FOLLOWING PAGE FOR INSTRUCTIONS ON HOW TO REGISTER.**



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## CLIENT UPDATES



### Instructions for registering and selecting your desired coverage are as follows:

You may register at <https://moranwealthmanagement.nfpgroupp excess.com/> using the Company Code of **0160**.

- After entering the click **Register** and complete all information, then click **Submit**.
- A security email will be sent to the email address you provided.
- Click on the link in the email which will navigate you back to the website.
- Input your email address and password, click **Log In**, then click **Enroll**.
- Click on **Complete Questionnaire** and fill in the Name, Driver's License #, Date of Birth for ALL household drivers.
- Please check the **Yes/No** boxes for violations, both minor and major, and at fault accidents for each driver.
- Answer all questions on the questionnaire and then click **Submit**.
- Click Opt-In, answer **"Yes" or "No" to Question 1** and then begin selecting coverage.
- **Check boxes** at the bottom of the page and then click **Continue to Payment**.
- You will then see a review of the coverage limits selected.
- Premium and taxes will be confirmed and you will be able to pay via credit card.
- Once you complete inputting your credit card information, click Submit.
- An email may be sent advising you the application is being reviewed by underwriting.
- Once approved, typically within 1-2 days, you will receive by email your certificate of coverage and policy.

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## CLIENT UPDATES



Please do not hesitate to contact Sentry Insurance Advisors for individual assistance and guidance. We appreciate your business and hope you will take advantage of this opportunity.

**John Paolini (Partner)**  
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**Josh White (Partner)**  
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## CLIENT UPDATES

# Save The DATE

### Moran Wealth Management® Free Shred-A-Thon

**March 30th, 2023  
10:00 a.m. to Noon.**

**5801 Pelican Bay Blvd, Naples, FL 34108**

**The shred truck will be parked on the far  
South side of the property between the  
Wells Fargo Advisors building and the  
Truist Bank building.**

*Protect yourself from identity theft by bringing your confidential documents for on-site shredding. Sensitive documents can include pay stubs, canceled checks, financial and credit card statements, paid bills, old tax filings, and other documents that include confidential information such as account numbers or Social Security numbers.*

# PHILANTHROPY

GULFSHORE PLAYHOUSE

# Masquerade

— The Gulfshore Playhouse Gala —

*Gala Chairs Sandi and Tom Moran  
cordially invite you to the Gulfshore Playhouse Gala.*

**MARCH 6, 2023 at 5:30 PM**  
**RITZ-CARLTON GOLF RESORT**



Don your best masque and Carnevale couture as the night unfurls its splendor. Join us for an evening of exciting high-flying performances and Broadway entertainment while enjoying sumptuous cocktails and cuisine with fabulous friends.

For Tickets And Information:

**239.261.PLAY**

**GULFSHOREPLAYHOUSE.ORG**



**UPCOMING SEMINARS**

**State of the Market**

Hosted by Thomas Moran AIF® | Chairman | CEO | CIO

**February 22th, Noon ET**

**Flemings Steakhouse 8985 Tamiami Trail N, Naples, FL 34108**

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**February 24th, 10:00 a.m. ET**

**MWM Center For Financial Education**

**What We Believe Every Current Annuity Owner Should Know**

Hosted by Aaron Simpson CFP®, CLU®, ChFC®, RICP® | Senior Vice President

**February 28th, 2:00 p.m. ET**

**MWM Center For Financial Education**

**Declaring Florida Domicile in 2023**

Hosted by Thomas Moran AIF® | Chairman | CEO | CIO

**March 7th, 1:00 p.m. ET**

•

**March 9th, 10:00 a.m. ET**

**MWM Center For Financial Education**

**What Market History Tells Us About What The Future May Bring**

Hosted by Charles E. Chesebrough, Jr. CFA® | Senior Vice President

**March 14th, 10:00 a.m. ET**

**MWM Center For Financial Education**

**MORAN WEALTH MANAGEMENT®**  
**CENTER FOR FINANCIAL EDUCATION**

5801 Pelican Bay Blvd  
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Naples, FL 34108

Seating is limited for these seminars. For reservations, please call [239-513-2511](tel:239-513-2511) or visit our [website](#) for additional seminar dates. Please feel free to call us to schedule a private meeting [239.920.4440](tel:239.920.4440).

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