VOLUME 27 ◆ NUMBER 5

Sound Mind Investing®
Financial Wisdom for Living Well
WWW.SOUNDMINDINVESTING.COM

New Ways of Thinking About Reverse Mortgages

Reverse mortgages used to be considered a cash-flow option of last resort. That perception is changing, due to new regulations that have made them safer, as well as new cash-flow strategies that appeal to younger retirees. Still, a reverse mortgage remains an expensive option that requires careful consideration. This excerpt from Jane Bryant Quinn's excellent *How To Make Your Money Last* retirement guide provides an introduction to the topic.

by Jane Bryant Quinn

I've changed my mind about reverse mortgages. I used to see more risk than reward for most borrowers. But the risk has diminished. New federal regulations make reverse mortgages safer for people in their late 70s and 80s who need extra money to help them stay in their homes. New cash-flow strategies make them interesting for people in their early 60s and 70s who want to improve their monthly retirement income.

Reverse mortgages defined

A *reverse mortgage* is a loan against the equity you hold in your home. You don't have to repay it as long as you're living in the house. Instead the lender makes payments to you, entirely tax free. Your only obligation is to cover the cost of homeowner's insurance, property taxes, and general upkeep.

Eventually, the house will be sold—because you move, enter a nursing home permanently, or die. The proceeds of the sale will be used to repay the loan plus all the accumulated interest and fees. If the house sells for more than what's owed, the remaining money goes to you or your heirs. If it sells for less, you or your heirs walk away—you get nothing but you're also not responsible for any additional money owed.

You can get a reverse mortgage, individually, as early as age 62. If you borrow jointly with a spouse, only one of you has to be 62. The younger your partner, however, the less money you will get. If your spouse isn't on the loan, he or she risks eviction if you die.

Almost all reverse mortgages come in the form of a Home-Equity Conversion Mortgage (HECM). It's issued by private lenders and insured by the Federal Housing Administration (FHA). You can borrow against a single-family house, a two- to four-unit home provided that you live in one of the units, an FHA-approved condominium, and most manufactured homes that sit on property you own. Mobile homes are out. So are vacation homes. Reverse mortgages can be used only for your principal residence. These loans work best when your home is completely (or substantially) mortgage free. But you can use them to help pay off an existing mortgage, too.

Reverse mortgages are *expensive* compared with traditional loans. You pay more in up-front and annual FHA fees *and* the total amount you owe goes up every month because the cost of the interest and fees compounds within the loan. Paying these fees makes sense only if *(continued on page 67)*

IN THIS ISSUE

66 Editorial / Years of Plenty, Years of Famine — 10 Years Later
70 Level 1 / Do You Need Rental-Car Insurance?
71 Level 2 / How Regular Monthly Investments Use Bear Markets to Your Advantage
72 Level 3 / First Quarter Review of SMI's Investing Strategies
73 Level 4 / Life Insurance in Disguise — Making a Wise Survivorship Decision
74 Basic Strategies 75 Premium Strategies
76 New Stock Fund Recommendation 80 Performance Data

EDITORIAL

Years of Plenty, Years of Famine — 10 Years Later

Ten years ago, in the summer of 2006, I wrote an editorial titled *Years of Plenty, Years of Famine*. In it, I told how Joseph has always been one of my favorite Bible characters. His roller-coaster ride from favorite son to slave to master of the house to prisoner to Viceroy of Egypt is both amazing and inspiring. The culmination of the story in Genesis 50:20 holds out hope to every believer going through difficult times: "*You intended to harm me, but God intended it for good*." What an inspiring example of God at work in the affairs of men to accomplish His ultimate purposes!

The turning point of Joseph's experience in Egypt occurs when he interprets a pair of dreams for Pharaoh. He realizes that Egypt will soon experience seven years of abundance, followed by seven years of famine. Joseph is put in charge of the preparations during the years of plenty, so that the people can survive the coming years of famine.

In that editorial, I suggested that America might have been facing a similar "years of plenty, years of famine" scenario. If that was a possibility, I wrote that we would be wise to consider the personal implications of Joseph's story and start making appropriate preparations *now,* during the years of plenty, for any difficult years ahead.

The point of revisiting this 10 years later isn't to take a victory lap, pointing out the financial crisis and economic trouble that began a couple of years later. Rather, it's to reexamine some of the takeaways we gleaned then and see if there's any beneficial application for us today.

America—and in fact the entire global economy—certainly faced a frightening economic storm in 2008-2009. Many wondered if the current financial/economic system would even survive. It has, but many believe the core issues that led to the financial crisis and global recession were never truly addressed. Rather than recognize the dangerous implications of our runaway debt, we've added trillions more. Rather than reform a financial system sorely lacking adequate controls, we implement stress tests to comfort ourselves that the massive banks we've allowed to grow even bigger are "safe" now. Rather than step back from the type of active and interventionist central-bank policies that helped lay the ground work for the initial financial crisis, we've doubled down with Quantitative Easings and negative interest-rate policies. And rather than our political leaders coming together to deal in a substantive way with the most important issues of our time, our politics are more fractured and divided than they've been in my lifetime.

Have the bankers and policymakers simply kicked the years-of-famine "can" further down the road, avoiding the worst of it for now only to ensure a future due date? We can only speculate. But we do know the Bible has many clear warnings about debt,[1] so as was the case a decade ago, it doesn't take a prophet to see that at some point our national debt addiction is likely to cause problems.

Of much greater importance than our *national* problems are the protective principles God has provided to help us prepare *individually* for future storms. If we're wise, we'll use any current "years of plenty" to prepare for potential hardship in the future. We can do that by diligently working to get debt-free, funding an emergency-savings reserve, investing for the future, and diversifying broadly.

Joseph wisely set aside 20% of the harvested grain, and was able to save not only Egypt during the eventual famine, but the surrounding nations as well. That should be our goal—to be faithful stewards when times are good, in preparation for those times when they will not be. In being faithful this way, we may find ourselves being used, like Joseph, as instruments of God's deliverance in times of distress. (Naturally, we shouldn't be so preoccupied with the future that we fail to be generous givers now. God will provide!)

A major theme of Joseph's story is that God is at work even in times of hardship. Like the ancient Israelites, many Americans turn to God during crisis, only to go back to their "old idols" when the threat recedes. Those crises can be widespread, as in 2008. Or they can be individual, as in the case of a neighbor or co-worker falling on hard times. In either case, having our own financial house in order may enable us to reach out and help, while also offering the spiritual food that *truly* satisifies.

MARK BILLER
EXECUTIVE EDITOR

NECESSARY CAUTIONS
It should not be assumed that all investment recommendations will necessarily be profitable. The information published in SMI is compiled from sources believed to be correct, but no warranty as to accuracy is made. SMI is not responsible for any errors or omissions. The counsel given herein is not a substitute for personalized legal or financial planning advice.

CONTACTING US
Correspondence can be emailed to SMI at help@soundmindinvesting.com. Our toll-free Reader Services line (877-736-3764) is available for handling clerical matters such as subscriptions, billings, newsletters not received, and changes of address. Please be advised, however, that the SMI staff is not trained in matters of personal counseling and it is our policy that they not attempt to do so over the phone. If our staff is busy when you call, you may leave your information on our secure answering system.

COPYRIGHT
No part of this newsletter may be reproduced in any fashion without the prior written consent of SMI. © May 2016 by SMI, LLC. All rights are reserved.

POSTMASTER
Sound Mind Investing is published monthly by Sound Mind Investing, 9700 Park Plaza Ave Ste 202, Louisville, KY 40241-2287. Periodicals postage paid at Louisville, Kentucky USPS (006344). POSTMASTER: Address changes to: SMI, 9700 Park Plaza Ave, Unit 202, Louisville, KY 40241-2287. This is Issue 311 • Volume 27 Number 5. Mailing date: 5/4/2016.

[1] April2012:p64

New Ways of Thinking About Reverse Mortgages

(continued from front page)

the loan is part of a carefully thought-out plan.

How reverse mortgages work, step by step

1. A lender agrees to make the loan. How much you can borrow depends on the appraised value of your home, current interest rates, the age of the youngest borrower, and how much (if anything) you still owe on the home.[1] The older you are and the less you still owe, the more money you can get. Appraised values are capped at $625,500, which limits the amount of money you can borrow on more expensive homes.

2. As part of the deal, you have to pay off any remaining mortgages on the house, including home-equity loans. If you don't have the cash, you can use the proceeds of the reverse mortgage to help make the payoff. Any liens or court judgments secured by the house have to be repaid, as well. The loan is off the table, however, if you're delinquent on any federal debt, including student loans that you might have cosigned.

3. Before you can close the loan, you have to reveal the size of your income and savings. The lender must be satisfied that you can pay the ongoing costs of homeownership (insurance, property taxes, condominium fees, upkeep) and still have enough left to live on.

4. You're required to go through reverse mortgage counseling, by phone or face-to-face. The lender will give you some names.[2] Be warned that the counselors won't help you choose the best option for your circumstances. Their job is merely to ensure that you understand the terms of the loan and what it means, to you and your heirs, when you spend down your home equity. They're also required to tell you about alternatives to the reverse mortgage, such as local programs that help low-income homeowners. Customized cost estimates of specific loans may be had from some reverse mortgage counselors working with specialized software. To make the best use of the software, you should talk with the counselor face-to-face, not just over the phone. A HECM counselor's advice is free or low cost (typically, $125).

5. You pay little or no cash up front. All closing and FHA insurance costs can be included in the loan.

6. You can receive the money from your reverse mortgage in one of several ways:

• A credit line that you can borrow against at any time. This is normally the best choice because it's not an ordinary credit line. The amount you can borrow rises every year at the same rate as the interest rate you're paying on the loan. If you use very little of the money during the first few years, you'll be able to access much more cash when you are older. That makes your HECM credit line an excellent hedge against future inflation or increased medical costs. If you borrow too much too fast, however, you might be entitled only to smaller amounts in your later years.

• A check a month, for a fixed amount, paid as long as you're in the house. The lender will calculate the size of the check based on the total sum you're allowed to borrow. The checks will keep coming even if they exceed your original borrowing limit.

