



SEM
WEALTH MANAGEMENT™

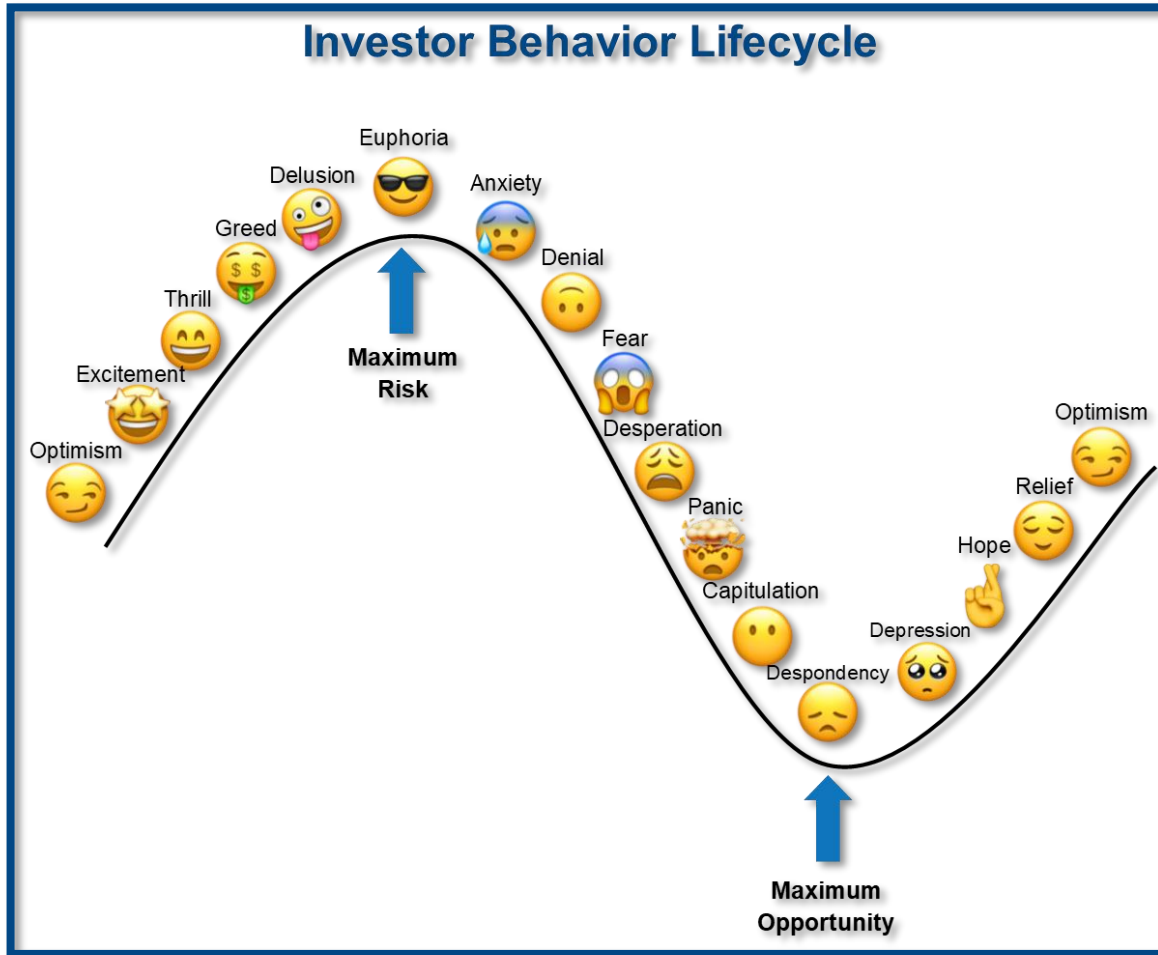


A Behavioral Approach to Economic Analysis

Using Scientifically Engineered Models

DATA THROUGH MAY 2023

Understanding Human Behavior



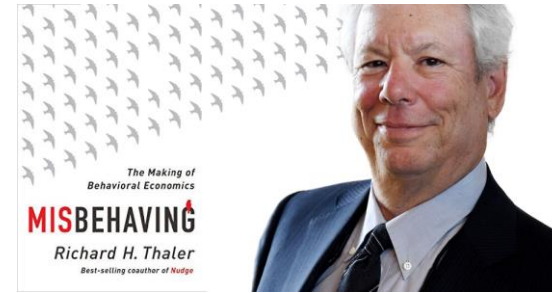
The stock market is a story of cycles & of the human behavior that is responsible for overreactions in both directions.

– Seth Klarman

For current market updates go to: tradersblog.semwealth.com

Econs vs. Humans

2017 Nobel Prize Winner - Economics



**CLEARANCE
SALE**

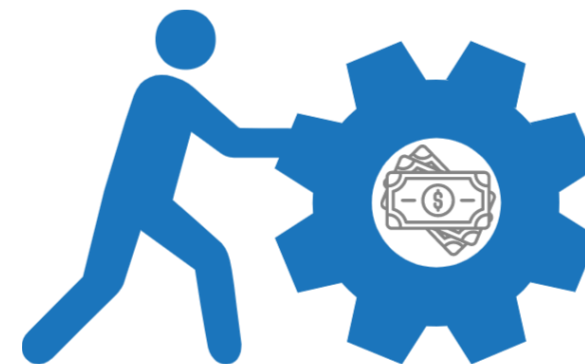


Potential GDP Equation



How many people are working?

+



How much are they producing?

GDP Equation



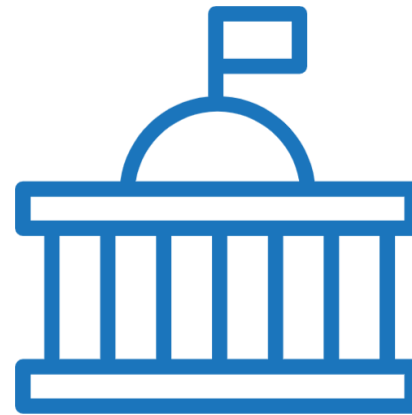
Consumer

+



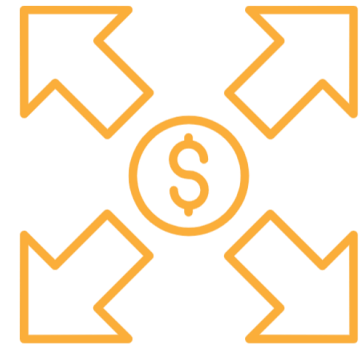
Investment

+



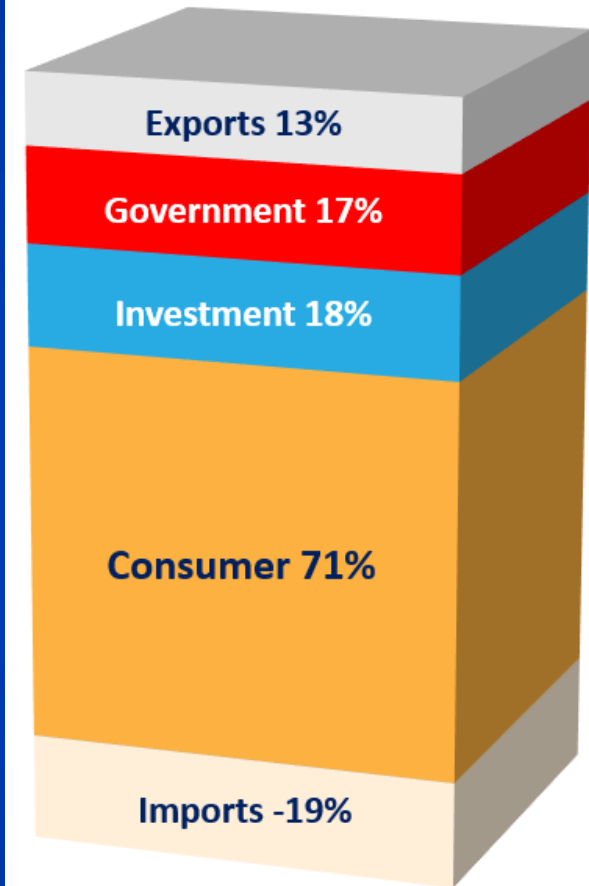
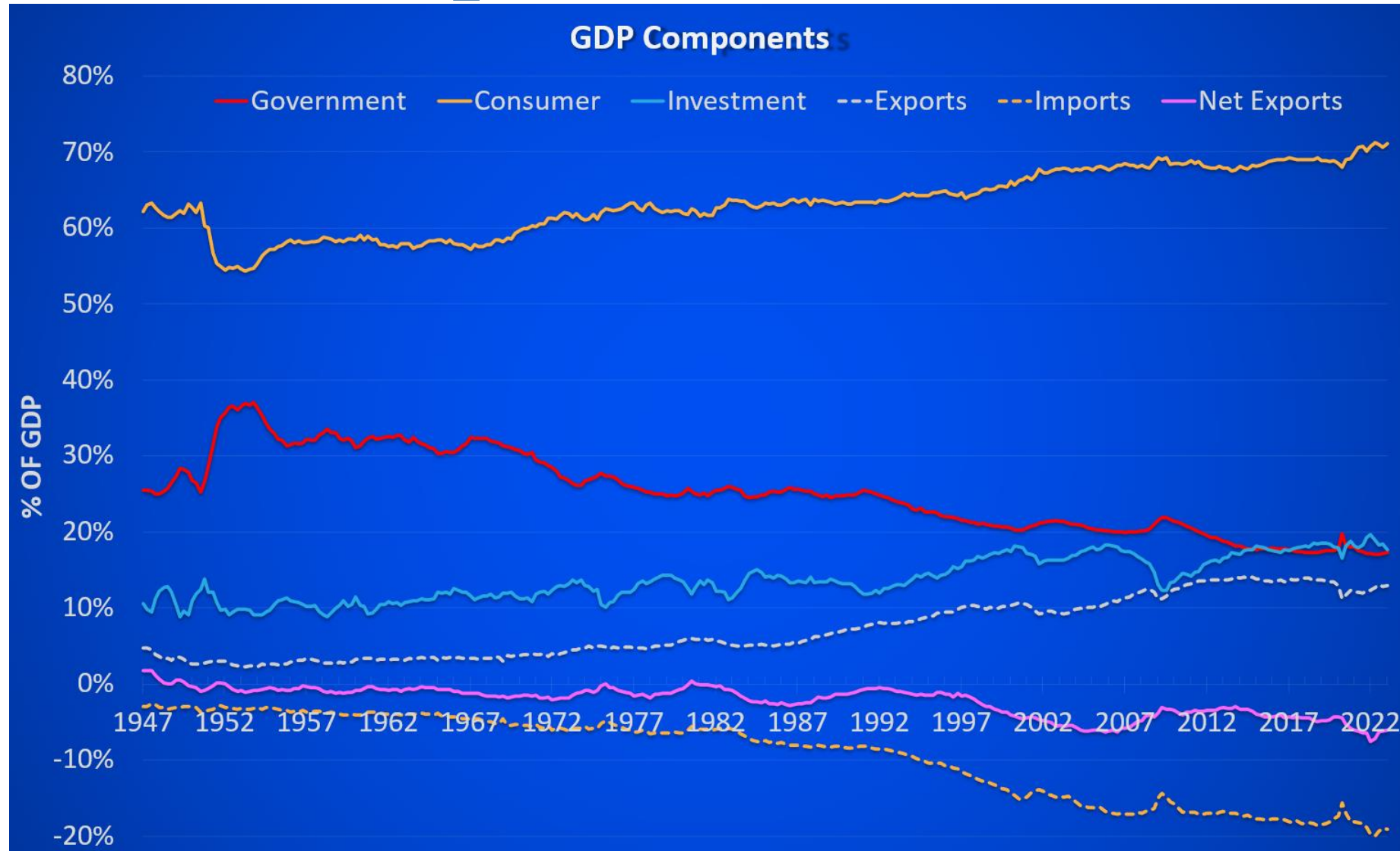
Government

