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Time and Inflation: Your Portfolio's Best Friend vs. its Worst Enemy

This excerpt from the new edition of Charles Ellis's classic *Winning the Loser's Game* is guaranteed to motivate you to start working on that long-term financial plan you've been putting off (see SMI's February cover article on MoneyGuidePro® to discover an easy way to start that process). While this article is a bit more advanced than our typical fare, we think you'll find it worth the effort. The crucial points about investing for retirement that Ellis makes are provocative and challenging.

by Charles D. Ellis

Time is Archimedes's lever in investing. Archimedes is often quoted as saying, "Give me a lever long enough and a place to stand, and I can move the earth." In investing, that lever is time (and the place to stand, of course, is on a firm and realistic investment policy).

Time—the length of time investments will be held, the period over which investment results can be measured and judged—is crucial to any successful investment program because it is the key to getting the right asset mix.

If time is short, the highest-return investments—the ones a long-term investor naturally most wants to own—will not be desirable, and a wise short-term investor will avoid them. But if the time period for investing is abundantly long, a wise investor can commit without great anxiety to investments that in the short run would appear to be too risky.

Given enough time, investments that might otherwise seem unattractive become highly desirable. Time transforms investments from least attractive to most attractive—and vice versa—because while the average expected rate of return is not at all affected by time, the range or distribution of actual returns around the expected average is greatly affected. The longer the time period over which investments are held, the closer the actual returns in a portfolio will come to the expected average.

As a result, time changes the ways in which portfolios of different kinds of investments can best be used by different investors in different situations and objectives.

The conventional time period over which rates of return are usually calculated—their average *and* their distribution—is just one year. What a shame! While convenient and widely used, this 12-month time frame simply does not match the time periods available to all the different kinds of investors with all their different constraints and purposes. Some investors are investing for only a few days at a time, while others will hold their investments for several decades. The difference in the time horizon matters greatly.

No sensible investor would knowingly invest in common stocks for only a single day or a month or even for a year. Such brief time periods are clearly too short for investments in common stocks because the expectable

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IN THIS ISSUE

"FOR GOD HAS NOT GIVEN US THE SPIRIT OF FEAR BUT OF POWER, AND OF LOVE, AND OF A SOUND MIND."

EDITORIAL

Investing With the Long-Term in Mind

In reading through *Winning the Loser's Game,* source of this month's cover article, I was especially taken by a chapter titled simply "Time" (much of which we included in the excerpt). It's not that what Ellis wrote was new to me, but that he conveyed some familiar truths in provocative ways. For example:

"Time—the length of time investments will be held, the period of time over which investment results will be measured and judged—is the single most powerful factor in any investment program. . . . Given enough time, investments that might otherwise seem unattractive may become highly desirable. ...The patient observer can see the true underlying patterns that make the seemingly random year-by-year, month-by-month, or day-by-day experiences not disconcerting or confusing but splendidly predictable—on average and over time. Like the weather, the average long-term experience in investing is never surprising, but the short-term experience is *always* surprising."

I had not thought of it in those terms before, that one's long-term investing experience is never surprising. He means that, over the long haul, there's a relatively small gap between what one expects to earn and what one actually earns. Since 1950, the average return from a broadly diversified stock portfolio split evenly between large- and small-company stocks and held for 30 years was +13.0% annually. If you knew that going in, it would have governed your expectations. And, as it turned out, you wouldn't have been sorely disappointed *no matter which 30 year slice* of the past 66 years you owned stocks. The worst you could have done was +10.2% per year[1] while the most you could have earned was +16.7% annually.[2]

Either way, the gap between expectations and actual results was not an issue. But as the length of your holding period shrinks, the potential for unpleasant surprises increases. And, as we can see by looking at Chart A of one-year returns on page 67, the potential to dramatically surpass or fall short of the average return in any one year is very great. *It's this fear of an unpleasant surprise* over the short-term that causes many investors to be overly cautious in how they invest their portfolios.

This conservative tendency can grow especially acute in conditions such as we have now, with the stock market having enjoyed a virtually uninterrupted eight-year march higher. On the one hand, it may be appropriate to back off on the risk level of our portfolios when the market is richly valued and the current bull market is long in the tooth. On the other, Ellis makes a powerful argument that, at least for the long-term investor, such fine-tuning is unnecessary, and is as likely to do long-term harm as it is to do good.

Whatever you do, don't let fear of losses push you into strategies and stock/bond allocations that fail to take appropriate advantage of the tremendous long-term returns available to stock investors. As an example, someone in their 30s and 40s might take a risk tolerance quiz and opt to only invest 50%-60% of his or her portfolio in equities as a result. With the time horizon being at least 30 years, this is a time of life when such an investor should be going all out for growth, even though, due to their natural temperament, he or she might find it a little uncomfortable.

Due to increased life expectancies, none of us can any longer regard age 65 as some sort of financial finish line. Did you know the odds are 50-50 that if you reach age 65, you'll live another 20 years? The Social Security Administration expects roughly one in four of today's 65 year-olds to live *beyond* age 90, and these estimates get longer every year.

Even in retirement, we need to continue thinking long-term and maintain a significant growth component in our portfolios to help make sure our savings keep pace with inflation and last as long as we do.

Again, that doesn't mean it's necessarily inappropriate to take measures to reduce risk in response to current market conditions. But it does mean your overall investing plan needs to be oriented toward growth, and you need to be emotionally prepared to reverse any short-term protective measures quickly to get your portfolio back on a growth track once the next bear market concludes.

MARK BILLER
EXECUTIVE EDITOR

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[1] If invested from 7/1986 through 6/2016 [2] If invested from 1/1975 through 12/2004

Time and Inflation: Your Portfolio's Best Friend vs. its Worst Enemy

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variation in return is too large in comparison to the expected average return. The extra uncertainty incurred when investing in common stocks is not balanced in the very short run by a sufficiently large or sufficiently sure reward. Such short-term holdings in common stocks would not be investments; they would be rank speculations.

Even the one-year-at-a-time rates of return on common stocks over the years are almost incoherent (see Chart A below). They show both large and small gains and large and small losses occurring in a seemingly random pattern. At best, you could have earned +52.6% in a year, but at worst you could have lost -36.9%. It seems almost absurd to "summarize" those wildly disparate one-year experiences as having any "average" rate of return.

Shifting to five-year periods (Chart B) brings a considerable increase in regularity. There are, for example, only a few periods with losses, and the periods with gains appear far more consistently because, as the measurement period lengthens, the long-term average rate of return increasingly dominates the single-year differences.

Shifting further to 10-year periods (Chart C) increases the consistency of returns. Only *two* 10-year losses are experienced, and most periods show average annual gains of +5% to +15%. Again, the power of the average rate of return—now compounded over a full decade—overwhelms the single-year differences.

Moving on to 20-year periods (Chart D) brings even more consistency to the rate of return. There are no losses, only gains. And the gains cluster more closely together around the long-term expected average rate of return.

Despite the obviously substantial differences in the range or distribution of returns in each time frame, there is one central constant: The average actual rate of return is similar in all cases. This is true because the data shown are all samples from the same continuous stream of investment experience.

Appreciating that actual experiences in investing are all samples drawn from a continuous stream of experience is vital to understanding the meaning contained in the data. Even in New England, the weather—when considered over a long time—becomes a sensible, reliable climate even though the days of bitter cold or sweltering heat seem individually so unpredictable, particularly in regard to the exact dates of their occurrence. Similarly, in investing, the patient observer can see the true underlying patterns that make the seemingly random year-by-year, month-by-month, or day-by-day experiences not disconcerting or confusing but splendidly predictable—on average and over time. Like the weather, the average long-term experience in investing is never surprising, but the short-term experience is *always* surprising.

In weather and investments, larger and more numerous samples enable us to come closer and closer to understanding the normal experience from which the sample is drawn. This understanding of the normal experience allows you to control your own behavior so you can take advantage of the dominant long-term normal pattern and not be thrown off by the confusing daily events that present themselves with such force in the short term as Mr. Market strives to catch your attention.

