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Sound Mind Investing®

Financial Wisdom for Living Well

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Letting Your Joy in God Overflow

SMI's purpose statement says "We help individuals invest successfully and apply biblical principles to all aspects of their financial life so they will experience the joy of: providing well for their family (1 Timothy 5:8), and generously supporting God's work (2 Corinthians 8:7)." We want to help you <u>have</u> more so you can <u>give</u> more. This article provides a motivating reminder from God's word that most of us can give more generously. It inspired and challenged me; I hope it does the same for you! —AP

by John Piper

What you do with money—or desire to do with it—can make or break your happiness forever. The Bible makes clear that what you feel about money can destroy you:

> Those who desire to be rich fall into temptation, into a snare, into many senseless and hurtful desires that plunge men into ruin and destruction. (1 Timothy 6:9)

Or what you do with your money can secure the foundation of eternal life:

> They are to be liberal and generous, thus laying up for themselves a good foundation for the future, so that they may take hold of the life which is life indeed. (1 Timothy 6:18,19)

These verses teach us to use our money in a way that will bring us the greatest and longest gain. They confirm that it is not only permitted but commanded by God that we flee from destruction and pursue our full and lasting pleasure. They imply that all the evils in the world come not because our desires for happiness are too strong, but because they are so weak that we settle for fleeting pleasures that do not satisfy our deepest souls, but in the end destroy them. The root of all evil is that we are the kind of people who settle for the love of money instead of the love of God (1 Timothy 6:10).

This text in 1 Timothy 6 is *so* crucial that we should meditate on it in more detail. Paul is warning Timothy against:

> [5]. . . men who are depraved in mind and bereft of the truth, imagining that godliness is a means of gain. [6]There is great gain in godliness with contentment; [7]for we brought nothing into the world, and we cannot take anything out of the world; [8]but if we have food and clothing, with these we shall be content. [9]But those who desire to be rich fall into temptation, into a snare, into many senseless and hurtful desires that plunge men into ruin and destruction. [10]For the love of money is the root of all evils; it is through this craving that some have wandered away from the faith and pierced their hearts with many pangs.

Paul writes to Timothy a word of warning about slick deceivers who discovered they could cash in on the upsurge of godliness in Ephesus. According to verse 5, these puffed-up controversialists treat godliness (continued on page 99)

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

Fulfilling Your Purpose

Are you a "good" or "bad" investor?

That can't be answered without an understanding of an investor's purpose. If you know the purpose of an investor is to manage money in such a way as to make it grow, but your investment accounts fail to see growth year after year, then it becomes apparent that, no matter how good a person you may be, you are a "bad" investor.

In *Making Sense of God*, pastor Tim Keller makes the point that "All judgments that something or someone is good or bad are based on an awareness of purpose.…How then can we tell if a human being is good or bad? Only if we know our purpose, what human life is *for*."

For the secularist, human life isn't *for* anything. It's ultimately meaningless. We're here only by chance due to random physical forces. But for the Christian, we're here for a reason. Pastor Rick Warren begins his mega best-seller *The Purpose Driven Life* this way:

> *It's not about you.*
>
> *The purpose of your life is far greater than your own personal fulfillment, your peace of mind, or even your happiness. It's far greater than your family, your career, or even your wildest dreams and ambitions. If you want to know why you were placed on this planet, you must begin with God. You were born* by *his purpose and* for *his purpose.*

In the book, Warren contends—with abundant support from Scripture—that God created us with five purposes in mind: to love Him, to be a part of His family, to become like Him, to serve Him, and to tell others about Him. May I suggest that all five of these purposes encompass the way in which we manage and share whatever wealth He has entrusted to us?

• We show our love for Him when we have a heart of generosity. "Each of you should give what you have decided in your heart to give, not reluctantly or under compulsion, for *God loves a cheerful giver*" (2 Corinthians 9:7).

• We show we understand what it means to be a part of God's family when we look after others in the Body of Christ. "Suppose *a brother or a sister is without clothes and daily food*. If one of you says to them, 'Go in peace; keep warm and well fed,' but does nothing about their physical needs, what good is it? In the same way, faith by itself, if it is not accompanied by action, is dead" (James 2:15-17).

• We show we are more like Him when we give sacrificially because He is the perfect Giver. He gave us grace and salvation in Christ at great cost (John 3:16), gives His Holy Spirit to guide and transform (Acts 2:38, Gal 5:22-23), and continues to provide for our needs. "Command those who are rich in this present age not to be haughty, nor to trust in uncertain riches but in the living God, *who gives us richly all things to enjoy*" (1 Timothy 6:17).

• We show we are intent on serving Him when we take our responsibilities as stewards seriously. We know from the parable of the talents (Matt. 25:14-30) that God has temporarily made us managers of His resources, and we know from that passage, as well as Paul's writings, that "it is required that *those who have been given a trust must prove faithful*" (1 Cor. 4:2).

• We show we are diligent about telling others about Him when we share our faith and give generously to evangelistic efforts and outreaches to those who don't know Him. We've been given marching orders by our Savior: "Then Jesus came to them and said, 'All authority in heaven and on earth has been given to me. *Therefore go and make disciples of all nations*, baptizing them in the name of the Father and of the Son and of the Holy Spirit, and teaching them to obey everything I have commanded you...'" (Matt. 28:18-20).

In light of these verses, how are you doing? Are you a "good" or "bad" steward? I hope it's the former, but if there's any doubt, this can be a moment when you determine to change course and move toward a life of faithful generosity.

Every July, we celebrate SMI's anniversary (this is number 27!) by emphasizing generous giving in our article selections. This is in keeping with our original mission statement where we made it clear our primary goal is to help you *have* more so you can *give* more—to aid the needy in God's family and to share the gospel of Christ with the world. We want you to be good stewards as well as good investors, that you might have the joy of experiencing this promise:

"Now he who supplies seed to the sower and bread for food will also supply and increase your store of seed and will enlarge the harvest of your righteousness. You will be made rich in every way so that you can be generous on every occasion..." (2 Cor. 9:10-11a).

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FEATURE ARTICLE

Letting Your Joy in God Overflow

(continued from front page)

as a means of gain. They are so addicted to the love of money that truth occupies a very subordinate place in their affections. They don't "rejoice in the truth." Nothing is sacred. If the bottom line is big and black, the advertising strategies are a matter of indifference. If godliness is in, then sell godliness.

This text is very timely. Ours are good days for profits in godliness. The godliness market is hot for booksellers and music makers and dispensers of silver crosses and fish buckles and olivewood letter-openers and bumper stickers. These are good days for gain in godliness!

He didn't say, "Don't live for gain."

In his day or in ours, Paul could have responded to this effort to turn godliness into gain by saying, "Christians don't live for gain. Christians do what's right for its own sake. Christians aren't motivated by profit." But that's not what Paul said. He said (in verse 6), "There is great gain in godliness with contentment."

Instead of saying Christians don't live for gain, he says Christians ought to live for greater gain than the slick money lovers do. Godliness is the way to get this great gain, but only if we are content with simplicity rather than greedy for riches. Godliness *with contentment* is great gain.

If your godliness has freed you from the desire to be rich and has helped you be content with what you have, then your godliness is tremendously profitable. "For while physical training is a little profitable, godliness is profitable for all things, as it holds promise for the present life and also for the life to come" (1 Timothy 4:8). Godliness that overcomes the craving for *material* wealth produces great *spiritual* wealth. The point of verse 6 is that it is very profitable not to pursue wealth. What follows in verses 7-10 are three reasons why we should not pursue riches.

