SEM's Quarterly Newsletter

ENCORE

Fall 2021

Critical Questions

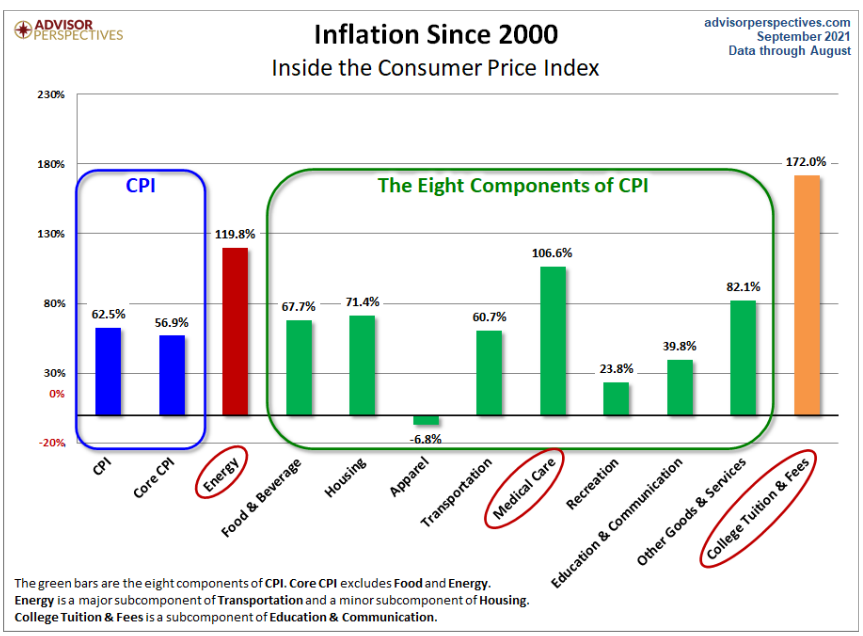
LEGISLATION ENACTED TO COMBAT THE CORONAVIRUS PANDEMIC	Cost of COVID-19 Relief Provided So Far (Coronavirus Preparedness and Response Supplemental Appropriations Act, Fammilies First Coronavirus Response Act, CARES Act, PPP and Healthcare Enhancement Act, and Consolidated Appropriations Act of 2021)	Cost of American Rescue Plan	Total Cost of COVID-19 Relief
Support for Small Businesses	$909 Billion	$59 Billion	$968 Billion
Economic Stimulus Payments	$456 Billion	$411 Billion	$867 Billion
Expanded Unemployment Compensation	$561 Billion	$203 Billion	$764 Billion
Public Health and Related Spending	$483 Billion	$174 Billion	$657 Billion
Tax Incentives	$390 Billion	$176 Billion	$566 Billion
Direct Aid to Governments	$150 Billion	$362 Billion	$512 Billion
Educational Support	$112 Billion	$170 Billion	$282 Billion
Other	$418 Billion	$301 Billion	$719 Billion
Total Cost	$3,479 Billion	$1,856 Billion	$5,335 Billion

PETER G. PETERSON FOUNDATION Learn more at pgpf.org/coronavirus

As we enter the final quarter of what has been a good year for stocks, the question for investors is — **how much longer this can continue?** Following the nearly complete shutdown of our economy due to COVID19 and with the help of $5.3 Trillion in 'stimulus' spending from Congress we have witnessed recent economic growth that will go down in the record books. As investors, it is important to look ahead and not base our outlook on the recent past. There are some critical questions to be addressed during the 4th quarter which will set the stage for how 2022 will take shape. While we obviously do not have all the answers, our decisions should be designed to allow successful outcomes regardless of how it turns out.

1.) Will the economy be able to stand on its own?

Congress is working on an additional $4.5 Trillion of spending ($1 Trillion in infrastructure spending and $3.5 Trillion in 'social' spending). The details are still being worked out, including how it will be paid for, but we do know one thing —- unlike the COVID relief listed above, this money will not hit the economy immediately. We won't see any more stimulus checks or huge tax cuts to juice the economy. At the same time, the Fed has hinted they will begin "tapering" their own stimulus measures before year end. During the last recovery, any Fed tapering measures caused bumps along the way. With the significantly larger asset purchases these bumps could be even bigger.



2.) Will inflation stay high?

