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Financial Wisdom for Living Well

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How to Think About Money

Jonathan Clements wrote a personal finance column at *The Wall Street Journal* for nearly 20 years. He also spent six years as Director of Financial Education for Citigroup's U.S. wealth-management business. He is the author of six personal-finance books. In his most recent book, from which the following is excerpted, Clements draws on lessons learned from decades studying and writing about money. He wants to help readers worry less, make smarter choices, and derive more happiness from their use of money.

by Jonathan Clements

There are those who think the goal of investing is to beat the market and amass as much wealth as possible, that street smarts and hard work ensure investment success, and that the road to happiness is paved with more of everything.

And then there are those who get it.

I realize that sounds horribly arrogant. But in truth, those words are born of the humble realization that very few of us will beat the market, that saving diligently is the key to amassing wealth, that money buys limited happiness and that much of the time we are our own worst enemy.

This book is the product of 31 years of writing and thinking about money. Along the way, I did all the usual nonsense: dabbled in individual stocks, thought I knew what would happen next in the financial markets, and purchased stuff I was sure would make me endlessly happy. Again and again, I was proven wrong. There were no spectacular failures. But there were enough missteps that I was left with a nagging feeling that much of conventional wisdom wasn't especially wise.

It isn't surprising that we find it tough to think clearly about money, given the obstacles in our way. In recent decades, there's been much focus on how ordinary folks handle money—and the research suggests we often short-change ourselves. Academics who specialize in behavioral finance have found we don't behave rationally, as economists have traditionally assumed, but instead make numerous mental mistakes.

Why do we get it wrong? We are overly influenced by conventional wisdom and societal values. We pay too much heed to what our friends, family and especially our parents might think—even if our parents are no longer alive. We are driven by the instincts passed down from our nomadic ancestors. We are also heavily influenced by Wall Street and by corporate marketing.

There is no conspiracy here. It's just the free market at work, with everybody pursuing his or her own self-interest. That everybody should include you. If we want a happy and successful financial life, where we squeeze the most out of our money, we need to cast aside wrongheaded conventional wisdom and ignore the self-serving prescriptions propagated by others—and instead figure out the right way to think about money.

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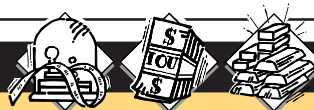

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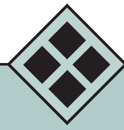
"FOR GOD HAS NOT GIVEN US THE SPIRIT OF FEAR BUT OF POWER, AND OF LOVE, AND OF A SOUND MIND."



EDITORIAL

Plans Fail for Lack of Counsel, but with Many Advisers They Succeed[1]

It's a great time of year for the Pryors—Susie and I are getting ready to leave for our annual vacation on the Carolina beaches! While we're there, we don't buy newspapers, turn on the television, read any news, or do any work. We're there to unplug, unwind, and connect.

Our vacations haven't always been so care-free. Because I did all the research and writing for the first decade of SMI, I had to plan our (shorter) vacations around our monthly deadlines. In fact, the first issue of SMI was finalized at Fripp Island, South Carolina, during our 25th wedding anniversary getaway (taking your work with you is not a recommended way to relax and celebrate!).

The reason that's no longer an issue is the Lord has given SMI a great team of writers to help carry the load. They're talented, experienced, and dedicated to our mission of teaching financial and investing principles within the boundaries of God's word. I'm grateful for each one, proud of them, and thought it would be encouraging to our newer members to learn more about the people who bring you our content and recommendations each month.

• The SMI veteran of the group is **Mark Biller**, who serves as SMI's executive editor. Mark joined us in 2000 as my first full-time writer/researcher. He arrived just in time to help lead the company's efforts in launching our website that same year. Over the more than 17 years since, Mark has not only written countless articles, but has also helped develop several of SMI's investment strategies, been a contributing author to the *Sound Mind Investing Handbook*, and eventually moved into my slot as a regular guest on the Compass *MoneyWise* radio program.

In addition, Mark helped design and launch the various Sound Mind Investing mutual funds. He has served as the senior portfolio manager of all of the SMI Funds since their inception in 2005. Mark fills the same role for SMI Advisory Service's recently launched Private Client accounts. Basically, if you have money managed for you by SMI Advisory Services in any capacity, Mark is overseeing those investment decisions.

Mark and his wife, Cindy, have been married for 22 years. They have two children at home and one in college.

• **Matt Bell** leads SMI's content strategy—managing the company's monthly editorial calendar, writing many of our articles, sourcing content from outside the company, and either writing or overseeing much of what appears on our web site. He also represents SMI in various radio guest appearances.

While living in Chicago, Matt attended Willow Creek Community Church where he served in the Good $ense financial ministry. He taught many workshops and served for several years on the Good $ense national strategy team.

Prior to joining SMI in 2012, Matt wrote four personal-finance books published by NavPress, including *Money and Marriage: A Complete Guide for Engaged and Newly Married Couples*, and the *Money. Purpose. Joy.* video-based small-group program. (He's using that latter experience to lead SMI's development of a small-group study based on the *SMI Handbook*.) Matt has spoken—and continues to speak—at churches, universities, conferences, and retreats throughout the country. He and his wife, Jude, have been married for 18 years and have three school-age children.

• I'm delighted to report that **Joseph Slife** has recently returned to our team. I first met Joseph in 1991 when I was visiting my friend Larry Burkett at his ministry headquarters. Joseph was serving as a radio producer and Larry's primary researcher. Joseph served a key role there for 15 years. As you can imagine, that work experience alongside Larry for so many years gives Joseph a deep understanding of the biblical principles for managing God's money.

After Larry's homegoing, I was eventually able to recruit Joseph to SMI. He worked with us until 2011 when he was invited to return to radio work as the senior producer and co-host of *The World and Everything In It*, a news program produced by WORLD Radio. Having successfully headed the launch of that effort for the past five years, Joseph rejoined the SMI team in May. It's great to have him back! Joseph and his wife Joye have been married for 34 years. They have three grown sons.

By my count, this trio has more than 50 years combined experience studying and teaching at a high level on financial/biblical topics. Now you know why I'm so grateful for our team (and the freedom they give me to head out for a work-free few weeks at the beach every spring!).

AUSTIN PRYOR
FOUNDER/PUBLISHER

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.

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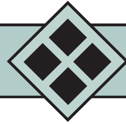
[1] Proverbs 15:22 NIV

F E A T U R E  A R T I C L E

How to Think About Money

(continued from front page)

To get the most out of our money, we need to spend with great care

Look around your living room. Check out the furniture, lamps and television. Glance at the pictures hanging on the walls. Wander into the kitchen. Let your eyes roam across the plates, bowls, cutlery and kitchen utensils. Take a peek in the bedroom, including all the clothes in your closet. Everywhere you look, there's stuff—stuff that you bought, often after careful consideration. You were confident that all these items would make your life happier. Have they? Or do you barely notice these items anymore—and, in some cases, perhaps even regret purchasing them?

Don't worry: I am not about to decry American materialism or launch into some philosophical diatribe about the virtues of the monastic life. We all need chairs, cutlery and clothes. Instead, I want to emphasize a different point: We aren't very good at figuring out what will make us happy.

Classical economics assumes that individuals make choices that "maximize their utility," meaning that—while we may occasionally mess up—we don't regularly make choices that hurt our happiness. This is a dubious assumption. Many people smoke, overeat and watch hours of television every day, even though they wish they didn't. Most folks spend too much today and save too little for the future. They choose careers that make them miserable. They buy homes that leave them with horribly long commutes. Our instinctive reactions may be helpful when assessing whether we are dealing with a friend or foe. But when deciding how to spend our time and money, and when settling on which goals to pursue, we shouldn't presume that we know instinctively what we want.

