

SEM

WEALTH MANAGEMENT™

Using Behavioral Finance to Grow Your Practice

With Scientifically Engineered Models



Effective Strategies of Elite RIAs

- Presented by Tim McCain, Director of Business Consulting

Produced in collaboration with **InvestmentNews**

SEMWealth.com



How you describe your firm

Which of the following statements most closely aligns with how you describe your firm to clients?

Financial planning firm - Our primary focus is serving clients applying the financial planning process

Investment advisory firm - Our primary focus is serving clients through the development of investment strategy and selection of investment managers and/or securities for client portfolios

Investment management firm - Our primary focus is the discretionary investment management of client assets

Wealth management firm - Our primary focus is serving as a holistic adviser to clients, offering integrated tax, estate and personal financial planning in addition to the investment advisory services

Other

	Elite RIAs	All Others
Financial planning firm	7.7%	23.8%
Investment advisory firm	19.2%	21.0%
Investment management firm	7.7%	9.4%
Wealth management firm	63.5%	43.6%
Other	1.9%	2.2%

Note the difference between positioning as a wealth management firm vs. financial planning firm.

Source: 2024 Elite RIA Study, INResearch, InvestmentNews

Public

axos
ADVISOR

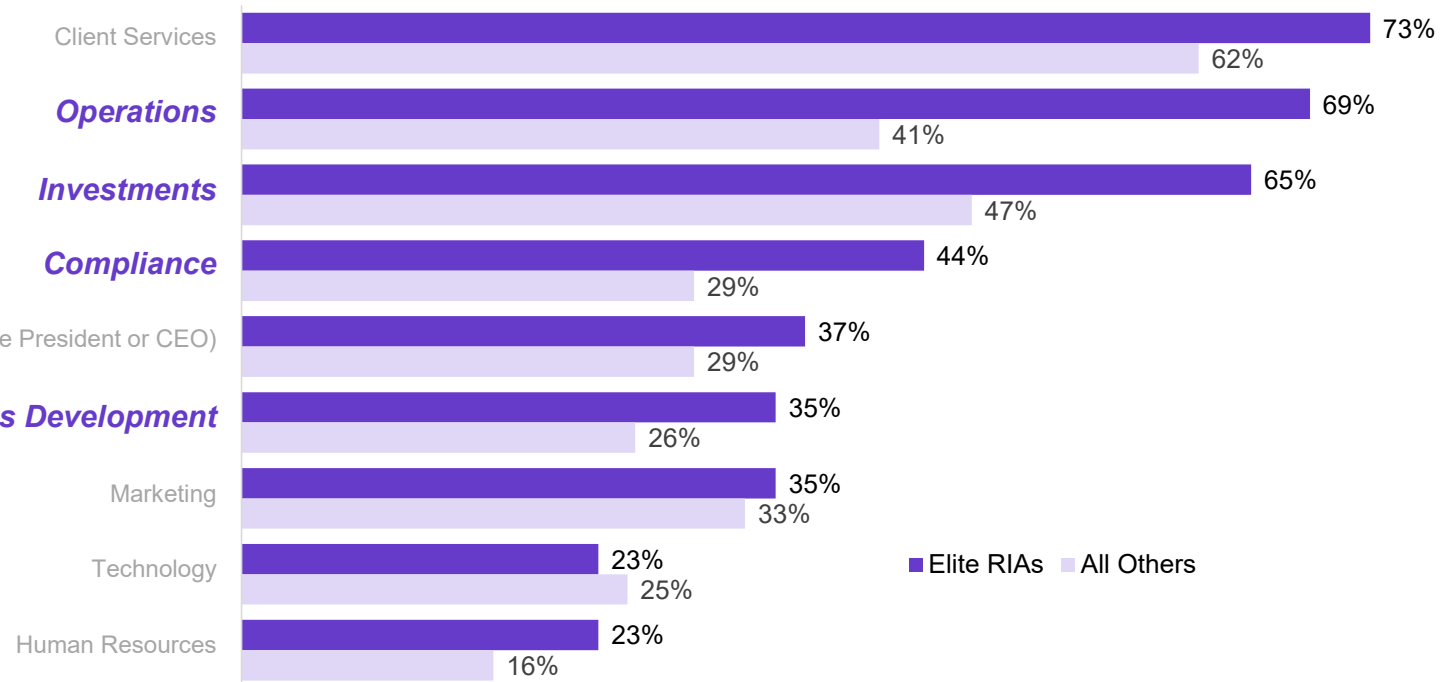
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Human Capital: Elites are more likely to employ specialized staff

Does your firm have employees or staff who specialize (dedicate 75% or more of their time) in the following areas?
(Select all that apply)

Specialized staff for
Operations,
Investments,
Compliance and
Business Developer



Source: 2024 Elite RIA Study, INResearch, InvestmentNews



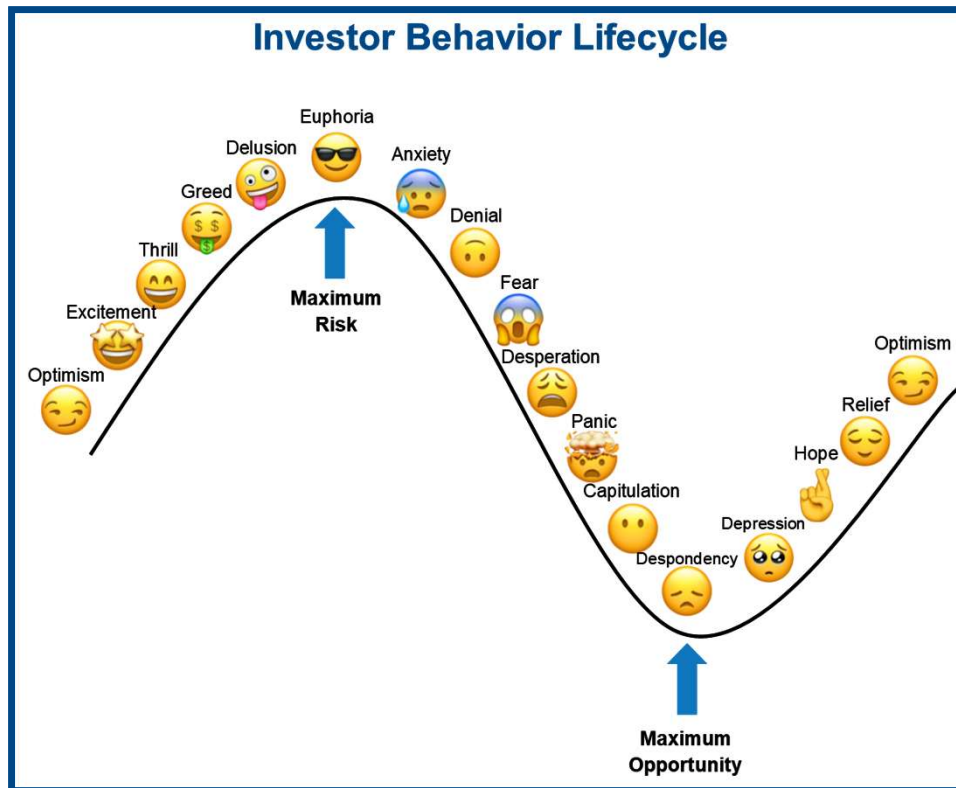
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Understanding Investor Behavior



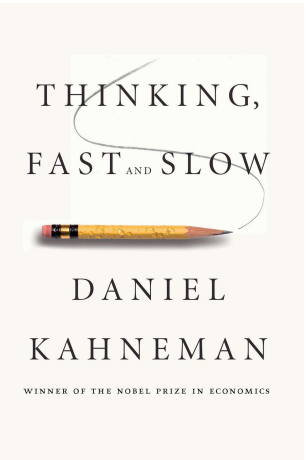
The stock market is a story of **cycles** & of the **human behavior** that is responsible for **overreactions** in both directions.

– Seth Klarman

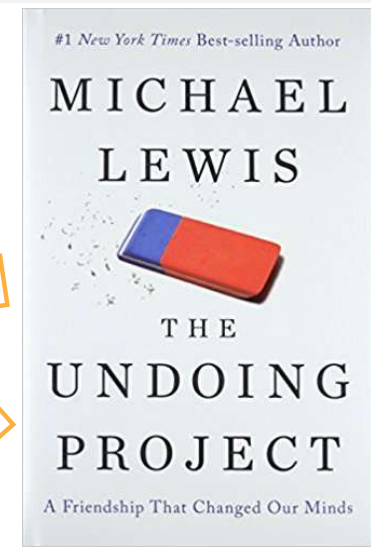
For current market updates go to: tradersblog.semwealth.com



A "New" Approach?

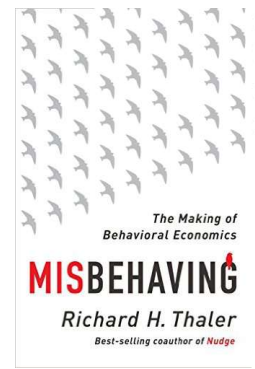
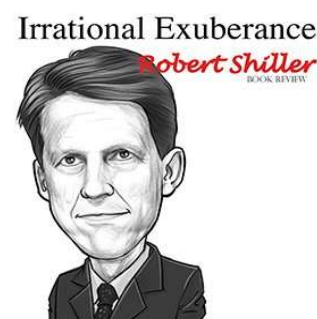


2002 Nobel Prize Winner - Economics



2017 Nobel Prize Winner - Economics

2013 Nobel Prize Winner - Economics



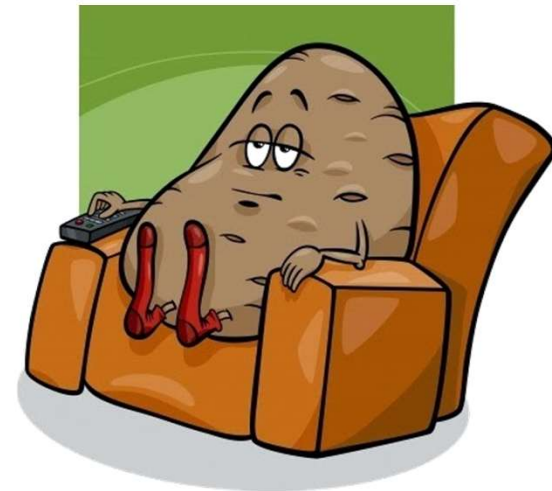
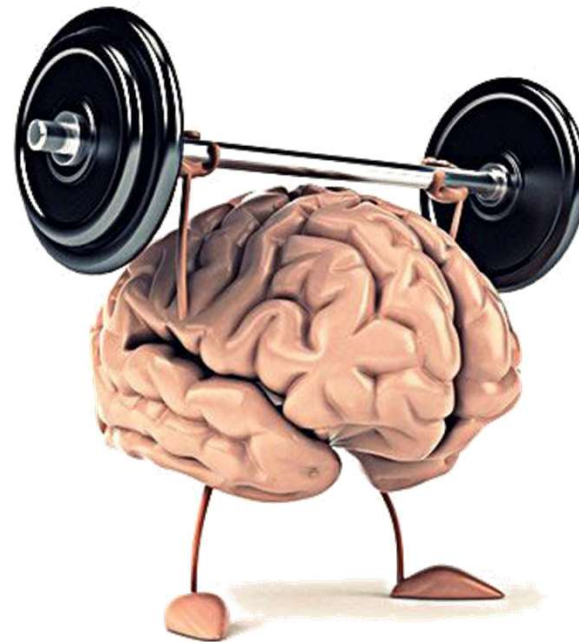
Econs vs. Humans



CLEARANCE
SALE



Your Two Brains



For more go to: tradersblog.semwealth.com/understanding-our-behavioral-biases-d31/



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5 Steps to a More Efficient Practice

