



Dear Clients and Friends,

After being very cautious on the outlook for stock and bond markets coming into this year, we have recently begun adding some risk back to client portfolios. We are not wildly bullish but feel that the time for maximum bearishness has passed. In this letter we share an update on BRAVE, our reasons for being a bit less cautious on markets, and how we are implementing that change.

BRAVE Family Advisors Update

BRAVE has continued to grow and evolve in recent months to ensure we can continue to provide excellent service to our growing number of clients. Our Summit office will be moving across the hall into a larger, more modern, and efficient space once renovations are completed this summer.



We are excited to announce that Will Swart joined BRAVE last month as an analyst and will be based in our Tiverton office. Will was our summer intern last year and graduated magna cum laude from Bryant University in May majoring in international business with a focus in finance. He was also the goalie for Bryant's Division 1 soccer team. He recently



began working on getting his Certified Financial Planner designation. You can reach him at (401) 314-5015 or at wswart@bravefamilyadvisors.com.

Suzie, Yiorgos, and Scott recently attended Pershing's Insite2022 in Gaylord, TX. The conference was a great opportunity to hear inspiring and educational speakers, learn about developments at Pershing and in the wealth management industry, and for some of our team to spend time together outside of the office!



Market Thoughts

After having been very cautious on the outlook for stock and bond markets coming into this year, we have recently begun gradually adding some exposure back to client portfolios. We are not wildly bullish but feel that the time for maximum bearishness has passed as markets are not as egregiously overvalued as they were last year. Our managed accounts remain well-below their equity allocation targets and fixed income duration benchmarks, but a bit less so than where they were a month or so ago.



There are a number of reasons behind this slight change in view:

- ***Much of the damage may have already been done*** - The S&P 500 Index declined almost 25% from high to low and the Nasdaq Composite Index declined almost 35% from high to low. Many stocks and speculative assets have fallen significantly more than those indices. The average bear market decline over the last 100 years has been about 36% which suggests that we have likely already seen the majority of the decline.
- ***Valuations have become less extreme*** – Stock markets are not yet cheap but are also not as egregiously overvalued as they were for much of last year. The forward price-to-earnings ratio for the S&P 500 has declined by almost one-third from its highs last year to a recent reading of about 16 which is approximately its long-term average (Chart 1). The CAPE ratio (Cyclically Adjusted Price to Earnings ratio) has fallen from 39 to 29 (Chart 2) which is about the average level of the last 25 years (Chart 3). The ratio of U.S. total market capitalization to GDP has fallen from 210% to 155% this year (Chart 4).

