



PHRONESIS

WEALTH MANAGEMENT

phronesis [froh-nee-sis]: From Greek phrónēsis meaning “prudence, practical virtue and practical wisdom. It implies both good judgement and excellence of character.”



CLIENT CONNECT

RICHARD OSMAN

CFP®, CLU®, ChFC®, CASL®

(410) 647-6762

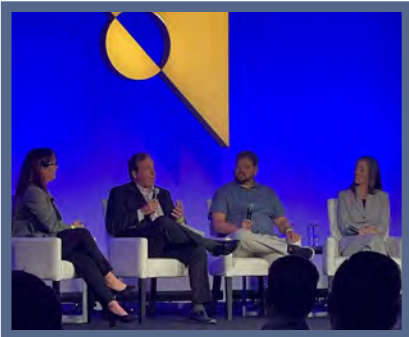
Richard.Osman@wearephronesis.com

SPRING EDITION • 2024

DEAR CLIENTS,

In this spring edition of our newsletter, my article will focus on two items. The first is to recap this busy first part of 2024. The second is to share and reinforce our perception that this stock market is currently overpriced.

Phronesis Wealth Management has made a conscious effort to be more involved within our local community in 2024. We held our yearly Shred Event this April, and once again helped those in the area securely shred their sensitive documents. Additionally, our team has been attending and supporting local community and chamber fundraiser events. We were happy to attend Severna Park High School’s Health Fair earlier this year. This event helped us educate students about budgeting and the importance of saving money. We also look forward to sponsoring the Hole in One contest again this fall in the 2024 Driving Force for Business Annual Golf Tournament.



I attended Integrated Partners’ Annual Conference in San Diego in May, joining a panel discussion that tackled the topic of the importance of delivering exceptional client service. I was also recognized by the peers at Integrated Partners for my community involvement this past year.

Another way we are trying to be helpful to our clients and the community at large is by offering free informational webinars.

Last month Integrated Partners’ Chief Investment Officer, Stephen Kolano,

was our guest speaker. Stephen discussed the financial uncertainties as well as opportunities that lie ahead. On Wednesday, July 17, 2024, at 2:00PM, we will be hosting a free webinar on Elder Fraud with Special Agent Sarah Lewis from the FBI. You can register via our website. If there is a topic of interest you would like us to cover in the future, please reach out and let us know.

(Continued on page 2.)

CONNECT WITH US:

FACEBOOK

facebook.com/wearephronesis

LINKEDIN

linkedin.com/in/richardosmancfp

TWITTER

twitter.com/wearephronesis

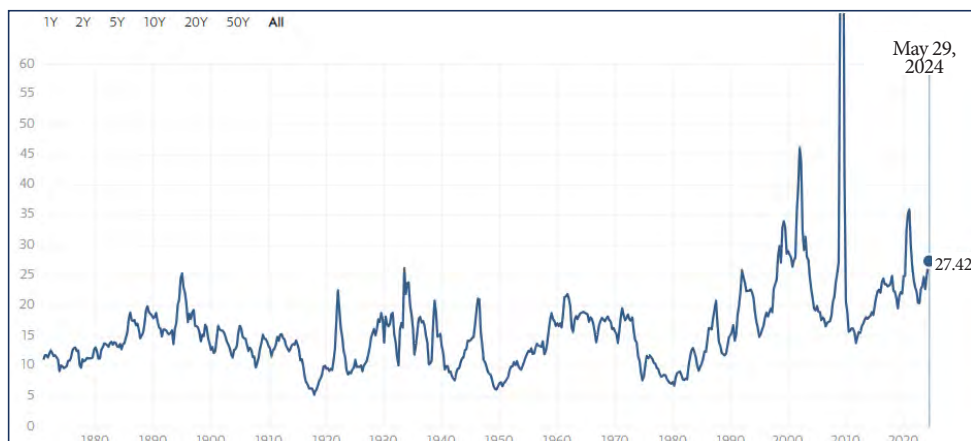
INSTAGRAM

instagram.com/wearephronesis

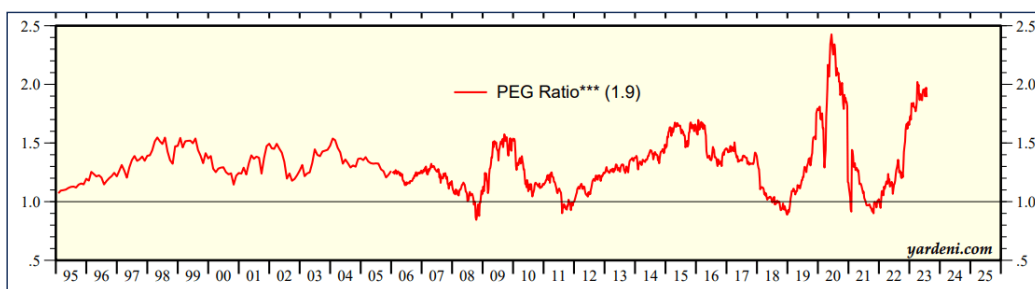
[continued from Page 1]

Now moving on to the next topic, a quick discussion concerning valuations within the US stock market, more specifically the S&P 500.

A common metric to determine how pricey an equity is trading at is called the P/E ratio or price earnings multiplier. This figure is the value of a company divided by its earnings. Ex. If my company was valued at \$20 and it was producing \$1.00 of earnings, it would have a 20 P/E ratio. Now if someone was willing to pay me \$30 for my company and I was still producing \$1.00 of earnings that would be a 30 times multiplier or 30 P/E. See the chart to the right for the current P/E ratio for the S&P 500 as of the end of May.



