

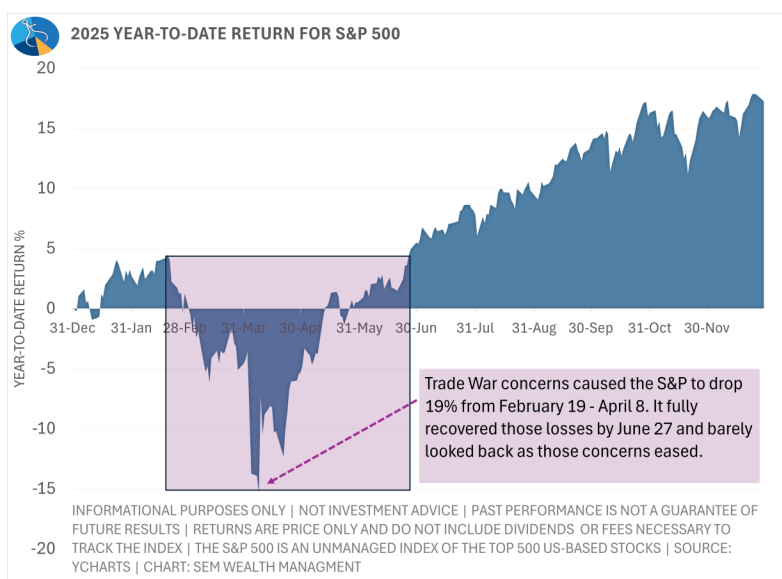
## Yet another strong year

Winter 2025

2025 started with optimism that was quickly put to the test as President Trump announced a series of strong tariffs ahead of his April "Liberation Day" announcement. As stocks plummeted, the President reversed course, just before the S&P 500 hit "bear market" territory of a 20% drop. Other than a brief 5% drop in November, the S&P 500 had strong upward momentum throughout the 2nd half of the year.

Strong corporate earnings, driven again by technology stocks continued to lead to confidence in the stock market. The rally broadened a bit in the fall with small cap and value stocks enjoying a few months of outperformance as we saw a brief cooling in the AI/Data Center mania that dominated the summer. The Fed cut interest rates as official inflation numbers showed inflation falling below 3% while the 3rd quarter GDP report led to confidence the small uptick in the unemployment rate was nothing to be concerned about.

Right now, Wall Street's forecasts are calling for a 10-16% gain for stocks in 2026. At SEM, we'll let the data call the shots knowing that those forecasts are highly dependent on several key growth drivers continuing unabated in the year ahead.

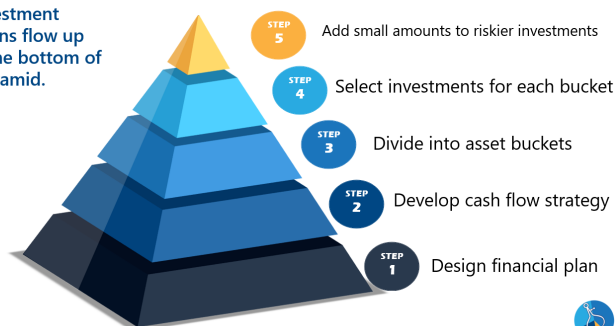


For the latest updates and analysis, go to [tradersblog.semwealth.com](https://tradersblog.semwealth.com)

## Do you need more stock exposure?

### SEM's Behavioral Portfolio Approach

All investment decisions flow up from the bottom of the pyramid.



Following a 3rd consecutive above average year for stocks and Wall Street "experts" calling for another 10-16% gain for the S&P 500, many clients are asking to increase their stock exposure. We understand the urge and certainly could see scenarios which lead to continued strength in stocks, especially relative to the bond market. However, we also understand market cycles, which is why we trademarked our "behavioral portfolio pyramid" 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 "average" performance in the bond market, the well above average performance of the stock market, 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 or two 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.