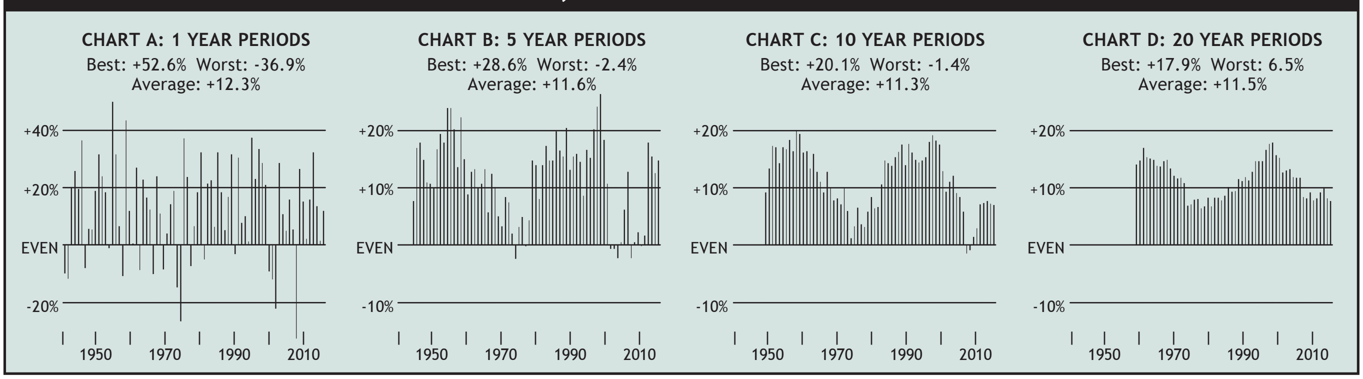
The single most important dimension of your investment policy is the asset mix, particularly the ratio of fixed-income investments to equity investments. Analyses of asset mix show repeatedly that the trade-off between risk and reward is driven by one key factor: time.

Lamentably, the time horizon most often used is not chosen for the specific investor but is instead a conventional five years. This usually leads to the familiar recommendation of a 60:40 ratio of equities to debt. A 10-year horizon usually leads to an 80:20 ratio. A 15-year horizon typically results in a 90:10 ratio. And so it goes. The unfortunate reality is that none of these time horizons is right for most individual investors who want to provide financial security for their families. They are all far too short for an investor with a realistic investment horizon of 30 to 50 years or more—most investors will be living and still investing for more than the conventional 10 to 20 years. If more investors used truly long-term thinking, they would invest differently and would earn higher long-term returns.

Risk and Inflation

The difference between true investment risk and apparent riskiness or market risk is a function of time. Yes, stocks

THE LONGER YOU HOLD STOCKS, THE LESS YOUR RISK AND THE SURER YOUR GAIN



can be very risky if time is short. But unless you begin your investment program at a seriously "too high" level in the stock market, the *apparent* riskiness of stocks fades away if the time is long enough, and the favorable long-term returns become increasingly evident, as shown in the graphs on page 67. For investors, investment risk can be divided by *time* into short-term risk versus long-term risk.

The real risk in the short term is that you will need to sell to raise cash when the market happens to be low. That's why in the *long* term the risks are clearly *lowest* for stocks, but in the *short* term, the risks are just as clearly *highest* for stocks.

If you do not need to sell and don't sell, you really shouldn't much care about the nominal fluctuations of stock prices. They may be interesting, but they aren't any more relevant to you than stormy weather in faraway places or low tide on the high seas. The real risks in the long run are the risks of inflation and excessive caution.

Investors' best answer to short-term market riskiness is to ignore the interim fluctuations and be patient, persistent, long-term investors. To the extent that you know your investments will be held for the very long term, you have automatically self-insured against the uncertainty of short-term market price fluctuations. As long as you stay invested, the interim price fluctuations of Mr. Market will not cause you serious harm.

Compounding vs. Inflation

Differences in rates of return that may appear moderate in the short run can, with compounding (because interest is paid not only on the principal but also on the reinvested interest), multipy into very large and quite obvious differences in the long run. When asked what he considered the human race's most powerful discovery, Albert Einstein allegedly replied without hesitation, "Compound interest!"

Table 1 below shows the compounding effect on $1 invested at different rates and compounded over different periods of time. It's well worth careful study, particularly to see how powerful time is. That's why the Archimedes lever of investing is time.

TABLE 1

Rate of Return[1]	Investment Period 5 years	10 years	20 years
4%	$1.22	$1.48	$2.19
6%	1.34	1.79	2.65
8%	1.47	2.16	4.66
10%	1.61	2.59	6.73
12%	1.76	3.11	9.65
14%	1.93	3.71	13.74
16%	2.10	4.41	19.46
18%	2.29	5.23	27.39
20%	2.49	6.19	38.34

[1]How compound interest over time magnifies one dollar

Compounding is powerful. Remember the grateful sultan who offered to reward his vizier generously for a good deed that had saved the sultan's empire. The vizier modestly offered to accept only one grain of wheat on the first square of a checkerboard, only two grains on the next, four grains on the third, eight grains on the fourth, and so on—and on and on. The crafty vizier said he had no need for a great reward and that the symbolism of this compounding giving would please his humble heart. Joyfully, the sultan seized upon this seemingly simple way to clear his obligation. But he did not reckon on the formidable power of compounding. Anything doubled 64 consecutive times will balloon—and balloon again. In the story, the few grains of wheat compounded to a total value that was greater than all the wealth in the empire. To defend his honor before Allah, the sultan ended up turning over the entire empire to the vizier.

However, the message is not just how wonderfully compounding increases real wealth. The message has two parts, and the second is that inflation *relentlessly destroys purchasing power almost as rapidly as economic gains build wealth*. Only the real net gain is spendable. Beware of the promotional materials and advertising that are deceiving investors with a Lorelei promise of phenomenal future riches without explaining the grimly negative impact inflation can have.

Inflation is the ruthless, unrelenting destroyer of capital: to purchase an item costing $100 in 1960 would cost more than $700 today.

Table 2 tells an important story about inflation. The figures in the second row, labeled "nest-egg goal," are the amounts you would need to have saved by age 70 to have the inflation adjusted equivalent of $35,000 in yearly spending money. (If you want $70,000 a year of spending money to sustain your lifestyle, multiply the figures in the second row by 2; if you want $105,000, multiply by 3, and so on.) Here's how to read the table:

TABLE 2

WHAT IT WILL TAKE TO GET THERE FROM HERE

Your Current Age	30	35	40	45	50	55	60
Nest Egg Goal	$3.0mil	$2.5mil	$2.1mil	$1.7mil	$1.4mil	$1.1mil	$0.9mil
Current Savings	How much you need to save annually						
$0	$6,890	$9,248	$12,524	$17,217	$24,300	$36,004	$58,995
$10,000	$5,868	$8,211	$11,463	$16,116	$23,125	$34,689	$57,367
$25,000	$4,334	$6,656	$ 9,872	$14,463	$21,363	$32,717	$54,926
$50,000	$1,777	$4,064	$ 7,220	$11,709	$18,427	$29,430	$50,857
$100,000	$0	$0	$ 1,916	$ 6,201	$12,554	$22,856	$42,720
$250,000	$0	$0	$0	$0	$0	$ 3,315	$18,308

• Find your present age in the top row.

• The nest-egg goal is the amount of capital you will need to accumulate to have an inflation-adjusted $35,000 to spend each year from age 70 on.

• The *current savings* on the left—ranging from zero to $250,000—is the annual amount invested tax-free at a return of 10 percent annually until you reach age 70. (Note: 10 percent is convenient for calculations, but almost certainly too high.)

• The rest of the table shows the amount you would need to save and invest to achieve your nest-egg goal.[1]

• After retirement at age 70, the assumed returns average 7 percent. It is further assumed that by age 90 all your accumulated savings will have been spent. (Note: Many of us will live past 90.)

Look at Table 2 again. If your age is 35 (the second column), you'll need to accumulate $2.5 million by the time you reach age 70 to produce $35,000 a year of real spending money. If you've *already* accumulated savings of $25,000, you'll have to save $6,656 *more every year* to achieve that goal. And note the rather favorable assumptions: All your

[1]SMI highly encourages getting a more personalized view of appropriate savings goals (and testing lower rates of return) by creating your own financial plan in MoneyGuidePro.® See our February 2017 cover article for details.

savings go into a tax-deferred account such as a 401(k) plan, where they are further assumed to compound at 10 percent annually—which certainly would be too high an expectation given the current market valuations—until your retirement at age 70. Starting from present market levels, this may be possible, but it will certainly be challenging, even if you invest entirely in equities. In bonds, it simply cannot be done.

One analysis of a hypothetical 35-year investment plan started with the happy assumption that an investor began in 1964 with a cool $1 million. The consequences of various investment programs were then examined. The nominal compound rates of return for this period were unusually favorable: 11.8 percent for stocks, 7.9 percent for bonds, and 6.8 percent for Treasury bills. The very pleasing—but, as we'll soon see, very deceptive—*theoretical final portfolio values* produced by the initial $1 million were:

Stocks	$55.0 million
Bonds	$15.5 million
T -bills	$10.7 million

Everyone's a winner! Or so it may *appear*. But here's how the results look *after taxes*:

Stocks	$30.2 million
Bonds	$6.6 million
T -bills	$4.4 million

What a difference those taxes make—particularly to bonds and T-bills. Note that the taxes assumed are minimal: the investor pays only federal taxes (no state or local taxes), has no other sources of taxable income, and files a joint return. For most investors who can invest $1 million, actual taxes are almost certain to be larger.