Using a Behavioral Approach





1.) Assess your strengths & weaknesses

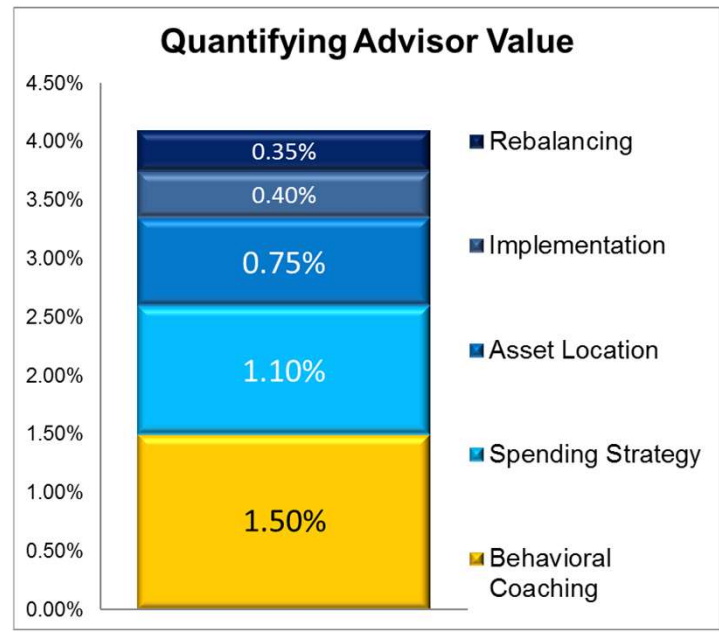
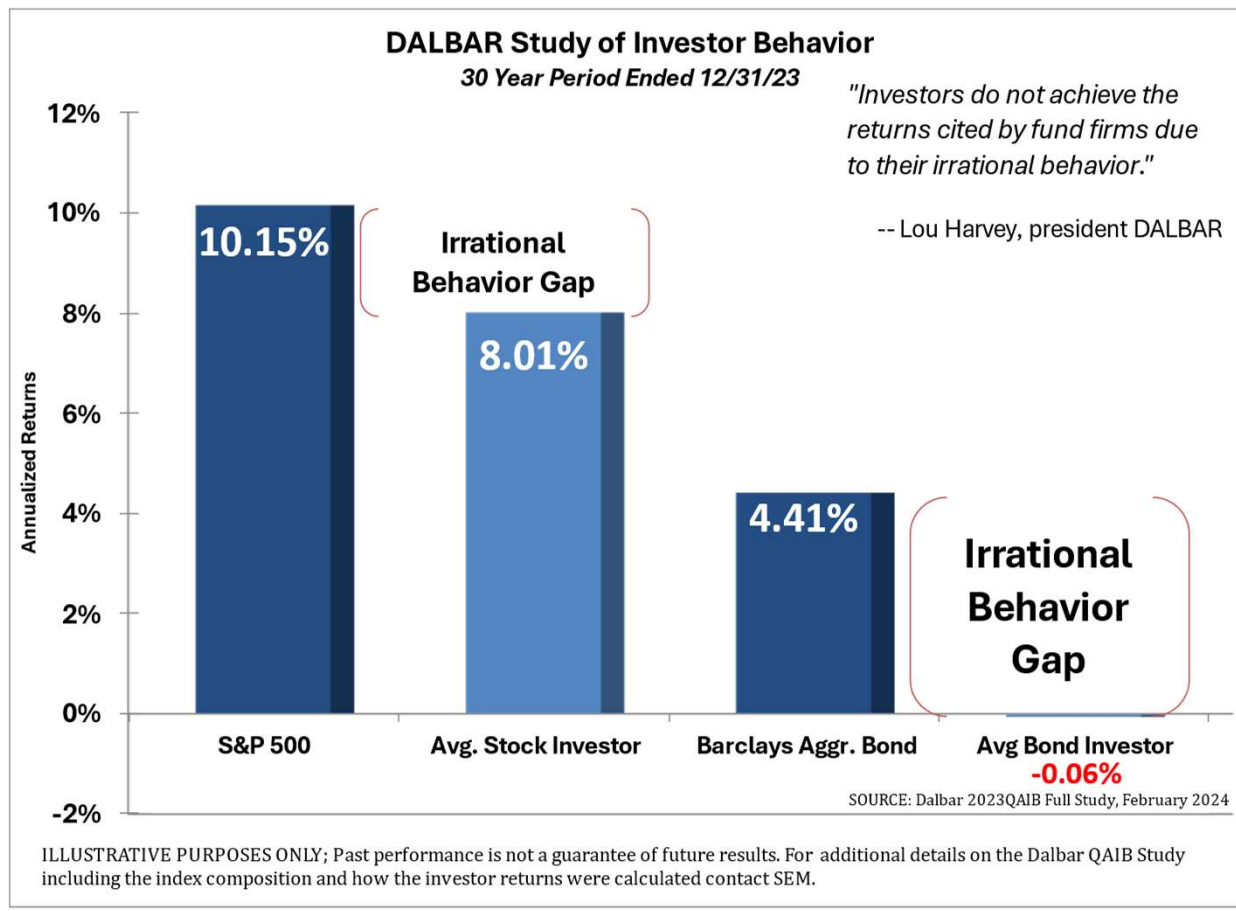
What gives you joy?

What do you not look forward to doing?

What distracts you from doing what you enjoy? ↪

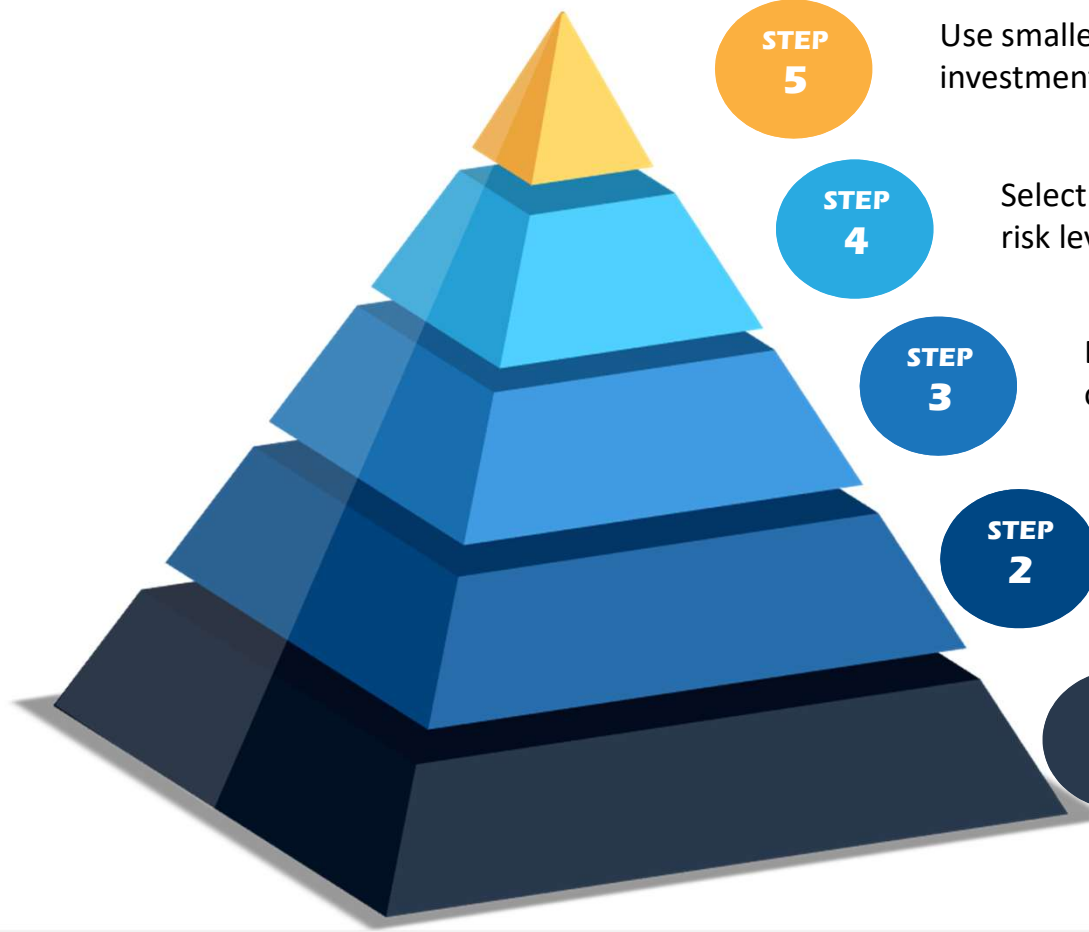


The Value of an Advisor = 2.1% to 4.1%/yr.





A Behavioral Portfolio Approach TM



STEP 5

Use smaller portions of portfolio for concentrated or riskier investments.

STEP 4

Select investments that align with specific objectives and risk levels for that layer.

STEP 3

Divide assets into specific layers and set specific goals and objectives for each layer.

STEP 2

Develop cash flow strategy taking into consideration cash and other low risk investments. This reduces short-term risk and the likelihood of making short-term, emotional decisions.

STEP 1

Construct complete financial plan with specific goals and objectives.



2.) Document how you spend your time

How many hours do you spend on client facing activities?

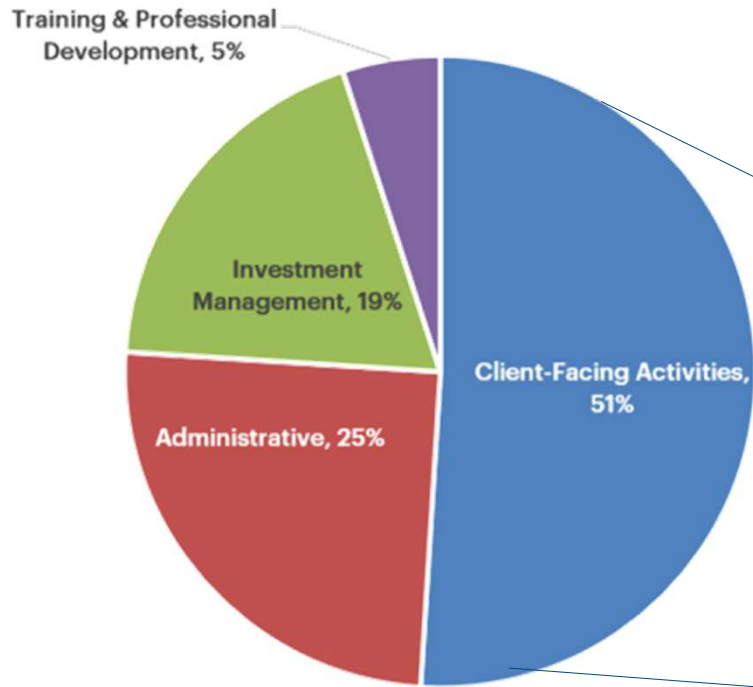
How much time do you spend on generating new business?

What is your highest & best use for your business? ↪

Imagine if.....



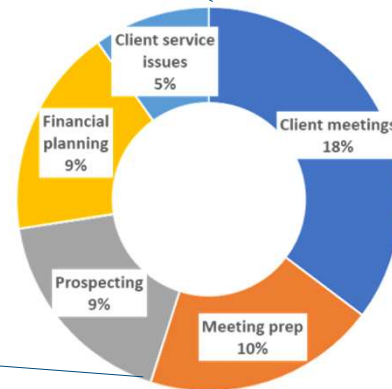
How advisors spend their time



.....you could gain 55 extra days per year*.

That's about how much time the average advisor spends on investment management under "normal" conditions.

* Based on a 9 hour work day



.....what if those 55 extra days were spent on client facing activities?