Still, there is hope. We can often figure out what we want upon reflection—and the academic research on money and happiness can help.

Consuming unhappiness

The research suggests money can improve day-to-day happiness, at least up to a point, and also make us feel better when we sit back and reflect on our life. But the pursuit of money—and how we spend it—can also hurt our happiness. In particular, we make three major mistakes.

The first mistake: We put ourselves in a position where we feel relatively deprived. Let's say we get a big pay raise and that prompts us to buy a home in a more desirable neighborhood. A good idea? Maybe not. It seems that, if our neighbors earn more than we do, we are likely to be unhappy, especially if we regularly spend time with them.

If moving into a town with wealthier neighbors can hurt our happiness, it can be doubly bad if that neighborhood is farther from work. This is the second major mistake that folks make. Research suggests commuting is terrible for happiness.

Okay, so we don't want a long commute or wealthier neighbors. Anything else? Let's continue with the real-estate theme: Suppose we are thinking of buying a much bigger house. As we contemplate the new home, we might be captivated by all the extra space we will have, as well as the big yard for the kids to play in.

We probably won't give much thought to the greater upkeep involved. Even if we don't do the work ourselves, and instead hire others to mow the lawn, clean the house and do occasional repairs, we will still have the hassle of finding others to do these chores.

That brings us to the third major mistake: We are inclined to use our money to buy more and more possessions, because we value possessions for their ongoing value. But in fact we are often happier when we spend our money on experiences rather than things.

Experiences not only offer the chance for eager anticipation, but they can also leave us with fond memories—and those memories often grow fonder over time, as we recall the overall event and forget the incidental annoyances. Meanwhile, we quickly adapt to material improvements in our life, plus we have to care for these possessions and watch them deteriorate.

Want to get more happiness out of your dollars? Forget the flat-screen television—and instead go for the memorable vacation.

We are hardwired for financial failure—so sensible money management takes great mental strength

Most of us make all kinds of financial errors: We spend too much and save too little. We take on too much debt. We panic when the stock market goes down. We grow too bold with our investment bets as share prices climb.

Yes, we are hardwired to behave in certain ways. But that doesn't mean we always follow our instincts. We can buck our natural inclinations—and often, when managing money, that's the right thing to do. But we shouldn't kid ourselves: This takes great mental effort.

Below, you will read about 22 mental mistakes that have been identified by experts in behavioral finance. Running such a lengthy list might seem like overkill. But if we're to be successful managers of our own money, we need to come to grips with some unflattering truths.

1. We're too focused on the short-term. We are…overly influenced by recent events, including the latest political news, the current crop of economic data, and whether the financial markets have lately been rising or falling. We ascribe great importance to the days and weeks ahead, and not nearly enough to next year, let alone the next 10 years.

2. We lack self-control. Our ancestors didn't have to worry about restraining their consumption so they could amass money for retirement. We, alas, do need self-control. But for most of us, it is a lifelong struggle.

3. We believe the secret to investment success is hard work. Activity, we figure, will bring success, whether it is diligently reading corporate annual reports or trading rapidly throughout the day. While all this activity might give us the illusion of control over our investment results, it is more likely to hurt our performance, as we rack up hefty trading costs and make large, undiversified investment bets.

4. We think the future is predictable. In retrospect, it seems obvious that technology stocks were going to crash and burn after the huge run-up of the late 1990s. At issue is a phenomenon known as hindsight bias. We forget about all the uncertainty that existed at the time and all the predictions we made that turned out wrong. Thanks to our sanitized recollection of the past, we feel future events are more predictable than they really are—and this can prompt us to make big investment bets that we later regret.

5. We see patterns where none exists. When we are struck by some sudden shift in the market's direction or we learn about a new company, we hunt for analogies. We might think, "It's 1999 all over again," as we watch stocks climb by leaps and bounds and we worry about another bear market.

6. We hate losing. Studies suggest that the pain we get from losses is more than twice as great as the pleasure we receive from gains. This distaste for losses helps explain why investors have, historically, shied away from stocks, despite the handsome long-run gains.

7. We sell winners and hang on to losers. When faced with a loss, we might take additional risk in an effort to recoup the loss, such as buying more shares if one of our stocks falls in value. This is sometimes referred to as "doubling down."

8. We're overconfident. Most of us believe we are better-than-average drivers, more intelligent than most people, and also better looking. But the reality is that, unlike the children of Garrison Keillor's Lake Wobegon, we can't all be better than average. Our excessive self-confidence is a real handicap when it comes to investing. It encourages us to trade too much, to believe that we can beat the market, and to make big investment bets in a select few securities.

9. We take credit for our winners, while blaming our losers on others. This delusional reaction to winning and losing reduces the chances that we will learn from our mistakes, while further bolstering our self-confidence.

10. Our risk tolerance isn't stable. When building an investment portfolio, we are often advised to think about how much risk we can stomach, and then use that to guide how much we put in stocks and how much in bonds. The problem: The portfolio we are happy to own today may make us miserable a year from now.

11. We get anchored to particular prices. We might own a stock that once got as high as $50, but which has since fallen to $30. We might be stuck on that $50 price and refuse to sell for less.

12. We rationalize bad decisions. We might even change our recollection of the decision, so we recall behaving more sensibly than we did.

13. We favor familiar investments. This might include shares of our employer. The familiarity makes these stocks more comfortable to own, but the result is often a badly diversified portfolio with a lot of unnecessary risk.

14. We put a higher value on investments we already own. This is known as the endowment effect. Why do we endow some investments with additional value, which then makes us reluctant to sell? Maybe it's the familiarity. Maybe we bought based on the recommendation of somebody we like or we inherited the investment from our parents, so we have an emotional attachment.

15. We prefer sins of omission to sins of commission. If we fail to sell a stock and the shares subsequently fall in price, we might kick ourselves. But our sense of regret will likely be less than if we did go ahead and sell—and soon after the shares skyrocketed in value. This…is sometimes referred to as "status quo bias."

16. We find stories more convincing than statistics. Academic studies…are no competition for a good story: We are still drawn to hot growth companies with their slick innovations and adoring customers.

17. We base decisions on information that's easily recalled. We hear a lot about investment legend Warren Buffett and a lot about lottery ticket winners, which makes beating the market and winning the lottery seem far more likely than they really are.

18. We latch onto information that confirms what we already believe. At the same time, we discount information that contradicts our beliefs. This is a common phenomenon among those who are bullish or bearish on the stock market.

19. We believe there's safety in numbers. Purchasing investments that "everybody's buying" can make investing seem less frightening. But often, it isn't good for our investment returns.

20. Our financial decisions aren't purely financial. Like ordinary consumer purchases, financial choices have three benefits: utilitarian (what it does for me), expressive (what it says about me) and emotional (how it makes me feel). As we manage our finances, we might insist our goal is strictly utilitarian, and that all we want to do is make money. But in truth, we often make decisions for expressive or emotional reasons, and these other motivations can hurt our stated goal of greater wealth.

21. We engage in mental accounting. This shows up in three key ways. First, we divvy up our wealth into different mental buckets, and view each bucket differently. For instance, we might happily spend money in our checking account, but we are reluctant to sell any of our mutual funds, unless it's a dire emergency.

Second, we might pay heed to the experts and build a diversified portfolio. But instead of focusing on our overall portfolio's performance, we waste the emotional benefit that comes with broad diversification by fretting over the results of each individual investment we own.

Third, we may make a sharp distinction between money derived from investment income and money from selling our holdings. Retirees will often happily spend their dividends and interest, but they are reluctant to sell any of their stocks and bonds. This mindset can lead retirees to buy high-yielding investments—and end up taking more risk than they realize.

