

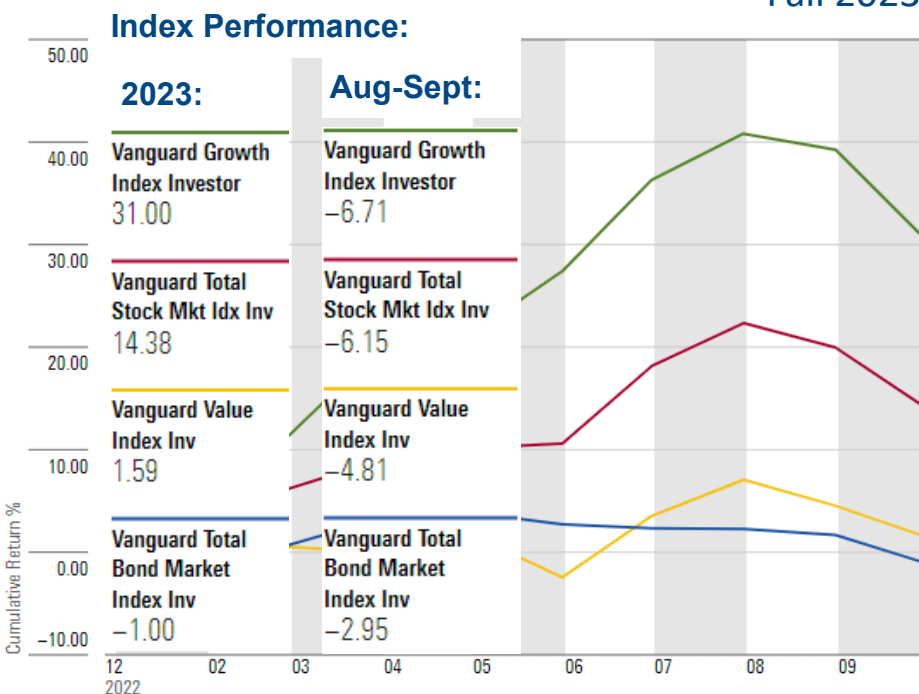
Not a normal market

The way our brains are programmed we tend to believe what has happened in the recent past is likely to continue for the foreseeable future. This is called "recency" bias.

This can be especially dangerous for investors as they may forget what history tells us about investing — markets move in cycles, which include periods of time where investors are overly optimistic or pessimistic.

In 2023 we've witnessed this as investors have been chasing "growth" stocks and abandoning "value" stocks. At the same time the bond market is down for the third straight year.

From studying history we know this is not "normal" which means being especially cautious in making adjustments based on what's happened this year.