Source: The Cerulli Report, RIA Marketplace 2024, Axos Advisor Services



3.) Stress Test Your Practice

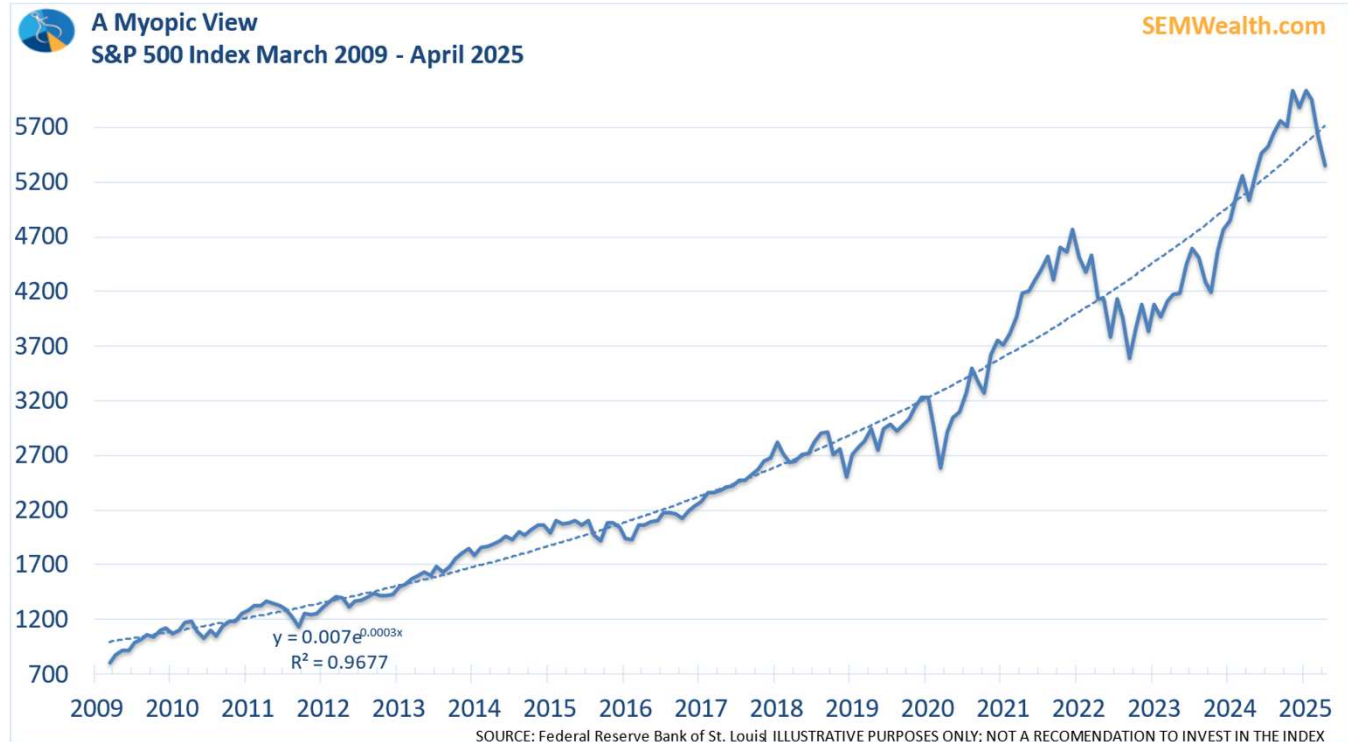
- How much revenue is exposed to a recession / bear market?
- Are my investments/models designed to protect my revenue?
- How has my client mix changed since the last bear market?
- Where will my focus be during a recession / bear market? ↪

Short-Term Outlook



During bull markets, investors are conditioned to **believe all dips are to be bought and fail to adapt to new information** that could cause the bull market to end.

The longer the bull market, the more likely they are to **believe they will be able to see the end coming** and reduce their exposure to risky assets.

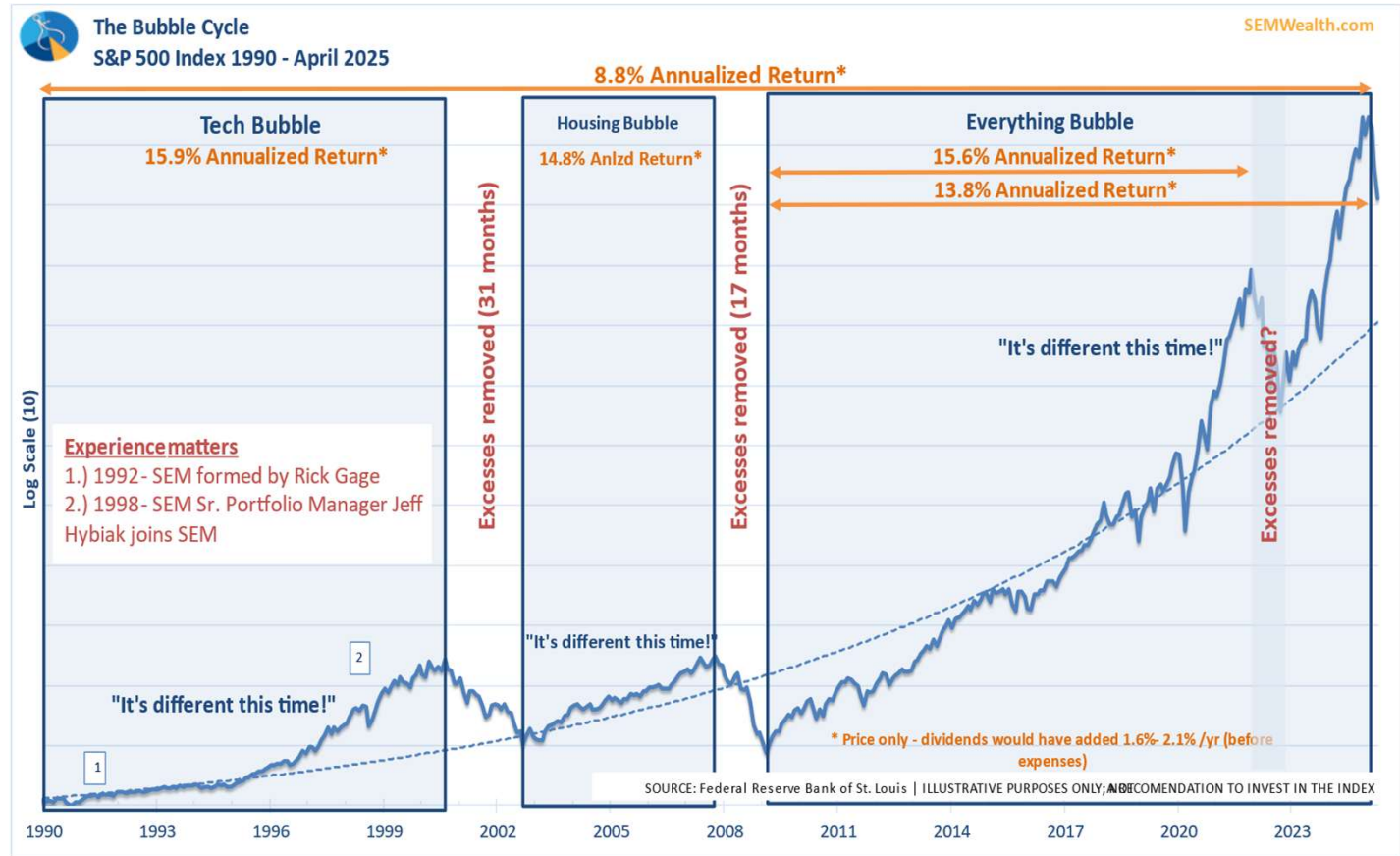


Long-Term Outlook



Investors often look at the past bear markets and **with hindsight believe they could have avoided it**. This leads to overconfidence in their ability to recognize the next looming bear market. In addition, the longer the market moves higher the more likely conservative investors are going to abandon their lower risk investments and move into riskier assets.

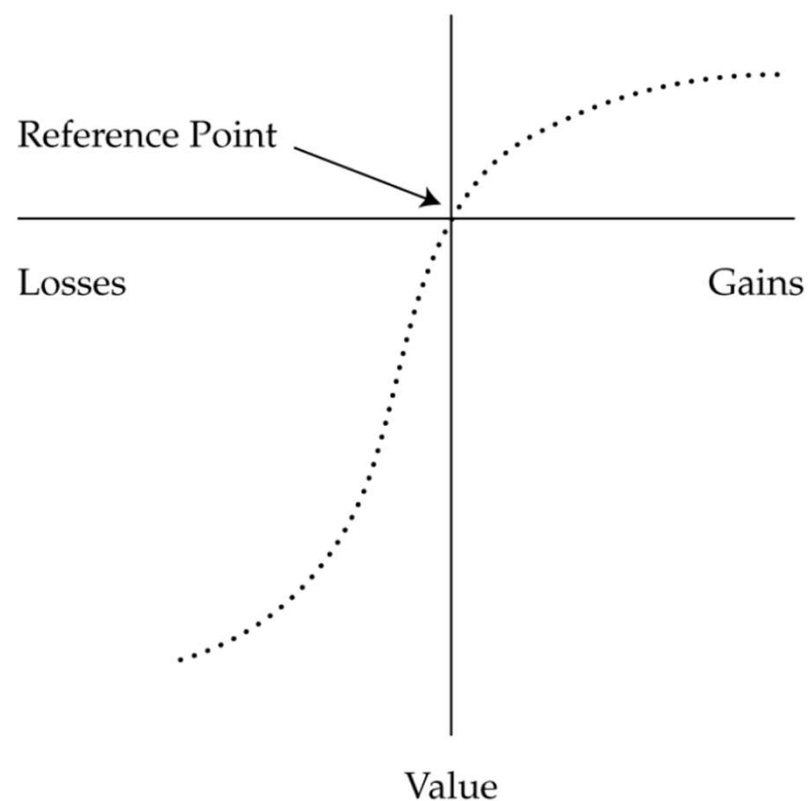
Stocks are a “mean-reverting” asset, meaning **after prolonged periods above the long-term average, they will go through a sharp correction.**





Loss Aversion

Exhibit 3. Value Function of Loss Aversion



- Studies have shown investors feel losses about 2 times more than they feel gains.
- Advisors are also susceptible to this when evaluating investments, often creating an inferior client experience.



Keeping your focus

Chance of seeing a “Paper Loss” based on how often you look

Every Day

SEM: 46%

S&P 500: 46%

Every month

SEM: 37%

S&P 500: 37%

Every quarter

SEM: 31%

S&P 500: 31%

Every Year

SEM: 20%

S&P 500: 24%

Every 3 Years

SEM: 2%

S&P 500: 18%

“Emotional” Units:

Paper Gain = 1

Paper Loss = 2

Lessons:

1.) Looking less leads to less emotions

2.) Reducing volatility leads to less emotions



Data for the period January 2000 – December 2024. SEM performance is of a hypothetical “balanced” portfolio comprised of 40% Dynamic Balanced, 25% AmeriGuard-Growth, 25% Tactical Bond, & 10% Dynamic Aggressive Growth, including the maximum SEM fee and a financial advisor fee of 1% per year. The S&P 500 does not include any fees and assumes the full reinvestment of dividends. Past performance is not a guarantee of future returns.