+



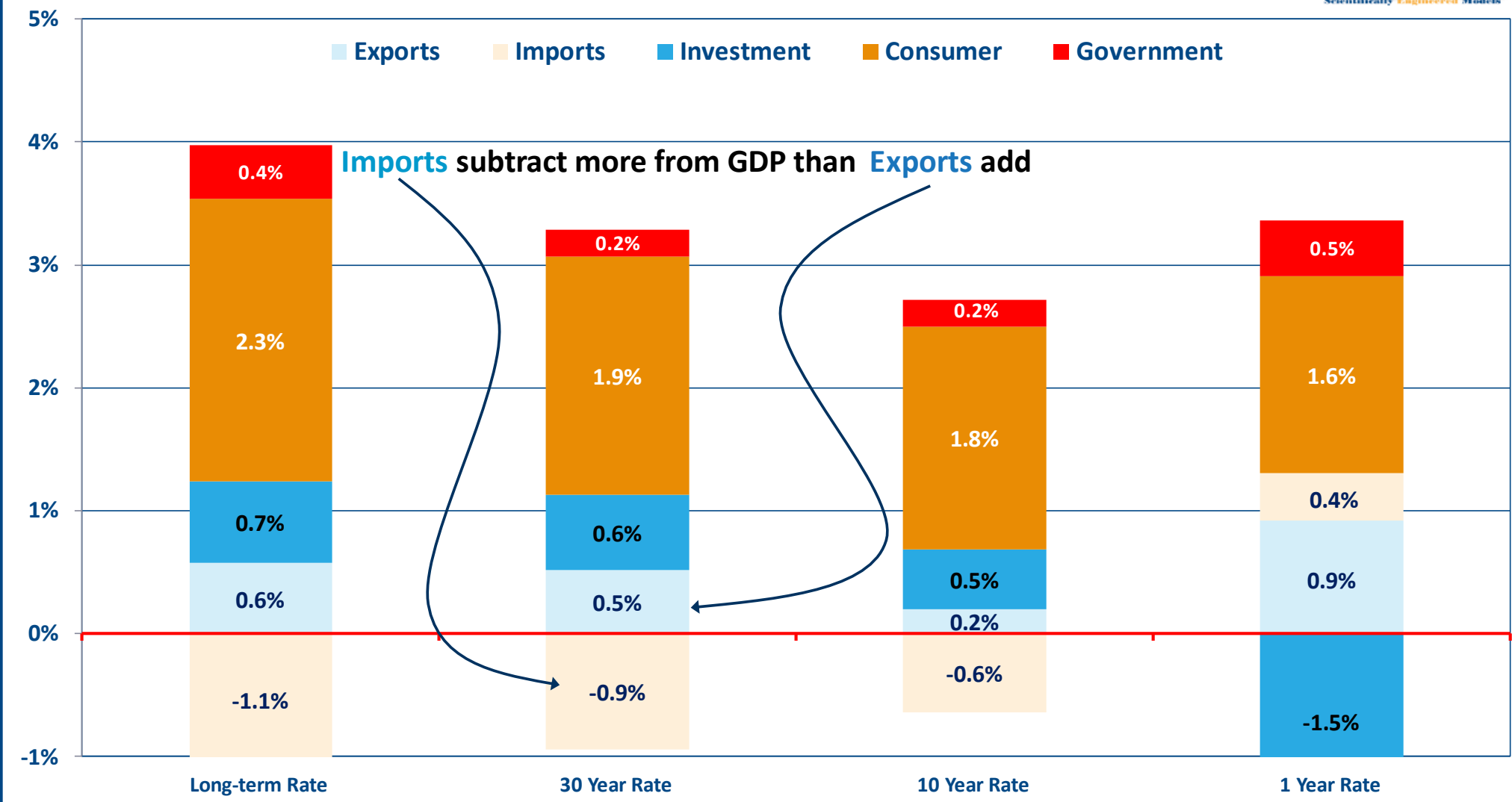
Net Exports

GDP Components





Growth Rate Contribution of Each GDP Component

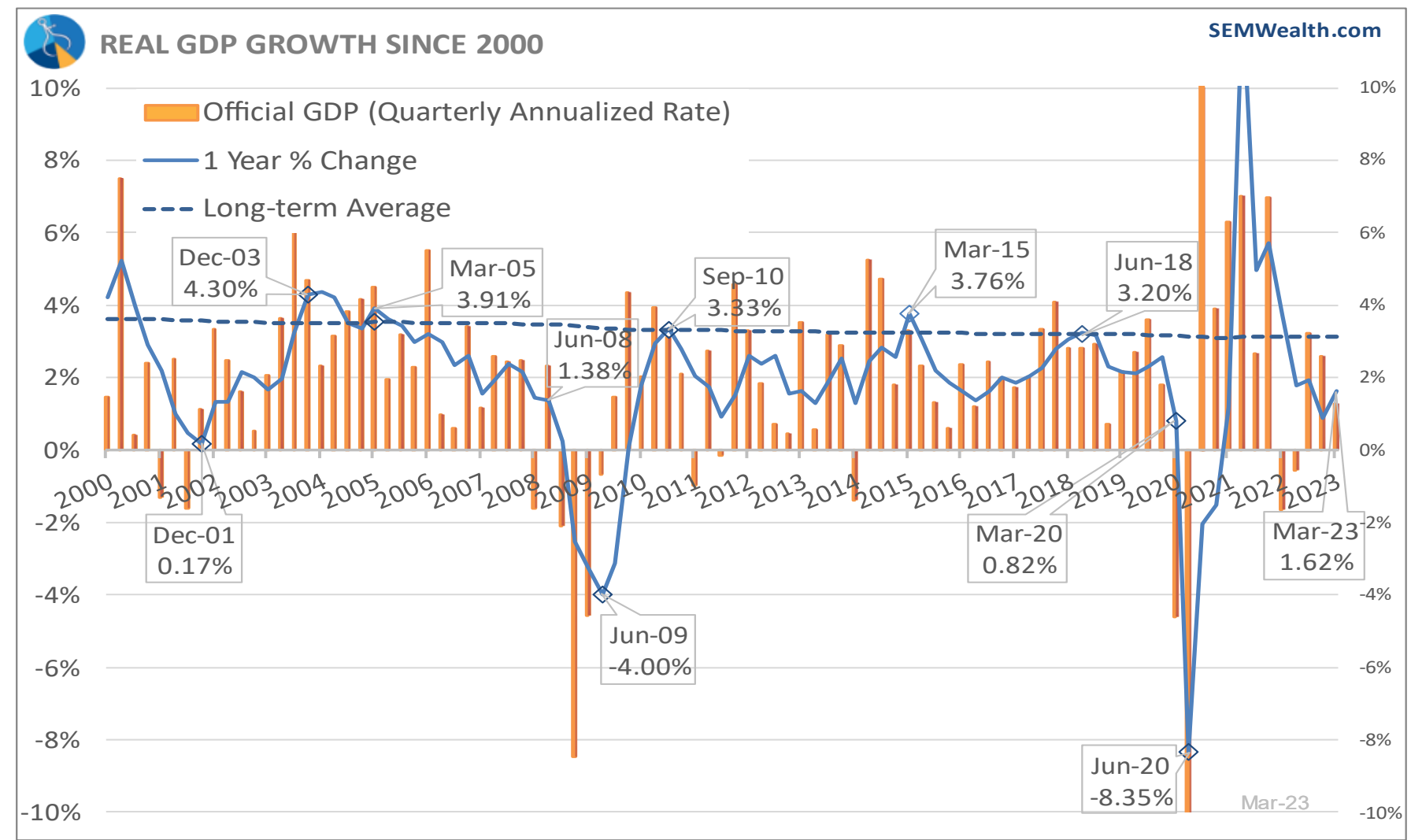


SOURCE: Federal Reserve Bank of St. Louis Data through Mar-23



Understanding GDP Reports

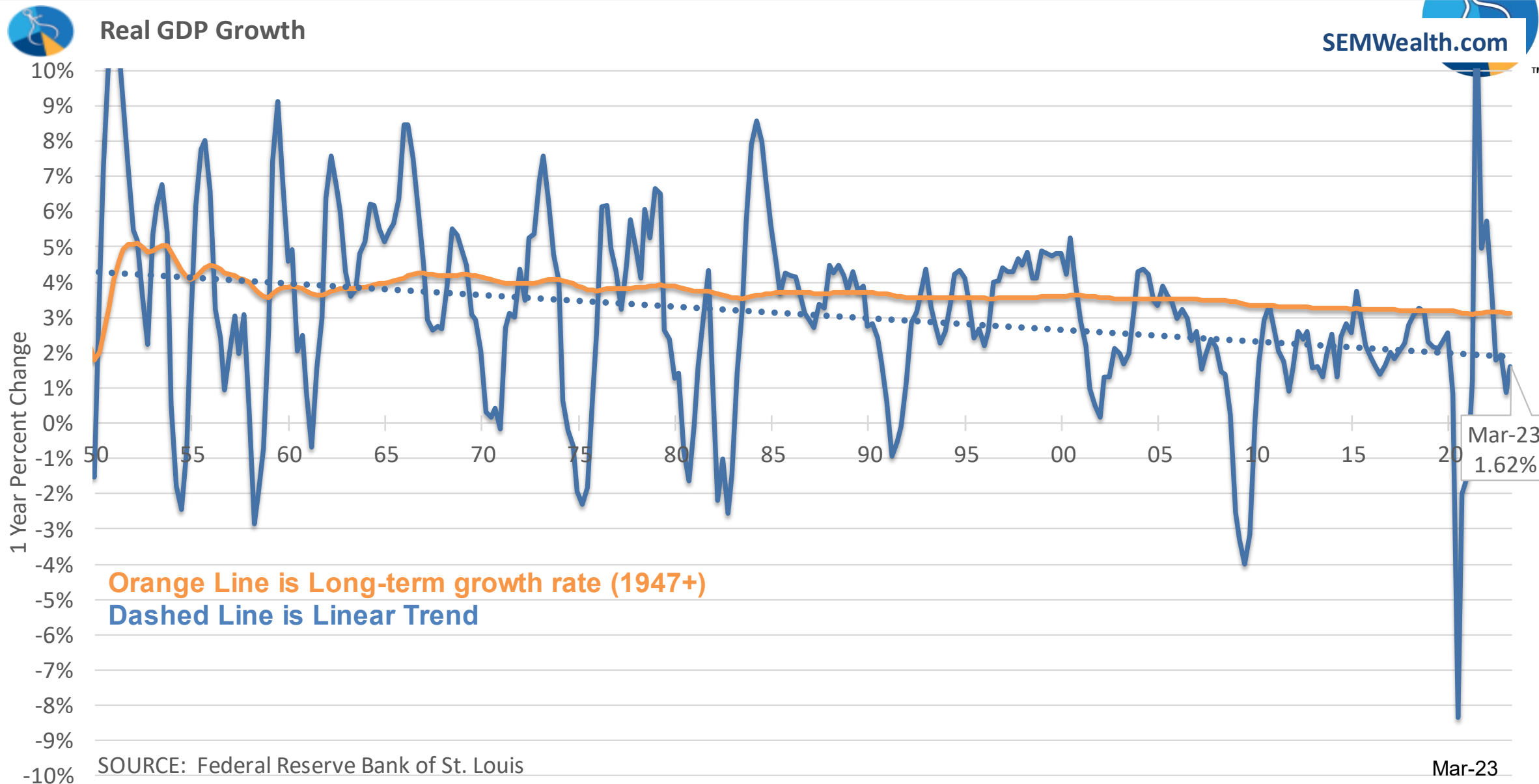
- Official GDP numbers can be misleading
- “Seasonally adjusted annual rate” causes large swings
- Focus should be on 1-year rates of change
- We have had few periods this century above the long-term average



The long-term trend continues to weaken

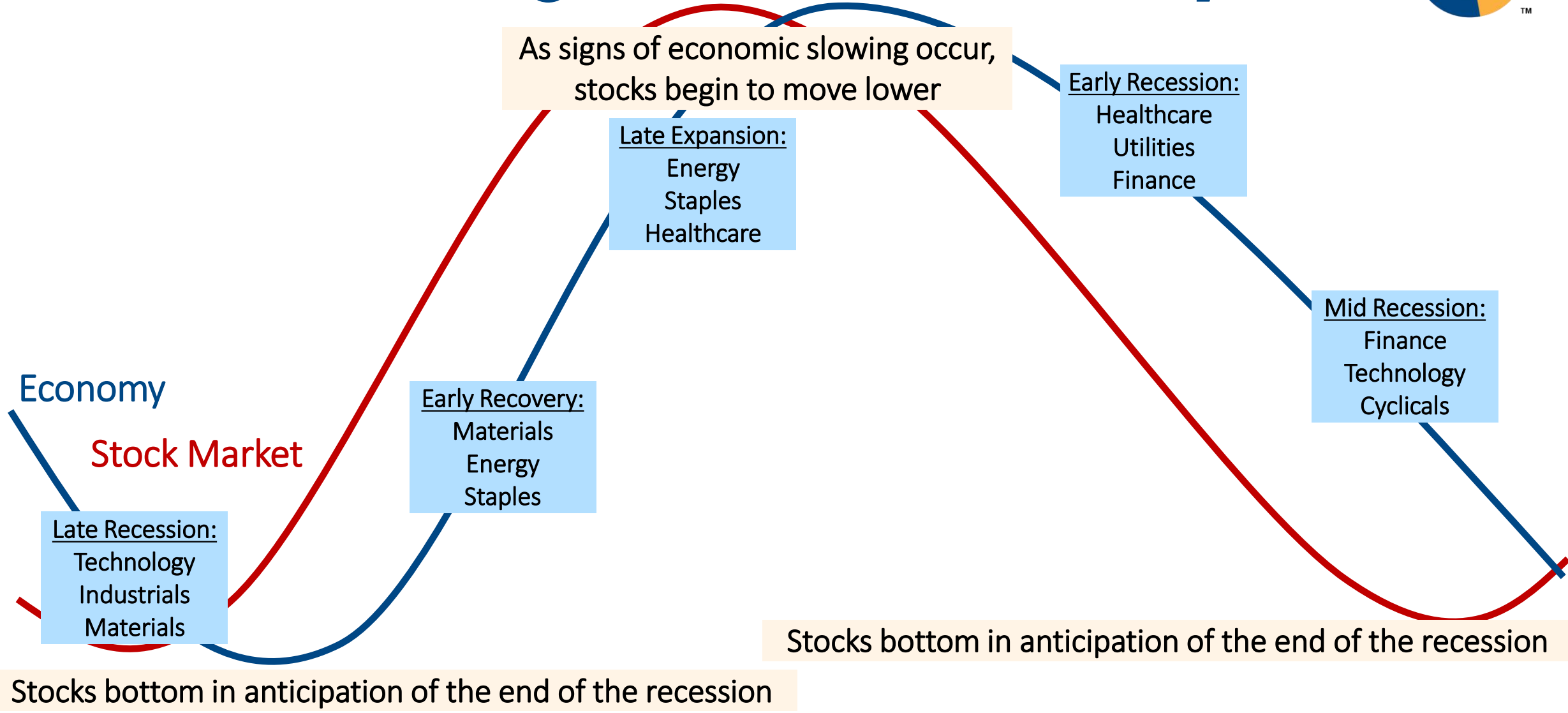


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Understanding the Economic Cycle





Leading Economic Indicators



Jobs / Workers



Consumer Spending / Confidence



Investment / Housing / Manufacturing



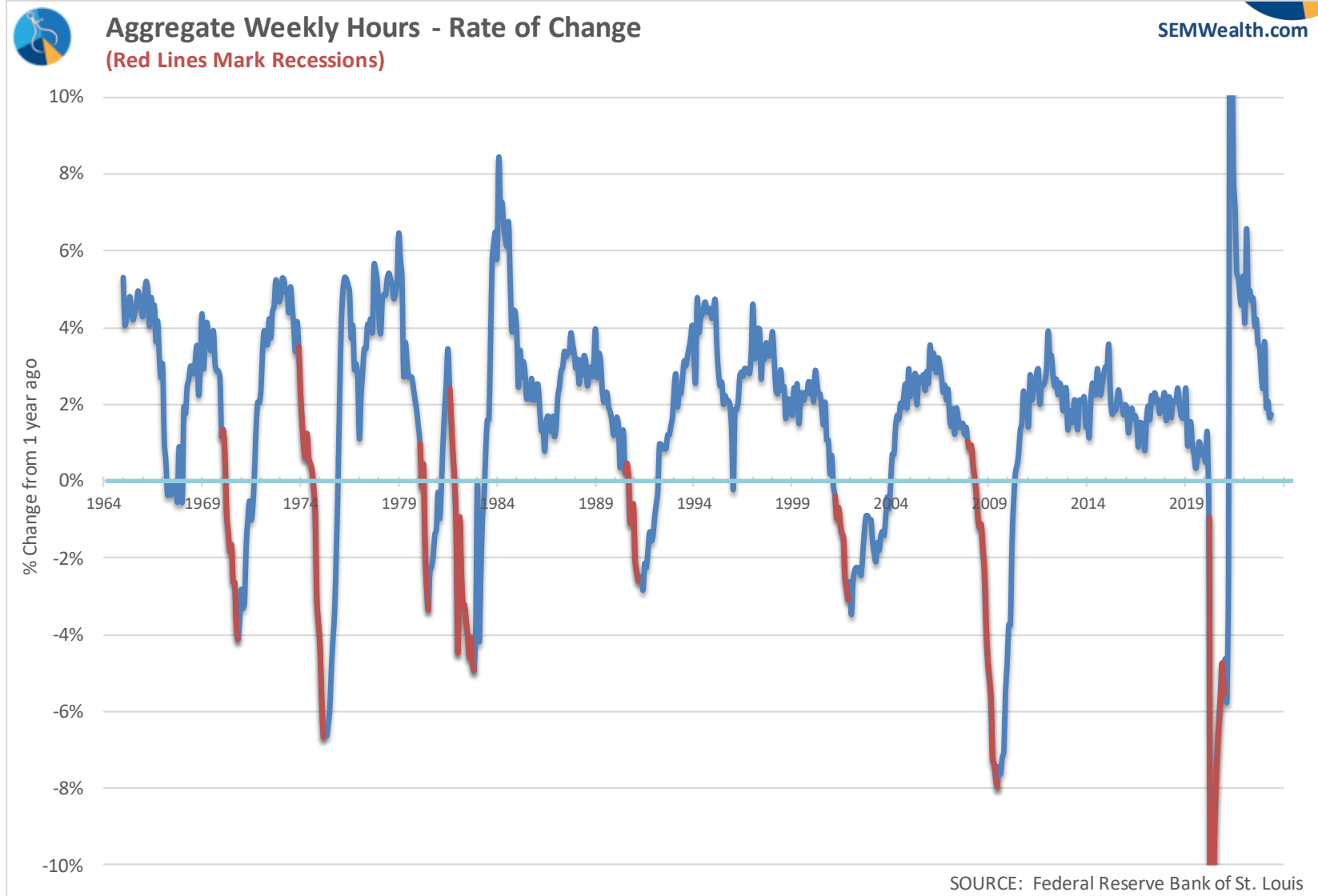
Government Activity



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Employment Indicators

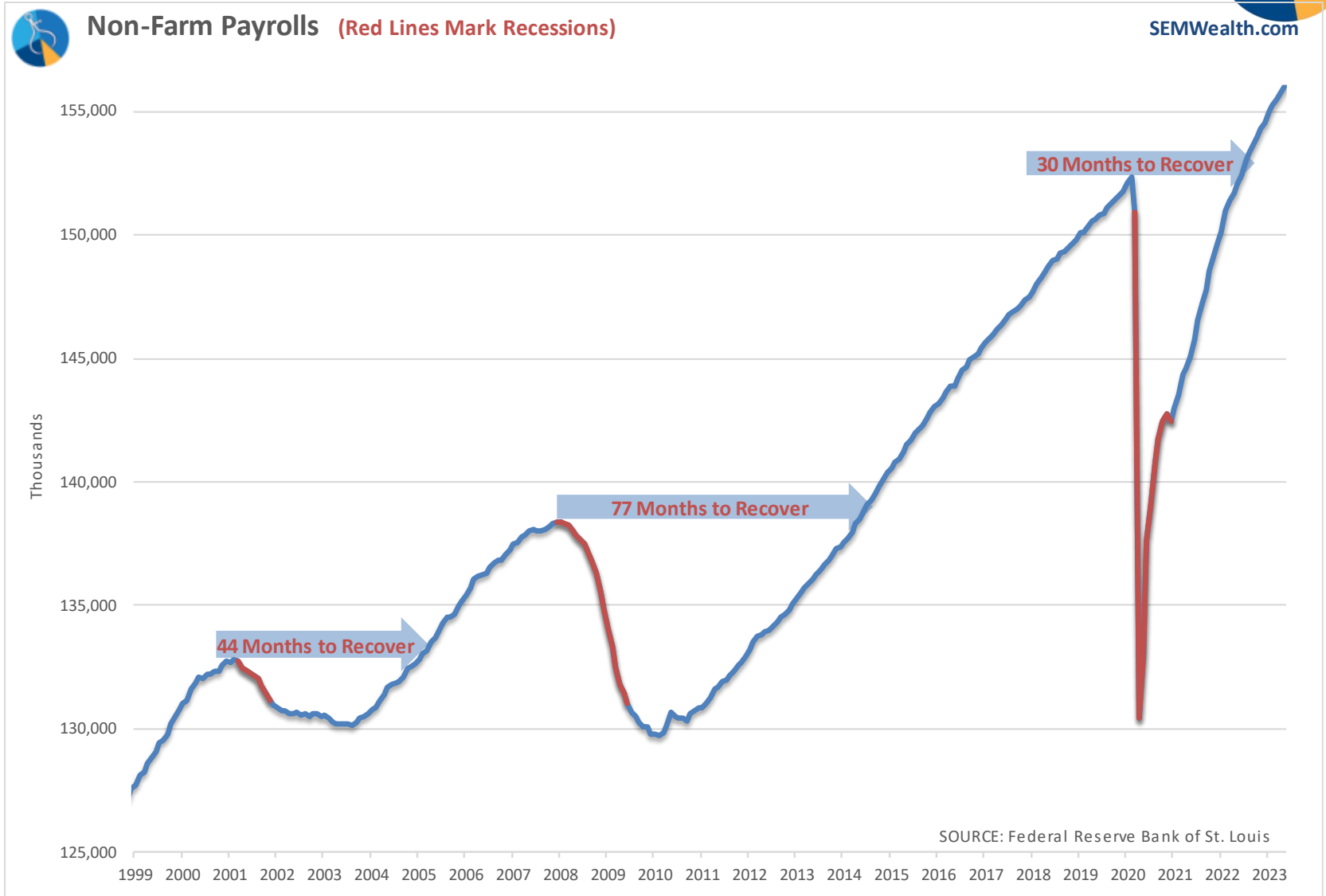
- The change in the weekly hours worked index is one of the best indicators of growth
- Higher demand = more hours
- Slower demand = less hours





Employment Indicators

- The NUMBER of jobs is a “coincident” indicator
- Recessions are not declared until we see payroll numbers declining