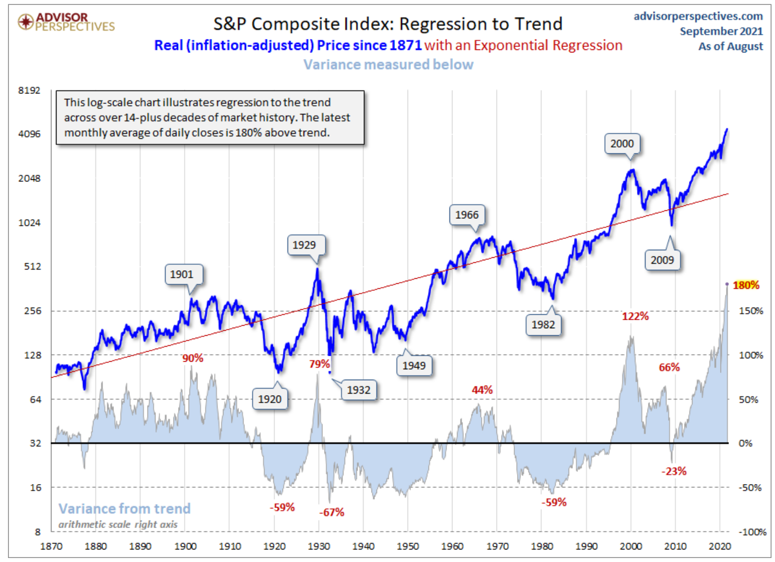
Most economic experts chalked up inflation numbers which crossed the 5% level earlier this year as "temporary", with expectations for it to come back to "normal" around 2%. Supply chain disruptions, labor shortages, higher COVID prevention steps, and potentially higher taxes could lead to inflation pressures which could lead to the Fed both escalating the speed of their "tapering" as well as possibly increasing interest rates. We can throw in another question — **can the economy handle higher interest rates?** Regardless of these short-term pressures, this chart highlights where we are seeing the highest inflation, including items which do not show up in the official inflation numbers. Inflation is a tax on the economy, creating a drag on growth.

3.) Are taxes going up?

Probably. The question will be for which groups and by how much. The real question should be — **what will be the side effects of higher taxes?** Higher taxes do not necessarily mean lower economic growth, but if the economy isn't strong enough to stand on its own, there could be a more rapid slowdown. This is one of many areas we will review when you complete the assessment at **Risk.SEMWealth.com**.

Questions… *Continued from page 1*

4.) Are stocks overvalued?



Whatever metric you look at stocks are most certainly at levels we've only experienced during past market bubbles. We discussed this last quarter. The problem is just because stocks are overvalued it doesn't mean they will go down immediately. It usually takes some sort of a catalyst that is not always obvious at the peak. A small slowdown in the economy or a disruption in a key industry leads to slightly lower earnings. This leads to a more negative tone during the quarterly earnings season. This leads to fear about what other companies or industries may be at risk. When valuation levels are at extremes, the market is sensitive to slight negative changes. It may be something related to the prior questions or something none of us have even thought of yet. When stocks are this highly valued, we should be asking, **can I handle a 35-50% drop in my stock portfolio that could last 18-24 months?**

5.) Will the Fed and/or Congress Prevent Another Recession or Bear Market?

This is by far the biggest source of complacency. Congress and the Fed reacted so quickly in March 2020 and followed-up two more times with unprecedented actions, investors believe this will be the experience during any future crisis. Where investors have it wrong is not every recession or bear market will be caused by a common "enemy". Think back to March 2020 and even when the other stimulus bills were passed. Both political parties knew COVID was the cause of so much economic turmoil differences were put aside to act. The bills were written by Democrats and signed by President Trump.

It is highly unlikely we will see Congress act with such bipartisanship again. Most of the emergency measures the Fed utilized had to be authorized by Congress. Those authorizations were all pulled in the last weeks of the Trump administration. 2020 was the exception, not the rule. Recessions will happen. Leaders will be caught off guard. Businesses and industries will suffer. Overvalued stocks will be slammed. This is "normal", so you should be asking yourself — **can my portfolio, financial plan and psyche sustain a recession?**

For the latest updates throughout the quarter go to **TradersBlog.SEMWealth.com**

Am I in the right portfolio?

We asked a bunch of questions in this issue of ENCORE which need to be addressed. The answers to these questions are not as important as this one — am I in the right portfolio. This is the time of year where we are required to ask every one of our clients questions about themselves to determine if their investment portfolio is "suitable". At SEM we believe this annual survey is critically important for us to be able to properly manage your investment portfolio. We have a wide range of options which can be customized to fit into your financial plan, cash flow strategy, and investment personality.

The attached "Suitability Standard" article explains the process. How you answer these questions will allow us to determine any adjustments that need to be made. For some people, negative answers to the questions posed in this issue may be non-events. For others, even a single negative outcome to those questions could cause serious complications to your financial picture. This is why it is so important to provide us with an update. It takes less than 5 minutes to complete. Whether you're a current client or not, head on over to **Risk.SEMWealth.com** to get started finding the answer to this most critical question.