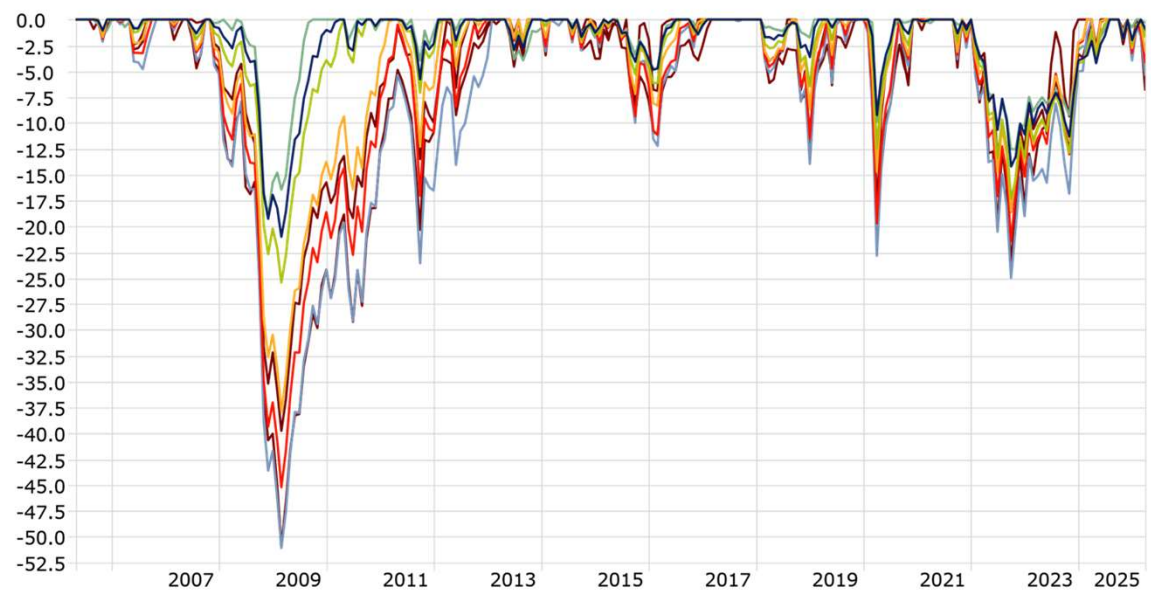
Diversification doesn't always help

During market shocks, most asset allocation portfolios become correlated.

Not only will your clients be going through a trying time emotionally, but your revenue stream will also be threatened.

Historical Drawdowns (% Change from previous high level)

Time Period: 5/1/2005 to 3/31/2025



- MS Preservation Allocation
- MS Conservative Allocation
- MS Balanced Allocation
- MS Growth Allocation
- MS Aggressive Allocation
- US Multisector Bond
- US World Allocation
- S&P 500 TR USD

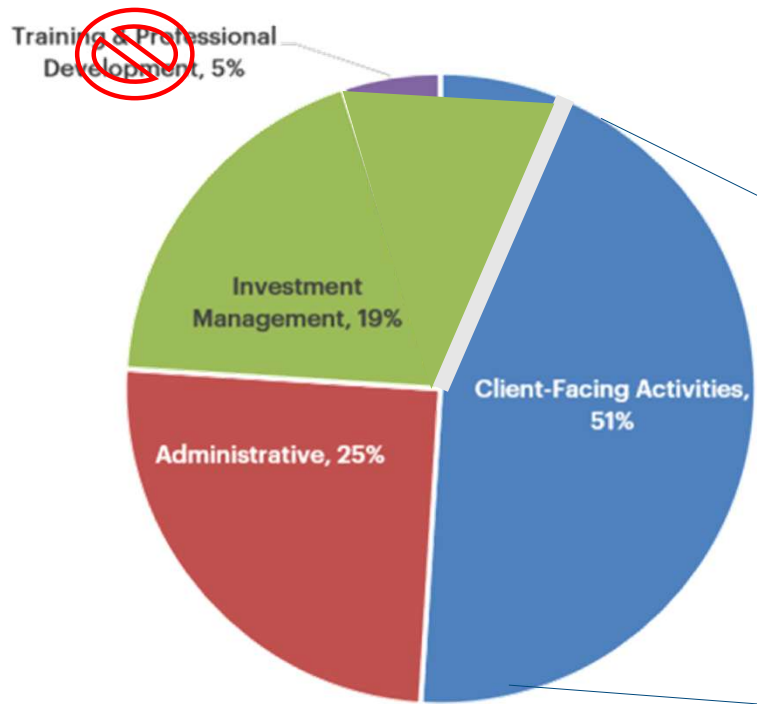
Returns are for the Morningstar US Fund Categories. Past performance is not a guarantee of future results. The S&P 500 Index is an unmanaged index of the 500 largest US based stocks. Investors cannot invest directly in the Morningstar Categories or the S&P 500 index. Trying to replicate may incur additional fees and likely will not track above performance.

Source: Morningstar Direct

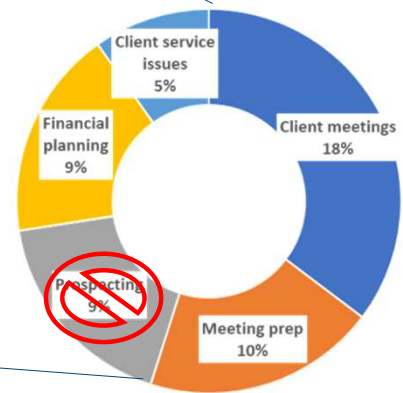
How will you spend your time?



How advisors spend their time

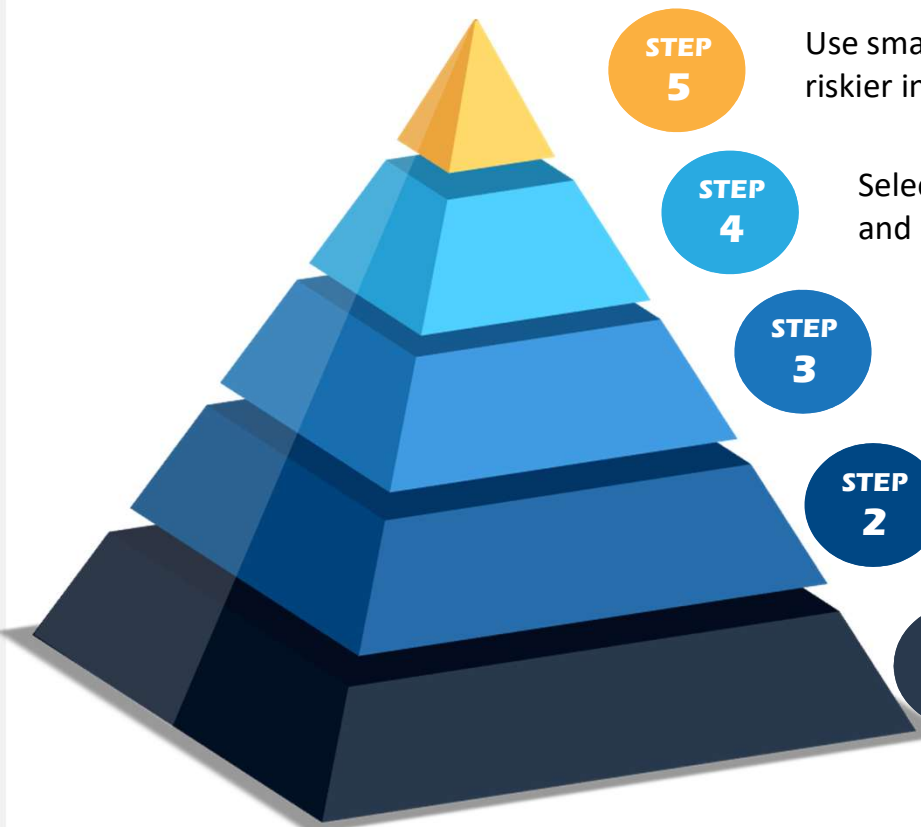


During a large market decline, you may spend significantly more time monitoring your investment models & dealing with client phone calls & “emergency” meetings.



Source: The Cerulli Report, RIA Marketplace 2024, Axos Advisor Services

A Behavioral Portfolio Approach



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STEP 4

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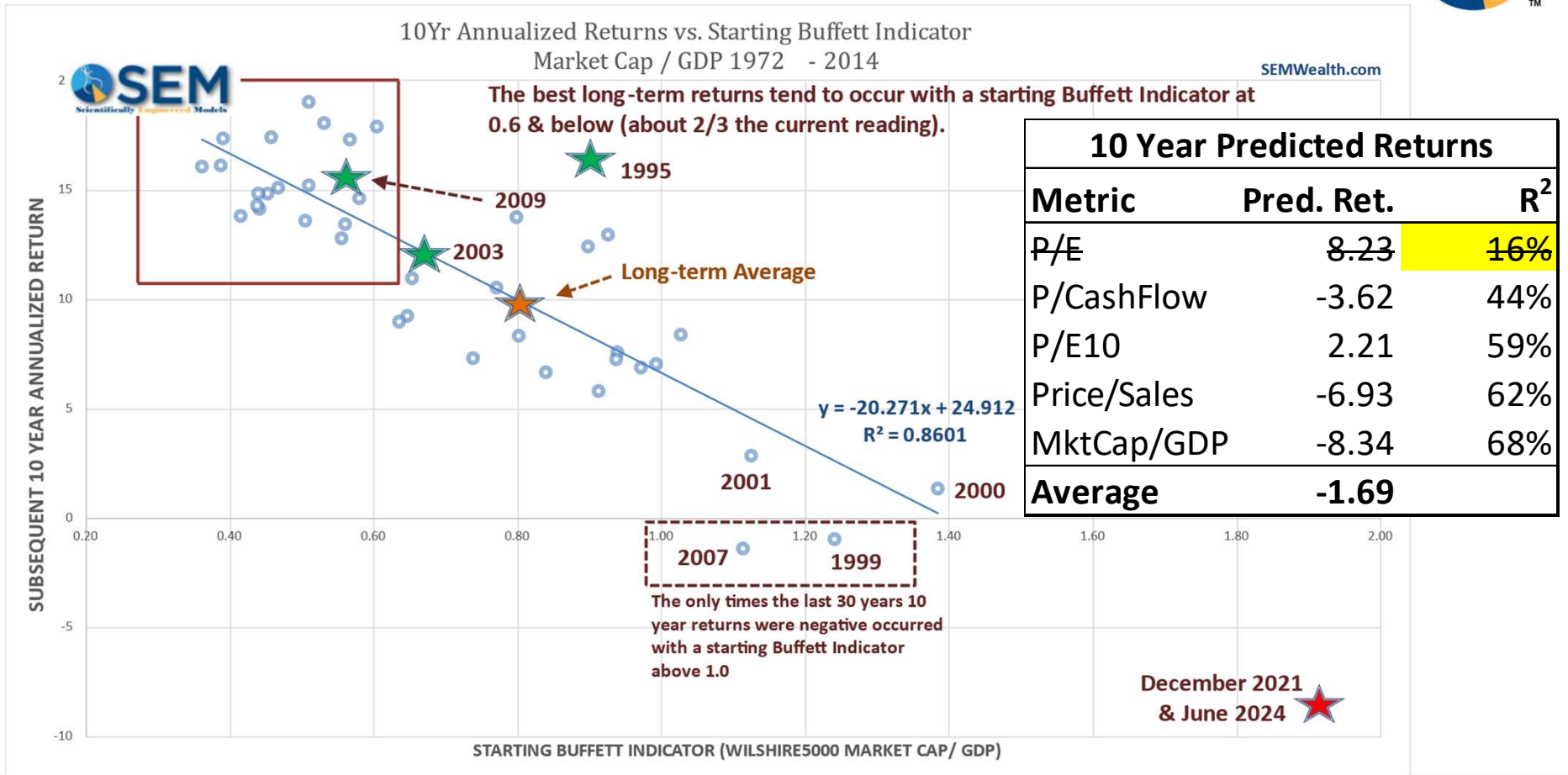
STEP 1

Construct complete financial plan with specific goals and objectives.