• A fixed number of checks. Once you've received them all, the game ends. No more money will be paid. These checks can be for larger amounts than the check-a-month deal because the lender knows—in advance—when its obligation will end. You can't exceed your borrowing limit.

• A lump sum. This is the most tempting choice because it's nice to have so much cash in hand. But it also makes it more likely that you'll run through the money and still won't be able to keep your house. Lump-sum borrowers also have to pay higher fees.

• A combination of the above. For example, you might take $25,000 up front, $800 a month for as long as you live in the house, and a $60,000 credit line.

7. Each reverse-mortgage check looks and feels like income. But it isn't income, it's a loan. You owe no taxes on the money. Also, you don't have to count it when figuring whether your Social Security is taxable or whether you owe a higher Medicare premium. It might affect your eligibility for Medicaid, however (Medicaid pays for nursing home care if you run out of money).

8. You don't have to repay a penny as long as you stay in the house. The loan normally comes due only if you sell the house and move somewhere else, enter a nursing home for a long stay (usually 12 months or more), or die. If you own the house with a spouse and you're both on the HECM, these terms apply to you both. If one of you enters a nursing home, the other one can stay in the house and keep using the HECM credit line or receiving scheduled monthly payments.

9. You can be forced out of the house if you fail to pay real-estate taxes or homeowners' insurance, or if you let the house run down. People run this risk when their income is too low to cover their projected living expenses. They take a HECM in a lump sum, spend all the money, then go broke. They default on their insurance and taxes and lose the home.

A new regulation, first effective in 2015, is greatly reducing this default risk. If your income is marginal, the lender is no longer allowed to give you the whole loan amount. Part of it will be set aside in a special fund that's expected to cover your housing expenses (insurance, taxes, upkeep) over your lifetime. Sometimes these set-asides leave you with hardly any additional spendable income. In that case, skip the HECM. The lender is effectively telling you that you can't afford your home. Best to sell right away and downsize.

10. When the house is sold, the HECM is repaid out of the proceeds. If there's money left over, it goes to you or your heirs. If the proceeds of the sale aren't large enough to cover the loan, you or your heirs owe nothing but also get nothing. You'll have spent the entire value of your home.

What does a Home-Equity Conversion Mortgage cost?

HECMs come with fixed interest rates or variable rates. You don't pay the interest monthly, as you do with regular mortgages. Instead, it's added to the amount of your loan. Both principal and interest fall due when the house is finally sold.

From a current-income point of view, it makes no difference how much interest accumulates. You always get the amount of borrowing power that you signed up for—the

[1]If you have little or no equity in your house, you won't qualify. [2]You can also search for counselors online or call the counseling line of the U.S. Department of Housing and Urban Development at 800-569-4287.

lump sum, the monthly checks, or the credit line. The cost shows up in the amount of money you (or your heirs) realize from the proceeds of the eventual sale. The more interest you owe and the less your house appreciated in value, the less money will be left over for the family.

A *fixed-rate* HECM is of interest only to people for whom the fixed rate matters more than the cost or the amount of money they receive. The lender normally lets you borrow no more than 60% of the total allowable amount in the first year. That's all. You **can't** come back for the remaining 40% in the second year. You have to take the money in a lump sum; you can't get monthly payments or a credit line. The interest rate might be nearly double that of a new variable-rate HECM. At this writing, many lenders aren't even writing fixed-rate HECMs.

A *variable-rate* HECM also sets a normal borrowing limit of 60% of the allowable loan amount in the first year. But thanks to the lower interest rate, that might add up to more dollars than you'd get from a fixed-rate loan. Twelve months later, you **can** come back for the remaining 40%.

That is, assuming that you want to take as much as possible up front. You can also take the loan in the form of monthly payments or a credit line. The rate changes every week and can't increase by more than 10 percentage points above the starting rate. Some loans have lower caps. Remember that rising rates do not affect the income you receive from your loan. Instead, they reduce the amount of equity left in the house when it's finally sold.

You can pay the fees on HECMs out of pocket but usually they're added to the cost of the loan and accumulate over time. Here's a list of your costs:

• An up-front loan insurance fee, charged by the Federal Housing Administration. You pay 0.5% of the appraised value of your house, provided that you borrow no more than 60% of the allowable amount in the first year. For example, on a $300,000 house you'd pay $1,500. The value is capped at $625,500, so the most you'd pay is $3,125.

You can take more than 60% of the loan in the first year if you need the money to pay off existing mortgages, tax liens, or other debt secured by your home. But in that case, your up-front FHA fee will jump to 2.5% of the value of the house. On a more expensive house, you'd pay up to $15,625. A HECM that expensive might not be worth its price.

• The annual FHA mortgage-insurance premium. You pay 1.25% a year on the outstanding balance of the loan.

• The loan-origination fee. Some lenders charge this up front; others charge zero up front but raise your interest rate. Fees are capped at 2% of the first $200,000 of your home's appraised value and 1% of the remaining amount, up to a maximum fee of $6,000. On a $300,000 home, that's $5,000.

• Repair costs. Before you can borrow, an appraiser has to certify that the house is sound. If the cost of repairs will amount to no more than 15% of the value of the house, you can take the reverse mortgage and use some of the proceeds to make the necessary fixes. If the cost will be higher, you have to make the repairs yourself before closing the loan.

• Closing costs. You pay many of the normal closing costs that you would for any other mortgage, such as document fees, courier fees, title insurance, credit report fees, etc.

• Annual service fees. These are usually included in the interest rate but some lenders charge them separately.

• Compounding costs. You pay interest on all the fees added to the loan. These costs build up fast, making it less likely that you'll have any equity left when the house is sold.

Using a Home-Equity Conversion Mortgage strategically

A reverse mortgage puts extra money in your pocket right away. But always consider the endgame before signing up. What if you're unable to stay in your home for life? When you sell, you might get little or nothing after repaying the loan. That would be harmful if you needed cash to buy/rent an apartment or enter an assisted-living home. Ideally, you should manage the loan so that you'll always have home equity left or, alternatively, always have a pot of savings on the side. Here's how to think about the most common reasons for taking a HECM:

• Borrowing as part of a 20 or 30-year spending plan. This savvy use of a HECM is catching on with financial planners. It's what changed my mind about the potential value of HECMs for people in their early 60s and 70s.

Say that you're planning for a 30-year retirement. You should generally spend no more than 4-5% of your savings in the first year you retire, plus annual inflation adjustments, if you need the money to last for at least 30 years. For a 20-year retirement, you might take 5-6%. But what if that rate of withdrawal doesn't deliver the standard of living you want? A HECM can help you increase your annual income by combining your savings and home equity into a single spending pot.

To do that, take a reverse mortgage as early as age 62. Set it up as a standby line of credit and—at first—don't borrow against it. Instead, pay your bills by drawing, say, 6% out of your savings in the first year (for a 30-year retirement) and raising that dollar amount by the inflation rate in each following year. When your savings run low, switch to taking the money you need from your reverse-mortgage credit line. By now, the credit line will be much larger than it was when you started.

There are other ways of setting up your HECM-linked spending plan. You might pay bills from your savings in a year that your investments rise in value and pay them from the HECM credit line in a year the market falls. That saves you from having to sell stocks at a lower price. Or you might pay your bills entirely from the credit line for several years, leaving your investments alone to grow.

A well-planned rate of withdrawal from both pots of money raises your current income and can lengthen the number of years your money will last. The combo might even raise the amount of money you leave to heirs.

The longer you wait to take the reverse mortgage, the less efficient it will be. You need 15 to 20 years to spread out the effects of the high up-front cost. Adopt this strategy only if you've determined that you're going to stay in your home and will need a higher income to keep you there.

• Borrowing to pay the bulk of your living expenses. This is the classic—and riskiest—use of a reverse mortgage. You live on your retirement savings for as long as you can. As a last resort, you take a reverse mortgage so that you can

pay the bills and stay in your house. If you borrow in the form of a lump sum and run through the money, you're stuck. You might not be able to afford the taxes and insurance anymore. At that point, the HECM lender can call in the loan and force you to sell your house. The sale price might not be high enough to cover the loan repayment. You'd be on the street without enough cash to buy something else.

• **Borrowing to eliminate your traditional mortgage.** Depending on how large your mortgage is, you might be able to use the proceeds of a reverse mortgage to wipe out everything you still owe. That ends the monthly payment and raises your spendable income. This use of a HECM, however, can also be risky business. Presumably, you're taking the loan because you're having trouble meeting the mortgage payments and other bills. The new loan will help you stay in your home only if you have enough cash flow to pay your expenses from now until the horizon, inflation included. If this is another form of last-resort borrowing, you should think about selling right away and finding less costly housing somewhere else.

• **Borrowing for fun and grandchildren.** I've seen celebrity TV ads aimed at the early 60s crowd, urging you to borrow a lump sum against your home and spend it while you're still young. Take a cruise! Buy an RV! Send your grandchildren to college! All worthy goals, but will you be blowing your home equity too fast? Can you pay your bills for the rest of your life when that form of savings is gone? Taking a reverse mortgage is an expensive way of paying for a vacation. Instead of the lump sum, consider taking a credit line and using modest amounts each year to give yourself a more comfortable life. (Note that lenders love for you to take lump sums because they collect high interest on all the money from the first day. That's why they pay all those aging celebrities to shill.)

When you sell the house, what then?

Don't leave yourself stranded with no cash on hand. If you decide to leave your house (or have to leave for reasons of health), you'll want enough savings or home equity on hand to set up new digs. If you'll need assisted living, you'll find better choices when you can pay the bill yourself for at least the first few months before going on Medicaid.

So don't borrow every possible dime against your home. Take the reverse mortgage in the form of a credit line and monitor how much savings and equity you have on hand each year. Maybe your house will rise in value, adding a bit to your equity, but don't rely on that. If your total pot of savings looks threatened, downsize while you still can extract some cash from the sale.

Spouse Warning: Don't let yourself get kicked out!

This warning applies to spouses who are not on the deed to the house or on the HECM loan.

On loans made prior to August 4, 2014, you're at great risk. If the borrowing spouse dies, the loan becomes "due and payable." To stay in your home, you'll have to repay the outstanding loan balance or 95% of the home's current market value, whichever is less.