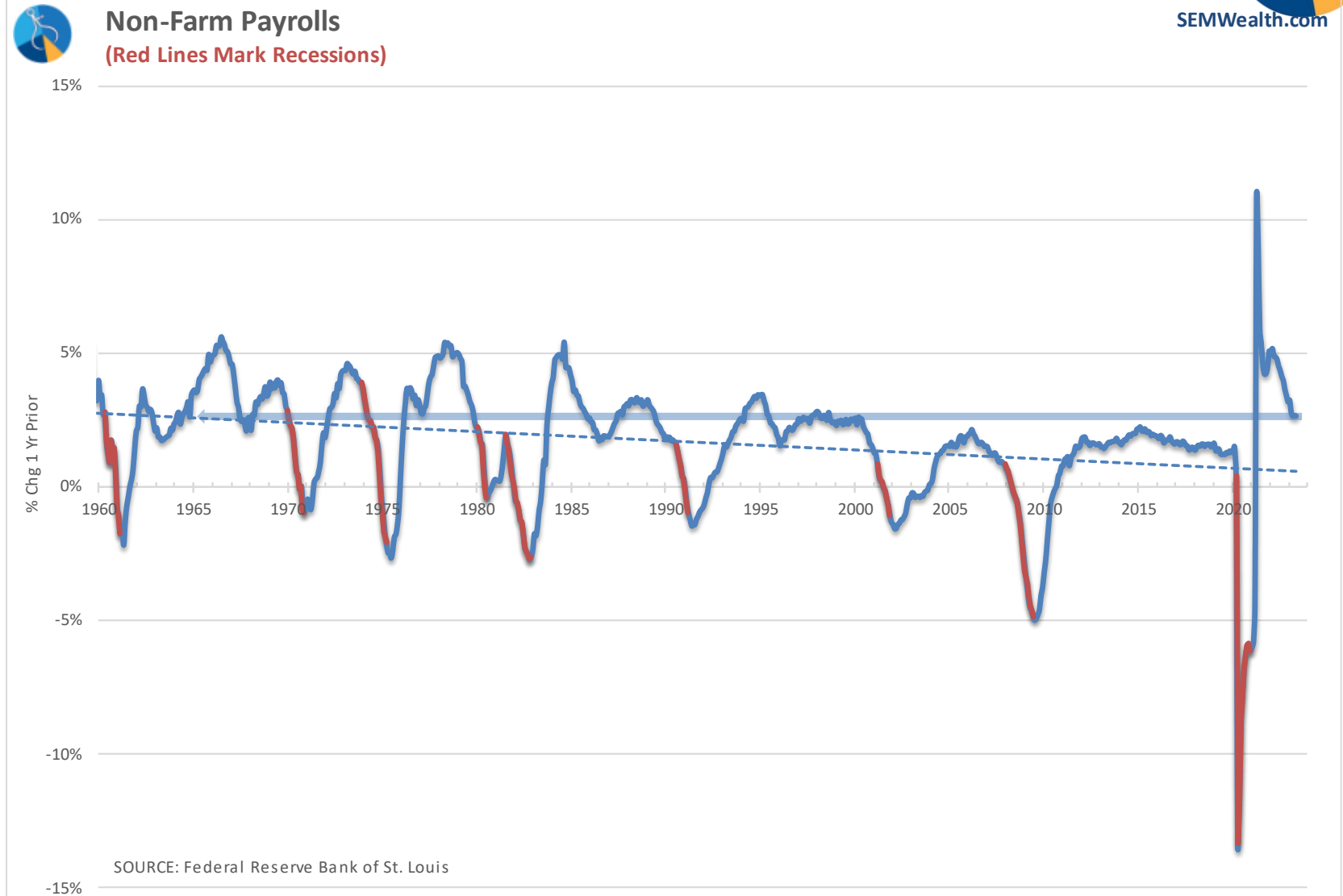




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Employment Indicators

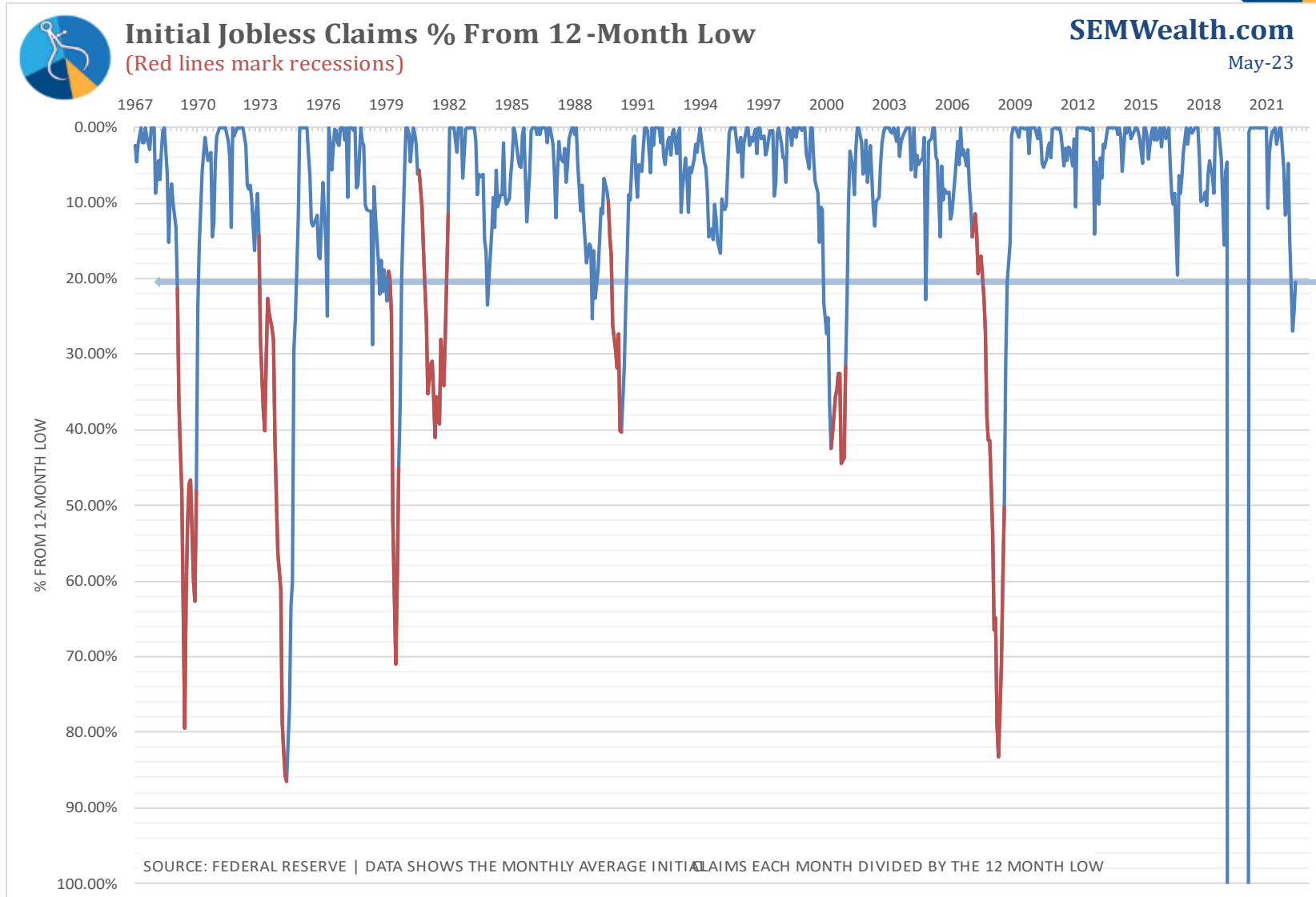
- The % change in the number of jobs from a year ago is a solid **LEADING** indicator
- Accelerating job growth is a sign of stronger activity
- Slowing job growth is a sign of a weakening economy





Employment Indicators

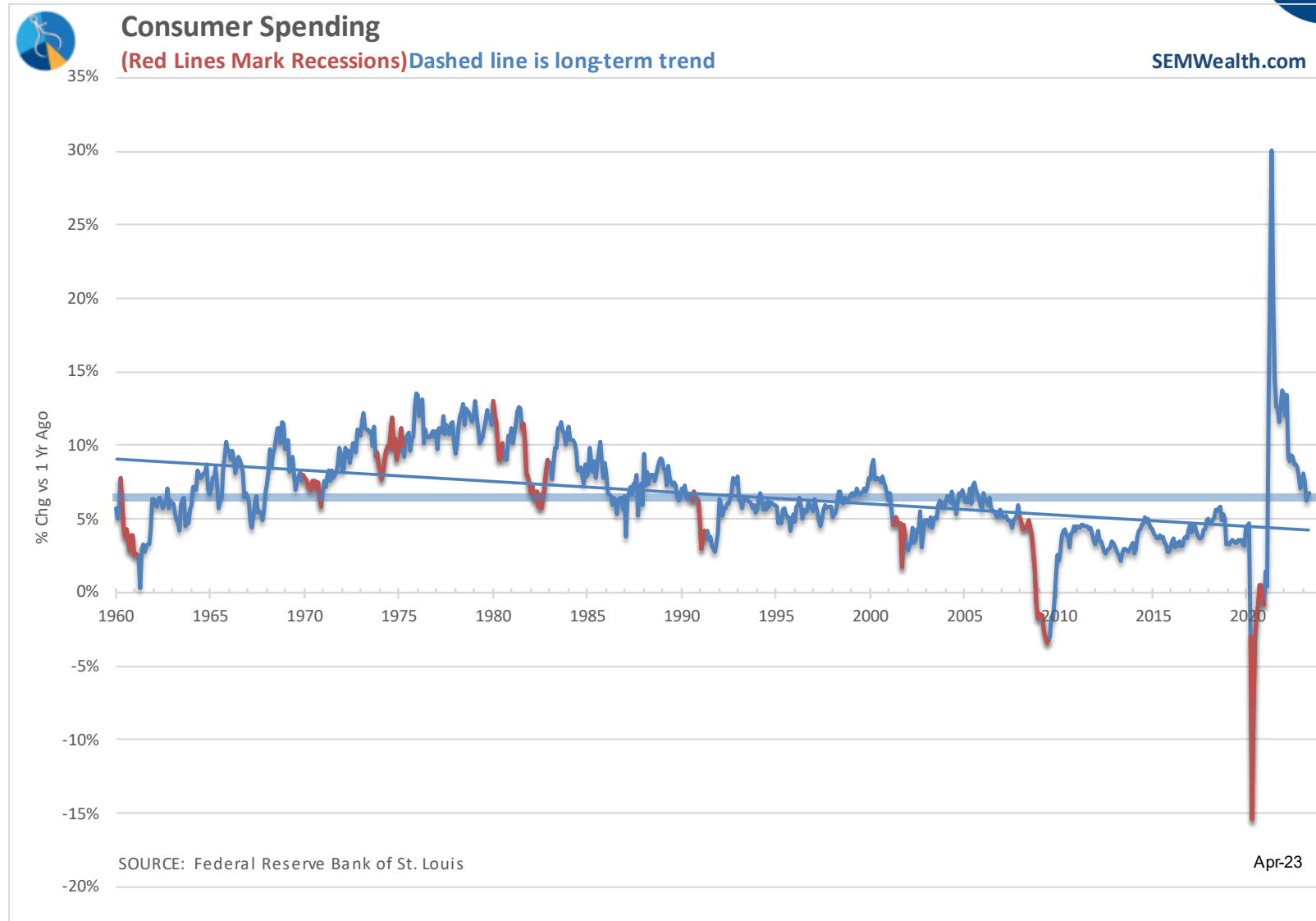
- Initial Jobless Claims can provide more visibility into the underlying labor market
- Focus is on moves off of recent low points.
- A 25% move off the lows is usually indicative of a looming recession





Consumer Indicators

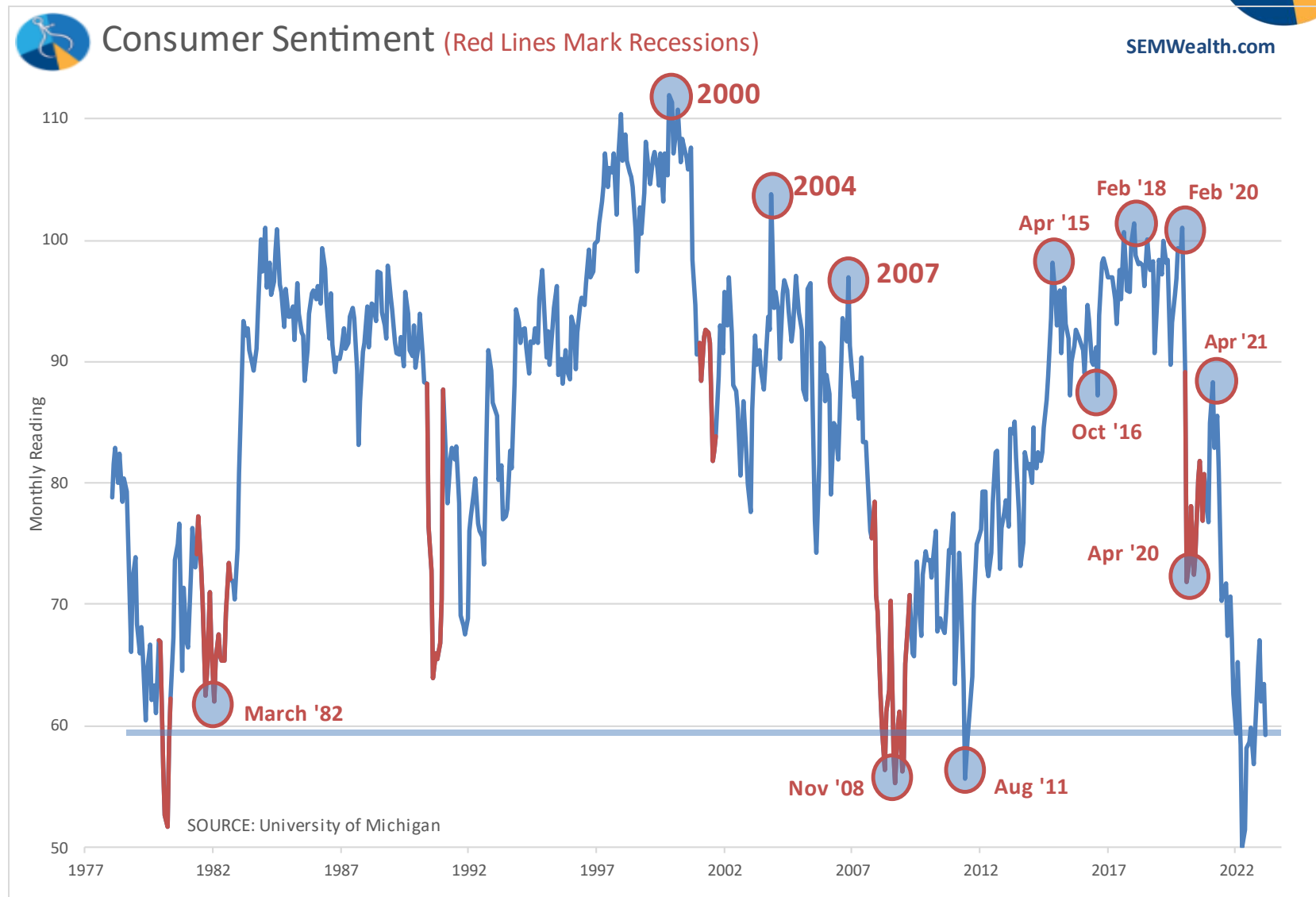
- Consumer spending represents over 70% of GDP
- A pick-up in spending growth is an early sign of an improving economy
- A slowdown in spending growth is a clear sign of a looming economic slowdown





Consumer Indicators

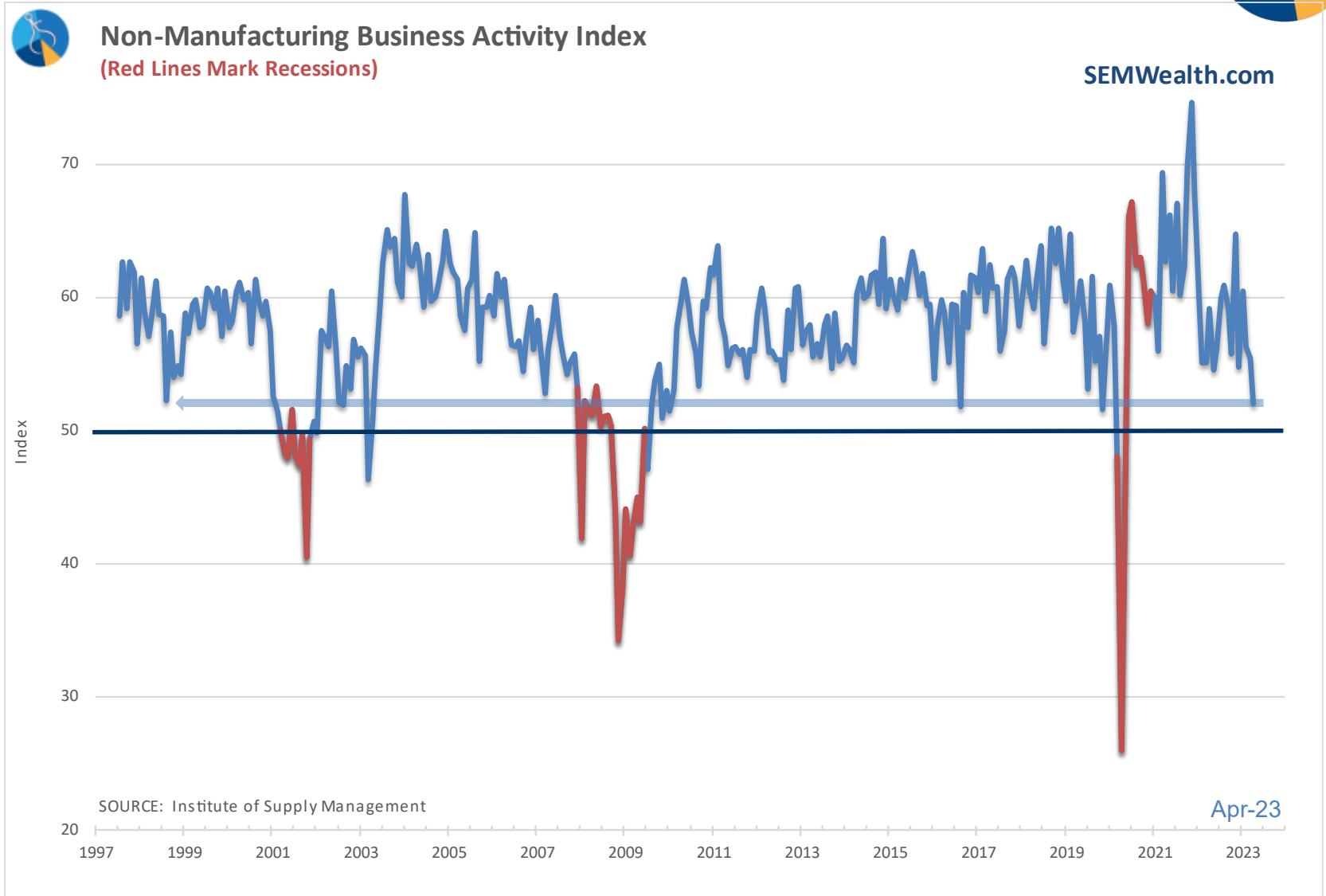
- Consumer Sentiment tends to drop well before a recession & improve before it is over
- The reason is obvious – if you feel good you are likely to spend more money
- If you are pessimistic you are likely to spend less





Consumer Indicators

- We are a service based economy
- As Service Business Activity picks up, it is a sign of stronger economic growth.
- If Service Businesses slow, it is a sign of economic problems.