Investment
Manager's
Role

Financial
Advisor's
Role

Valuations are pointing to a difficult 10 years





High Valuations – Low Future Returns

Forward 10-Year Return Expectations (Annualized)



- US Stocks: +4.6%
 - US Bonds: +4.3%
- 60/40 Portfolio: +4.5%
- (as of 12/31/2024)



- US Stocks: +4.2%
 - US Bonds: +5.0%
- 60/40 Portfolio: +4.7%
- (as of 12/31/24)



- US Stocks: +6.1%
 - US Bonds: +3.9%
- 60/40 Portfolio: +5.2%
- (as of 12/31/24)

Long-term Annualized Returns (1926-2024)

- US Stocks: +10.2%
 - US Bonds: +5.5%
- 60/40 Portfolio: +8.3%

SOURCE: Ibbotson / CFA Institute



4.) Identify & Create Your Baseline Portfolios

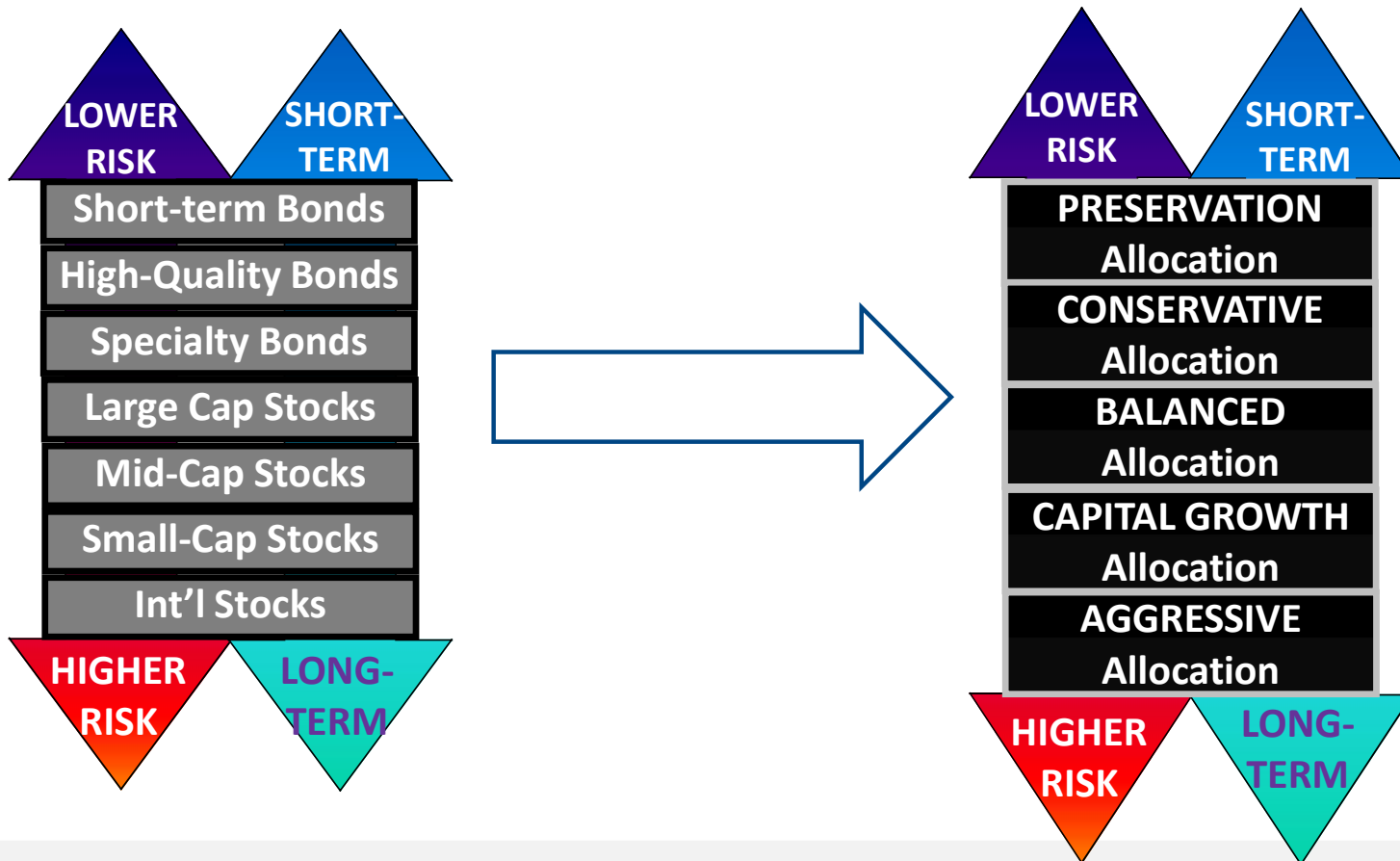
What investments or models will I use?

How do those investments inter-relate?

How will I monitor the investments/models?

How will I decide how to allocate the investments? ↪

What investments will I use?





What investments will I use?

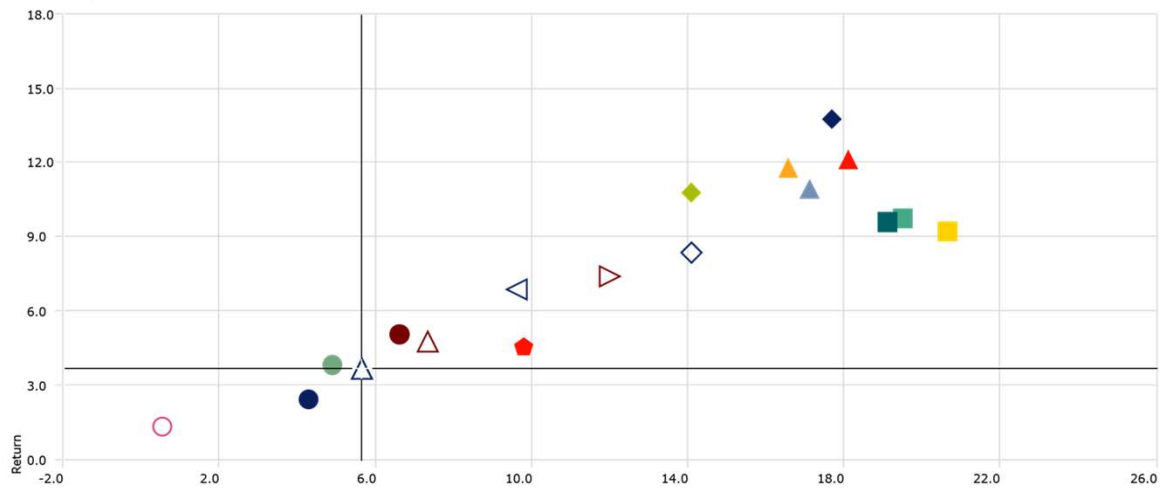
Over the last 15 years Modern Portfolio Theory has not worked.

Small cap stocks have had more “risk” as large cap, but generated significantly higher returns.

The longer this has continued, the more likely it is for us to overweight large cap and underweight small cap.

Risk-Reward: Asset Allocation Portfolios (open shapes) vs. Asset Classes

Time Period: 4/1/2010 to 3/31/2025

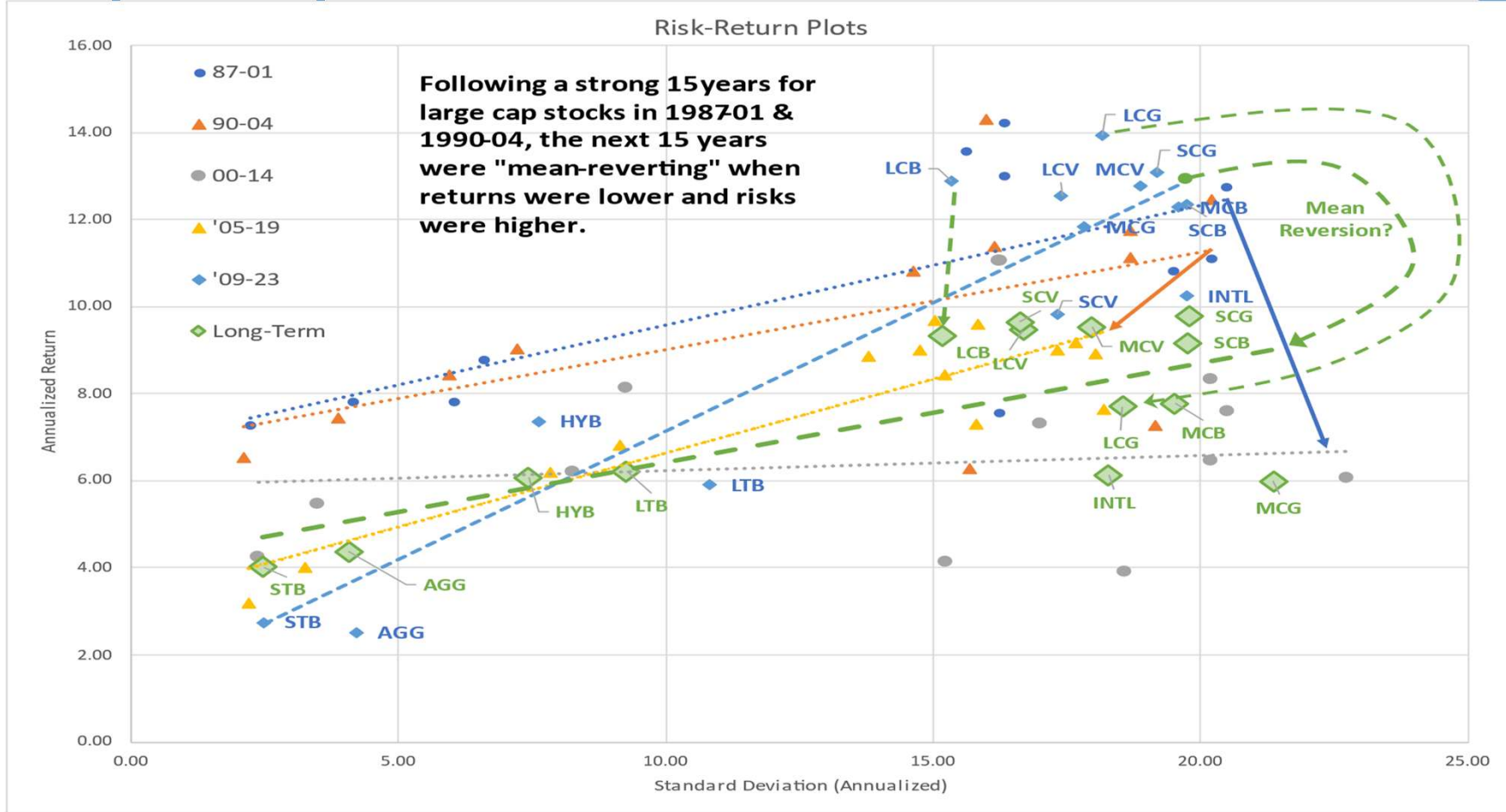


- △ MS Preservation Allocation
- △ MS Conservative Allocation
- ◁ MS Balanced Allocation
- ▷ MS Growth Allocation
- ◇ MS Aggressive Allocation
- US Fund High Yield Bond
- US Fund Intermediate Core Bond
- US Fund Multisector Bond
- US Fund Global Allocation
- ◆ Morningstar US Large Growth TR USD
- ◆ Morningstar US Large Value TR USD
- ▲ Morningstar US Mid TR USD
- ▲ Morningstar US Mid Growth TR USD
- ▲ Morningstar US Mid Value TR USD
- Morningstar US Small TR USD
- Morningstar US Small Growth TR USD
- Morningstar US Small Value TR USD
- USTREAS T-Bill Auction Ave 3 Mon

Returns are for the Morningstar US Fund Categories. Past performance is not a guarantee of future results. The S&P 500 Index is an unmanaged index of the 500 largest US based stocks. Investors cannot invest directly in the Morningstar Categories or the S&P 500 index. Trying to replicate may incur additional fees and likely will not track above performance.

Source: Morningstar Direct

Sharpe Optimal Portfolio



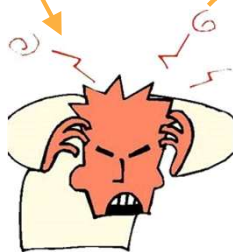


Advisor Biases in Selecting Models

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

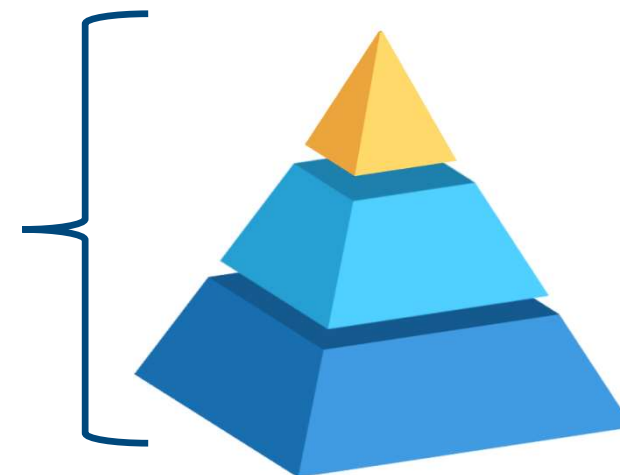
Advisors are expected to:

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

Understanding Your Clients' Personality



Personality Score

Conservative

Moderate

Growth

Aggressive



Bias Types

Emotional

Cognitive

Emotional



Common Biases

Loss
Aversion

Regret
Aversion

Hindsight

Availability

Conserv.