A clarification: Getting raises is not the same as getting rich

But first let me insert a clarification. We live in a society in which many legitimate businesses depend on large concentrations of capital. You can't build a new manufacturing plant without millions of dollars in equity. Therefore, financial officers in big businesses often have the responsibility to build reserves, for example, by selling shares to the community. When the Bible condemns the desire to get rich, it is not necessarily condemning a business which aims to expand and therefore seeks larger capital reserves. The officers of the business may be greedy for more personal wealth, or they may have larger, nobler motives of how their expanded productivity will benefit people.

Even when a competent person in business is offered a raise or a higher paying job and accepts it, that is not enough to condemn him for the desire to be rich. He may have accepted the job because he craves the power and status and luxuries the money could bring. Or, content with what he has, he may intend to use the extra money for founding an adoption agency or giving a scholarship or sending a missionary or funding an inner-city ministry.

Working to earn money for the cause of Christ is not the same as desiring to be rich. What Paul is warning against is not the desire to earn money to meet our needs and the needs of others; he is warning against the desire to *have* more and more money and the ego boost and material luxuries it can provide.

Reason 1: There are no U-Hauls behind hearses

Let's look at the three reasons Paul gives in verses 7-10 for why we should not aspire to be rich.

In verse 7 he says, "For we brought nothing into the world and we cannot take anything out of the world." There are no U-Hauls behind hearses. Picture 269 people entering eternity in a plane crash in the Sea of Japan. Before the crash there is a noted politician, a millionaire corporate executive, a playboy and his playmate, a missionary kid on the way back from visiting grandparents. After the crash they stand before God utterly stripped of Mastercards, checkbooks, credit lines, image clothes, how-to-succeed books, and Hilton reservations. Here are the politician, the executive, the playboy, and the missionary kid, all on level ground with nothing, absolutely nothing in their hands, possessing only what they brought in their hearts. How absurd and tragic the lover of money will seem on that day—like a man who spends his whole life collecting train tickets and in the end is so weighed down by the collection he misses the last train. Don't spend your precious life trying to get rich, Paul says, "for we brought nothing into the world and we can take nothing out of the world."

Reason 2: Simplicity is possible and good

Then in verse 8 Paul adds the second reason not to pursue wealth: "If we have food and clothing, with these we shall be content." Christians can be and ought to be content with the simple necessities of life. I'll mention three reasons why such simplicity is possible and good.

First, when you have God near you and for you, you don't need extra money to give you peace and security.

> Keep your life free from the love of money. Be content with what you have. For he has said, "I will never fail you nor forsake you." Hence we can confidently say, "The Lord is my helper, I will not be afraid; what can man do to me?" (Hebrews 13:5-6).

No matter which way the market is moving, God is always better than gold. Therefore, by God's help we can be and we should be content with the simple necessities of life.

Second, we can be content with simplicity because the deepest, most satisfying delights God gives us through creation are free gifts from nature and from loving relationships with people. After your basic needs are met, accumulated money begins to diminish your capacity for these pleasures rather than increase them. Buying things contributes absolutely nothing to the heart's capacity for joy.

Third, we should be content with the simple necessities of life because we could invest the extra we make for what really counts. Four billion people today are outside Jesus Christ. The majority of them have no viable Christian witness in their culture. If they are to hear—and Christ commands that they hear—then cross-cultural missionaries will have to be sent and paid for. All the wealth needed to send this new army of good news ambassadors is already in the church.

If we, like Paul, are content with the simple necessities of life, hundreds of millions of dollars in the church would be released every year to take the gospel to the frontiers. The revolution of joy and freedom it would cause at home would be the best local witness imaginable. The biblical call is that you can and ought to be content with life's simple necessities.

Reason 3: You will pierce your heart with many pangs

The third reason not to pursue wealth is that the pursuit will end in the destruction of your life. This is the point of verses 9-10:

> Those who desire to be rich fall into temptation, into a snare, into many senseless and hurtful desires that plunge men into ruin and destruction. For the love of money is the root of all evils. It is through this craving that some have wandered away from the faith and pierced their hearts with many pangs.

No Christian wants to plunge into ruin and destruction and be pierced with many pangs. Therefore, no Christian desires to be rich. Test yourself. Have you learned your attitude toward money from the Bible, or have you absorbed it from contemporary American merchandising? When you ride an airplane and read the airline magazine, almost every page teaches and pushes a view of wealth exactly opposite from the view in 1 Timothy 6:9 that those desiring to be rich will fall into ruin and destruction. Paul makes vivid the peril of the same desire which the airline magazines exploit and promote.

Are you awake and free from the false messages of American merchandising? Or has the omnipresent economic lie deceived you so that the only sin you can imagine in relation to money is stealing? I believe in free speech and free enterprise because I have no faith whatsoever in the moral capacity of sinful civil government to improve upon the institutions created by sinful individuals. But for God's sake let us use our freedom as Christians to say *no* to the desire for riches and *yes* to the truth: There is great gain in godliness when we are content with the simple necessities of life.

What should the rich do?

So far we have been pondering the words addressed in 1 Timothy 6:6-10 to people who are not rich but who may be tempted to want to be rich. In 1 Timothy 6:17-19 Paul addresses a group in the church who are already rich. What should a rich person do with his money if he becomes a Christian? And what should a Christian do if God prospers his business so that great wealth is at his disposal? Paul answers like this:

> 17 As for the rich in this world, charge them not to be haughty, nor to set their hopes on uncertain riches but on God who richly furnishes us with everything to enjoy. 18 They are to do good, to be rich in good deeds, liberal and generous, 19 thus laying up for themselves a good foundation for the future, so that they may take hold of the life which is life indeed.

The words of verse 19 simply paraphrase Jesus' teaching. Jesus said:

> Do not lay up for yourselves treasures on earth, where moth and rust consume and where thieves break in and steal, but lay up for yourselves treasures in heaven, where neither moth nor rust consumes and where thieves do not break in and steal. For where your treasure is there will your heart be also (Matthew 6:19-21).

Jesus is not against investment. He is against bad investment—namely, setting your heart on the comforts and securities that money can afford in this world. Money is to be invested for eternal yields in heaven—"Lay up for yourselves treasures in heaven!" How? Luke 12:32-34 gives one answer:

> Fear not, little flock, for it is your Father's good pleasure to give you the kingdom. Sell your possessions, and give alms; provide yourselves with purses that do not grow old, with a treasure in the heavens that does not fail, where no thief approaches and no moth destroys. For where your treasure is, there will your heart be also.

So the answer to how to lay up treasures in heaven is to spend your earthly treasures for merciful purposes in Christ's name here on earth. Give alms—that is, provide yourself with purses in heaven. Notice carefully that Jesus does not merely say that treasure in heaven will be the unexpected result of generosity on earth. No, he says we should pursue treasure in heaven. Lay it up! Provide yourselves with unfailing purses and treasures!

Another instance of it in the teaching of Jesus is Luke 14:13-14, where he is more specific about how to use our resources to lay up treasures in heaven.

> Whenever you give a feast, invite the poor, the crippled, the lame and the blind, and you will be blessed, because they cannot pay you back, for it will be paid back to you in the resurrection of the just.

This is virtually the same as saying, "Give alms; provide yourselves purses in heaven." Don't seek the reward of an earthly tit for tat. Be generous. Don't pad your life with luxuries and comforts. Look to the resurrection and the great reward in God "whose presence is fullness of joy and at whose right hand are pleasures for evermore" (Psalm 16:11).

Beware of being wiser than the Bible

Some say that Jesus does not want us to pursue the reward he promises. This is simply wrong; He commands that we pursue it (Luke 12:33; 16:9). More than forty times in the Gospel of Luke there are promises of reward and threats of punishment connected with the commands of Jesus. Of course, we must not seek the reward of earthly praise or material gain. This is clear not only from Luke 14:14, but also from Luke 6:35, "Love your enemies, and do good, expecting nothing in return; and your reward will be great, and you will be sons of the Most High."