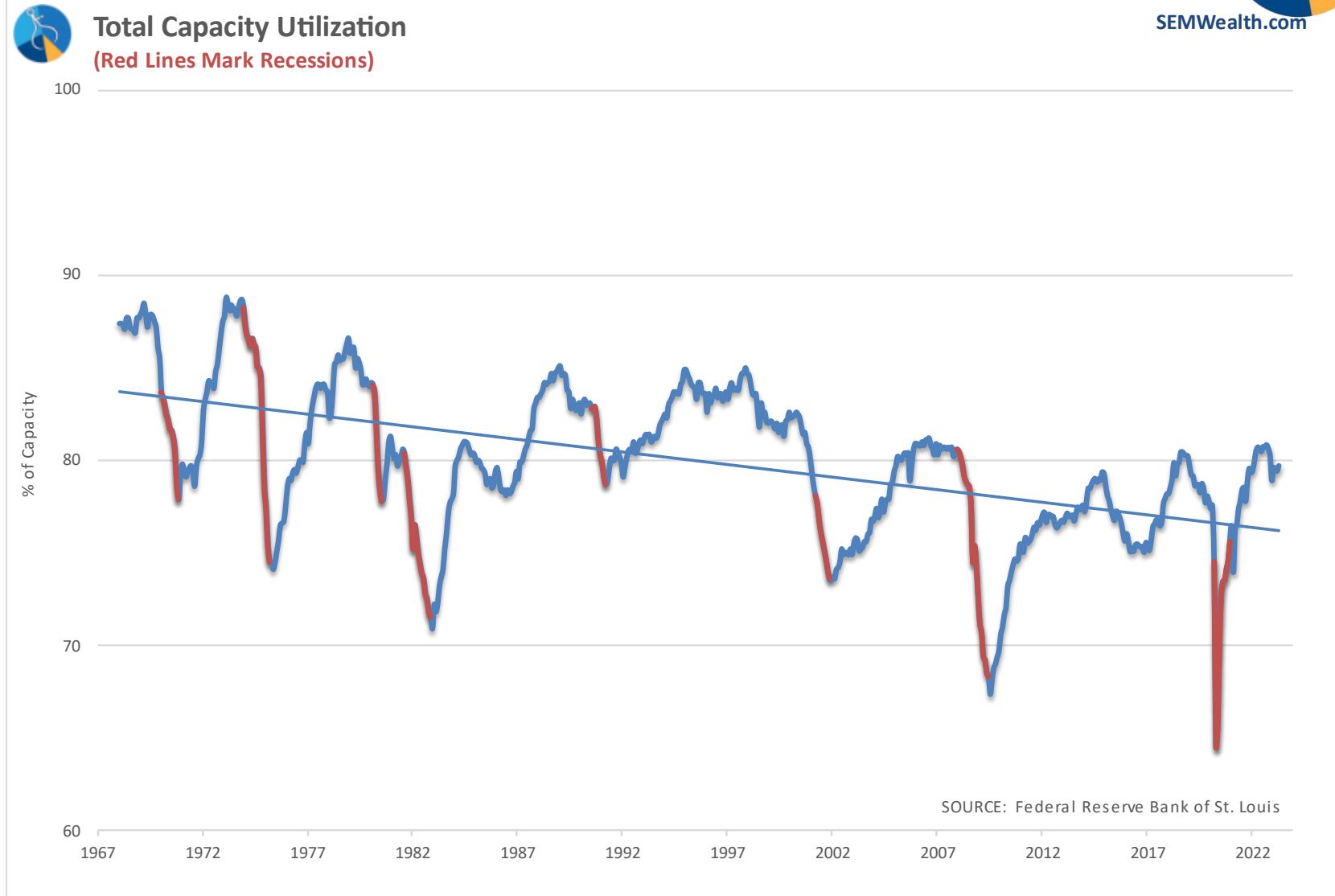




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Investment Indicators

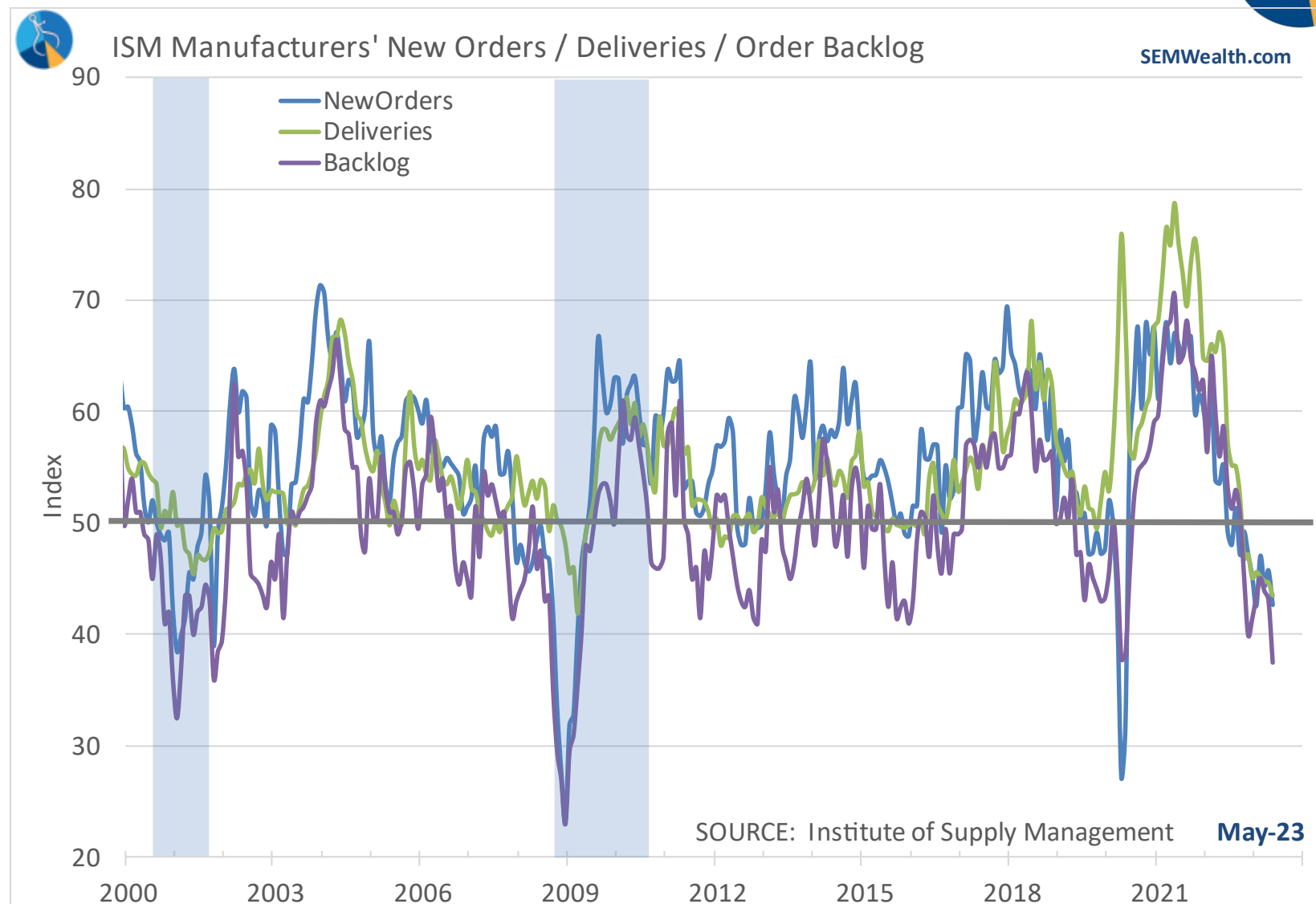
- Capacity Utilization measures the amount of production activity currently in use.
- Utilization tends to rollover just before the economy enters a recession.
- Utilization bottoms almost simultaneously to the end of the recession

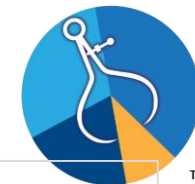




Investment Indicators

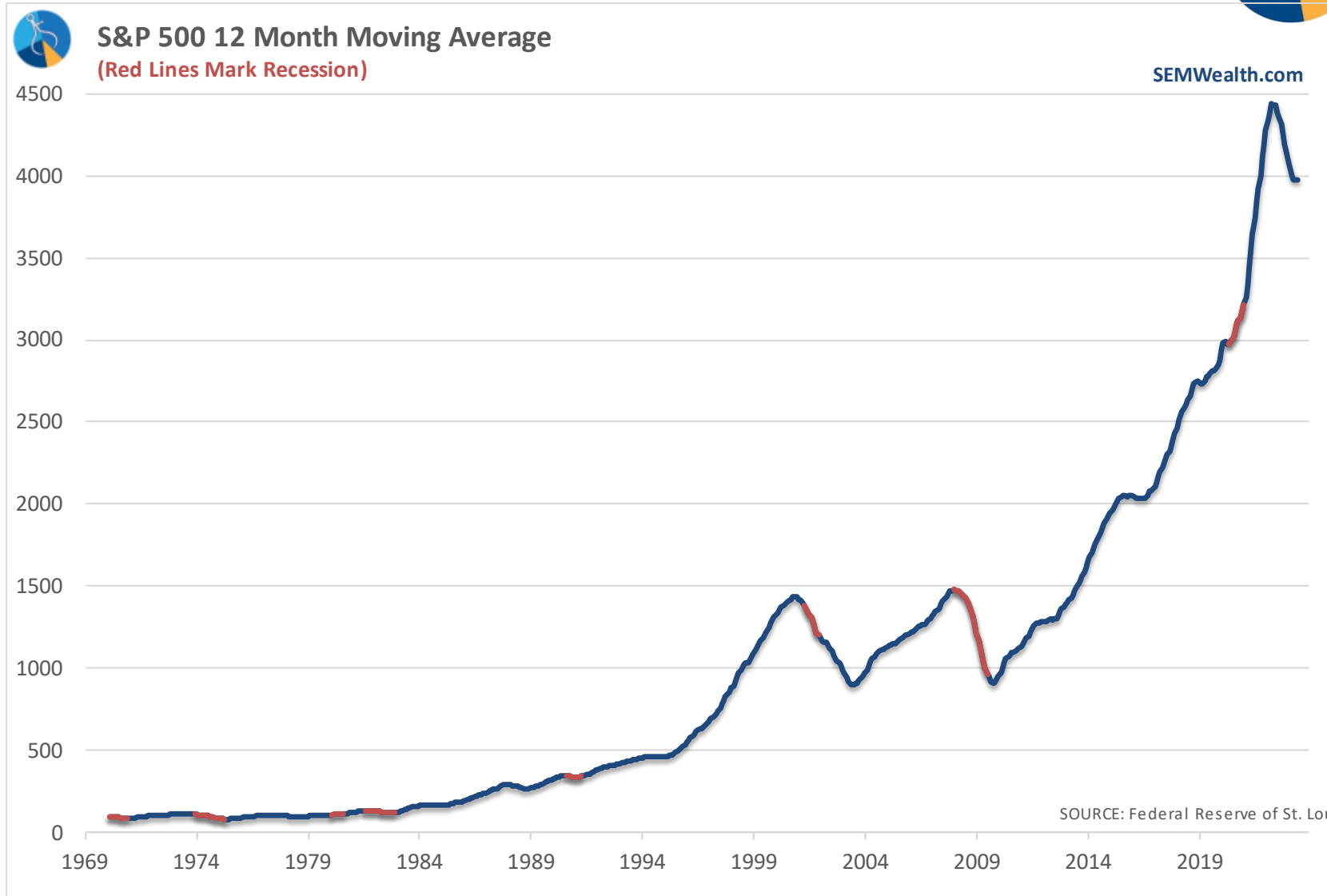
- Manufacturing Orders are a very early indicator of economic strength
- A number above 50 indicates “expansion” in the indicator / below 50 indicates “contraction”
- Deliveries & Backlog data can be used as a “leading-leading” indicator





Investment Indicators

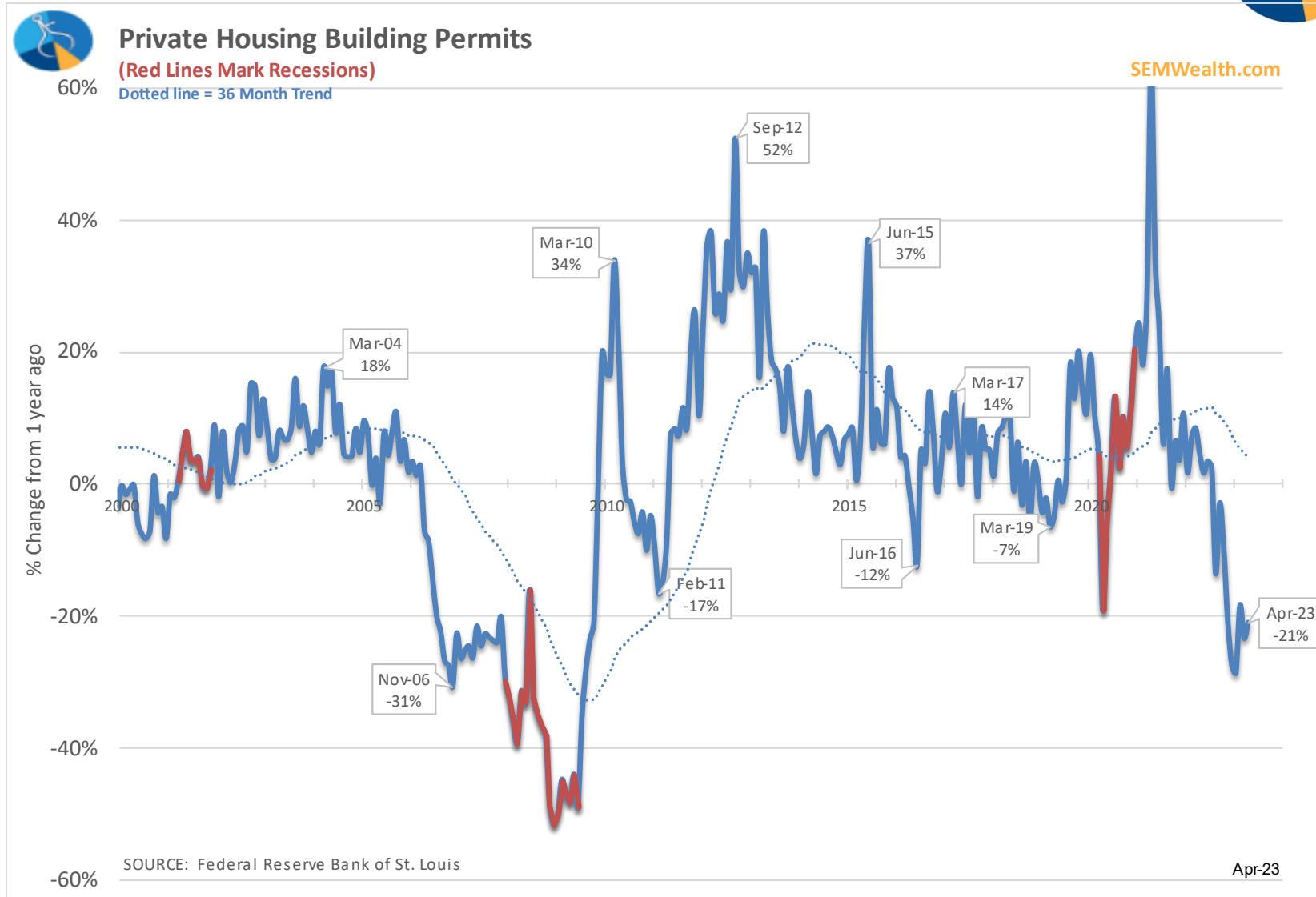
- Stocks are a “forward looking” mechanism
- Fluctuations in prices create “noise”
- Most of the time, stocks trend down when earnings slow and trend up when earnings increase
- 12-month moving average can be used to smooth the data





Investment Indicators

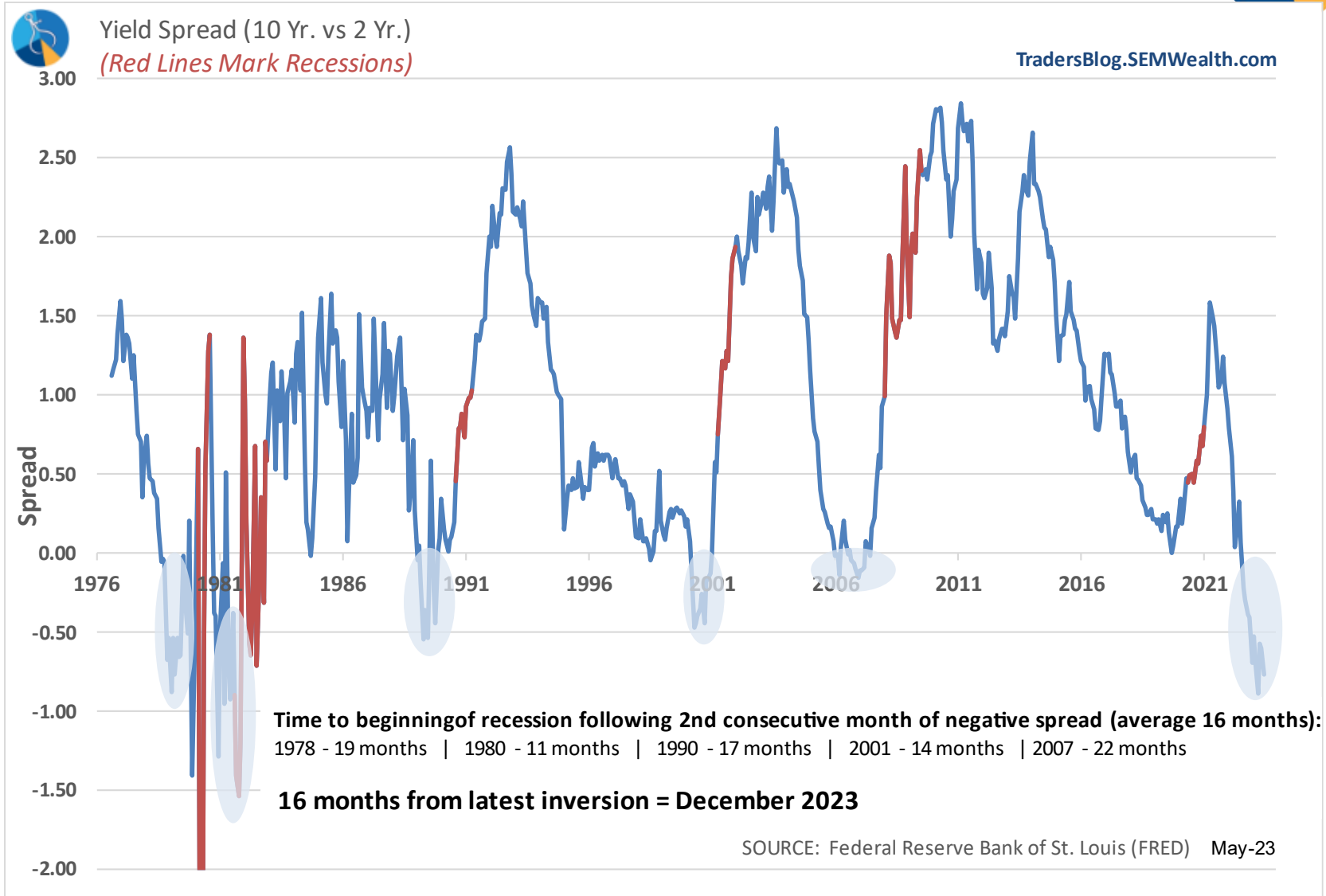
- Housing Start data is a solid leading indicator
- Building Permits gives us an earlier signal of when Starts might slow
- New housing activity not only shows economic enthusiasm, but multiply several times through the economy





