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Diversifying Abroad: A Primer on International Investing

The United States of America remains the center of the investing universe, but trends set in motion long ago seem certain to diminish its prominence in the decades ahead. As the 21st century unfolds, other nations and regions will become increasingly attractive to investors, bolstered by favorable demographics, rapidly expanding middle classes, and the globalization of financial markets. This primer is intended to help SMI readers gain a general understanding of the broadening investing landscape.

by Mark Biller and Joseph Slife

The economy of the United States remains the largest and strongest in the world. The U.S. is blessed with abundant natural resources, relative political stability, a large and educated workforce, and a culture of entrepreneurship. Indeed, these are the primary elements that helped make the 20th century the *American* century. No nation has ever dominated the world's economic landscape as the U.S. has for the past 100 years.

But in the 21st century, American dominance—though still a reality—likely will wane as the economic and investing landscape shifts. Consider this: As of mid-2017, the total value of almost all of the stock shares in the world—i.e., "global market capitalization"—was about $41 trillion, according to the research firm MSCI. U.S.-based stocks represented a bit less than 53% of that amount. In 2000, U.S. stocks represented more than 60% of market cap.

Granted, the United States remains far ahead of any other individual country, with the overall value of U.S. shares still nearly seven times greater than the total share value of any other nation. (Japan is in a distant second place, and the U.K. comes in third. Note that these rankings can change considerably depending on the data source—some sources already calculate China with the second-largest total.)

To be clear, this article is not about the U.S. being in decline. Rather, it's simply to point out that earnings opportunities increasingly are cropping up in places *other* than in America (or Japan and Europe, for that matter). Stock shares in so-called "emerging markets"—including India, Mexico, South Korea, and Brazil—now account for more than 10% of global stock value. And in June, MSCI made financial headlines by announcing it will add 222 Chinese big-cap stocks to its Emerging Markets Index next year.

It's a safe bet that most Americans have nowhere near 10% of their stock portfolios invested in emerging markets. Their home bias means they're potentially missing opportunities.

Although technological advances have made investing overseas easier than ever before, international investing isn't as straightforward as investing domestically. International investing requires you to deal with currency fluctuations, differing accounting procedures (that may make accurate evaluation more difficult), and foreign stock *(continued on page 115)*

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

My Hollywood Adventure (aka A Skeleton in My Financial Closet)

One of the tricky things about investments is that you don't always know how they're going to turn out.

Long, long ago in a place far, far away (from Kentucky) I had a Christian buddy named Bob. He owned an ad agency in Los Angeles, and among his clients was World Wide Pictures, the movie division of the Billy Graham organization. Bob's job was to promote the ministry's evangelistic films. Getting Christians to come wasn't hard, but getting large numbers of non-Christians to attend was. The average movie-goer is more attracted to movies with excitement, suspense, and big-name stars.

Bob thought he had an idea (a "premise" in Hollywood lingo) that would combine these ingredients with Christian themes in a way that would also convey an evangelistic message. He had shared it with a movie producer friend of his, and they were already moving ahead. One day Bob and I were having lunch in Hollywood and, since we were pals and all, he invited me in on his deal. It went something like this:

"The Exorcist was a really big hit because people are fascinated by supernatural evil. Who's more evil than the Anti-Christ? My idea is to do a film about him, not when he's grown up and powerful but when he's still a child. Will he be like all the other little kids on his block, or will there be something unusual about him even then?

We've got a writer lined up who will do the first draft for the Screen Writer's Guild minimum of $7,500. When it's done, my producer friend will take it around to all the studios and try to sell one of them into making it into a movie. Austin, if you'll put up the $7,500, we'll cut you in for 5% of our share. What do you think?"

I didn't know what I thought. I asked my wife what she thought ("No, I don't think we should promote a film that features Satanic themes"). I asked my business manager ("No, only one in 1,000 screenplays ever gets made into a film—it'll never happen"). I even asked my banker ("No, it's a roll of the dice—you'll lose your money"). So, I did it.

I knew I was bucking the odds, but it sounded like it could be fun. (As a general rule, I don't recommend making an investment because it sounds like it "could be fun.") I sent my check in and, with the optimism of the innocent, waited for Bob to tell me where and when to show up to watch the filming. And I waited. And I waited. After more than two years had passed, I'd pretty much written it off. Then Bob called. He'd just returned from England where he'd enjoyed spending time with the actors and crew as the final scenes of the film were being shot. In all the excitement, he'd forgotten to invite me along!

Unfortunately, in the time-honored tradition of "he who pays the piper calls the tune," Bob lost any influence over the project once 20th Century Fox put up the production money. The studio's secular worldview was the downfall of the film (which they named *The Omen)* in terms of its reliance on biblical truth.

As it turned out, though, I had a lot more investing "fun" than I expected. The film got off to the fastest grossing box office of any movie in the history of Fox up to that time. Millions of people were standing in line all across the country to see it. My investment was returned to me more than 30 times over, and I still get annual royalty checks.

No one was more astonished by its blockbuster success than yours truly, the savvy investment analyst. Happily, I made a bunch of money, which I would desperately need soon enough to help offset some poor investment decisions I made as an encore. If you want to learn from my mistakes, see chapter 26 of the SMI Handbook where I explain how I lost $50,000 in an oil scheme (but at least got a Swiss Army knife as a keepsake) and $100,000 in a real-estate deal (I still have the tennis racket given to me by the promoter, so that's something).