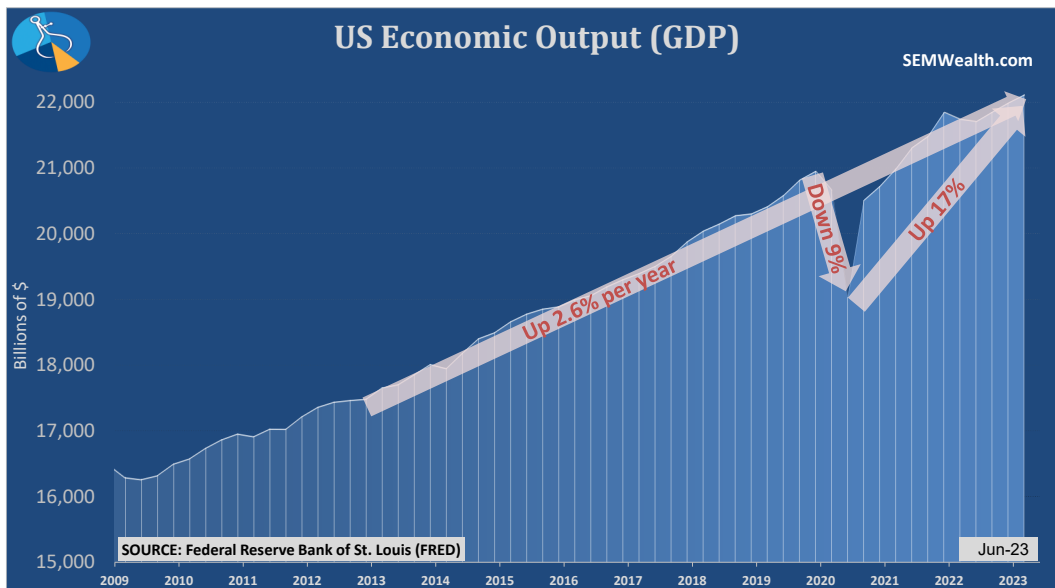


SOURCE: Morningstar Direct | Results are the monthly returns in 2023 through 9/29, including dividends of four Vanguard Index Funds with dividends reinvested | Past performance is not a guarantee of future results. This is not a recommendation of SEM to buy or sell these funds. They are used as an illustration of the performance of the overall US Stock and Bond markets.

The Fed (and Congress) broke the economy

One reason the current market environment is not "normal" is due to the policies of the Federal Reserve and Congress. They've essentially "broken" the economy (and thus the market) 3 times in the last 3 years:

- 1.) Economy was shut down to "beat" COVID
- 2.) Congress & the Fed added 50% of GDP output to the economy in less than 12 months to "beat" the recession
- 3.) The Fed hiked rates at the fastest rate in 40 years to "beat" inflation



This has caused many areas of the economy to break and generate abnormal behavior. The economy appears to be heading back to the "normal" trend, which means investment asset classes are likely to revert back to "normal". How long it takes is anyone's guess, but it usually takes longer than most of us are comfortable. Patience & discipline will be the key to successfully navigating this normalization.

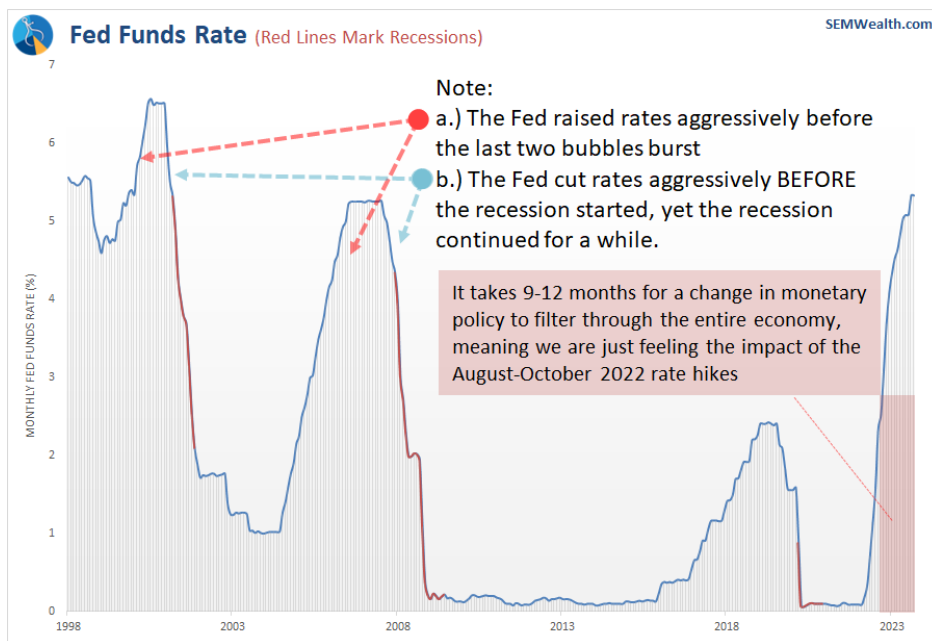
Dichotomy of Expectations

Over the long-term, the stock market will move based on the overall direction of the economy. Over the short-term it will move based on the expectations of the market participants. Those expectations can change frequently and certainly can cause abnormal behavior as discussed earlier. This year there have been 3 primary expectations for the market which has driven stocks higher:

- 1.) The economy will continue to grow throughout 2023 & 2024 (along with corporate earnings)
- 2.) Inflation will come back down to "normal"
- 3.) The Fed will cut rates in 2024

The problem with these expectations is they do not make sense. #1 & #2 are certainly possible and would be good for stocks, but why in the world would the Fed cut rates if the economy was still growing? Maybe this time is different, but we've never seen a time the Fed has cut rates while the economy was strong. This means rates are not likely to come down until they see the economy slowing down (which would hurt corporate earnings and thus stock prices.)

