



## SPECIAL REPORT

# Attractive Charles Schwab Mutual Funds and ETFs You Should Consider

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Matthew Sauer is the Founder and Chief Investment Officer of the Mutual Fund Investor Guide family of newsletters. Each month he analyzes and provides buy, sell and hold recommendations for hundreds of mutual funds and ETFs in the Investor Guide to Fidelity Funds, Investor Guide to Vanguard Funds, as well as the ETF Investor Guide.

Prior to founding the Mutual Fund Investor Guide, Matt was the President and Chief Investment Officer of the Fidelity Independent Adviser, ETF Report, and Sector Momentum Tracker.

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There has been a substantial increase in the mutual funds and ETFs available over the past 10 years. Investors have benefited in numerous ways. With an increase in options, fund companies have been forced to reduce their management fees. Now we can purchase index funds for 0.05 percent or less. A decade ago, generic market index funds would cost twice as much, or more.

Fund companies have also responded by providing more focused investment options. ETFs that track subsectors, including robotics, nanotechnology and community banks, are now offered. For better or worse, you can even purchase an ETF that focuses solely on the marijuana industry.

With the numerous options available, the downside is that it is easy to overlook many high-quality funds. For over 50 years, Fidelity Investments has been the default choice for many mutual fund investors. However, Charles Schwab, one of Fidelity's primary competitors, has taken steps to close the gap. Not only is Schwab reducing fees, it continues to grow its product menu.

Investors not familiar with Schwab mutual funds and ETFs may be interested in researching the fund options. The following funds are a small sampling of interesting options you may want to consider.

**If you have any questions about these funds or other Charles Schwab funds, please call me at (888) 252-5372.**

### SCHWAB U.S. DIVIDEND EQUITY (SCHD)

Schwab U.S. Dividend Equity (SCHD) is one of the best dividend funds in the market, having earned a 4-star Morningstar rating, and it has a dirt-cheap expense ratio of 0.07 percent. The fund is a late entry in the dividend ETF space, but has grown to become the sixth largest with \$5.7 billion AUM.

SCHD tracks a market-cap weighted index, the Dow Jones U.S. Dividend 100 Index. The index holds high-dividend-yielding companies with a

consistent record of paying dividends. Additionally, these firms must demonstrate strong finances. The index uses fundamental screens such as cash flow to debt ratios, return on equity, dividend yield and dividend growth rate to weed out weaker firms.

To be eligible for inclusion in the index, stocks must pass three initial screens related to dividend history, market capitalization and liquidity. To meet the minimum criteria, stocks must have at least 10 straight years of dividend payments. Stocks meeting the various criteria are ranked in descending order based on their annual dividend yield. Stocks ranked in the upper 50 percent are eligible for inclusion in the index.

SCHD has an average market capitalization of \$104 billion, about one-quarter larger than the category's \$85 billion average. Giant- and large-cap stocks make up 89 percent of the portfolio, with mid-caps 10 percent.

SCHD is less volatile than the broader market. It has a beta of 0.87 and a standard deviation of 9.54. The S&P 500 Index has a beta of 1.00 and a standard deviation of 10.35.

SCHD currently yields 3.0 percent, which is almost 50 percent higher than the S&P 500 Index. It pays quarterly dividends.

### PORTFOLIO COMPOSITION

Consumer Staples make up 24.36 percent of assets, no surprise for a dividend fund. Info Tech is a relatively high 19.93 percent of assets and almost triple the benchmark weighting. Industrials are 16.76 percent, followed by Consumer Discretionary (13.17 percent), Health Care (9.24 percent), Energy (5.72 percent), Telecom (4.34 percent), Financials (3.67 percent), Materials (2.14 percent) and Utilities (0.54 percent).

### PERFORMANCE

A \$10,000 investment made into SCHD at inception in October 2011 would be worth \$18,373 today. One-year total ROI is 10.72 percent, 3-year is 8.91 percent and 5-year is 13.14 percent.

**SCHD TOP TEN HOLDINGS** (as of 7/31/17)

1) Pfizer (NYSE: PFE)	4.73%
2) Johnson & Johnson (NYSE: JNJ)	7.15%
3) Exxon Mobil (NYSE: XOM)	4.50%
4) Home Depot (NYSE: HD)	4.47%
5) PepsiCo (NYSE: PEP)	4.45%
6) Coca-Cola (NYSE: KO)	4.45%
7) Procter & Gamble (NYSE: PG)	4.43%
8) Verizon (NYSE: VZ)	4.33%
9) Microsoft (NASDAQ: MSFT)	4.31%
10) Intel (NASDAQ: INTC)	4.19%

**FEES, DISTRIBUTIONS, RESTRICTIONS**

SCHD has an expense ratio of just 0.07 percent, versus the 0.33 percent category average. SCHD can be traded commission free at Charles Schwab.