In other words, don't care about earthly reward; look to the heavenly reward, namely, the infinite joys of being a son of God! Or, as Jesus put it in Matthew 6:3-4, don't care about human praise for your merciful acts. If that is your goal, that's all you will get, and that will be a pitiful reward compared to the reward of God. "When you give alms, do not let your left hand know what your right hand is doing, so that your alms may be in secret; and *your Father who sees in secret will reward you*."

The reason our generosity toward others is not a sham-love when we are motivated by the longing for God's promise is that we are aiming to take those others with us into that reward. We know our joy in heaven will be greater if the people we treat with mercy are won over to the surpassing worth of Christ, and join us in praising him.

But how will we ever point them to Christ's infinite worth if we are not driven, in all we do, by the longing to have more of him? It would only be unloving if we pursued our joy at the expense of others. But if our very pursuit includes the pursuit of their joy, how is that selfish? How am I the less loving if my longing for God moves me to give away my earthly possessions so that my joy in him can be forever doubled in your partnership of praise?

Laying up for yourself a good foundation

Paul's teaching to the rich in 1 Timothy 6:19 continues and applies these teachings of Jesus from the Gospels. He says rich people should use their money in a way that "lays up for themselves a good foundation for the future and takes hold on life which is life indeed." We know Paul has eternal life in view because seven verses earlier he uses the same kind of expression in reference to eternal life: "Fight the good fight of faith; take hold of the eternal life to which you were called when you made the good confession in the presence of many witnesses" (1 Timothy 6:12). The reason the use of your money provides a good foundation for eternal life is not that generosity earns eternal life, but that it shows where your heart is. Generosity confirms that our hope is in God and not in ourselves or our money. We don't earn eternal life. It is a gift of grace (2 Timothy 1:9). We receive it by resting in God's promise. Then how we use our money confirms or denies the reality of that rest.

Three instructions to the rich

Paul gives three directions to the rich—and surely we must acknowledge that our lifestyles in America are lavishly comfortable in comparison with most people in the world—about how to use their money to confirm their eternal future.

First, don't let your money produce pride. "As for the rich in this world, charge them not to be haughty" (1 Timothy 6:17). How deceptive our hearts are when it comes to money! Every one of us has felt the sense of superiority that creeps in after a clever investment or new purchase or a big deposit. Money's chief attractions are the power it gives and the pride it feeds. Paul says, don't let this happen.

Second, he adds in verse 17, "Don't set your hope on uncertain riches, but on God who richly furnishes you all things to enjoy." This is not easy for the rich to do. That's why Jesus said it is hard for a rich man to enter the kingdom of God (Mark 10:23). It is hard to look at all the earthly hope that riches offer and then turn away from that to God, and rest all your hope on him. It is hard not to love the gift instead of the Giver. But this is the only hope for the rich. If they can't do it, they are lost. They must remember the warning Moses gave the people of Israel as they entered the promised land:

> Beware lest you say in your heart, "My power and the might of my hand have gotten me this wealth." You shall remember the LORD your God, for it is he who gives you power to get wealth; that he may confirm his covenant which he swore to your fathers, as at this day (Deuteronomy 8:17-18).

The great danger of riches is that our affections will be carried away from God to his gifts.[1] Which leads us to the final admonition Paul makes to the rich: "They are to do good, to be rich in good deeds, liberal and generous" (1 Timothy 6:18). Once they are liberated from the magnet of pride and once their hope is set on God, not money, only one thing can happen: their money will flow freely to multiply the manifold ministries of Christ.

Why has God given us so much?

In Ephesians 4:28, Paul says, "Let the thief no longer steal, but rather let him labor, doing honest work with his hands, so that he may be able to give to those in need." In other words, there are three levels of how to live with things: (1) you can steal to get; (2) or you can work to get; (3) or you can work to get in order to give.

Too many Christians live on level two. Almost all the forces of our culture urge them to live on level two. But the Bible pushes us relentlessly to level three. "God is able to provide you with every blessing in abundance, so that you may always have enough of everything and may provide in abundance for every good work" (2 Corinthians 9:8). Why does God bless us with abundance? So we can have enough to live on and then use the rest for all manner of good works that alleviate spiritual and physical misery. Enough for us; abundance for others.

The issue is not how much a person makes. Big industry and big salaries are a fact of our times, and they are not necessarily evil. The evil is in being deceived into thinking a $100,000 salary must be accompanied by a $100,000 lifestyle. God has made us to be conduits of his grace. The danger is in thinking the conduit should be lined with gold. It shouldn't. Copper will do.

Living on the brink of eternity

Our final summary emphasis should be this: In 1 Timothy 6, Paul's purpose is to help us lay hold on eternal life and not lose it. Paul never dabbles in unessentials. He lives on the brink of eternity. That's why he sees things so clearly. He stands there like God's gatekeeper and treats us like reasonable people: you want life which is life indeed, don't you (verse 19)? You don't want ruin, destruction and pangs of heart, do you (verses 9-10)? You do want all the gain that godliness can bring, don't you (verse 6)? Then use money wisely: do not desire to be rich, be content with the wartime necessities of life, set your hope fully on God, guard yourself from pride and let your joy in God overflow in a wealth of liberality to a lost and needy world. ◆

[1]See "Why Should a Child of the King Live Like a Pauper?" on page 198 of Desiring God for Piper's response to the suggestion that 1 Timothy 6:17 teaches a prosperity theology.

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

GIVING GENEROUSLY WHILE IN DEBT

When Karen and Scott got married, Karen had nearly $50,000 of non-mortgage debt. Scott, who was a Chicago firefighter at the time, jokingly referred to it as "a reverse dowry."

Several years before meeting Scott, Karen had been through the breakup of a relationship she thought was headed toward marriage. "I decided that if I'm not getting married, at least I'm going to have a nice apartment. I can remember standing at the counter of a furniture store unrepentently handing over my credit card. I thought, I deserve this couch; I'm going to get it. It didn't bother me one bit that I didn't have the money for it."

Making matters worse, Karen's freelance work made her income inconsistent.

Telling Scott the full extent of her financial problems marked the beginning of her turnaround. "He was incredibly supportive. He said, 'I'm not the guy who can rescue you, but I can walk through this with you.'"

Karen developed a budget, cut up her credit cards, accepted a full-time job with one of her clients, and started putting as much money as possible toward her debts.

Once Karen and Scott got married, they began tackling the debt together. Karen remembers, "I kept referring to it as '*my* debt,' but Scott would correct me and say, 'It's *our* debt.'"

One other notable part of their story is that they gave away 10 percent of their income throughout their journey of getting out of debt. Their experience provides powerful lessons for anyone wondering how they can give generously while paying down debt.

1. Make a commitment

Instead of letting their circumstances dictate their financial priorities, Karen and Scott followed their commitments. As important as getting out of debt was to them, they understood the biblical teaching on "firstfruits" generosity (Proverbs 3:9), so they arranged their budget to make that a higher priority.

2. Get serious

They longed to buy a house, but they couldn't afford to do so while giving generously and paying off their debt. So they rented for nine long years, all the while watching friends buy with no money down and thinking they were missing out.

Karen and Scott's approach brings to mind Proverbs 3:27-28: "Do not withhold good from those who deserve it, when it is in your power to act. Do not say to your neighbor, 'Come back later; I'll give it to you tomorrow'—when you now have it with you."

Karen and Scott had the ability to give generously while getting out of debt. It required something of them, to be sure, and it wasn't easy. But they knew their priorities, had "the power to act" on them, and did so.

If you're struggling with debt, what radical, uncomfortable step could you take to free up money so you could give generously while paying off debt? Sell your house? Take in a roommate? Go from a two-car household to a one-car household? Take on a part-time job? Cut the cable or Internet?

