

February 2018 Newsletter



The Bulls Continue the Momentum

The bulls have taken January by storm. We continue to see record numbers in equities with the Dow Jones up 7.7%, the Nasdaq up 8.7% and the S&P up 7.5% year-to-date. Corporate earnings have been mostly positive, with two-thirds of the S&P 500 beating consensus estimates, and not even a government shutdown can stop this train. This is all good news for EZTracker portfolios but we must continue to keep our eye on the ball.

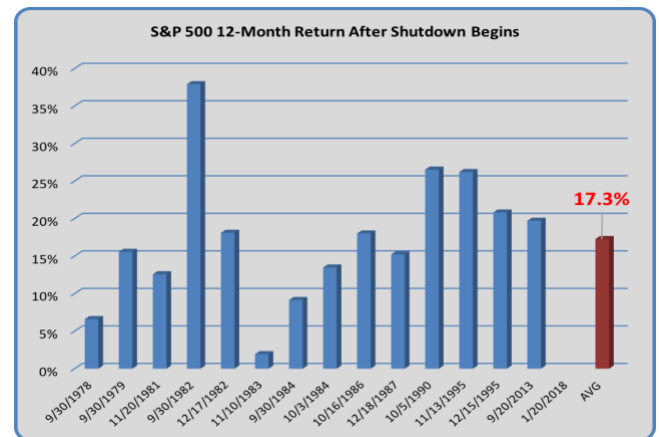
After much thought and analysis, we have concluded that the portfolios are well diversified and in the right place for the current environment. For the coming month, there are no changes in the Aggressive, Moderate, Conservative or Brokerage portfolios.

Portfolio Update on page 2

Shutdown? What shutdown?

We started last week with worries about a prolonged government shutdown. However, an agreement was reached keeping the government open until February 8th, with Congress “kicking the can” down the road for further discussion on the budget and immigration policies. Since the shutdown only lasted three days, the economic effects should be limited, but we need to review this again after February 8th in case of another shutdown. Our curiosity on the effects of past government shutdowns led us to study historical market returns after each shutdown since 1978. On average, the S&P gained 4.2% three months after a shutdown, and 17.3% one year after. During the 2013 shutdown which lasted 16 days, Standard & Poor’s stated that the shutdown had taken \$24 billion out of the economy and shaved at least 0.6% off GDP growth.

Since 1970, there have been fourteen years where the S&P 500’s returns for the month of January exceeded 4.0%. In every instance, the S&P ended up with a positive return for the year with an average full-year return of 21%.



Data: Congressional Research Service, Bloomberg

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 201-503-6445 or contact@eztracker401k.com

From a fundamental perspective, times are good: global economies are expanding and investing; unemployment rates are at post-crisis lows in the U.S., Japan, and Germany; and inflation remains low in most developed economies. From a technical perspective, many asset class valuations are at extreme levels (e.g. S&P price-to-EBITDA ratio currently stands at 11.0, the highest level since 1990; RSI-S&P Relative Strength Index is at 83.23, its highest since 1995-1996). Moreover, we have seen a significant crisis taking place once every three to five years, so by that measure we may be overdue for the next market event.

| Years | Crisis |
|-----------|---|
| 1987 | Stock Market Crash |
| 1990-1991 | US Savings & Loans Crisis |
| 1993-1995 | Latin America |
| 1997-1998 | Asia Currency, Russia, LTCM |
| 2000-2002 | Internet/Tech Bubble, 9/11, Enron, Andersen |
| 2007-2008 | Global Financial Crisis |
| 2010-2012 | Eurozone Crisis |

Source: EZTracker401k

Current Market Valuation

The current market valuation may seem stretched in isolation, but based on the high levels of corporate profits, it does not appear to be unreasonable. The reduction in corporate tax rates plus the tax break on overseas asset repatriation are favorable events which are expected to lead to investment. The investment community is calling it a market “melt-up”, but are we due for a correction? As we have written in past newsletters, the EZTracker strategy is not to guess but to take what the market gives us, thoughtfully changing our model portfolios based not on projections, but on actual market performance and trends. It’s why we were largely out of the market in 2008. While market headwinds and market volatility may be increasing, the market has been resilient and the short-term direction remains up. We don’t see any evidence yet of a change in direction for the market.

Continued on page 3

Model Portfolio Changes Effective January 28, 2018

Pilots 401k Portfolios:

- **Aggressive, Moderate and Conservative Portfolios:** There are no changes for the coming month.
- **Expanded Portfolio:** There are no changes for the coming month.

Non-Pilots 401/Profit Sharing Portfolios:

- **Aggressive, Moderate and Conservative Portfolios:** There are no changes for the coming month.
- **Expanded Portfolio:** There are no changes for the coming month.