If you can't raise the funds by refinancing the HECM or getting a traditional mortgage, you might have to move out. The loan also becomes due if the borrowing spouse enters a nursing home and stays for more than 12 months.[1]

The rules change for HECMs made on August 4, 2014, or later. The nonborrowing spouse will be able to stay in the home provided that he or she keeps up with the taxes, insurance, any condominium fees, and repairs. The reverse mortgage will not fall due. The age of the nonborrowing spouse will affect the amount of money the borrower can receive. If your spouse is younger, you'll get less.

• **Big warning:** Payouts from the reverse mortgage end if the borrowing spouse dies or leaves the home permanently. The remaining spouse will not receive more monthly payments or be allowed to tap the credit line. He or she will have to pay all the household bills from whatever money is already on hand. Even that right will apply only to a nonborrowing spouse who was in place when the HECM was made. A spouse who entered the picture later will have to pay off the loan or move out.

• **Best advice for spouse protection:** He or she should be on the deed to the house and the HECM should be signed jointly. If your estate plan requires some other arrangement, be sure that the spouse can afford the house if left alone.

• **Alert to parents who have an adult child at home, perhaps a child who's impaired:** The child can't be made part of the reverse mortgage contract. If you die or move to a nursing home permanently, the child will have to buy the house or move out. If the child inherits the house there might be no home equity left to assist with his or her support. For you, a HECM might not be the right way to go.

Where to find tons of information on reverse mortgages

• Go to the website mtgprofessor.com. Jack Guttentag, real-estate expert and professor of finance emeritus at the Wharton School of the University of Pennsylvania, has put together the best package of information and guidance I have found anywhere. You get a sophisticated calculator showing what you can borrow at different ages and with different options. At this writing, you can even get personal advice from Jack or one of his surrogates.

You'll also find offers from loan advisers who agree to follow best practices when arranging a reverse mortgage. They'll suggest a package of up-front cash, fixed payments, and a credit line intended to meet your needs and hold down your costs over the period you'll keep the loan.

• Go to AARP.org/revmort. AARP provides questions to ask yourself before taking a reverse mortgage, a guide to these loans, and warnings about what can happen if you borrow to cover your basic expenses and then run out of money.

• Go to ReverseMortgage.org, the website of the National Reverse Mortgage Lenders Association. You'll find more info on reverse mortgages and a glossary of terms. NRMLA also posts estimates of current reverse-mortgage prices. But they're consistently higher—sometimes much higher—than the prices offered by lenders on mtgprofessor.com. ◆

From How to Make Your Money Last: The Indispensable Retirement Guide by Jane Bryant Quinn. Copyright © 2016 by Quinn Works. Reprinted by permission of Simon & Schuster, Inc.

[1]At this writing, litigation brought by AARP has led to a delay in evicting nonborrowing spouses. Whether they'll be allowed to stay in the home permanently has not yet been decided.

LEVEL 1 ONE

Strengthening Your Foundation

Wise money management begins with a strong financial foundation. In this column, we cover topics such as how to manage cash flow, apply strategies for getting debt-free, make wise purchasing decisions, build savings, choose appropriate insurance protection, navigate marital financial issues, and many more.

"By wisdom a house is built, and through understanding it is established." Proverbs 24:3

DO YOU NEED RENTAL-CAR INSURANCE?

With the summer vacation season around the corner, soon you may find yourself standing at a rental-car counter engaged in a potentially awkward conversation about insurance coverage. The rental-car agent may tell you there are two options: full coverage or basic.

As you do the math and realize the cost of your rental car may be about to double, the agent bolsters his pitch by rattling off a series of unfortunate events that would make the insurance a bargain: collision, vandalism, theft—oh my.

The agent speaks in the quick monotone reminiscent of those warnings that are always tacked onto the end of prescription-drug commercials concerning potential side-effects ("may cause brain damage or instant death!"). As you start to sweat, you wonder whether there's time to cancel the resort you booked and check in at a budget motel instead in order to afford the insurance.

All of this could be avoided with a little knowledge gained before your trip. What the agents usually fail to mention is there's a third option—*you may already be covered* by the insurance you have on a vehicle you own, a credit card, or some combination of both.

The coverage you need

Here are four types of risk to consider when renting a car, and how to find out if you're covered.

• **Your rental car could get damaged or stolen.** If you have "collision" and "comprehensive" coverage on the vehicle you own, it may apply to a rental vehicle as well. If you can't bear to actually read your policy, call your agent and ask. When I did, I was pleased to find that all of the coverage on the vehicles we own would extend to a vehicle we rent. Collision coverage would take care of damage incurred in an accident; comprehensive coverage would take care of theft, fire, vandalism, and weather damage.

If you don't have this coverage on your own vehicle (some people drop it when a vehicle gets to be a certain age), check to see if a credit card you hold provides this coverage. (Keep in mind that any benefit offered by your credit card is only available if you use that card to pay for the rental.) Also, if you do have collision and comprehensive coverage, you probably have a deductible. That may be covered by your credit card—a potentially valuable benefit, so check to find out.

If you don't have coverage through your own insurance company or a credit card, you'll want to pay for the rental car company's "loss-damage waiver" (technically not insurance, but it gets you off the hook if the car is damaged or stolen). Or, if you are an American Express cardholder, a less expensive option would be to buy the company's Premium Car Rental Protection ($24.95 or less total—not per day—for up to 42 days of coverage).[1]

• **You could damage someone else's vehicle or property, or you could injure someone.** On the policy for the vehicle you own, this is "liability coverage" and the law requires it. Find out if your coverage applies to rental vehicles as well. Also, the state where you are renting a vehicle may require a higher liability amount than you have. If that's the case, check to be sure your insurance will cover that higher amount. You are probably adequately covered by your own insurance, or by an umbrella liability policy you may own,[2] which would make the rental car company's "supplemental liability insurance" unnecessary.

• **You or a family member could get hurt in a car accident.** This is typically covered by the "medical payments coverage" in your own insurance. Anything not covered should be covered by your health insurance. So, you probably don't need the rental-car company's "personal accident insurance."

• **Your belongings could be stolen from the rental vehicle.** This is probably covered by your homeowner's insurance. A simple call to your insurance agent can confirm that, making the rental-car company's "personal effects" coverage unnecessary.

Other considerations

Business use. If you're renting a car for business, your personal insurance likely will *not* cover you. In this situation, you probably will want the rental-car company's insurance. Ask your employer what to do.

Loss of use. If a car you rent is damaged, the rental company will likely charge a daily "loss of use" rental fee for every day it is being repaired. That can really add up, so find out if your insurance company or credit-card company would cover that cost.

Primary or secondary. Assuming your insurance company and credit cards provide rental-car coverage, it's important to understand whether they provide primary or secondary coverage. The primary provider is the go-to company for any claims you have to file. A secondary provider may cover costs not covered by the primary provider. If they both provide primary coverage and you have a claim, you can file a claim with either one.

Uninsured/underinsured motorist. Again, it's likely this coverage on the vehicle you own will also extend to a vehicle you rent.

Roadside assistance. If you have this coverage through your insurance company, it will likely be in effect for your rental. If you don't have it, you may want to consider a AAA Motor Club membership. Or, check with your credit-card company. It may offer discounted roadside assistance on a per use basis.

Other restrictions. Some credit cards have restrictions on the types of vehicles they cover. Some *(continued on page 78)*

[1] amex.co/18NWf2W [2] Oct2015:p150

LEVEL 2 TWO

Developing Your Investing Plan

Investing decisions are best made as part of a comprehensive personalized plan. In this column, we focus on topics that will help you implement an investment strategy that takes into account your personal goals, attitude toward risk-taking, and current season of life. We explain investing essentials, discuss SMI's core investing strategies, and help you decide which is best for your situation.

"The plans of the diligent lead to profit as surely as haste leads to poverty." Proverbs 21:5

HOW REGULAR MONTHLY INVESTMENTS USE BEAR MARKETS TO YOUR ADVANTAGE

Last month, we discussed an investing concept called dollar-cost-averaging. DCA involves investing a pre-determined amount of money at regular time intervals. A common example of this would be contributing $100 (or any other set amount) to a 401(k) plan every pay period. Among the chief advantages of DCA is the fact that it frees an investor from having to decide when and how much to invest. "Is now a good time to invest?" becomes an irrelevant issue once the DCA schedule is established.

This month, we're going to look at how DCA works to your advantage during bear markets and other market downturns. First though, we'll address a primary objection raised by DCA critics by distinguishing between two different types of investors.

The lump sum investor

The DCA discussion sometimes gets muddled by failing to distinguish between those who have a lump sum in-hand right now *that they could invest all at once if they wanted to*, versus those who don't have a lump sum in-hand, but will be able to make regular contributions in the future.

When deciding whether to invest a lump sum immediately versus investing it more slowly using DCA, you should consider two aspects of the decision. From a purely *numbers* perspective, the "anti-DCA" crowd is correct in pointing out that investing as much as you can, as early as you can, usually produces the best financial result. That's because the market has historically risen more often than it has fallen. So if you have money available to invest today, you normally would come out ahead by investing it all immediately rather than spacing out your investments using DCA.

However, the other aspect of this decision is the *emotional/risk-management* side. It's one thing to know that the numbers say you're better off investing your whole lump-sum retirement payout right away. It's quite another to pull the trigger and do it, knowing that a market decline could hit and ravage that nest egg. In these cases, a "minor" version of DCA that spreads that initial investment into three or four more manageable pieces can help you get over the emotional hurdle of putting that money at risk in the market.

The regular contributor

While the lump-sum investor may indeed see better overall returns by investing as much as possible, as soon as possible, DCA can provide an unexpected boost to the returns of those making regular contributions over time.

It's an unfortunate fact that most people find it easy to follow through on their investing plans when the market is rising, but struggle when the market is falling. DCA helps address this issue in two ways. First, DCA contributions can typically be automated. Often this is done by payroll deduction that goes directly into an employer-based plan such as a 401(k). If you don't have access to such a plan, you can normally automate deposits into an IRA or other account. Automating regular contributions is a huge boost to investing faithfulness, as it puts inertia on your side. You have to *stop* yourself from investing during market downturns, rather than having to make the decision to invest.

