



Prometheus Capital Newsletter

Q1 2023

Prometheus

Capital Management



*Lighting your way,
enriching your life.*

March 31, 2023

Q1 2023 Prometheus Capital Newsletter

March 31, 2023

Based on the positive feedback we received from clients of the firm, we will continue our recent tradition of highlighting a few topical quotes to help frame our discussion this quarter:

"Most people get interested in stocks when everyone else is. **The time to get interested is when no one else is...** I will tell you how to become rich... **Be fearful when others are greedy. Be greedy when others are fearful**"
– Warren Buffett, Chairman & CEO, Berkshire Hathaway

"The stock market is filled with individuals who know the price of everything, **but the value of nothing.**"
– Phillip Fisher, Pioneer in Growth Investing & Fundamental Analysis

"Know **what you own**, and know **why you own it.**" – Peter Lynch, Former Manager of Fidelity Magellan Fund

"**In the short run, the market is a voting machine, but in the long run it is a weighing machine.**"
– Warren Buffett, Chairman & CEO, Berkshire Hathaway

Current State of the Stock Market

After broadly trending down in 2022, the market rallied a bit overall in the first quarter of 2023. At least by some accounts, **this early year-rebound was one of the best market openings since January 2000.**¹ As of the end of the first quarter of 2023, the S&P 500 Index has returned **7.50%** year-to-date ("YTD") the small-cap-focused Russell 2000 index has returned **2.74%** YTD, the tech-oriented NASDAQ 100 index has returned **20.77%** YTD, the Dow Jones Industrial Index (DJIA) has returned **0.93%** YTD, and the Bloomberg U.S. Aggregate Bond Index has returned **2.96%** year-to-date.²

Clients who have gotten to know our investment philosophy over the years know what "Steve is going to say" regarding this Q1 market rally: past performance is no guarantee of future results, there are still three quarters left in the year, and predicting near term market performance precisely and consistently is impossible, so it is not useful to try. John Kenneth Galbraith famously describes the concepts of market timing and near-term economic forecasting more bluntly, writing, "the function of economic forecasting is to make astrology look *respectable*." With that caveat in mind, we will do our best to highlight our views on the current state of the market in the hopes that clients may find it informative.

This early 2023 rally appears somewhat less meaningful when viewed in light of the simple fact that the market *did* decline considerably over the course of 2022. Additionally, at least a portion of this initial market rally may be attributed to upward price pressure from investors re-deploying tax-loss-harvesting proceeds back into the market after selling positions the end of last year. As many of you may recall from one-on-one discussions we held at the end of last year, our team spent the majority of December working around-the-clock executing tax-loss-harvesting strategies before the final trading day of 2022.

In recent weeks, a portion of those gains have been eroded by investor uncertainty regarding the health of our financial sector and over the resiliency and solvency of the U.S. banking system, given investor withdrawals. Although many clients had the opportunity to listen to our firm's webinar on recent bank failures and ask questions, we also wanted to dedicate the next portion of this newsletter to diving a bit deeper into the current state of the U.S. banking system.

Equity research analysts are forecasting that recent banking events may tighten credit and lending, which in turn, may reduce real GDP growth and increase the probability of a recession. Goldman Sachs is forecasting that tightening credit conditions (as a result of recent liquidity crunches) at banks may cause a **(0.4)%** reduction in growth over the next year, and the firm's Chief Economist lowered his 2023 growth forecast to **1.1%**.³ While forecasts are just estimates and should not be treated as guarantees, consensus Wall Street forecasts *are* a good

¹ Shalett, Lisa (Morgan Stanley Chief Investment Officer, Wealth Management). "3 Signs the Bear Market Isn't Over." Morgan Stanley, February 7, 2023.

² Morningstar, Inc. as of market close on 31-Mar-23. Year-to-date index performance figures shown are on a total-return basis, assuming reinvested interest, capital gains and dividend distributions. Note: Investors cannot invest directly in an index. These unmanaged indexes do not reflect any fund or investment advisory management fees and transaction costs that are associated with some investments. Past performance is no guarantee of future results.

³ Goldman Sachs & Co., LLC. Chief Economist Jan Hatzius, March 27, 2023.

barometer to measure consensus views towards a recession, and the consensus equity research forecast is pricing in a 60% probability of a recession in 2023.

