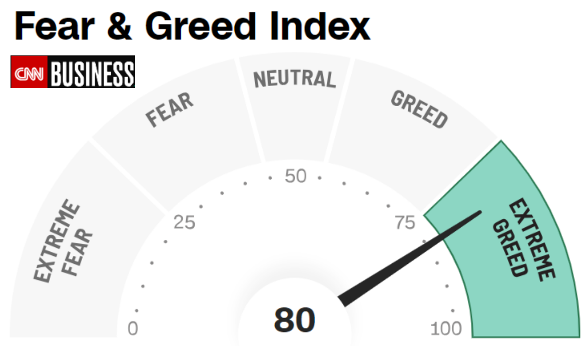
ENCORE
SEM's Quarterly Newsletter
Summer 2023

Getting Greedy



It's been a wild few years for investors in the stock market. We've seen big swings from fear (COVID outbreak in 2020 and interest rate hikes in 2022) to greed ('meme' stock idiocy in 2021 and 'AI' fueled euphoria in 2023). Throughout market history these cycles between fear and greed have led many investors to sell when things look bleak and waiting to buy after a large run-up.

The CNN Fear & Greed Index is a composite of 7 'sentiment' indicators. While over the long-term stock prices eventually reflect the underlying value of the company (or in the case of the market, the underlying economy), over short periods of time stocks go up when more people buy than sell and go down when more people sell than buy. Therefore, these sentiment readings are helpful in identifying when the market has likely run out of buyers (or sellers), which means the more recent trends are likely to reverse.

While we do not use sentiment indicators at SEM specifically, we do follow them to assist us in our communications and recommendations with advisors and clients. With the market at "extreme greed" levels as we move into the second half of the year, now is probably not the time to be adjusting the allocations in your portfolio to investments heavily invested in the stock market.

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

Wise words

If you are in the market for a new car and it went up by 15% in 3 months you'd probably be less likely to buy it. Conversely if it was down 15% you'd probably rush to buy it. For some reason that is not the case with stocks. Following the big jump in stock prices (already above the long-term average return for a year) we are seeing investors rushing to buy stocks.

The longer you've been around (SEM is in our 32nd year) the less surprised you are at these cycles. Given the big returns the first half of 2023, we thought we'd share some quotes from some successful investors who have been around longer than us:

"Quotations fluctuate constantly, reacting often illogically to all sorts of temporary and even trivial influences." – Benjamin Graham

"I believe the market accurately reflects not the truth, which is what the efficient market hypothesis says, but it accurately and efficiently reflects everybody's opinion as to what's true." – Howard Marks

"The Stock Market is the story of cycles and of the human behavior that is responsible for overreactions in both directions." – Seth Klarman

"There is evidence that the stock market is more efficient in processing information about what other investors are doing than it is in processing fundamental information about the underlying assets, which is why stock prices so often turn out with hindsight to have been crazy rather than rational." – Peter Bernstein

"When the price of a stock can be influenced by a "herd" on Wall Street with prices set at the margin by the most emotional person, or the greediest person, or the most depressed person, it is hard to argue that the market always prices rationally. In fact, market prices are frequently nonsensical." – Warren Buffett