Confirm.

Represent.

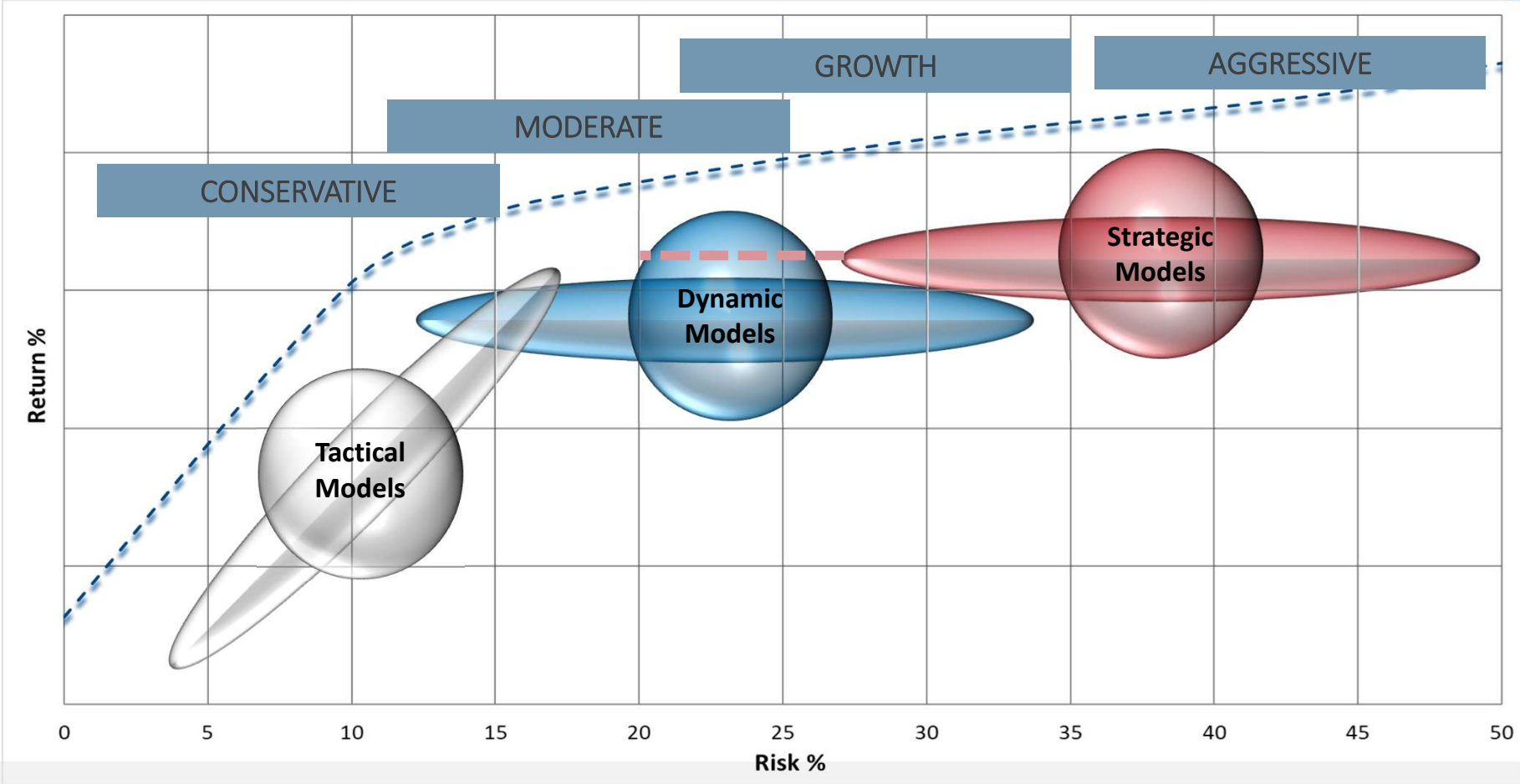
Overconfidence

Illusion of
Control

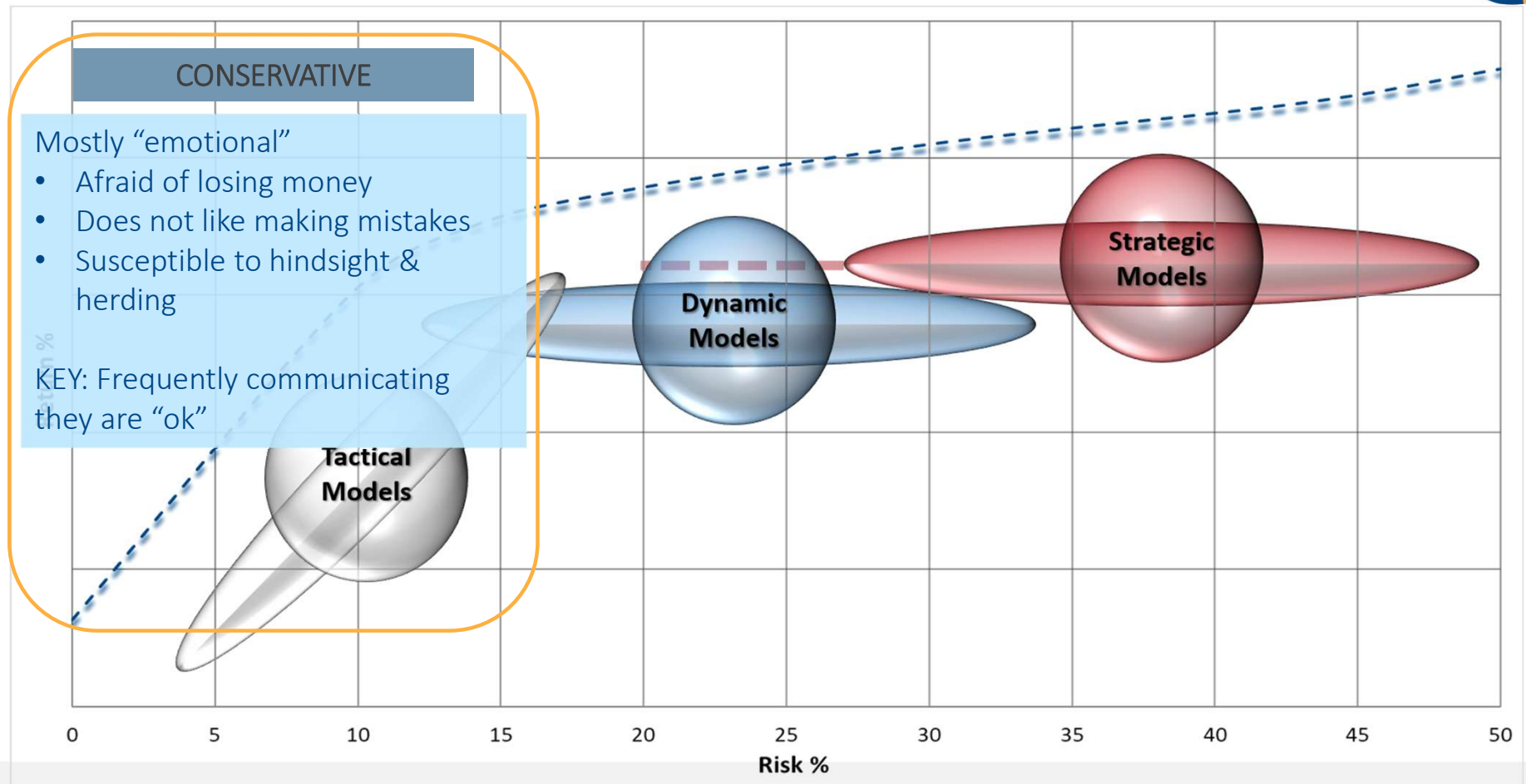
Self-control



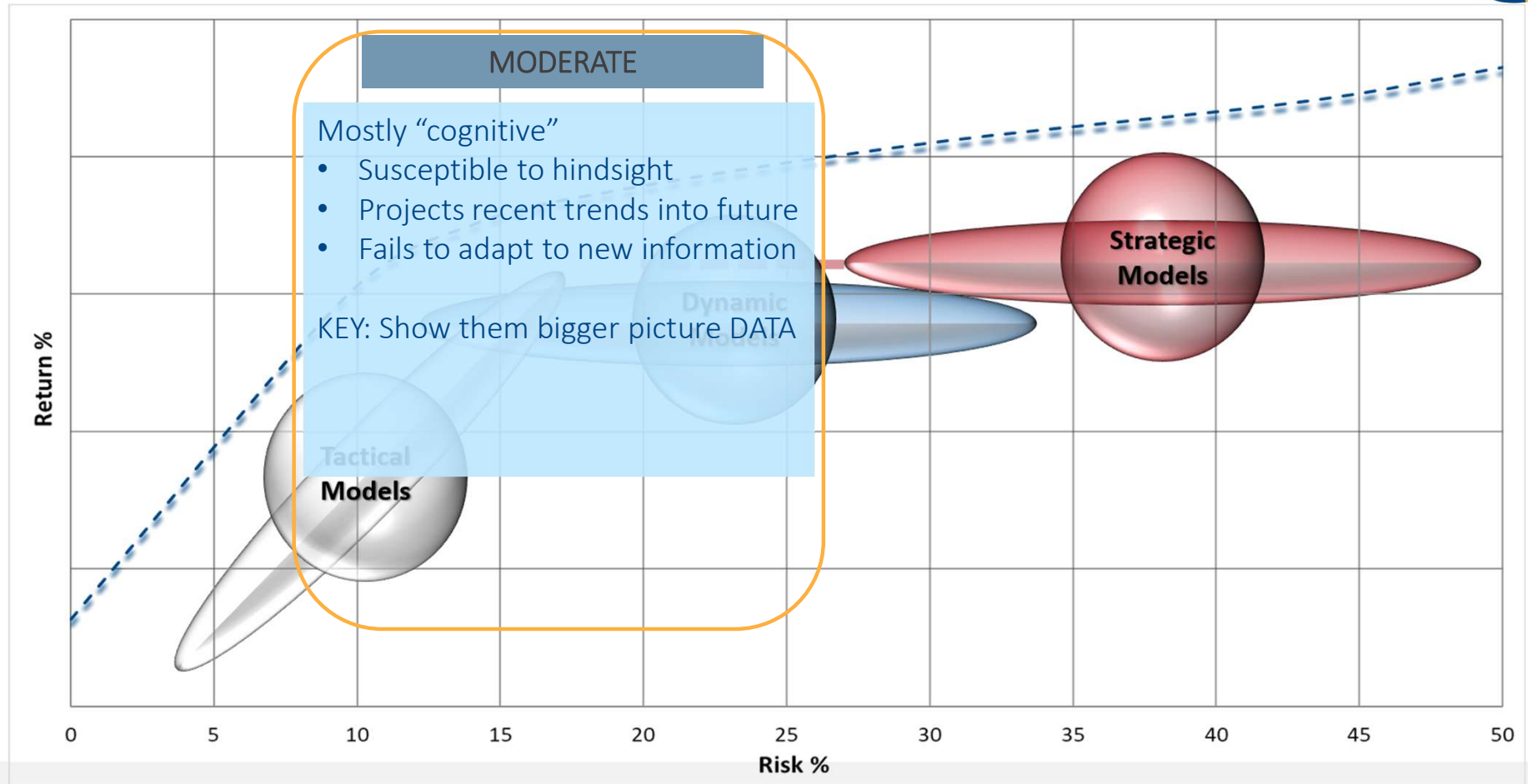
Building Personality Based Portfolios



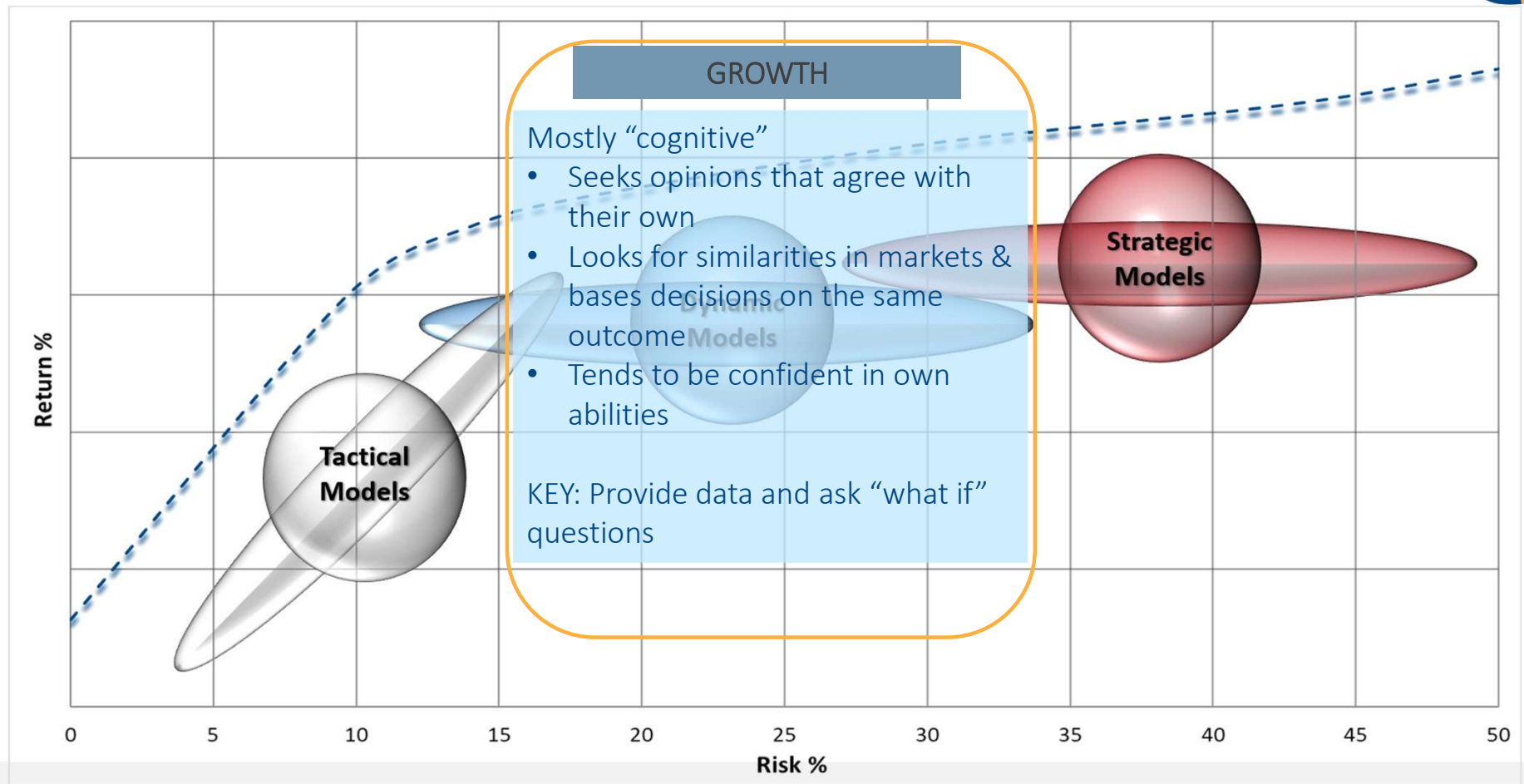
Building Personality Based Portfolios



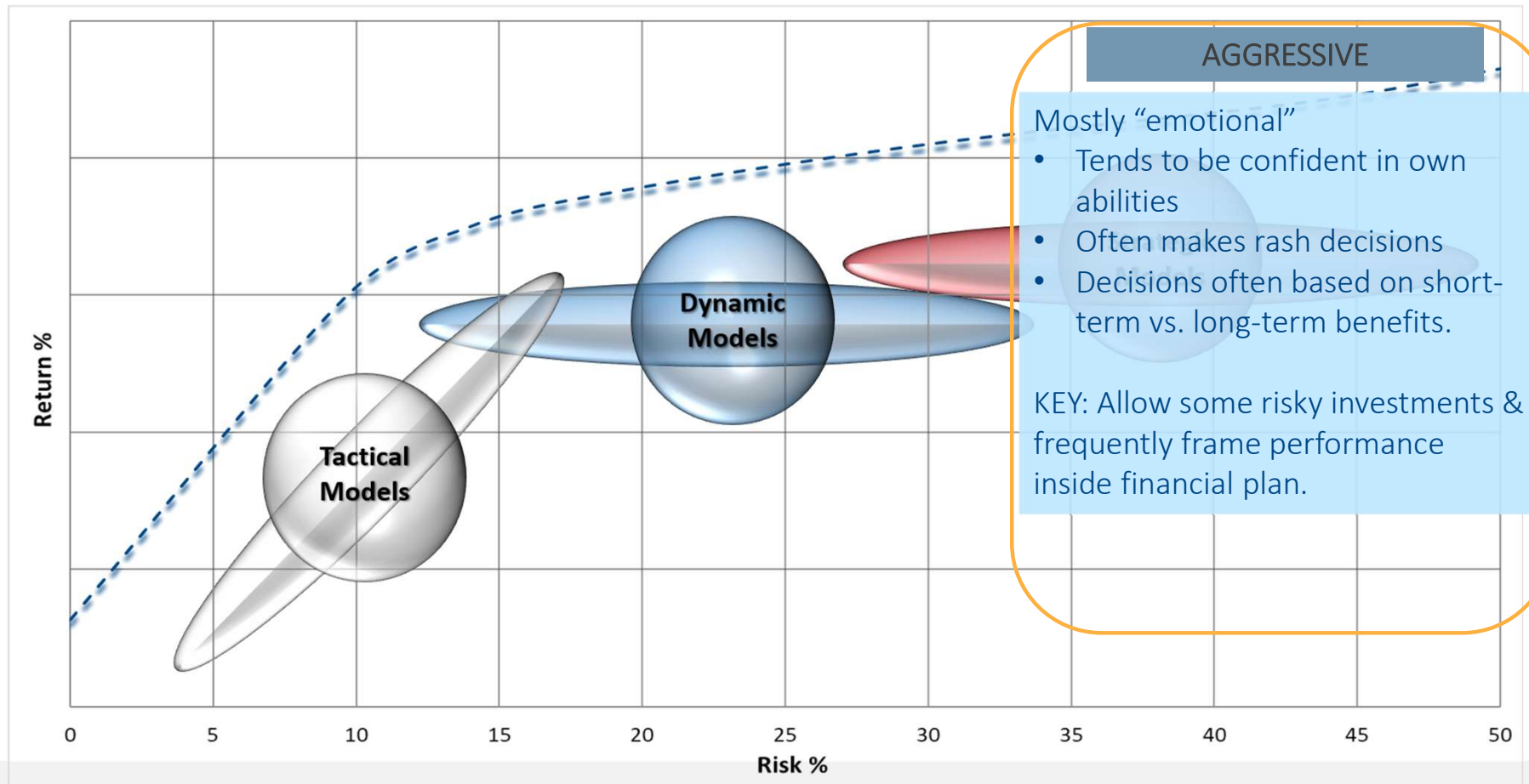
Building Personality Based Portfolios



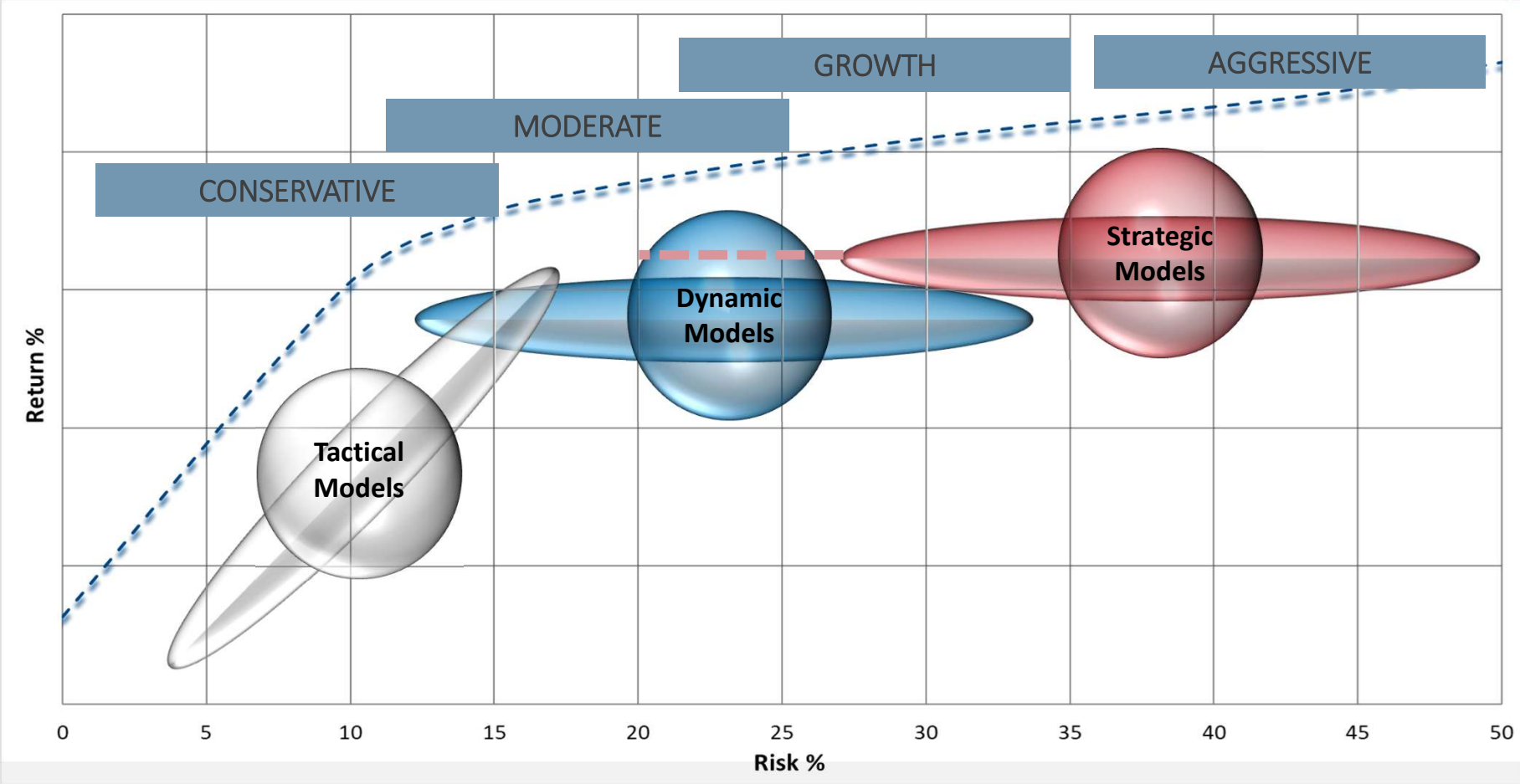
Building Personality Based Portfolios



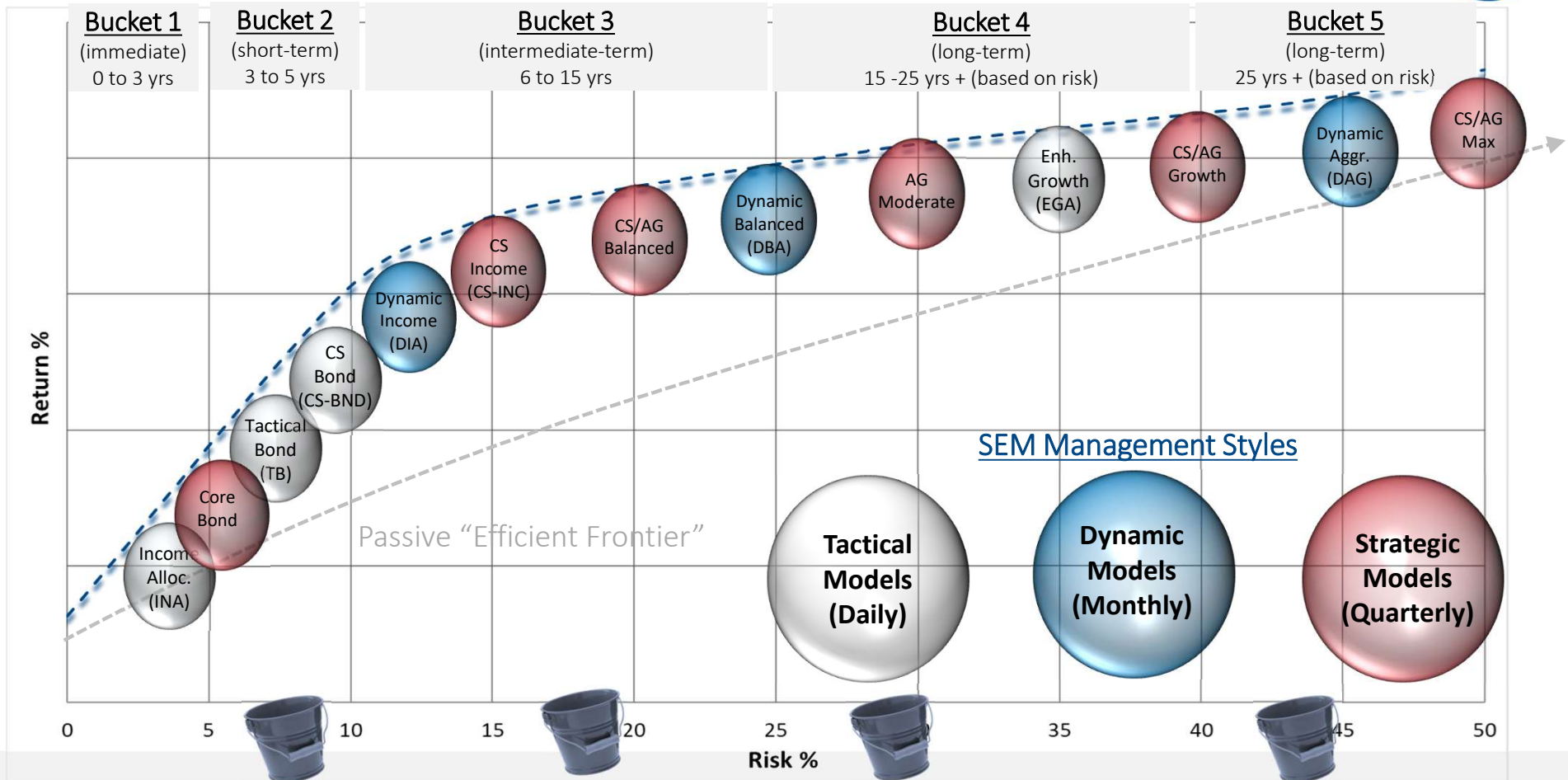
Building Personality Based Portfolios



Building Personality Based Portfolios



Combining diversified models





5.) Implement your behavioral approach

- 1 - Systematize your prospecting, meeting, and review process
- 2 – Develop model line-up of 4 client types
- 3 – Weed out clients & products that do not fit your culture

A Case for a Behavioral Approach



+193%



*They grew another 48% in
the next 2 years*

Weed out clients & products that do not fit culture

Develop line-up for 4 client types

Structure Meetings
& Reviews



Individual results will vary

A Case for a Behavioral Approach



+164%

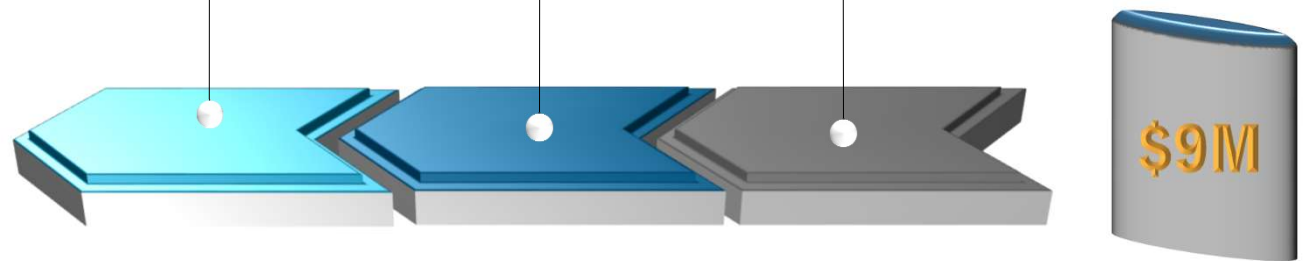


*He grew another 39%
the next 2 years*