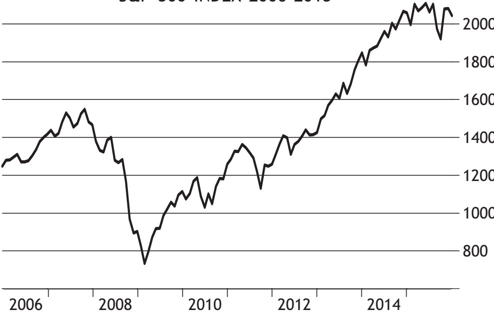
But DCA does more than provide behavioral support during market downturns, *it uses them to your advantage*. It does this by stretching your purchase dollars further as stock prices decline. If you invest $100 every month, you'll get more shares from each purchase if the fund you're buying falls in price from $50 to $40. Over time, those additional shares purchased when shares were "on sale" can boost your portfolio's rate of return substantially above that of the vehicle you're investing in.

How DCA utilizes bear markets

That may sound too good to be true, so let's walk through an example to show how it works. Assume someone invests $100 in an S&P 500 index fund at the beginning of each month from 2006 through 2015. Over the course of these 10 years, this investor would have invested $12,000 total ($100 x 120 months).

During those 10 years, the S&P 500 fund gained +7.2% annualized. Yet our DCA investor's returns were significantly higher: +10.1% annualized. How can this be?

A review of the performance of each specific monthly investment reveals the answer. As the nearby chart shows, the market peaked in October 2007 and declined for the next 16 months. During this time, the economic news was consistently negative, and many investors were understandably hesitant to continue their monthly investing program. However, as the table on page 78 shows, those who failed to invest during this period lost out on above-average long-term returns.



The monthly investments made at those higher prices in October 2007, while *emotionally easy* to (continued on page 78)

LEVEL 3 THREE

Broadening Your Portfolio

This column goes beyond the investing essentials taught in Level 2, introducing you to a wider range of investment securities and markets. By further diversifying your holdings, you can create a more efficient, less volatile portfolio. We also comment quarterly on the performance of the various markets, and on how SMI's fund recommendations and strategies have fared.

"Divide your portion to seven, or even to eight, for you do not know what misfortune may occur on the earth." Ecclesiastes 11:2

FIRST QUARTER REVIEW OF SMI'S INVESTING STRATEGIES

The first quarter of 2016 revealed how quickly stock-market sentiment can swing from one extreme to the other. The first six weeks were rough, with major stock indexes down more than 10%. Extreme fear was evident in the sentiment indicators as investors considered the risks of a brewing recession. Then, with an oil rally and a few benevolent words from Fed Chair Janet Yellen, investors decided the world wasn't about to end after all. Stocks raced back up, with the Wilshire 5000 index rocketing +13.7% higher from its February low through the end of March, a span of only seven weeks.

What do you get when you follow a six-week correction with a seven-week recovery? A more or less flat quarter overall—but an emotional roller-coaster for investors. This is the type of violent emotional whipsaw that makes some investors wonder if there's any rhyme or reason to the market at all. But to seasoned investors, this type of action just reinforces one of the main pillars of SMI's investing approach: the importance of a diversified portfolio.

In recent years, SMI has encouraged readers to combine multiple strategies within their portfolios, precisely to guard against the type of emotional extremes produced by the first quarter's action. When the market was already down 11% just six weeks into the new year, many investors were a half-step from a panic attack. But not SMI investors who had heeded the suggestion to diversify their portfolios using SMI"s Dynamic Asset Allocation (DAA) strategy. DAA was down only -3.4% at that lowest point, and was positioned such that further stock-market losses were unlikely to cause significantly more damage. There was a huge peace-of-mind dividend that came along with that conservative portfolio allocation!

Naturally, when the market shifted in mid-February and started racing higher, conservative positions such as DAA languished while more aggressive strategies like Stock Upgrading and Sector Rotation benefitted. And while it can be frustrating to see a portion of your portfolio lagging, emotional extremes such as we experienced during the first quarter are a helpful reminder that it's much easier to stick with a long-term investing plan when it is balanced enough that you don't feel like the next bear market is likely to undo all your progress.

New performance table reminder

Last year, we made a change to how the performance of the SMI strategies is reported. We now include an updated performance table *on the back cover of each monthly issue* (it's also available on the SMI website). This table expands the previous reporting of SMI's strategy results to include *all* of SMI's strategies and is updated every month rather than quarterly. Referring to that table may be helpful as you read this article.

Just-the-Basics (JtB) & Stock Upgrading

Investors who choose index funds, including those who follow our JtB recommendations, know that their experience is going to be essentially the same as the overall market. So JtB investors felt the full brunt of the market swings during the first quarter. Overall, performance of JtB lagged the broad U.S. market slightly as a result of small and foreign stocks each posting small losses for the quarter, while the large-stock indexes posted small gains.

Stock Upgrading's first-quarter loss of -0.6% isn't dramatically different in absolute terms from the +0.2% gain of JtB or the +1.2% gain of the Wilshire 5000 stock index, but it does continue a period of frustration that extends back at least a year and a half. The large-company dominated S&P 500 index peaked roughly a year ago (May 2015), but many stocks peaked even earlier, back in the fall of 2014. While the market has provided some sharp moves since then, there's been no consistent long-term direction for quite some time now. Stock Upgrading is a trend-following strategy, and it's going to underperform when the market bounces up and down sharply without really going anywhere. It's impossible to know when the stock market will break out of this trading range, but eventually it will. Our task is to stay disciplined and continue to keep our portfolios aligned with the recent trends, so that when the market does eventually break out, we'll be positioned to benefit from it.

Bond Upgrading

The bond market was strong during the first quarter, benefitting early from the flight-to-safety response of investors moving money out of stocks and into bonds, and later from the clear signal given by the Federal Reserve that it no longer intends to raise interest rates as rapidly as it had previously signalled. Bond Upgraders earned solid quarterly gains of +2.7%, once again illustrating the value of a diversified portfolio.

Those gains would have been slightly higher had the system not moved us to the relative safety of the Vanguard GNMA fund just a few weeks prior to the Fed's announcement that interest rates were going to stay lower for longer. That news sent riskier bond prices higher.

As we mentioned in last month's Bond Upgrading new fund write-up, we've spent quite a bit of time recently fine-tuning the Bond Upgrading system in an effort to minimize the type of short-term trades we've experienced over the past year. We're optimistic that we've found a way to tweak things that will maintain the *(continued on page 78)*

LEVEL 4 FOUR

Looking Toward Retirement

As you move through your 50s, 60s, and beyond, you face a new set of financial decisions related to reducing your investment risk and generating income from your portfolio. In this column, we address such topics, as well as those pertaining to Social Security, long-term health care, advanced giving strategies, estate planning, and other matters of importance to those nearing and in retirement.

"There is precious treasure and oil in the dwelling of the wise." Proverbs 21:20a

LIFE INSURANCE IN DISGUISE — MAKING A WISE SURVIVORSHIP DECISION

by Mike Cave, CLU, ChFC

[Editor's note: Last month, this column began exploring the decision of how to best receive money from a defined-benefit retirement plan: Should you take all of it in one lump sum and invest it yourself, or should you annuitize the balance? This month, we take a closer look at the annuity option with the help of Mike Cave, a fee-based insurance and annuity expert.[1]]

If you participate in a defined-benefit plan, you will have to make an important life-insurance decision upon retirement. It may not look like life insurance, but that's what it boils down to. And it may be the most important life-insurance decision you ever make.

A little context

Defined-benefit retirement plans are being replaced at a rapid clip by defined-contribution plans, such as 401(k)s. However, defined-benefit plans, which pay a monthly retirement income based on a formula that factors in years of service and last salary, are still common for many government employees, members of the military, educators, utility workers, and more.

If that includes you, upon retirement you will probably have your choice of receiving a lump-sum benefit or a monthly distribution. If you opt for the latter, you'll have one more very important choice: to base benefits on *your* life expectancy only, or yours *and* your spouse's (a *survivor's benefit*).

The formula often goes like this: your number of years of service (say 30), multiplied by a factor (say 2%), multiplied by your salary at retirement (say $5,000/month). In this example, you could receive $3,000 per month if you choose to base your benefit on your life only, or a reduced amount if you choose to have a portion of your monthly benefit (typically 50-100%) continue to be paid to your spouse after you die. The higher the survivor's benefit, the lower your monthly benefit right now.

Again, this may not look like life insurance, but that's what it amounts to. You don't pay a premium as you do with life insurance—but that "premium" is paid via you receiving a reduced income. And your beneficiary doesn't receive a lump sum at your death but receives a continued lifetime income. Framing the issue this way can help you make the best possible decision, which will impact your income and your spouse's income for the rest of your lives.

Four questions to consider

Most married people who participate in a defined-benefit pension plan opt for a lower benefit now so that after death a portion of it will continue to be paid to the surviving spouse. It seems like the right thing to do, but is it?

Before making a choice, consider the following questions.

1. Might a survivor's benefit cost too much? Take a minute to consider a defined-benefit survivor's benefit as a form of life insurance. From an issuer's standpoint, selling policies this way would be risky. After all, this form of life insurance requires no insurance exam or blood work, and no questions about the beneficiary's health history or driving record. In insurance-speak, this is known as *adverse selection*. An insurance company would have to charge a lot for a policy like that, which helps explain why the monthly benefit is so much lower when you choose the survivor option.

If you are in good health and can qualify for favorable rates, you may be better off basing your pension benefit on your life only, then using the additional income to buy a life-insurance policy on yourself. It could be that such a policy would provide *more* money to your spouse than your pension's survivor's benefit.

To find out, consider how large a policy you would need, assuming the death benefit were conservatively invested, to generate the same monthly income as your survivor's benefit. Could you buy such a policy for less than the amount you would lose by electing a survivorship benefit, which is essentially a life-insurance premium?

2. Will your spouse need the extra income? What other sources of income will your spouse have if you die first? If he or she would have sufficient income, you may be better off taking the higher benefit amount now and using it to pay off a mortgage or to allow you to reduce withdrawals from your other retirement accounts.