Brace yourself for the impact of *inflation,* because that's the way we convert *nominal*, or *apparent*, values into *real* money. The results are sobering. Here's the result *after adjusting for inflation* over the same 35 years:

Stocks	$5.4 million
Bonds	$1.2 million
T -bills	$0.8 million

Inflation was a far larger problem for investors than taxes. In real purchasing power, bonds were only 20 percent ahead of the initial investment after a whole generation. And T-bills were actually behind the starting line by 20 percent. That's why taxes and inflation are rightly known as fearsome “fiscal pirates.”

It would be worse if the study had included realistic ownership costs such as mutual-fund expenses and trading costs. Even the typical money-market mutual fund charges roughly 0.5 percent per year in expenses, while bond funds charge up to 1 percent, and stock funds can charge as much as 1.5 percent. At those rates, you would have the following take-home results for your $1 million *after deducting ownership costs*:

Stocks	$1.8 million
Bonds	$755,000
T -bills	$589,000

Finally, as all investors were painfully reminded in 2008-2009, to earn the long-term “average” return, you would have needed enough fortitude to stay fully invested when the market plunged—tearing away at your portfolio and your determination to stay the course.

If you're surprised at how much you'll need to save and invest each year to meet your retirement spending goals, it may be modestly comforting to know that you are not alone. Retirement is expensive, partly because we are likely to live longer than our parents or grandparents (and incur more medical expenses in our later years because we have access to more expensive healthcare technology), but primarily because inflation is such a powerful and unrelenting opponent.

Obviously, you need a plan

In developing a sound financial plan, investors will want to begin with good answers to these three overarching questions:

• Does my plan assure me of having enough income after inflation to pay for an appropriate standard of living during retirement? For most people, this "sufficiency of income" works out to 75 or 80 percent of preretirement spending plus 2 to 3 percent compounded annually to offset inflation.

• Will my financial reserves be sufficient to cover unexpected emergencies—usually healthcare—in old age? Beware! Eighty percent of a typical person's lifetime expenditures on healthcare are spent in the last six months of life. Women live longer than men, and wives are often younger than their husbands, so most couples will want to pay particular attention to providing adequately for the wife's years as a widow.

• Will the remaining capital match our goals and intentions for giving to heirs and charities?

If these core questions are not answered fully and affirmatively, your plan needs to be reconsidered and changed, perhaps substantially. If change is called for, do it now so you'll have time on your side and working for you as long as possible.

Write down your goals—with the target dates by which you intend to achieve them—so you can measure your actual progress compared with your explicit plan, because *time* is a key factor in all matters of investing.

Over your lifetime as an investor, your optimal investment program will change—and change again—partly because your circumstances and resources will change and partly because your objectives and priorities will change. But the more thoughtfully and soundly you plan and the further in advance you do your planning, the less you will need to change your plan as time passes.

Planning a sound long-term investment program is often done best in 10-year chunks of time. This is the case because working with decade long blocks of time reminds us that sound investing is inherently long term in nature, and our planning will be wiser and more surely thought out when explicitly considered over the long, long term. ◆

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

"WE CAN'T LIVE ON ONE INCOME!"

by Faith Tibbetts McDonald[1]

It's been more than 20 years since this article was first published in Sound Mind Investing, yet it's as timely and relevant as ever. We trust it will be a great encouragement to anyone considering going from two incomes to one. Read on to the end, where the author reflects back on what she wrote two decades prior during a very different season of life.

At my desk with paper and pencil, I clearly print out our monthly bills and the amount of each. Slowly, I add the columns. Sighing, I subtract them from our income. "How can we possibly live on only one income?" I think, anxiously. My stomach whirls in turmoil, keeping pace with other anxious thoughts racing through my mind: "How will we pay for the baby's shots? How will we buy shoes for our baby? What will we use to buy food? We can't live on one income!"

My husband, Steve, and I had hoped that I would be able to stay home with the baby, but now I feared it was a financial impossibility. Calculating the amount of our bills was my daily exercise in worry.

Our son's birth had postponed serious thinking about money. For a while the fascination of caring for this little one filled my thoughts and time. But soon grocery shopping brought my unresolved worries back to the forefront. Armed with coupons and a list, I marched into the store, prepared to squeeze every drop of value from our grocery allotment. Yet, time and time again, halfway down the list, three-quarters of our money was spent. I would panic. One time I desperately wanted to flee from the store without the groceries. Breathing deeply to calm myself, I recited portions of the 23rd Psalm. After purchasing the groceries, I made it home and decided that I had had enough. Fear must be conquered!

I knew that my worry was displeasing to God. I also realized that my fears were for the future. In the "right now" we had enough money. Jesus' words addressed my worries: "Therefore I tell you, do not worry about your life, what you will eat or drink; or about your body, what you will wear.…Look at the birds of the air; they do not sow or reap or store away in barns, and yet your heavenly Father feeds them. Are you not more valuable than they?"

As I thought about this Scripture, I remembered my great-grandmother who had lived to be 97. In one of her letters she wrote me: "I want you to remember the words of one of my favorite verses: 'I have been young and now am old; yet have I not seen the righteous forsaken, nor his seed begging bread.' "

To combat my fears, I concentrated on that verse. It was God's Word, and my great-grandmother, who had spent nearly a century here on earth, had testified to its truth. I meditated on that verse, and it became a part of my thinking. As the months passed, my husband and I saw God's provision in numerous ways. Our garden and our fruit trees produced bountiful crops; we received unexpected gifts of clothing; and friends helped us with house repairs. These personal examples of God's provision bolstered my faith.

Along with physical provision, God showed us the joy of disciplined spending. In the Bible I had read, "Whoever loves money never has money enough; whoever loves wealth is never satisfied with his income." I had shrugged off the impact of that verse with a wry, "Well, I must love money because I could always use more!" Now that verse irritated me! With less available money, my love for money seemed to be increasing.

I read a book on money management written from a Christian perspective. I shared the book with my husband, and together we applied some of the principles it taught. We found that money management could be accomplished with praise and thanksgiving. We tried to remember that everything we have comes from God. We wanted our attitudes toward spending money to be determined by Scripture, not by the consumer mind-set of our country.

By working together to decide which items could be eliminated from our budget, we found that sometimes one person's luxury was the other person's necessity! Eliminating budget items involved discussion and compromise. Continuing to develop this newfound discipline of money management, we would ask: "Do we really need this? Can we do without that? Is there a less expensive item we can use instead?"

Then I soared right past discipline to stinginess. I was even tempted to suggest that we decrease our tithe. I thought, "God is reasonable. Surely he doesn't expect 10% of an income that has been cut in half." Or, "I'm sure God is pleased with our decision that I stay home with our son," and, "My time is worth a lot, so he must not expect us to tithe now." Steve mentioned that perhaps this tight-fistedness was worry disguised—another desperate attempt to find security by clinging to money.

Steve's comment and his own generosity motivated me to conclude that, even in disciplined spending, my trust must be in the Lord. We continued tithing, and our awareness of and gratefulness for God's provision increased. In giving to the Lord we acknowledged— not only with our words but with our actions—that everything we have comes from him.

Looking back — two decades later

Reading this article 21 years after it was originally published reminded me of God's amazing provision for every one of our family's needs—whether financial, physical or spiritual.

Our family lived on one income for about a decade. I was thrilled to stay home with our kids and I know that the relaxed pace we were privileged to follow benefited all of us. *(continued on page 76)*

[1] Faith now teaches writing full-time at Penn State University. Her children were able to attend college at a reduced rate due to the position she secured one year before her oldest son started. Faith invites readers to her blog at acertainsignal.com where she tells stories about life, family and God's faiththfulness.

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 strategy is best for your situation.

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

A SMarT WAY TO BOOST YOUR SAVING AND INVESTING

Today's American workers are being forced to shoulder a much higher level of responsibility regarding their retirement finances than past generations. With Social Security projections showing significant shortfalls relative to promised benefits, and with most private businesses having switched away from offering traditional pensions and toward employee-driven 401(k)-style plans, two legs of the traditional "three-legged stool" of retirement income look a bit wobbly. If Social Security and a traditional pension aren't going to carry as much weight for the next generation of retirees, personal savings will have to take up the slack.

That is a troubling prospect, given the well-documented struggles Americans have saving money. Workers know they should be saving—some surveys indicate two-thirds of 401(k) participants believe their savings rate is too low. Unfortunately, good intentions aren't enough—procrastination and a lack of willpower are tough obstacles for many would-be savers to overcome.

In recent years, a new wave of economists has been studying these "behavioral" obstacles to sound financial decision-making. One pair of these behavioral economists decided to tackle the problem of trying to get people to contribute more to their own retirement plans. Their findings can be applied as a blueprint for almost any would-be saver or investor.