I have three takeaways for you. First, don't invest in things you don't understand. What did I know about the movie business, oil brokering, or real-estate development? Nothing. Second, always make your investing decisions based on a well-researched plan that has a reasonable probability of success. How did these three investments fit into my plan? They didn't. And third, while every investment has its unknowns, be aware their outcomes may not be *anything* like you expect. I thought I had assessed the risks well when I paired my "safe" real-estate investment with my "high risk" movie venture. Turns out I had it exactly backwards!

Austin

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FOUNDER/PUBLISHER

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Diversifying Abroad: A Primer on International Investing

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exchanges with different—usually more lax—regulations than those we're accustomed to in this country. Political instability and national security concerns also can be a problem. So why take on the additional risks and complexities of investing internationally?

Diversification + opportunity

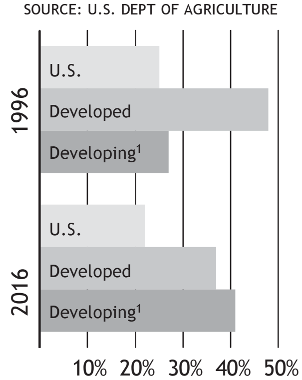
The conventional wisdom used to be that the primary reason for owning foreign stocks was to provide additional diversification. Ideally, when the U.S. stock market zigs, your foreign holdings would zag, offering more stability overall than a portfolio comprised solely of domestic stocks.

However, the degree of this diversification benefit has become a subject of debate in recent decades. For roughly 20 years starting in the 1990s, the performance of U.S. and non-U.S. stocks grew increasingly correlated. During this time, domestic and foreign markets were zigging and zagging together more than ever before. But just when it seemed time to write off the diversification benefit of owning foreign stocks, their correlation to U.S. stocks reversed and started moving in the other direction again. In fact, a July 2017 Charles Schwab research report noted the correlation between foreign stock markets "peaked in 2011 and has subsequently fallen in recent years to levels not seen since 1997."

We're hesitant to declare that this diversification benefit is back, given that we've yet to see a significant stock-market downturn since this recent trend change. It would make sense for foreign markets to provide less diversification benefit than they used to, given that the world economy, even as it becomes less U.S.-centric, is becoming more interconnected. At the same time, technological advances have lowered or removed barriers that used to restrict the flow of money across national boundaries.

But regardless of whether the diversification benefit of owning foreign stocks has been decreasing, adding foreign holdings to your portfolio offers another benefit: foreign stocks *offer broader growth opportunities* than investing exclusively in U.S. companies. After all, as large and strong as the U.S. economy may be, America's GDP represents only about one-fourth of worldwide economic activity. And as the nearby chart shows, while the U.S. has roughly held its own over the past 20 years, the rest of the world's developed economies, such as those in Western Europe and Japan, have been losing ground to the developing world and the so-called emerging-markets countries. More on the investment opportunities to be found there shortly.

SHARE OF WORLD'S ECONOMIC PRODUCTION
SOURCE: U.S. DEPT OF AGRICULTURE



Fluctuating dollar implications

In the past, we've noted that investing internationally offers the potential benefits of protecting against both rising U.S. inflation and a weakening U.S. dollar. However, if the past decade has taught us anything, it's that inflation and currency strength trends are as difficult to predict as everything else in the financial markets. Many expected the U.S. dollar to collapse and inflation to soar in the wake of the Federal Reserve's unprecedented Quantitative Easing policies several years ago. Now, with the benefit of a decade's experience observing the world's central banks do everything in their power to stimulate inflation without success, it seems that runaway inflation is a misplaced fear. That said, investments in emerging markets could help you avoid losing financial ground if inflation were to pick up again at some point here in America.

As for the dollar, far from collapsing, it strengthened dramatically from 2009-2015, rising in value by roughly one-third. More recently, while most pundits expected a Trump presidency and Federal Reserve rate hikes to further strengthen the dollar, once again its direction has caught everyone off balance. The dollar has slid approximately 7% so far in 2017, despite three rate increases since last December. A weaker dollar is a net negative with respect to overall U.S. economic strength, but it tends to boost the profitability of an investor's foreign holdings, which we've clearly seen this year.

Here's a brief example we've used before to explain why that is: Let's say that on Nov. 1, 2008, you invested $1,000 in the German stock market. First, your U.S. money was converted to euros. On the day you made your purchase, one euro could be exchanged for about $1.27 in U.S. money—or, stated another way, one U.S. dollar was worth .785 euros. So your $1,000 became 785 euros that were then invested in German stocks on the Frankfurt stock exchange.

After a year passed, you were able to sell your German holdings for 926 euros—a tidy 18% profit. After the sale, you converted your euros back into dollars. Fortunately (for you), the euro had gained against the dollar over those 12 months—a euro was worth about $1.49...rather than $1.27. That means your 926 euros converted to $1,380.

Rather than enjoying an 18% profit, you actually gained 38%! You not only made money on the growth of your German investments, you more than doubled your earnings because of the relative weakness of the dollar during the span you were invested.

So, as you can see, a 20% increase in the value of the euro against the U.S. dollar makes the same profit contribution to an American investor with holdings in German stocks as if the German market itself had risen 20%.