3. How long are you both likely to live? What is your spouse's life expectancy relative to yours? If your spouse predeceases you, having chosen a survivor's benefit will lock you into a lower monthly benefit, perhaps for decades. So, as unpleasant as it may be, honestly assess your spouse's life expectancy. If yours is longer, that suggests not choosing a survivor's benefit; the opposite leads toward it.

4. How might this decision impact long-term care? If you or your spouse have a family history of Alzheimer's disease, you may be better off choosing to receive a higher monthly benefit by forgoing or opting for a low survivor's benefit and using the added monthly income to buy a long-term care policy.

Wrapping up

This article isn't meant to convey that choosing a survivor's benefit is necessarily the *wrong* decision. It's only meant to suggest that choosing a survivor's benefit—especially at the highest possible monthly amount—isn't always the *right* decision. ◆

[1]For help evaluating insurance or annuity decisions, you can call Mike at 888-870-7507, or visit www.impartialinsuranceadvisor.com for more information.

Basic Strategies

The fund recommendations shown for Upgrading accountholders are based primarily on their most recent "momentum" scores at mid-month (not the earlier end-of-month scores shown on this page), but consistency of performance and the portfolio manager's philosophy and number of years at the helm are also important. Three recommendations are made in each risk category so that you can select the one(s) most in accord with your preferences and broker availability.

"Plans fail for lack of counsel, but with many advisers they succeed." Proverbs 15:22

RECOMMENDED FUNDS FOR SMI'S JUST-THE-BASICS STRATEGY

Data through 3/31/2016	Portfolio Invested In	MOM	----------- Performance ----------- YTD	1Mo	3Mo	6Mo	12Mo	3Yr Avg	Rel Risk	Expense Ratio	----- Stock/Bond Mix ----- 100/0	80/20	60/40	40/60	Ticker Symbol
Total International Stock ETF	Foreign stocks	-6.0	-0.1%	8.3%	-0.1%	2.5%	-8.4%	0.8%	1.19	0.13%	20%	16%	12%	8%	VXUS
Extended Market Index ETF	Small company stocks	-7.5	-0.8%	8.3%	-0.8%	2.3%	-9.0%	8.1%	1.22	0.10%	40%	32%	24%	16%	VXF
S&P 500 Index ETF	Large company stocks	11.7	1.4%	6.9%	1.4%	8.5%	1.8%	11.8%	1.01	0.05%	40%	32%	24%	16%	VOO
Total Bond Mkt Index ETF	Medium-term bonds	7.3	3.0%	0.9%	3.0%	2.4%	1.9%	2.4%	1.05	0.07%	None	20%	40%	60%	BND

VANGUARD JUST-THE-BASICS FOOTNOTES: Just-the-Basics is an indexing strategy that requires just minutes a year to assure that your returns are in line with those of the overall market. You won't "beat the market" using this simple strategy, but neither will you fall badly behind. Your JtB portfolio should be allocated among as many as four Vanguard funds (as shown above) depending on your stock/bond mix. For more on Just-the-Basics, see June2012:p89.

RECOMMENDED FUNDS FOR SMI'S FUND UPGRADING STRATEGY

Risk	Data through 3/31/2016[1]	Date Added	Scottrade Avail[2]	Fidelity Avail[2]	Schwab Avail[2]	MOM[3]	------------ Performance ------------ YTD	1Mo	3Mo	6Mo	12Mo	3Yr Avg	Relative Risk[4]	Exp Ratio	Number Holdings	Redemp Fee?[5]	Ticker Symbol
Category 5 Foreign	1. iShares EAFE Min Volatility	03/16	ETF	ETF	ETF	13.4	2.4%	5.2%	2.4%	7.6%	3.3%	6.6%	0.94	0.20	229	None	EFAV
	2. Lazard Global Infrastruct	11/15	NTF	NTF	NTF	18.8	4.9%	4.8%	4.9%	8.1%	5.7%	15.9%	0.77	1.29	32	1%30days	GLFOX
	3. Fidelity Intl Small Cap	07/15	Yes	NTF	Yes	7.4	-0.1%	6.5%	-0.1%	4.5%	3.0%	8.5%	0.97	1.23	151	2%90days	FSCOX
Category 4 Small/Growth	1. ☎ Champlain Mid Cap	05/16	NTF	NTF	NTF	10.2	2.4%	8.8%	2.4%	7.9%	-0.1%	10.2%	1.09	1.28	60	None	CIPMX
	2. Akre Focus	02/16	NTF	NTF	NTF	10.3	1.6%	6.8%	1.6%	6.9%	1.7%	12.8%	1.06	1.34	36	1%30days	AKREX
	3. Oberweis Micro Cap	11/15	NTF	NTF	NTF	6.0	-0.9%	7.7%	-0.9%	2.3%	4.6%	12.0%	1.39	1.71	79	1%90days	OBMCX
Category 3 Small/Value	1. PowerShares Hi-Yield Divd	12/15	ETF	ETF	ETF	33.2	7.9%	8.4%	7.9%	14.8%	10.4%	14.5%	0.97	0.54	52	None	PEY
	2. FAM Small Cap	09/15	NTF	NTF	NTF	18.1	6.5%	7.8%	6.5%	10.1%	1.5%	11.2%	1.33	1.38	28	None	FAMFX
	3. Queens Road Sm Cap Val	02/16	NTF	NTF	NTF	19.0	5.4%	6.7%	5.4%	9.6%	4.0%	9.6%	0.93	1.26	55	None	QRSVX
Category 2 Large/Growth	1. Jensen Quality Growth	03/16	NTF	NTF	NTF	26.2	6.1%	7.1%	6.1%	14.1%	6.0%	12.8%	0.97	0.87	26	None	JENSX
	2. iShares USA Min Volatility	03/16	ETF	ETF	ETF	26.5	5.6%	5.9%	5.6%	12.2%	8.7%	12.7%	0.81	0.15	169	None	USMV
	3. Polen Growth	09/15	NTF	NTF	NTF	17.8	-0.2%	5.4%	-0.2%	7.5%	10.4%	15.2%	1.01	1.25	23	2%60days	POLRX
Category 1 Large/Value	1. PowerShares S&P High Div	04/16	ETF	ETF	ETF	49.8	12.5%	8.8%	12.5%	20.3%	17.1%	14.8%	0.90	0.30	51	None	SPHD
	2. T. Rowe Price Divd Growth	01/15	Yes	Yes	Yes	14.6	2.2%	6.2%	2.2%	9.6%	2.8%	11.5%	0.94	0.65	108	None	PRDGX
	3. Lazard US Equity Concen	02/15	NTF	NTF	NTF	13.9	1.2%	5.8%	1.2%	8.1%	4.7%	13.8%	0.96	1.25	20	1%30days	LEVOX
Bond Categories	Vanguard I-T Bond Index [6]	04/16	ETF	ETF	ETF	10.7	4.3%	1.3%	4.3%	3.3%	3.1%	2.8%	1.45	0.10	6.5[7]	None	BIV[8]
	Vanguard I-T Bond Index	01/15	ETF	ETF	ETF	10.7	4.3%	1.3%	4.3%	3.3%	3.1%	2.8%	1.45	0.10	6.5[7]	None	BIV[8]
	Vanguard S-T Bond Index	07/12	ETF	ETF	ETF	4.2	1.6%	0.5%	1.6%	1.0%	1.6%	1.3%	0.42	0.10	2.7[7]	None	BSV[9]

Upgrading Footnotes: For tips on how to launch your Upgrading strategy, go to the Start Here tab on our website's homepage. **[1] Fund Recommendations:** The funds in each risk category are selected (and ranked 1 through 3) primarily based on their momentum scores in late-April, not the performance data shown on this report. When an owned fund is *removed* from this page (not when it merely shifts out of the #1 ranking), you should immediately sell that fund and invest the proceeds in the highest-ranked fund in the same risk category that is available at your broker. The fund ranked third is the one that currently appears most likely to be replaced next. A telephone symbol (☎) next to a fund's name indicates that fund is a new recommendation. See the fund writeups in "MoneyTalk" for more information. **[2] Fund Availability:** NTF means the fund can be bought and sold free of transaction fees as long as you stay within the trading limitations imposed by Scottrade (800-619-7283), Fidelity (800-343-3548), and Schwab (800-435-4000). Policies change frequently, so be sure to verify their accuracy. ETFs trade like stocks and are typically available at all brokers for a modest commission. **[3] Momentum** is a measure of a fund's performance over the past year and is our primary performance evaluation tool. For more, see July2014:p103. **[4] Relative Risk:** A 1.0 reading indicates the fund has had the same volatility as the market in

☎ Changes in our stock fund recommendations are explained in the MoneyTalk column.

SOUND MIND PORTFOLIOS

Premium Strategies

The strategies on this page are available to those with an SMI Premium web membership. They can be used in combination with —or in place of—our Just-the Basics and Upgrading portfolios. These strategies have special characteristics that could make them desirable depending upon your individual goals, risk tolerance, and tax bracket. You can learn more about each strategy in the Premium section of the SMI website.

"If any of you lacks wisdom, he should ask God who gives generously to all . . . and it will be given to him." James 1:5

DYNAMIC ASSET ALLOCATION

• **Overview:** DAA is a stand-alone strategy that can be used alongside (or in place of) SMI's basic strategies. It is designed to help you share in some of a bull market's gains, while minimizing or even preventing losses during bear markets. It's a low-volatility strategy that nonetheless has generated impressive back-tested results over the long term. The key to DAA's success is winning by not losing. By dramatically reducing losses, the strategy is able to come out ahead in the long run, even though it doesn't earn as much when stocks are soaring. Most importantly, this is a strategy that risk-averse investors can stick with. That's crucial, as even the most profitable systems are worthless if investors can't handle the volatility they experience along the way and end up selling everything out of fear. DAA involves rotating among six assets classes—U.S. stocks, foreign stocks, gold, real estate, bonds, and cash. Only three are held at any one time. **Who should consider this strategy:** Anyone, especially investors focused on loss avoidance and preservation of capital. • **Pros:** Excellent downside protection during bear markets, reflected in very low relative-risk score and worst-case result. Great long-term track record. • **Cons:** Lags in up years. Making trades promptly and concentrating entire portfolio in only three asset classes can be emotionally challenging.