What is *ENCORE*?
ENCORE is a Quarterly Newsletter provided by SEM Wealth Management. ENCORE stands for: **E**ngineered, **N**on-**C**orrelated, **O**ptimized & **R**isk **E**fficient. By utilizing these elements in our management style, SEM's goal is to provide risk management and capital appreciation for our clients. Each issue of *ENCORE* will provide insight into investments and how we managed money.

The Importance of “Suitability”

Each year the Securities & Exchange Commission (SEC) Rule 3a-4 requires SEM to request certain financial information from any client accounts we manage. In previous years SEM has mailed a 1 page form for clients to complete, sign, and return. This information is important for the management of your account, and we request clients to contact their financial advisor within 90 days if there are any changes to their financial situation.

This year we are asking clients to complete the information online through our website. Your responses will be shared with your financial advisor and reviewed to ensure the investments match the financial profile. To do this clients can go to **risk.semwealth.com** or click on the “**Take Our Risk Questionnaire**” at **SEMWealth.com.**

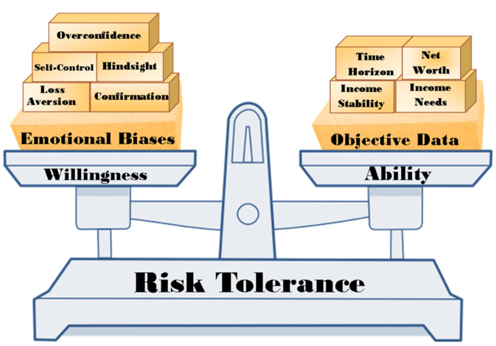
If we do not receive a completed questionnaire by 12/10/2021 we will assume your information on file is current.

Creating a Customized Solution

Every investor has a unique set of circumstances that makes it difficult to find a pre-packed solution. SEM offers a wide range of investment models that are designed to be risk efficient for a broad range of investors. The key to long-term investment success is allocating your assets to the portfolio that best suits YOUR individual needs.

Step 1: Determine Your Time Horizon

Investing involves risk. Risk is essentially the volatility of returns during the time it is invested. While over the long-run an investment may have superior returns, over short periods of time the returns may be negative. The shorter the time horizon, the less risk a portfolio should have. Keep in mind different portfolios may have different time horizons based on the purpose of the funds. For investors taking income from their portfolio, separating the income portion into its own portfolio is a popular strategy.



Step 2: Determine Your Risk Tolerance

Risk tolerance is generally thought of how much risk an investor is WILLING to take. This is certainly an important determinant, but it is typically driven by EMOTIONS. Often investor feelings toward risk fluctuate with the direction of the market. The more important determinant is the ABILITY to take risk. The ability to take risk is determined by data, not emotions. While time horizon is one portion of a portfolio’s ability to take on risk, other determinants are based on the individual situation.

There are numerous questionnaires, including SEM’s, available to determine the WILLINGNESS to take risk. Your advisor can look at your overall situation to help you determine your ABILITY. Like Time Horizon, portfolios can be separated into different portions based on the purpose and objectives for that money.

Step 3: Understand Your Personality

Too often our industry places clients in portfolios using a pre-determined model based on age. Our behavioral approach understands that even if you have time on your side and the ABILITY to take on risk, if you are invested in a portfolio that does not fit your overall investment personality there will be times where you are not comfortable. Typically when we are not comfortable we are more likely to make an emotional decision.

Step 4: Determine Your Customized Portfolio Blend

SEM’s Risk Questionnaire generates a blend that matches your time horizon, risk tolerance, and personality. It is designed to be a starting point with additional adjustments to be made to make the portfolio fit into the overall financial plan. You may already be in an optimized, custom blend of SEM models, but when you submit your questionnaire results SEM will send them to your advisor to review your portfolio and how it compares to your results. Upon review your advisor may work with SEM and possibly recommend a change to your investment allocations.

INVESTMENT POLICY STATEMENT

I. Scope and Purpose

CLIENT SUMMARY: This Investment Policy Statement (IPS) governs the accounts held in the attached statements. The client provided their current financial situation, including net worth, tax bracket, emergency assets, and annual income. The client may have also provided a personality profile to help identify possible areas to address when managing the account. The personality traits and experience of the client may impact the evaluation of the account as well as the types of investments that are appropriate.

RESPONSIBILITIES: The investment advisor is listed on the statement and has contracted with SEM Wealth Management to manage this account. It is the responsibility of the client and advisor to communicate any relevant changes to SEM immediately. The IPS should be reviewed at least annually. SEM will contact client once a year to confirm the current data included in this IPS.

CUSTODIAN: The custodian of the account will provide a monthly or quarterly investment statement approximately two weeks after the end of the period. The statement will include information regarding the activity in your account including security transactions and fee information. In addition to the printed statement, you may view your investments online at any time.