Directions for making portfolio changes and Rebalancing are on the last page of this newsletter

Model Portfolios

EZTracker provides model portfolios designed for different investment needs. The model portfolios reflect the changes above. Your percentages may vary somewhat, make sure you have the correct funds and approximately these percentages. **The current model portfolios are:**

| Southwest Pilots Portfolio | Aggressive | Moderate | Conservative |
|---|------------|----------|--------------|
| Wells Fargo Stable Asset | | 20% | 60% |
| Vanguard Institutional Index (VIXX) | 10% | 10% | 7% |
| Vanguard Total Stock Market Index (VTSX) | 29% | 23% | 10% |
| Schwab Fundamental Small Company (SFSNX) | 9% | 4% | 4% |
| Vanguard Total International Stock (VTSNX) | 18% | 11% | 7% |
| DFA Emerging Markets Value (DFEVX) | 9% | 8% | 4% |
| Loomis Sayles Core Plus Bond | 5% | 10% | |
| Blackrock Fundamental U.S. Large Company | 10% | 7% | 4% |
| Vanguard Small Company Growth Index (VSGIX) | 10% | 7% | 4% |
| Southwest Non-Pilots Portfolio/Profit Sharing | Aggressive | Moderate | Conservative |
| Stable Value Fund | | 30% | 60% |
| Dodge & Cox (DODGX) | 18% | 13% | 8% |
| FIAM Small Cap Core | 13% | 9% | 5% |
| American Funds EuroPacific (RERGX) | 25% | 19% | 10% |
| Vanguard Institutional Index (VIXX) | 19% | 14% | 9% |
| Vanguard Target Retirement 2060 | 20% | 15% | 8% |
| PIMCO Total Return (PTTRX) | 5% | | |

Pilots' Expanded Portfolio.

For information and details see p. 6 & 7.

The EZTracker Pilots' Expanded Portfolio uses ETFs available through the Schwab Self-Directed Brokerage Link. All Schwab ETFs trade commission free. Non-Schwab ETFs incur a \$4.95 commission charge. This model portfolio is constructed using the data on page 7. As 5% of your 401k must remain in the core 401k, allocate a minimum of 5% to the Vanguard Total Money Market (VNFXX).

| Pilots' Expanded Portfolio | 401k | Brokerage | Total |
|--|------|-----------|-------|
| Vanguard Total Money Market (VNFXX) | 100% | | 4% |
| Schwab U.S. Mid Cap (SCHM) | | 9% | 9% |
| Schwab U.S. Large Cap (SCHX) | | 27% | 26% |
| Schwab Fundamental Emerg Mkts (FNDE) | | 8% | 8% |
| Schwab U.S. Small Cap (SCHA) | | 7% | 6% |
| Schwab International Equity (SCHF) | | 15% | 14% |
| S&P Equal Weight Technology (RYT) | | 7% | 7% |
| SPDR Stoxx Europe 350 (FEU) | | 11% | 10% |
| Gugg'm S&P 500 Equal Wght Financials (RYF) | | 6% | 6% |
| Industrial SPDR* | | 6% | 6% |
| Money Market/Cash | | 4% | 4% |

*non-Schwab ETF. \$4.95 Commission.

Expanded Portfolio Other SW Employees/Profit Sharing Plan.

For information and details see p. 6 & 8.

The EZTracker Expanded 401k Portfolio for ALL other SW Employees and the Southwest Profit Sharing Plan uses selected mutual funds to supplement the choices currently available in the 401k plan. The supplemental mutual funds are available through the SDA. *Southwest employees can use the SDA for a maximum of 50% of their 401k or Profit Sharing.*

| Expanded Portfolios – NonPilots & Profit Sharing Plan | 401k | Brokerage | Total |
|---|------|-----------|-------|
| Vanguard U.S. Institutional Index (VIXX) | 73% | | 37% |
| FIAM Small Cap Core | 27% | | 14% |
| Schwab Fund. Emerg Mkts. (SFENX) | | 19% | 9% |
| Schwab Fund. Intl. Small Co. (SFILX) | | 19% | 9% |
| Schwab Large Co. Growth Fund (SWLSX) | | 30% | 15% |
| Schwab International Core (SICNX) | | 32% | 16% |

Note: If you need assistance, call the SDA Service Center at 1-800-776-6061.

What We're Watching

- **Davos 2018** – At the World Economic Forum's annual meeting, President Trump spoke about being in favor of free but fair trade, stating: "The United States will no longer turn a blind eye to unfair trade practices...We cannot have free and open trade if some countries exploit the system at the expense of others." Michael Corbat, Citigroup CEO said during a Davos panel "There is an ambivalence out there that's concerning. When the next turn comes-and it will come-it's likely to be more violent than it would otherwise be if we let some pressure off along the way." The International Monetary Fund raised its global growth forecast for 2018 and 2019 to 3.9%, expecting the global economy to continue to recover on the back of buoyant trade and investment, as well as recent US tax reforms.
- **Treasury Yield Curve.** The spread between the 2-year and the 10-year Treasury bond is currently 0.57% which is very low historically. Each of the past seven recessions has been preceded by an inverted yield curve (shorter-term bonds paying more than longer bonds). We will be watching this bearish indicator closely, because if the spread were to continue to fall we will be sure to note it in future newsletters and take this into consideration when planning our portfolios.



