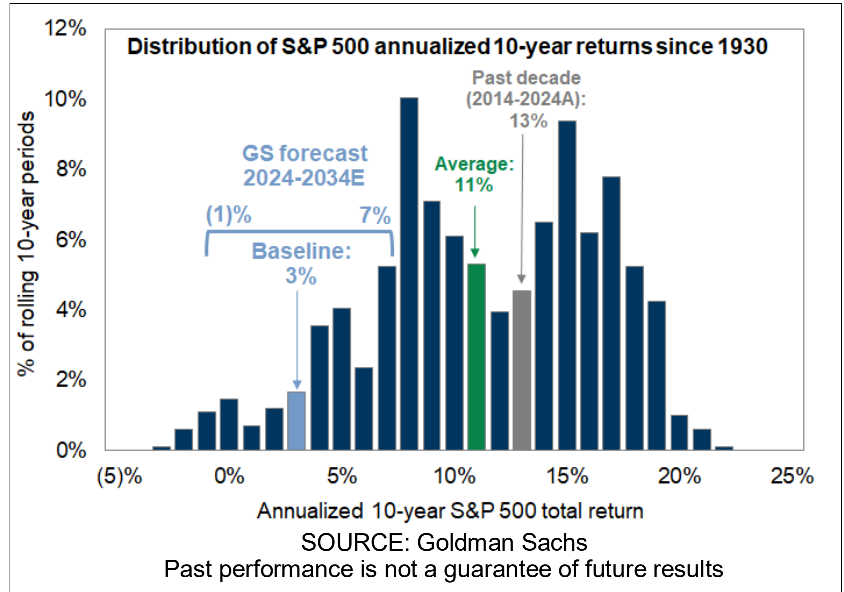
SEM's Quarterly Newsletter

ENCORE

Proper Expectations are Key

Spring 2025

Over the long-term, the S&P 500 has averaged a 10% return. Over the past 8 years, we've seen 5 years of 20%+ returns, including the past two years. Stocks also posted losses of 4% and 18% in 2 other years. When investing, one of the most important keys to success is properly setting expectations for your returns. Doing so (theoretically) would prevent you from being disappointed with short-term results and possibly making adjustments which would be detrimental to your long-term chances for success.



SOURCE: Goldman Sachs
Past performance is not a guarantee of future results

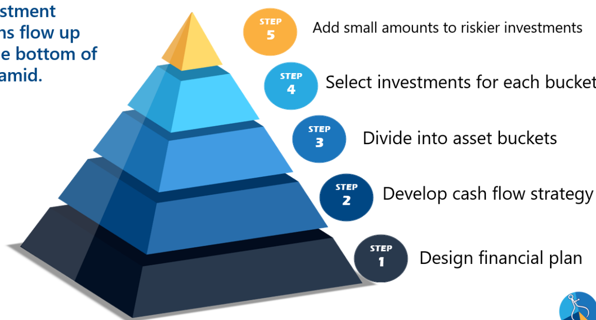
So what should you expect for the stock market? It depends on your time horizon. Over very long periods of time (15+ years) history tells us returns around 10% are reasonable. The shorter the time horizon, the more variable the returns. In addition to this, other factors such as the overall valuation of the market, the economic environment, and whether we are following an extended period of gains which were well above or below average will influence future returns.

Last quarter we discussed Wall Street's expectations for stocks. Nearly every firm started the year believing stocks would post average to above average returns. Only one firm predicted below average returns. While this is possible, the simple fact stocks have had an extended period of well above average returns should be a warning that some sort of reset/correction is on the horizon.

For the latest market updates go to **TradersBlog.SEMWealth.com**

The Value of Financial Planning

SEM's Behavioral Portfolio Approach



Over the past several months the value of financial planning has been apparent. The more the markets fluctuate from seemingly non-stop headlines, the more important it is to focus on the big picture and the end goal. SEM's Behavioral Portfolio Pyramid highlights this with the foundation of every decisions starting with the Financial Plan. These plans do not have to be sophisticated, 50+ pages of paper (although some situations may call for this), but rather a roadmap for how much money is needed and how it will be used in the future.