22. We're influenced by how issues are framed. We might be told that, "over the past 50 years, stocks have

made money in 75 percent of all calendar years." Alternatively, we might be told that "over the past 50 years, stocks have lost money in 25 percent of all calendar years." The two sentences tell us the same thing—yet the first description makes stocks seem more appealing.

How to save like crazy

How can we keep ourselves on the straight and narrow? [One way is] to turn ourselves into great savers. Even if we have the tenacity to stick with a sensible investment strategy in the face of market turmoil, our investment gains won't amount to much in dollar terms unless we have a decent sum invested in the market—and that takes good savings habits.

Over the decades, both at *The Wall Street Journal* and at Citigroup, I have met and corresponded with thousands of ordinary Americans who have amassed seven-figure portfolios. Many of these folks had relatively modest salaries. Most were mediocre investors. But almost all shared one key attribute: They were extremely frugal. Our wealthiest neighbors are often the family with the modest house and the second-hand cars. They have heaps of money because they aren't big spenders, and instead live far beneath their means and save diligently.

This was the thesis of the 1996 bestselling book *The Millionaire Next Door*, written by Thomas Stanley and William Danko. The book was an eye-opener for many, and the phrase "the millionaire next door" became shorthand for describing a surprisingly wealthy slice of American society and yet one that's almost invisible. Unless we get a peek at their financial statements, we would have no idea how rich these folks are. The many everyday millionaires I have met are skeptical that more possessions will make their life better—and bemused that their fellow citizens' self-esteem seems to hinge on wearing designer clothes and owning the latest electronic gadget.

As Stanley made clear, the secret to getting rich is no secret at all: We need to be great savers. But while growing wealthy is ridiculously simple, it isn't easy. The annual savings rate over the decade through year-end 2015 averaged just 5.1 percent of disposable personal income. The battle between our current self and our future self turns out to be a one-sided fight: We overwhelmingly favor today. How can we level the playing field, so our future self has a fighting chance? There are all kinds of rational reasons to be a good saver: By socking away money early and often, we can avoid a lifetime of financial anxiety, enjoy decades of investment compounding, buy ourselves the financial freedom to pursue our passions and ensure a comfortable retirement.

Appeals to rationality, however, are no match for our lack of self-control and our instinct to consume as much as possible today. What to do? Consider a two-part strategy. First, we should make it possible to save by keeping our fixed living costs as low as possible. We're talking here about recurring expenses such as mortgage or rent, car payments, groceries, utilities and insurance premiums. In particular, we should focus on the sum we devote to housing and cars, because together those two items account for half of the typical American family's spending. If these and other fixed costs are too high, we won't be able to save much, no matter how much we want to. Many Americans would love to save more, I suspect, but they simply can't—because they have boxed themselves in with high fixed living costs. My advice: Aim to keep your total fixed costs below 50 percent of pretax income.

Second, we should make saving as painless as possible. That means signing up to contribute to our employer's 401(k) or 403(b) plan, so the money gets pulled from our paycheck before we get a chance to spend it. This is the classic way to "pay yourself first."

We might also pay off the mortgage more quickly by rounding up the monthly check to the nearest $100, so the $1,623 mortgage payment becomes $1,700. We might make a point of saving all windfalls, such as tax refunds, income from freelance work, insurance reimbursements and year-end bonuses. These sums aren't part of our regular income, so they should be a painless source of extra savings.

Three benefits of becoming a saver

Soon enough, these habits will become ingrained and the financial benefits will start to snowball. Our portfolio will balloon and our sense of financial control will grow. We will also enjoy three benefits that aren't widely appreciated. First, if we keep our fixed costs low, not only will we have more money to save, but also we will have more money for discretionary spending like eating out, vacations and fun experiences such as concerts and amusement parks—all likely to deliver ample happiness.

Second, if we're used to living far below our means, we will need a smaller nest egg to retire in comfort. One rule of thumb says that, in retirement, we need income equal to 80 percent of our final salary. But if we regularly save 25 percent of our income, rather than the often recommended 10 percent, we're used to living on a relatively small portion of our paycheck—and we might be able to retire comfortably on just 65 percent of our preretirement income.

Third, by being frugal early in our adult life, we will enjoy the pleasure of a gradually rising standard of living. If we start out in economy but eventually we can afford to fly first class, sitting at the front of the plane will seem like a treat. What if we start out in first class? It won't seem all that special—and, when our skimpy retirement nest egg forces us to the back of the plane, sitting in the cheap seats will seem especially grim.

None of this is especially complicated or clever. But putting these ideas into practice takes thought and effort. We need to ignore our instincts, rein in our emotions, take a deep breath and focus relentlessly on what's best for us—for our happiness and our financial freedom over a lifetime that might span nine decades.

Sound like a lot of work? It's nothing compared to the potential reward. With a sense of mission and the simple steps outlined above, it is amazing how much wealth we can amass—and how much happier our financial life can be. ◆

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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

PROTECTING YOUR FINANCIAL ASSETS BY STEPPING UP YOUR CYBERSECURITY

Maybe you used to keep a spare house key under the welcome mat (or a nearby rock) in case you got locked out. Few of us do that anymore. We've grown too concerned about home security. But many of us still leave a spare key lying around when it comes to our banking and investment-account security. That "spare key" is in the form of easily guessable passwords for online accounts.

A hacker who gains a bit of your ID information—via a phishing scam, malware or a data breach—may be able to parlay those details into access to your financial accounts. Predictable passwords make a hacker's task much easier.

What's a "predictable" password? A 2016 study by the security company SplashData, based on more than five million leaked emails, found that 4 percent of users had this password: "123456." Many others simply used "password" or "login" or "abc123."

Predictable indeed. But security experts warn that any normal word found in a dictionary is insecure, because "brute force" hackers employ programs that cycle through every dictionary word to see if one unlocks an account.

Protect yourself

Improving your cyber-protection isn't complicated, but it does require effort. Here are a few "best practices," some of which can be used in combination.

• **Stop using the same password for multiple accounts.** Employing a single password for different accounts is like handing a hacker a master key that unlocks much of your online world. Even if you take no other step to protect yourself, take this one: "change the locks" by creating a unique password for each account.

• **Start using a password manager.** Using a different password for each online account will take your security up a notch, but it may drive you crazy. Recalling a plethora of passwords is difficult, if not impossible. Enter password managers. A manager is a software application or online service that keeps track—in encrypted form—of the various usernames and passwords you use. All you have to remember is one master password that will prompt the manager to fill in the correct username and password—and any other necessary information, such as an account number—for any account you're trying to access.

Depending on how the manager is configured (and whether or not you want to easily sync multiple devices), your encrypted "password vault" may reside locally on your computer (or smartphone) or on the remote servers of the password manager company. The arrangement you choose comes down to personal preference. Some users don't want their information "in the cloud" even if it's encrypted and undecipherable. Others find the simplicity of cloud-based syncing to be a reasonable trade-off to any heightened security concerns about their data being stored remotely.

For information about the most popular password managers, see the table below. They all work on the major operating systems and have plug-ins that integrate into the leading browsers.

• **Create better passwords.** Password creation always involves finding a middle ground between security and memorability. The more random (and longer) a password is, the more secure it will be. But will you remember it?

Most password managers can generate secure, unique passwords. However, if you'd rather generate your own by building on words you choose, you can use an online tool created by researchers at Carnegie Mellon University. The "Password Meter"[1] not only gauges how strong or weak a particular password is, it suggests specific ways to make a password more secure by means of relatively minor changes, such as inserting a random character in a random position, toggling a character from lower to upper case, adding punctuation, or moving any digits from the end of the password to somewhere in the middle. Example: If you use NiagaraFalls93 (because you honeymooned there in 1993) the Password Meter might suggest changing it to Ni93!agaraCFalls.