- **Inflation.** Economists are seeing the potential for an increased level of inflation. The annual inflation rate has been below the Federal Reserve's 2% target for 5 ½ years but with improved economic growth and higher commodity prices, there is belief that overall prices could soon begin to rise. There is also the belief that wage growth will lead to higher inflation. While many companies are beginning to raise wages and offer bonuses, we look at some key data to measure the slack in the system: the unemployment rate held steady at 4.1% in December and the employment-to-population ratio among workers 25-54 is now 79%. In 2007, the last time hiring was so strong, the unemployment rate stood at 4.5%, and the employment-to-population ratio was 80%. Although current unemployment is below 2007's rate (an inflation indicator), it is offset by the lower current employment-to-population ratio, suggesting that the labor markets may not be as tight as implied by the unemployment rate alone, and there is more room to run.
- **The Dollar.** Despite President Trump's dollar-supportive comments at Davos this week, 2018 has seen a continued bearish trend for the dollar. A weak dollar has not only helped the performance of the international and emerging market funds in the EZTracker model portfolios, it has stimulated demand from overseas investment in the U.S. Markets. On average, the 10 highest-weighted stocks in the S&P 500 reported that overseas revenue accounted for 40% of their top line. Repatriation of overseas non-dollar money is assisted by a weak dollar. For example, 1 year ago, 1 GBP (British Pound) was worth 1.25 USD. Today, 1 GBP is worth 1.42 USD.
- **GDP Growth.** Q4 2017 GDP was released on Friday, January 26th and came at a reading of 2.6% annualized q/q growth. Personal consumption was extremely strong (3.8%), and weakness came in net exports (-1.13%) and inventories (-0.67%). Despite the lower than expected headline number, this was a standout report led by the consumer showing the economy had strong momentum going into 2018. We will keep a close watch on GDP growth in Q1 and Q2 to see if this trend continues. Healthy GDP growth usually translates into strong corporate earnings, which bodes well for the stock market.
- **Consumer/Business Confidence:** Consumer Confidence declined in December after reaching a 17-year high in November, which was attributed to Americans feeling slightly less optimistic about future job prospects. We will be looking at the next reading very closely (January 30th) to see if this bearish indicator continues or was a temporary blip. We are also looking at the NFIB Small Business Optimism Index which declined as well in December after reaching a 25-year high the previous month. Small businesses are responsible for a majority of new job creation so their health is often a leading market indicator, signifying changes in the stock market, especially small caps. Next release is February 14th.

Help a Friend: Tell your friends about how EZTracker can help them with their 401k. Send us their email address and we'll send him or her a copy of this month's newsletter. When they subscribe, we'll add a month to your subscription.

Help for your IRA: The EZTracker ETF newsletter is a great tool for your non-401k investments. With a commission-free portfolios for Vanguard, Fidelity, Schwab and Ameritrade, it's a great way to manage your IRA with the EZTracker strategy.

Request a free copy of the February issue.

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or 201-503-6445

Model Portfolios

All the model portfolios consist of core holdings representing major market segments plus top performers based on current market conditions. Some market conditions may cause us to deviate from the following percentages.

EZTracker Aggressive Portfolio: 95-100% invested in equities. This is a high risk/high reward portfolio.

EZTracker Moderate Portfolio: 70% invested in equities and 30% invested in bonds, a money market fund, or the Stable Value Fund.

EZTracker Conservative Portfolio: 40% invested in equities and 60% invested in bonds, a money market fund, or the Stable Value Fund. This is our lowest risk portfolio.

EZTracker Brokerage Portfolios: These are high risk/high reward portfolios for subscribers looking for a wider selection of investment options.

- The Pilot's Expanded Portfolio is 95-100% invested in equities using the PRCA Brokerage Link and an expanded list of Schwab ETFs. This is a high risk/high reward portfolio.
- The Expanded Portfolio for non-pilots/Profit Sharing is 50% invested in the core 401k investment options and 50% invested in an expanded list of Schwab mutual funds.

Performance

Current Performance through January 28, 2018

| Portfolio Performance | YTD 2018 | | 1 YEAR | |
|--------------------------------|--------------|--------------------------------|---------------|--------------------------------|
| | Pilots 401k | Non-Pilots 401k/Profit Sharing | Pilots 401k | Non-Pilots 401k/Profit Sharing |
| EZTracker Aggressive | 7.21% | 6.76% | 24.73% | 23.51% |
| EZTracker Moderate | 5.55% | 5.15% | 18.04% | 17.87% |
| EZTracker Conservative | 3.26% | 3.08% | 11.12% | 12.14% |
| EZTracker Expanded | 6.77% | 7.30% | 22.50% | 24.26% |
| Morningstar Benchmarks | | | | |
| Aggressive Target Risk Index | 6.49% | | 25.98% | |
| Moderate Target Risk Index | 3.85% | | 16.83% | |
| Conservative Target Risk Index | 0.99% | | 7.38% | |
| S&P 500 | 7.45% | | 25.09% | |

The Morningstar Target Risk Index series serve as benchmarks to help with investment selections. They cover a global set of stocks, bonds and commodities. While not investable indices, they represent challenging benchmarks for long-term investing plans such as the EZTracker model portfolios.

Historical Performance

Any investment strategy should be measured one way: Results over time. Not one-week, one-month, not even one-year. While past performance is not a guarantee of future performance, our record has been excellent in delivering long-term returns. As with any long-term investing strategy, you should not expect dramatic short-term results to offset past losses.