3. At very least, give a choice gift

In Genesis 4:3-5, the Bible tells the story of brothers Cain and Abel. When they were young adults they brought gifts to the Lord. Cain brought "some of the fruits of the soil," which scholars have explained means he gave a portion of his crops, but not the best portion. By contrast, Abel brought "fat portions from some of the firstborn of his flock." In other words, he gave a choice gift.

Their gifts revealed much about their hearts, and the Bible says, "The Lord looked with favor on Abel and his offering, but on Cain and his offering He did not look with favor."

If you've gotten truly serious about cutting expenses and still can't seem to give at the tithe level, at very least give what for you constitutes a choice gift. For Karen and Scott, that meant tithing off their net income. Their mantra at the time was, "10 percent of net until we're out of debt." Then they moved up to 10 percent of gross income.

4. Look for God's blessings, in His perfect timing

While the Bible never teaches a give-to-get approach to generosity (see Romans 11:35), a consistent message throughout Scripture is there are blessings that flow from living the generous lives we were designed to live.

It gave Karen hope that God was going to bless them in some special way. "I'd hear people's stories of unexpected blessings they felt came about because of their giving," Karen said. "I started wondering, where's *my* cool story?

But the Bible doesn't say God works according to our agenda or on our schedule. For Karen and Scott, there was no dramatic financial rescue. Just month after month of writing big checks to creditors, all the while being faithful to give generously.

"Once we were through it, though, I realized there were lessons I needed to learn. My attitude about money has changed in many, many ways. If it hadn't been that hard, I don't think I would have learned the lessons."

Six and a half years after getting married, Karen and Scott made their final debt payment. "That was an awesome day," Karen said with tears in her eyes. "It felt like a huge weight had been lifted. It was a hard road we had traveled, but we did it, and we did it in a God-honoring way." *(continued on page 108)*

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

WHY NOW IS A GOOD TIME TO LAUNCH YOUR STOCK-MARKET STRATEGY

It may seem like a strange assertion that now is a good time to start investing in stocks. After all, the stock market has been in a long bull market that has now extended into its ninth year, stock valuations are widely acknowledged to be high, and the Federal Reserve finally has begun to correct the easy money policies that many think have been responsible for the huge rise in stock prices over the past decade. Taken together, these factors present a compelling argument that at some point in the next few years, stock prices are likely to be considerably lower than they are today.

Nonetheless, we stand by the assertion that now is a good time to start investing in stocks—or to continue investing if you're using an automated plan such as a 401(k). The reason has nothing to do with current market conditions or an expectation of what the market will do next. Rather, it's a recognition that the primary obstacle new investors typically need to overcome is *inertia*. Simply getting started—and establishing the habits and structures to keep investing—is the most important issue.

This is true even if the initial timing turns out to be less than ideal. Some folks delay because they're waiting for "just the right time." The truth is that *anytime* is a good time for the long-term investor, and the sooner the better.

Launching into a storm

But what if you get started just before a major sell-off? It's true that your opening investment will take a bit of a hit, but your subsequent monthly investments will be gobbling up more and more shares as prices fall. If you won't be withdrawing your money for a decade or two, you actually should *want* bear markets to come along. That's when stocks temporarily "go on sale" and you get more shares for your money.

To prove this assertion, consider the example of an investor who started investing one year before the most savage bear market of the past 80 years was about to begin. Most people would consider this to be about the worst time possible to start investing, which is why we're using it as an example.

We'll assume our young couple had saved up $3,000 in an IRA, and knew they would be able to add $300 a month going forward. They didn't know then what we know now—that the bursting of the housing bubble and the Great Recession lay straight ahead and stocks would be lower five years later than they were at the time. Specifically, the benchmark S&P 500 stock index, which ended October 2006 at 1,378 would close out October 2011 at 1,253, down about 9% for the entire five-year period (having fallen as low as 666 in March 2009!). Pity that young couple for taking our advice, right? Not at all.

The table shows the theoretical results from their dollar-cost-averaging approach (where the same dollar amount is invested every month regardless of market conditions), assuming their money was invested using SMI's Upgrading strategy.[1]

SLOW AND STEADY WINS THE RACE

Date	Upgrade Result	Monthly Invested	Total Invested	Account Value	Gain (Loss)	S&P 500
		$3,000	$3,000	$3,000	$0	1,378
Nov 2006	3.06%	$300	$3,300	$3,392	$92	1,401
Dec 2006	1.94%	$300	$3,600	$3,758	$158	1,418
Jan 2007	2.24%	$300	$3,900	$4,142	$242	1,438
Feb 2007	-0.80%	$300	$4,200	$4,409	$209	1,407
Mar 2007	1.18%	$300	$4,500	$4,761	$261	1,421
Apr 2007	3.67%	$300	$4,800	$5,236	$436	1,482
May 2007	4.09%	$300	$5,100	$5,750	$650	1,531
June 2007	-0.56%	$300	$5,400	$6,018	$618	1,503
July 2007	-1.63%	$300	$5,700	$6,219	$519	1,455
Aug 2007	-0.45%	$300	$6,000	$6,491	$491	1,474
Sept 2007	5.92%	$300	$6,300	$7,176	$876	1,527
Oct 2007	5.29%	$300	$6,600	$7,855	$1,255	1,549
Nov 2007	-5.24%	$300	$6,900	$7,743	$843	1,481
Dec 2007	0.26%	$300	$7,200	$8,063	$863	1,468
Jan 2008	-8.10%	$300	$7,500	$7,711	$211	1,379
Feb 2008	-0.00%	$300	$7,800	$8,010	$210	1,331
Mar 2008	-2.52%	$300	$8,100	$8,109	$9	1,323
Apr 2008	6.78%	$300	$8,400	$8,958	$558	1,386
May 2008	3.77%	$300	$8,700	$9,596	$896	1,400
June 2008	-5.70%	$300	$9,000	$9,350	$350	1,280
July 2008	-3.89%	$300	$9,300	$9,286	($14)	1,267
Aug 2008	-1.40%	$300	$9,600	$9,456	($144)	1,283
Sept 2008	-12.55%	$300	$9,900	$8,569	($1,331)	1,166
Oct 2008	-17.93%	$300	$10,200	$7,333	($2,867)	969
2008-2009	17.54%	$3,600	$13,800	$12,828	($972)	1,036
2009-2010	20.94%	$3,600	$17,400	$19,460	$2,060	1,183
2010-2011	1.03%	$3,600	$21,000	$23,077	$2,077	1,253

Month after month, they invested their $300 regardless of what the headlines and "experts" were saying. As the table shows, the market treated them well for the first 12 months, but then the bottom fell out. After two years, they had invested a total of $10,200 and their account value was only $7,333, meaning they were more than $2,800 in the red. Obviously that's not what they had hoped for. But they persevered.

Due to the large number of shares they were buying each month at discount prices, they were well positioned when the market rebounded over the following years. Five years later, at the end of October 2011, *although the S&P 500 index was still lower than when they began their investing*, they were back in the black. On total investments of $21,000, they had a $2,077 gain.

This example illustrates how dollar-cost-averaging helps reduce the damage from falling markets. By holding the dollar amount of your monthly investment constant, *you buy more shares when* (continued on page 109)

[1]We could have really stacked the deck in this example by having them use SMI's Dynamic Asset Allocation strategy—a much more conservative option specifically designed to hold up well in down markets. But what's the fun in that?

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

THREE INVESTMENT STRATEGIES WHERE IGNORANCE IS BLISS

"Deciding what not to do is as important as deciding what to do." — Apple co-founder Steve Jobs.

Investing is made easier if you recognize you can ignore strategies that don't fit into your long-term plan, such as those that involve high-risk speculation and *most*[1] that use leverage.

A *mechanical* lever, as you may remember from science classes, makes it possible to use less effort to move more weight. In a similar way, *financial* leverage uses a relatively small amount of money to control the rights to a more valuable asset. (A form of leverage familiar to most of us is a home mortgage. Your down payment gives you control of an asset worth much more than what you put down.)