Understanding this currency dynamic makes it easier to see how the unusually poor returns of foreign investments from 2010-2015 were driven, in part, by the rising value of the dollar. In contrast, as the dollar has declined in value so far this year, foreign stocks have outperformed U.S. stocks. Currency fluctuations certainly aren't the only factor, but they tend to provide either a headwind or tailwind to foreign stock performance.

Getting your money out there

Mutual-fund investors have four main types of international funds from which to choose (we list each type sepa-

[1] "Developing" is a broad term that includes not only the "emerging" markets but also categories that range from the Least Developed (e.g., Bangladesh, Haiti, Uganda) to Upper Middle Income (e.g., Argentina, Lebanon, Belarus) per the OECD (Organization for Economic Co-operation and Development).

rately in our monthly *Fund Performance Rankings*—available online to all SMI web members):

• **World funds** have the greatest latitude—they can invest around the globe, anywhere they find attractive opportunities. This means that many of these funds actually have substantial U.S. holdings. So if you invest in a world fund, you can't be sure how much of your money will end up abroad. Since our Stock Upgrading portfolios suggest allocating a particular percentage of money toward international investing, we don't recommend world funds for this purpose, as they may have heavy U.S. holdings.

• **Foreign funds**, which make up Risk Category 5 for SMI Stock Upgraders, invest almost exclusively outside the U.S. Normally, these funds are the place to look if you want to invest across a number of countries through a single fund. (It's up to each fund whether to set limits on how large a percentage of assets can be invested in any single nation or region.) With a foreign fund, you don't have to call the shots about which countries and companies to invest in. Instead, you rely on the expertise of a fund manager who makes decisions about the most promising areas of the world, outside the U.S., at any given time.

SMI's Dynamic Asset Allocation strategy uses an exchange-traded foreign fund (ETF) with the ticker symbol EFA for its international stock exposure. EFA is an index fund, designed to track the well-known MSCI EAFE index (Europe, Australasia and Far East). The EAFE index covers 21 developed markets outside North America, but does not provide exposure to the so-called emerging markets, discussed below.

U.S. vs INTERNATIONAL FUNDS

SOURCE: MORNINGSTAR

Year	U.S. Market	World	Foreign	Europe	Asia/ Pacific	Latin America	Emerging Markets
2000	-10.9%	-9.1%	-11.9%	-9.1%	-34.3%	-15.1%	-30.3%
2001	-11.0%	-17.5%	-18.3%	-19.2%	-17.2%	-5.9%	-3.8%
2002	-20.9%	-19.4%	-13.8%	-13.9%	-12.3%	-20.3%	-6.1%
2003	31.6%	34.5%	39.5%	39.0%	36.8%	61.8%	55.2%
2004	12.5%	15.3%	19.2%	21.4%	16.8%	38.6%	23.5%
2005	6.4%	11.6%	16.8%	15.3%	27.1%	53.9%	31.5%
2006	15.8%	19.7%	25.4%	33.6%	20.7%	44.4%	32.1%
2007	5.6%	11.3%	12.4%	12.5%	18.2%	45.8%	36.7%
2008	-37.2%	-41.9%	-44.6%	-49.8%	-42.2%	-59.2%	-54.4%
2009	28.3%	35.3%	39.3%	47.3%	34.7%	115.5%	73.8%
2010	17.2%	13.7%	16.3%	10.5%	16.6%	15.5%	19.3%
2011	1.0%	-7.9%	-14.0%	-15.2%	-18.0%	-22.6%	-19.9%
2012	16.1%	15.8%	19.1%	20.9%	20.4%	9.8%	18.2%
2013	33.1%	25.2%	22.8%	26.5%	13.9%	-12.0%	-0.1%
2014	12.7%	2.8%	-5.4%	-7.3%	0.2%	-12.9%	-3.0%
2015	0.7%	-1.7%	1.6%	1.7%	1.4%	-30.0%	-13.8%
2016	13.4%	5.5%	0.8%	-1.7%	3.8%	32.1%	8.5%
2017 6mo	0.9%	13.1%	16.1%	14.9%	16.7%	11.2%	18.1%

• **Regional funds**, as the name suggests, narrow the geographical focus even more by investing in a particular region of the world (Europe, Asia, Latin America) or even a specific country (China, Japan, Canada). As such, regional funds tend to have greater volatility than funds with more geographically diversified holdings.

Emerging markets: a growing power on the world economic stage

The fourth type of international fund concentrates its investing in "emerging markets." Although the term doesn't have a strict definition, it generally refers to 20+ nations in various parts of the world that are experiencing significant levels of economic development and reform. Most emerging-markets funds tend to focus on countries in Asia and Latin America rather than on emerging markets in the Middle East, Africa, and Europe (although this is slowly changing and is likely to change further as Africa's demographics point to increased growth in a decade or two).

The huge populations and growth potential of China and India make them the center of any emerging markets discussion. Brazil and Russia are the next two largest. The other emerging markets of the Asia Pacific region are Indonesia, Malaysia, Pakistan, South Korea, Taiwan, Thailand, and the Philippines; in Latin America, emerging markets include Chile, Colombia, Mexico, and Peru. Other countries that are often included in the emerging markets category include the Czech Republic, Greece, Hungary, Poland, Turkey, Egypt, Qatar, United Arab Emirates, and South Africa.