Annual % Total Returns*

| Pilots' 401k Portfolios | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|----------------------------------|-----------------------------|-------|-------|-------|--------|-------|-------|--------|-------|-------|------|-------|-------|-------|
| Aggressive | 9.95 | 6.36 | 20.18 | 13.79 | -27.29 | 20.36 | 14.70 | -8.53 | 10.75 | 25.59 | 5.62 | -3.77 | 6.67 | 19.47 |
| Moderate | 6.97 | 4.54 | 13.90 | 10.94 | -18.46 | 13.64 | 10.35 | -4.09 | 7.32 | 17.66 | 5.01 | -2.69 | 4.28 | 13.87 |
| Conservative | 3.98 | 2.64 | 7.82 | 6.71 | -8.40 | 9.22 | 7.26 | -1.48 | 4.95 | 10.59 | 3.51 | -1.72 | 3.42 | 8.78 |
| Expanded | Portfolio Started 4/25/2011 | | | | | | | | 6.46 | 25.97 | 9.08 | -1.91 | 4.34 | 17.70 |
| 401k for Others & Profit Sharing | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Aggressive | 14.10 | 10.89 | 19.44 | 8.39 | -16.21 | 19.64 | 7.76 | -10.97 | 9.55 | 28.52 | 6.13 | -3.29 | 8.09 | 18.86 |
| Moderate | 9.87 | 7.62 | 14.90 | 7.16 | -10.04 | 15.09 | 6.24 | -6.67 | 6.63 | 19.95 | 4.20 | -1.94 | 5.85 | 14.47 |
| Conservative | 5.64 | 4.35 | 10.44 | 5.92 | -3.80 | 9.80 | 4.55 | -3.44 | 4.37 | 11.68 | 3.16 | -1.67 | 3.98 | 10.53 |
| Expanded | Portfolio Started 4/25/2011 | | | | | | | | 4.83 | 27.20 | 5.35 | -1.69 | 10.58 | 17.70 |
| Morningstar Benchmarks | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Aggressive | | | | | | 32.00 | 16.75 | -3.60 | 16.07 | 24.53 | 5.23 | -2.67 | 11.34 | 21.95 |
| Moderate | | | | | | 21.77 | 12.33 | .59 | 12.04 | 14.31 | 4.89 | -1.79 | 8.57 | 14.66 |
| Conservative | | | | | | 9.56 | 7.07 | 4.38 | 7.36 | 2.97 | 3.38 | -1.92 | 4.67 | 7.00 |

*Total returns including dividends.

EZTracker portfolios invest in the best performing funds. Past performance does not guarantee future results.

Monthly Fund Data

The following represents data on all funds available in the Southwest Airlines 401k and Profit Sharing plans for this month.