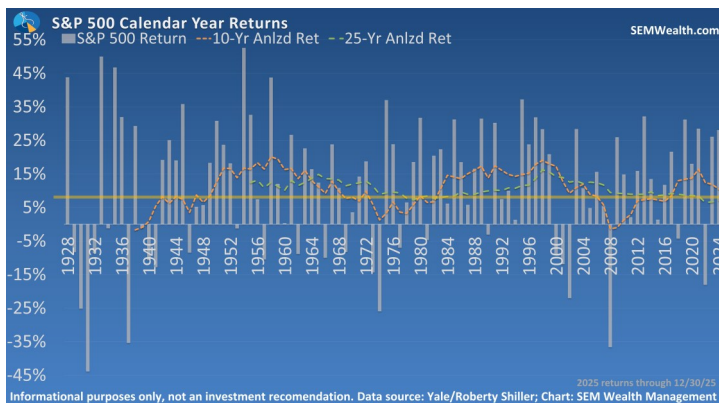
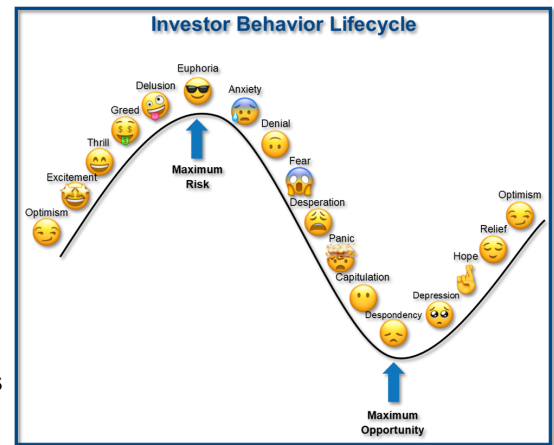
If you would like a personalized review of your portfolio, go to [Risk.SEMWealth.com](https://Risk.SEMWealth.com)

# Understanding Cycles

Since our founding in 1992, SEM has been driven by one key understanding — investment markets move in cycles. These cycles are driven by human behavior which lead to long periods of overly optimistic assumptions inevitably followed by overly pessimistic reactions when the positive assumptions eventually disappoint.

Our goal at SEM is to lessen the cycles our clients go through by applying quantitative, risk management strategies. These strategies have been tested over all types of up and down cycles. Through our testing and 33+ years of experience, we know at times applying any sort of risk management to an account will hurt overall performance. 2025 was one of those years.

We've also learned the longer an upward cycle continues, some investors will experience the investor behavior cycle with respect to their risk-managed investments. **During up cycles, any sort of risk management will inevitably hold back returns.** This is especially true during the later years of the cycle when the DATA is saying the cycle is becoming more risky, but the markets continue their seemingly unstoppable stampede higher. **History and logic would tell us this is the time you want MORE risk-managed strategies, but our natural reaction has us questioning whether we have TOO MUCH risk-management on our investments.**



2025 was the 3rd consecutive year of above average returns for the S&P 500. Can the S&P make it 4 in a row? It is certainly possible, but **nearly 100 years of history shows us that has only happened three other times** — twice during the post-WWII recovery and in the mid-90s (when we saw 5 consecutive years of 10% or higher returns.)

Data and history tells us predicting the end of an upcycle is imprecise. It also tells us chasing returns after this many up years can be dangerous to your financial health.

Check out our bonus content at [TradersBlog.SEMWealth.com/Newsletter\\_Q42025](https://TradersBlog.SEMWealth.com/Newsletter_Q42025)

## News & Notes:

### 2025 Year-End Tax Statements—what to watch for early 2026:

For taxable accounts, Axos Advisor Services will send your tax documents by **February 15, 2026**.



**SEM strongly recommends you do not make your tax appointment until March if you have taxable investment accounts.** Please wait until you receive Axos's 2025 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](https://SEMWealth.com/tax-information)**