Chart 1: S&P 500 Index 12-Month Forward P/E Ratio





Chart 2: Long-term Historical Cyclically Adjusted PE Ratio with Recessions

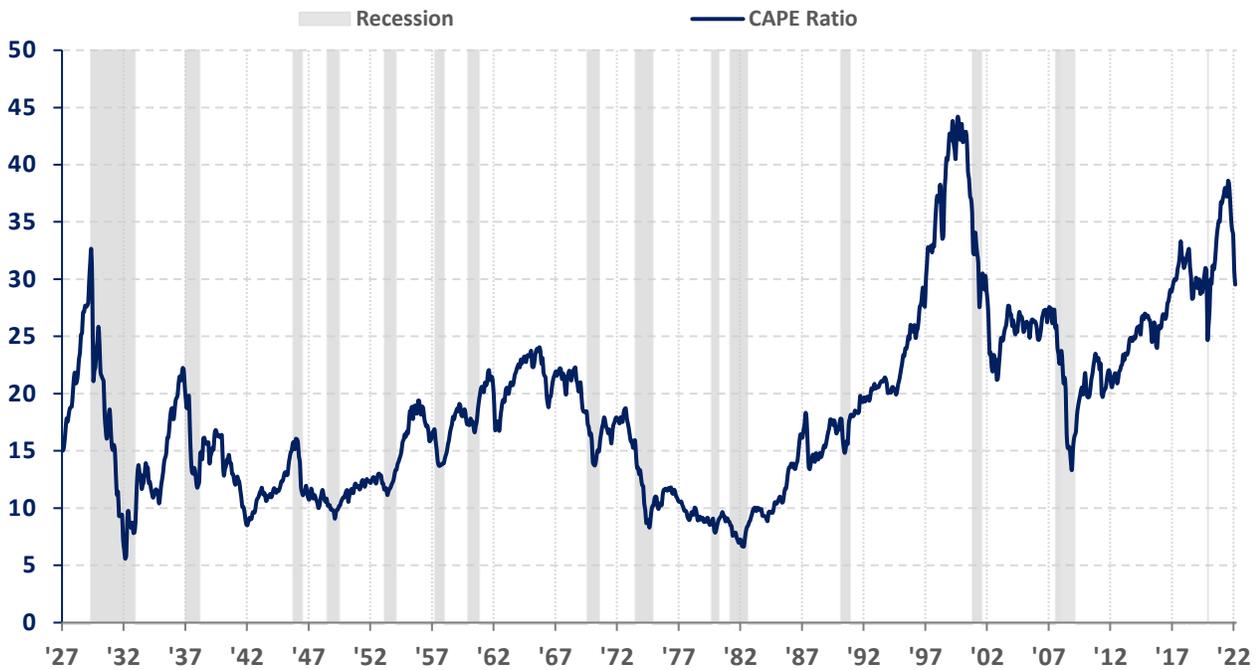


Chart 3: CAPE Ratio 1997-2022 With the 25-Year Average

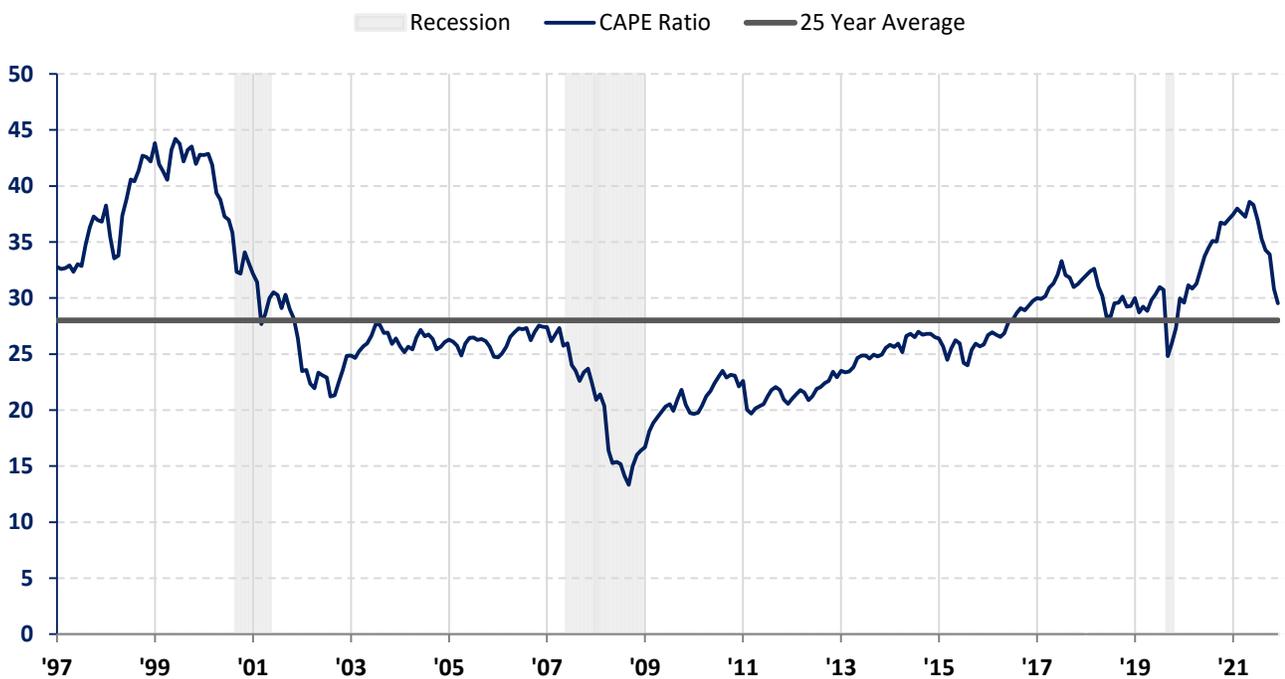




Chart 4: Wilshire 5000 Total Market Capitalization to US Annual GDP



- **Bearishness is very high** – Sentiment on the part of small and large investors is now quite negative which often can be a contrary indicator at least in the short-term. Small investors are buying more puts on stocks than any time in recent history other than at the bottom of the COVID-related selloff in March 2020. The most recent Bank of America Global Fund Manager Survey revealed that among the survey participants stock allocations were the lowest since late-2008 and cash holdings were the highest since 2001. Speculators are currently holding record large short positions in stock index futures.
- **Signs of progress on the inflation front** – The Federal Reserve’s monetary tightening and rhetoric appears to be having an impact on markets which should result in better inflation news later this year. Commodities have shown significant declines with copper down over 30% and crude oil down over 20%. Gasoline prices have declined about 10% in the last month. There are anecdotal signs that the labor market is not as robust as it was earlier this year with a number of companies including Amazon, Apple, Facebook, FedEx, Uber, and Walmart announcing hiring slowdowns or layoffs. The real estate market seems to be feeling the impact of higher mortgage rates as home builder confidence has declined for seven straight months and mortgage applications recently hit a 22-year low.

In summary, we believe that the risks in the stock and bond markets have become more balanced in recent months. We know that we will not time the exact bottom so believe that adding back exposure to portfolios as markets become more attractive is the prudent thing to do.



Portfolio Management

Although our managed client portfolios remain well below their target equity allocations and fixed income benchmark duration, we have begun adding back some risk to both parts of the portfolios. Earlier this year we had established a position in the “ProShares UltraPro Short QQQ” ETF (Ticker symbol SQQQ) which moves inversely to the Nasdaq 100 Index in an effort to hedge exposure to growth stocks. We also exited holdings in international, value, and financial stocks and gold earlier this year to generally reduce risk exposure. We have recently sold our holdings in SQQQ and redeployed the proceeds in an S&P 500 Index ETF. We will be looking to redeploy portions of the proceeds from our other sales as we become more constructive on the equity market outlook. So far those proceeds have remained in money market funds.

In our fixed income portfolios, we started reducing the duration of holdings beginning in the spring of 2020 under the belief that rates had likely reached a generational low. Most of our holdings this year have been bonds that mature in 2023 which have been quite insulated from the increase in interest rates while still yielding 2.5-3.5%. We extended duration on 25% of our holdings in the second quarter as we became more convinced that the Federal Reserve would likely overshoot in its tightening campaign and that long-term interest rates would begin to decline as the market sensed that. We plan to continue to extend duration as that view is confirmed.

As always, we welcome your comments and questions. Please don't hesitate to call, visit, or email at any time.

Your team at the BRAVE