Because emerging markets are coming from a relatively low base of development in comparison with advanced economies, they hold significant growth potential. That said, emerging markets haven't exactly been stellar performers in recent years, although now things seem to be turning around. Overall economic growth in emerging markets began ramping up last year and has now "leveled off at around 4%," according to a June report from the research company Capital Economics. To be sure, some of the growth is driven by commodity exports, but much of it is propelled from within, as these nations develop infrastructure, improve education, and foster a growing middle class.

In a world where the developed nations—including the U.S.—are struggling to reach 2% GDP growth, the 4% or more offered by emerging markets is extremely attractive. While emerging markets may make up a relatively modest share of overall global *activity*, they represent a huge portion of the world's potential economic *growth*.

Even though emerging markets offer tantalizing potential, they tend to be characterized by significant volatility, driven by large money flows that come and go. Most emerging markets have a relatively small investor base within the country itself, so they simply aren't large enough to take it in stride when huge sums of money from outside investors suddenly pour into the country in search of profit opportunities—and then often retreat just as quickly. In addition to volatility issues, emerging markets are also more subject to regulatory and accounting risk than established markets.

Still, the investment potential of these markets needs to be weighed not only against the inherent risks, but also against what some observers think could be years of sluggish growth elsewhere. This is where demographics paint a grim picture for developed markets and a bright one for these emerging markets. America is in better shape demographically than many developed markets (such as Japan and much of Europe), but even here we face massive headwinds given our current debt levels and rapidly aging population. Every day roughly 10,000 Americans turn 65. We know that 65-85 year olds don't spend as much as younger people do.

Contrast the U.S. situation with that of India and other emerging markets where the labor force is young, deep and relatively cheap. Economic growth can be boiled down to two factors: growth in working-age population and growth in labor force productivity. The U.S. labor participation rate, and by extension the amount we consume, is in decline. India's is ramping up. Given these economic realities, it's not difficult to conclude that a large portion of global growth will be shifting away from the United States and other developed countries and toward the emerging markets.

Boosting your international exposure

A recent CNBC report noted that the average mutual fund investor in the U.S. has about 15% of their equity holdings in international stocks. We suspect most SMI readers are above that mark since SMI's basic strategies call for equity allocations of at least 20% to foreign holdings. It's worth noting that some investment professionals recommend even higher levels. Charles Schwab, founder of the discount broker and mutual-fund firm that bears his name, has urged American investors to be bolder in their allocations to foreign investments. "If you'd asked me 20 years ago, I'd say you needed 15% in international investments," he once told Barron's. "I'd say now it's closer to 40%."

For now, we're comfortable with our current SMI recommendations, though it's certainly possible we might increase our foreign allocations in the future if we see these trends translating into superior foreign stock performance. This likely wouldn't be in response to short-term fluctuations such as the valuation of the dollar, but rather the longer-term trends we've been discussing.

It's worth noting that Stock Upgraders often have a few percentage points of "hidden" international exposure in their portfolios. This tends to increase as foreign markets excel for extended periods of time and domestic managers are increasingly lured by overseas opportunities. For example, a Morningstar X-Ray of the SMI Stock Upgrading holdings currently shows a 21% allocation to international stocks rather than our 20% target. Why is that? The answer is simply that many domestic stock funds own a handful of international stocks. But several years ago, when foreign stocks were holding an extended performance edge (and thus were more attractive to U.S. fund managers), that "hidden foreign exposure" amounted to an additional 4% of a Stock Upgrading portfolio.

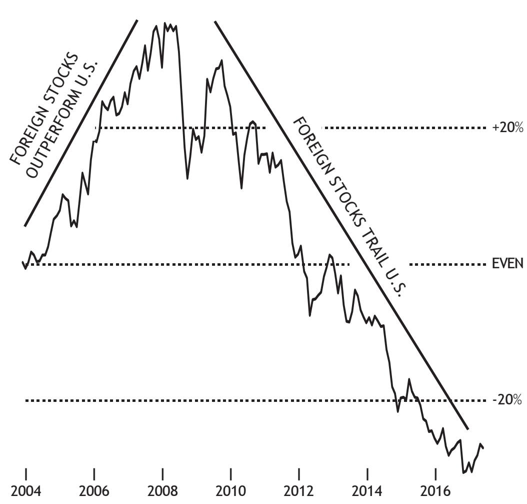
SMI members who use the Dynamic Asset Allocation strategy have another means of significant foreign stock exposure. DAA allocates a full third of its portfolio to Foreign Stocks when its model shows them to be among the top performing asset classes. As a result, an SMI member with a 50/40/10 type portfolio might have as much as 25% of their total portfolio in foreign stocks when Foreign Stocks are among DAA's recommended holdings.

For those who wish to increase their international holdings further, there are a few easy ways to do so. The first is simply to boost your holdings in the international funds recommended for Upgraders on page 122. Given that the other four (domestic) risk categories are evenly weighted in Stock Upgrading, it's a simple task to divert money evenly from the other four categories to accomplish this. For example, an Upgrader might decide to drop each of the other risk categories from 20% to 18%, and boost the foreign fund allocation to 28%.

Because most of the foreign funds used in Stock Upgrading tend to focus primarily on developed markets, and the foreign ETF used in DAA focuses *exclusively* on those markets, another option would be to supplement your international holdings with a dedicated Emerging Markets fund from SMI's monthly *Fund Performance Rankings* (page 37). The iShares MSCI Emerging Markets ETF (EEM) is another good choice to accomplish this goal. Adding an Emerging Markets holding is a higher risk/reward approach when compared to simply boosting the foreign allocation of a standard Upgrading portfolio.