In investing, the alluring thing about leveraging is that gains are magnified. However, so are *losses*. Unless you're prepared to suffer potentially large losses, you would be well advised to avoid the following three speculative strategies.

• **Margin.** This strategy—which tends to grow in popularity when markets are rising and investor confidence is strong—involves borrowing a portion of the money needed to buy securities. (Margin debt currently is at an all-time high, exceeding even the levels that occurred in the heady days leading up to the dot-com crash of the late 1990s and in the period just before the financial crisis of 2008.)

Here's how margin works. Suppose you want to take a substantial position in a stock but don't have enough cash. Your broker will lend you up to half of the purchase price, with the shares you buy with your own money acting as collateral for the loan. So, for example, you could buy stock worth $20,000 by putting up $10,000 and borrowing the other $10,000. If the stock's value rises to, say, $28,000 and you sell at that point, you'd pay your broker the $10,000 you borrowed (plus interest and commissions—we'll assume $1,000), leaving you with $17,000—or a 70% gain on your original $10,000 investment!

Now a less happy scenario. Instead of rising, the market value of your stock drops from $20,000 to $16,000 and you have to sell. After repaying your broker $10,000, plus $1,000 for interest and commissions, you'd be left with only $5,000 of your original $10,000 investment. In percentage terms, your loss would be 50%. Ouch.

Could your stock fall so far in value that, even after selling it, the proceeds wouldn't be enough to repay your broker? Not likely, because before things go that bad, you'd get a message from your broker (the dreaded "margin call") reminding you that government regulations require you to maintain a margin amount equal to at least 25% of the market value of the investment. (Some companies require even higher margin percentages.)

Let's say the value of the stock drops all the way to $12,000. The maintenance-margin requirement is 25%, so you are required to keep a margin of at least $3,000 (i.e., 25% of $12,000). Since $10,000 of the remaining investment is collateral against your loan, your equity position has shrunk to only $2,000. You'd have to deposit another $1,000 to meet the requirement.

At this point, the stark choice you face is either to make the required deposit and continue to hold the stock, or sell the position, pay back the loan, and take your loss. If you fail to act promptly, your broker will either sell enough of your shares to raise the money needed to bring your margin into compliance, or liquidate your account and reclaim the amount you borrowed.

• **Commodity futures.** These are contracts investors enter into *now* for transactions that will take place *later*. If you've ever bought or sold a house, you've entered into a transaction similar to a futures contract. You agreed on: (1) the quantity and quality (one house in such and such condition), (2) the price, and (3) the date when the house will be "delivered" (the closing date).

Commodity futures were devised to protect farmers and food processors from the unpredictable nature of the agricultural marketplace. Farmers could lock in a guaranteed price for their product—thus avoiding concerns about prices falling—while processors gained protection against possible price spikes. By agreeing ahead of time on the quantity, quality, and price, as well as setting the date the crops (or livestock) would be delivered, both parties could plan with greater confidence.

To guarantee that neither party would renege, each would make a good-faith deposit of 5%-10% of the agreed-upon value of the transaction.

Eventually, commodity futures expanded beyond actual sellers and buyers seeking protection against the vagaries of agricultural prices. Today, the futures market includes many speculators who trade futures contracts—related to agriculture, energy, natural resources, and metals—yet never actually deliver, or take delivery, of a commodity.

Futures trading typically is done through online brokers that specialize in that area, such as optionsXpress (part of Charles Schwab), TradeStation, and OptionsHouse. TDAmeritrade also has a futures-trading platform. To be approved for trading, an investor must provide a broker with several pieces of information (required by government regulations), including age, income, net worth, and details about previous investment and futures trading experience.

The inherent price volatility of commodities and the highly leveraged nature of futures *(continued on page 109)*

[1]For an explanation of why SMI uses leveraged ETFs in its Sector Rotation strategy, see the June 2016 article *Leveraged Funds: Too Dangerous To Be Useful?* at bit.ly/SMILeverage.

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

DONOR-ADVISED FUNDS: A GREAT TOOL FOR TAX-EFFICIENT GIVING

When crafting a plan to achieve your charitable-giving objectives, your accountant or attorney will likely consider several factors, such as flexibility, simplicity, and the ability to handle contributions of non-cash assets. Starting a private foundation is one way to approach these more complex giving issues, but today's givers should also consider another more convenient option: a donor-advised fund (DAF).

Private foundations and donor-advised funds are similar in that both have advantages as charitable-giving vehicles, such as offering considerable flexibility in the *timing* of one's giving. For example, if you have a year-end income spike from a bonus or the sale of stock options, you can make an immediate gift to either a foundation or DAF and gain a charitable-giving tax deduction for the same tax year for which the income is reported. Later, you can make an unrushed decision about which charities to support from that gift.

One significant difference between a DAF and a foundation is cost. The initial cost of establishing a private foundation, as well as the on-going operational overhead, can be substantial. A donor-advised fund, in contrast, typically can be established with no—or a very low—minimum contribution and then operated for a low annual fee. This puts a DAF giving plan within reach of the small-business owner and many other givers. The table below details some of the significant differences between DAFs and foundations.

When it comes to overall simplicity, donor-advised funds offer another advantage over private foundations. DAFs allow you to consolidate and organize all your giving through one entity, rather than having to keep track of checks, receipts, and reporting from multiple charities. You can also use the fund to make *anonymous* grants to charities, something much more difficult to do through a private foundation. And many DAF managers provide a way to pre-schedule one-time or recurring grant requests online, similar to online banking.

Another reason to use a donor-advised fund is the relative ease with which you can make tax-advantaged gifts of *non*-cash assets such as real estate, business interests, or closely held stock. You simply gift the asset to the fund, have the fund take care of selling the asset, then have the money placed back in the fund for you to distribute among multiple charities at your discretion and on your timetable.

In addition, donor-advised funds offer significant tax advantages over private foundations in relation to non-cash assets. Donations of such assets to a DAF are deductible at *fair market value*, rather than the *lesser of fair market value or cost basis value,* as is the rule for private-foundation gifts. This can mean a significant difference in tax savings if one is donating highly-appreciated property. Further, you can use a DAF to donate real estate and closely held business interests without running into "self-dealing" restrictions imposed by the IRS for private foundations. And there is one more tax advantage: public stock donations—as well as cash—are deductible at higher rates when given through a DAF.

These advantages (of cost, simplicity, and more-favorable taxation) have made donor-advised funds the most popular charitable-giving tool in America. Indeed, many large mutual-fund companies and community foundations now offer such funds. Not surprisingly, however, *(continued on page 109)*

CONTRASTING DONOR-ADVISED FUNDS AND PRIVATE FOUNDATIONS

Issue / Feature	Donor-Advised Funds	Private Foundations
Donor's role and governance:	Technically, donors are advisors to the Fund. Ultimate control rests with the charity that manages the Fund.	Donor family can control 100% of board.
Control over grants and assets:	Donor may recommend grants/investment options; Fund manager has ultimate control over decisions.	Donor has complete control of all grants and investment decisions, subject to self-dealing rules.
Tax-deduction limits for gifts of cash and publicly traded securities:	Cash: 50% of adjusted gross income. Publicly traded securities: 30% of AGI.	Cash: 30% of adjusted gross income. Publicly traded securities: 20% of AGI.
Tax-deduction limits for gifts of other non-liquid appreciated assets:	Fair market value (up to 30% of AGI).	Lesser of fair market value or donor's basis in asset (up to 20% of AGI).
Excise taxes:	None.	Up to 2% of net investment income.
Distribution requirements:	None.	5% of foundation assets must be distributed annually.
Start-up costs:	None.	Legal and accounting fees for incorporation, IRS filing and other documents (up to $20,000).
Ongoing administrative and management costs:	Varies depending on the particular DAF. Typically 1% per year or less, based on assets.	Ongoing fees for accounting and legal advisors to oversee assets, balance books, pay bills, keep records, and file tax returns.
Anonymity of donor:	Yes.	No.