Investment Indicators

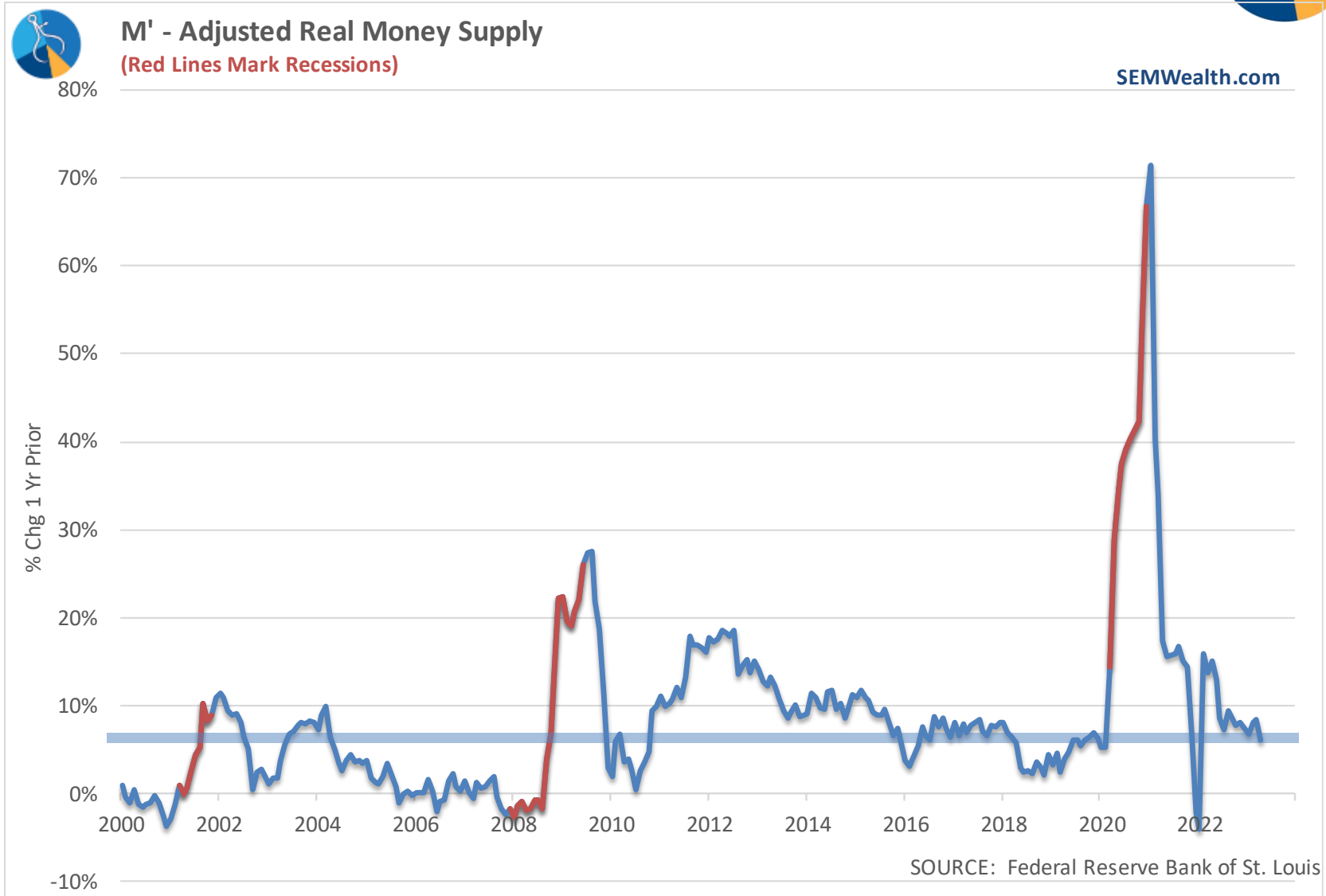
- The Yield Curve is one of the most reliable predictors of recession.
- “Chicken or the Egg” theory
- Long-term versus Short-term





Government Indicators

- Money Supply tends to contract just before a recession.
- Over the past three recessions we've seen the Federal Reserve act aggressively to increase the Money Supply





Government Indicators

- M2 change is not a good indicator of future economic growth
- This chart is shown more as a novelty – we’ve never seen a contraction in M2 over the past year.



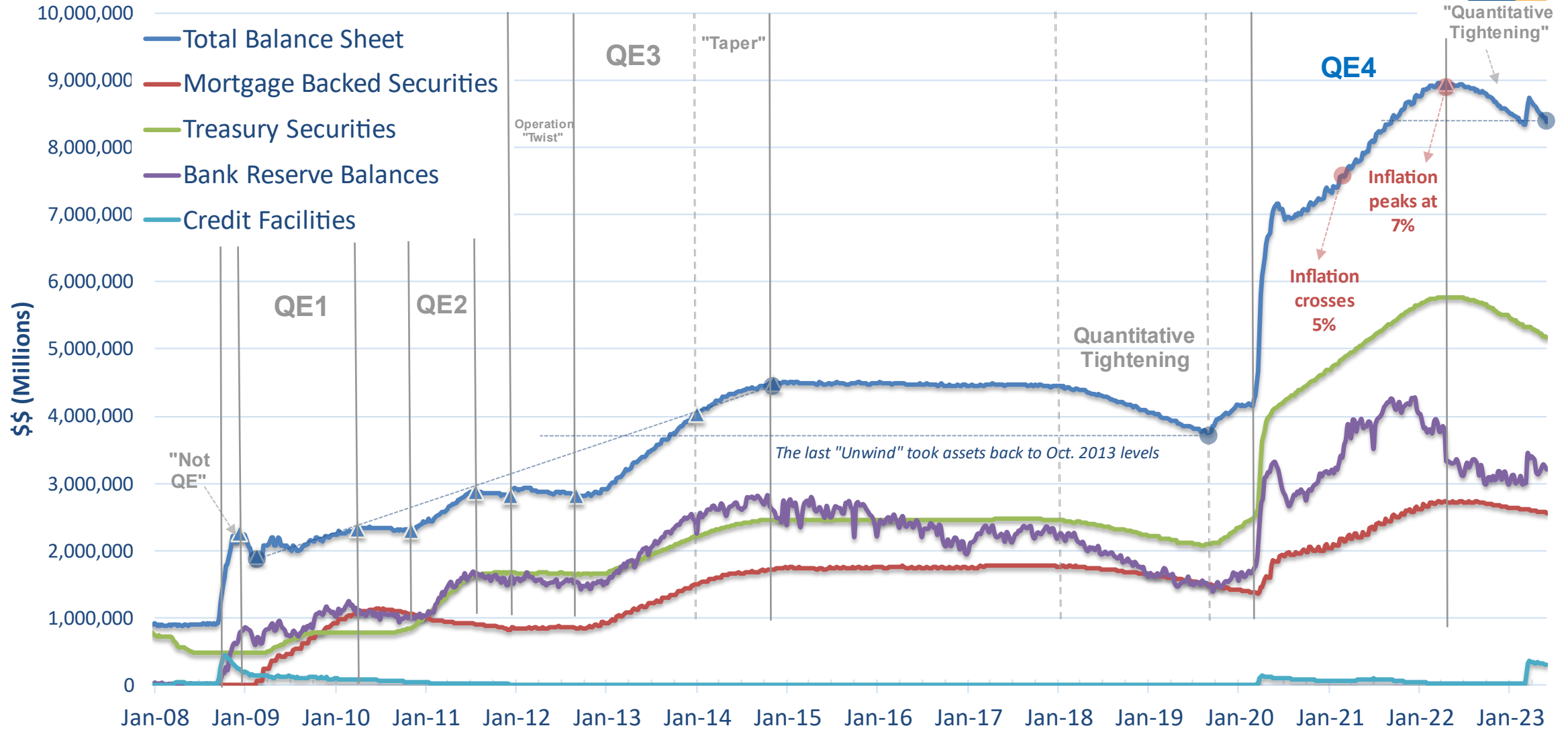
Government Investment on Steroids



Data as of: 5/31/2023
SEMWealth.com



Federal Reserve Balance Sheet

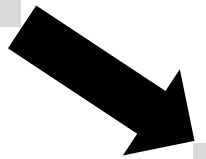


SOURCE: Federal Reserve Bank of St. Louis



QE = Leveraged Growth

Congress
\$5T Stimulus

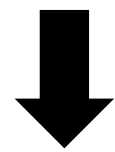


US Borrows
\$5T

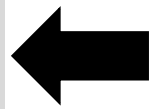
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Wall Street
Buys \$5T

= \$0
in circulation



Fed Reserve
QE \$5T



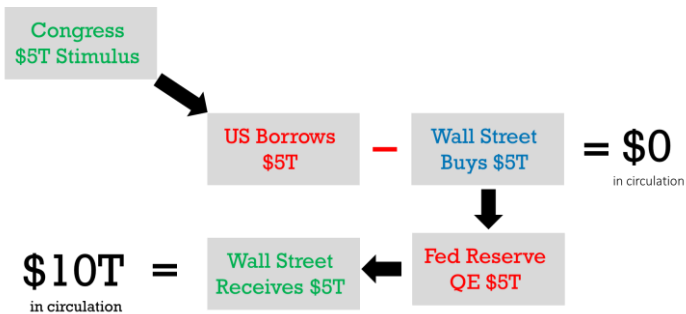
Wall Street
Receives \$5T

\$10T
in circulation

The "K-Shaped" Economy

Stimulus Checks

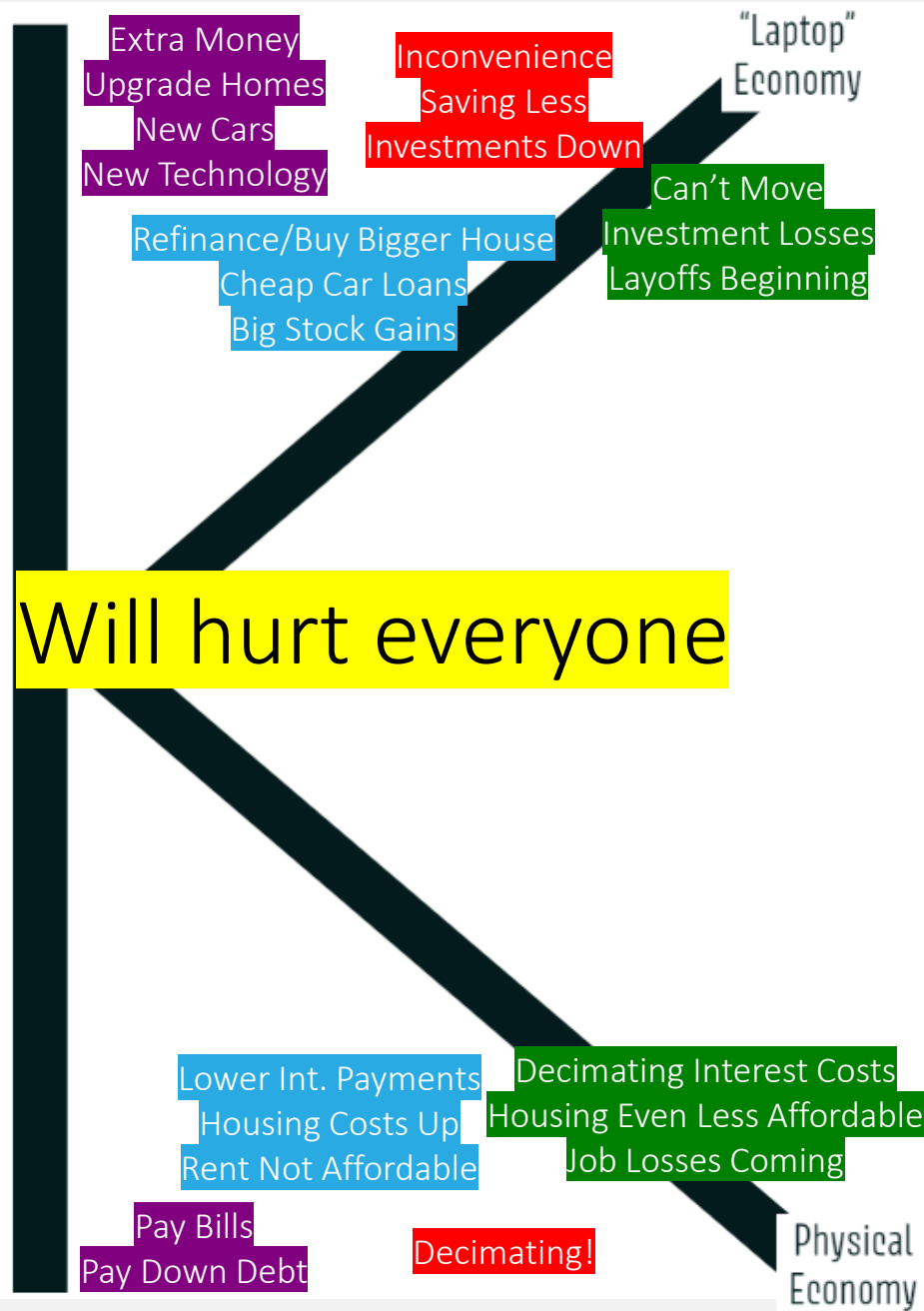
Fed Cuts Interest Rates



Inflation Escalates

Fed Hikes Interest Rates

Recession Coming!



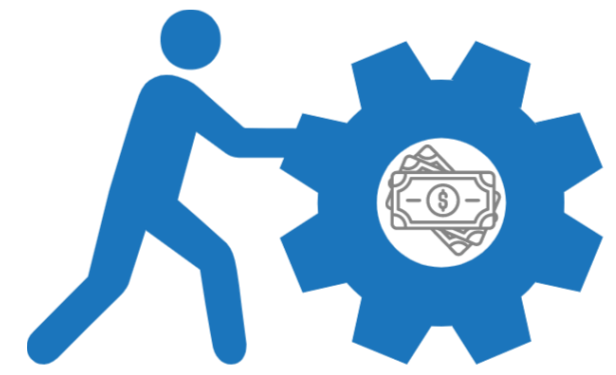


Revisiting the Potential GDP Equation



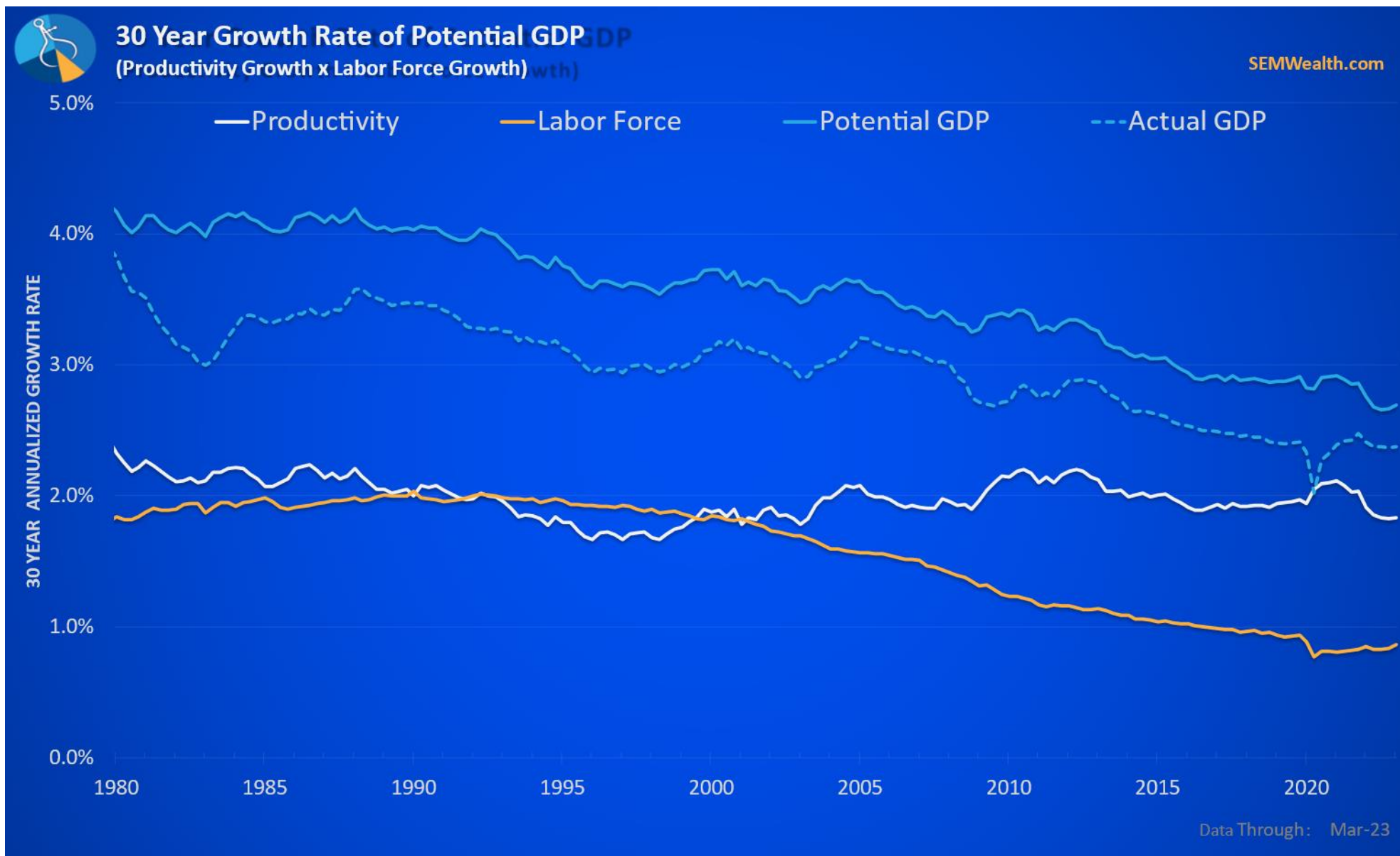
How many people are working?