| Southwest Pilots | | | | | | |
|--|-------------|---------------|--------|--------|--------|-----------------|
| Fund | Fund Ticker | Total Returns | | | | Tracker Average |
| | | 1 MO | 3 MO | 6 MO | 12 MO | |
| Blackrock Fundamental US Large Company | | 11.74% | 17.66% | 19.60% | 39.64% | 48.36% |
| DFA Emerging Markets Value | DFEVX | 12.20% | 15.78% | 19.54% | 37.82% | 46.55% |
| American Funds EuroPacific GR6 | RERGX | 8.64% | 10.28% | 15.00% | 34.16% | 37.14% |
| Vanguard Total International Stock Index-Inst | VTSNX | 8.52% | 11.68% | 15.58% | 31.14% | 36.51% |
| Vanguard US Equity Institutional Index | VIIIX | 7.30% | 12.73% | 17.07% | 27.58% | 35.29% |
| DFA International Small Cap Value | DISVX | 8.04% | 10.90% | 14.89% | 29.92% | 34.78% |
| Vanguard Total Stock Market Index | VITSX | 6.94% | 12.17% | 16.50% | 26.44% | 33.85% |
| American Funds 2055 Target Date Retirement | | 7.35% | 11.44% | 15.02% | 26.66% | 32.99% |
| American Funds 2060 Target Date Retirement | | 7.35% | 11.41% | 15.01% | 26.63% | 32.95% |
| American Funds 2050 Target Date Retirement | | 7.33% | 11.42% | 15.03% | 26.57% | 32.92% |
| American Funds 2045 Target Date Retirement | | 7.26% | 11.26% | 14.87% | 26.40% | 32.62% |
| American Funds 2040 Target Date Retirement | | 7.10% | 11.01% | 14.51% | 25.88% | 31.92% |
| Vanguard Small Cap Growth Index | VSGIX | 5.71% | 10.89% | 14.31% | 25.05% | 30.53% |
| American Funds 2035 Target Date Retirement | | 6.69% | 10.46% | 13.71% | 24.60% | 30.26% |
| American Funds 2030 Target Date Retirement | | 5.80% | 9.04% | 11.84% | 21.28% | 26.17% |
| Schwab Fundamental US Small Co. Index | SFSNX | 4.01% | 8.82% | 12.88% | 15.46% | 22.45% |
| American Funds 2025 Target Date Retirement | | 4.75% | 7.48% | 9.68% | 17.61% | 21.56% |
| BlackRock Global Allocation I | MALOX | 4.75% | 7.17% | 8.62% | 16.33% | 20.12% |
| American Funds 2020 Target Date Retirement | | 3.87% | 6.09% | 7.88% | 14.60% | 17.69% |
| American Funds 2015 Target Date Retirement | | 3.31% | 5.34% | 6.89% | 12.76% | 15.44% |
| American Funds 2010 Target Date Retirement | | 3.02% | 4.89% | 6.34% | 11.79% | 14.20% |
| DFA Global Real Estate Securities | DFGEX | 0.55% | 4.29% | 2.68% | 7.78% | 8.35% |
| Loomis Sayles Core Plus Bond | NERYX | 0.31% | 0.97% | 1.30% | 4.73% | 3.99% |
| Vanguard Total International Bond Index | VTIFX | -0.28% | 0.53% | 1.34% | 3.22% | 2.63% |
| Wells Fargo Stable Asset | | 0.16% | 0.49% | 0.98% | 1.94% | 1.95% |
| Vanguard Total Bond Market Index -Inst | VBTIX | -0.54% | -0.07% | -0.09% | 2.70% | 1.10% |
| Vanguard Federal Money Market | VMFXX | 0.11% | 0.29% | 0.53% | 0.86% | 0.98% |
| Vanguard Short-Term Inflation Protected Securities | VTSPX | 0.16% | 0.22% | 0.38% | 0.50% | 0.69% |
| Southwest Non Pilots/Profit Sharing | | | | | | |
| Fund | Fund Ticker | Total Returns | | | | Tracker Average |
| | | 1 MO | 3 MO | 6 MO | 12 MO | |
| Harbor Capital Appreciation | HACAX | 10.88% | 17.33% | 21.81% | 43.97% | 51.28% |
| American Funds EuroPacific GR6 | RERGX | 8.64% | 10.28% | 15.00% | 34.16% | 37.14% |
| Vanguard US Equity Institutional Index | VIIIX | 7.30% | 12.73% | 17.07% | 27.58% | 35.29% |
| Dodge & Cox Stock | DODGX | 7.89% | 14.18% | 17.84% | 24.40% | 35.08% |
| Vanguard Target Retirement 2050 Trust Select | | 6.77% | 10.75% | 14.47% | 25.54% | 31.38% |
| Vanguard Target Retirement 2060 Trust Select | | 6.76% | 10.74% | 14.47% | 25.53% | 31.37% |
| Vanguard Target Retirement 2055 Trust Select | | 6.74% | 10.71% | 14.43% | 25.48% | 31.29% |
| Vanguard Target Retirement 2045 Trust Select | | 6.72% | 10.70% | 14.43% | 25.49% | 31.28% |
| Vanguard Target Retirement 2040 Trust Select | | 6.42% | 10.23% | 13.81% | 24.51% | 29.99% |
| Vanguard Target Retirement 2035 Trust Select | | 5.82% | 9.31% | 12.59% | 22.52% | 27.41% |
| Vanguard Target Retirement 2030 Trust Select | VTTWX | 5.21% | 8.39% | 11.37% | 20.48% | 24.79% |
| FIAM Small Cap Core | | 4.53% | 8.45% | 12.40% | 18.89% | 24.15% |
| Vanguard Target Retirement 2025 Trust Select | | 4.58% | 7.44% | 10.12% | 18.49% | 22.16% |
| Vanguard Target Retirement 2020 Trust Select | | 3.89% | 6.44% | 8.78% | 16.20% | 19.27% |
| Vanguard Target Retirement 2015 Trust Select | | 2.94% | 4.96% | 6.80% | 12.92% | 15.07% |
| Southwest Common Stock | LUV | -7.67% | 11.23% | 7.51% | 12.80% | 13.02% |
| Vanguard Target Retirement Income Select | | 2.03% | 3.51% | 4.87% | 9.49% | 10.85% |
| PIMCO Funds Total Return Institutional | PTTRX | -0.29% | -0.09% | 0.33% | 3.79% | 2.04% |
| Stable Value Fund | | 0.14% | 0.40% | 0.79% | 1.53% | 1.56% |

Pilots' Expanded Portfolio

In 2011 we added a new 401k portfolio for Pilots – **the Expanded Portfolio**. The decision to add this portfolio comes as a result of requests from pilots to make use of the PCRA and pressure from the SWPA 401k committee to limit trading activity in the core 401k plan. The Schwab Personal Choice Retirement Account (PCRA) is a self-directed brokerage account that supplements your core retirement account investments and provides access to a greatly expanded range of investments. Pilots can use the PCRA for up to 95% of their 401k. Our new portfolio reflects this flexibility.

- The **Expanded Portfolio** is based on 100+ ETFs we believe provide a great range of investment options. These ETFs provide a much wider range of investment options than provided in the basic 401k plan for Southwest pilots. These Schwab ETFs that trade commission-free through the PCRA and have sufficient trading volume to insure good liquidity.

We've selected ETFs rather than mutual funds:

- so this portfolio will not be burdened by trading restrictions imposed by most mutual funds.
- to provide excellent transparency. You can check the composition of any ETF (www.morningstar.com or www.etfdb.com).
- to provide the flexibility of adding coverage of other market segments in the future.

To get started and to open a PCRA account is easy.

1. Go to www.swapa.org and click on the 401k tab and log-in.
2. Click on the \$ sign in the lower right corner and log into your plan.
3. On your account page, select "Investments" from the top menu bar.
4. Select "Schwab Self-Directed Brokerage Account". Here you will be able to get information about starting your account as well as a wide range of general information about this option for your 401k.