PERFORMANCE LEADERSHIP ROTATES BETWEEN FOREIGN AND U.S. STOCKS

RELATIVE STRENGTH 1/2004 - 6/2017



For most SMI readers though, there's no need to make portfolio adjustments based on this article. Rather, our intent is simply to help you understand the lay of the land when it comes to international investing. Foreign stocks look attractive relative to U.S. stocks right now based on their better growth prospects and cheaper valuations. But while foreign stocks have outperformed so far this year, U.S. stocks had led for several years and it's too early to conclude that dynamic has changed. The trends described in this article are likely to gradually shift the balance of power over the coming decades, but the U.S. is starting from such a dominant position that its strength is unlikely to recede rapidly. That's why we think the 20-25% total allocations to foreign stocks that most SMI investors likely have is sufficient at present. ◆

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

AT LONG LAST, RATES FOR SAVERS BEGIN TO RISE

The Fed's latest interest-rate increase, continuing a rate-hike pattern started in December 2015, is nudging rates higher for savings accounts, money-market accounts, and certificates of deposit. Rates paid on savings vehicles have been at record lows since late 2008 when the central bank implemented a "zero-rate policy" in response to the unfolding financial crisis.

Eighteen months ago, when the Federal Reserve began to reverse that policy, banks were quick to pass on rate hikes to *borrowers*. According to *Fortune* magazine, Wells Fargo took only 12 minutes to raise borrowing rates after the Fed's 2015 increase. In contrast, higher rates for *savers* have been much slower in coming. But finally, stepped-up rates on savings instruments are starting to appear, primarily at online banks and credit unions.

• **Bank savings accounts.** Though the *average* annual percentage yield (APY) for regular-savings accounts remains at an almost-invisible 0.06% (i.e., 6/100s of a percent), online banks are offering regular-savings yields as high as 1.40%, according to DepositAccounts.com, a site that compares bank accounts. An APY of 1.40% may not sound like much in absolute terms, but do the math. A $10,000 deposit in an account earning the average 0.06% would grow to only $10,006 in one year. At 1.40%, the amount would grow to $10,140—a difference of $134.

• **Money-market accounts.** Interest rates for these accounts—which typically require higher minimums than regular-savings accounts—are rising too, and are starting to outpace rate increases on regular savings.

Bankrate.com analyst Greg McBride predicts that as the Fed continues its push toward higher rates—and no one knows how quickly (or slowly) the higher-rate policy will continue to be rolled out—savers will benefit from "a continual game of one-upmanship," as online banks raise their savings rates to gain new customers.

Unfortunately, any such increases at traditional brick-and-mortar banks probably are still a long way off. Bank profits haven't exactly been robust in recent years, even as the Federal Reserve's "quantitative easing" policy (implemented during the Great Recession) led to a boost in bank reserves. Taken together, shallow profits and deep reserves mean traditional banking institutions have little incentive to offer higher rates to attract savers. Instead, such banks are focused on boosting profitability by *widening the spread* between lending rates and interest paid on savings.

Will savers put up with that? *The Wall Street Journal* reports traditional banks are confident that only a small percentage of their customers will jump ship to Internet-based banks to get more interest on regular savings and money-market accounts.

• **Certificates of deposit.** As for CDs, rates on short-term certificates (6-18 months) have started to move up slightly—again primarily at online banks and credit unions. Yields in the 1.25-to-1.75% range are easy to find. Even higher rates are available, but typically with multiple restrictions.

For example, Christian Community Credit Union has an 18-month "new member" certificate yielding an impressive 4% APY. But the *maximum* deposit is $2,500, and other conditions apply as well—including an automatic rollover at the end of the 18 months into a lower-yielding certificate.

While rates for 6-18 month CDs are moving upward, *longer*-term CD rates (2-5 years) remain at a standstill—even at most online banks. "With low inflation and doubts about the strength of the economy, banks won't be in a rush to raise their long-term CD rates," notes Ken Tumin of DepositAccounts.com.

As of mid-July, the average annual percentage yield for five-year CDs stood at an anemic 0.84%, according to the FDIC. But diligent shoppers can find five-year online rates as high as 2.5% (early withdrawal penalties and other restrictions may apply).

Rise to the occasion

It's been many years since interest rates have moved in a positive direction for savers. Although rates still aren't moving much, at long last savers are seeing opportunities to squeeze a few more dollars out of the money they're setting aside. Even so, an opportunity isn't useful unless it is seized.