+

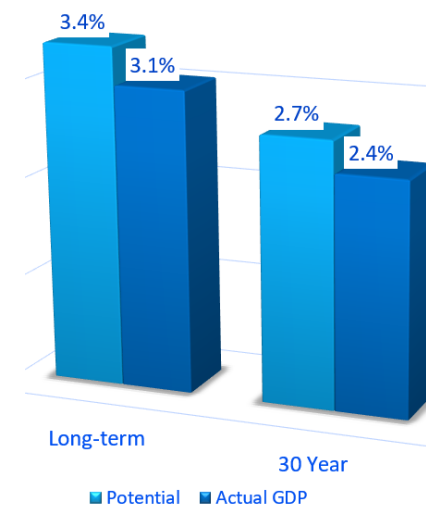


How much are they producing?

Revisiting the Potential GDP Equation

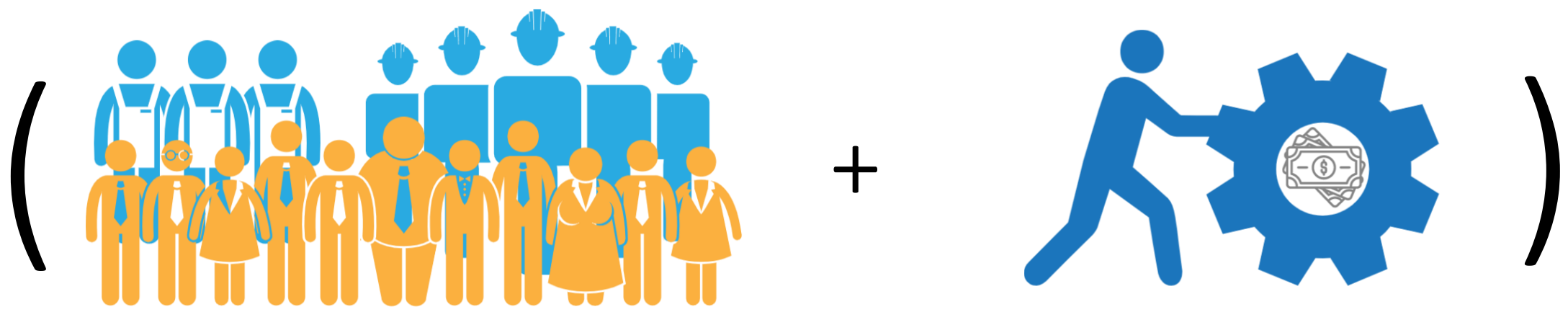


GDP has consistently grown below potential



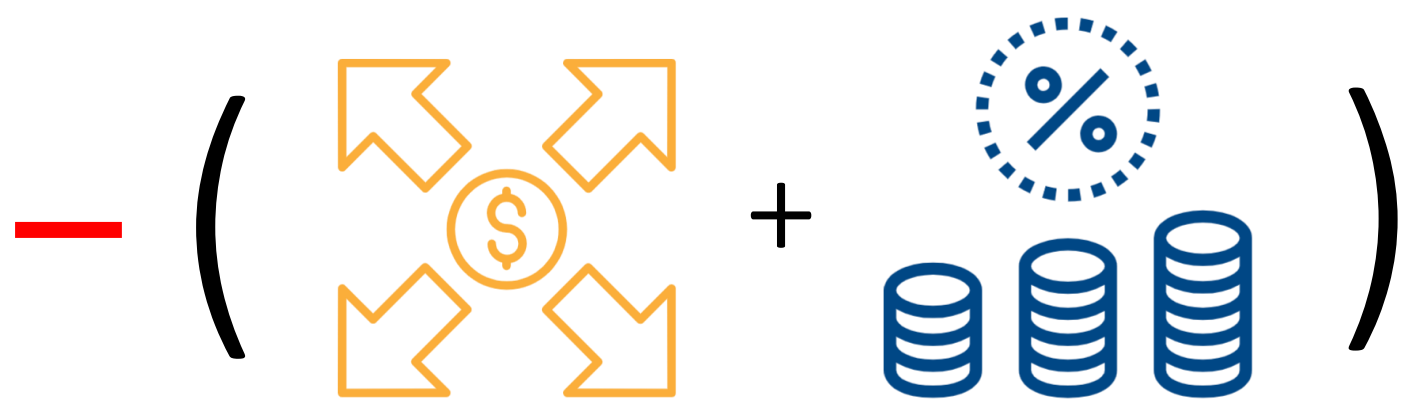


Revisiting the Potential GDP Equation



How many people are working?

How much are they producing?



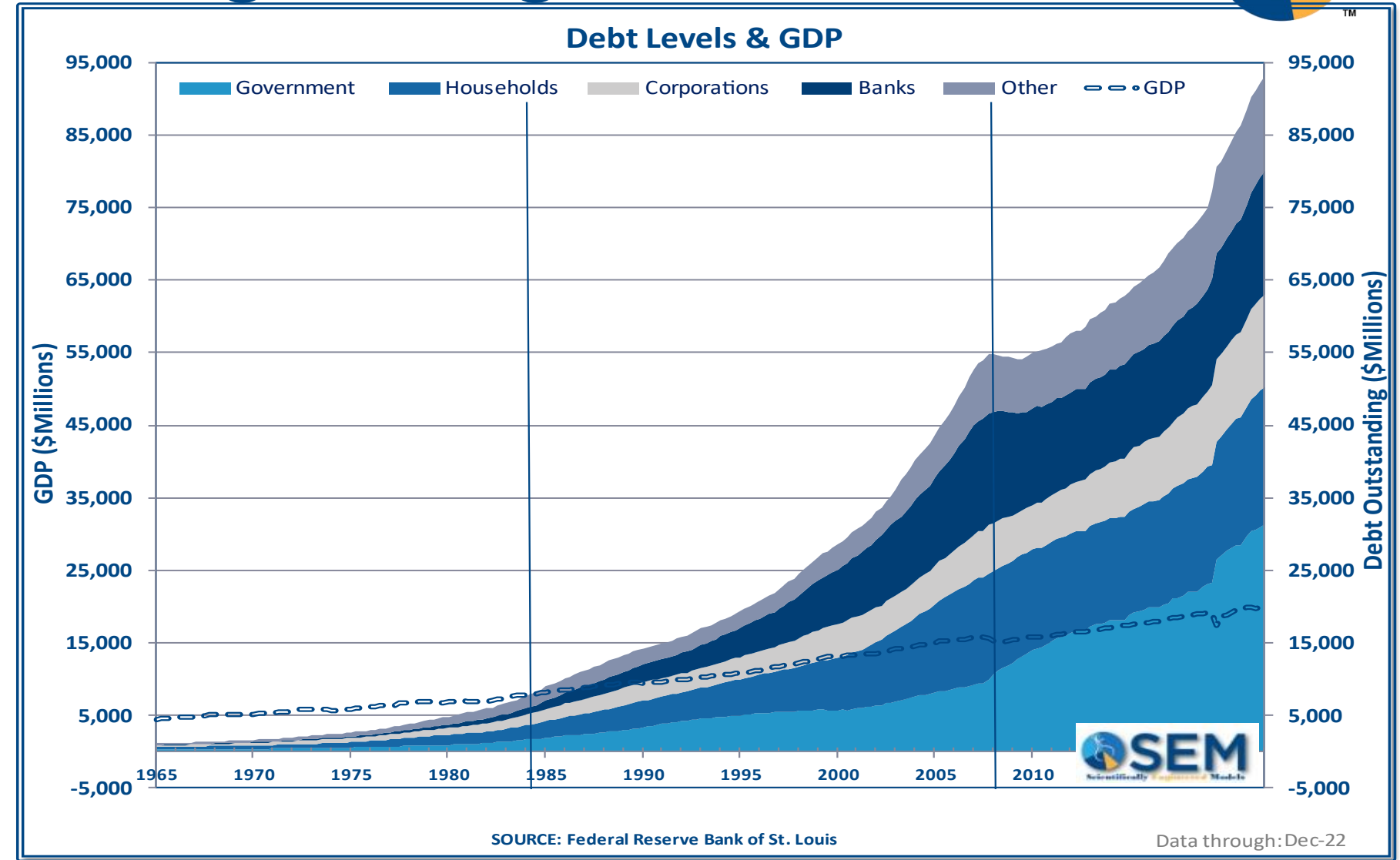
Net Exports

Interest Expense

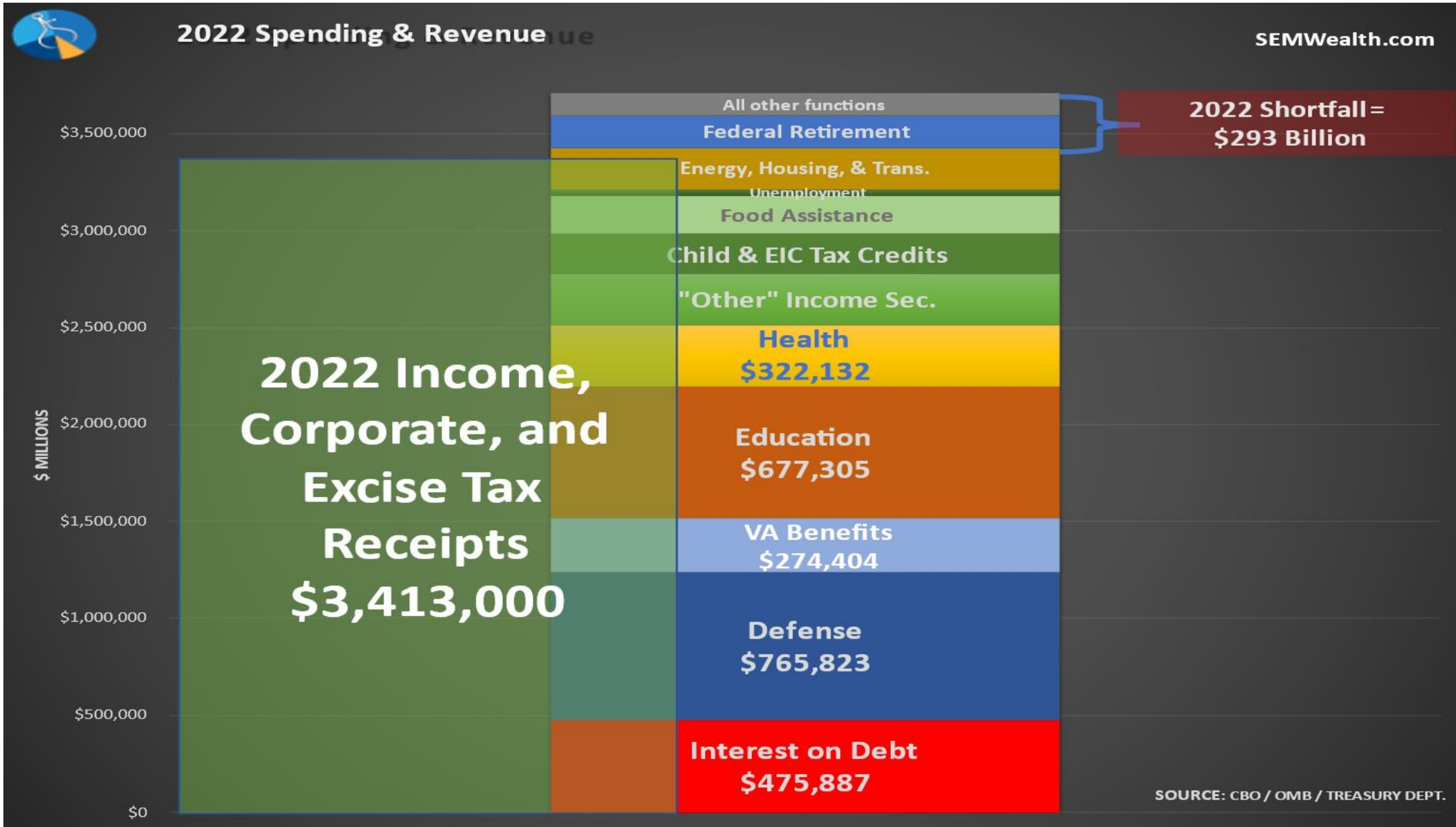


Future Spending Brought Forward

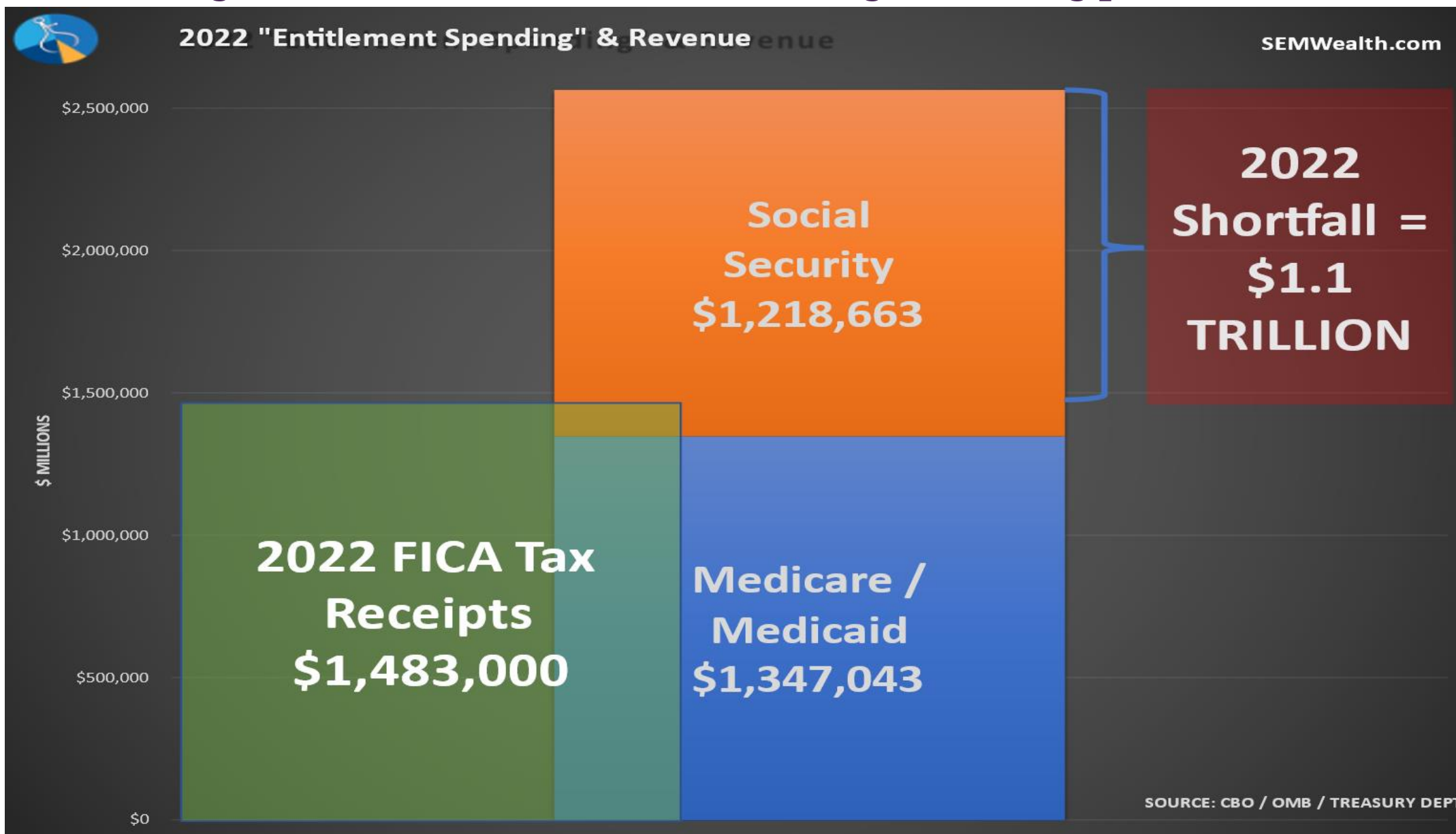
- Debt is useful if used to INVEST in areas which will increase the growth rate
- If used for current spending, it is a drag on future growth
- Key turning points: 1984, 2009, & 2012