ADDITIONAL INFO: SEM's management fee is reported on your custodian statement. You should verify the fees charged for the management of your account match the agreed upon fees when you opened the account. To add money to your account, **make the check payable to the custodian** and send directly to SEM or your advisor. SEM or the advisor should be contacted for distributions from the account to ensure the proper forms are used.

II. Governance

ADVISOR RESPONSIBILITIES: The investment advisor and the client are responsible for selecting the appropriate SEM investment program allocation, taking into consideration the objectives, risk tolerance, time horizon, and any other relevant factors. In addition, the client's entire portfolio of investments should be taken into consideration when selecting an SEM investment program. **Client is responsible to report any significant changes in their financial circumstances to advisor immediately**. Advisor will then notify SEM and evaluate whether those changes necessitate a change in the investment program.

SEM RESPONSIBILITIES: Your advisor should have worked with you to determine which programs fit best with the overall return and risk objectives listed on the front. It is SEM's responsibility to manage all accounts in a given program in the same fashion and to remain consistent to the structure outlined at SEMWealth.com/Models. If SEM makes any material changes to the models SEM will notify the client and investment advisor of the changes. SEM may also suggest changes to the investment models selected based on reported changes in the client's personal financial situation.

III. Return and Risk Objectives

SEM is utilizing information provided by the client. Client should **go to Risk.SEMWealth.com to update the objectives**.

ASSET ALLOCATION: For a current asset allocation, log into your account online or check your account statement. For a full description of SEM's investment programs, please see the Models section of SEMWealth.com.

RISK: By nature investing is a risky endeavor as future results are not guaranteed. **In order to hit the stated return objectives, some risk will have to be taken**. In general, a reduction of risk also means reduced potential returns, which may necessitate an adjustment to the client's financial plan. The stated risk tolerance is a level the client would become uncomfortable with the portfolio. Exogenous events outside of SEM's control may cause the portfolio to exceed those losses. If the client becomes uncomfortable with the level of risk in the portfolio they should contact their advisor immediately to discuss their discomfort. During those times it is important to understand the impact emotions have on investment returns. In general, investors tend to reduce their risk tolerance during market losses and increase it during periods of rising stock prices.

INVESTMENTS: SEM utilizes mutual funds & ETFs to implement the selected investment program(s). Some of these funds will include the use of leverage and derivatives, but their use is taken into consideration with the overall portfolio allocation. SEM will also use a money market or other cash equivalent account at times. For additional details on SEM's management style, please consult our Disclosure Document which was provided with the opening of the account and is available at www.SEMWealth.com.

MISC ITEMS: Client may set up one-time or periodic distributions from the account. SEM will redeem the money pro-rata based on the current investments of the program. Client reserves the right to place reasonable restrictions on the management of the account, but this may limit SEM's ability to meet the return and risk objectives of the program. SEM does not vote proxies on behalf of clients.

IV. Evaluation and Monitoring

BENCHMARK: Each model factsheet lists the appropriate benchmark for the model. The purpose of a benchmark is to provide a comparison of a portfolio of unmanaged assets with a similar objective as the investment program. Investment markets move in cycles and in order to fully evaluate SEM's model(s), it is **important to compare it to the benchmark performance over a full market cycle (5-7 years, which includes both a bull and a bear market.)** In addition, the S&P 500 Index, while a popular benchmark in the media is not an appropriate benchmark for any of SEM's programs. The S&P 500 index only includes the top 500 US based companies. In order to reduce risk to a level to meet the stated risk tolerance levels, SEM must include a much broader range of assets than those in the S&P 500 Index.

PERFORMANCE REPORTING: The monthly or quarterly statement will provide performance for the overall account as well as for the individual investment models. **Client is encouraged to compare their portfolio performance to the benchmark of that model(s) over multiple time horizons**. If a model is meeting or exceeding its benchmark over those time horizons and client is unhappy with results, they are encouraged to consult with their advisor about moving to a higher returning SEM investment portfolio, taking into account the risks of that investment. Careful consideration should be taken to understand the role each investment model plays in the OVERALL CLIENT PORTFOLIO.

RISK ASSESSMENT: SEM's materials contain several return-risk metrics. One of our preferred risk statistics is the maximum drawdown as it shows how much the investment allocation has lost historically. The client's risk tolerance should be at least as high as the historic maximum drawdown number. Client and advisor should reconcile their risk tolerance to the Maximum Drawdown of the specific model and overall investment portfolio periodically. **When evaluating returns, client and advisor should consider the tradeoff between higher returns and higher Drawdown levels**.

REBALANCING: SEM will rebalance the portfolio to the model allocation each time a new allocation signal is generated or at least once a quarter. All accounts in each program are managed in a similar fashion and rebalanced simultaneously. Cash flows into or out of the account may impact short-term performance depending on market conditions.