SEM's Quarterly Newsletter

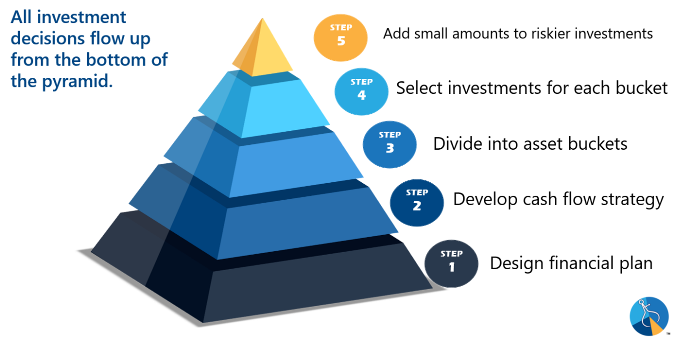
ENCORE

Winter 2024

Working according to plan

In 2023, stocks enjoyed strong gains, but all that did was make-up for the 2022 losses. In 2024, stocks posted another impressive year of gains, while bonds again struggled. This has left many people believing they should increase their stock allocation and reduce their bond exposures. Some have even followed some extreme advice of ditching bonds altogether. This is a very natural urge.

SEM's Behavioral Portfolio Approach



SEM has structured every part of our investment process around predictable, human behavior. Our investment models completely remove the human element from the decision making process because our models use data and mathematical formulas to measure the current trends and their likelihood to continue. We also have trademarked our "behavioral portfolio pyramid" illustrated above to take out the natural human desire to chase the best performing asset classes.

The base of every decision is the financial plan. Even with "below average" performance in the bond market, the well above average performance of the stock market (and thus SEM's stock-based models), unless there were outside changes to the demands on the financial plan, every plan should be looking a bit BETTER than it did a year ago.

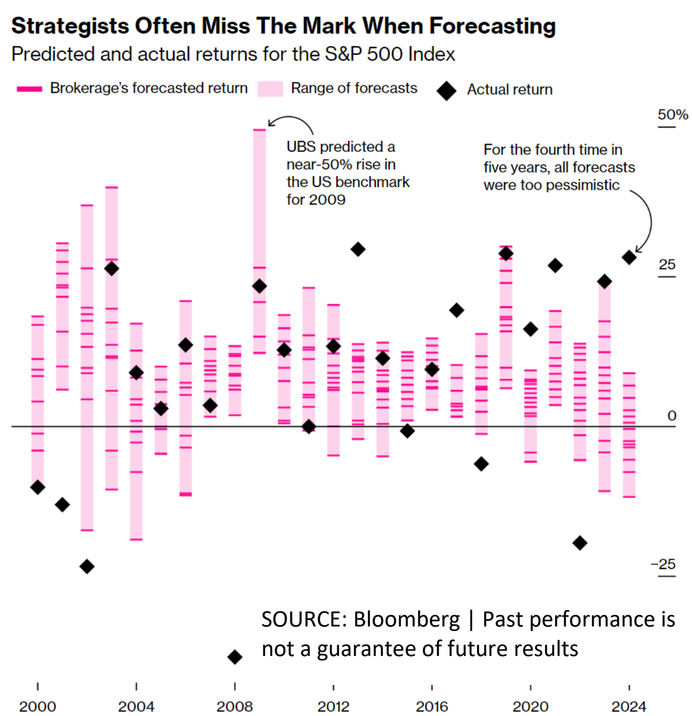
Should you change your investment allocation? Only if your financial plan, or cash flow needs have changed. Stronger than average growth in your investment portfolio could allow more risk, but it also could mean you could REDUCE your exposure to riskier assets. How do you decide? The first step is to contact your financial advisor or take SEM's Risk Questionnaire on our website.

If you would like a personalized review of your portfolio, go to Risk.SEMWealth.com

SEM's Prediction for 2025

At SEM, we do not make predictions on what the markets will do in the year ahead. This year we have decided to switch it up and make one prediction — most (or all) of Wall Street's predictions for 2025 will be wrong. We know why Wall Street feels the need to publish and then relentlessly publicize their forecasts (people EXPECT them to be the "experts" and it also generates new business for them.) This is also the reason very few firms will ever predict a NEGATIVE return for stocks. How can SEM be so bold in predicting the forecasts for 2025 will be wrong? That's what the DATA says we should expect.