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 5/31/2017	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	43.0	14.1%	3.0%	8.2%	16.4%	18.4%	1.8%	1.15	0.11%	20%	16%	12%	8%	VXUS
Extended Market Index ETF	Small company stocks	25.7	4.8%	-0.8%	0.2%	6.8%	18.7%	7.7%	1.28	0.08%	40%	32%	24%	16%	VXF
S&P 500 Index ETF	Large company stocks	30.8	8.5%	1.4%	2.6%	10.7%	17.5%	10.1%	1.00	0.04%	40%	32%	24%	16%	VOO
Total Bond Mkt Index ETF	Medium-term bonds	5.6	2.3%	0.7%	1.5%	2.6%	1.5%	2.5%	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 5/31/2017[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	60.2	19.4%	4.9%	12.3%	18.5%	29.4%	0.7%	1.69	1.33	21	None	LLINX
	2. Oakmark International	12/16	NTF	NTF	NTF	59.9	15.7%	1.3%	10.2%	19.6%	30.1%	3.3%	1.49	1.00	74	None	OAKIX
	3. Selected International S	06/17	NTF	NTF	NTF	54.9	21.7%	3.6%	14.1%	19.6%	21.3%	4.2%	1.44	1.30	40	2%30days	SLSSX
Category 4 Small/Growth	1. Baron Discovery	04/17	NTF	NTF	NTF	70.2	18.9%	3.7%	10.9%	18.6%	40.6%	11.4%	1.74	1.35	61	None	BDFFX
	2. Wm Blair Small Cap Grow	05/17	NTF	NTF	NTF	48.0	10.4%	0.4%	6.5%	13.0%	28.5%	9.8%	1.38	1.50	87	None	WBSNX
	3. Oberweis Micro Cap	11/15	NTF	NTF	NTF	47.1	9.6%	1.3%	4.2%	11.6%	31.4%	12.1%	1.41	1.65	91	1%90days	OBMCX
Category 3 Small/Value	1. AllianzGI NFJ Mid-Cap Val	06/17	No	NTF	NTF	47.4	13.1%	5.8%	6.0%	16.0%	25.4%	9.8%	1.13	1.30	102	None	PQNAX
	2. Royce Opportunity	06/17	NTF	NTF	NTF	38.8	4.6%	-1.3%	1.5%	7.1%	30.2%	5.4%	1.68	1.49	253	1%30days	RYOFX
	3. AMG Fairpointe Mid Cap	03/17	NTF	NTF	NTF	27.6	3.4%	-1.6%	-2.0%	5.3%	24.3%	6.0%	1.52	1.12	46	None	CHTTX
Category 2 Large/Growth	1. Baron Partners	05/17	NTF	NTF	NTF	76.0	26.2%	4.8%	16.5%	28.0%	31.4%	10.5%	1.66	1.35	29	None	BPTRX
	2. Fidelity OTC	06/17	Yes	NTF	Yes	67.4	22.7%	5.2%	10.9%	24.9%	31.6%	17.0%	1.50	0.91	216	None	FOCPX
	3. Guggenheim S&P 500 Tech	04/17	ETF	ETF	ETF	61.8	18.0%	3.9%	8.1%	18.7%	35.0%	17.8%	1.37	0.40	70	None	RYT
Category 1 Large/Value	1. Miller Opportunity	06/17	Yes[10]	Yes[10]	NTF	42.0	12.1%	4.1%	2.3%	13.6%	26.1%	6.2%	2.12	1.36	35	None	LGOAX[10]
	2. Toreador Core	05/17	NTF	NTF	NTF	34.8	6.9%	-0.3%	1.6%	10.5%	22.7%	8.3%	1.20	1.20	77	2%60days	TORLX
	3. Dodge & Cox Stock	12/16	Yes	Yes	Yes	30.1	5.3%	-0.1%	0.0%	6.6%	23.5%	9.0%	1.24	0.52	67	None	DODGX
Bond Categories	☎ Vanguard I-T Bond Index [6]	07/17	ETF	ETF	ETF	6.9	3.1%	0.8%	2.0%	3.3%	1.7%	3.1%	1.30	0.07	6.5[7]	None	BIV[8]
	Vanguard I-T Bond Index	01/15	ETF	ETF	ETF	6.9	3.1%	0.8%	2.0%	3.3%	1.7%	3.1%	1.30	0.07	6.5[7]	None	BIV[8]
	Vanguard S-T Bond Index	07/12	ETF	ETF	ETF	3.2	1.3%	0.3%	0.8%	1.3%	1.1%	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-June, 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 (June:p93) 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 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	AllianzGI NFJ Mid-Cap Value
Stock Cat. 2: Large/Growth	16%	$8,000	Baron Partners
Stock Cat. 1: Large/Value	16%	$8,000	Miller Opportunity
"Rotating" Bond Fund	10%	$5,000	Vanguard I.T Bond Index
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

BOND UPGRADING — NEW FUND RECOMMENDATION

[The SMI Bond Upgrading strategy debuted at the beginning of 2015. This approach involves investing half of the bond portfolio in two "core" funds which do not change. These two funds provide stability to the portfolio. The other half of the bond portfolio is invested in a single upgrading recommendation. This is the selection being updated this month. For more details about how the SMI Bond Upgrading strategy works, see Jan2015:p7.]

◆ **Scout Unconstrained Bond Fund (SUBYX, 9/16) is being replaced.** It's been 10 months since we changed our Bond Upgrading rotating recommendation from Vanguard Intermediate-Term Index to Scout Unconstrained Bond. This month we're changing it back. A brief review of what's happened in the bond markets in recent months will help explain why this seems like a prudent move to make at this time.

Many will remember that bond yields spiked higher in the weeks following the surprising Trump election result. What most won't remember is that yields were already creeping higher *prior* to the election. Vanguard Intermediate lost nearly 1% in October 2016—the month *before* the election. Our Upgrading process picked up on this trend change in yields and helped re-position our portfolio before the election really sent yields soaring.

Remember, when bond yields *rise*, bond prices *fall* (and vice versa). So the rise in interest rates that accelerated after the election hurt the returns of most types of bonds. Thankfully, Scout Unconstrained was positioned very conservatively, so our losses during the 4th quarter of last year were quite mild. For comparison, Scout Unconstrained lost less than -0.5% during the 4th quarter, while Vanguard Intermediate lost -4.1%. That's a significant bout of volatility that we avoided due to the Upgrading change last September.

In the nearly 10 months we've owned Scout Unconstrained, it has earned +1.15% overall, while posting positive returns in 9 of the 10 months. Vanguard Intermediate has an overall loss of -0.4% during those 10 months, and as we noted earlier, those results came with higher volatility.

• **Vanguard Intermediate-Term Bond Index (BIV/VBILX/VBIIX) is being added.**[1] So why switch back to Vanguard Intermediate this month? Because bond yields stopped rising in early 2017 and have been declining since. This decline in interest rates has boosted the returns of Vanguard Intermediate, pushing it up in our bond-momentum rankings.

Looking at the 2017 year-to-date performance of the two funds reinforces the shift and explains why Upgrading is shifting us back to the more aggressive fund. So far in 2017, Scout Unconstrained is up +1.4%, whereas Vanguard Intermediate is up +3.6%.

Some bond investors might understandably be confused about the current interest-rate situation. The Federal Reserve has raised short-term interest rates three times in the past six months. At the same time, intermediate- and long-term interest rates, which are determined by the market's supply and demand, have been declining.