Many of the core “questions” the market is focused on in the first few months of 2023 remain the same from last year. Investors are still focused on the Federal Reserve’s ability to tame inflationary pressures with further rate hikes; and most importantly whether the Fed can fulfill its congressional mandate of a 2% U.S. inflation rate *without* plunging the U.S. economy into a recession (i.e., can the Fed execute a “soft-landing”). On March 22, 2023, following the latest Federal Open Markets Committee (“FOMC”) meeting, the FOMC raised the funds rate target range by 0.25%, to 4.75%–5%.⁴ Many Wall Street analysts are still pricing in one or two additional 0.25% rate hikes in May and June of this year with a terminal rate of 5.25% to 5.5%, while the FOMC Committee’s latest target terminal rate is a bit lower at 5.0%–5.25%.⁵ The latest Consumer Price Index (“CPI”) data is still showing significant inflation of 6.0% (YoY) in February 2023.⁶ While that inflation rate was fairly in-line with Wall Street analyst expectations, it means that the Fed will need to continue to pursue a quantitative tightening policy to help decrease the inflation rate. The key challenge for the Federal Reserve will be balancing its need to reign in the inflation rate, while treading lightly to avoid further exasperating the U.S. banking system and the U.S. economy. Historically, it has been very challenging for the Federal Reserve to execute “soft landings”, so we will have to see how it plays out later this year.

Perspectives & Overview of Recent U.S. Bank Failures

Before we discuss the specifics of recent headlines, we want to stress the following – **if any clients feel uncertain or nervous about their portfolios, please do not hesitate to reach out to us by email or phone.** Our goal is to serve as a resource and partner to help clients achieve their individual financial goals and objectives. We are always happy to chat and hopefully provide clarity on recent events, alleviate potential concerns, address potential questions, and outline how recent events have impacted individual portfolios (if at all).

Background on Recent Bank Failures: The recent “crisis of confidence” in the U.S. banking sector started on March 8, 2023, when Silicon Valley Bank (“SVB”) announced it would book a \$1.8 billion loss after selling a portion of its investment portfolio to cover customer withdrawals.⁷ This announcement triggered Moody’s to downgrade the bank’s credit rating hours later which further accelerated depositor withdrawals. By the close of business on March 9th, depositors withdrew a record \$42 billion in one single day (one-fourth of the bank’s total deposits). SVB’s shares were halted from trading on New York’s NASDAQ exchange and U.S. regulators announced the bank had insufficient liquidity to fund withdrawals and would be entering FDIC receivership.⁸ With approx. \$209 billion in assets, SVB has become the 2nd largest bank failure in U.S. history, only surpassed by the 2008 collapse of Washington Mutual.⁹ For some background on the institution, SVB quickly rose to become the 16th largest bank in the U.S. and received a flurry of new deposits over the past few years (growing its deposit base by 215% between 2019 and 2022¹⁰) by predominately catering to a somewhat insular community of tech startups (SVB provided banking services to nearly *half* of the country’s venture-capital-backed technology startups).

SVB deployed a portion of those new deposits via loans, but also invested a portion in long-dated U.S. treasury securities. As the Federal Reserve raised rates over the past year or so, the principal amounts of those Treasury holdings declined and SVB was sitting on a large portion of unrealized losses in its investment portfolio. Normally, this wouldn’t have been a *major* concern because, if held to maturity, SVB would be guaranteed the full principal balances back on its U.S. Treasuries holdings. However, this \$42 billion outflow forced SVB to sell these Treasury positions *before* maturity, requiring the bank to “lock in” or “book” the losses from the principal balances declining, and wiping out the bank’s reserves and ultimately, causing its failure. Days later, New York regulators announced Signature Bank (who held \$110 billion in deposits) had also collapsed, as depositors withdrew funds rapidly from the NY-based bank. Depositors were spooked primarily by SVB’s collapse, but also the recent collapse of crypto exchange FTX, given Signature Bank’s reputation as the bank-of-choice for crypto-related companies.¹¹

⁴ Board of Governors of the Federal Reserve System. “Decisions Regarding Monetary Policy Implementation.” Implementation Note Issued of the Federal Open Market Committee November 1-2, 2022.” FOMC Meeting Minutes.

⁵ Goldman Sachs & Co, LLC. Equity Research Note, Jan Hatzius.

⁶ The U.S. Bureau of Labor Statistics. “TED: The Economics Daily: February 2023 CPI” News Release. U.S. Department of Labor, March 20, 2023.

⁷ Choi, Candice. “The Banking Crisis: A Timeline of Silicon Valley Bank’s Collapse and Other Key Events.” *The Wall Street Journal*. Dow Jones & Co. March 27, 2023.

⁸ *Ibid.*

⁹ Smith, Robert, Ortenca Aliaj, Joshua Franklin, Brooke Masters, Eric Platt, Stephen Gandel, George Hammond, Antoine Gara, Colby Smith, and Tabby Kinder. “Silicon Valley Bank Shut Down by US Banking Regulators.” *Financial Times*. Nikkei, Inc., March 10, 2023.

¹⁰ The Independent Community Bankers of America. “Silicon Valley Bank and the Nation’s Largest Banks Are Not Community Banks.” *ICBA*, March 13, 2023.