As Bankrate.com's Greg McBride puts it, "Don't wait six months for your [local] bank to raise their rate from 0.10% to 0.15% when you could be earning 1.3% [or more] now." ◆

MONEY RATES

BANK SAVINGS ACCOUNTS

DATA GATHERED ON 7/27/2017 FROM DEPOSITACCOUNTS.COM

BANK NAME	APY	MINIMUM INVEST	WEBSITE
DOLLARSAVINGSDIRECT	1.40%	NONE	DOLLARSAVINGSDIRECT.COM
LIVE OAK BANK	1.35%	NONE	LIVEOAKBANK.COM
CIT BANK	1.30%	NONE	BANKONCIT.COM
BANK PURELY	1.30%	NONE	BANKPURELY.COM

BANK MONEY MARKET ACCOUNTS

DATA GATHERED ON 7/27/2017 FROM DEPOSITACCOUNTS.COM

BANK NAME	APY	MINIMUM INVEST	WEBSITE
ALL AMERICA BANK	1.50%	$50	ALLAMERICA.BANK
BANKDIRECT	1.35%	$10,000	BANKDIRECT.COM
SALLIEMAE BANK	1.30%	NONE	SALLIEMAE.COM/BANKING
ABLEBANKING	1.30%	$250	ABLEBANKING.COM

18-MONTH CERTIFICATES

DATA GATHERED ON 7/27/2017 FROM DEPOSITACCOUNTS.COM

BANK/ CREDIT UNION	APY	MINIMUM/ MAXIMUM	WEBSITE
CHRISTIAN COMMUNITY C.U.	4.00%[1]	$500 / $2500	MYCCCU.COM
CRESTMARK BANK	1.75%	$25k / $250k	CRESTMARK.COM
POPULAR DIRECT	1.70%	$10k / NA[2]	POPULARDIRECT.COM
1ST INTERNET BANK INDIANA	1.66%	$1k / NA[2]	FIRSTIB.COM

All have early withdrawal penalties.
[1]Rate for new members only; other conditions apply [2]Not Applicable

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

COMPETITION CONTINUES TO CUT INVESTORS' COSTS

Brokerage houses are continuing their "race to the bottom," with each competing against the others to offer the lowest commissions and fund expense ratios.

It's a race that began almost from the moment Charles Schwab launched its mutual fund marketplace in 1992, enabling investors for the first time to buy mutual funds from different fund families on a single platform. Fidelity soon followed by rolling out its own fund supermarket model, and the competition for customers was on.

Today, the exploding universe of low-cost ETFs, along with the rapid spread of low-fee "robo-advisors," is pressuring the now long-established brokers to cut their fees further.

This is one race in which investors can cheer for *all* the competitors.

Falling commissions

In early February, Schwab fired the first salvo in this year's price war, lowering its commissions for online stock and exchange-traded fund (ETF) trades from $8.95 to $6.95. A few weeks later, Fidelity fired back, cutting its commissions from $7.95 to $4.95. Just hours after Fidelity's announcement, Schwab returned fire, matching Fidelity's $4.95 price. Later that same day, TD Ameritrade joined the fight, lowering its commissions from $9.99 to $6.95. More recently, Scottrade knocked a nickel off its commission rate to bring it level with TDA at $6.95.

While these commission cuts may not add up to a ton of money for an SMI member who isn't adding money to his or her account on a regular basis, they will make a bit of a difference for those using dollar-cost averaging to add to their portfolios each month.

All of that commission-cutting comes at the same time that brokers are expanding their lineups of *commission-free* ETFs. According to *Barron's*, Schwab currently has the most no-commission ETFs at 245, TD Ameritrade offers 101, Fidelity has 91, and Vanguard has 55 (these numbers change fairly often).

Of course, what matters most to SMI members is whether the funds needed to follow SMI's strategies are available on a no-commission basis. The recommended funds for two SMI strategies (Dynamic Asset Allocation and Just-the-Basics) are ETFs, and at all five of our recommended brokers, many of those funds (or adequate alternatives[1]) now trade for free.

Unfortunately, similar declines in the transaction fees charged on traditional mutual-fund purchases haven't been forthcoming. But paying those fees is relatively infrequent for those using Stock Upgrading, given the large number of no-transaction-fee (NTF) funds listed among SMI's recommended funds.

Falling expense ratios

In addition to reducing their commissions, brokers continue: (1) lowering the expense ratios associated with their own branded funds and (2) adding new no-transaction fee choices to their lineups. While Vanguard has long enjoyed a reputation for offering funds with the industry's lowest expense ratios, its competitors are doing their best to edge in on that advantage.

Over the past year, Fidelity, Schwab, and TD Ameritrade have all made big deals about lowering the expense ratios on many of their own funds, usually announcing the multi-millions of dollars their investors will save as a result. (Vanguard has also announced fee reductions for many of its funds.)

At a certain level, it can get a bit silly. For example, Fidelity took out large newspaper ads comparing their new lower expenses with low-cost leader Vanguard. In some cases, the Fidelity funds charged only ½ of one basis point (a basis point is 1/100 of 1%) less! For a typical $10,000 investment, that amounts to a savings of 50 cents per year.

However, some of the larger price cuts—when applied to larger portfolios and extended out for a longer period of time—can add up to savings of thousands of dollars.

Suitability for SMI strategies

None of these changes has altered our overall broker recommendations. Fidelity remains our top choice because of its suitability across all of SMI's strategies, its short 60-day holding period to avoid short-term trading fees on NTF mutual funds, its excellent selection of no-transaction fee funds, and its new $4.95 commission pricing on ETF trades.

However, there have been slight changes to the broker details since our last review two years ago. For example, TD Ameritrade has improved from "good" to "excellent" in terms of suitability for Just-the-Basics. That's because all of the JtB recommended funds (or adequate alternatives) may now be purchased commission-free.