Weed out clients & products that do not fit culture

Develop line-up for 4 client types

Structure Meetings
& Reviews



\$9M

Individual results will vary

SEMWealth.com

3 Keys to Success



Focus on planning & cash
flow strategies

Remove distractions of picking
investments & other products

Systematize process:
Prospect → Planning → Cash
Flow → Invest → Review



Focused Practice
=
Solid Growth

For more information on how SEM can help, contact SEM or go to
SEMWealth.com/Advisors



5 Steps to Growing your Practice

- 1** Assess your strengths and weaknesses
- 2** Document how you spend your time
- 3** Stress test your practice
- 4** Identify & create your baseline portfolios
- 5** Implement your Behavioral Approach

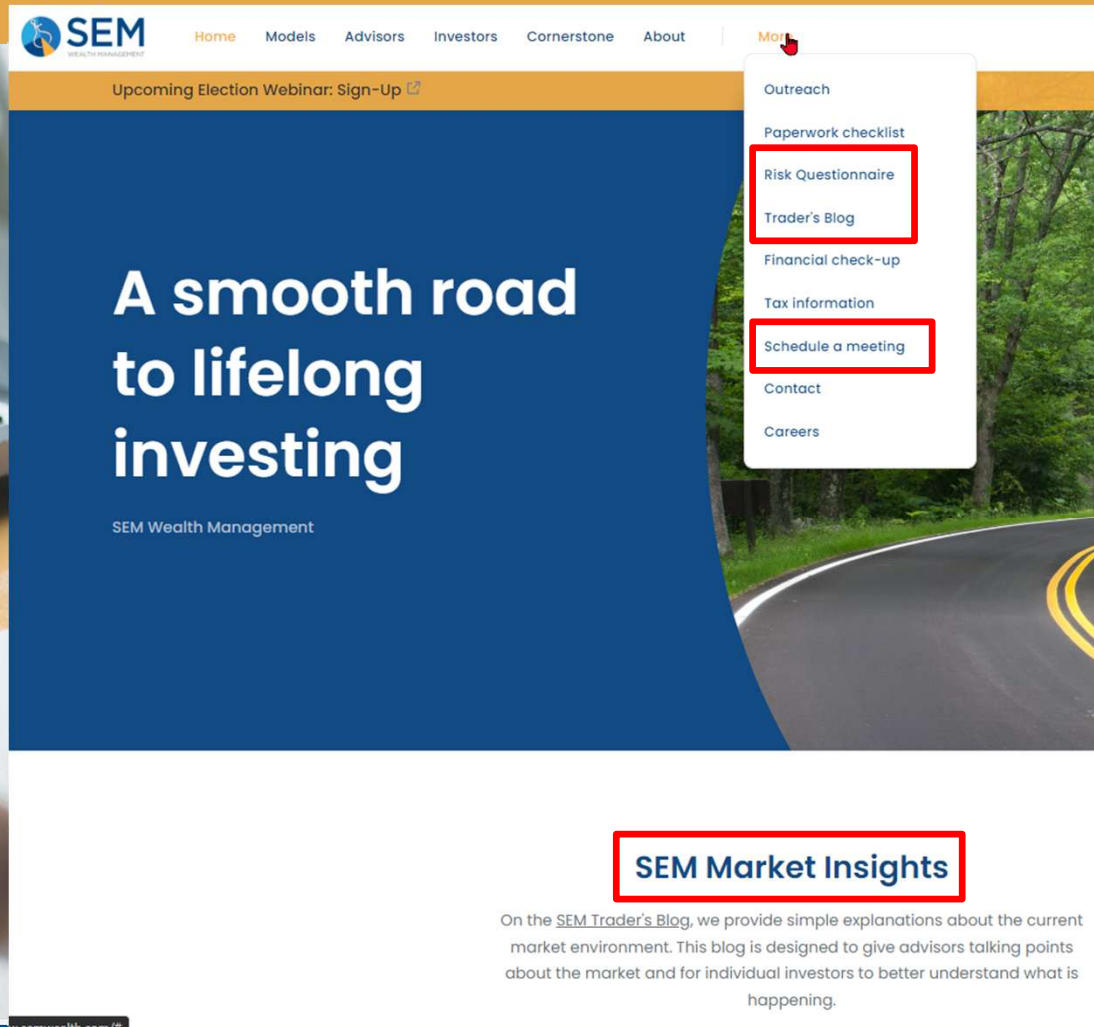
For more information on how SEM can help, contact SEM or go to SEMWealth.com/Advisors



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 = \$915M as of 3/31/2025
- Primary Custodian is Axos Advisor Services
 - Select models also available on
 - Adhesion/FlexUMA
 - Schwab Model Marketplace
 - 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