These economists, Richard Thaler of the University of Chicago and Shlomo Benartzi of UCLA, created a plan they named *Save More Tomorrow*—or SMarT, for short. Their stated goal: helping those who *want* to save, but lack the willpower to act on this desire.[1]

The SMarT plan involves four simple steps to boost 401(k) savings rates:

1. A considerable time *before* the next scheduled raise, an employee is asked to agree to increase his or her contribution rate *when the next raise takes effect*. By doing this, the decision carries no immediate financial ramifications.

2. If the employee agrees, the contributions are increased beginning with the first paycheck after their next raise. This generally allows the worker to still see an increase in take-home pay from the raise, while also boosting his or her retirement plan contribution rate.

3. The employee's contribution rate continues to increase with each future raise until it reaches a preset maximum. This *takes advantage* of inertia—the scheduled increases happen automatically—instead of inertia working against the employee.

4. The employee can opt out of the plan at any time. Of course, the hope is the employee won't, and relatively few do. But having that escape hatch is a key ingredient to getting employees to sign up in the first place.

That's it. Pretty simple stuff, really. But does it work?

The first implementation of the SMarT plan was at a midsize manufacturing company. First, employees were able to meet with a financial advisor who offered recommendations regarding boosting their savings rate. Not surprisingly, only 28% of employees were willing to immediately boost their savings rate. But 78% of those who weren't willing to boost their savings now *were willing to increase their savings rate in the future*.

The results over the next four years were stunning. On average, those who did *not* join the SMarT plan saw their average contribution rate stay more or less unchanged. But the SMarT group raised its average contribution rate all the way from 3.5% to 13.6%—almost quadrupling their savings rate in only four years! (This wasn't due to large raises either—annual raises averaged just 3.25%-3.5% during this period.)

Obviously the SMarT plan tapped into some powerful ideas. The great news is that you can implement this approach whether you work for a company that is actively promoting it or not. Here's how.

First, you need to *commit* to doing it. The best way to do this is to give your company's HR department detailed instructions to increase your 401(k) contribution rate beginning with the first paycheck after your next raise. Be specific—give them actual rates to use.

Here's an example of what this might look like in practice. John makes $50,000 and figures he's likely to get a 4% raise this year. John has been contributing 4% to his 401(k) plan, but wants to raise it. To follow the SMarT plan, John could tell his HR department to boost his contribution rate from 4% to 6% beginning with the first paycheck after his next raise. If John gets that 4% raise, his annual salary will rise from $50,000 to $52,000. His pay after 401(k) contributions (but before payroll taxes) will also increase, from the current $48,000 he receives with a 4% contribution rate, to the $48,880 he'll receive after bumping up to a 6% contribution rate. Best of all, his 401(k) contributions will rise from $2,000 per year to $3,120—without John feeling any pain at all.

Remember, the SMarT plan works in part because you are putting "positive" inertia to work for you. Once you give your HR department a schedule of contribution increases, you will have to take action to *stop* those increases from happening. Given your good intentions to continue boosting your retirement savings, chances are you won't take that negative action once the plan is set up, unless something truly significant forces you to.

Implementing a plan like that is relatively easy for those who work for a company offering a 401(k) or other retirement plan. But what *(continued on page 77)*

[1]The full SMarT research paper is interesting reading if you enjoy this sort of thing. Find it online at tinyurl.com/n7534ne.

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 REPORT: THE BULL MARKET MARCHES ON

To the surprise of many, the post-election rally extended into the new year, with stocks rising mildly in January before pushing forcefully higher in February. While the market leveled out in March, the first quarter as a whole was solidly positive for equity investors who had the courage to stay invested.

SMI investors had plenty to celebrate in the first quarter, as several of SMI's model portfolios reached new all-time highs. Not surprisingly, the strategies most closely aligned to the stock market's gains were the ones setting new records: Just-the-Basics, Stock Upgrading, Sector Rotation, and our 50-40-10 portfolio.

It's a far cry from a year ago, when investors emerged from the first quarter of 2016 battered and bruised from a -10% correction. Now, looking back over the past year, investors in most of SMI's strategies have earned strong 12-month results that will help buffer any declines from the next market pullback.

It's just the latest example of what SMI has long preached: it's exceedingly difficult to predict what the market will do next, so staying invested with a well-diversified portfolio generally makes the most sense.

Just-the-Basics (JtB) & Stock Upgrading

For the first time in quite a while, both JtB and Stock Upgrading got a boost from their foreign stock holdings. Foreign markets were stronger than U.S. stocks, which hasn't often been the case in recent years. Small-company stocks lagged large companies, which was a reversal from much of 2016. Technology stocks were the belles of the ball, with the technology-heavy NASDAQ index up +10.1% for the quarter. While Just-the-Basics finished slightly ahead of the broad market's return, Stock Upgrading lagged a bit.

As the table shows, Upgrading was helped by its foreign holdings, but both growth categories lagged. Still, while Stock Upgrading has struggled to keep up with the passive indexes during this bull market, it still gained +4.1% for the quarter and is up a solid +15.6% over the past year.

FIRST QUARTER PERFORMANCE OF STOCK FUNDS BY RISK CATEGORY

Risk Category		SMI Funds[1]	Average Fund[2]
Cat 5:	Foreign Stock Funds	8.9%	8.3%
Cat 4:	Small Company/Growth	4.1%	5.6%
Cat 3:	Small Company/Value	1.2%	0.3%
Cat 2:	Large Company/Growth	3.2%	8.6%
Cat 1:	Large Company/Value	3.2%	3.7%

FOOTNOTES: [1] Average of the three recommended funds for each risk category (page 74), assuming any suggested changes were made on the last trading day of each month. [2] An average of all the mutual funds in the SMI risk category shown, including both load and no-load funds.

Bond Upgrading

The Federal Reserve hiked interest rates for the third time in March, which followed their second hike only four months prior (December 2016). Their guidance in March was that two additional hikes are likely in 2017. Despite these rate hikes, longer-term yields hardly budged during the first quarter, with the benchmark 10-year Treasury yield actually declining slightly from 2.45% to 2.40%. Given this backdrop, Bond Upgrading's slight gain for the quarter feels like a win.

As the Fed has gradually shifted from stimulus to tightening (or "normalization," if you prefer), the impact has been felt by fixed-income investors. Barclay's U.S. Aggregate Bond Index, which is the broadest measure of the U.S. bond market, has returned a meager +0.3% over the past year. Bond Upgrading has been better, but its +1.6% gain over the past year is barely keeping pace with inflation. This is the downside of rock-bottom interest rates: eventually, bond investors are left with puny returns, and even those can be erased by capital losses if rates rise rapidly enough.

Dynamic Asset Allocation (DAA)

DAA performed exactly as we would have hoped during the first quarter, posting a solid gain of +4.9% that was slightly less than the stock market's +5.6% gain. When the stock market is up strongly, we normally expect DAA to lag, but having DAA participate in the market's upside to the extent that it did this quarter is great. Naturally, having two-thirds of DAA's portfolio allocated to U.S. and Foreign Stocks throughout the quarter was the biggest reason for that stock-like performance.

DAA investors can potentially feel frustrated when they compare their returns to those of the stock market, particularly toward the end of a long bull market. However, it's worth pointing out that the primary reason DAA was introduced was as a buffer against the type of *bond market* weakness discussed earlier. Yes, investors who shifted stock money to DAA from other strategies have underperformed recently (though this performance gap will certainly narrow during the next bear market). But those who shifted a portion of their *bond* money to DAA are starting to recognize the tangible benefit of DAA as bond returns languish.

1ST QUARTER 2017 DAA ETF UNIVERSE

Ticker & Category		1Q Result
SPY	U.S. Stocks	5.9%
EFA	Foreign Stocks	7.9%
VNQ	Real Estate	0.8%
BLV	Long-Term Bonds	1.7%
SHY	Money Market	0.2%
GLD	Gold	8.3%

Sector Rotation (SR)

As noted previously, technology stocks were the stock market's strongest sector this quarter, and SR was perfectly positioned to capitalize on this trend. SR gained +11.6% in the first quarter, and is up more than +30% in the past 12 months. Perhaps even more shocking is that SR has sustained this type of pace for so long—its annualized rate of return over the past five years is 27.2%! That means a

(continued on page 77)

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

WHEN PREMARITAL AGREEMENTS MAY BE APPROPRIATE

By R. Hal Moorman

John, age 60, lost his wife to cancer four years ago. He remarried last year. He now finds that he also has cancer. When he visits his attorney to update his will, he learns that, unless his new wife agrees to a change, his pension plan from work will pass to her in the form of a lifetime annuity and his children will receive none of it. A prenuptial agreement (also known as a premarital or antenuptial agreement) is a common planning tool that could have solved this problem.