The Fed Funds rate chart above illustrates the Fed's interest rate policies the last 20+ years. They hike rates too far, cause a recession and then slash rates. Note how simply slashing rates doesn't mean the recession magically ends. Based on our economic data the first 2 expectations may come into question the rest of the year and into early next year. That would not be good for stocks even if the Fed were to cut interest rates.



Bonus Content: Managing Passwords

Managing all of our passwords is hard. Best practice says we should create strong passwords that are also totally unique. How is it possible to create strong and unique passwords that you can actually remember? We have a blog post that deals with this question in-depth, but here are two quick tips to help you get started:

1. **Use a password manager.** You can create completely random, long, and complex passwords then let a password manager take care of the rest – you only need to remember your master password. We recommend 1Password (<https://1password.com>).
2. **Use passphrases instead of passwords** – especially for passwords you do need to memorize or type in on a TV remote (e.g. your streaming services). Typically passphrases are more secure than a human-generated password anyway. Don't believe it? Check out <https://useapassphrase.com>.

To view the full article along with other bonus content we couldn't fit here, go to:

TradersBlog.SEMWealth.com & scroll to the **ENCORE** Newsletter post.

What other topics would you like to see covered in the newsletter? Let us know at SEMWealth.com/Contact

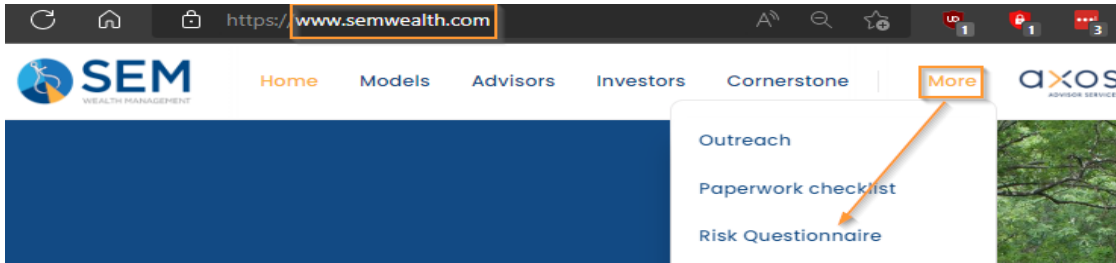
What is **ENCORE**?

ENCORE is a Quarterly Newsletter provided by SEM Wealth Management. **ENCORE** stands for: **E**ngineered, **N**on-Correlated, **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 information provided is for informational purposes only and should not be considered investment advice. Information gathered from third party sources are believed to be reliable, but whose accuracy we do not guarantee. Past performance is no guarantee of future results. Please see the individual Model Factsheets for more information. There is potential for loss as well as gain in security investments of any type, including those managed by SEM. SEM's firm brochure (ADV part 2) is available upon request and must be delivered prior to entering into an advisory agreement.

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.



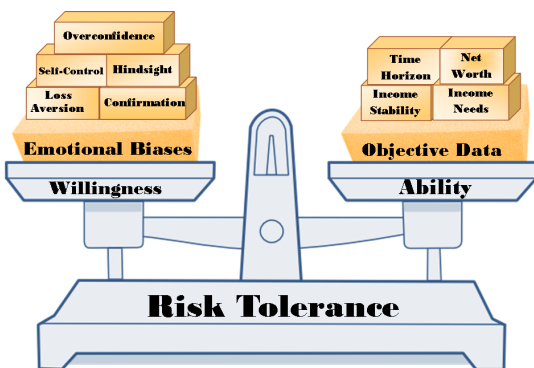
If we do not receive a completed questionnaire by 12/10/2023 we will assume your information on file is current.

