SWM INVESTMENT REPORT JULY 2018

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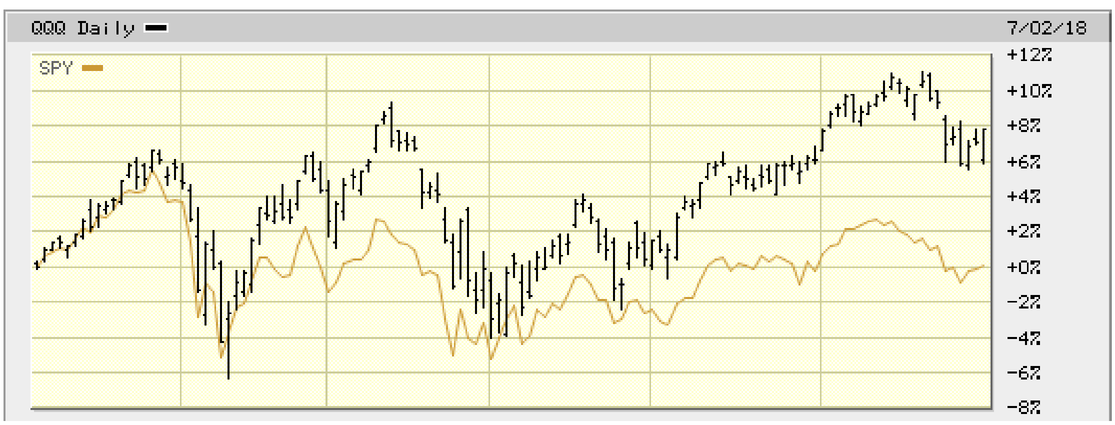
WEALTH MANAGEMENT

The "Big 5"

Midway through the year, the buying momentum continues to flow into US technology stocks. The performance and growth of the sector has been fantastic this year while most other sectors have lagged considerably.

The S&P 500 and Nasdaq 100 are market-cap-weighted index funds, which rebalance by continually adding positions to companies trending higher. Both of these index funds are now extremely heavily weighted in large-cap tech. The S&P 500 index is now **26% in tech stocks**, which is 12% more than the second biggest sector (Financial sector 14%). **Apple, Amazon, Microsoft, Facebook, and Google** are now the top 5 positions in the S&P 500 and represent close to 15% of the holdings in the S&P 500 index. Furthermore, the "Big 5" represent over 50% of the Nasdaq 100 (QQQ).

QQQ VS. S&P 500 (MID YEAR)



Valuations of the "Big 5" are very reasonable in regards to price-to-sales and price-to-earnings ratios compared to the late 90's tech bubble. Back in 1999, the Nasdaq had most companies trading at 40-100 times earnings while some were trading at 10-20 times revenue with NO earnings. This time around, there are only a couple of companies in the Nasdaq looking a bit bubbly.

Currently, Apple is trading at 14 times 2019 projected earnings, which seems like a good value play considering they expect earnings to grow about 11% annually. Facebook (FB) is trading at 22 times 2019 earnings projections, Google is at 24 times, and Microsoft is 25 times 2019 projected earnings. All three companies expect to grow earnings at least 15% a year over the next 5 years. Amazon, which continues to focus on sales growth instead of earnings, is trading at 89 times 2019 projected earnings. Their ability to increase margins/pricing could change at any time and for some, it warrants a frothy valuation that seems incredibly high.

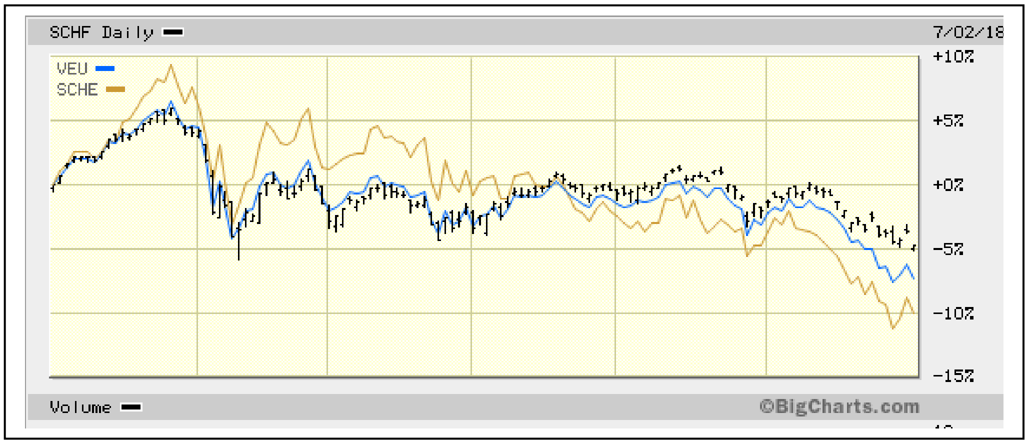
Last week, I read a tweet from (author/financial blogger) Michael Batnick that the "Big 5" have a combined market cap valuation of 4.1 Trillion dollars. The bottom 282 companies in the S&P 500 also have a 4.1 trillion dollar valuation. The constant rebalancing and shifting within the index and market leadership is fascinating. Thirty years ago, the top holdings in the S&P 500 were IBM, Exxon, GE, AT&T, Shell, GM and Ford.