Rarely recommended in first marriages, attorneys routinely recommend them to clients who are embarking on a second marriage as a means of protecting the financial welfare of their children and helping to eliminate friction between the new spouse and the children from the first marriage. For example (the laws of the 50 states vary, so this discussion has to be somewhat general):

• In some community property states, all property is presumed to be owned in common, i.e., one half belongs to each spouse at the end of a marriage, whether by death or divorce. A husband or wife who wants to show that any property belongs solely to him or her (so that it could be passed on to his or her children) bears the burden of proving it in court. This burden of proof falls on the children if the parent dies. Furthermore, without a premarital agreement, any income earned on property acquired before the marriage, or by gift or inheritance during the marriage, is also considered community property.

• In some circumstances, ERISA, the law governing pension plans, requires that the employee's surviving spouse receive an annuity for the remainder of his/her life unless the parties agree otherwise in writing after the marriage. Without such an agreement, the children will not receive any assets from the retirement plan, often the largest single asset in the estate.

• Stock in a closely held business acquired or built before the marriage can, in some circumstances, be awarded to the surviving or divorcing spouse or the stock can be burdened with an obligation to pay a certain amount to the surviving or divorcing spouse.

• In some jurisdictions, even though the deceased spouse owned the home, the surviving spouse may have a right to use and occupy the home for the rest of his/her life free of rent and free of the obligation to insure it and pay the principal balance of any mortgage on the home.

Under these and other scenarios, the children and the surviving spouse frequently fight over property rights. Not surprisingly, such fights often ruin relationships and diminish the assets for both sides. The use of a well-drafted marital agreement can resolve every one of these issues.

Having a marital agreement does not mean a spouse is left without support. Many agreements provide for (1) specific assets to be given to the surviving spouse, (2) life insurance policies to be taken out for the benefit of the surviving spouse, and (3) other means of support limited only by the parties' creativity and assets.

Marital agreements do not have to provide for divorce. They can cover solely what happens when one spouse dies. The prudent thing to do, however, is to provide for what will happen if a divorce occurs. I am not an expert on divorce in all 50 states, but most states have no-fault divorce laws—either spouse can obtain a divorce at any time for any reason. The Bible provides exceptions to the prohibition against divorce (although even conservative theologians disagree on what they are). Because of the issues about property, it makes sense to define what will happen if the parties divorce as well as if one of the spouses dies.

Do premarital agreements violate Biblical principles? In Genesis, God made husband and wife to be "one flesh." This is a lifetime union between a man and a woman that goes beyond formal legal ties. It is a partnership and a bond of two lives into one. Viewing the money that comes into the family as "my" money rather than "our" money is inconsistent with the one flesh ideal.

On the other hand, the Hebrew law of inheritance did not provide for the widow. She was almost considered a part of the estate itself. Furthermore, in Proverbs 13:22, God's word commends leaving an inheritance for one's children and grandchildren. And in 1 Timothy 5:8, the Bible commands us to care for our families and relatives. When either spouse has children from a prior marriage, the dissolution of the marriage—whether by divorce or death—can destroy the inheritance for those children.

An absolute prohibition against premarital agreements does not take into account these biblical passages about caring for one's family. *Their suitability, however, depends on the particular circumstances.* For those marrying for the first time, a marital agreement seems unnecessary except, perhaps, in very limited circumstances for significant family assets. Entering into a premarital agreement would violate the "one flesh" ideal without a counterbalancing benefit of providing for the children (since there are none).

In my view, an elderly couple contemplating marriage, each having a substantial estate and children/grandchildren of their own, *should* have a marital agreement. In counseling clients, they often tell me that they have no disagreement with their prospective spouse. I remind them that the dispute won't be with the spouse, it will be with the spouse's *(continued on page 78)*

SOUND MIND PORTFOLIOS

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 3/31/2017	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	29.1	8.6%	3.0%	8.6%	6.5%	14.0%	1.2%	1.14	0.11%	20%	16%	12%	8%	VXUS
Extended Market Index ETF	Small company stocks	37.3	4.5%	-0.1%	4.5%	10.4%	22.4%	7.1%	1.29	0.09%	40%	32%	24%	16%	VXF
S&P 500 Index ETF	Large company stocks	33.1	5.9%	0.1%	5.9%	10.1%	17.1%	10.3%	1.00	0.05%	40%	32%	24%	16%	VOO
Total Bond Mkt Index ETF	Medium-term bonds	-1.3	0.8%	0.0%	0.8%	-2.4%	0.3%	2.6%	1.02	0.06%	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 3/31/2017[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. Longleaf Partners Intl	09/16	Yes	Yes	Yes	36.0	8.8%	2.4%	8.8%	8.5%	18.7%	-2.4%	1.64	1.28	20	None	LLINX
	2. Oakmark International	12/16	NTF	NTF	NTF	47.6	9.4%	4.3%	9.4%	16.5%	21.7%	2.2%	1.47	1.00	70	None	OAKIX
	3. Third Ave International Value	01/17	NTF	NTF	NTF	48.5	8.6%	2.0%	8.6%	15.2%	24.7%	-1.4%	1.65	1.65	43	2%60days	TVIVX
Category 4 Small/Growth	1. Baron Discovery	04/17	NTF	NTF	NTF	64.8	11.7%	4.2%	11.7%	11.6%	41.6%	6.4%	1.79	1.35	63	None	BDFFX
	2. ☎ Wm Blair Small Cap Grow	05/17	NTF	NTF	NTF	49.1	7.0%	3.2%	7.0%	12.3%	29.8%	7.2%	1.40	1.50	88	None	WBSNX
	3. Oberweis Micro Cap	11/15	NTF	NTF	NTF	57.9	7.4%	2.0%	7.4%	15.6%	34.9%	8.4%	1.48	1.72	86	1%90days	OBMCX
Category 3 Small/Value	1. AMG Fairpointe Mid Cap	03/17	NTF	NTF	NTF	53.2	6.1%	0.7%	6.1%	20.0%	27.1%	7.3%	1.51	1.12	46	None	CHTTX
	2. Towle Deep Value	06/16	Closed	Closed	Closed	78.1	4.2%	0.6%	4.2%	25.3%	48.6%	11.1%	2.29	1.20	35	2%90days	TDVFX
	3. iShares Russell 2000 Value	12/16	ETF	ETF	ETF	42.9	-0.3%	-0.8%	-0.3%	13.9%	29.3%	7.5%	1.47	0.25	1364	None	IWN
Category 2 Large/Growth	1. ☎ Baron Partners	05/17	NTF	NTF	NTF	43.9	12.0%	3.5%	12.0%	12.0%	19.8%	5.9%	1.60	1.32	30	None	BPTRX
	2. Guggenheim S&P 500 Tech	04/17	ETF	ETF	ETF	56.4	11.6%	2.2%	11.6%	14.9%	30.0%	16.0%	1.37	0.40	70	None	RYT
	3. Parnassus Endeavor	01/17	NTF	NTF	NTF	41.4	4.1%	-0.2%	4.1%	11.8%	25.5%	14.6%	1.12	0.95	27	None	PARWX
Category 1 Large/Value	1. ☎ Toreador Core	05/17	NTF	NTF	NTF	50.9	7.6%	2.3%	7.6%	16.7%	26.6%	9.4%	1.20	1.20	77	2%60days	TORLX
	2. Dodge & Cox Stock	12/16	Yes	Yes	Yes	49.8	5.0%	-0.4%	5.0%	16.2%	28.6%	9.4%	1.24	0.52	69	None	DODGX
	3. JPMorgan Large Cap Value	03/17	No	NTF	NTF	47.5	4.3%	-0.7%	4.3%	18.4%	24.7%	11.6%	1.20	0.93	106	None	OLVAX
Bond Categories	Scout Unconstrained Bond [6]	09/16	NTF	NTF	NTF	3.5	0.6%	0.1%	0.6%	0.1%	2.9%	0.5%	1.14	0.80	1.7[7]	None	SUBYX
	Vanguard I-T Bond Index	01/15	ETF	ETF	ETF	-2.2	1.1%	0.0%	1.1%	-3.0%	-0.2%	3.2%	1.30	0.09	6.4[7]	None	BIV[8]
	Vanguard S-T Bond Index	07/12	ETF	ETF	ETF	0.3	0.6%	0.1%	0.6%	-0.6%	0.4%	1.3%	0.44	0.09	2.7[7]	None	BSV[9]

Upgrading Footnotes: [1] The funds in each risk category are selected (and ranked 1 through 3) primarily based on their momentum scores in late-April, not those shown on this report. 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]** A 1.0 relative risk score indicates the fund has had the same volatility as the market in general over the past three years. For example, a fund with a score of 1.4 would mean the fund was 1.4 times (40%) more volatile than the market. See June2015:p88. **[5]** Depending on how long you hold this fund, a redemption fee may be applicable when selling (for example, a fee of 1% if you sell within 60 days of purchase). Fees change often and vary from broker to broker, so be sure to check with your broker for the most current information. **[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.