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

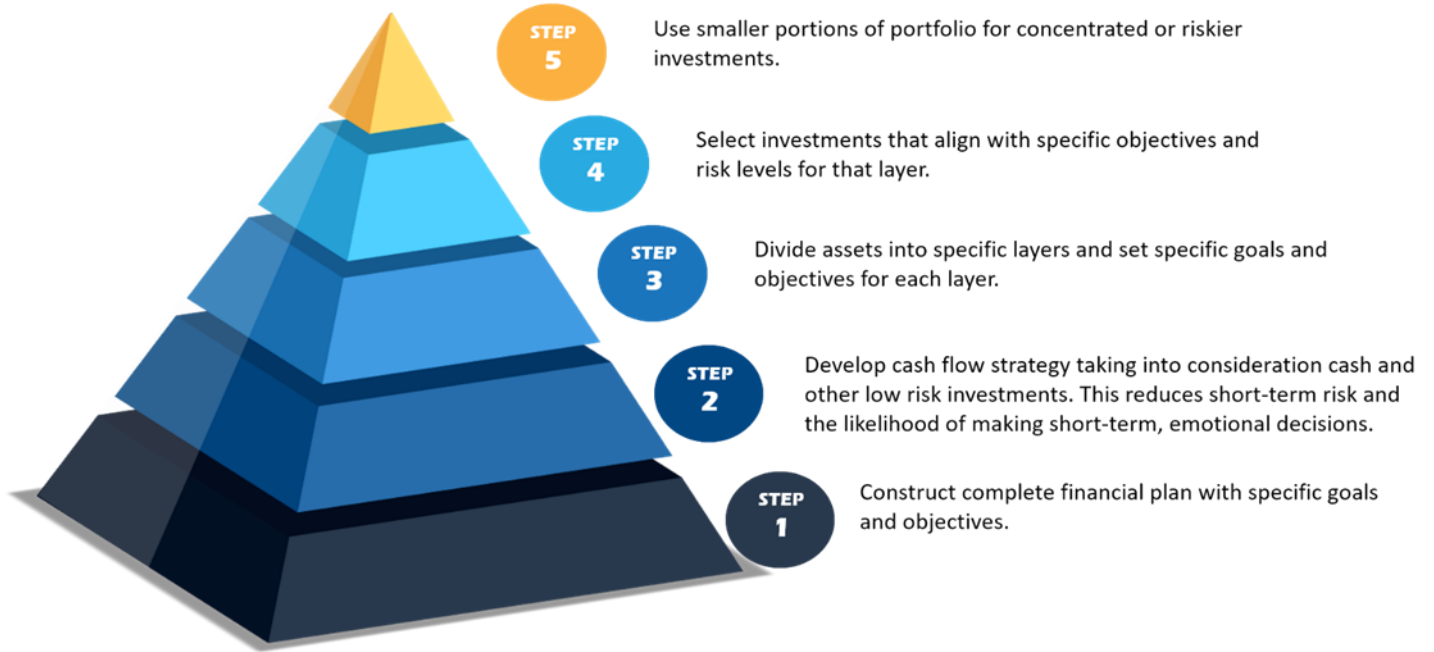
Too often our industry places clients in portfolios using a pre-determined model based on age. Our behavioral approach understands that even if you have time on your side and the ABILITY to take on risk, if you are invested in a portfolio that does not fit your overall investment personality there will 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.