To use this portfolio you must open a Self-Directed Brokerage Account through Schwab.

See the updated Pilot 401k Expanded Portfolio on page 2.

For more information call Schwab's PCRA Call Center at 1-888-393-7272

In addition to these ETF holdings, 5% of your 401k must remain within the core 401k plan. Allocate this 5% to the Vanguard Total Money Market (VNFXX). All contributions from your paychecks should be going to the Money Market Fund and then transferred to the PCRA.

Expanded Portfolio for All Other Southwest Employees and the Profit Sharing Plan

In June 2011 we added a new 401k portfolio for all non-pilot employees at Southwest – **the Expanded Portfolio**. This portfolio can also be used by all Southwest employees to manage their Profit Sharing Plan. The decision to add this portfolio is the result of requests from employees to make use of the expanded options available to them and to provide investment opportunities in market segments not available in the plans. The Self-Directed Brokerage Account (SDA) can be used to supplement your core retirement account investments and provides access to a greatly expanded range of investments. Southwest employees (non-pilots) managing their 401k and all Southwest employees (including pilots) managing their Profit Sharing Plans can use the SDA for up to 50% of the plan. Our new portfolio reflects this flexibility.

The **Expanded Portfolio** adds 25 mutual funds to the current list of investment options available in the 401k. We have selected these mutual funds because:

- They represent investment segments currently under-represented in the 401k (small/mid cap funds, international funds and bond funds).
- Because of the 50% limitation on investing through the SDA, we wanted to have the flexibility to start with a limited number of funds and add funds as needed.
- All of the selected funds are No-Load/No Transaction Fee funds. There are no commissions, although there are trading restrictions.

To get started and to open a SDA account is easy.

1. Go to: www.freedomtoretire.com and log-in
2. Select Retirement Brokerage Services – Self Directed Account
3. You can view a demo, open your account and get a User's Guide.
4. After you have opened your SDA account, you can transfer up to 50% of your 401k balance to the Retirement Brokerage Services SDA.
5. See the Expanded Model Portfolio on page 2.

For Help, call the SDA Service Center at 1-800-776-6061.

Monthly Fund Data...Pilot's Expanded Portfolio

This is an aggressive portfolio designed for investors who are comfortable using online brokerage services and want to take a more active role in managing their 401k portfolios. This partial list of ETFs are the top 30 this month of the 100 ETFs we track at Schwab.