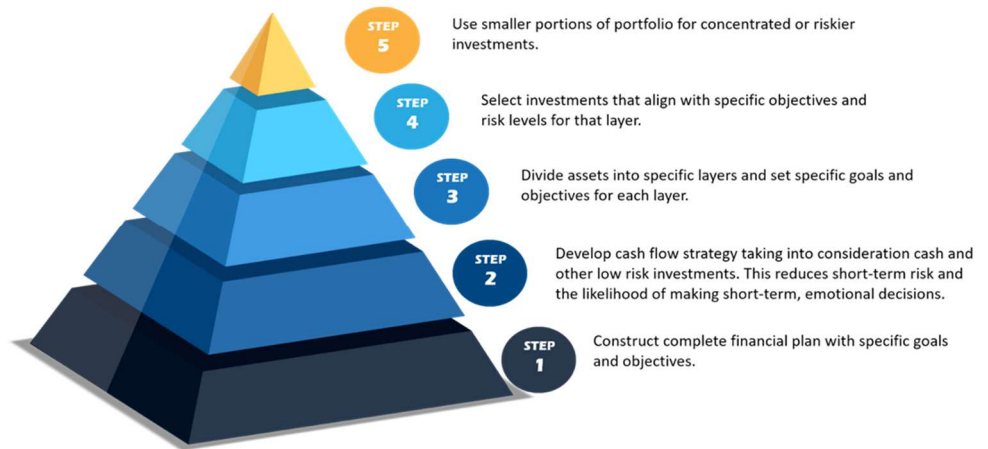
## What is **ENCORE**?

**ENCORE** is a Quarterly Newsletter provided by SEM Wealth Management. **ENCORE** stands for: **E**ngineered, **N**on-Correlated, **O**ptimized & **R**isk Efficient. 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 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 Program Reports 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.

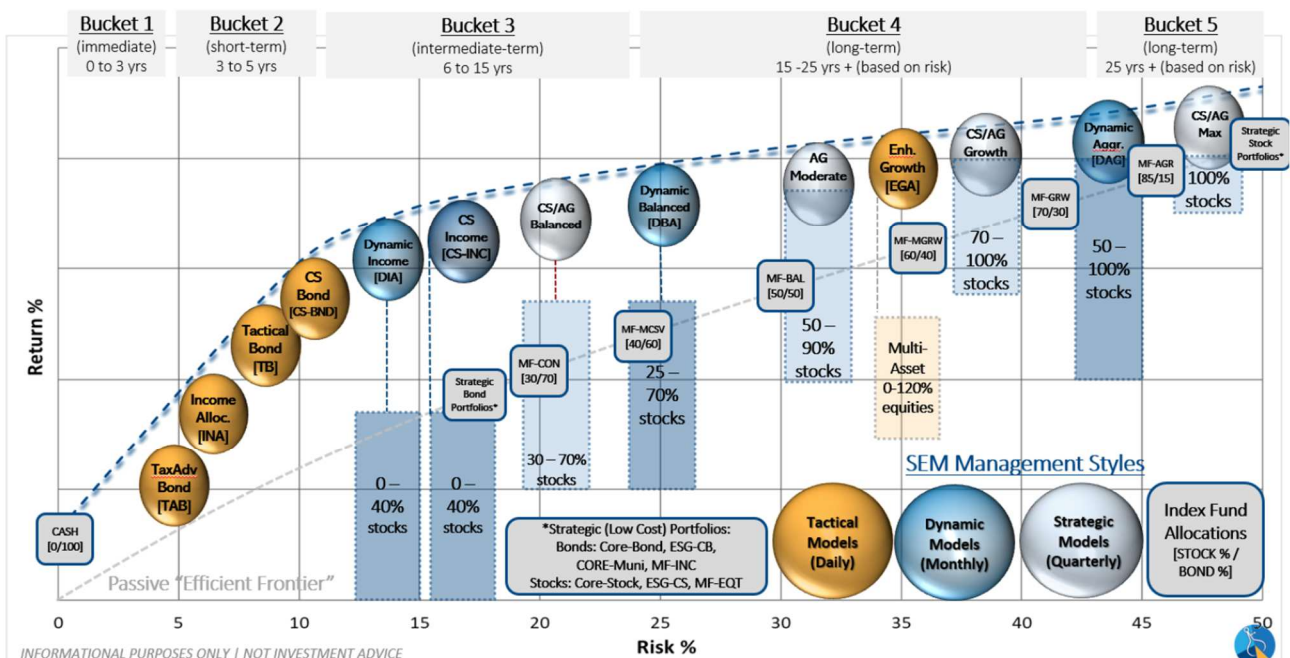
## Creating a Customized Behavioral Portfolio

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 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?

## 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\*

- 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