More changes to come

We're planning a full update of our comprehensive broker review soon, based on the announcement last year that TD Ameritrade is in the process of acquiring Scottrade. Of keen interest to SMI members will be what happens to TD Ameritrade's onerous 180-day holding period to avoid short-term trading fees on NTF funds. That policy is what makes it a "poor" choice for use with Fund Upgrading. Scottrade, on the other hand, has a much more favorable 90-day holding period. We'll wait to see which company's policy prevails before issuing our next broker recommendations. ◆

[1] Use a free alternative only if it is virtually identical to the official recommendation in design and past performance, such as IVV for SPY. With commissions now being so inexpensive, it's not worth substituting an inferior fund to save $5-$10. Always compare a substitute's past performance before purchasing.

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

2ND QUARTER REPORT: SMI'S STRATEGIES POST STRONG GAINS

The financial markets were robust across the board during the second quarter, as stocks and bonds alike responded to the "Goldilocks" combination of economic growth being "not too hot and not too cold, but just right." Foreign markets were the strongest performers, while at home the tech-heavy Nasdaq gave back a bit of its strong quarterly gain with a June swoon. But by and large, investors had a relaxing and profitable quarter.

SMI's strategies were solid participants in the quarter's uptrend, with Just-the-Basics (JtB), Stock Upgrading and our 50-40-10 portfolio all beating the market, Dynamic Asset Allocation (DAA) roughly matching it, and only Sector Rotation—surprisingly—lagging among our equity-oriented strategies.

It's always fun watching our portfolio balances move steadily higher. The second quarter provided new all-time highs for our JtB, Stock Upgrading, Sector Rotation, and 50-40-10 portfolios, while coming within 2% of a new all-time high in DAA. But it's worth noting that the stock market's sprint higher over the past year has been highly unusual from the standpoint that there have been no substantial pullbacks or corrections along the way.

In fact, the last stock market drop of at least 5% came more than a year ago in June 2016 following the Brexit vote. This is just the sixth time since 1950 that more than a year has passed without at least a 5% pull-back for the S&P 500 index. According to Ryan Detrick, senior market strategist at LPL Financial, the *average* intra-year correction for the S&P 500 since 1950 has been 13.6%, while 91% of all years have had at least a 5% correction. In fact, more than half of all years—nearly 54%—featured a correction of 10% or more. So the market is clearly due to pause at some point.

Just-the-Basics (JtB) & Stock Upgrading

JtB and Stock Upgrading continued to get a boost from their foreign stock holdings in the second quarter. Foreign markets remained the top performers, while domestic stock returns were largely split along growth/value lines (rather than large/small), with growth stocks firmly in control.

Just-the-Basics rode its foreign holdings to a +3.5% gain for the quarter, finishing solidly ahead of the U.S. Market's gain of +2.9% (as measured by the Wilshire 5000, the broadest U.S. market index). Stock Upgrading was right on JtB's heels with a +3.4% gain, driven by solid gains in the Foreign, Small/Growth and Large/Growth risk categories.

Bond Upgrading

June brought about the third rate hike by the Federal Reserve since December, and the fourth overall since this tightening cycle began 18 months ago. It's interesting that while these hikes always have a direct impact on the short-term end of the interest rate spectrum, their impact on the longer-term end of the rate curve has been quite muted. In fact, while the Fed Funds rate has increased 1% since this cycle began in December 2015, the 10-year Treasury yield is back where it started at 2.31% (vs. 2.28% in Dec 2015).

With short-term yields rising, and longer-term rates rising rapidly post-election only to fall back, it's been a challenging environment for fixed-income investors. SMI's Bond Upgrading strategy gained +1.0% in the second quarter, less than the +1.4% gain of the Barclay's U.S. Aggregate Bond Index, which led to a change in our Bond Upgrading holding last month. That said, Bond Upgrading ended June with a *gain* of +0.3% over the past year, which was clearly better than the -0.5% *loss* turned in by the Barclay's index over the same period. While higher short-term rates and a gradual return toward more historically "normal" interest-rate conditions are long-term positives for savers and bond investors in the future, yields remain low and bond returns are likely to be muted for some time.

Dynamic Asset Allocation (DAA)

DAA posted another solid quarter, with a +2.8% gain that barely trailed the stock-market's gain of +2.9%. Earning that type of return with only two-thirds of its portfolio invested in stocks was an impressive feat. When the stock market is rising strongly, we normally expect DAA to lag. But as the table shows, the strong performance of foreign stocks helped considerably this quarter.

2ND QUARTER 2017 DAA ETF UNIVERSE

Ticker & Category	2Q Result
SPY U.S. Stocks	3.1%
EFA Foreign Stocks	6.4%
VNQ Real Estate	1.7%
BLV Long-Term Bonds	4.4%
SHY Money Market	0.2%
GLD Gold	-0.6%

Participating in the market's upside to the extent DAA has so far in 2017 is great. Being insulated against the potential of a major market drop at this point in the stock-market cycle is even better. It's always difficult to imagine the fun will ever stop when stocks have been steadily climbing the market escalator for so long. But we know markets are cyclical and bear markets follow bulls eventually. The strong gains of recent years don't make stocks *less* risky; as valuations get stretched stocks actually become *more* vulnerable to future declines.