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

Upgrading: Easy as 1-2-3

Fund Upgrading has long been SMI's most popular Basic Strategy. Whether used in isolation or in combination with SMI's Premium Strategies, Upgrading forms a solid foundation for an investing plan. Upgrading has proven itself over time with market-beating returns over the long haul, and it is easy to implement. This page explains exactly how to set up your own Upgrading portfolio.

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

WHY UPGRADE?

SMI offers two primary investing strategies for "basic" members. They are different in philosophy, the amount of attention they require, and the rate of return expected from each. Our preferred investing strategy is called Fund Upgrading, and is based on the idea that if you are willing to regularly monitor your mutual-fund holdings and replace laggards periodically, you can improve your returns. While Upgrading is relatively low-maintenance, it does require you to check your fund holdings each month and replace funds occasionally. If you don't wish to do this yourself, a professionally-managed version of Upgrading is also available (visit bit.ly/smifx).

SMI also offers an investing strategy based on index funds called Just-the-Basics (JtB). JtB requires attention only once per year. The returns expected from JtB are lower over time than what we expect (and have received) from Upgrading. JtB makes the most sense for those in 401(k) plans that lack a sufficient number of quality fund options to make successful Upgrading within the plan possible. See the top section of the Basic Strategies page at left for the funds and percentage allocations we recommend for our Just-the-Basics indexing strategy.

WHERE TO OPEN YOUR ACCOUNT

Opening an account with a discount broker that offers a large selection of no-load funds greatly simplifies the Upgrading process. This allows you to quickly and easily buy/sell no-load mutual fund shares without having to open separate accounts at all the various fund organizations. There are several good brokerage choices available. We recommend reading our latest Broker Review (August 2015:Cover article, also available online at bit.ly/smibroker) for details regarding the pros and cons of each broker, as your specific investing needs will largely dictate which broker is best suited to your situation.

401(K) INVESTORS

For a detailed explanation of how to Upgrade within your 401(k) plan, see bit.ly/smi401ktracker. That article also contains ideas on Upgrading in any type of account where your available fund choices are limited.

HOW TO BEGIN STOCK UPGRADING

❶ First determine your stock/bond target allocation by working through the investment temperament quiz online in the "Start Here" section (see the link near the top of the home page on the main navigation bar). For example, Table 1 below provides guidelines for those with an "Explorer" temperament. For more on asset allocations, see Jan2017:p8.

❷ Find the column that matches your stock/bond allocation in Table 2. (If your target falls between two listed columns, split the difference.) Multiply each percentage by the value of your total portfolio amount to calculate the dollar amount to invest in each risk category.

❸ Buying your funds is easy. Look at the recommended funds on the opposite page. In each category, start with the #1 listed recommendation. If it's available at your brokerage (indicated by Yes, NTF, or ETF), buy it. If it's not, continue down the list to the next available fund. Then contact your broker—online or via phone—to buy the fund you've picked.

Let's see how a new subscriber 12 years from retirement with $50,000 to invest and an account at Fidelity would proceed. First, he or she selects the proper stock/bond mix for their situation (let's assume 80/20). Then, from Table 2, finds the percentages for each risk category. Multiplying $50,000 by each percentage yields the dollar amount for each category as shown in Table 3.[1] Looking at the Fidelity column on the Recommended Funds page, the highest-rated Cat. 5 fund available at Fidelity is Longleaf Partners International, the highest-rated Cat. 4 fund available is Baron Discovery, and so on. After doing this for each category, the orders are placed and the stock portion of the Upgrading portfolio is complete!

From then on, it's just a matter of checking the Basic Strategies page each month. 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.

❶ PICK YOUR ALLOCATION

Seasons of Life	Stocks	Bonds
15+ years until retirement	100%	0%
10-15 years until retirement	80%	20%
5-10 years until retirement	70%	30%
5 years or less until retirement	60%	40%
Early retirement years	50%	50%
Later retirement years	30%	70%

Note: These are SMI's recommendations for those with an "Explorer" temperament. See Step ❶ in the text for information on our investment temperament quiz. You may want to fine-tune the above percentages to suit your personal approach to risk-taking.

❷ FIND YOUR PORTFOLIO MIX

Portion of Portfolio Allocated to Stocks:	100%	80%	60%	40%
Portion of Portfolio Allocated to Bonds:	**None**	**20%**	**40%**	**60%**
Stock Cat. 5: Foreign Stocks	20%	16%	12%	8%
Stock Cat. 4: Small Companies /Growth	20%	16%	12%	8%
Stock Cat. 3: Small Companies /Value Strategy	20%	16%	12%	8%
Stock Cat. 2: Large Companies /Growth	20%	16%	12%	8%
Stock Cat. 1: Large Companies /Value Strategy	20%	16%	12%	8%
Bond Cat. 3: "Rotating" Bond Fund	None	10%	20%	30%
Bond Cat. 2: Intermediate-Term Bond Fund	None	5%	10%	15%
Bond Cat. 1: Short-Term Bond Fund	None	5%	10%	15%

❸ BUY YOUR FUNDS

Example uses an 80/20 mix between stocks and bonds		Dollars	Invest In Funds
Stock Cat. 5: Foreign	16%	$8,000	Longleaf Partners Intl
Stock Cat. 4: Small/Growth	16%	$8,000	Baron Discovery
Stock Cat. 3: Small/Value	16%	$8,000	AMG Fairpointe Mid Cap
Stock Cat. 2: Large/Growth	16%	$8,000	Baron Partners
Stock Cat. 1: Large/Value	16%	$8,000	Toreador Core
"Rotating" Bond Fund	10%	$5,000	Scout Unconstrained Bond
Intermediate-Term Bond Fund	5%	$2,500	Vanguard I.T Bond Index
Short-Term Bond Fund	5%	$2,500	Vanguard S.T. Bond Index
Total	100%	$50,000	

BOND UPGRADING

Your bond allocation is divided among three funds as seen in Table 2. One-half of that is invested in the rotating Upgrading selection, which is reviewed monthly and changes from time to time. The other half is divided evenly between short-term and intermediate-term index bond funds, which are permanent holdings. For more on why SMI approaches bond investing in this way, see "Introducing an Upgrading Approach to Bond Investing that Outperforms the Bond Market" (bit.ly/smibondupgrading).

[1] Rounding off to the nearest hundred is fine. As time goes by, your portfolio will gradually move away from these starting percentages as some funds perform better than others. This will be fixed once a year when you "rebalance" back to your desired portfolio mix (see Jan2017:p8).

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 in each risk category that is 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, Champlain Mid Cap (CIPMX, 5/2016) is being replaced.[$]** This fund is being replaced right at the one-year mark, so those who own it in taxable accounts should note their buy/sell dates very closely, making sure to keep it longer than 365 days so as to qualify for the lower long-term capital gains tax rate. The fund has performed well for us over the past year, earning +18.8% (thru 4/21). That's better than its true mid-growth fund peer (+13.8%), but about average for all the funds SMI includes in our small/growth group (+19.3%). Because it has struggled to outperform that larger pool, which includes growth funds focused on both small and medium-sized stocks, it has fallen below the quartile and is being replaced this month.

• **William Blair Small Cap Growth (WBSNX) is being added.[1]** SMI's first exposure to this fund came in June of 2003 as the recovery from the decade's first major bear market was getting underway. Over the next 22 months, the fund proceeded to gain a stunning +67%, nearly doubling the return of its average small/growth peer. We've since recommended it twice more, in 2009 and 2013. While those weren't as remarkable as that initial run, the fund posted strong absolute returns and was held a while (13 and 9 months respectively) each time. Hopefully the fact that it has risen to the top of the rankings and is being selected again indicates there is more bull market left ahead.

◆ **In the Large/Growth group, Oakmark (OAKMX, 1/2017) is being replaced.** When we recommended Oakmark in January, we noted it was a "blend" fund—one that sits between the value and growth groups. At the time, value was outperforming growth, so adding this more value-oriented fund in a growth category seemed like a good idea. Unfortunately for this pick, the climate quickly changed and large/growth has been the market's hottest area so far in 2017. This is clear when comparing Oakmark's year-to-date gain of +2.5% (through 4/21) to its average large/value and large/growth peer. It's right in line with the +2.7% average gain of the large/value group, but way behind the +8.8% gain of the average large/growth fund. Given this is a large/growth slot, we're replacing Oakmark after only four months to get into a fund more in sync with the current growth trend.

• **Baron Partners (BPTRX) is being added.[1]** Like our William Blair recommendation earlier, this is another fund that exploded onto SMI's radar during the recovery from the 2000-2002 bear market and has been recommended multiple times since. When we first owned it for 18 months in 2004-2006, it posted a dazzling +56% gain for us, more than doubling the +25% gain of its average peer. Subsequent recommendations haven't been as stunning but have still been strong in absolute terms, as this fund's recommendation has tended to coincide with strong performance for the overall market. Hopefully that trend will remain intact once again.