¹¹ Abelson, Max. “Why Did Signature Bank Fail? inside the Old-School New York Bank.” *Bloomberg.com*. Bloomberg, March 14, 2023.



Lighting your way,
Enriching your life.

Prometheus Capital Management Corp.
An SEC Registered Investment Advisor

30 South Main Street
Yardley, PA 19067
tel: 215 321 9312
fax: 215 321 9352
www.procap.net

Background on the FDIC & Coverage Limits: Before jumping into recent events, we wanted to dedicate a small paragraph to discussing the FDIC. The FDIC was created by the Banking Act of 1933, enacted during the Great Depression to restore trust in the American Banking System after a string of bank runs. The FDIC has been extremely successful in doing just that – in the years leading up to the creation of the FDIC, greater than 1/3 of U.S. banks had failed, but since its creation, **no depositor has ever lost a penny of FDIC-insured funds.**¹² In the event of a failure of a member bank, the FDIC will pay insurance to the depositors up to the insurance limit and serves as the “receiver” of the failed bank. It assumes the task of unwinding assets of the failed bank and settling its debts, including claims for deposits in excess of the insured limit. The standard insurance amount is \$250,000 per depositor, per insured bank, for each ownership category.¹³ That coverage is based on the depositor’s financial product being a “deposit” product (i.e. checking accounts, savings accounts, Negotiable Order of Withdrawal (NOW) accounts, Money Market Deposit Accounts (MMDAs), Time deposits such as certificates of deposit (CDs, Cashier’s checks, money orders).¹⁴ It is important to note FDIC does *not* apply to money market mutual funds, stock investments, bond investments, and does *not* protect an investor from declines in value due to poor financial investments (its purpose is to protect depositors up to coverage limits and prevent bank runs). On the brokerage side, the Securities Investor Protection Act of 1970 created SIPC coverage after a string of broker-dealer runs in the U.S. SIPC is loosely modeled off the FDIC model, but has some key differences. SIPC protects securities and cash in U.S. clients’ brokerage accounts up to \$500,000 (with a cash coverage limit of \$250,000 of that \$500,000 total coverage amount).¹⁵ Similar to FDIC coverage, SIPC does *not* protect investors against market losses, poor investment choices, and commodities futures contracts, it only protects investors of member firms that fail and require SIPC to intervene.

U.S. Regulators’ Response to Recent Bank Failures: In response to these two bank failures, the U.S. Federal Reserve, Treasury Dept., and Federal Deposit Insurance Corp. (“FDIC”) took the extraordinary measure of designating SVB and Signature Bank as “systematic risks to the financial system” which gave regulators greater flexibility to insure deposits above normal FDIC coverage limits. The government’s bank-deposit insurance fund announced it **will cover all deposits at the two banks, rather than the standard \$250,000. Federal regulators said any losses to the government’s fund would be recovered in a special assessment on banks and U.S. taxpayers would not bear any losses.**¹⁶ Additionally, the Fed announced a new “Bank Term Funding Program” which will offer loans up to one year to banks that pledge very “high quality” assets such as U.S. Treasury securities and U.S. agency mortgage-backed securities backstopped by up to \$25 billion from the U.S. Treasury Dept. The important nuance to the Bank Term Funding Program is that **the terms of the program allow banks to borrow at 100 cents on the dollar for these assets; even if the securities trade well below par value**, as the principal balances have declined (there is an inverse relationship between the price of these assets and interest rates, broadly speaking, so as the Fed hiked rates over the past year or so, the market value declined). The implication here is that, if a bank faced a sudden flurry of depositor outflows like SVB, the institution may not *necessarily* need to sell their bond portfolios at losses to cover withdrawals. Instead, it could continue to hold the positions (with the hope of redeeming the underlying bonds at maturity, at which point the bank would be entitled to the full principal balances and short-term price declines in the balances of these securities (due to rate hikes) would not “matter” if held until maturity). The FDIC also brokered the sale of the bulk of SVB’s assets to other banks (18 bidders participated in the process, with 27 submitting bids for all or a portion of SVB’s assets). Raleigh-based First Citizens Bank emerged as the winning bidder on March 27, 2023. The market perceived this acquisition favorably for First Citizen, as evident by its stock jumping **45.45%** on the day of announcement. Financials-sector equity research analyst at Keefe, Bruyette & Woods (“KBW”) described this deal as, “one of the best bank acquisitions of our time...they [First Citizen] do a great job of being opportunistic when everyone else is hunkering down.”¹⁷

Market & Investor Reactions to Recent Events: Many clients, having lived through the turmoil of the 2008 financial crisis, have been understandably nervous that recent events may be like the 2008 financial crisis. The key message

¹² FDIC Facts. “When a Bank Fails: Facts for Depositors, Creditors, and Borrowers.” Federal Deposit Insurance Corporation. Accessed March 28, 2023.