**SCHWAB INTERNATIONAL INDEX FUND (SWISX)**

Founded 20 years ago, the **Schwab International Index Fund (NASDAQ: SWISX)** is a mutual fund that was designed to track the Morgan Stanley Capital International Europe Australasia Far East (MSCI EAFE) index. MSCI EAFE tracks the primary large- and medium-cap equity market stocks of 21 developed nations, excluding China, Canada and the United States. The selections are market-cap weighted and represent the largest and most profitable international stocks within the MSCI EAFE, except for South Korea (MSCI ranks South

Korea as an emerging-market nation), so companies such as Samsung and Hyundai are not included.

This \$3.7 billion fund has a low 4 percent turnover, a 3-year beta average of 0.93, a 2.78 percent yield, and invests not less than 80 percent of total holdings proportionately in the MSCI EAFE index. Equities from Japan, Germany, UK and France comprise the majority of the 920 companies represented, with Hong Kong, Mexico, Brazil and Thailand corporations as the primary emerging-market companies included. International stocks make up 97.50 percent of the index, with 1.07 percent in US holdings and 1.07 percent in cash. Morningstar gives the fund a 3-star Silver rating. Given the international nature of the portfolio holdings, there is a considerable forex exposure component to SWISX in terms of the Japanese Yen, the British Pound Sterling, the Euro and the Swiss Franc.

**Benefits of Using Charles Schwab**

Schwab is an industry leader when it comes to working with independent advisors, having over 25 years in this industry and serving more registered investment advisors than any other custodian. It currently custodies over \$800 billion and more than 2 million client accounts. This alone provides it leverage when looking for new investment choices to introduce on its platform. As a registered advisor working directly with Schwab, we have our own dedicated support team to help us navigate for our clients. Schwab is constantly updating its

advisor-facing software, so we have ease of account management at our fingertips.

Schwab provides access to a multitude of investment vehicles, from equities to ETFs. For our clients, we can select from thousands of mutual funds that carry no load, or transaction fees, as well as well over 200 commission-free ETFs. This allows us to create an extremely cost-efficient portfolio for our clients.

If you are already a Schwab client, we can easily add MDS Wealth Advisors to your existing account. For those with accounts custodied outside of Schwab, we can work with our Schwab support team to easily

SWISX has experienced relatively brisk management turnover within the past four years. Chuck Craig, Jane Qin, David Rios and Christopher Bliss have been listed as the co-managers since April 26, 2017. They have taken over from Agnes Hong, who oversees the Schwab Index Fund group, and Ferian Juwono, who co-managed SWISX and other funds in 2012 and 2013, then returned in 2014 when Ron Toll and Larry Mano departed.

**PORTFOLIO COMPOSITION**

Geographically, SWISX is allocated 63.3 percent Europe, 35.7 percent Asia, 7.1 percent South Pacific and 1.1 percent North America. From a nation breakdown, the top 5 are Japan (23.45 percent), UK (17.28 percent), France (9.99 percent), Germany (9.52 percent) and Switzerland (8.71 percent). Australia, Netherlands, Spain, Hong Kong and Sweden round out the top 10.

Top industrial sector breakdown is Financial Services (21.5 percent), Industrials (14.6 percent), Consumer Cyclical (12.1 percent), Consumer Defensive (11.5 percent) and Health Care (11.0 percent).

**PERFORMANCE**

A \$10,000 investment made in 2012 would be worth slightly over \$15,000 today. Total returns for 1 year are 19.52 percent, for 3 years 2.22 percent, for 5 years 9.01 percent and for 10 years 1.85 percent.

open new accounts and transfer existing assets to Schwab.

As a subscriber to my newsletter services, you have the opportunity to have us perform a complimentary portfolio review. Allow a professional to look at your current portfolio, the individual positions and allocations, and make some suggestions on how to better position yourself during this time of great sector volatility. This no-cost opportunity will help you better evaluate the services we provide to our clients — to see if a professional relationship makes sense for you and your family. To begin the review process, call me directly at (844) 336-9878.