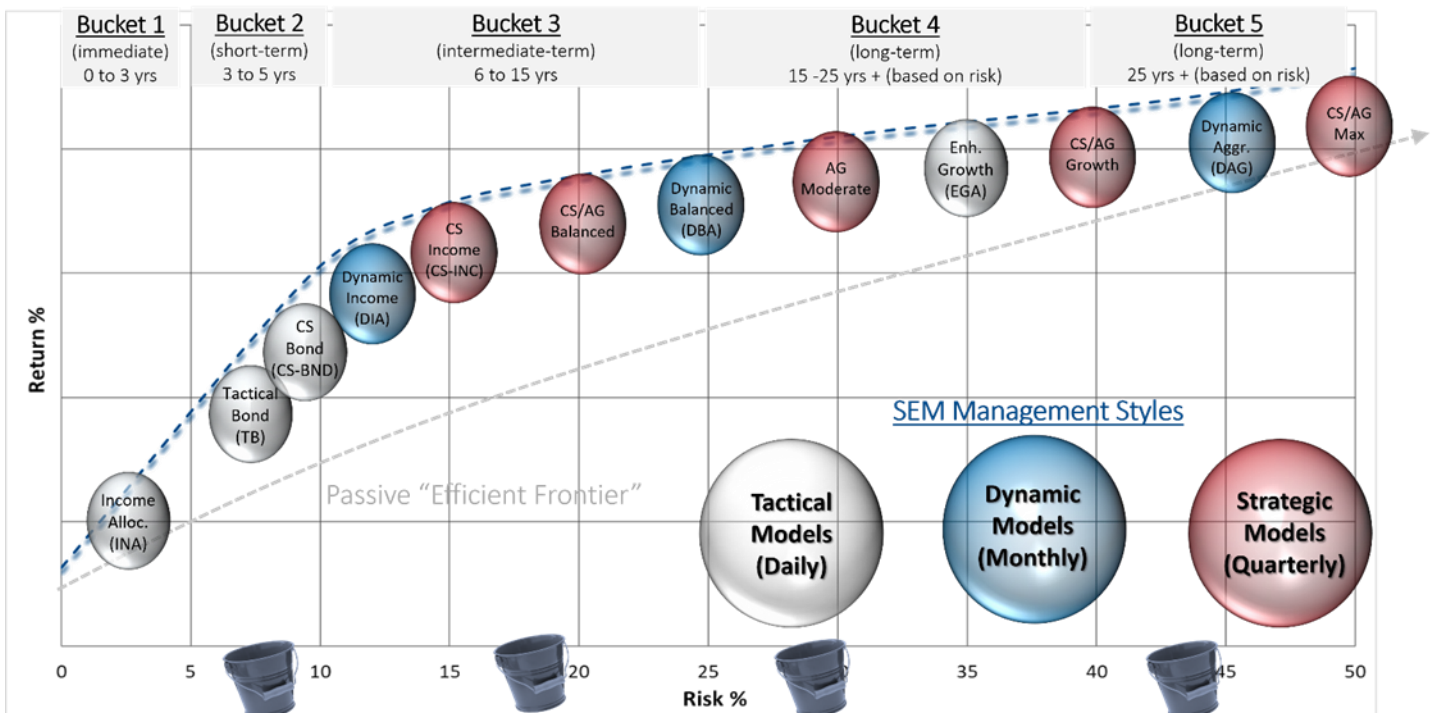
Creating a Customized Behavioral Portfolio

SEM works closely with our financial advisors to create a customized portfolio. **We believe the strength of the portfolio starts with a solid financial plan as the foundation & then follows these steps.**



SEM's Portfolio Building Blocks

Beginning in step 3 above, SEM works with the financial advisor to select investment models that fit the financial plan, cash flow needs, and the client's personality. We have over a dozen building blocks to choose from across three distinct investment management styles (tactical, dynamic, & strategic). Each model has its own risk/return profile which can be blended with other models to create the customized portfolio. Each plays a different role. **Note in general, the higher returns you seek, the longer time horizon you need to have, and the more risk you must be willing to accept.**



What Am I Paying For?