¹³ Note: The FDIC provides separate coverage for deposits held in different account ownership categories. Depositors may qualify for coverage over \$250,000 if they have funds in different ownership categories and all FDIC requirements are met. All deposits that an account holder has in the same ownership category at the same bank are added together and insured up to the standard insurance amount.

¹⁴ FDIC. “FDIC Deposit Insurance at a Glance.” FDIC. September 13, 2022.

¹⁵ Corporation, Securities Investor Protection. “The Securities Investor Protection Corporation (SIPC) Protects Customers If Their Brokerage Firm Fails.” SIPC. SIPC only protects investors if it is under the coverage limits, if the broker-dealer fails and SIPC steps in, and if the brokerage firm is a SIPC member (most U.S. brokerage firms are required to be SIPC members).

¹⁶ The Federal Deposit Insurance Corp (FDIC), The U.S. Federal Reserve Board of Governors, and The U.S. Treasury Department, “Joint Statement by the Department of the Treasury, Federal Reserve, and FDIC,” Joint Statement by Fed, FDIC and Treasury Dept., March 13, 2023.

¹⁷ Ben Eisen and Rachel Louise Ensign, “First Citizens Adds to Its Collection of Failed Banks with SVB Purchase,” The Wall Street Journal (Dow Jones & Company, March 27, 2023). Note: stock price listed as of market close on 27-Mar-23, data provided by Dow Jones & Co.



Lighting your way,
Enriching your life.

Prometheus Capital Management Corp.
An SEC Registered Investment Advisor

30 South Main Street
Yardley, PA 19067
tel: 215 321 9312
fax: 215 321 9352
www.procap.net

we want to impart is that this is a very different type of “crisis” compared to 2008. SVB’s failure was not a “Lehman Brothers moment”. Unlike 2008, where toxic and low-quality assets caused many banks to unravel, **this crisis is predominately a “liquidity” issue involving some of the highest quality assets in the world** (U.S. Treasury securities backed by the full faith, credit and taxing power of the U.S. government). That difference in the quality of the assets vs. 2008 is *critical* because it means that this is primarily a “crisis of confidence”, which is *hypothetically* far easier to manage. The Fed and Treasury’s liquidity facility and pledge to make SVB and Signature bank depositors 100% whole should effectively solve key liquidity issue where banks have to sell Treasuries at current market value to fund withdrawals and realize losses on their bond holdings. A hallmark component of the Dodd-Frank Wall Street Reform and Consumer Protection Act (passed after the 2008 crisis) was that the nation’s largest banks have to meet robust annual “stress testing” by the Federal Reserve each year where systemically important banks are required to maintain higher levels of capital buffers and liquidity ratios to insulate their balance sheets against losses.¹⁸ These capital buffers and stress testing requirements have made the U.S. banking sector’s some of the most well-capitalized and resilient banks in the world, with most far above the mandated CET1 capital ratios of 4.5% (i.e. J.P. Morgan’s CET1 capital ratio is 13.0%, Citigroup’s is 12.0%, Goldman Sachs’ is 10.5%, and Morgan Stanley’s is 13.3%, to name a few of the largest U.S. institutions).¹⁹

On one hand, critics argue these actions: (1) essentially subsidize U.S. banks (like SVB) who had poor risk controls and did not properly hedge interest rate risk on their bond holdings (*probably true*), (2) that by guaranteeing *all* SVB & Signature Bank deposits (not just up to the FDIC-insurance limit) it is effectively a bit of a backdoor rescue of venture-capital firms and their tech startup portfolio companies (*mostly true*) and (3) that it is a textbook case of moral hazard, given it may encourage banks to take excessive risk, knowing the U.S. Federal Government may backstop *all* deposits (*probably true*). On the other hand, U.S. regulator’s actions have already gone a long way to calm depositor nerves and help restore investor confidence in the U.S. financial system. It is also important to note that this is not a “bailout” in the traditional sense in that they do cost the U.S. *taxpayer* “anything”, unlike the 2008-era bailouts. We think that one medium-term impact these failures may have is triggering (1) reforms to deposit insurance and (2) more stringent capital reserve requirements for regional banks in the U.S.