**SWISX TOP TEN HOLDINGS** (as of 7/31/17)

1) Nestle S.A. (NSRGF)	1.92%
2) Mini MSCI EAFE September 17 LFUS 20170915 (a futures contract)	1.48%
3) Novartis AG (NVSEF)	1.32%
4) HSBC Holdings PLC (HBCYF.L)	1.30%
5) Roche Holding AG Dividend Right Cert. (RHHVF)	1.27%
6) Toyota Motor Corp. (TOYOF)	0.98%
7) British American Tobacco PLC (BTAFF.L)	0.90%
8) Royal Dutch Shell PLC Class A (RYDAF.PA)	0.85%
9) Total S.A. (TTFNF.AX)	0.82%
10) British Petroleum (BP)	0.80%

**FEES AND RESTRICTIONS**

SWISX recently reduced its expense ratio from 0.19 percent to 0.06 percent, making it the lowest among its peers. Yield is 2.78 percent, and minimum investment is \$100.

**SCHWAB EMERGING MARKETS EQUITY ETF (SCHE)**

The Schwab Emerging Markets Equity ETF (NYSE: SCHE) tracks the large- and mid-cap stocks of 21 emerging markets in a market-weighted fashion, hewing relatively closely to the Financial Times Stock Exchange (FTSE) Emerging Index (again, exempting South Korea, which FTSE, in this case, ranks as a developed market nation).

Founded in 2010, SCHE is a \$4.1 billion

ETF. Its 3-year beta is 1.10, and yield is 2.31 percent. Portfolio turnover is 10 percent and P/E is 13.18. A minimum of 90 percent of investment funds are in FTSE Emerging Index selected stocks. Currently, SCHE has over 99.6 percent vested in stocks, with the remainder in cash and other investments.

From a geographical perspective, the fund has 23.95 percent allocated to China, 15.03 percent to Taiwan, 11.83 percent to India, 7.74 percent to South Africa, 6.75 percent to Brazil, 4.58 percent to Mexico and 3.82 percent to Russia, with Thailand at 3.55 percent, Malaysia at 3.45 percent and Indonesia at 2.39 percent to complete the top 10. This gives an investor some BRICS exposure, and because South Korean companies such as Samsung are not included,

its market-weighted allocation results in a sizable China and Taiwan stock portfolio percentage.

Due to Chinese laws restricting foreign holders to A shares on the Shanghai or Shenzhen markets, all Chinese holdings of SCHE are in Hang Seng market H shares. SCHE subsequently excludes those companies whose sole market listing is in the U.S., so giants such as Baidu (NASDAQ: BIDU) and Alibaba (NYSE: BABA) are also absent from the portfolio. Of the remaining companies representing China, there is still a state-owned component to quite a few of them, which adds to the risk component, because political concerns can outweigh corporate ones. Recent news of additional A shares of large-cap Chinese companies would likely market weigh even higher in a China-concentrated portfolio representation of an estimated 4 percent, with corresponding risk increases. Morningstar thus gives SCHE a 3-star ranking.

**PORTFOLIO COMPOSITION**

Sector wise, SCHE has its heaviest concentrations in Financials (28.1 percent) and Info Tech (16.9 percent), with Consumer Discretionary (9.1 percent), Energy (8.6 percent), Materials (8.3 percent), Consumer Staples (7.1 percent), Industrials (6.3 percent), Telecom (6.3 percent), Real Estate (3.38) and Utilities (3.5 percent) rounding out the top 10.

**PERFORMANCE**

Due to the problems in Brazil and the lack of Korean inclusion, SCHE has lagged in the past five years by about 43 basis points behind the category average. A steep drop in NAV from 2015 to 2016 has been made back in 2017. Therefore, \$10,000 invested one year ago would be up 19.4 percent, but if calculating from inception, the ROI would measure only a measly 2.03 percent. The 3-year annualized return is 0.96 percent and 5-year is 3.71 percent.

**SCHE TOP TEN HOLDINGS** (as of 7/31/17)

1) Tencent Holdings, Ltd. (TXTZF)	5.2%
2) Taiwan Semiconductor Mfg. Co. (TSM.TW)	4.1%
3) Naspers Ltd. Class N (NAPRF.JO)	2.3%
4) China Construction Bank Corp. (CICF)	1.8%
5) Hon Hai Precision Industry Co. Ltd. (HNHAF.TW)	1.5%
6) Industrial and Commercial Bank of China Ltd. H (IDCBF)	1.4%
7) China Mobile Ltd. (CHL)	1.4%
8) Housing Development Finance Corp. Ltd. (HDFC.BO)	1.01%
9) Mini MSCI Emerging Market September 2017 (a futures contract)	1.01%
10) Reliance Industries (RELIANCE.NS)	1.0%

If you have any questions or comments about these funds, we would be delighted to speak with you. Please call us at (888) 252-5372, Monday through Friday 8:30am to 5:30pm, eastern time. You can also email me at [Matt@mutualfundinvestorguide.com](mailto:Matt@mutualfundinvestorguide.com).