◆ **In the Large/Value group, Artisan Value (ARTLX, 6/2016) is being replaced.** Artisan Value has done a solid job for us, gaining +16.0% in less than 11 months. That's notably better than the +11.3% gain of the average fund in SMI's large/value group. However, the fund's pace has slowed so far in 2017, which has caused it to gradually slide down the rankings out of the top 25% in its peer group, requiring it be replaced this month.

• **Toreador Core Fund (TORLX) is being added.[1]** Toreador (which means bull fighter) is a newcomer to SMI. As is often the case the first time a fund is recommended, we only start learning about it when it shows up at the top of our momentum rankings. The main focus of this smaller fund's management team is finding stocks that have both an "economic margin" (meaning the ability to earn a better than average return on the capital tied up in their business) and a reasonable price. This is a variation of the "growth at a reasonable price" strategy employed by many successful value funds. Whether their approach is truly unique or not, we'll be happy as long as they continue to execute it well. ◆

LEVEL 1 / CONTINUED FROM PAGE 70:

"WE CAN'T LIVE ON ONE INCOME!"

During that time, God provided for us, often in surprising ways. Once, we spent every dollar in our checkbook for a down payment and closing costs on a new home. I remember sitting on our new porch, wondering how we'd pay for groceries for the next few days until payday. That very moment, an acquaintance pulled into our driveway with a trunk full of produce. "I just felt that I should stop by and ask if you can use any of this," he said and offered us enough fresh vegetables to see us through a week.

Despite God's consistent reliability, in the years since writing the original article, I've done my share of worrying. Fretting never accomplishes anything. Faith and trust work better. However, I no longer believe that my worrying displeases God any more than my child falling while learning to walk would displease me. God is a loving parent who helps his children each step of the way—even when we worry.

When considering tithing, we still believe and practice

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

honoring God with everything he's given us. We aspire to generosity and giving more than a tenth of our income. However, during hard times, I don't rigidly count the percentage. For example, we endured the illness of a family member and a lot of our resources were allocated to help with that family member's care. During that time, I learned so clearly that God looks at our hearts, not the amount of the checks we write and place in the offering plate.

If you are considering the possibilities and challenges of living on a reduced income so that you can spend more time with family, I say: do it. I believe that God will honor your choice and provide for your every need. You can live on a lot less than you think. Your reduced income may mean you have to go without name brand clothes or brand new cars, but less time spent out of your home will get you something money can't buy: time with your family at a more relaxed pace.◆

LEVEL 2 / CONTINUED FROM PAGE 71:

A SMarT WAY TO BOOST YOUR SAVING AND INVESTING

if you don't? Take heart. It will take a little more diligence to put your plan in place and make it a reality, but it can be done.

The best way for most people to proceed in this situation is to open an IRA account (or perhaps separate IRAs for you and your spouse, if you're married and plan to contribute more than the $5,500[1] allowed into one IRA each year).[2] This next step is crucial—*set up an automatic deduction plan to move money from your checking account to your IRA with each paycheck, or at least monthly.* This is usually as easy as filling out a form provided by your IRA custodian, (if it isn't part of the actual IRA application itself). By setting up this automatic deduction, you're simulating and automating the regular, periodic investing of a company-provided plan. In other words, you're making your IRA work like a 401(k).

Next, you need to write down your schedule of future contribution rate increases. And lastly, since you don't have an HR department to deliver these instructions to, recruit a trusted friend to fill this role. Explain exactly what you're doing and why, and ask your friend to hold you accountable to follow through as you receive each subsequent raise. Then give your friend a copy of your contribution schedule. This accountability will greatly improve your likelihood of sticking with the program.

Ideally you will start contributing to the IRA right away. But even if you can't afford to start your contributions to the IRA right now, you should still open the IRA account. Fill out the form to establish the automated investment plan (just don't send it in yet). Write down exactly what percentage of your income you will begin contributing to the IRA when you get your next raise (as well as the percentages you will increase your contribution to when you get your next two raises after that). In other words, do everything possible to make the path of least resistance the *positive path of boosting your savings* amount, rather than the *negative path of simply boosting your spending* each time you get a raise.

Setting up your own "self-directed" SMarT plan may not be as fool-proof as having your instructions delivered and on file with your company's HR department. But be realistic—you've got to work with what you've got. The SMarT plan doesn't guarantee success, and it will require a little self-control to make it work. But by eliminating common mental obstacles to saving, it's a significant improvement over merely hoping your good intentions will someday lead to action. ◆

LEVEL 3 / CONTINUED FROM PAGE 72:

FIRST QUARTER REPORT: THE BULL MARKET MARCHES ON

$10,000 investment in SR five years ago would have more than tripled to $33,300.

These types of returns aren't unprecedented either. SMI's backtested data on SR goes back more than a quarter-century to 1990, and over that entire period the strategy has averaged a +23% annualized gain. Since SMI launched it as a live monthly strategy nearly 13½ years ago, SR has averaged over +15% per year. We're unaware of any other strategy that has provided those types of returns. That the system is so easy to understand and implement is icing on the cake.

SR pays for the cost of an SMI membership many times over each year. If you're a Basic Member (or not an SMI member at all), gaining access to this single strategy more than justifies the cost of membership.

50/40/10

This portfolio refers to the specific blend of SMI strategies—50% DAA, 40% Upgrading, 10% Sector Rotation—detailed in our May 2014 cover article, *Higher Returns With Less Risk: The Best Combinations of SMI's Most Popular Strategies*. It's a great example of the type of diversified portfolio we encourage most SMI readers to consider.[3] As we've seen repeatedly in recent years, the markets can shift suddenly between rewarding risk-taking and punishing it, so a blend of higher-risk and lower-risk strategies can help smooth your long-term path and promote the type of emotional stability that is so important to sustained investing success.

Given that half of this portfolio is allocated to the relatively conservative DAA strategy, it's not surprising that a 50/40/10 portfolio would lag a bit when the stock market is up sharply. Still, to get a +5.2% return in this portfolio when the market is up +5.6% *while also getting the downside risk protection that DAA provides* is a great risk/return trade-off that we'd take every time in a rising market.

The 50/40/10 model portfolio stood at an all-time high as the first quarter ended. Better still, the diversified nature of this portfolio offers reasonable hope that it will withstand the declines of a sustained correction or bear market significantly better than the broader stock market or other equity-only strategies.

The performance of the three strategies included in the 50-40-10 portfolio will vary significantly over time, but diversi-

[1]Or $6,500 for people 55 and older [2]See *Making Sense of Your IRA Options*, the cover article of SMI's February 2014 issue, for details on choosing the best type of IRA. [3]Blending multiple strategies adds complexity. Some members might want to use an automated approach. See tinyurl.com/hzamzge.

fying among them in this way will smooth an investor's journey considerably. Whether you're using this specific 50/40/10 blend or a different allocation combination tailored to your specific risk preferences, we think most SMI readers can benefit from combining these strategies in some fashion. ◆

LEVEL 4 / CONTINUED FROM PAGE 73:

WHEN PREMARITAL AGREEMENTS MAY BE APPROPRIATE

children. The marital agreement can diffuse what could become a contentious dispute between the surviving spouse and the deceased spouse's children.

I have drafted a number of premarital agreements and have had them tested both in divorce and in death. If done properly, the agreement can make all the difference between an orderly and simple transition and a lengthy and expensive lawsuit.

Naturally, just like the decision to marry for a second time, entering into a premarital agreement should be a matter of prayer, study of the Scriptures, and pastoral counsel. Marital agreements, used properly, can strike a reasonable balance between the biblical principles of "one flesh" and the care and support of one's heirs. ◆

[This article was written by R. Hal Moorman, a Texas attorney (www.moormantate.com) who is Board Certified in Estate Planning & Probate Law and Civil Trial Law by the Texas Board of Legal Specialization. He is the former chair of the Texas Board of Legal Specialization. He is a Fellow of the American College of Trust and Estate Counsel and currently serves as a Regent. He is a member of Champion Fellowship.]

MARKET NOTES, QUOTES, AND ANECDOTES

Reasons for caution

• "If there is no recession by 2020, we will have lived through the first decade in 120 years without one. But for that to happen, everything has to go right." — John Mauldin, chairman of Mauldin Economics, in an article on his web site on 4/9/17 in which he analyzes multiple economic indicators and explains why he believes investors should be cautious right now. Read more at bit.ly/2q3hiRM.

The market can't always be above average

• "There is no doubt that the market can grind higher to more dizzying valuations. However, there is also strong historical evidence that this market will normalize to average valuations." — Michael Lebowitz, founder of 720 Global, writing on the *See It Market* blog that markets don't stay overvalued indefinitely. Read more at bit.ly/2ot6igL.