Impact of Recent Events on Clients of Our Firm: The short answer is, **at this time, we do not think it currently will have a material impact for most clients.** However, the impact is specific to each client’s portfolio, so please feel free to reach out to us to discuss how it may impact your holdings (if at all). Some clients may have *indirect* exposure to bank stocks (through ETFs or mutual funds), which have experienced near-term price volatility, but the beauty of diversification is that it may only be a small percentage of selected clients’ overall holdings. Many clients have asked if this will impact the solvency of some of our custodians, such as Charles Schwab & Co. or Pershing, LLC. We cannot stress enough that **your securities held at Schwab and Pershing are segregated from other custodian assets** and the SEC’s Customer Protection Rule safeguards customer assets at brokerage firms by preventing them from using client funds to finance proprietary business. **In the event custodians become insolvent, these segregated securities are *not* available to general creditors of the custodian.** If clients open margin accounts and pledge a portion of securities as a loan, the custodian/broker-dealer may be able to access these funds, which is why strongly discourage clients from using margin, as a firm policy. Also, qualifying brokerage assets held at our custodians are insured by the \$500,000 SIPC coverage limit discussed previously. Additionally, many custodians such as Charles Schwab & Co. (“Schwab”) have “excess SIPC” insurance protection for securities and cash. In Schwab’s case, the combined total of SIPC coverage and “excess SIPC” coverage means Schwab provides protection “up to a combined return of \$149.5 million per customer, up to \$1.15 million of which may be in cash; and the Excess SIPC program has a \$600M aggregate (meaning most of the program will pay for the Excess SIPC portion of the losses).”²⁰ For clients whose assets are with The Investment Center, Inc. and custodied through its clearing firm (Pershing, LLC), clients are covered by the following excess SIPC coverage amounts: An aggregate loss limit of \$1 billion for eligible securities—over all client accounts at Pershing LLC, and a per-client loss limit of \$1.9 million for cash awaiting reinvestment—within the aggregate loss limit of \$1 billion.²¹

Even if a broker dealer *did* become insolvent, the combination of multiple layers of protection (segregated client assets, SIPC coverage and in some cases (depending on custodian) excess SIPC coverage) should provide

¹⁸ Congressional Research Service, “Enhanced Prudential Regulation of Large Banks,” Congressional Research Services (U.S. Congress, May 6, 2019)

¹⁹ Note: Data as of Q1 2022, based on Fed Reserve’s latest Supervisory Stress Tests. Fitch Wire. “US Bank Capital Levels Remain Robust; Scope for Distributions Varies.” Fitch Ratings: Credit Ratings: Analysis for Financial Markets, June 29, 2022.

²⁰ Charles Schwab & Co. “Account Protection: Charles Schwab.”

²¹ The Investment Center, Inc. “Excess SIPC Coverage” Note: This coverage is underwritten by Lloyd’s of London and Other Commercial Insurers and is valid through 10-Feb-24.



*Lighting your way,
Enriching your life.*

Prometheus Capital Management Corp.
An SEC Registered Investment Advisor

30 South Main Street
Yardley, PA 19067
tel: 215 321 9312
fax: 215 321 9352
www.procap.net

clients with comfort. We actively evaluate all of our broker-dealer and custodian relationships and have not found any indications of liquidity concerns. Wall Street research analysts tend to agree with our analysis. In a recent note regarding Schwab's liquidity, a Morgan Stanley equity research analyst defended Schwab, stating, **"there has been no sign that Schwab is experiencing a run on its deposit base**, as was the case for Silicon Valley Bank, which received a stunning \$42 billion in withdrawal requests on Thursday. Additionally, **Schwab has plenty of liquidity options, even before including the Federal Reserve's new Bank Term Funding Program...we see ~\$275 billion immediate liquidity available in a draconian short-term stress scenario, and ~\$375 billion available over a 12-month stress scenario that fully covers their \$366 billion bank deposit base...**notably, in a worst case scenario, if Schwab were to fund customer withdrawals via liquidating their \$148 billion available for sale securities portfolio and crystallize \$12 billion of unrealized securities losses, **their Tier 1 leverage ratio would be largely unchanged**".²²

Conclusion/Steps Clients Can Take to Secure Deposits: While this does not capture *all* of the recent events in the news (which would be challenging to condense into a newsletter), we felt it was important to dedicate a portion of this newsletter to explaining the recent events, which clients may be hearing in the news (whose business model is often generating fear to drive viewership). While we do not think a bank run is imminent at this time and, given that Schwab and Pershing are well-capitalized, we do feel strongly that clients should not take any unnecessary risk by having bank deposits greater than the FDIC insurance limits at one institution. If there is one key "takeaway" from this newsletter, it should be the following: **please ensure your deposits and CDs are spread out appropriately across multiple institutions or if opting to purchase brokered FDIC-insured bank CDs with us, please reach out to our team for a discussion to ensure you are able to achieve full FDIC coverage.** If any clients are unsure if they are under those limits, or would like to chat with us about this topic, please call or email representatives of our firm, and we would be happy to chat. We will continue to monitor the situation closely and reach out directly to clients if our view of the current situation evolves with additional news, events or information.