Understanding your Fee Statement

Opening Balance: This is the amount calculated on the prior quarter's statement

Custodian Fee (Axos): 0.12% Fee Max

NOTE: *Oftentimes the prior custodian will charge a closure fee. Rather than deducting it from your account, they request the fee from the new custodian, in this case, Axos. This fee will also show up under the Custodian Fee section of the statement. SEM has also arranged for some of these closure fees to be reimbursed (for a limited time). The reimbursement will show up as a negative amount and is credited against to each investment model, which means you'll see multiple reimbursements in this section.*

Advisor Fees (all fees are prorated for amount of time invested during the quarter and based on the Average Daily Balance of the account or investment model. See note at bottom for householded accounts)

Financial Advisor Fee: 1.12% Max — Financial Advisors may select to have a flat rate fee for their services or to have the fees fluctuate based on the SEM Advisory Fees. If not a flat rate fee, there will be multiple Financial Advisor Fees calculated for each fee class listed below.

SEM Investment Management Fee: SEM's fees are based on the level of activity / monitoring of the particular investment model based on the following fee classes (the fees will be broken into each section & are based on the dollars managed inside that fee class):

- **SEM Investmnt Mgmt Fee (Strategic)** [0.50% per year]: All AmeriGuard & Cornerstone investment models; These investment models remain invested longer and require less oversight than the other SEM models. Designed for longer-term investments.
- **SEM Platinum Portfolio Fee** [0.25% per year]: All Platinum Portfolios to cover costs of on-going monitoring and due diligence of outside managers, implementation of investment models, and servicing the clients in the models.
- **SEM Investmnt Mgmt Fee (Tactical)** [1.12% Max, breakpoints starting at \$250,000 under management]: All Tactical Investment Models (Income Allocator, Tactical Bond, Tax Advantaged Bond, and Enhanced Growth Allocator); These investment models are monitored on a DAILY basis and are designed to trade more frequently.
- **SEM Investment Mgmt Fee (Dyn)** [0.75% Max, breakpoints starting at \$250,000 under management]: All Dynamic Investment Models; These investment models are monitored on a MONTHLY basis and are based on SEM's quantitative economic model.

NOTE: *If you have multiple accounts the total value of all accounts in your household will be included when calculating breakpoints. The fee statement will calculate the total assets in each fee class above and then list the **% shared by account** on the statement to get to the final fee. All fees are prorated for the amount of time invested during the quarter.*

Current Fees Paid: This is the amount deducted during the quarter and will be the opening balance (the prior quarter's fees) plus any custodial fees paid during the quarter.

TOTAL Fees: This is the amount to be deducted the next quarter & will be the opening balance on the next statement.

See next page for a description of what services are provided for each fee segment

What Am I Paying For?

SEM Investment Management Fee:

1.12% Max (based on level of monitoring & subject to breakpoints starting at \$250,000 per household)

- Daily and monthly monitoring of your portfolio
- Access to lower cost investment options
- Proprietary Portfolios with 3 distinct management styles
- Portfolio diversification
- Working with advisor to create a risk efficient investment portfolio that aligns with your financial plan
- Frequent communication with your advisor
- Economic & Investment Information via Quarterly Newsletter
- Handling of contributions, withdrawals and distributions
- Create Investment Policy Statement for the client & advisor

Custodian (Axos): 0.12% Fee Max*

**Breakpoints are applied per accounts over \$1M*

- Access to over 8000 mutual funds & ETFs that SEM can choose from without any transaction fees
- Unlimited trading
- Real-time internet access to account information
- Tax Reporting (1099s, 5498, Cost Basis, 8949) with electronic downloads of data for CPA
- Quarterly custodian statement either paper or electronic
- Required Minimum Distribution Calculations for Clients over the age of 70.5
- ACH Withdrawals and Check processing

Financial Advisor Fee: 1.12% Max^

^note: some advisors may charge flat rates for some of these services or may not offer all of them.

1. Initial Development of your customized plan

- Savings & Budgeting Goals
- Taxes & Estate planning
- Retirement Income Planning
- Determine Investment Objectives, Risk Tolerance, & time horizon

2. Implementation of Plan

- Tax Management
- Select Investment Solutions
- Monitoring / Reviewing all of the above periodically
- Behavior modification (help avoid emotional decisions)

3. Other customized services

- Retirement transitioning
- Social Security/Medicare/Pension assistance
- Insurance protection planning