Taking the long view

• "The stock market is almost 11 times higher today than it was in 1990. So reading a 1990 article about what a 0.5% decline meant for investors makes you want to yell, 'None of this matters! Just take a long-term view!' " — Morgan Housel, writing on the *Collaborative Fund* blog on 4/5/17. Read more at bit.ly/2phEVFH.

• "Over the last few decades, investors' timeframes have shrunk. They've become obsessed with quarterly returns. In fact, technology now enables them to become distracted by returns on a minute-by-minute basis. Thus, one way to gain an advantage is by ignoring the 'noise' created by the manic swings of others and focusing on the things that matter in the long term." — Howard Marks, chairman, Oaktree Capital Management, in a presentation called "The Truth About Investing." See the full presentation at bit.ly/2oICmZU.

The dangers of getting out

• "No one really knows if we're in the seventh-inning stretch, the bottom of the ninth, or heading into extra innings." — Author/blogger Ben Carlson, writing on *Bloomberg View* on 4/21/17 about concerns the market may be overvalued and how market valuation metrics tend to be poor timing indicators. Read more at bloom.bg/2pw2mvP.

• "It takes extraordinary self-discipline to admit having made a market-timing error and to get back into equities before too much damage has occurred. Historically, few have managed that feat." — John Rekenthaler, VP of Research for *Morningstar*, writing on 3/21/17 about the difficulty of reentering the market after fear drove you out. Read more at bit.ly/2ose6PL.

Who are you listening to?

• "Chasing nonsense (false narratives) is not an effective investing strategy." — Charlie Bilello, director of research at Pension Partners, writing on 4/18/17 about the dangers of too readily accepting analysts' explanations of the market. Read more at bit.ly/2q14dpu.

The retirement gamble

•"Phyllis stops playing roulette when she runs out of money but, unlike roulette players, we can't stop being retired when we go broke. We have to figure out how to continue playing retirement until the end." — Dirk Cotton, writing on his *Retirement Café* blog on 4/19/17 about the similarities between gambling and retirement planning. Read more at bit.ly/2q2NMf2.

An undervalued asset

• "Some people (such as tenured professors, doctors and government employees) have stable jobs, and thus their labor income is almost like an inflation-indexed annuity. In other words, it acts very much like a bond. Other people (such as commissioned salespeople and construction workers) have labor income that is more volatile, and thus acts more like equities." — Larry Swedroe, director of research for the BAM Alliance, writing on *ETF.com* on 4/12/17 about incorporating "human capital" (your earning ability) into your financial plan. Read more at bit.ly/2q343k7. ◆

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.

DYNAMIC ASSET ALLOCATION

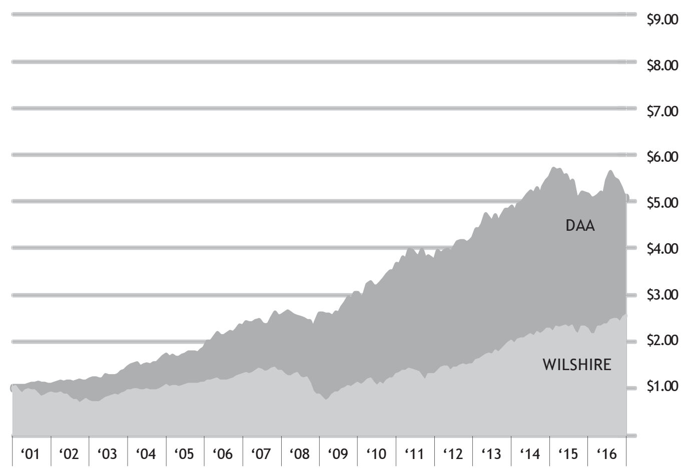
Overview

This is a stand-alone strategy that can be used in combination with (or in place of) SMI's basic strategies. DAA 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. 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, but especially investors who are more concerned with avoiding major losses during bear markets than they are with capital growth during bull markets. **Pros:** Excellent downside protection during bear markets, reflected in a very low worst-case result and relative-risk score. Great long-term track record. **Cons:** Subject to short-term whipsaws. Lags the market in up years. Making trades promptly and concentrating entire portfolio in only three asset classes can be emotionally challenging.

Dynamic Asset Allocation vs Wilshire 5000
Growth of $1 Jan 2001 - Dec 2016



Strategy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	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%	10.7%	-13.7%	0.64
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%	13.4%	6.1%	-43.3%	1.00

SECTOR ROTATION

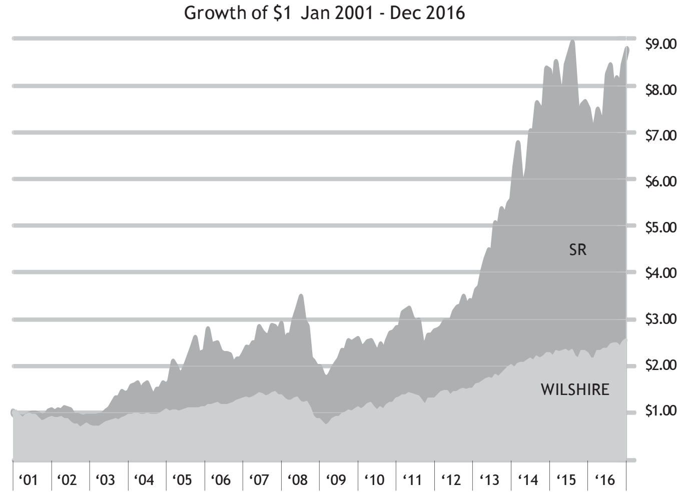
Overview

This high-risk strategy involves investing in a single special-purpose fund that focuses on a specific sector (such as biotech, energy, or financial services). Because these stock funds invest in a narrow slice of the economy, they carry a higher degree of risk. Only one fund, selected based on having superior momentum relative to other sector options, is held at a time. The sector-fund recommendations in this strategy are designed to be used in combination with Just-the-Basics, Fund Upgrading, or DAA (or a combination of these) up to a maximum of 20% of the stock allocation. 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.

Who Should Consider This Strategy

Experienced investors 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.

Sector Rotation vs Wilshire 5000
Growth of $1 Jan 2001 - Dec 2016



Strategy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	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%	16.8%	14.5%	-38.6%	1.66
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%	13.4%	6.1%	-43.3%	1.00

[1]The three data points on the far right in each of the two tables are for the Jan2001-Dec2016 period. "Avg" represents the average annualized return from 2001-2016. "Worst12" represents the worst investor experience over 169 rolling 12-month periods from 2001-2016.

PERIODICALS POSTAGE
PAID AT LOUISVILLE, KENTUCKY

Dated Investment Material
Please Do Not Delay!

PERFORMANCE DATA

SOUND MIND INVESTING MODEL PORTFOLIOS • DATA THROUGH MARCH 31, 2017

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]	5.6%	0.0%	5.6%	18.3%	10.0%	13.2%	7.6%	7.6%
Just-the-Basics[2]	5.9%	0.6%	5.9%	18.6%	7.3%	11.4%	6.7%	7.9%
Stock Upgrading[3]	4.1%	0.4%	4.1%	15.6%	6.0%	10.9%	6.6%	8.9%
U.S. Bond Market[4]	0.9%	-0.1%	0.9%	0.3%	2.5%	2.2%	4.1%	4.4%
Bond Upgrading[5]	0.7%	0.1%	0.7%	1.6%	2.9%	3.5%	6.6%	7.0%

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]	4.9%	0.3%	4.9%	4.9%	2.8%	6.4%	8.6%	11.2%
Sector Rotation[7]	11.6%	5.1%	11.6%	30.9%	18.1%	27.2%	14.8%	16.3%
50-40-10 Blend[8]	5.2%	0.8%	5.2%	11.7%	5.8%	10.5%	8.9%	11.2%

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.

THE SOUND MIND INVESTING MUTUAL FUND (SMIFX)

Current Returns as of 3/31/2017	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	3.12%	0.36%	3.12%	12.84%	3.30%	8.78%	5.33%
Wilshire 5000	5.62%	0.04%	5.62%	18.34%	10.01%	13.22%	7.61%
S&P 500	6.07%	0.12%	6.07%	17.17%	10.37%	13.30%	7.51%

Quarterly Returns as of 3/31/2017	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	3.12%	0.36%	3.12%	12.84%	3.30%	8.78%	5.33%
Wilshire 5000	5.62%	0.04%	5.62%	18.34%	10.01%	13.22%	7.61%
S&P 500	6.07%	0.12%	6.07%	17.17%	10.37%	13.30%	7.51%

Total/Gross expense ratio: 1.97% as of 2/28/17 (includes expenses of underlying funds)
Adjusted expense ratio: 1.15% as of 2/28/17 (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).

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