Firmwide Updates

The first quarter of the year is always the busiest quarter for our firm with tax-related requests; and this year was no exception (though, we haven't received any explicative hurdled at staff by overworked and dreary-eyed accountants waiting on 1099R's/1099C's (yet) this season). This quarter has also been busy due to construction on our office building. If you thought you heard a jackhammer in the background when you called us in the past few months, *you probably did!* We're in the midst of the first major overhaul of our building in decades and apologize for any noise on calls or distractions on Zoom. We are excited to show the "finished product" in-person in the coming months; and will try to include a photo of the renovated building in our next newsletter. Another initiative keeping us busy is our continued push to modernize our state-of-the-art technology stack, including subscribing to institutional portfolio and fund-manager monitoring and analytics software such as Morningstar Direct.

Employee Recognition for Outstanding Service: We wanted to dedicate a portion of this newsletter to highlighting the incredible contributions of an employee of our firm which you have grown to know over the years – Julie West, Prometheus Capital's Office Administrator. As many clients have come to understand, Julie is an incredible resource to the firm and our clients. Outcome-driven, incredibly hard working, efficient, helpful, problem-solver, jack-of-all-trades. The firm has had a number of employees over the years and we can say with certainty that Julie has been one of the most driven and hardworking of all of us. We completed a major overhaul of our technology stack this year and transitioned customer-relationship-management ("CRM") platforms for the first time in 20+ years, *all during our busiest season of the year!* Julie spearheaded that initiative and worked day-in and day-out to ensure a smooth transition and iron out "kinks" in the new software and our processes. One of the qualities that makes Julie a uniquely talented employee is her problem-solving ability and outcome-driven mindset: time-and-time again Julie has been able to tackle entirely new projects and initiatives (both internally for our firm and externally for clients) with a determination rarely seen in most employees. While some employees at firms may feel uncomfortable with stepping out of normal routines, Julie embraces new projects and "owns" them with a client-centric approach and outcome-driven mindset. We are recognizing Julie for her initiative in modernizing our firm's technology stack this quarter; that would have been quite a feat if Julie was exclusively working on it full-time, but her ability to spearhead that transition, while simultaneously excelling at all of her other duties is what is exceptionally remarkable and why

²² Matthew Fox, "Charles Schwab Plunges 19% as Investors Worry about Banks Sitting on Big Bond Losses Following Silicon Valley Bank Collapse," *Business Insider* (Business Insider, March 13, 2023).

we felt compelled to recognize Julie for her extraordinary work ethic and contributions to this firm and its clients over the years. Julie is a pillar of our firm and the entire team at Prometheus Capital is proud and lucky to call her not just an incredible colleague and resource to our firm, but also a wonderful friend to us and to many of our clients.

IRAs & Roth IRAs – Don't Forget to Max Out Contribution for 2022 Tax Year

We wanted to end this newsletter with a call-to-action to all of our clients: **Do not forget to max out your IRA & Roth IRA contributions for the 2022 Tax Year.** You have until the 2022 tax return filing deadline (**April 18, 2023**) to make IRA & Roth IRA contributions...it is not too late!

For clients who are not sure if they should contribute to an IRA or Roth IRA, please do not hesitate to reach out to us – we'd be happy to have a discussion about what strategy and retirement vehicle is most impactful in light of your individual tax bracket, time horizon, and personal & financial circumstances. If you are in a relatively high tax bracket now and think that your tax bracket will be lower in retirement, a traditional IRA makes more sense. If you are in a very low tax bracket now and expect your income tax rate will be much higher when you retire, a Roth IRA may be a better choice.

Traditional IRAs: At a high level – the key difference between an IRA and a Roth IRA is that contributions to a traditional IRA are tax deductible, meaning that every dollar you contribute reduces your taxable income, up to the IRS limit, which stands at \$6,500 for 2023. The money grows without being taxed until you start taking distributions. When you reach retirement and start taking distributions, the money is taxed as ordinary income. In some states, however, IRA benefits are exempt from state income taxes. If you have a traditional IRA, you'll need to take Required Minimum Distributions ("RMDs"), which the "Secure 2.0" Act raised to age 73 for those who turn 72 in 2023 (meaning your first RMD would have to be taken by April 1st of the year *after* the year you turn 72 (73 if in 2023)). The amount you must withdraw depends on the balance in your account and your life expectancy as defined by the IRS.

Roth IRAs: On the other hand, Roth IRAs are funded with after-tax dollars. You can't deduct your contributions. Because you pay taxes when you put money in the account you don't pay taxes when you take the money out, either in retirement or at any time before retirement. Roth IRAs don't have RMDs so you can withdrawal your money as and when needed. Here's another Roth IRA perk: You can continue contributing to a Roth IRA no matter your age. This means you can contribute for as long as you work, even if into your 70s.