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**FEES, DISTRIBUTIONS, RESTRICTIONS**

SCHE paid an annual dividend of \$0.49 the past two years. Its 0.13 percent expense ratio is very low, less than half of the 0.46 percent category average.

**LAUDUS U.S. LARGE CAP GROWTH FUND (LGILX)**

A solid consideration for a U.S.-based complement within a diversified portfolio could be the **Laudus U.S. Large Cap Growth Fund (NASDAQ: LGILX)**. Unlike many Schwab funds and ETFs that are managed internally, LGILX operates under a sub-advisor — in this case, BlackRock Investment. The primary manager is Lawrence Kemp, formerly with UBS, but as of 2013, leader of an analytics team at BlackRock. Kemp previously ran LGILX under the aegis of UBS from 2002 to 2012.

Unlike many index-based funds, the \$1.6 billion 20-year-old LGILX is actively managed, with a narrow portfolio range of about 58 large-cap leading stocks. With heavy concentrations, Kemp’s analytics team constantly monitors for buy and sell signs in each sector and they target the Russell 1000 as their index to beat, keeping deviation within 15 percent. As a result, turnover is a comparatively high 73 percent, and can exceed 100 percent. The 3-year beta is 1.08 and standard deviation is 12.42.

**LGILX TOP TEN HOLDINGS (as of 7/31/17)**

1) Amazon (NASDAQ: AMZN)	7.62%
2) Alphabet Inc. A (NASDAQ: GOOGL)	7.15%
3) Microsoft (NASDAQ: MSFT)	5.15%
4) UnitedHealth Group (NYSE: UNH)	4.41%
5) Netflix (NASDAQ: NFLX)	3.27%
6) Priceline (NASDAQ: PCLN)	3.25%
7) Visa (NYSE: V)	3.24%
8) Alexion Pharmaceuticals (NASDAQ: ALXN)	3.18%
9) Facebook (NASDAQ: FB)	3.11%
10) Nike (NYSE: NKE)	2.96%

Kemp’s highly rated team operates under certain additional policy parameters. To foster a disciplined growth with value agenda, parameters include an allocation cap of 8 percent on the top named stock, a minimum of stocks under \$5 billion market cap, an automatic sell of any stock that falls below \$2.5 billion market cap and a cap of 20 percent on non-U.S. stocks.

**PORTFOLIO COMPOSITION**

Unsurprisingly, Info Tech stocks assume the lion’s share of allocation percentage of the portfolio with 41.1 percent, followed by Consumer Discretionary (22.1 percent), Health Care (16.2 percent), Financials (6.4 percent), Industrials (5.3 percent), Real Estate (2.6 percent), Consumer Staples (2.5 percent), Materials (2.0 percent), Energy (1.4 percent) and Telecom (0.5 percent).

**PERFORMANCE**

A \$10,000 investment made into LGILX in 2007 would be worth \$26,287 today, a 163 percent ROI, and reflective of Kemp’s aggressive growth combined with large-cap value strategy. One-year total ROI is 23.11 percent, 3-year is 12.24 percent, 5-year is 15.79 percent, 10-year is 10.78 percent, and 7.01 percent since inception in 1997.

**FEES, DISTRIBUTIONS, RESTRICTIONS**

The minimum investment is \$100. No dividend is currently offered, although dividend distributions were made from 2009 to 2012. It has paid capital gains in each of the past five years, reaching as high as 21 percent of assets in 2014. LGILX is a no-load fund, and the expense ratio is a relatively low 0.75 percent. There is a 2 percent redemption fee for shares sold within 30 days of purchase.

**MDS Wealth Advisors: A New Private Service from Matthew Sauer**

Over the years it has been our pleasure to provide you with responsible and timely investment advice, and we genuinely appreciate your loyalty to our newsletter. Since we began publishing our investment recommendations, we have been frequently asked to provide dedicated wealth management.

Due to the numerous inquiries and requests, I am incredibly pleased to announce we are now offering private wealth management services through **MDS Wealth Advisors**. Our objective is simple. We want to help our subscribers tailor their portfolios to their specific investment objectives. I will personally work with each member to build an investment portfolio that is aligned with their goals and risk tolerances.

If you are considering a wealth manager or are concerned about who will oversee your investments if you are unable, I would welcome the opportunity to discuss our services.

If you are interested in utilizing our new service, call me directly at **(844) 336-9878** and I will answer any questions you have. If email is more convenient, you can reach me anytime at: **Matt@MDSWealthAdvisors.com**.