| Schwab ETF Portfolio | Symbol | 1 Mo | 3 Mo | 6 Mo | 12 Mo | Avg |
|--|--------|--------|--------|--------|--------|--------|
| Global X Robotics & Art. Intell. | BOTZ | 14.25% | 18.93% | 38.42% | 66.46% | 75.30% |
| SPDR S&P China ETF | GXC | 15.78% | 20.34% | 30.82% | 62.57% | 70.64% |
| PowerShares Emerging Mkts Momentum | PIE | 10.44% | 15.10% | 23.23% | 44.61% | 50.94% |
| U.S. Brent Oil Fund | BNO | 6.39% | 20.44% | 41.85% | 23.79% | 50.44% |
| Guggenheim BRIC ETF | EEB | 12.81% | 15.76% | 24.29% | 36.57% | 48.78% |
| Schwab Emerging Markets Equity | SCHE | 12.32% | 16.76% | 20.84% | 38.40% | 48.18% |
| SPDR S&P Emerging Markets Dividend | EDIV | 12.48% | 20.67% | 18.00% | 31.25% | 44.94% |
| Guggenheim Frontier Markets | FRN | 11.26% | 15.30% | 18.32% | 35.48% | 43.83% |
| Schwab Fundamental Emerging Mkts | FNDE | 13.04% | 16.36% | 19.95% | 30.76% | 43.69% |
| Gugg'hm S&P500 Equal Wgt Technology | RYT | 9.22% | 11.65% | 19.68% | 39.17% | 43.48% |
| United States 12 Month Oil | USL | 9.24% | 22.32% | 30.78% | 13.39% | 41.31% |
| WisdomTree U.S. Dividend Growth | DGRW | 7.32% | 14.24% | 20.60% | 33.57% | 41.31% |
| Schwab U.S. Large-Cap Growth | SCHG | 8.43% | 14.88% | 18.38% | 33.32% | 40.91% |
| Guggenheim S&P 500 Pure Growth | RPG | 9.87% | 12.74% | 18.06% | 34.31% | 40.90% |
| SPDR S&P Emerging Markets Small Cap | EWX | 9.63% | 12.62% | 17.50% | 34.76% | 40.64% |
| Schwab U.S. Dividend Equity | SCHD | 6.60% | 13.32% | 21.39% | 28.21% | 37.92% |
| Schwab Intl Small-Cap Equity | SCHC | 8.13% | 12.17% | 15.66% | 32.63% | 37.41% |
| SPDR S&P Global Natural Resources | GNR | 8.26% | 14.39% | 22.11% | 23.76% | 37.37% |
| PowerShares Em. Mkts. Low Volatiliy | EELV | 10.17% | 13.77% | 13.54% | 30.57% | 37.12% |
| United States Gasoline Fund | UGA | 7.19% | 11.50% | 31.16% | 18.05% | 37.03% |
| PowerShares India Portfolio | PIN | 5.69% | 9.65% | 12.50% | 38.03% | 35.93% |
| SPDR MSCI ACWI (ex-US) | CWI | 8.47% | 11.30% | 15.10% | 30.57% | 35.69% |
| PowerShares Developed Mkts Momentum | PIZ | 7.82% | 10.10% | 13.02% | 34.45% | 35.67% |
| PowerShares S&P 500 High Beta Port. | SPHB | 7.61% | 14.90% | 20.43% | 22.43% | 35.66% |
| Schwab Fundamental Intl. Small Company | FNDC | 7.09% | 11.00% | 15.53% | 31.50% | 35.53% |
| Select Sector SPDR Fund - Industrial | XLI | 6.86% | 12.18% | 18.70% | 27.39% | 35.53% |
| Gugg'hm S&P500 Equal Wgt Financials | RYF | 7.21% | 11.92% | 17.94% | 27.63% | 35.29% |
| Schwab U.S. Large-Cap | SCHX | 7.17% | 12.56% | 16.85% | 27.30% | 34.85% |
| Powershares DWA Momentum | PDP | 7.95% | 10.96% | 15.26% | 29.50% | 34.73% |
| Schwab U.S. Broad Market | SCHB | 6.90% | 12.17% | 16.43% | 26.34% | 33.73% |
| Guggenheim S&P 500 Pure Value | RPV | 6.58% | 13.66% | 17.81% | 23.09% | 33.35% |
| Schwab International Equity | SCHF | 7.20% | 10.22% | 13.86% | 28.89% | 32.82% |
| Schwab Fundamental Intl. Large Company | FNDF | 7.30% | 10.58% | 15.26% | 26.77% | 32.68% |
| PowerShares Buyback Achievers | PKW | 6.89% | 12.60% | 16.15% | 23.89% | 32.47% |
| Schwab Fundamental U.S. Large Company | FNDX | 6.45% | 12.59% | 17.52% | 22.84% | 32.40% |
| SPDR Stoxx Europe 350 | FEU | 7.08% | 9.41% | 11.25% | 28.77% | 30.83% |
| JP Morgan Diver. Return Intl. Equity | JPIN | 6.15% | 9.74% | 12.25% | 27.53% | 30.37% |
| Guggenheim S&P 500 Equal Weight | RSP | 6.17% | 11.58% | 14.80% | 22.66% | 30.11% |
| Schwab U.S. Large-Cap Value | SCHV | 6.01% | 10.48% | 15.47% | 22.03% | 29.45% |
| Schwab U.S. Mid-Cap | SCHM | 5.50% | 10.90% | 14.98% | 22.50% | 29.39% |
| ALPS Sector Dividend Dogs | SDOG | 7.02% | 11.25% | 16.55% | 18.75% | 29.22% |
| PowerShares International Dividend | PID | 5.47% | 10.36% | 12.08% | 20.56% | 26.44% |
| PowerShares S&P International Devel | IDLV | 5.66% | 7.85% | 8.73% | 23.55% | 24.98% |
| Schwab U.S. Small-Cap | SCHA | 4.42% | 8.59% | 12.70% | 17.99% | 23.84% |
| Oppenheimer Ultra Dividend | RDIV | 2.87% | 10.58% | 15.86% | 13.93% | 23.59% |
| Gugg'hm S&P500 Equal Wgt Consum. Staples | RHS | 2.41% | 13.49% | 10.50% | 15.29% | 22.74% |
| Schwab Fundamental U.S. Small Company | FNDA | 4.04% | 8.78% | 12.83% | 15.49% | 22.44% |
| Global X MLP & Energy Infrastructure | MPLX | 7.56% | 15.28% | 10.30% | 7.67% | 22.26% |
| PowerShares S&P 500 Low Volatility | SPLV | 3.97% | 5.89% | 10.44% | 20.48% | 22.24% |
| SPDR S&P International Dividend | DWX | 5.09% | 7.67% | 8.29% | 19.37% | 22.05% |

Monthly Fund Data...Expanded Portfolio for Non-Pilots and Profit Sharing Plan

This is an aggressive portfolio designed for investors who are comfortable using online brokerage services and want to take a more active role in managing their 401k/Profit Sharing portfolios. The following mutual funds have been selected to supplement the choices available to non-pilot employees at Southwest for the 401k plan and all employees for the Profit Sharing Plan. These funds have been selected to broaden the investment choices for these employees by providing investment options in market segments not currently covered by the current plan.