Many of you know that we have, for decades, been vocal advocates for both IRAs and Roth IRAs. Roth IRAs, in particular though, are phenomenal "deals" for investors, especially young ones. Since you are taxed upon contribution, *all future potential capital appreciation of investments in the Roth IRAs are tax-free!* When you pair this with a highly appreciating asset (say, a best-in-class technology stock) and a long time horizon (potential benefits of compounding), some of the results we have seen are truly remarkable (although past performance does not guarantee future results). Don't believe us? For an extreme example of how powerful Roth IRAs can be, one only has to look at Peter Thiel, the founder of PayPal. Peter Thiel invested the maximum allowed contribution (which was taxed upon contribution) to his Roth IRA in 1999, \$2,000. He made a single investment in PayPal at \$0.001 per share, and the following year later, thanks to PayPal, the value of his Roth IRA was \$3.8 million or a gain of 227,490%. He then used the \$3.8 million in his Roth to make additional investments which are now valued at \$5 billion. You read that right; he paid taxes on a \$2,000 contribution and the remaining \$5 billion in appreciation is tax-free! This is clearly an extreme example, but we like using it because it illustrates the power of a Roth IRA. Peter's Roth IRA caused significant political backlash and regulatory tailwinds may alter the benefits of future Roth IRA contributions, so if you are considering funding a Roth IRA, we would recommend to annually maximize your contribution, income permitting.

Although we cannot provide legal or tax advice, Prometheus Capital Management Corp. is a financial planning-led organization whose representatives have deep and comprehensive backgrounds in insurance planning, tax planning, retirement planning, and estate planning. All the licensed financial professionals at our firm (Steve Wetzel, Tom Schneberger, Nick Wetzel) are CERTIFIED FINANCIAL PLANNER™ Practitioners. Steve has an advanced certificate in accounting and M.B.A. in International Business & Finance from New York University's Stern Graduate School of Business and B.A. in Economics from Stony Brook University; Tom has decades of tax preparation background and holds a CPA® designation; and Nick holds a B.S. in Finance with a Concentration in Value Investing from Fordham University's Gabelli School of Business.



*Lighting your way,
Enriching your life.*

Prometheus Capital Management Corp.

An SEC Registered Investment Advisor

30 South Main Street
Yardley, PA 19067

tel: 215 321 9312

fax: 215 321 9352

www.procap.net

We would like to conclude this newsletter by thanking all of our clients who have, for decades, put their trust in our firm and its representatives. Serving as your loyal financial professionals and earning your trust and friendship over time is what motivates us and makes this job so rewarding for our firm's staff. While past performance is no guarantee of future results, we appreciate your continued support and we are proud to say that **most of our clients have been richly rewarded for "staying the course" in 1987, 1998, 2000-2002, 2008-2009, 2010 and 2020** and opportunistically taking advantage of potential buying opportunities, dollar-cost-averaging, and maintaining a long-term orientation.

Sincerely Yours,

Steve Wetzel, CFP®

Nick Wetzel, CFP®



Prometheus Capital Management Corp.
An SEC Registered Investment Advisor

30 South Main Street
Yardley, PA 19067
tel: 215 321 9312
fax: 215 321 9352
www.procap.net

Important Disclosures & Selected Additional Information

General Disclosures:

Past performance is no guarantee of future results. Stephen P. Wetzel, CFP® and Nick M. Wetzel, CFP® are Registered Representatives of and Securities offered through The Investment Center, Inc. – Bedminster, NJ. Member FINRA/SIPC. Advisory Services are only offered through Prometheus Capital Management Corp., which is independent of The Investment Center, Inc. Prometheus Capital Management Corp. and its representatives do not forecast future economic environments and are unable to comment on how any potential investment(s) might perform in future economic scenario(s). Prometheus Capital makes no predictions, representations, or warranties herein as to the future performance of any investments or indices included in this proposal. Prospectuses should be obtained from your financial professional and should be read carefully before investing in any fund or investment vehicle. Prometheus Capital Management Corp. and its representatives do not provide legal or tax advice. Each client should always consult his/her personal tax and/or legal advisor for information concerning his/her individual situation and to learn about any potential tax or other implications that may result from acting on a particular recommendation.

Risk Considerations:

Equities securities can and will fluctuate in response to news on companies, industries, market conditions and general economic environment. There may be economic times where all investments are unfavorable and depreciate in value. The investment return and principal value of an investment will fluctuate over time, thus an investor's share(s), when redeemed, may be worth more or less than their original cost of purchasing investment(s). Prometheus Capital makes no predictions, representations, or warranties herein as to the future performance of any investments included in this newsletter.