Read more at **tradersblog.semwealth.com/mmm4-25**

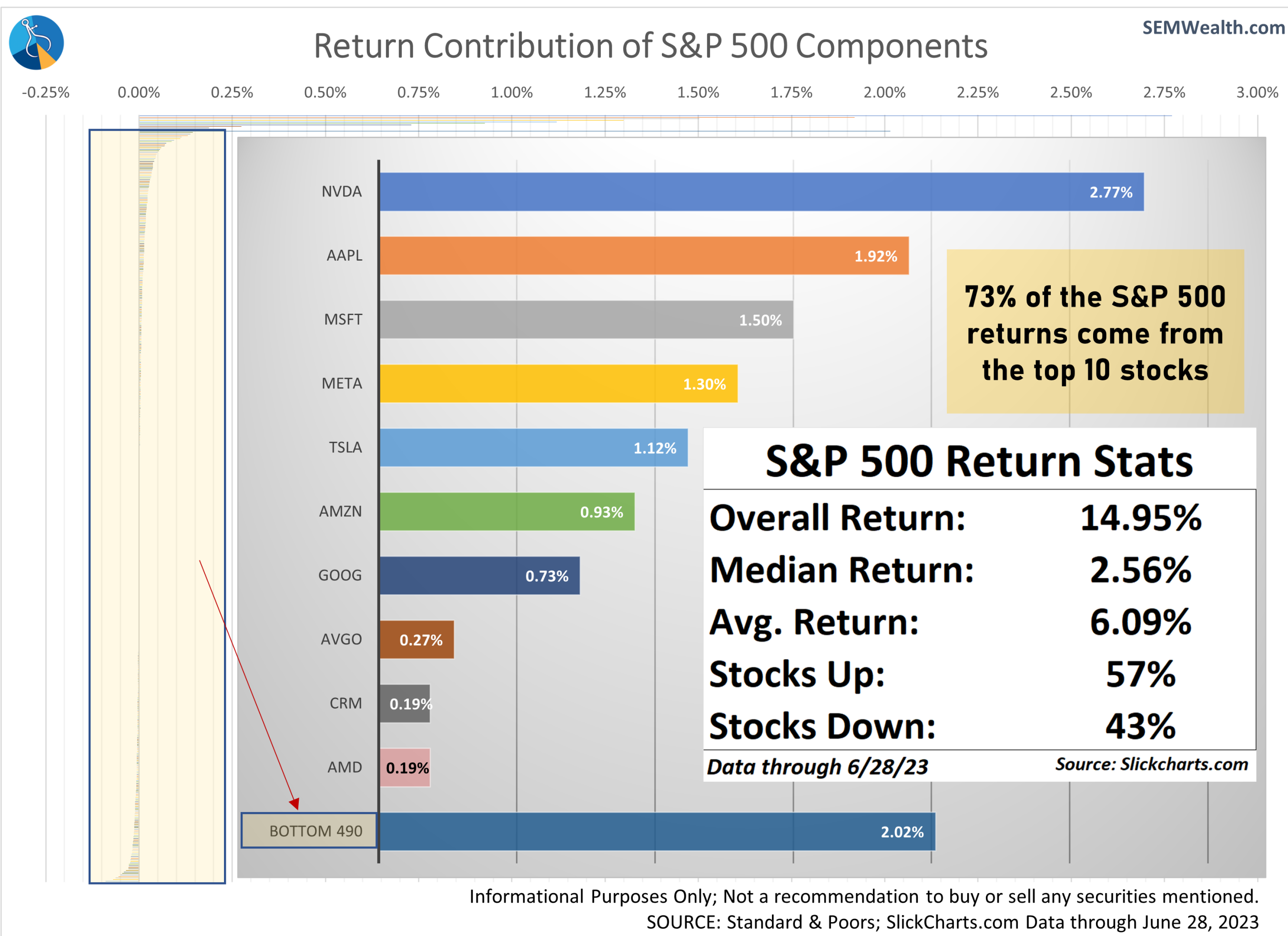
Not a healthy market

Most of us have been told about the value of holding a diversified portfolio. Many ‘experts’ recommend S&P 500 index funds shortly after discussing the benefits of diversification. However many times the S&P 500 is anything but diversified. A few stats for perspective:

- Technology stocks are 32% of the index (2nd highest in history)
- Apple and Microsoft account for 15% of the overall index (highest in history)
- The top 5 stocks represent 22% of the overall index (highest in history)
- The top 10 stocks are 30% of the index (highest in history)
- Apple (the first $3 Trillion company in history) is bigger than the entire Russell 2000 (the smallest 2000 publicly traded companies)
- 43% of the stocks in the S&P 500 are DOWN for the year

When the market is this focused, keeping up is quite difficult. Diversification certainly helped in 2022 to keep losses lower, but in 2023 if you hold a diversified portfolio chances are you are trailing the S&P 500. The chart below illustrates the narrowness of the S&P 500 this year. Be careful to not compare your diversified investments to this index. They carry much different risks.

If you would like a review of your investments, go to **Risk.SEMWealth.com**



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.