Strategy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016[2]	Avg[1]	Worst 12[1]	Rel Risk[1]
Dynamic Asset Allocation	4.0%	10.4%	22.4%	19.3%	8.6%	25.7%	10.1%	1.3%	17.6%	20.3%	1.4%	13.9%	16.2%	13.0%	-6.8%	-0.5%	11.5%	-13.7%	0.62
Wilshire 5000	-11.0%	-20.9%	31.6%	12.5%	6.4%	15.8%	5.6%	-37.2%	28.3%	17.2%	1.0%	16.1%	33.1%	12.7%	0.7%	1.2%	5.6%	-43.3%	1.00

SECTOR ROTATION

• **Overview:** This optional high-risk add-on strategy involves investing in a single special-purpose stock fund that focuses on a specific sector (such as biotech, energy, or financial services). These funds invest in a very narrow slice of the economy, thus the higher degree of risk. Only one fund, selected based on having superior momentum relative to other sector options, is held at a time. While the performance peaks and valleys of Sector Rotation have been higher and lower than all other SMI strategies, it's a strategy that has generated especially impressive long-term returns. However, because this kind of aggressive strategy falls outside SMI's primary "diversify and go slow" emphasis, it's designed to be a complementary add-on strategy, a way to invest a relatively small portion of a portfolio (certainly not more than 20% of the stock allocation), with the balance broadly diversified among our other strategies such as Fund Upgrading, DAA, or a combination of the two. • **Who should consider this strategy:** Experienced investors who are willing to concentrate an investment in a single sector of the economy. • **Pros:** Very attractive long-term returns. • **Cons:** Much greater month-to-month volatility and relative risk with dramatic short-term loss potential.

Strategy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016[2]	Avg[1]	Worst 12[1]	Rel Risk[1]
Sector Rotation	3.7%	-13.1%	54.4%	12.6%	46.1%	-1.9%	28.1%	-31.5%	30.5%	9.1%	-3.2%	23.3%	65.7%	49.9%	-9.7%	-0.3%	14.4%	-38.6%	1.65
Wilshire 5000	-11.0%	-20.9%	31.6%	12.5%	6.4%	15.8%	5.6%	-37.2%	28.3%	17.2%	1.0%	16.1%	33.1%	12.7%	0.7%	1.2%	4.5%	-43.3%	1.00

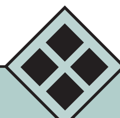
ENHANCED JUST-THE-BASICS

• **Overview:** This is a stand-alone Fidelity strategy to be used in place of our Vanguard Just-the-Basics portfolios. • **Who should consider this strategy:** Those currently using Just-the-Basics who are willing to do more frequent maintenance and are willing to take slightly higher risks while seeking higher returns. • **Pros:** Historically higher long-term returns than Just-the-Basics. • **Cons:** Greater month-to-month volatility and relative risk. Has underperformed in recent years. Requires a quarterly review of your portfolio (made relatively easy by using SMI's online Personal Portfolio Tracker) to see which, if any, of your holdings should be replaced.

Strategy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016[2]	Avg[1]	Worst 12[1]	Rel Risk[1]
Enhanced Just-the-Basics	-4.0%	-18.6%	37.6%	18.3%	20.1%	22.3%	23.6%	-44.7%	30.7%	16.1%	-5.2%	16.1%	30.2%	6.7%	-1.6%	-2.0%	7.4%	-49.9%	1.10
Just-the-Basics	-12.3%	-19.6%	35.7%	15.6%	9.0%	17.2%	7.1%	-39.3%	33.9%	20.0%	-3.4%	17.6%	31.2%	7.5%	-1.6%	0.2%	5.8%	-45.4%	1.08

general over the past three years. For example, a fund with a relative risk score of 1.4 would mean the fund was 1.4 times (40%) more volatile than the market. See June2015:p88. **[5] Redemption Fees:** Depending on how long you hold this fund, a redemption fee may be charged by the fund when selling (for example, a fee of 1% if you sell within six months of purchase). This is not the same as the short-term trading fees charged by brokers on fund sales that take place before the broker's minimum holding period. Fees change often and vary from broker to broker, so be sure to check with your broker for the most current information. See our broker review (Aug2015:Cover) for more details. **[6] Rotating Fund:** This bond recommendation changes periodically based on SMI's Upgrading methodology. The Short-Term and Intermediate-Term Index recommendations shown below that fund are fixed and don't change from month to month. See January2015:p7 for more information. **[7] Duration:** For bond funds, this column shows the average duration of the bonds in the portfolio in years. Typically, the longer the duration, the greater the risk/reward. See Jun2012:p88. **[8]** Those preferring a traditional mutual-fund option can buy VBILX where available, otherwise VBIIX. **[9]** Those preferring a traditional mutual-fund option can buy VBIRX where available, otherwise VBISX.

[1]The three data points on the far right in each of the four tables are for the Jan2001-Dec2015 period. "Avg" represents the average annualized return from 2001-2015. "Worst12" represents the worst investor experience over 169 rolling 12-month periods from 2001-2015. [2]January-March



MONEYTALK

STOCK UPGRADING — NEW FUND RECOMMENDATIONS

[When more than one fund *in the same risk category* is replaced, you should evaluate which of the newly recommended funds is the best fit for your portfolio. The simplest method for picking new funds is to refer to our 1-3 rankings on the "Basic Strategies" page and invest in the highest ranked fund(s) available through your broker. • We choose our recommended funds with the hope they will be held for at least 12 months and therefore qualify for long-term capital gains tax treatment. Nevertheless, we suggest a fund change when a recommended fund's performance falls below the threshold of our mechanical guidelines. Our guidelines provide objective criteria for making the decision as to when to "upgrade" to a better-performing fund. When a fund no longer meets our performance guidelines, we suggest you sell it even if the 12-month holding period hasn't been met. However, a "$" symbol following the name of the fund being sold lets you know that we still think well of the fund and its management and you might elect to continue holding the fund for a month or two to achieve a tax benefit or to save on transaction or redemption fees. Be aware, however, that from 2006-2010, the average performance "cost" of retaining such funds has been roughly 0.5% per month. For more details, see Oct2011:p153.]

◆ **In the Small/Growth group, Value Line Small Cap Opportunities (VLEOX, 11/2015) is being replaced.**[$] This fund was still ranked in the top 25% of its peer group at the end of March, but has now fallen out of the top quartile due to its below-average performance so far in April. We're going ahead and replacing it now.

This fund did a solid job limiting losses for us during the January/February correction. Morningstar reports that the average small/growth fund lost -4.3% during the first quarter of 2016, while this Value Line fund lost only -0.2%. But it has lagged during the subsequent rally with the result that it has fallen in the SMI fund-momentum rankings. Comparing its first five months (November-March) to the rest of SMI's small/growth group (as found in SMI's *Fund Performance Rankings*) we see that Value Line's overall loss of -2.4% was somewhat better than the average fund's loss of -3.9%.

• **Champlain Mid Cap (CIPMX) is being added.**[1] When it's time for us to select a new fund for our recommended list, we do so almost exclusively based on the momentum rankings, with a secondary criteria being the amount of risk each fund takes in order to achieve those returns. This month provides an excellent illustration of how those factors work together, as there were two funds with clearly better momentum scores than the rest of the field. The two momentum scores were quite close, so we looked at the funds' risk profiles to help choose between them.

The fund we *didn't* recommend has a relative-risk score of 1.67, whereas the Champlain fund's relative-risk score was a much lower 1.09. For the benefit of newer readers, that means the non-selected fund has experienced roughly 67% more volatility than the S&P 500 in recent years, whereas this fund was only about 9% more volatile. For a fund in our small/growth group, that's a very low risk score, which coupled with being one of the two top momentum scores makes it a compelling recommendation. Any time we can get similar returns with less risk, that's an attractive combination.

That said, while we don't *choose* funds based on their processes or methodologies, we do find those aspects interesting. It's similar to how car guys might enjoy popping the hood and seeing what's inside. When we look under the hood of this fund, we find a somewhat unique stock-screening process. Champlain starts by applying sector factors to each stock based on which sector it belongs to. For example, for consumer stocks, they look for those best able to minimize fashion risk and capitalize on brand loyalty. Those stocks which pass through these various sector screens are then further filtered using more traditional means: analysis of company fundamentals (returns, debt, earning quality, management ability, etc.) and ultimately valuation. Even then, those stocks that are identified as attractive targets may not be purchased right away, as the management attempts to be patient about waiting for a good entry price point.

If all that sounds a bit more like a value fund than the typical growth-fund methodology, you're on the right track. Champlain doesn't bill this as a growth fund; they call it a "core" fund (meaning not growth or value). Its historic composition places it in the growth group, but clearly it lands on the more conservative edge of that category. Its low relative-risk score and solid returns over the past 12 months (which encompassed two 10%+ market corrections) make it an attractive selection now as we wait to see if the market can break out to new highs, or whether it reaches the top of its recent trading range only to retreat once again. ◆

SIGHTING: ANGER AT 18,000

The +14.5% rally off the February lows, on nothing but worsening earnings and cuts to GDP forecasts, has people utterly furious. I'm trying to remember a time in which stocks were on the verge of a breakout and people were so angry about it.

I think a lot of this stems from the seeming disconnect between a sluggish economy and record high stocks. Another component of it is the anxiousness that people feel so soon after it looked like a full-blown bear market could be upon us. There was recession talk in the air as well. People who did something to protect themselves — selling, shorting, hedging, etc.—are absolutely furious. And it's entirely understandable.

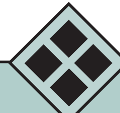
One of the things I am thankful for personally is that I stopped playing the guessing game professionally about where markets were headed roughly six years ago.

When I think of all the time and energy I used to spend trying to guess at the unknowable, I shudder. When I see people still doing the same thing—making emotional calls about buying and selling based on the last thing they read or the feeling they woke up with, it's amazing to me—even though I played the same game myself for so long. *How can they seriously be doing this? With real money?*

Anger at new highs or because of a correction or bear market is symptomatic of process-free investing. I know this from experience, and I'm thankful for this experience even though it felt terrible at the time. It taught me what *not* to do.