So, how much technology is weighted in our recommended ETFs? Now more than ever, investors need to have a combination of value stocks, dividend stocks, small cap stocks, mid cap stocks as well as equal weighted S&P 500. I don't know if the tech will correct next year or the year after, but it is prudent to be diversified in other sectors that may zig when technology zags. We still like US equities to finish in positive territory with 8-10% total return by year end and feel dividend and value are best for new investment money coming into the markets.

	(SCHB,VTI, SPY)	(QQQ)	(SCHD)	(FVD)	(RSP)	(SCHA)	(SCHM)
	TOTAL Market	Nasdaq 100	Dividend ETFs	Value ETFs	S&P 500 EW	S&P Small Cap	S&P Mid Cap
Technology	26%	61%	20%	6%	14%	17%	19%
Consumer Discretionary	13%	22%	12%	8%	15%	13%	14%
Financials	14%	0%	5%	18%	13%	18%	15%
Health Care	14%	10%	5%	7%	13%	14%	8%
Industrials	10%	2%	19%	15%	14%	15%	16%
Materials	2%	0%	2%	4%	5%	5%	7%
Real Estate	3%	0%	0%	4%	7%	8%	10%
Telecom	2%	1%	5%	2%	0.5%	0%	0%
Utilities	3%	0%	1%	20%	6%	3%	4%
Consumer Staples	7%	4%	24%	13%	6.5%	2%	3%
Energy	6%	0%	7%	3%	6%	5%	4%
TOTAL %	100	100	100	100	100	100	100
TOP 5 POSITIONS	APPLE	APPLE	PEPSI	CA, Inc.	ALL 500 HOLDINGS	GRUBHUB	SQUARE
TOP 5 POSITIONS	AMAZON	AMAZON	P&G	FASTENEL	ARE .20%	NEKTAR	WORLDPAY
TOP 5 POSITIONS	GOOGLE	GOOGLE	HOME DEPOT	VF CORP	IN EACH	BLUEBIRD	SPLUNK
TOP 5 POSITIONS	MICROSOFT	MICROSOFT	PFIZER	TAWAIN SEMI	CONSTITUANT	GO DADDY	SV BANK
TOP 5 POSITIONS	FACEBOOK	FACEBOOK	VERIZON	DOVER CORP		NUEROCRINE BIO	BIOMED

Trade War Heating Up and International Stocks Cooling Down

In our first quarter newsletter, we cautioned about the potential headwinds a trade war could cause for the markets. In follow up, the trade rhetoric that started earlier this year has increased and has caused pain in overseas markets. The big loser has been international equities. The Schwab International Developed Index (SCHF) and the Vanguard World Ex-US (VEU) are under pressure. China, which is Trump's main focus, has a 33% holding in the emerging market index. (SCHE). We continue to drastically underweight international and emerging markets in our tactical allocations compared to normal or traditional asset allocation models.



Schwab Money Market Funds

With rates moving higher, we can set up separate no fee money market accounts for long term savers. Rates are getting close to 2% for purchased money market funds. Let us know if we can help you receive higher interest than bank savings accounts.

Schwab Purchased Money Funds

Prime Money Funds (Taxable)

Data as of 7/20/2018

Symbol Fund Name	7-Day Effective Yield (%)[1]	Current 7-Day Yield (%)[2]	Investment Minimums
SWVXX Schwab Value Advantage Money Fund® - Investor Shares	1.90	1.88	$10,0000
SNAXX Schwab Value Advantage Money Fund® - Ultra Shares™	2.05	2.03	Initial and Min: $1,000,000

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