• **Stop using passwords altogether and switch to passphrases.** Passphrases are sequences of words that use natural language and (if allowed) spaces, such as "God owns it all; I am a steward." A good phrase has the virtue of being memorable, while at the same time containing enough characters to frustrate hackers. You could choose a quote from a favorite book, a rhyming couplet, or a phrase that has particular meaning within your family. But, as with passwords, don't use the *(continued on page 93)*

	Free version	Paid version	Storage Options	Usability
Dashlane	Yes, for a single device	$40/year, adds multi-device syncing	Local or cloud storage	Excellent design and intuitiveness
LastPass	Yes, includes multi-device syncing	$12/year, adds authentication options	Cloud storage only	Clean, easy-to-use interface
1Password	No, free trial only	$36/year for individual, $60 for family	Local or cloud storage*	Excellent design and intuitiveness
RoboForm	Yes	$20 for 18 months	Local or cloud storage	Easy to use, not as polished as Dashlane or 1Password
KeePass**	Yes	No	Local storage only	Requires fair amount of tech know-how to set up

*1Password offers both cloud-based and non-cloud-based syncing methods.
**KeePass is an open source password manager. Some features are available only via third-party plug-ins.

[1] cups.cs.cmu.edu/meter

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

MAKE SURE YOUR INVESTMENT DECISION-MAKING IS INSIDE-OUT

SMI regularly suggests that one's investing decisions usually can be made with little regard for what's going on in the investment markets. This seems counterintuitive. Let us once again make our case, then we'll apply it to the question of deciding whether now is a "good" time to sell some of your stock holdings.

Where do investment decisions originate for many investors? The starting point is found in the impersonal "outside" world of current events, magazine articles, and "expert" recommendations. Their *decisions are guided primarily by outside considerations*. As they respond to the data thrown at them—sometimes buying, sometimes selling—their personal "inside" financial worlds take shape. Their thinking is "outside-in." They need a continual stream of outside information to stimulate their thinking and provoke them to action. Decision-making would be impossible without it.

For other investors, the starting point of decision-making is "inside" information. The focus is on their own financial needs and a personalized long-term strategy designed to meet those needs. Their buy/sell decisions are made based on what's required to make sure their financial holdings are in accord with the game plan.

This is "inside-out" thinking, where *decisions are primarily shaped by inside considerations*. Thus, current market fads, trends and so-called expert opinions are largely irrelevant to inside-out investors. The "outside" world of investment professionals comes into the picture only when assistance is needed in executing decisions already made.

We're encouraging you to be an inside-out thinker. In other words, make your investing decisions as you would other consumer purchasing decisions. For example, if your family has grown to the point that you need a minivan to haul everyone around, you wouldn't buy a sporty little MX-5 Miata instead because a magazine article said they're "hot" at the moment. Or, if you need a medicine that lowers your blood pressure, you wouldn't let a glowing recommendation from your druggist convince you to bring home the leading antihistamine for allergies instead.

It would be foolish to let irrelevant external influences (outside-in thinking) steer you into making such inappropriate purchases. Instead, you make your decisions based on your needs at the time, irrespective of what the marketplace would like to sell you.

This is obvious, you say. Yet, many people have a difficult time applying this consumer mindset to their investing decisions. One frequently-asked questions in recent months has been a variant of "With this bull market now in its ninth year, should I sell some of my stock holdings now?" These folks may decide whether to reduce their stock holdings depending on how volatile the market has been, what the business magazines say, what action the Federal Reserve may take, or—heaven help them—what *our* best guess might be.

Outside-in thinking will never tell you whether it's a "good" time to sell stocks because no one knows what the market will do in coming months (as evidenced by the continual reporting of conflicting opinions from Wall Street's bulls and bears).

Here's a checklist an inside-out investor might run through in deciding the "Is it a good time to sell?" question.

❑ Is my financial foundation rock solid? That is, am I debt-free[1] and is my emergency-savings sufficient? If not, I should sell enough stock (or stop contributing to my 401(k) plan long enough) to repair the cracks in my foundation.

❑ Are my earlier assumptions about my lifetime earnings, retirement and lifestyle goals, health needs, and life expectancy still acceptable? If in doubt, I should once again run the numbers (The MoneyGuidePro® software described in SMI's February 2017 cover article provides a valuable tool for working through these issues). The results might dictate a change in my portfolio mix between stocks and bonds (see the *SMI Handbook*, page 159 or the *Getting Started* section of the SMI website).

❑ Am I currently using investing strategies that reflect my emotional tolerance of risk? The wrong time to make adjustments to your plan is to wait until a bear market arrives, then panic and sell based on the overwhelming emotion of the moment. Knowing yourself, and building an all-weather portfolio that you know you can ride through the next bear market, exemplifies a healthy inside-out investing approach. It may lead to some selling in one strategy now in order to transition into another strategy.

❑ Are my protective boundaries still in place? (See *Seven Key Principles For Christian Investing* in the SMI Bonus Report section.) If not, what adjustments should I make at this time? For example, I lose needed diversification if more than 15% of my total investments is in the stock of my employer. In that case, even if I think my company's stock will do well in the future, it's probably wise to sell the excess and reinvest the proceeds in other assets.

❑ Am I meeting my giving goals? If not, perhaps I should make lifestyle adjustments or sell some of my stock holdings to fund additional giving.

Notice that the focus is on the personal needs and circumstances of the individual, not on the headlines of the day—which almost never tell you anything that will enhance the quality of your decision-making. While current events may provoke you to run through your personal list of review questions, they should not dictate the answers. ◆

[1] At minimum, SMI encourages readers to be debt-free with the possible exception of a reasonable mortgage (bit.ly/2pWIWvG)

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

UPGRADING IN YOUR 401(K) PLAN WHEN YOUR OPTIONS ARE LIMITED — A GUIDESTONE CASE STUDY

What's an SMI member with a bad 401(k) plan to do? In this case, "bad," means a plan with limited investment options. SMI's Personal Portfolio Tracker, available to both Basic and Premium members, was designed with that scenario in mind. If you're not making use of this powerful member benefit, hopefully you'll be motivated to do so by the time you're done reading this article.

What's the issue?

According to the Investment Company Institute and Brightscope, the average 401(k) plan offers 25 investment options. For many investors who try to select mutual funds on their own, that's too many choices. However, for SMI members trying to implement Fund Upgrading, it can appear to be *too few*.

Fund Upgrading classifies stock mutual funds into five "risk categories" — large-company value, large-company growth, small-company value, small-company growth, and foreign. Within each of those segments, we run a monthly analysis of the momentum scores of hundreds of funds and recommend those with scores in the top 25% of each risk category (see page 90). By design, the more funds to evaluate, the better.

If your workplace retirement plan gives you access to a "brokerage window," you should have no problem implementing Fund Upgrading. That's because a brokerage window offers access to all the mutual funds the company administering your 401(k) plan (such as Fidelity, Vanguard, Schwab, etc.) makes available on their brokerage platform. In other words, you're not restricted to your 401(k) plan's specific options; you have a wide world of options from which to choose.

While an increasing number of plans have made brokerage windows available, those plans are still in the minority. Most plans offer a much more limited menu of investment options, and that can make implementing Fund Upgrading within such plans a challenge.

A Fund Upgrading alternative

If you don't have access to a brokerage window, don't despair. Go ahead and create a portfolio of your 401(k) options in the SMI Tracker tool. When you "View" your portfolio, you'll initially find your funds organized into SMI's five risk categories.