Rules-based investing isn't a silver bullet, nor will it ever

[1]For more on this fund, visit www.morningstar.com.



MONEYTALK

remove the discomfort that every market participant is forced to feel from time to time. But having a rhyme and reason, laid out in advance, for the decisions you will and will not make, is utterly priceless in comparison to the alternative. An alternative you couldn't pay me to regress back to. — By Josh Brown writing for *The Reformed Broker.com*. To read the full article, go to thereformedbroker.com/2016/04/20/anger-at-18000. ◆

INVITING YOUR CALLS/EMAILS

SMI authors Mark Biller and Matt Bell are regular guests on Compass Radio's *MoneyWise* program with our long-time friends Howard Dayton and Steve Moore.

Most of the program is devoted to answering calls and emails. If you have a question you'd like to discuss with Mark or Matt on the air, or just have them address on the air, give Compass a call or send them an email. You can call Compass at 800-525-7000 and leave a message with your question. Be sure to mention it's a question for Mark or Matt. Typically, they'll call you back to try to arrange for you to call in live during the program. You can also email a question to Moneywise@compass1.org.

It's always fun to hear from SMI readers when we're on these programs. Hope to talk with you soon! ◆

ATTENTION HUSBANDS:
YOU SHOULD KNOW ABOUT SMI'S MINISTRY TO WIDOWS
by Austin Pryor

In the mid-1990s I was in talks with Moody Publishers about the possibility of writing a second book. They asked what topics interested me, and among the ideas we discussed was a book tailored to the financial needs of widows. Due to writing fatigue after the first book, coupled with the time demands of the SMI newsletter, that follow-up book never got written.

I know from the correspondence we receive that the SMI newsletter has been helpful to many widows, and for that I'm very grateful. These dear women often turn to friends and relatives for advice, who refer them to financial professionals they know. But far too many times that results in widows being sold high-commission investments that are totally inappropriate for their situation. It grieves me to read of the ways they are taken advantage of, and their needs have remained on my heart.

I want to see widows get the kind of personalized, objective financial advice they need. However, due to legal/regulatory restrictions, we at SMI are not allowed to offer individualized counsel. A widow needs a trusted and competent financial planner who will listen to her story, review her financial situation, and suggest a prudent course of action.

I know there are many such financial planners among our readership, but since I don't know each one personally, I don't feel comfortable trying to establish a referral network. I do, however, know our friends at Ronald Blue & Co., both those in the Georgia home office as well as in many of their offices around the country. In fact, the Indianapolis office helps me with my own financial-planning needs.

So, due to that comfort level, in 2009 I announced an effort to help widows among our readership. I offered to pay the cost for one such woman each month to receive a two-hour counseling session from Ronald Blue & Co. To be considered for this, she would need to (1) be an active SMI member, and (2) write to us explaining her situation and why she feels the need for financial counseling. Despite the offer, and announcing it periodically in this section of the newsletter, we receive only two or three requests a year.

It may be that's the extent of the need among our membership. But it also may be that eligible women don't know about it because SMI is read primarily by the husband, and in his absence the widow doesn't read the newsletter and/or cancels the membership.

So I'm targeting this reminder to the husbands out there. Let your wives know of this offer and our desire to help them work through the many financial decisions they face. Tear this page out and let her know where to find it should the need arise. Don't assume that only "older" men should attend to this, for "no one knows when their hour will come" (Ecclesiastes 9:12).

A widow who applies should include her phone number (and email address if applicable) when she writes to us. The letter should be addressed to SMI, Suite 202, 9700 Park Plaza Avenue, Louisville, KY 40241-2287.

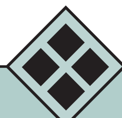
If selected, we will connect her with our friends at RBC. One of their advisers has been a widow herself and understands the challenges. Your wife will be well cared for. ◆

UPDATE ON BOND UPGRADING RESEARCH

As we reported in last month's Bond Upgrading new-fund write-up: "We've devoted a significant amount of time recently to re-opening our bond research to see if there's a way to reduce the potential for…short-term trades. The good news is we believe we have come up with a slight modification that maintains the appeal of the original research, but which will hopefully diminish the frequency of these short holding periods in the future."

We thought those of you using our Bond Upgrading portfolio recommendations might like more specificity as to how our methodology tweak in the selection of the "rotating" bond changed our historical back-testing results. The improvements for the 1996-2015 period included:

- The number of trades where the holding period was three months or less dropped from 17 to 13. That's one about every year and a half.
- The average holding period of the rotating-bond recommendation increased from 7.7 months to 10.9 months.
- Volatility in the month-to-month results, as measured by standard-deviation, dropped 15%.
- The results for the worst 3-, 6-, and 12-month rolling periods improved dramatically across the board. One ex-



ample: the worst 6-month results from owning a rotating fund improved from a loss of -11.0% to one of only -4.7%.

There was one stat, however, that didn't improve—the average annual rate of return from owning the rotating fund dropped from +9.0% using the original methodology to +8.8% using the new. We trust you agree that's a small price to pay in return for the many significant improvements listed above. ◆

LEVEL 1 / CONTINUED FROM PAGE 70:

DO YOU NEED RENTAL-CAR INSURANCE?

don't cover pick-up trucks, full-size vans or SUVs, or luxury cars. Some may have restrictions as to how many days they will provide coverage. If you are renting a car overseas, your vehicle insurance coverage probably does not apply. Your credit-card company may provide coverage but likely only in certain countries.

Summing up

Before your trip, check with your insurance and credit-card companies to see what rental-car insurance coverage they provide. Assuming it's adequate, when the rental car agent presents you with the choice of option A or option B, you can confidently, politely decline, explaining that you're going with option C instead. ◆

LEVEL 2 / CONTINUED FROM PAGE 71:

HOW REGULAR MONTHLY INVESTMENTS USE BEAR MARKETS TO YOUR ADVANTAGE

make as the market was making new highs, wound up earning relatively low returns over the rest of the period. In contrast, the investments made in the latter months of 2008 into 2009—although *emotionally difficult* to make because the market had fallen dramatically and shares were down -40% and more from the highs—earned fabulous returns through the rest of the period, precisely because their purchase prices were so low. An investor who continued to make regular deposits throughout the bear market and subsequent recovery period outperformed the S&P 500 by a significant margin. DCA used the bear market to boost the overall rate of return.

Month	S&P 500	Return[1]
Oct-07	1,549	5.62%
Nov-07	1,481	6.24%
Dec-07	1,468	6.40%
Jan-08	1,379	7.30%
Feb-08	1,331	7.84%
Mar-08	1,323	7.99%
Apr-08	1,386	7.41%
May-08	1,400	7.31%
Jun-08	1,280	8.67%
Jul-08	1,267	8.89%
Aug-08	1,283	8.78%
Sep-08	1,166	10.30%
Oct-08	969	13.29%
Nov-08	896	14.66%
Dec-08	903	14.67%
Jan-09	826	16.33%
Feb-09	735	18.48%

[1]Annualized rate of return from the date of purchase

A crucial lesson for long-term investing success

The obvious take-away is simply this: don't stop making your regular contributions when the market declines! Those are the very purchases, made at reduced prices, that will power your long-term returns higher. We hope seeing this in black and white will help you side-step the common investing trap of suspending your contributions during bear markets and corrections. ◆

LEVEL 3 / CONTINUED FROM PAGE 72:

FIRST QUARTER REVIEW OF SMI'S INVESTING STRATEGIES

basic substance of the system while cutting back the number of trades a bit.

Dynamic Asset Allocation (DAA)

As we noted earlier, DAA did what we expect it to during market corrections: significantly limiting losses and helping SMI investors avoid the deep dread many others felt when the market appeared ready to dive over the cliff. Once again, the Fed stepped in and kept that from happening. But part of the reason investors have grown so nervous is they intuitively know that central bankers can't hold off bear markets forever.

While DAA fulfilled its primary purpose in readers' portfolios during the first quarter, the strategy has also produced its own flavor of frustration. The stock market has thrown two 10%+ corrections and subsequent recoveries at us in less than a year. These rapid shifts between "risk-on" and "risk-off" have produced more trades and whipsaws than DAA normally sees, and it's been frustrating to feel like DAA is a step behind the curve. A look at the quarterly returns of the six asset classes used by DAA shows why it's frustrating for DAA investors to have lost even a small amount during the first quarter, when simply buying and holding any combination of the six classes for the entire period would have produced a better result.

1ST QUARTER 2016 DAA ETF UNIVERSE

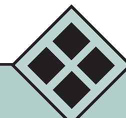
Ticker & Category	1Q Result
SPY U.S. Stocks	1.3%
EFA Foreign Stocks	-2.7%
VNQ Real Estate	6.3%
BLV Long-Term Bonds	7.9%
SHY Money Market	0.9%
GLD Gold	15.9%

Bottom-line, the system simply isn't designed to respond to such rapid changes in market sentiment. But there's a reason for that: historically, these types of sharp, fast, repeated swings are unusual. What we've experienced over the past year is about as challenging an environment as you could possibly design for a strategy like DAA. So we're not especially surprised that its recent 12-month performance is among the poorer-performing of such periods in the past 40 years.

Yet despite these challenges, when the market corrected last August and again in February, DAA provided powerful reminders of its value and the protective properties it adds to a diversified portfolio. The type of unusual market behavior we've seen recently has rarely been repeated in the historical record, but DAA's value as a firewall against large losses is consistently evident throughout its backtested history.

Sector Rotation (SR)

It was a rather bland quarter for this normally spicy strategy, as SR lost -0.35%. Perhaps the only surprise was that its path to that result wasn't more dramatic, losing less than the market early in the quarter and gaining less during the subsequent rebound. Bland doesn't usually last long in this strategy though, and true to form, SR moved on to a new recommendation at the end of March. While SR has been stuck in the doldrums with most everything else since the market started



MONEYTALK

churning last summer, it's worth pointing out that despite a loss of -6.7% over the past 12 months, SR's gains over the past three years are still nearly +23% per year. That's stunning.