The reason longer-term rates have been declining is the opposite of why they rose late last year. Then, the bond market was concerned that higher economic growth, stimulated by lower taxes, less reguation, and some sort of Trump stimulus package, would spur inflation—the bane of fixed-income investors. Now, given the difficulty the Trump administration has had getting its policy goals enacted, it seems less likely that higher economic growth will boost inflation. In fact, the primary discussion around interest rates has shifted from "how high might they go?" (following the election) to "will the yield curve invert?" with short-term rates rising higher than longer-term rates. (An inverted yield curve is typically associated with a high risk of recession.) While the yield curve has flattened somewhat, it's still a long way from inverting. But the fact that this question is even coming up shows how far the conversation has shifted in only six months.

Importantly, this decline in longer-term interest rates supports the argument in favor of owning the Vanguard Intermediate fund for now. Unless the economic growth dynamic shifts higher again, the current trend is for longer-term yields to move lower, which pushes the prices of most bonds higher.

Interpreting SMI's Bond Upgrading recommendations

The Basic Strategies page (p.106) shows recommended funds in three bond categories. The lower two selections, Vanguard Short- and Intermediate-Term Indexes, each comprise 25% of the bond portfolio and *do not change* from month to month. That half of the portfolio is fixed.

The top recommendation listed is the rotating Bond Upgrading selection, which comprises the remaining 50% of the portfolio. This is the recommendation being changed this month. It can be confusing when this Upgrading selection is the same as one of the "core" selections. But all this means is that SMI is recommending taking the 50% Upgrading allocation and investing it in the same Vanguard Intermediate-Term Bond Index fund already owned in the core portion of the portfolio. So the end mix is 25% Vanguard Short-Term Index and 75% Vanguard Intermediate-Term Index. Don't be concerned about a perceived lack of diversification—Vanguard I-T Index has 2,000 holdings and is designed to broadly represent the overall bond market. ◆

LEVEL 1 / CONTINUED FROM PAGE 102:

GIVING GENEROUSLY WHILE IN DEBT

A few years ago, Scott retired with a full pension at a much younger age than most people, having put in more than 20 years at the Chicago Fire Department.

He and Karen also finally bought a home—a beautiful Victorian, the style they had long dreamed of owning. Buying at a time when home prices were still battered by the recession, the home was priced well below what it would have sold for years earlier when Karen and Scott were diligently paying down debt while giving sacrificially.

Looking back, Karen acknowledges that she didn't always

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

want to tithe, especially as she thought about how much more quickly they could have been paying off their debt. However, she realizes now that had they been putting their tithe money toward their debts, they would have gotten out of debt right at the start of the recession. If they had bought a house then, they might owe more on it today than it's worth.

But the blessings didn't end there. Along with dreaming of one day owning a Victorian home, Karen hoped they could eventually buy a Victorian piano. On the day they closed on their home, they met a neighbor who had just such a piano for sale. However, instead of selling it to Karen and Scott, she insisted on giving it to them, even arranging to have it waiting for them inside their home on the day they moved in.

"We got our cool story, after all," Karen said, "and then some." ◆

LEVEL 2 / CONTINUED FROM PAGE 103:

WHY NOW IS A GOOD TIME TO LAUNCH YOUR STOCK-MARKET STRATEGY

prices move lower and fewer shares as prices move higher. In effect, you are buying more at bargain prices and relatively little at what might be considered high prices.[1] This should help you see that even a poorly timed beginning can still turn out well. The bigger risk is that you never get started at all.

The time to begin a stock-oriented investing strategy is as soon as your foundation is laid—i.e., you're free of consumer debt and have a contingency fund to help protect you from the uncertainties of life (SMI's Level 1). The timing should *not* be determined by the experts' current thinking as to whether now's a good time to invest in stocks—they're as likely to be wrong as they are right. Rather, your investing decisions should be based on where *you* are now, and where *you* need to go. So, if your foundation is in place and it's time to begin investing your monthly surplus, then now's a good time *for you*. ◆

LEVEL 3 / CONTINUED FROM PAGE 104:

THREE INVESTMENT STRATEGIES WHERE IGNORANCE IS BLISS

contracts combine to make this kind of trading emotionally wrenching. The potential exists for a large loss or a remarkable return in a short amount of time. And, importantly, commodity traders *can lose much more than they invest*. As the old saying goes, "The way to make a quick million in the futures market is to start with two million."

Unless you have enough cash on hand to cover any losses, one other consideration—from a biblical perspective—is that investing in commodity futures may involve *presuming* on the future ("Come now, you who say, 'Today or tomorrow we will go into such and such a town and spend a year there and trade and make a profit'—yet you do not know what tomorrow will bring" James 4:13-1, ESV).

Average investors who wish to gain exposure to commodities are better served by investing in commodity-based exchange-traded funds. But even with ETFs, you must be prepared for stress-inducing price swings. (SMI uses a gold ETF in our Dynamic Asset Allocation strategy, recommending it when the momentum numbers indicate it is appropriate to do so.)

• **Options.** These investments are promoted as having the advantage that "your loss is limited to the amount of your investment." In other words, all you can lose is every dime you invest (which does make options safer than futures contracts)! Options trading—available via all major online brokers—gives you the right to buy (a "call" option) or sell (a "put" option) a stock, an index, or an ETF later. The terms include an agreed-upon price (the "striking price") as well as an expiration date.

Because of the complicated interaction of current price, striking price, and the time remaining, options trading is not for the inexperienced. Further, options trading is inherently short-term in its outlook, aiming to capitalize on price movements that typically must occur within a few days, weeks, or months. The SMI approach, on the other hand, stresses a long-term mindset.

Renowned investment manager John Neff, who led Vanguard's Windsor Fund to three decades of remarkable outperformance (from the mid-1960s through the mid-1990s), once likened options trading to a roll of the dice: "I've never done much with options," he said. "The odds aren't so awfully good." If a man of John Neff's savvy and experience found options to be an unattractive investment vehicle, what chance do you think the average investor has?[2]

Resist the allure

Each of these strategies—margin, futures trading, options—can be enticing. The potential for profit is great. But the risks are great too, making these strategies unsuitable for most investors. Instead, we recommend the kind of long-term, carefully considered approach suggested by Proverbs 21:5: "Steady plodding brings prosperity; hasty speculation brings poverty" (TLB). ◆

LEVEL 4 / CONTINUED FROM PAGE 105:

DONOR-ADVISED FUNDS: A GREAT TOOL FOR TAX-EFFICIENT GIVING

few are managed from a Christian perspective. This is important, not only in terms of the types of charities your money ultimately supports, but also with respect to the investments the DAF makes with your money between the time of your donation and the fulfillment of grant requests.

Christian alternatives

Giving through an organization that has an explicit Christian emphasis is an important safeguard. Many are the reports of well-intentioned Christians who used private foundations to support Christian causes during their lifetime and beyond. After they were gone, however, the foundation boards ultimately adopted grant-making values that differed sharply from the donors' original intent.

To safeguard against this, many of today's Christian donors are using donor-advised funds owned and housed by founda-

[1]See *How Dollar Cost Averaging Uses Bear Markets To Your Advantage*, May2016:p.71, for an expanded discussion of exactly how DCA uses bear markets to boost overall returns for long-term investors.
[2]Conservative option strategies, such as writing covered calls, are reasonable for knowledgeable investors.

MONEYTALK

tions that share their biblically rooted values. One such foundation—launched in 1982 by financial authors Larry Burkett and Ron Blue, along with attorney Terry Parker—is the National Christian Foundation (NCF). Over the past 35 years, NCF and its nationwide network of local foundations have distributed grants totaling more than $7 billion to thousands of churches and ministries worldwide. The NCF Giving Fund® has become the nation's largest donor-advised fund for Christian givers. (You can learn more at www.NCFgiving.com.)