The screenshot shows the SEM Wealth Management website. The main navigation bar includes Home, Models, Advisors, Investors, Cornerstone, About, and a dropdown menu for More. The dropdown menu lists Outreach, Paperwork checklist, Risk Questionnaire, Trader's Blog, Financial check-up, Tax information, Schedule a meeting, Contact, and Careers. The main content area features a blue background with the headline "A smooth road to lifelong investing" and the SEM Wealth Management logo. Below this, there is a section for "SEM Market Insights" with a red border around the text. The text describes the SEM Trader's Blog as a resource for market explanations and talking points.

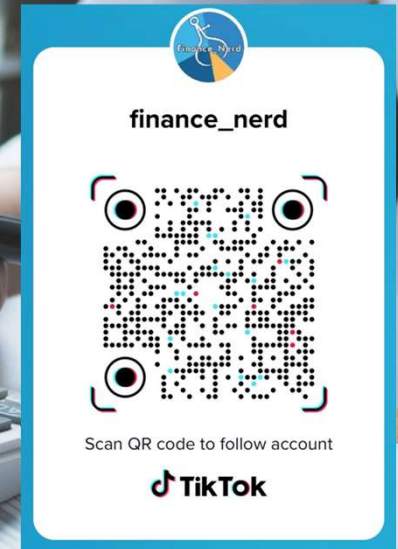
Upcoming Election Webinar: Sign-Up [🔗](#)

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.



A QR code for the TikTok account "finance_nerd". The QR code is centered on a white background with a blue border. Above the QR code is the SEM Wealth Management logo and the text "finance_nerd". Below the QR code is the text "Scan QR code to follow account" and the TikTok logo.



A QR code for the Instagram account "SEMWEALTHMGMT". The QR code is centered on a white background with a blue border. Above the QR code is the SEM Wealth Management logo. Below the QR code is the text "SEMWEALTHMGMT".

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