50/40/10

This oddly titled portfolio refers to the specific blend of SMI strategies—50% DAA, 40% Upgrading, 10% Sector Rotation—examined in detail in our May 2014 cover article, *Higher Returns With Less Risk: The Best Combinations of SMI's Most Popular Strategies*. For all of the reasons we've discussed in this article, it's become the poster-child for the type of diversified portfolio we encourage most SMI readers to consider as they become more comfortable following our strategies. The market can shift suddenly between rewarding risk-taking and punishing it, so a blend of risk-courting and risk-averse strategies can help smooth your long-term path and promote the type of emotional stability that is so important to sustained investing success.

Not surprisingly, with DAA, Upgrading and SR all slightly underperforming the broad market during the first quarter of 2016, so did a 50/40/10 portfolio. But the portfolio did its job from the standpoint of significantly limiting losses during the first six weeks of the year. At its worst, a 50/40/10 portfolio was down less than -7%, while an Upgrading or indexing portfolio would have been down more than -11%.

The performance of the three strategies will vary significantly over time, but a portfolio diversified among them will smooth the ride along the way. Whether you're using this 50/40/10 blend or a different allocation combination tailored to your specific risk preferences, we think many SMI readers can benefit from combining these strategies in some fashion. ◆

MARKET NOTES, QUOTES, AND ANECDOTES

Crazy markets call for a sane process

• "Rules-based investing isn't a silver bullet, nor will it ever remove the discomfort that every market participant is forced to feel from time to time. But having a rhyme and reason, laid out in advance, for the decisions you will and will not make, is utterly priceless in comparison to the alternative…Life is too short to be spent placing seat-of-the-pants bets in a casino where the rules change every week. Don't get mad, get disciplined." — Josh Brown, writing in *The Reformed Broker* about the frustration many investors are feeling about the market this year, which saw the S&P 500 drop -11% by February 11, only to then rally more than +14% by mid-April. For more, see bit.ly/1Vk2qYL.

The need for conservatism in retirement planning

• "One of the biggest drivers of outcomes in any kind of financial plan is the assumed return, and most return assumptions these days are probably too high." — David Blanchett, head of retirement research for Morningstar Investment Management, cautioning in the *Wall Street Journal* that the U.S. stock market may return only 2-3% per year over the next 10 years after inflation and taxes. For more, see on.wsj.com/1VAeiGq.

Don't look

• "Just as Odysseus had himself tied to the mast to keep from being seduced by sirens, summon the will power to keep from micromanaging your investments. Set an appointment calendar with the dates you may look at investments, and stick to it." — John List, professor and chairman of the economics department at the University of Chicago, explaining in the *New York Times* that looking at your investment portfolio too often has been found to lead to excessive trading, usually to an investor's detriment. For more, see nyti.ms/20XJIpz.

Recession watchers see things differently

• "When we see a bad retail sales number in the midst of a blizzard, or a soft new-homes start number, the recession callers take to the airwaves. Their own terrible track records never seem to give them any pause." — Barry Ritholtz, arguing in *The Washington Post* that by most objective standards, there is little reason to believe a recession is imminent. For more, see wapo.st/1RF0qUG.

• "'I'm not being pessimistic, I'm being realistic.' The U.S. economy is now 'in the ninth inning.'" — Billionaire investor Sam Zell, telling the *Wall Street Journal* he expects the U.S. to enter a recession in the next year. For more, see on.wsj.com/23IKsUx.

How investing differs from gambling

• "In the case of lotteries, the chances of winning are exceptionally small. When it comes to casinos, the odds almost always favor the house. The longer you play, the greater the chance that you will lose. It's only a matter of time. With the stock market, investors have been gifted with a tremendously rare opportunity. The longer you play the game, in a rational manner, the better your chances are of winning." — Daniel Sotiroff, blogger at *The Personal Finance Engineer*, rebutting the idea that investing is akin to gambling. For more, see bit.ly/26gXdon.

Retirement isn't just about knowing your number

• "Can you imagine talking to a new college graduate and asking their goals and dreams for life, and then having them reply, 'My goal is to max out my 401(k), pay off my house and retire as soon as possible?' Not exactly a visionary approach to the future."— Financial planner Scott Hanson, writing in the April 2016 issue of *Kiplinger*, that retirement is about more than having enough money to live on in your later years. For more, see bit.ly/1WFEqyP. ◆

PERIODICALS POSTAGE
PAID AT LOUISVILLE, KENTUCKY

Dated Investment Material
Please Do Not Delay!

PERFORMANCE DATA

SOUND MIND INVESTING MODEL PORTFOLIOS • DATA THROUGH MARCH 31, 2016

BASIC STRATEGIES

	Year to Date	1 Month	3 Months	12 Months	3 Yrs Annual	5 Yrs Annual	10 Yrs Annual	15 Yrs Annual
U.S. Stock Market[1]	1.2%	7.1%	1.2%	0.2%	11.3%	11.0%	7.0%	6.6%
Just-the-Basics[2]	0.2%	7.7%	0.2%	-4.7%	8.2%	8.2%	6.0%	6.8%
Stock Upgrading[3]	-0.6%	5.7%	-0.5%	-3.3%	8.7%	7.6%	5.9%	8.9%
U.S. Bond Market[4]	3.1%	0.9%	3.1%	1.7%	2.3%	3.6%	4.7%	4.7%
Bond Upgrading[5]	2.7%	0.6%	2.7%	-1.2%	3.0%	4.0%	7.3%	7.2%

PREMIUM STRATEGIES

	Year to Date	1 Month	3 Months	12 Months	3 Yrs Annual	5 Yrs Annual	10 Yrs Annual	15 Yrs Annual
DAA[6]	-0.5%	0.9%	-0.5%	-9.8%	4.3%	6.6%	9.5%	11.4%
Sector Rotation[7]	-0.3%	6.1%	-0.3%	-6.7%	22.9%	18.8%	11.8%	15.4%
50-40-10 Blend[8]	-0.5%	3.3%	-0.5%	-6.9%	8.2%	8.4%	8.8%	11.2%
Enhanced Just Basics[9]	-2.0%	6.9%	-2.0%	-6.7%	7.3%	6.9%	5.4%	8.0%

Notes: Transaction costs and redemption fees—which vary by broker and fund—are not included. • [1] Based on the float-adjusted Wilshire 5000 Total Return index, the broadest measure of the U.S. stock market. • [2] Calculated assuming account rebalancing at the beginning of each year with 40% of the stock allocation invested in the Vanguard S&P 500 (VOO), 40% in Extended Market (VXF), and 20% in Total International Stock (VXUS). • [3] For a 100% stock portfolio, assuming the portfolio allocation for each risk category was divided evenly among all the recommended funds. • 4 Based on Barclay's U.S. Aggregate Bond Index, the broadest measure of the U.S. bond market. • [5] For a 100% bond portfolio, assuming 25% of the portfolio was invested in Vanguard I-T Bond Index (BIV), 25% in Vanguard S-T Bond Index (BSV), and 50% in the rotating recommended bond fund. The results prior to January 2015 are hypothetical, calculated from backtesting the strategy following a mechanical rules-based system. • [6] The results prior to January 2013 are hypothetical, calculated from backtesting the strategy following a mechanical rules-based system. • [7] The results prior to November 2003 are hypothetical, calculated from backtesting the strategy following a mechanical rules-based system. • [8] For a portfolio allocated 50% to DAA, 40% to Stock Upgrading, and 10% to Sector Rotation. See the May 2014 cover article for details. The results prior to January 2013 are hypothetical, calculated from backtesting the strategy following a mechanical rules-based system. • [9] This is a refinement of our Just-the-Basics strategy, most useful for Fidelity investors. The results prior to January 2008 are hypothetical, calculated from backtesting the strategy following a mechanical rules-based system.

THE SOUND MIND INVESTING MUTUAL FUND (SMIFX)

Current Returns as of 3/31/2016	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	-1.68%	5.39%	-1.68%	-6.87%	6.70%	5.54%	4.81%
Wilshire 5000	1.18%	7.07%	1.18%	0.24%	11.26%	11.01%	6.95%
S&P 500	1.35%	6.78%	1.35%	1.78%	11.82%	11.58%	7.01%

Quarterly Returns as of 3/31/2016	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	-1.68%	5.39%	-1.68%	-6.87%	6.70%	5.54%	4.81%
Wilshire 5000	1.18%	7.07%	1.18%	0.24%	11.26%	11.01%	6.95%
S&P 500	1.35%	6.78%	1.35%	1.78%	11.82%	11.58%	7.01%

Total/Gross expense ratio: 2.03% as of 2/29/2016 (includes expenses of underlying funds)
Net expense ratio: 1.13% as of 2/29/2015 (excludes expenses of underlying funds)

Notes: The performance data quoted represent past performance, and past performance is not a guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance information quoted. • You should carefully consider the investment objectives, risks, fees, charges and expenses of the Funds before investing. The prospectus contains this and other information about the Funds. To obtain a prospectus or performance information current to the nearest month end, call 1-877-764-3863 or visit www.smifund.com. Read the prospectus carefully before investing. • Because the SMI Funds invest in other mutual funds, they will bear their share of the fees and expenses of the underlying funds in addition to the fees and expenses payable directly to the SMI Funds. As a result, you'll pay higher total expenses than you would investing in the underlying funds directly. • Returns shown include reinvestment of dividends and capital gains. The Wilshire 5000 index represents the broadest index for the U.S. equity market. The S&P 500 Index is an unmanaged index commonly used to measure the performance of U.S. stocks. You cannot invest directly in an index. • The Sound Mind Investing Funds are distributed by Unified Financial Securities (member FINRA).

DATA COPYRIGHTS AND NECESSARY CAUTIONS

Copyright © 2016 by Morningstar, Inc. All Rights Reserved. The mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

Copyright © 2016 by Sound Mind Investing. All rights reserved. No part of these rankings may be reproduced in any fashion without the prior written consent of Sound Mind Investing. SMI is not responsible for any errors and/or omissions. You are encouraged to review a fund's prospectus for additional important information. Other than the SMI Funds, SMI has absolutely no financial incentive to favor or recommend one broker or mutual fund over another.