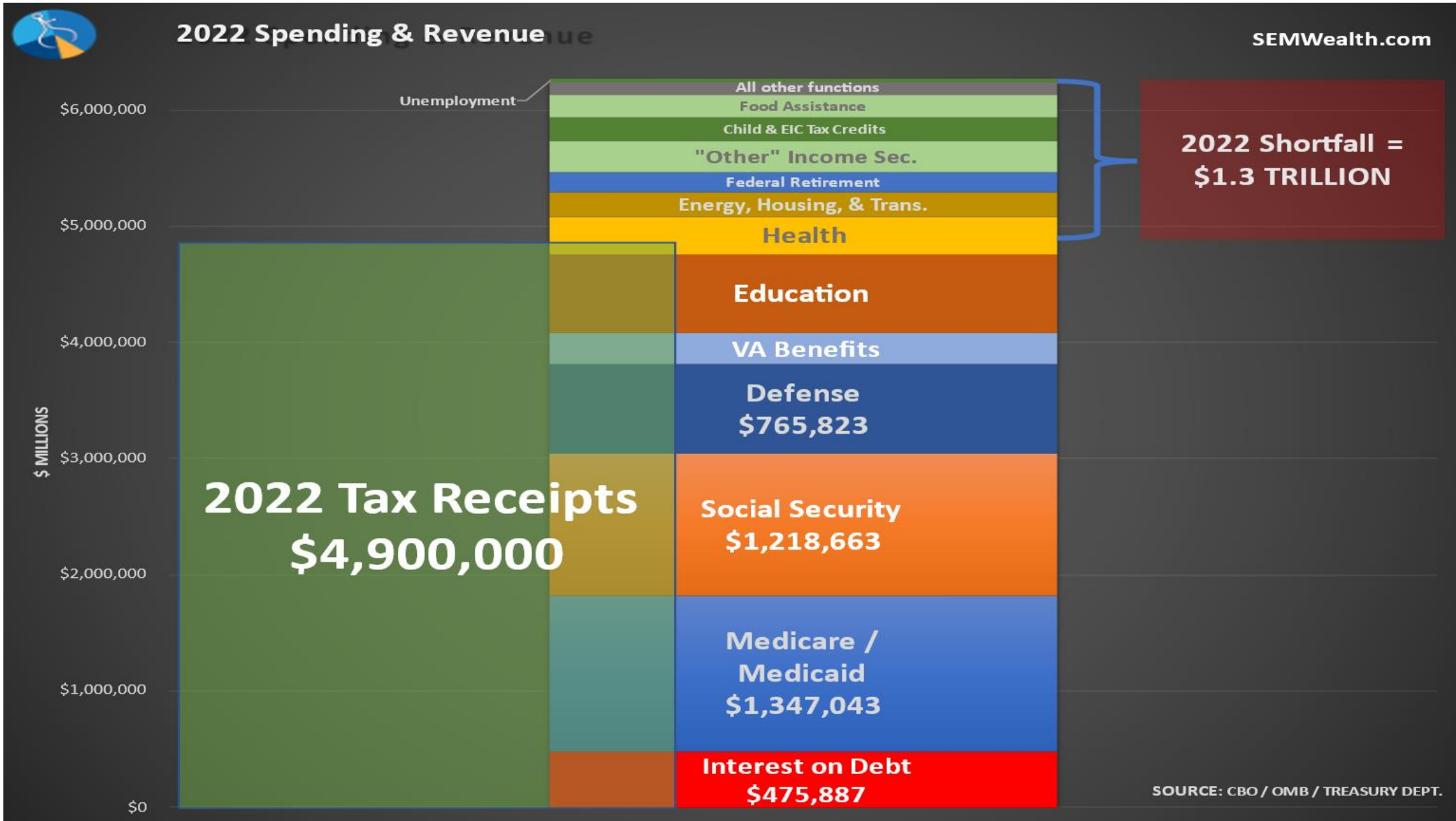
Debt Ceiling Circus – Data doesn't match ideological talking points



Debt Ceiling Circus – Data doesn't match ideological talking points



Debt Ceiling Circus – Data doesn't match ideological talking points

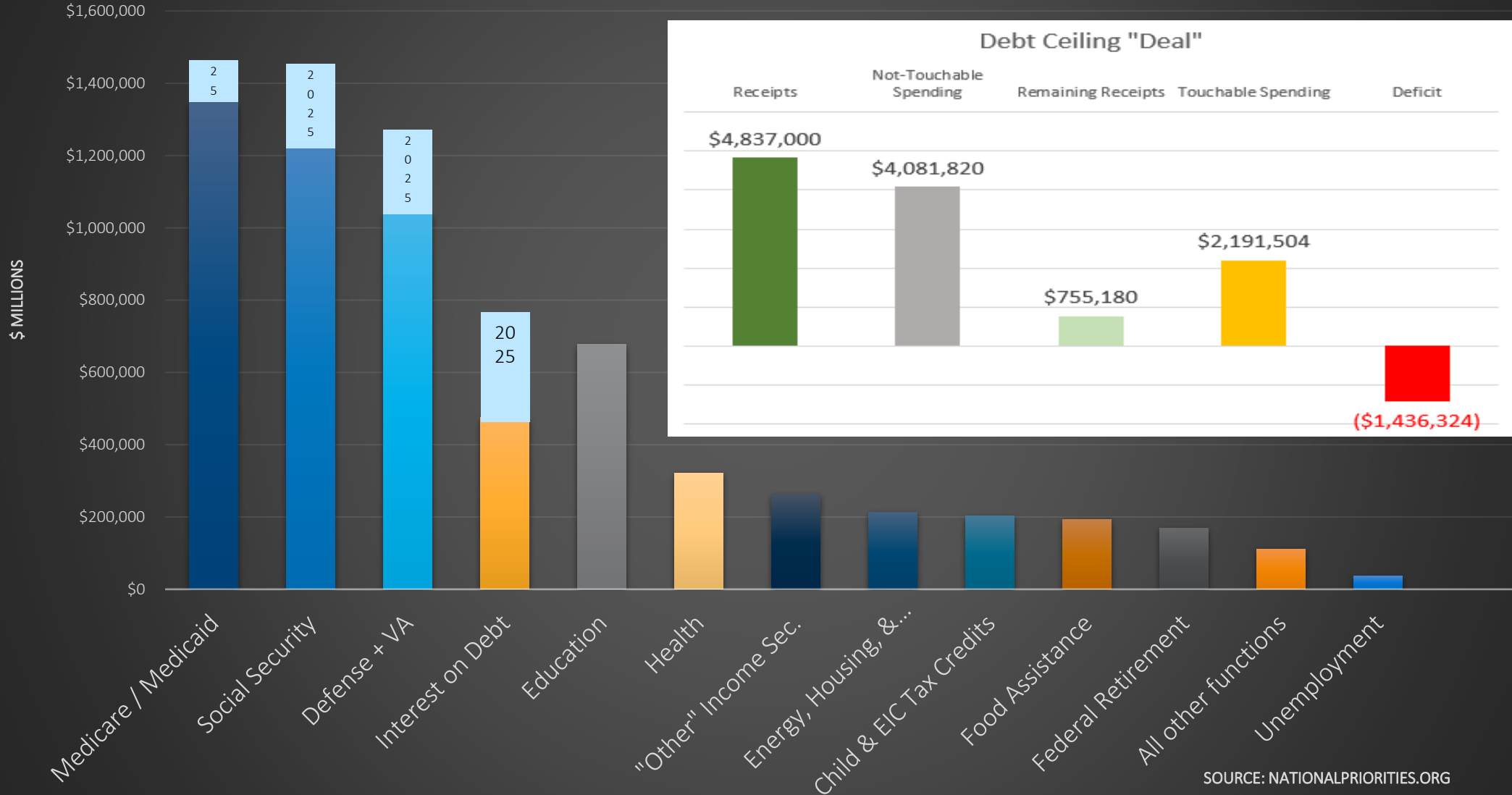


Debt Ceiling Circus – Data doesn't match ideological talking points



US Government 2022 Spending by Category - with 2025 estimates

SEMWealth.com



SOURCE: NATIONALPRIORITIES.ORG

Economic Dashboard



Leading Indicator:	36 Month Trend:	GDP Indication:
Hours Worked		↑
Jobs		↑↑
Consumer Spending		↑
Capacity Utilization		↑
Consumer Sentiment		↓
Money Supply		↔
Stock Prices		↓
Consumer Goods Orders		↓
Building Permits		↓
Service Business Activity		↓

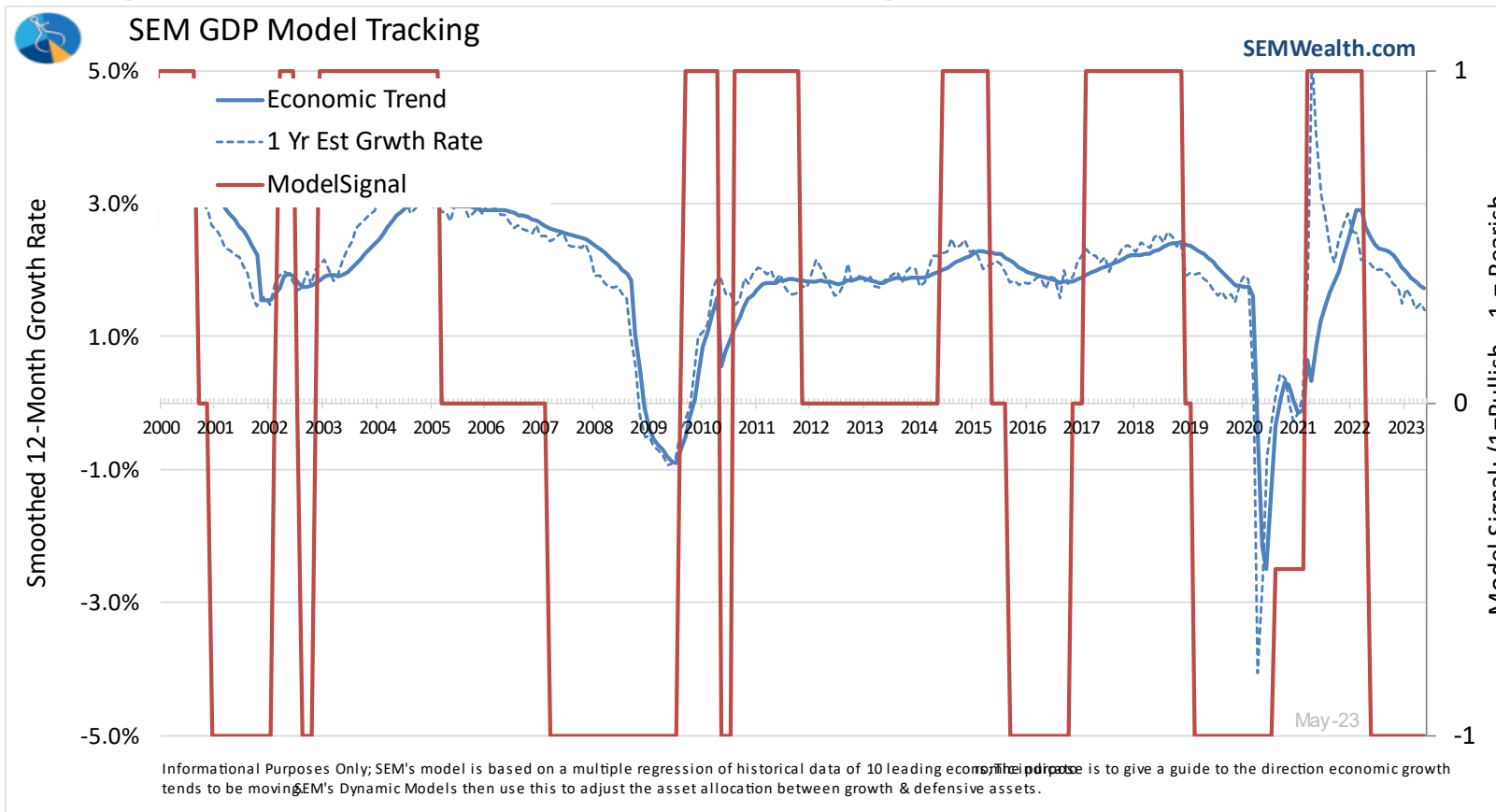
Other Key Indicators:	36 Month Trend:	GDP Indication:
Initial Claims		↓↓
Order BackLog		↓
Vendor Performance		↓
Durable Goods Orders		↓↓
Yield Curve		↓↓

SEM's Dynamic Models

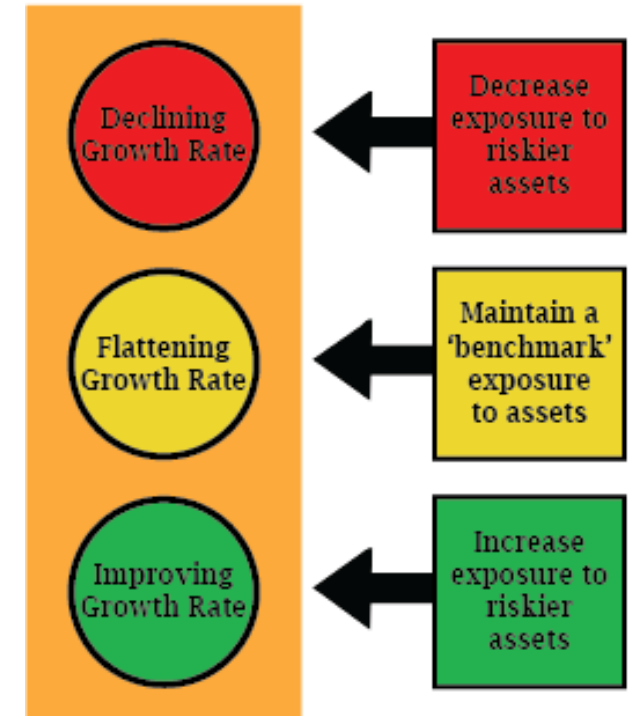


Dynamic Allocation: Dynamic Allocation programs are monitored MONTHLY. These programs start with a core asset allocation and then increase/decrease exposure based on SEM's Economic Models.

“Strategic” Asset Allocation Models + SEM's Leading Economic Indicator Index



Economic Signal

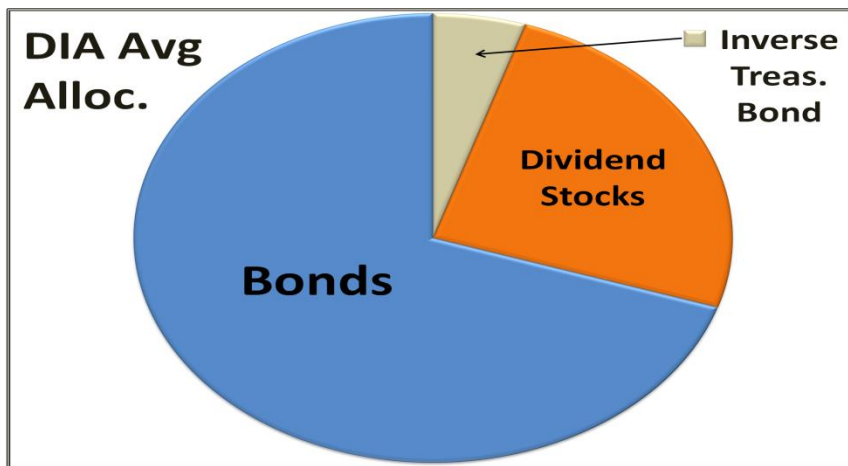
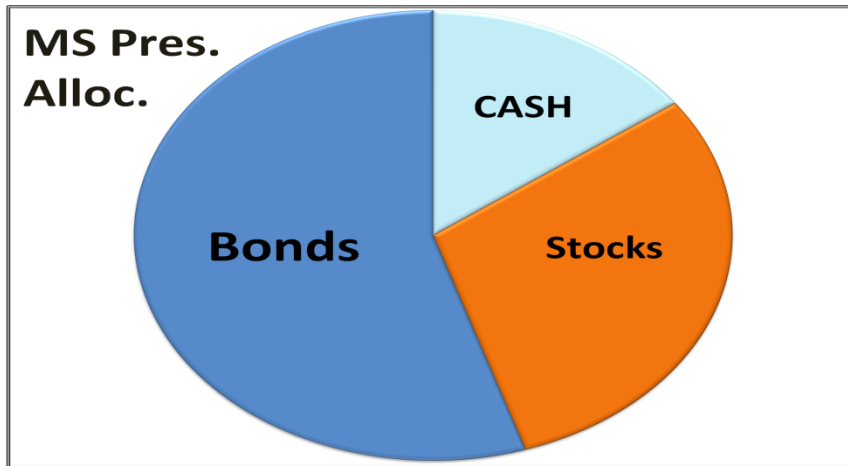


2021Q3



SEM's Dynamic Income Allocation (DIA)

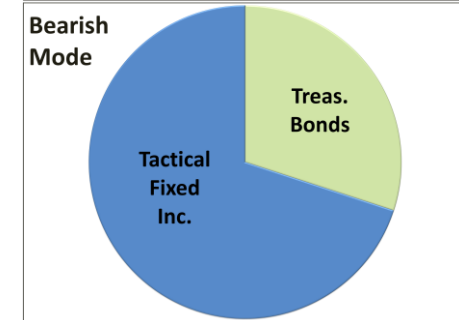
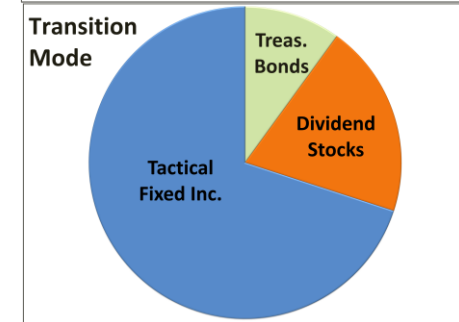
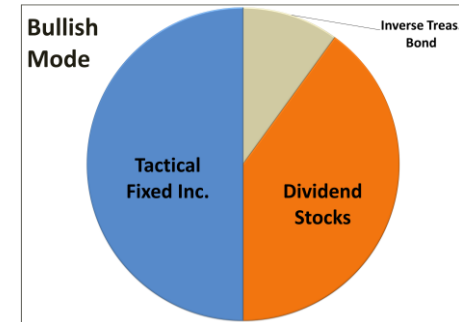
GOAL: Manage exposure to duration via **DYNAMIC** asset allocation to asset classes based on business & economic cycle.