While the information included in this newsletter is believed to be accurate as of the date of publication, investing and economic conditions naturally change over time and this static document does not intend to be used as a live resource and will not (naturally) reflect new information after the date of publication.

The value of fixed income securities will fluctuate and, upon a sale, may be worth more or less than their original cost or maturity value. Bonds are subject to interest rate risk, call risk, reinvestment risk, liquidity risk, and credit risk of the issuer.

Companies paying dividends can reduce or cut payouts at any time.

Asset allocation and diversification do not assure a profit or protect against loss in declining financial markets.

Money Market Fund, FDIC & SIPC Disclosures:

Money Market Fund Disclosures: Investors should be aware of and understand this important information about the money market funds in which they are investing:

- An investment in a money market is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.
- Although a money market fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in a money market fund.
- Yields on investments fluctuate over time and past performance and yields of any investment is no guarantee of future results, income, or yields.
- Investors should carefully consider the investment objectives, risks, charges and expenses of the proposed investments. This and other important information is contained in each fund's summary prospectus and prospectuses, which can be obtained from your financial professional.

FDIC Disclosures & Additional Information: The FDIC (Federal Deposit Insurance Corporation) is an independent agency of the United States government that protects bank depositors against the loss of their insured deposits in the event that an FDIC-insured bank or savings association fails. FDIC insurance is backed by the full faith and credit of the United States government. The FDIC covers the following: Checking accounts, Negotiable Order of Withdrawal (NOW) accounts, Savings accounts, Money Market Deposit Accounts (MMDAs), Time deposits such as certificates of deposit (CDs), Cashier's checks, money orders, and other official items issued by a bank. The FDIC does not cover the following: Stock investments, Bond investments, Mutual funds (including money market mutual funds), Crypto Assets, Life insurance policies, Annuities, Municipal securities, Safe deposit boxes or their contents, U.S. Treasury bills, bonds or notes*. Depositors do not need to apply for FDIC insurance. The FDIC does not protect against losses due to poor investment selection. Coverage is automatic whenever a deposit account is opened at an FDIC-insured bank or financial institution. If you are interested in FDIC deposit insurance coverage, simply make sure you are placing your funds in a deposit product at the bank. The standard insurance amount is \$250,000 per depositor, per insured bank, for each account ownership category. The FDIC provides separate coverage for deposits held in different account ownership categories. Depositors may qualify for coverage over \$250,000 if they have funds in different ownership categories and all FDIC requirements are met. All deposits that an account holder has in the same ownership category at the same bank are added together and insured up to the standard insurance amount.

**These investments are backed by the full faith and credit of the U.S. government.*

SIPC Disclosures & Additional Information:

Member of SIPC, which protects securities customers of its members up to \$500,000 (including \$250,000 for claims for cash). Explanatory brochure available upon request or at www.sipc.org.

Market Indexes (Indices) Definitions & Disclosures:

These unmanaged indexes do not reflect any fund or investment advisory fees, fund management fees and other transaction costs that are associated with some investments.

An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Data on index performance provided by Morningstar, Inc. and Dow Jones & Co. Year-to-date index performance figures shown are on a total-return ("TR") basis, which assumes reinvested interest, capital gains and dividend distributions as of market close on the dates listed on each of the footnote references. Please find below information and definition of each of the market indices listed in this newsletter:

• **S&P 500 Index:** The Standard & Poor's (S&P) 500 Index tracks the performance of 500 widely held, large-capitalization US stocks.

• **Russell 2000 Index:** The Russell 2000® Index measures the performance of the small-cap segment of the US equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 7% of the total market capitalization of that index, as of the most recent reconstitution. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

• **NASDAQ 100 Index:** The NASDAQ-100 Index includes 100 of the largest domestic and international non-financial companies listed on The NASDAQ Stock Market based on market capitalization. The Index reflects companies across major industry groups including computer hardware and software, telecommunications, retail/wholesale trade and biotechnology. It does not contain securities of financial companies including investment companies. This index is often used as a benchmark for large-cap U.S.-based technology firms.

• **Dow Jones Industrial Index ("DJIA"):** The Dow Jones Industrial Average® (The Dow®), is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.

• **Bloomberg U.S. Aggregate Bond Index (the "Agg"):** Also known as the "Agg", the Bloomberg US Aggregate Bond Index is a broad-base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States. Investors frequently use the index as a benchmark for the performance of the U.S. bond market. The Agg also tracks government debt, mortgage-backed securities (MBS) and asset-backed securities ("ABS") to simulate the universe of investable bonds that meet certain criteria. The index has been known as the Bloomberg Agg only since August 2021. It was for many years the Barclays Agg. Bloomberg purchased Barclays fixed-income indexes in 2016 and, for the following five years, labeled them as Bloomberg Barclays indices. All now carry only the Bloomberg name.