Whenever somebody asks us if they think they should increase (decrease) their allocation to stocks, our answer is simple – has your financial plan changed? If not, SEM's customized investment portfolios were set-up to increase (decrease) the allocation to equities based on your customized financial plan, cash flow strategy, and risk personality. This is valuable in all markets, but especially in "noisy" ones like we have had the past few months.

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

Economics 101

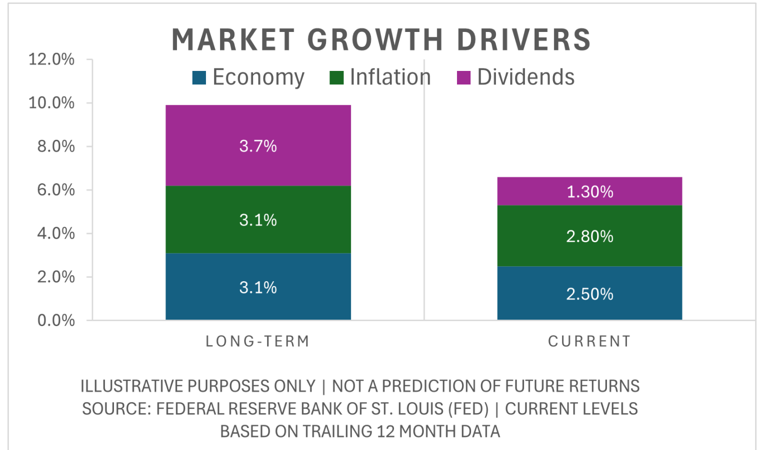
Part of setting proper expectations is understanding market and economic fundamentals. Here are a few important ones:

1.) Long-term market growth is driven by 3 factors

Mathematically, the growth of the stock market comes down to **economic growth**, **inflation**, and **dividends**. Going back to 1947, we can see these factors sum to 9.9%.

Looking forward, though, economic growth and inflation is tracking below average and the dividend yield is close to an all-time low set just before the technology bubble burst in 2000.

We need to see both economic growth accelerate and the dividend yield expand to get back to a sustainable long-term growth rate of 10%.



2.) Investors cycle between overly optimistic and overly pessimistic forecasts

The reason we see returns well above 10% for long periods of time followed by below 10% returns (or big losses) is because as humans we are programmed to believe the current environment will continue for the foreseeable future. When that doesn't happen, corrections occur.

3.) Losses should be expected

Understanding the frequency and magnitude of losses is important for investors so they are not surprised when they occur. In the first quarter the S&P 500 lost 10% from the peak in early February to the low in mid-March. This came on the heels of a run-up of over 6% from election day through mid-February.

A history of declines (1900 – December 2024)

Type of decline	Average frequency[1]	Average length[2]	Last occurrence	Previous occurrence
-5% or more	About 3 times a year	101 days	Jul-24	Apr-24
-10% or more	About every 15 months	234 days	Oct-23	Mar-22
-15% or more	About once every 5 years	345 days	May-22	Mar-20
-20% or more	About once every 6 years	370 days	Jun-22	Apr-20

Source: American Funds (data update by YCharts 2023-2024)

[1] Source: The unmanaged Dow Jones Industrial Average
[2] Assumes 50% recovery of lost value
[3] Measures market high to market low
Past results are not predictive of results in future periods.

4.) Long-term economic growth comes down to workers and productivity

The growth of our economy comes down to a simple equation — how many people are working and how much are they producing. Any spending which doesn't boost either of these reduces long-term growth.

5.) Deficits are a drag on long-term growth

When we borrow money to fund current spending or we import more than we export, we send money out of our economic system, which reduces long-term growth. If we allow the deficits to expand, the economy will not grow at its full potential, which means the stock market cannot grow at its full potential. This means future market growth would be impacted negatively.

For more, check out our bonus content at **TradersBlog.SEMWealth.com/Newsletter_Q12025**

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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.

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