Economic Growth: Strong
Dividend Stocks: 40%
Tactical Fixed Inc: Higher Beta
Examples: Anchor, Counterpoint, Navigator, HCM

Economic Growth: Neutral
Dividend Stocks: 20%
Tactical Fixed Inc: Diversified Beta
Examples: Sierra, CMG, Toews, Wavelength, Navigator

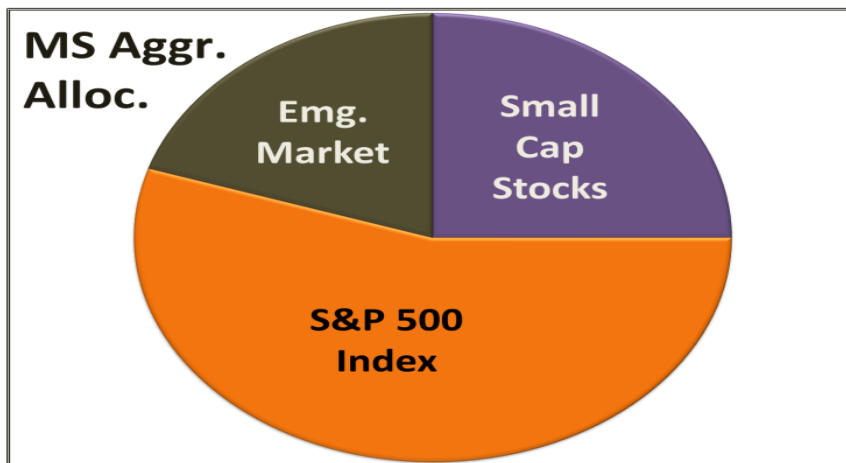
Economic Growth: Weak
Dividend Stocks: 0%
Tactical Fixed Inc: Lowest Beta
Examples: Sierra, CMG, Toews, Anfield



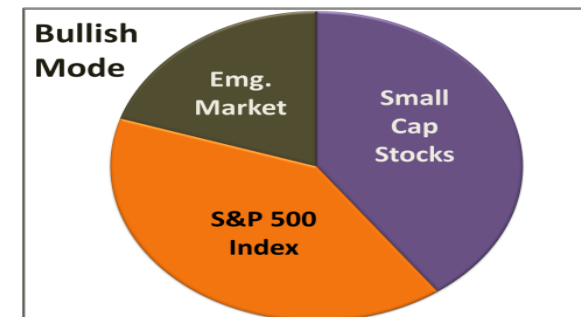
SEM's Dynamic Aggressive Growth (DAG)



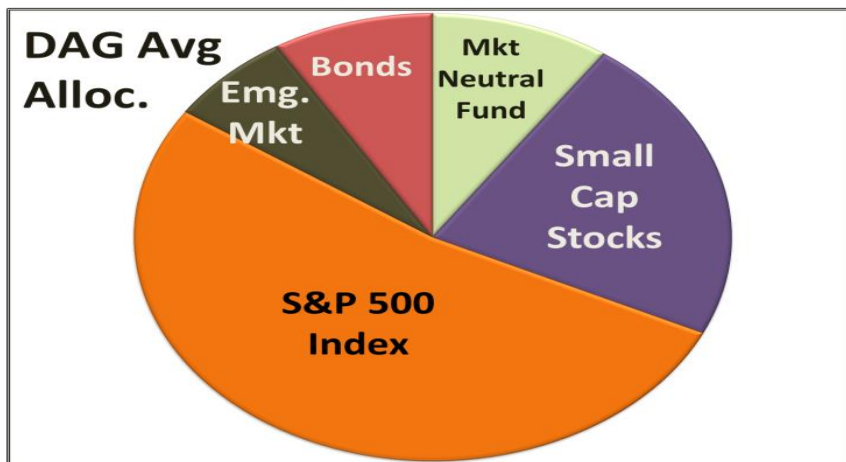
GOAL: Manage exposure to market via *DYNAMIC* asset allocation to asset classes based on business & economic cycle.



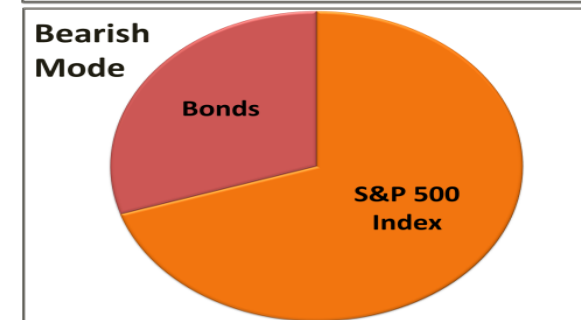
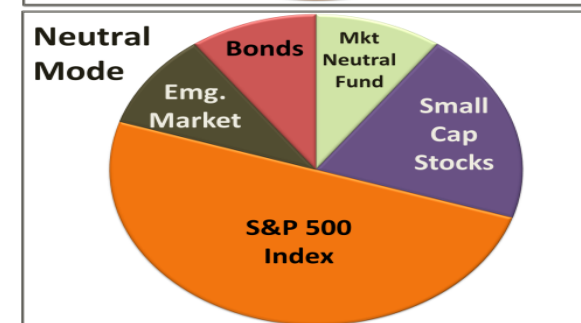
Economic Growth: Strong
Internal Indicators: Strong



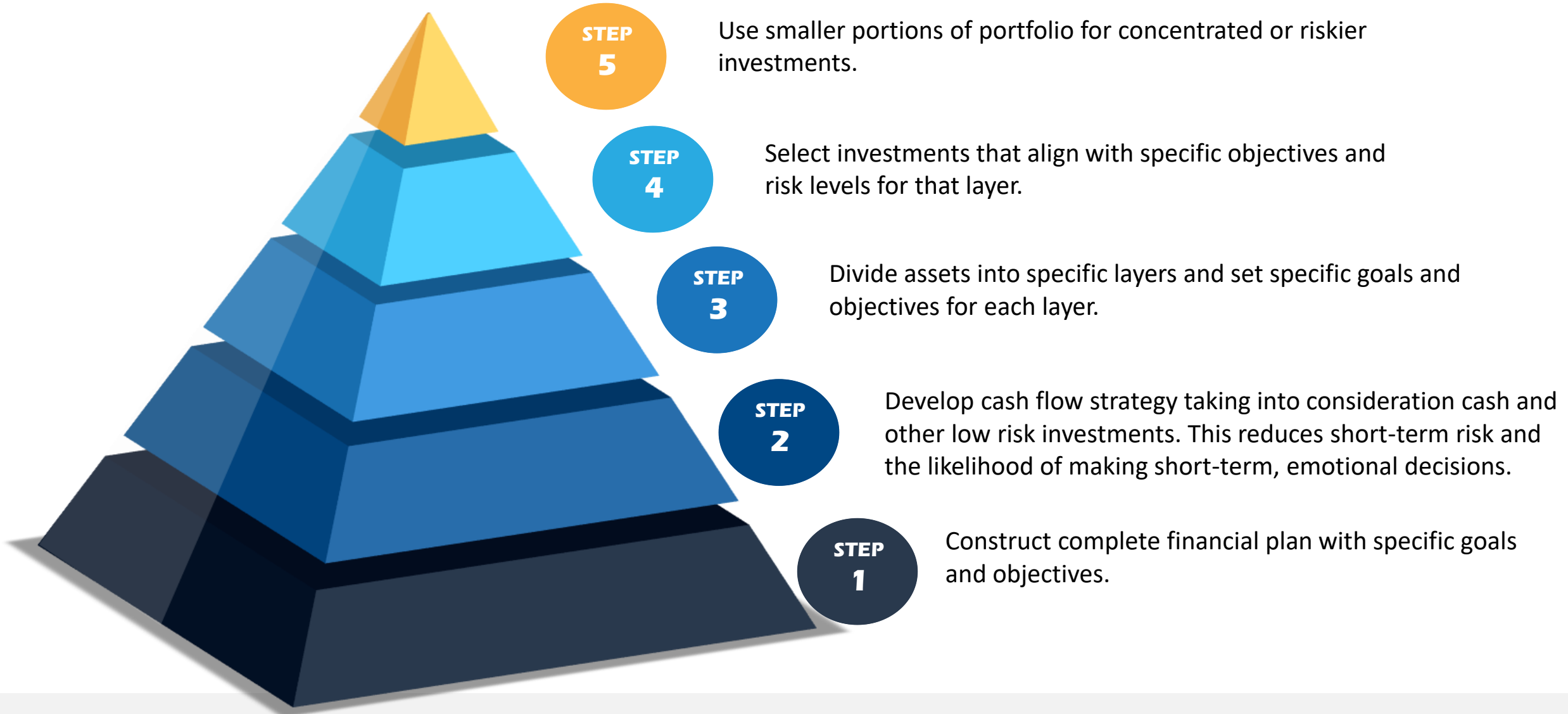
Economic Growth: Strong / Weak
Internal Indicators: Weak / Strong



Economic Growth: Weak
Internal Indicators: Weak



A Behavioral Portfolio Approach





Advisor Biases in Selecting Investments

For Financial Planners, the investment allocation process can be the most difficult aspect. Mistakes in this phase can disrupt both the financial plan and cash flow strategies. Model platforms have created additional decisions that tend to accentuate our personal biases

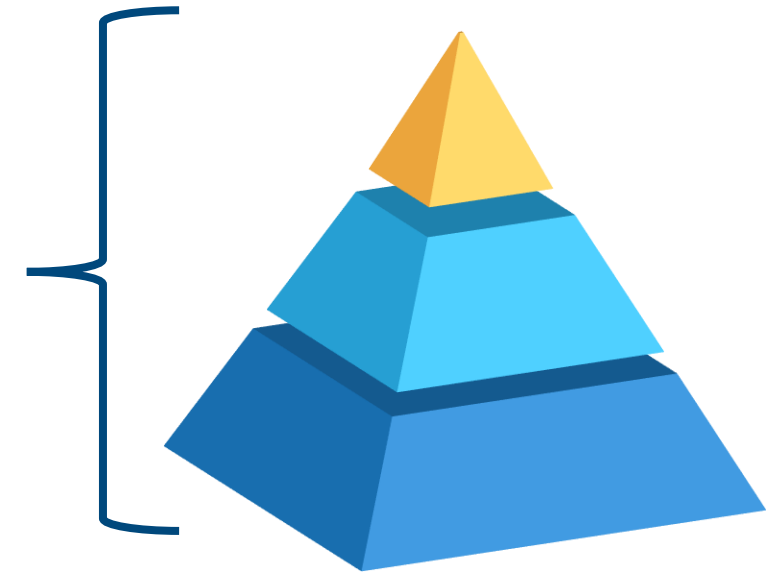
Advisors are expected to:

1. Calculate probabilities of all future events & know impact of said events on investments / strategies
2. Understand cross correlations & event / environment specific correlations for each strategy



Common Advisor Cognitive Errors :

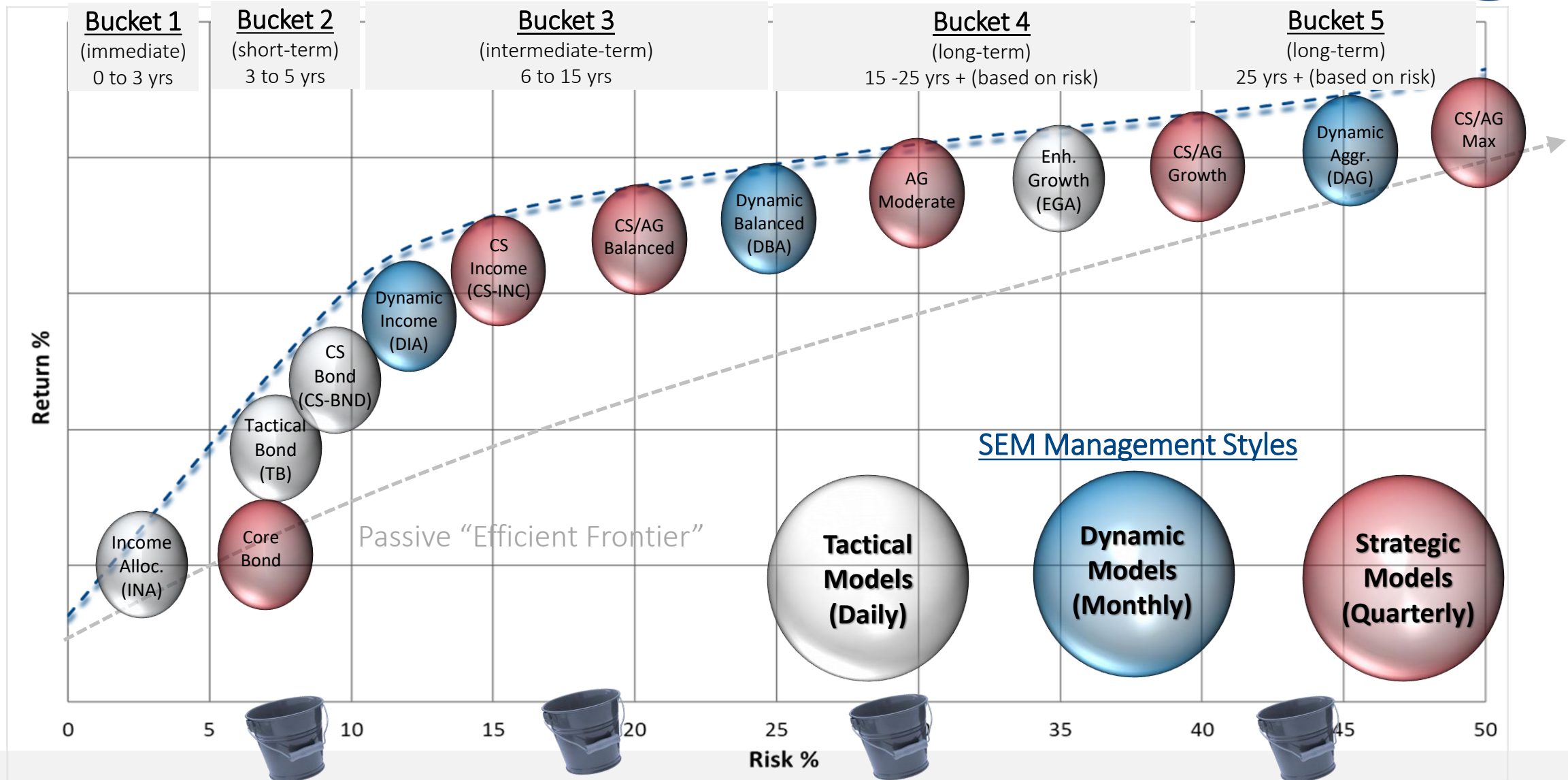
- Conservatism
- Confirmation
- Representativeness
- Illusion of Control
- Availability
- Hindsight



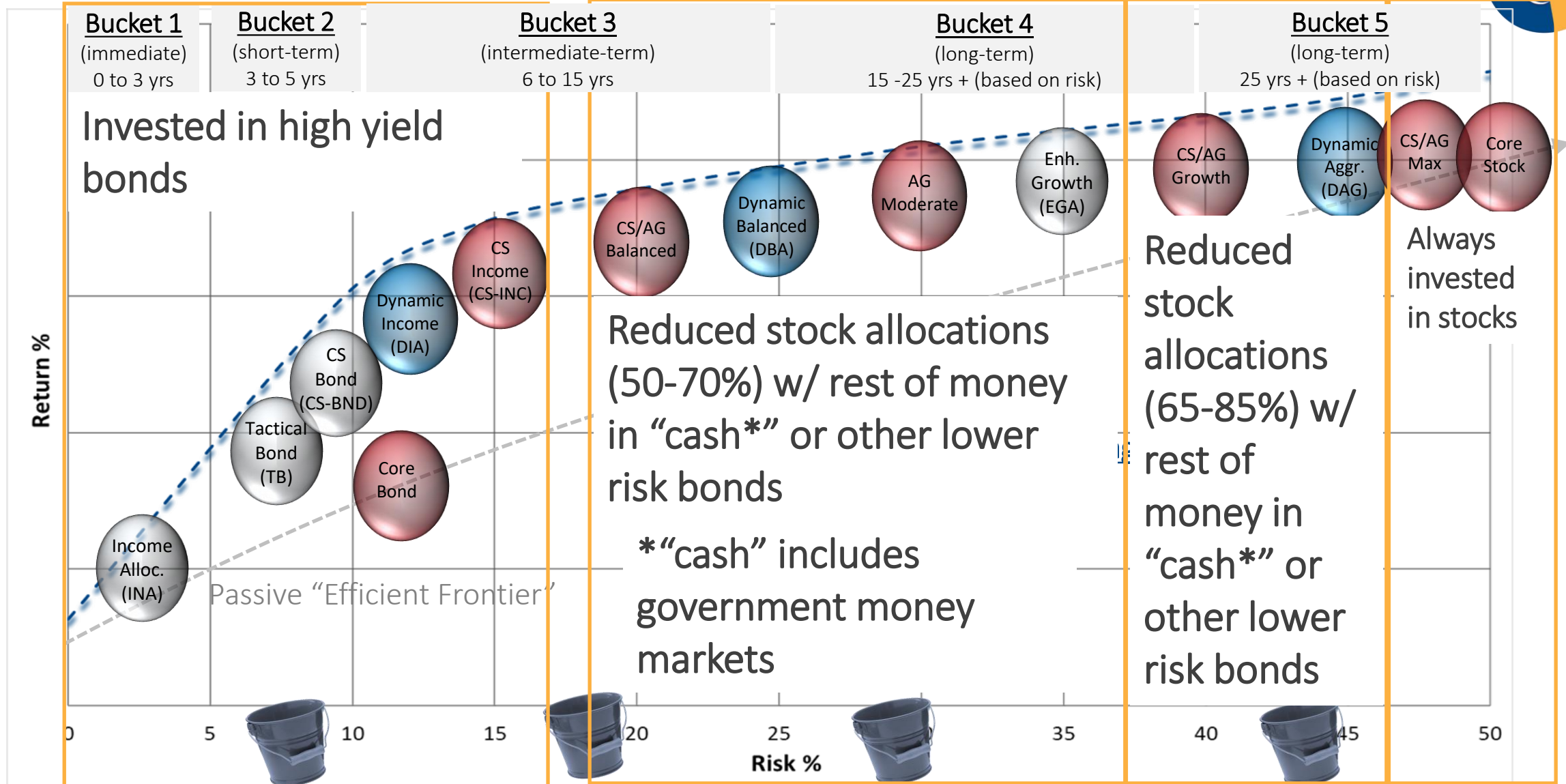
Common Advisor Emotional Biases:

- Overconfidence
- Self-control
- Status Quo
- Regret / Loss Aversion

Bucket System Helps Navigate Cycles



SEM Models holding less risky assets



INFORMATIONAL PURPOSES ONLY | NOT INVESTMENT ADVICE | Risk % is an objective and not a guarantee losses will not exceed this level | Return % reflects general expected return potential of particular buckets relative to each other, is for illustrative purposes only, and not intended to reflect any specific or actual returns

SEM Wealth Management



- Founded in 1992 by Richard Gage a metallurgical engineer
- Co-owner and Chief Investment Officer, Jeff Hybiak, CFA joined in 1998
 - Background in accounting and traditional portfolio management (MPT)
- Outsourced Chief Investment Officer (OCIO) for Financial Planners throughout the country (~3700 accounts)
- Total AUM = \$815M as of 3/31/2023
- Primary Custodian is Axos Advisor Services
 - Select models also available on
 - Adhesion/FlexUMA
 - Orion Portfolio Solutions (FTJ)
 - Axiom (Geneos Wealth Management)
- Systematic, data-driven process designed to remove behavioral biases from all areas of the investment process
- 3 Distinct Management Styles – Tactical, Dynamic, and Strategic

For more information go to **SEMWealth.com**

SEM WEALTH MANAGEMENT

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- Outreach
- Paperwork checklist
- Risk Questionnaire**
- Technology Blog
- Financial check-up
- Tax information
- Schedule a meeting
- Contact

A smooth road to lifelong investing

SEM Wealth Management

SEM Market Insights

On the [SEM Trader's Blog](#), we provide simple explanations about the current market environment. This blog is designed to give advisors talking points about the market and for individual investors to better understand what is happening.

[/risk.semwealth.com](#)

finance_nerd

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