If you have numerous funds available in each of the risk categories, that's a good sign. Your hope every month is to have at least one fund in each category to have a "Percentile" ranking of 1-25, which means the fund's momentum score places it in the top quartile of all of the funds in that category. Ideally, each month there would be at least one fund in each of the five risk categories that's in the top quartile.

If you don't have numerous funds in each category, or if none of the funds you *do* have are in the top quartile, switch to the Tracker's "Momentum View." That view ranks all of the funds you have access to in order of their momentum scores, *irrespective* of risk category. This is an acceptable alternative way to use Fund Upgrading to make fund choices within your workplace plan.

The Momentum View in action

Recently we asked several SMI members to send us a list of the funds available to them in their 401(k) or 403(b) plan. One such member has access only to the GuideStone funds, a family of Christian-screened mutual funds. Because GuideStone may be a common offering available to SMI members who work for ministry organizations, we tested it to see how the Tracker's Momentum View would have helped manage such a portfolio in recent years.

After eliminating GuideStone's bond, money-market, asset-allocation, and target-date funds, (none of which are typically used in a momentum strategy) nine funds were left to enter into the Tracker. With that number of funds, SMI recommends initially investing in the *three* funds with the highest momentum, as shown in Table A, scenario 1. As time passes and funds move up and down the Tracker's rankings, you would continue to hold a fund as long as it remains ranked in the Top *5*.

TABLE A

	Number of Stock Funds to Choose From	How Many You Should Own At Any One Time	Rank That Must Be Maintained To Continue
1	8 to 14	3	Top 5
2	15 to 19	3	Top 6
3	20 to 24	4	Top 8
4	25 to 29	4	Top 10
5	30 to 50	4	Top 12
6	Over 50	5	Top 25%

Because some of GuideStone's funds are relatively new and have short track records, we went back only four years in our research. Table B shows the average annual returns from 2013-2016. It compares the performance of an investor using the Tracker's Momentum View for making buy/sell decisions with the performance of traditional Fund Upgrading and each of GuideStone's target-date funds (since such funds have become the common default choice among workplace-plan investors).

TABLE B

Investing Strategy	Average Return 2013-2016
Traditional Fund Upgrading	11.9%
GuideStone Tracker Momentum View	10.7%
GuideStone MyDestination 2055	7.0%
GuideStone MyDestination 2045	7.0%
GuideStone MyDestination 2035	6.6%
GuideStone MyDestination 2025	5.8%
GuideStone MyDestination 2015	4.7%

While the choices made using the Tracker's Momentum View would not have outpaced SMI's traditional Fund Upgrading, the performance was very respectable, *(continued on page 93)*

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

IT MAY BE TIME TO REVIEW YOUR ESTATE-PLANNING DOCUMENTS

by Jenny Migdal, CFP®[1]

As a financial planner, one of my responsibilities is to keep up with legislative changes and their effects on clients. Estate planning is an area where change is so frequent—and so confusing—it's a challenge to stay up-to-date.

As a general rule, you should review and update your estate-planning documents every five years. That's why we're updating this article; it was first published five-and-a-half years ago.

Among the biggest changes that have taken place since then is in the area of terminology. Increasingly, banks and other institutions, such as doctors' offices and hospitals, are not accepting documents dated more than five years ago or with out-of-date legal language.

The new standard package

I make sure each of my clients has a will or trust, a power-of-attorney (POA) for finances (although banks, brokerages, and credit unions often require their own documents to be completed) and an *advance healthcare directive*. That last document is relatively new. It combines what used to be called a living will, a POA for healthcare matters, a guardianship appointment, and possibly a "HIPAA waiver" (more on that shortly) into a single document. Each POA designates a temporary agent to act on your behalf in that area if you become incapacitated.

HIPAA stands for the Health Insurance Portability and Accountability Act of 1996. The legislation was designed to increase privacy protection for your *personally identifiable medical information*. You have probably had to sign paperwork saying you've received your doctor/dentist/clinic's HIPAA Privacy Notice. If you become incapacitated, the paperwork gives the care provider permission to disclose information about your medical condition to a specific person.

While working with one particular client recently, I discovered some important issues related to HIPAA. I wasn't using my usual attorney, so I was interviewing another firm to determine what they included in their package. The attorney I was speaking with raised several issues I had never considered.

Being of the Researcher temperament (familiar to all who have taken the Investing Temperament Quiz[2]), I followed up on what he said to make sure he had the facts right. He did. What I discovered has significant implications for my family, my clients, and SMI readers.

Unintended consequences

To encourage compliance, HIPPA includes penalties for unauthorized disclosure of your medical information as high as fines of $250,000 and 10 years in jail. With those penalties in mind, providers occasionally choose to not release information even when it could be helpful to do so. That's why it's important to make your wishes known through your own estate-planning documents via the before-mentioned HIPPA waiver.

I like my privacy, so the HIPAA restrictions sounded good initially, but as with many laws, HIPAA can have unintended consequences. Consider the following scenarios.

Suppose I am incapacitated and can't sign a hospital's HIPAA paperwork. Although I have a healthcare POA designating my husband to make medical decisions on my behalf, due to the lack of a signed HIPPA waiver the hospital could consider *disclosure* of my incapacity to be a prohibited release of private medical information. Realistically, that would be a rare situation. It's likely that most hospitals would disclose such information to a spouse, but it's *possible* that some would not. (I know you're thinking, "Where's our common sense?" Come on, folks, this is the legal system.)

Or, what if my husband and I *both* became incapacitated? Our designated agent is not a family member, but a close Christian friend. That's more of a gray area. Without a HIPPA waiver, my doctors might choose to not release information to her, creating a situation in which she would not be able to make decisions for us quickly and easily in accordance with our Christian beliefs.

Here's another scenario. Suppose I were to be hospitalized for severe mental illness. In an effort to protect me—and those around me—many of my civil rights may be taken away, but my privacy rights under HIPAA would apply. Perhaps in my paranoia, delusion, or hallucination, I am convinced that my husband is trying to harm me rather than help me. Without a HIPPA waiver, the hospital would be left to decide whether I can be my own advocate, potentially leaving my husband angry and frustrated because he isn't able to make decisions for my best care.

Too dramatic? Here's a more likely case. I'm hospitalized and in desperate need of prayer, but because of my condition I'm unable to sign the hospital's HIPAA paperwork. As a result, my pastor is denied access to me or information about me because of the hospital's concerns about violating HIPAA. Even a notice in the church bulletin can't be posted without my permission.

The unintended consequences of HIPAA probably need to be addressed legislatively. But until that happens, what can you do? The best approach is to be explicit in your estate-planning documents, including a HIPPA waiver that specifically addresses who is authorized to receive medical information about you. When updating your documents, check to see (continued on page 93)

[1]Jenny is a CERTIFIED FINANCIAL PLANNER™ professional, Qualified Kingdom Advisor, and the owner of Forthright Financial Planning LLC in Albuquerque, NM. She has been an SMI Charter Subscriber since 1990 and is a top contributor to the SMI Member Forums. [2]To take the quiz, go to bit.ly/SMIQuiz.