Right now, Wall Street's forecasts call for a 5-15% gain for stocks in 2025. At SEM, we'll let the data call the shots, with the expectation that once again, Wall Street will be wrong.



For the latest updates and analysis, go to **tradersblog.semwealth.com**

Everything is not as it seems

Having a properly diversified portfolio is one of the most often recommended investment "rules" around. Diversification is supposed to lower risk and increase returns over the long-term. However, the past several years we've witnessed just a small subset of stocks driving nearly all of the performance. Not having those stocks as a large portion of your portfolio makes it seem like you are missing out. As of December 2024, if you are invested in the S&P 500 index, you have 40% of your money in just 10 stocks. It's not just the S&P 500 which shows a stark imbalance. Industry sectors are often dominated by just a few companies. The table below shows the 2024 returns for the sectors inside the S&P 500. You may think you are diversifying away from "technology" by investing in Communication Services or Consumer Discretionary sectors, but those funds are also heavily invested in technology companies.

A better measure of the overall health of the stock market is better represented by the "equal weight" S&P 500 index, which as the name implies invests the same amount into all 500 stocks. The 15% return in 2024 for the equal weight index is well above average, but it is obviously not as impressive as the 25% return for the S&P 500, which is weighted based on the market capitalization of each stock.

Simply because the S&P 500 is being driven by just 10 stocks does not mean we recommend selling it — SEM's longer-term models own S&P 500 ETFs. The difference is, the S&P 500 is not our only investment. We know from studying history when 10 stocks drive the entire index the risk of a large decline is magnified.

When evaluating your investments it is important to understand that over shorter periods of time diversification could hamper returns when compared to the S&P 500, but over longer periods of time diversification should reduce the risk in the portfolio overall, providing a smoother ride.

S&P 500 Sector Performance	S&P 500 Weight	2024 Return
Commuication Services (XLC) [Meta: 19%, Google: 19%, Netflix: 7%]	9%	35%
Financials (XLF) [Berkshire Hathaway: 12%, JP Morgan: 10%, Visa 8%]	13%	30%
Consumer Discretionary (XLY) [Amazon: 21%, Tesla: 19%]	11%	29%
S&P 500 (SPY) [Apple: 7%, Nvidia: 7%, Microsoft: 6%, Amazon: 4%]		**25%**
Technology (XLK) [Apple: 15%, Nvidia: 13%, Microsoft: 13%]	33%	23%
Utliites (XLU) [NextEra: 13%, Southern: 8%, Duke: 7%]	3%	20%
Industrials (XLI) [GE: 5%, Catepillar: 4%, Raytheon (RTX): 4%]	8%	17%
S&P 500 EQUAL WEIGHT (RSP) [All 500 stocks ~0.3% allocation]		***15%***
Consumer Staples (XLP) [Costco: 10%, P&G: 10%, Walmart: 10%]	6%	10%
Health Care (XLV) [Eli Lilly: 12%, United Healthcare: 9%, J&J: 7%]	10%	2%
Real Estate (XLRE) [ProLogix: 9%, Equinix: 9%, American Tower: 8%]	2%	1%
Energy (XLE) [Exxon Mobil: 23%, Chevron: 16%, ConocoPhillips: 8%]	3%	1%
Materials (XLB) [Linde: 21%, Sherwin-Williams: 8%, Air Products: 7%]	2%	-1%

Sectors represented by Select Sector SPDR ETFs (Ticker) [Top stock holdings as of 12/27/24]
2024 Return data as of 12/27/24; Past performance is not a guarantee of future results.
NOT A RECOMMENDATION TO BUY OR SELL ANY SECURITY LISTED; All investments involve risk

Check out our bonus content at **TradersBlog.SEMWealth.com/Newsletter_Q42024**

News & Notes:

2024 Year-End Tax Statements—what to watch for early 2025:

For taxable accounts, Axos Advisor Services will send your tax documents by ***February 15, 2025.***

SEM strongly recommends you do not make your tax appointment until after February 15. Please wait until you receive Axos's 2024 Consolidated 1099 prior to completing your taxes. SEM will be posting additional information on the tax reports page of our website:

SEMWealth.com/tax-information

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. To learn more about ENCORE Portfolios, please contact your financial advisor.