A further safeguard is to provide written instructions to managers of your DAF regarding how your giving should be administered after your death (by someone you designate, such as your heirs). Doing so will help assure that only charities that operate in accordance with your values receive grants after you pass away. Taking such precautions is especially important for those who wish to pass on a legacy of Christian giving to future generations.

[**Editor's note:** This article was prepared at SMI's request by the staff of the National Christian Foundation. Austin and Mark both use NCF giving funds and are enthusiastic supporters. For more information about the NCF or its local affiliates, go to NCFgiving.com or call 1-800-681-6223.

Other Christian organizations that offer donor-advised funds include WaterStone (WaterStone.org) and Barnabas Foundation (BarnabasFoundation.com). Note that SMI doesn't have first-hand experience with these organizations.] ◆

MARKET NOTES, QUOTES, AND ANECDOTES

An inconvenient truth

• "Momentum is a big embarrassment for market efficiency." — Eugene Fama, professor of finance at the University of Chicago and Nobel Laureate in Economic Sciences, in a speech at the CFA Society Chicago conference on June 13. Fama's Nobel Prize was awarded for his work advancing the Efficient Market Hypothesis (EMH), which states that it is impossible to beat the market because share prices always reflect all available information. Previously, he has called momentum, which is the engine behind SMI's three most popular strategies (and which shouldn't be as effective as it is if markets truly were efficient), "the premier market anomaly." Read more at bit.ly/2sUPm4A.

Pennsylvania Avenue is far from Wall Street

• "The stock market is best understood not as a presidential poll but as a barometer of the nation's current economic mood, and it remains buoyant now for reasons unconnected to the White House." — Ruchir Sharma, chief global strategist at Morgan Stanley Investment Management, writing in the *NY Times* on 5/30/17 on why a widely anticipated "Trump slump" hasn't materialized. Read more at nyti.ms/2tP79Xa.

Trouble ahead?

• "Every boom in the U.S. economy is different, but over the past several decades, each has ended the same way. First you get full employment. Then you get a spike in the price of oil. And then there's a recession." —*Bloomberg View* columnist Conor Sen, writing on 6/14/17. He noted that the U.S. hit full employment nearly two years ago, and when that has happened in the past, it never took more than a few years for the price of oil to double. Read more at bloom.bg/2tS8Mn2.

• "As history demonstrates, conformity to the irrational can and often does persist beyond conceivable limits, yet incoherence of behavior is not sustainable indefinitely." — Michael Lebowitz, founding partner of investment consultancy 720 Global, writing in *Advisor Perspectives* on 6/19/17. He argues the long bull market has numbed investors to the reality that it can't last forever. Read more at bit.ly/2rZup3F.

• "Tech 'wreck?' That's a bit of a stretch in my opinion; but the financial media loves a good headline." – Liz Ann Sonders, chief investment strategist at Charles Schwab, writing on 6/19/17. She thinks mid-June declines for so-called FAANG stocks (Facebook, Apple, Amazon, Netflix, and Google) will prove to be more of a pause than the start of a steeper sell-off in the tech sector. Read more at bit.ly/2rSqGcV.

Caution comes with its own risks

• "If you want to protect on the downside, you have to be willing to be wrong, early and often. There is no other way. You have to accept that the rain may never come." — Charlie Bilello, director of research at Pension Partners, an investment advisor, writing on his company's blog on 6/14/17 about the tradeoff that caution requires. Read more at bit.ly/2rSvqzb.

The big picture

• "Diversification is not about owning more stocks. That's not a particularly useful kind of diversification if they all end up rising or falling together. Diversification is about owning assets or running strategies that are uncorrelated or minimally correlated to each other." — Charles Sizemore, chief investment officer at Sizemore Capital Management, on the one piece of wisdom he would impart to all investors. Read other people's answers on *Abnormal Returns* at bit.ly/2sR4uiv.

• "Though there has never been a better time to be an investor, it does not mean that there has never been an easier time to be an investor." — Phil Huber, chief investment officer, Huber Financial Advisors, writing on his *bps and pieces* blog on 6/6/17. He said cost reductions, new investment products, and other advancements have given investors more advantages than ever, but investors continue to be their own worst enemies. Read more at bit.ly/2tOSFqf. ◆

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

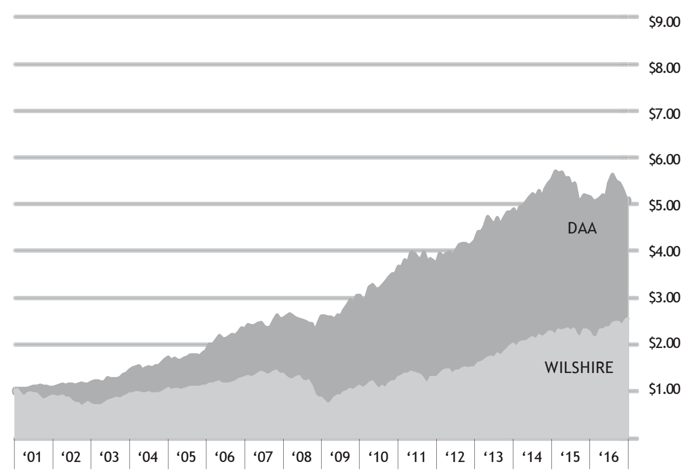
Overview

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

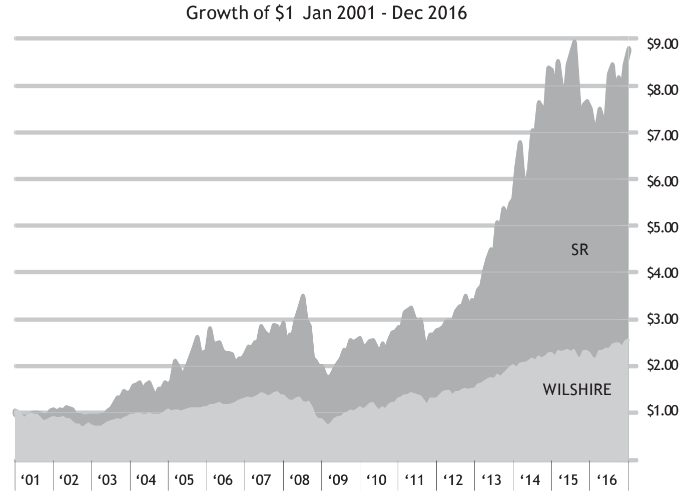
Overview

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
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Dated Investment Material
Please Do Not Delay!

PERFORMANCE DATA

SOUND MIND INVESTING MODEL PORTFOLIOS • DATA THROUGH MAY 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]	7.8%	1.0%	2.1%	17.9%	9.9%	15.3%	7.0%	8.2%
Just-the-Basics[2]	8.2%	0.9%	2.8%	18.3%	7.5%	13.8%	6.1%	8.3%
Stock Upgrading[3]	5.8%	0.4%	2.1%	15.8%	6.5%	13.1%	5.9%	9.1%
U.S. Bond Market[4]	2.3%	0.7%	1.4%	1.4%	2.4%	2.0%	4.3%	4.3%
Bond Upgrading[5]	1.7%	0.4%	1.1%	2.6%	2.7%	3.7%	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]	8.2%	1.5%	3.5%	8.3%	2.5%	7.4%	8.5%	11.3%
Sector Rotation[7]	24.1%	12.6%	16.8%	50.2%	20.5%	30.1%	14.4%	16.8%
50-40-10 Blend[8]	8.9%	2.2%	4.3%	15.2%	6.1%	12.1%	8.6%	11.4%

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 5/31/2017	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	5.41%	0.79%	2.59%	13.52%	4.34%	11.20%	4.79%
Wilshire 5000	7.80%	1.01%	2.11%	17.89%	9.90%	15.30%	7.02%
S&P 500	8.66%	1.41%	2.57%	17.47%	10.14%	15.42%	6.94%

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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