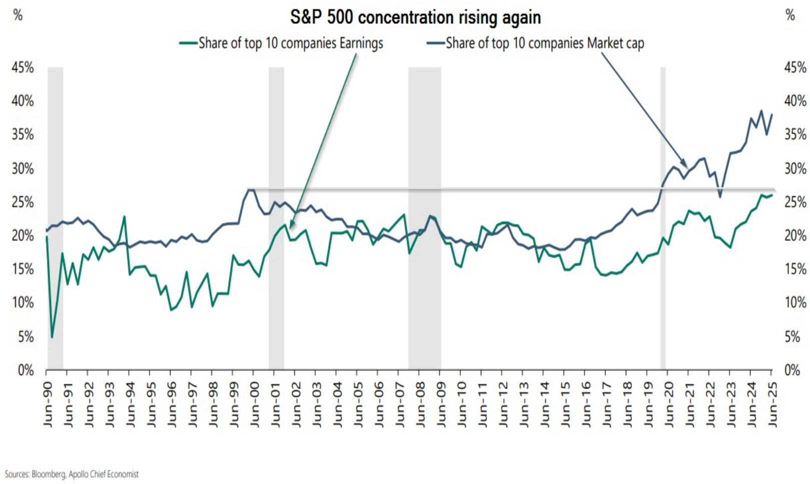
SEM's Quarterly Newsletter

ENCORE

Fall 2025

AI Stocks: Boom, Bubble……or Both?



Artificial Intelligence (AI) is most certainly transforming industries and grabbing headlines. From chipmakers like Nvidia to tech giants like Microsoft and Google to "forgotten" companies like Oracle, AI-related stocks have soared, helping push the S&P 500 to new highs. The excitement is real: companies are reporting record earnings, and AI is already reshaping how businesses operate.

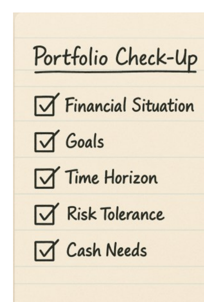
But even real revolutions can create bubbles.

Stocks are trading at record high valuations, eclipsing the dot-com peak. This has created another concern—concentration risk. As of mid-2025, the top 10 stocks in the S&P 500 (mostly AI-driven) make up nearly 40% of the index's value. That's more than during the peak of the dot-com era. If just a few of these names stumble, the whole market could feel it.

So what should investors do? Stick to your plan. If your financial goals haven't changed, your portfolio likely doesn't need drastic adjustments. Your investment mix already includes exposure to AI. There's no need to chase what's already run so far by adding more AI exposure. As always, we'll let the data, not the headlines guide our decisions.

For a deeper dive into the AI boom and what it means for your portfolio, check out the bonus content at: **TradersBlog.SEMWealth.com/Newsletter_Q32025**

FOMO: Sticking to your plan in a noisy market



Markets are hitting new highs. As noted above, AI is dominating the headlines. Everyone from Uber drivers to TV pundits seems to have a hot stock tip. We are constantly being asked to help find the "next Nvidia". It's easy to feel like you're missing out.

But here's the thing: chasing what's hot rarely ends well.

We've seen it too often before (remember the meme stocks of 2021?) or worse, the dot-com era. Investors who jumped in late often bought high and sold low. Meanwhile, those who stuck to their plan, rebalanced regularly, and ignored the noise? They're the ones who came out ahead.

At SEM, we always come back to this question: Has your financial situation changed? As Jeff often says, "**If your plan hasn't changed, neither should your allocation**."

Behavioral finance tells us we're wired to buy when everyone's excited and sell when we're scared. But flipping that instinct (or at least staying the course) leads to better outcomes. Studies from Vanguard and Dalbar show that investors are their own worst enemy.

Instead of reacting, do a portfolio check-up. Make sure your mix still fits your goals and risk tolerance. And if you haven't updated your risk questionnaire lately, now's a good time. A solid plan and a little patience go a long way.

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

Retiring at Market Highs: your starting point matters

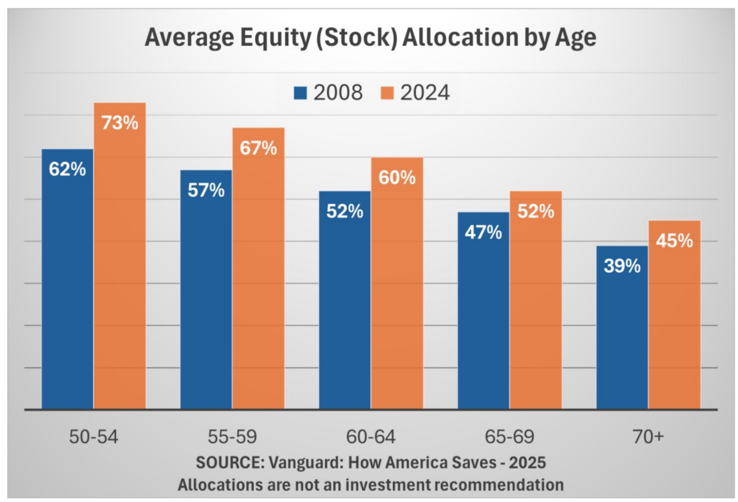
After a strong market run, many retirees (or soon-to-be retirees) are feeling pretty good about their portfolios. And they should. But market highs can also lead to overconfidence… and that's when mistakes happen.