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 4/30/2017	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	31.1	10.9%	2.1%	6.5%	10.8%	13.8%	1.4%	1.14	0.11%	20%	16%	12%	8%	VXUS
Extended Market Index ETF	Small company stocks	41.4	5.7%	1.1%	3.5%	16.1%	21.8%	8.5%	1.28	0.08%	40%	32%	24%	16%	VXF
S&P 500 Index ETF	Large company stocks	36.2	7.0%	1.0%	5.1%	13.3%	17.9%	10.4%	1.00	0.04%	40%	32%	24%	16%	VOO
Total Bond Mkt Index ETF	Medium-term bonds	1.4	1.6%	0.8%	1.4%	-0.7%	0.7%	2.6%	1.02	0.05%	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 4/30/2017[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. ☎ Selected International S	06/17	NTF	NTF	NTF	39.3	17.5%	5.3%	12.3%	13.5%	13.6%	4.2%	1.44	1.30	39	2%30days	SLSSX
	2. Oakmark International	12/16	NTF	NTF	NTF	53.1	14.2%	4.4%	9.7%	19.0%	24.4%	3.3%	1.49	1.00	74	None	OAKIX
	3. Longleaf Partners Intl	09/16	Yes	Yes	Yes	44.6	13.8%	4.6%	9.5%	14.2%	21.0%	-1.0%	1.66	1.33	21	None	LLINX
Category 4 Small/Growth	1. Baron Discovery	04/17	NTF	NTF	NTF	72.8	14.6%	2.7%	11.3%	21.2%	40.3%	10.3%	1.73	1.35	61	None	BDFFX
	2. Wm Blair Small Cap Grow	05/17	NTF	NTF	NTF	58.8	9.9%	2.7%	8.6%	20.6%	29.6%	9.7%	1.37	1.50	89	None	WBSNX
	3. Oberweis Micro Cap	11/15	NTF	NTF	NTF	63.5	8.2%	0.8%	6.2%	22.7%	34.6%	11.5%	1.41	1.65	86	1%90days	OBMCX
Category 3 Small/Value	1. ☎ AllianzGI NFJ Mid-Cap Val	06/17	No	NTF	NTF	41.4	6.9%	0.7%	4.2%	17.0%	20.2%	8.6%	1.09	1.30	103	None	PQNAX
	2. ☎ Royce Opportunity	06/17	NTF	NTF	NTF	60.1	5.9%	0.7%	5.0%	23.9%	31.2%	5.5%	1.67	1.49	253	1%30days	RYOFX
	3. AMG Fairpointe Mid Cap	03/17	NTF	NTF	NTF	45.9	5.0%	-1.0%	1.9%	19.3%	24.7%	7.2%	1.51	1.12	46	None	CHTTX
Category 2 Large/Growth	1. ☎ Fidelity OTC	06/17	Yes	NTF	Yes	61.6	16.7%	3.3%	10.4%	19.3%	31.9%	16.5%	1.49	0.91	208	None	FOCPX
	2. Baron Partners	05/17	NTF	NTF	NTF	70.6	20.4%	7.5%	14.0%	29.1%	27.5%	8.9%	1.64	1.35	29	None	BPTRX
	3. Guggenheim S&P 500 Tech	04/17	ETF	ETF	ETF	64.6	13.6%	1.8%	8.7%	18.0%	37.9%	17.6%	1.36	0.40	70	None	RYT
Category 1 Large/Value	1. ☎ Miller Opportunity	06/17	Yes[10]	Yes[10]	NTF	47.5	7.7%	0.5%	7.7%	17.1%	22.7%	5.8%	2.11	1.36	35	None	LGOAX[10]
	2. Dodge & Cox Stock	12/16	Yes	Yes	Yes	46.5	5.4%	0.4%	3.0%	17.0%	26.4%	9.8%	1.24	0.52	67	None	DODGX
	3. Toreador Core	05/17	NTF	NTF	NTF	48.9	7.1%	-0.5%	4.6%	18.8%	25.5%	9.3%	1.20	1.20	77	2%60days	TORLX
Bond Categories	Scout Unconstrained Bond[6]	09/16	NTF	NTF	NTF	2.8	1.0%	0.4%	0.8%	0.5%	1.5%	0.8%	1.14	0.80	1.7[7]	None	SUBYX
	Vanguard I-T Bond Index	01/15	ETF	ETF	ETF	1.6	2.2%	1.2%	1.9%	-1.0%	0.6%	3.3%	1.30	0.07	6.5[7]	None	BIV[8]
	Vanguard S-T Bond Index	07/12	ETF	ETF	ETF	1.4	1.0%	0.4%	0.7%	0.1%	0.7%	1.3%	0.44	0.07	2.8[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-May, 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. **[10]** At some brokers, the load-waived share class is LMNOX. Read the fund writeup on page 93 before purchasing.

☎ 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 Selected International S, 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%

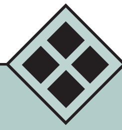
❸ BUY YOUR FUNDS

Example uses an 80/20 mix between stocks and bonds		Dollars	Invest In Funds
Stock Cat. 5: Foreign	16%	$8,000	Selected International S
Stock Cat. 4: Small/Growth	16%	$8,000	Baron Discovery
Stock Cat. 3: Small/Value	16%	$8,000	AllianzGI NFJ Mid-Cap Value
Stock Cat. 2: Large/Growth	16%	$8,000	Fidelity OTC
Stock Cat. 1: Large/Value	16%	$8,000	Miller Opportunity
"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.]

Three of the five funds being replaced this month were recommended in late 2016. At that time, the impact of the post-election, growth-oriented "Trump" rally had yet to be felt in SMI's momentum rankings. As a result, the three funds being replaced this month are all value-oriented, an approach the market favored through most of 2016. Since then, the market has shifted toward favoring companies with higher growth potential, which is reflected in the new funds being recommended this month.

◆ **In the Foreign group, Third Avenue International Value (TVIVX, 1/2017) is being replaced.** This fund performed well in absolute terms, gaining 10.1% year-to-date in less than five months. But as global markets rallied and the market has shifted away from the value investing style toward favoring growth in recent months, this fund has struggled to keep up. Its average Morningstar category peer is up 13.9% this year, which has caused the fund to drop below the quartile cutoff of its risk category.

• **Selected International S (SLSSX) is being added.[1]** This recommendation reflects the market's shift away from favoring smaller, value-oriented stocks last year in favor of larger, growth-oriented companies in 2017. Selected International is one of the older mutual funds in existence, having been founded way back in 1939. In 1993, the legendary Davis family was hired to manage this fund. The "Davis Investment Discipline" is primarily a value-based approach, although this value ethic is applied here within a fund that has a growth focus. This is a good reminder that the growth and value management styles are more fluid than one might suppose—some managers can, and do, apply strong valuation approaches to sectors and stocks that are traditionally considered to be growth-stock territory—a potentially powerful combination.

◆ **In the Small/Value group, iShares Russell 2000 Value (IWN, 12/2016) and Towle Deep Value$ (TDVFX, 6/2016) are being replaced.** While the stock market as a whole is off to a good start in 2017, last year's leading category—small value stocks—has fallen out of favor. In fact, the average fund in Morningstar's small/value group has lost -1.2% so far on the year. The iShares Russell 2000 Value ETF merely tracks the overall performance of small/value stocks, so it's no surprise it hasn't held up well in this type of environment.

Towle Deep Value is a different story. Over the past year, Towle is up 29.7% (thru 5/23). That's significantly better than the 22.2% gain of the average fund in Morningstar's small/value category. Towle has struggled recently though, thus its replacement this month. Note that Towle is being replaced right at the one-year mark, so those who own it in taxable accounts should note their buy/sell dates closely, making sure to keep it longer than 365 days so as to qualify for the lower long-term capital gains tax rate.

• **AllianzGI NFJ Mid-Cap Value (PQNAX) is being added.[1]** This is another of the new breed of load funds available to SMI readers on a no-load basis through some brokers. The PQNAX share class being recommended is no-load at Fidelity, Schwab, and TDA. As we noted in the JP Morgan fund writeup in March,[2] it's crucial to understand that if you can't buy this fund load-waived through your broker, *you should not buy this fund*. It's not worth paying the normal sales charge (or "load") to buy it at Scottrade or other brokers who carry the fund but charge the load.