| Southwest Expanded Portfolio for NonPilots & Profit Sharing | | | | | | |
|---|--------|---------------|--------|--------|--------|---------|
| | Fund | Total Returns | | | | Tracker |
| Fund | Ticker | 1 MO | 3 MO | 6 MO | 12 MO | Average |
| Schwab Fund. Emerg Mkts Large Co Idx | SFENX | 13.20% | 15.87% | 20.01% | 30.32% | 43.32% |
| Schwab Large-Cap Growth Fund | SWLSX | 7.13% | 13.61% | 17.33% | 33.21% | 38.88% |
| Schwab Fundmtl Interntl Small Co Index | SFILX | 7.23% | 11.17% | 15.50% | 31.64% | 35.75% |
| Schwab S&P 500 Index Fund | SWPPX | 7.29% | 12.72% | 17.05% | 27.55% | 35.25% |
| Schwab Health Care Fund | SWHFX | 9.48% | 11.34% | 12.97% | 30.37% | 35.00% |
| Schwab Core Equity Fund | SWANX | 6.46% | 12.16% | 16.70% | 28.81% | 34.98% |
| Schwab 1000 Index Fund | SNXFX | 7.11% | 12.51% | 16.83% | 27.09% | 34.66% |
| Schwab Total Stock Market Index Fund | SWTSX | 6.90% | 12.12% | 16.40% | 26.26% | 33.65% |
| Schwab International Index Fund | SWISX | 7.65% | 10.42% | 13.98% | 29.15% | 33.38% |
| Schwab Fundmtl Interntl Large Co Index | SFNNX | 7.59% | 10.76% | 15.27% | 26.85% | 32.99% |
| Schwab Fundamental US Large Co Index | SFLNX | 6.52% | 12.69% | 17.63% | 23.02% | 32.66% |
| Schwab International Core Equity Fund | SICNX | 7.78% | 9.27% | 12.07% | 28.55% | 31.45% |
| Schwab Dividend Equity Fund | SWDSX | 5.38% | 10.26% | 14.44% | 20.26% | 27.46% |
| Schwab Fundmtl Global RE Index | SFREX | 5.66% | 7.70% | 10.37% | 23.50% | 25.77% |
| Schwab Small-Cap Index Fund | SWSSX | 4.25% | 7.73% | 12.20% | 18.50% | 23.29% |
| Schwab Fundamental US Small Co. Index | SFSNX | 4.01% | 8.82% | 12.88% | 15.46% | 22.45% |
| Schwab Small-Cap Equity Fund | SWSCX | 4.82% | 7.69% | 11.96% | 16.54% | 22.37% |
| Schwab Global Real Estate Fund | SWASX | 4.32% | 5.85% | 5.98% | 16.44% | 17.78% |
| Schwab Hedged Equity Fund | SWHEX | 3.56% | 7.11% | 9.15% | 12.07% | 17.39% |
| Schwab Treasury Inflation Prot. Sec. Index | SWRSX | 0.09% | 0.99% | 1.03% | 1.83% | 2.15% |
| Schwab Intermediate-Term Bond Fund | SWIIX | -0.52% | -0.59% | -0.70% | 1.15% | -0.37% |
| Schwab GNMA Fund | SWG SX | -0.59% | -0.57% | -0.55% | 0.83% | -0.48% |
| Schwab Short-Term Bond Index | SWSBX | -0.24% | -0.56% | -0.64% | NA | NA |
| Schwab U.S. Aggregate Bond Index | SWAGX | -0.57% | -0.26% | -0.24% | NA | NA |

Southwest employees (non-pilots) may allocate up to 50% of their 401k portfolio to investments outside of the current plan offerings.
All Southwest employees may allocate up to 50% of their Profit Sharing portfolio to investments outside of the current plan offerings.

Change and Rebalance Procedures

PILOTS' 401K/

Change Investments/Rebalance/Transfer/Future Investments

- Log on to www.swapa.org and click on the \$ sign on bottom.
- Under Participant Login enter Username and Password and sign in.
- Hit "Manage Accounts" at top of page and "Southwest Pilots Retirement Savings Plan".
- Hit "Change Investments" on the top of the page.

Current Subscribers:

- Select "Trade an Investment".
- Select "Begin Transfer" (Roth or Non Roth).
- Under Transfer of Assets, select "all contribution types
- Put Percentage amount into box(s) From.
- Put Percentage amount into box(s) To.
- Complete the transfer process
- Hit "Continue".
- Hit "Submit".
- To set your Future Contributions, click on "Future Investments" on the "Manage Account" page
- Under Future Contributions, select "apply rebalance selections to future contributions"
- Enter percentages in the boxes in the "% After Rebalance" column
- Click "Continue"

New Subscribers or if you haven't made any changes to your account within the past 90 days: Select "Rebalance Your Investments" to rebalance your entire account.

- Under Trade Assets of, select "all contribution types
- Under Future Contributions, select "apply rebalance selections to future contributions"
- Enter percentages in the boxes in the "% After Rebalance" column
- Click "Continue"

Questions please call 1-800-969-7972 ext. 4222

NON-PILOTS'/PROFIT SHARING

Log in with your Username and Password to:

<https://freedomtoretire.empower-retirement.com/participant/#/login?accu=SWA>

- Click on "My Accounts" at the top of the page.
- Select "Southwest Airlines Co. 401k Plan"
- On left side under "Investments" Tab, click on "View/Manage my Investments"
- On right side, click on first box "Change My Investments" (Under Non-Roth Current Balance & Future Allocation)
- Select the circle for "Change how my current balance is invested"
- On the next page, select the circle for "Change how my current balance is invested"
- Go to the bottom of the page, you see "This fund transfer will apply to your existing balance (s) only....(in yellow box). Under that enter the Fund-to-Fund transfer amounts in the "Transfer From" boxes and the "Transfer To" boxes.
- If making more than one transfer, then select "Select another Transfer" or if finished select "Review Transfer(s)" box.
- Click the blue box for "OK" under "There are Warnings"
- Click the blue box that says "Submit"

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