One of the most important things to remember is that your starting point matters. While stocks have historically averaged about 10% per year over the long run, that's just an average. To get there, we've seen long stretches of above-average returns followed by years of below-average ones. And when you retire at a time of high valuations—like now—the next 10 years often bring lower-than-average returns.

For long-term investors, that's an annoyance. For retirees, it could be the difference between a comfortable retirement and a stressful one. If you're withdrawing from your portfolio during a period of weak returns, the impact compounds quickly.

That's why now is a great time to check your allocation. If your 60/40 portfolio has drifted to 70/30 after recent gains, it might be time to trim back stocks and lock in some of those profits. Rebalancing doesn't mean going ultra-conservative—it just means getting back to the mix that fits your plan.

One strategy we often recommend is the "bucket approach" where you divide your assets based on the short, intermediate, and long-term needs. This structure helps you ride out market dips without disrupting your income.



That said, don't abandon stocks entirely. With people living longer and inflation still a factor, most retirees still need some equity exposure, but do they have too much? A recent study by Vanguard shows those approaching retirement or already retired have a record high level of stock exposure. This presents additional risks should the market go through another 10-year period of below average (or negative) returns. All of this of course, depends on your personal financial plan, cash flow strategy, and overall investment personality. There is no one-size fits all approach. "Rules of thumb" can be dangerous because they are not tailored to YOUR situation.

As always, the key is suitability. If your financial situation hasn't changed, your allocation probably shouldn't either. But if it has, now's the time to adjust. Markets may be high, but that doesn't mean your risk should be.

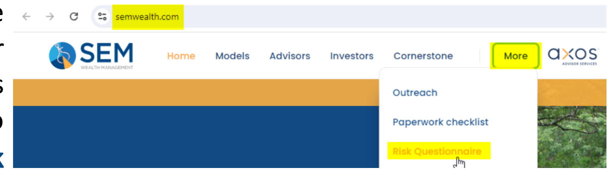
For more, check out our bonus content at **TradersBlog.SEMWealth.com/Newsletter_Q32025**

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.

The Importance of “Suitability”

In order to do fulfill our role as an Investment Advisor, SEM requests certain financial information from the client accounts we manage. 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.

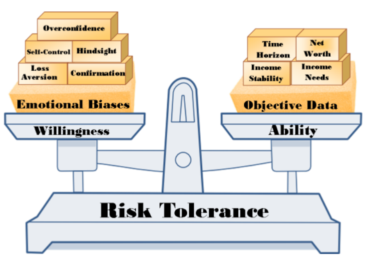


We are asking clients to complete the information online through our website. Your responses will be shared with your financial advisor and reviewed to ensure the investments match the financial profile. To do this clients can go to **risk.semwealth.com** or click on the “**Take Our Risk Questionnaire**” at **SEMWealth.com.** **If we do not receive a completed questionnaire by 12/10/2025 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

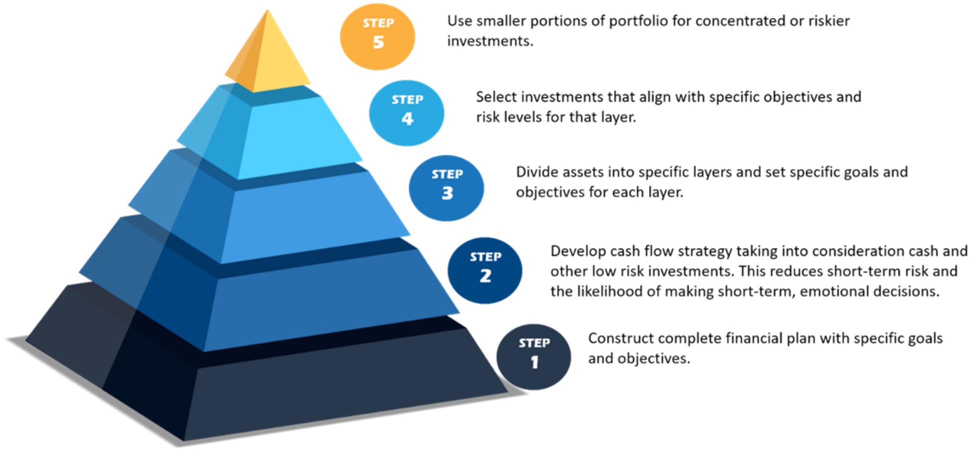
Too often our industry places clients in portfolios using a pre-determined model based on age. Our behavioral approach understands that even if you have time on your side and the ABILITY to take on risk, if you are invested in a portfolio that does not fit your overall investment personality there will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

SEM Understanding Your Portfolio Allocation

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 and cash flow strategy as the foundation** & then follows the steps above.

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 <u>higher returns</u> you seek, the l<u>onger time horizon</u> you need to have, and the <u>more risk</u> you must be willing to accept.**