This fund is unique in that the managers require each stock in the portfolio to pay a dividend, while also trading at an attractive valuation relative to its peers. This dual focus has helped the fund display low volatility and also hold up well during market downturns.

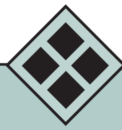
• **Royce Opportunity (RYOFX) is being added.[1]** SMI has owned this fund several times in the past. It's one of the riskier options in the small/value group (despite its emphasis on buying stocks at great valuations) due to its tendency to delve deep into "micro-cap" stocks. These are the smallest of the small, which tend to be a volatile bunch. While returns can be uneven here, we've had success before and the fund is currently near the top of the momentum rankings.

◆ **In the Large/Growth group, Parnassus Endeavor (PARWX, 1/2017) is being replaced.** This fund's conservative approach—and significant cash holdings—have held it back in what has become a red-hot large/growth group. So we're moving on and hitching to a faster horse.

• **Fidelity OTC (FOCPX) is being added.[1]** This is another fund SMI has recommended numerous times in the past, most recently just last year. This fund focuses on the technology high-flyers, which can make for a bit of a rough ride at times. But given a large portion of the market's gains are currently coming from the largest tech stocks, we're sticking with the system and buying again with the fund back near the top of the momentum rankings.

◆ **In the Large/Value group, JPMorgan Large Cap Value (OLVAX, 3/2017) is being replaced.$** Value stocks have been weak in recent months, with the average large/value fund losing money since this fund was recommended. This fund hasn't done anything to separate itself from that losing pack, so we're moving on. Note: this fund was rec-

[1]For more on this fund, visit www.morningstar.com. [2]Mar2017:p44



MONEYTALK

ommended in late February, and given the short nature of that month it's likely that readers may be a few days short of the 90-day short-term redemption period required at some brokers. Be sure to check your broker's policy on NTF holding periods and your exact buy/sell dates.

• **Miller Opportunity (LGOAX/LMNOX) is being added.**[1] *Note that this fund requires care in purchasing!* It's another fund whose sales charge (load) is waived at certain brokers. At Schwab and TDA, the A-share, LGOAX, is available with no load *and* no transaction fee. At Fidelity and Scottrade, the I-share, LMNOX, is available with no load but *with* a transaction fee, and requires minimum investment amounts of $2,500 or $15,000, respectively. As with any other load fund recommended by SMI, check the terms carefully at your broker and buy the fund only if you can do so without paying the load/sales charge on your purchase. Manager Bill Miller is best known for beating the market in 15 consecutive calendar years at his former fund, Legg Mason Value Trust. ◆

LEVEL 1 / CONTINUED FROM PAGE 86:

PROTECTING YOUR FINANCIAL ASSETS BY STEPPING UP YOUR CYBERSECURITY

same passphrase for multiple accounts, and avoid anything too well-known or guessable—such as "The Lord is my shepherd."

Worth noting: Although some websites don't allow passwords or passphrases longer than a certain number of characters, most password managers *do* allow longer phrases. So if you use a password manager, you could create a highly secure master passphrase that will unlock the shorter passwords required by certain sites.

• **Employ two-factor authentication (2FA).** This approach (sometimes called two-step or multi-step verification) adds an extra layer of security by requiring a user to submit a second "factor"—beyond username and password—to prove identity. Typically, the second factor is a unique numeric code sent to a phone via text message. Authentication also may be biometric, requiring a fingerprint or facial recognition. Enabling 2FA on your accounts will make it more difficult for anyone other than you to gain access.

• **Keep a backup of all your login information.** It's wise to have your passwords and passphrases documented somewhere. Security experts offer two bits of advice: 1) Don't write them down in a notebook that you keep next to your computer(!), and 2) Don't store your password information in a non-encrypted document on a cloud server such as Google Drive or Dropbox. If your cloud server were to suffer a data breach, or if you accidentally revealed your cloud login data in response to a phishing scam, all your passwords could be exposed.

The easiest way to create a secure backup is to store your login information on an encrypted USB flash drive. Most computer operating systems can encrypt data that is being copied to a flash drive. This is known as software-based encryption. For stronger security, you can use *hardware*-based encryption. This involves using a flash drive that has a dedicated processor located on the drive itself. The on-board processor contains a random number generator that creates an encryption key. Prices for such drives range from about $15 up to about $100 depending on capacity.

Just do it

As noted earlier, ramping up the protection of your online accounts isn't complicated, but you must take the initiative. We suggest setting aside a particular time (perhaps a Saturday morning—call it "Security Saturday") to get this done before the month is out. To borrow a phrase that is too clichéd to use as a secure passphrase, "Better to be safe than sorry."◆

LEVEL 3 / CONTINUED FROM PAGE 88:

UPGRADING IN YOUR 401(K) PLAN WHEN YOUR OPTIONS ARE LIMITED—A GUIDESTONE CASE STUDY

especially given how few funds were available. But where the Momentum View really shined was in comparison to the available target-date funds.

It's true that it would have taken more work to manage this portfolio using the Tracker rather than simply buying and holding a target-date fund. In this four-year case study, using the Tracker would have required making three trades each year. That's a small price to pay for a nearly 4 percentage point average annual performance improvement over GuideStone MyDestination 2055, the most aggressive target-date fund (that is, the one with the highest stock allocation due to its lengthy time horizon and so most likely to do well in a rising market).

If you're not managing your workplace retirement plan with the help of SMI's Personal Portfolio Tracker, give it a try. You are likely to find it easy to use and well worth your time. ◆

LEVEL 4 / CONTINUED FROM PAGE 89:

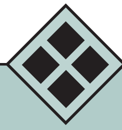
IT MAY BE TIME TO REVIEW YOUR ESTATE-PLANNING DOCUMENTS

what (if any) permissions you have previously granted for the release of your medical information.

Be sure to state in new or revised estate-planning documents that you intend them to be HIPAA compliant. You should further mention that you are signing the documents voluntarily and without duress. Also be clear about when you intend for the release of information to expire, and note that your medical information can be released to your executor or trustee after your death if he or she requests it (to pay bills, send death certificates to financial agencies, etc.).

Other important details

Another essential point regarding your estate-planning documents is to make sure those you designate to act on your behalf have copies of those documents. I was reminded of this recently because of our two college-age daughters. At age 18, they were considered adults. Therefore, each one had to sign an authorization for the release of medical informa-



tion to me in the event of incapacitation. They also had to authorize me to receive financial and/or academic information. These signed authorizations need to be *in my possession*. Also, to avoid red tape and going to court, I have had them sign advance directives and appoint me as their guardian in the case of significant incapacity. If and when they marry, we will review and change those documents to name their husbands as their agents, assuming that is their wish.

In one final related matter, you may have heard of a Do Not Resuscitate (DNR) order. This is usually put into place for someone with a terminal illness, such as cancer. The idea is that if the person with a DNR stops breathing and a paramedic or doctor would normally try to re-start their breathing, with a DNR on file, the patient will not be resuscitated. Obviously this is a matter that should be considered carefully and discussed with your family. However, if you have a DNR order on file for you or a loved one, and that person recovers to the extent that the DNR isn't applicable any more, be sure to cancel or revoke the DNR.

Of course, my prayer is that none of the scenarios I've raised will ever be an issue in your family or in mine. But it is wise stewardship to think through these issues and take action now while you are not in a crisis.