The higher the multiplier or ratio, the higher the valuation. Over last 140 years the average price earnings ratio (P/E) for the S&P 500 is approximately 18. As of May 29th, the S&P 500 was trading at 27.42 times. Or, in essence, at a 50% premium as compared to its long-term average. This is in my eyes, a significant premium.



There are many periods of time throughout the 140 plus years of history where the S&P 500 will trade at a higher P/E ratio than its average. In addition, you would expect to pay more for a company if their earnings grew at a very fast rate. Based on the same starting point, you most

likely would be willing to pay more for a company that was growing 2 to 3 times the average growth rate. So, growth rates do affect the P/E ratio. So potentially a better way to understand historic valuation metrics is to factor in growth rates (based on a company's earnings) into the equation. This is done with the PEG ratio. See the PEG chart above.

This particular ratio understands that growth rates and earnings can have a dramatic effect on the valuation of a business. This ratio understands that and as such adjusts the P/E ratio to account for earnings expectations. Basically, putting all companies on equal footing per unit of growth.

With PEG ratios you usually find the following: When PEG ratios are 1 or less, stocks are considered very cheap and inexpensive, whereas PEG ratios between 1.0 and 1.5, stocks are considered fairly valued. PEG ratios between 1.5 and 2 mean stocks are normally overvalued and with PEG ratios above 2, stocks are seriously overvalued. Currently the S&P 500 index is on the verge of being seriously overvalued with a PEG ratio of 1.9. Does this concern you? It does us, even if that has very little to do with the day-to-day, month-to-month, or even year by year performance of the S&P 500.

(Continued on page 3.)

Do you know someone who could use our expertise?

Whether it's a business owner or an individual whose financial needs are anything but simple, we'd be thrilled if you made an introduction.

QUOTES & JOKES...

"Quality is not an act, it is a habit." —Aristotle

Q: What do you call a fake noodle?

A: An impasta.



[continued from Page 2]

Both these ratios make it clear that today's current S&P 500 stock prices are historically high. However, they do not confirm, or deny that a recession or pullback in the stock market is imminent. In truth, there are many times where stock market valuations can remain high for several years. And in fact, can continue to grow higher year after year. One such time was the tech boom and bubble during the mid to late 90s. Over a period of three years the stock market continued to trade above 27 times earnings (above a 27 P/E ratio).

So, what does all this mean? For today maybe nothing, for tomorrow who knows. It is Phronesis Wealth Management's position that today's markets are overvalued and overpriced. And although the stock market, or S&P 500, may move higher over the next year or two, it doesn't mean that the current pricing is not overvalued. At some point in time the growth rates of earnings must improve or we will eventually see a stock market decline. The problem is when will that occur?

At Phronesis Wealth Management we are looking at all of the indices, ratios and tools to help us manage your investments. We remain very cautious in our outlook. If markets continue to head higher, we will continue to become more conservative. This may not be the best option for the next 1-3 years but in the long run we believe it is the right choice for our clients.

All the best,
Richard

PHRONESIS NEWS:

RICHARD ATTENDS SEVERNA PARK HIGH SCHOOL HEALTH FAIR

Earlier this year, Richard attended the Severna Park High School Health Fair to educate students on their financial health. Students learned why it was important to start saving money as soon as possible. He showed that the longer you waited to start saving, the more you would need to invest later in life for a comfortable retirement. Richard also discussed the importance of establishing and sticking to a budget. Students were given handouts and encouraged to open a dialogue with their parents on both issues.



SPRING CLEANING AT PHRONESIS

IS YOUR ACCOUNT UP-TO-DATE?

Have you moved? Changed your email address? Cancelled your landline? If you have made any of these changes; or others, please let us know. You can send us an email or call the office at 410-647-6762.

HOW CAN WE HELP?

If you are not getting the best level of service, you should be! Please reach out to us immediately if you have any questions or concerns.

What sport was featured on the first curved U.S. coin in 2014?

- A. Baseball
- B. Football
- C. Hockey
- D. Basketball



The first person to email team@wearephronesis.com with the correct answer will win a \$25 Amazon gift card.

The answer to our last trivia question "What is the largest island in the world?" is B: Greenland.

529 Benfield Road, Suite 250
Severna Park, MD 21146

P: 410-647-6762 | F: 410-647-1229
phronesiswealthmanagement.com



Join us for a FREE informational webinar on Wednesday, July 17th at 2 PM. FBI Special Agent Sarah Lewis will discuss how to protect yourself from elder fraud. She will detail current scams; and how to recognize them, to help you and your loved ones avoid becoming a victim of elder fraud. We will be sending an email invitation in June, or register now on our website.

ANNUAL SHRED EVENT

Our annual Shred Event came and went on a cold and blustery Saturday in April. Phronesis team members were on hand to help clients and the community securely shred sensitive papers with Chesapeake Paper Systems. Kona Ice of Annapolis joined us again this year with their frozen treats!



Securities offered through LPL Financial, Member FINRA/SIPC. Investment advice offered through Phronesis Wealth Management, a registered investment advisor and separate entity from LPL Financial.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. The economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful. Rebalancing a portfolio may cause investors to incur tax liabilities and/or transaction costs and does not assure a profit or protect against a loss. Investing includes risks, including fluctuating prices and loss of principal. No strategy assures success or protects against loss. Fund value will fluctuate with market conditions and it may not achieve its investment objective. This information is not intended to be a substitute for specific individualized tax or legal advice. We suggest that you discuss your specific situation with a qualified tax or legal advisor.