[Disclaimer: I am not licensed to practice law. Please consult an attorney in your state to assure that you comply with all applicable laws and regulations.] ◆

MARKET NOTES, QUOTES, AND ANECDOTES

Should I stay or should I go?

• "It 'feels' like there is a rug-pull moment coming any day now." — Michael Batnick, author of the *Irrelevant Investor* blog, on 5/17/17. For many investors, he said, every time the market falls a little, it feels like it might fall a lot. But that feeling isn't unique to today's environment, he added, it's true much of the time. Read more at bit.ly/2reU10y.

• "…the difficulty with market timing is that you have to be right not once, but twice, and you have to be right by enough to overcome the transaction costs including taxes and the value of your time. It is so hard to do that consistently over the long run that it isn't worth trying. As a general rule, all that 'going to cash' is going to do is decrease your returns." — Jim Dahle, author of *The White Coat Investor* blog, writing on 5/15/17 that investors should avoid allowing fear to push them to the sidelines. He said the idea of "taking money off the table" applies to gamblers, not investors. Read more at bit.ly/2qTpHYj.

• "…trying to judge whether a market is overvalued is a fool's errand. Pricey stocks can and do get pricier, often for years. If your strategy is to wait for prices to decline to where you think they should be before buying, the market might very well outlast your patience." — Barry Ritholtz, Founder of Ritholtz Wealth Management, writing on *Bloomberg View* on 5/1/17 about the difficulty of determining whether stocks are overpriced. Read more at bloom.bg/2qTGKaz.

• "Predictions create reason for more trading activity. More trading activity typically leads to more errors… you're better off *planning* on downturns regularly occurring than trying to predict when stocks will take a tumble." — Peter Lazaroff, writing on his blog by the same name on 5/15/17 that stock market downturns have been common historically and are not to be feared. Understanding the market's historical volatility can help investors control their emotions. Read more at bit.ly/2qeyRLz.

Living in the tension

• "Bottom line: everyone believes the same thing (equities will work), and the crowd will be right (albeit with subdued returns) until [the crowd] is very, very wrong." — Nicholas Colas, Chief Market Strategist at ConvergEx, quoted on *ZeroHedge* on 5/17/17, arguing that earnings and interest rates still make stocks worth owning at today's valuations, but those valuations suggest long-term returns will be below average. Read more at bit.ly/2qTz3TY.

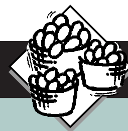
• "When the economy is doing terribly, it's typically a great time to invest, but no one wants to put money to work at that point because things could always get worse. And when things are going swimmingly with the economy it's typically a time to temper your expectations, but no one wants to do that because things could always get better." — Investment blogger/author Ben Carlson, writing on 5/12/17 about the emotional roller coaster investors ride. Read more at bloom.bg/2ry4XG5.

What will happen when the market turns?

• "Vanguard loses 10-15% of its [assets under management], an enormous outflow in a very compressed period of time as newly-minted passives realize they're not quite cut out to be passive after all. The pain will prove too much for many recent indexing dilettantes who thought this was easy." — Josh Brown, writing on *The Reformed Broker* blog on 5/9/17 about how the next bear market may tilt the balance between active/passive investing. Read more at bit.ly/2rNYdkJ.

Diciphering signal from noise

• "While Big Data has grown, Big Anecdotes has exploded....[W]e have more statistics than ever to help us make smart decisions, but it's also easier than ever to let stories pull us toward bad decisions." — Morgan Housel, writing on the *Collaborative Fund* blog on 5/4/17 about the persuasive nature of investing narratives. Read more at bit.ly/2rRE6kM. ◆

SOUND MIND  PORTFOLIOS

PREMIUM STRATEGIES

The strategies described below are available to those with an SMI Premium web membership. These strategies can be used in combination with—or in place of—our Just-the Basics and Upgrading portfolios. They 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

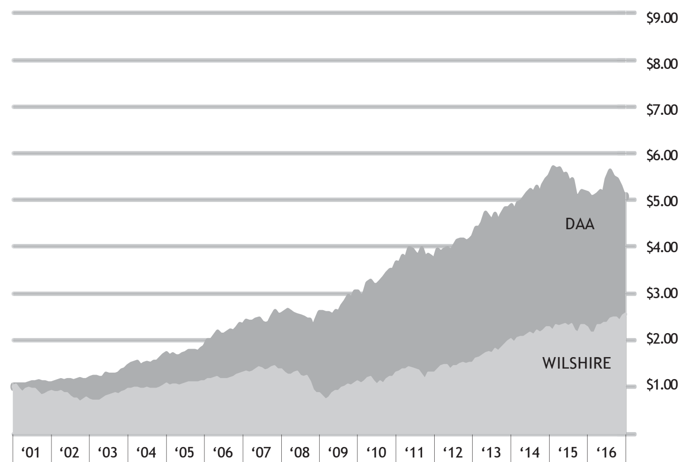
This is a stand-alone strategy that can be used in combination with (or in place of) SMI's basic strategies. DAA is designed to help you share in some of a bull market's gains, while minimizing or even preventing losses during bear markets. It's a low-volatility strategy that nonetheless has generated 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

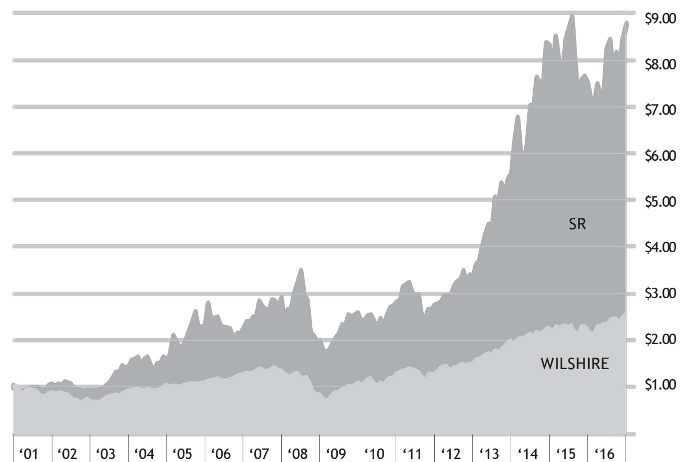
This high-risk strategy involves investing in a single special-purpose fund that focuses on a specific sector (such as biotech, energy, or financial services). Because these stock funds invest in a narrow slice of the economy, they carry a higher degree of risk. Only one fund, selected based on having 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 APRIL 30, 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]	6.7%	1.1%	4.9%	18.8%	10.3%	13.6%	7.3%	8.1%
Just-the-Basics[2]	7.2%	1.3%	4.7%	18.7%	7.9%	11.9%	6.4%	8.2%
Stock Upgrading[3]	5.4%	1.2%	3.2%	16.3%	7.1%	11.4%	6.3%	9.0%
U.S. Bond Market[4]	1.6%	0.8%	1.3%	0.7%	2.5%	2.1%	4.1%	4.3%
Bond Upgrading[5]	1.3%	0.6%	1.1%	1.9%	2.9%	3.4%	6.6%	6.9%

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]	6.7%	1.7%	5.0%	5.3%	2.7%	6.7%	8.6%	11.3%
Sector Rotation[7]	10.2%	-1.3%	7.2%	33.3%	18.2%	26.9%	14.6%	15.7%
50-40-10 Blend[8]	6.5%	1.2%	4.5%	12.4%	6.2%	10.8%	8.8%	11.3%

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 4/30/2017	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	4.58%	1.42%	3.07%	13.76%	4.75%	9.35%	5.13%
Wilshire 5000	6.72%	1.05%	4.85%	18.82%	10.33%	13.62%	7.30%
S&P 500	7.16%	1.03%	5.16%	17.92%	10.47%	13.68%	7.15%

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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