Hindsight reveals that the best times to have added DAA to a portfolio would have been at the end of past strong-market rallies, immediately prior to big bear markets. In other words, times like late-1999 and 2007. But those were *exactly the times* when DAA's recent returns would have looked the *worst* relative to the market's outstanding then-recent returns. That's the paradox of investing in DAA: you (continued on page 125)

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

SEARCHING FOR AN ALTERNATIVE TO AARP? HERE ARE SIX OPTIONS

AARP, the nation's largest organization for older Americans, traces its heritage to the late 1940s when a high-school principal set out to make sure retired teachers had adequate health insurance. About a decade later, the group she founded, the National Retired Teachers Association, expanded its membership and became the American Association of Retired Persons. In the 1990s, that organization dropped its full title—along with the requirement that its members be retired—and became simply "AARP," targeted to people ages 50 and up.

Today, AARP has an annual budget of nearly $1.5 billion, the bulk of which comes from royalties companies pay for the right to use the AARP name and logo when marketing products to older Americans. About one-fifth of the organization's budget comes from dues paid by 38 million members (that's roughly 35 percent of America's 50-and-over population). With that kind of membership clout, AARP is one of the most powerful lobbying groups in the nation.

What does it lobby for? Among other things, AARP supported President Bill Clinton's 1994 push for a large expansion of government involvement in healthcare. In 2005, the organization helped stop a Republican-led attempt to reconfigure Social Security benefits to put the SS program on a more solid financial footing. And in 2010, AARP riled many of its more conservative-minded members with its strong support of the Patient Protection and Affordable Care Act (Obamacare).

AARP's Obamacare stance cost the group about 300,000 members, many of whom affiliated with other senior groups. "We made an offer to anyone who cut their AARP card in half that we'd give them a year's free membership," says Randy Lewin, spokesman for the American Seniors Association, which bills itself as the "conservative alternative" to AARP. "We had to stop [the promotion] early. I had too many 55-gallon trash bags full of AARP cards cut in half."

Jim Martin of the 60 Plus Association, which also uses the "conservative alternative to AARP" line, pulls no punches. He calls the AARP "a huge fraud on seniors, profiting by commission from a variety of money-making schemes…and promoting programs of big government and high taxes which [ultimately] hurt, not help" older Americans.

Organizations that are "AARP alternatives" typically offer senior discounts similar to those available from AARP. Some also engage in political advocacy—from the *conservative* side of the spectrum—regarding key issues to seniors.

Below is an overview, in alphabetical order, of six alternative organizations. Membership numbers are based on self-reporting and have not been independently verified.

- **American Seniors Association (ASA).** Founded in 2005, ASA (originally known as the National Association for Senior Concerns) offers travel and prescription discounts. The group's "Five Foundations" include rebuilding values of "respect and appreciation" for seniors, reforming Social Security (via a private-account solution), reforming Medicare (to include more choice), overhauling the "mountain of a mess" income-tax code, and controlling "wasteful and silly" government overspending. ASA does not report membership numbers on its website, but asserts that it is "the fastest growing seniors' advocacy in the nation."
- **Association of Mature American Citizens (AMAC).** This organization, founded a decade ago, combines conservative political advocacy with a more robust benefits catalog than other groups, appealing to politically involved seniors who also want AARP-like discounts. In 2014, AMAC—then boasting 1.1 million members—boosted its membership by "hundreds of thousands" by merging with a like-minded group, Generation America.
- **CAP (formerly the Christian Association of Prime Timers).** Founded in 1994, CAP bills itself as "Your Christian Alternative to AARP." It provides discount codes for products such as insurance, hotels, car rental, and some medical services. CAP says it "partners with Christian and/or (continued on page 126)

AARP ALTERNATIVES

Name	Discounts	Advocacy	Annual Cost	Web Address
American Seniors Association	Yes	Yes	$15 - spouse is free	www.AmericanSeniors.org
Association of Mature American Citizens	Yes	Yes	$16[2] - spouse is free	www.AMAC.us
CAP	Yes	No	$14.95 - spouse is free	www.CAPMemberBenefits.org
National Association of Conservative Seniors	Yes	Yes[1]	Gold $60 - Silver free in year 1, then $12	www.NAOCS.us
The Seniors Coalition	Yes	Yes	$10 for single - $13 for couple	www.Senior.org
60 Plus Association	No	Yes	Free	www.60plus.org

[1]NAOCS encourages political involvement by members but does not lobby directly.
[2]Discounted rates available for longer membership periods.

SOUND MIND PORTFOLIOS

Basic Strategies

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

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

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

Data through 6/30/2017	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	40.8	14.9%	0.6%	5.7%	14.9%	20.2%	1.3%	1.15	0.11%	20%	16%	12%	8%	VXUS
Extended Market Index ETF	Small company stocks	31.5	7.3%	2.3%	2.7%	7.3%	21.5%	6.9%	1.27	0.08%	40%	32%	24%	16%	VXF
S&P 500 Index ETF	Large company stocks	30.1	9.2%	0.6%	3.1%	9.2%	17.9%	9.6%	1.00	0.04%	40%	32%	24%	16%	VOO
Total Bond Mkt Index ETF	Medium-term bonds	3.4	2.3%	0.1%	1.6%	2.3%	-0.5%	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 6/30/2017[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	54.2	21.2%	-0.4%	8.7%	21.2%	24.3%	3.4%	1.45	1.30	40	2%30days	SLSSX
	2. Oakmark International	12/16	NTF	NTF	NTF	62.4	16.2%	0.4%	6.2%	16.2%	40.1%	3.7%	1.49	1.00	74	None	OAKIX
	3. Longleaf Partners Intl	09/16	Yes	Yes	Yes	58.7	18.0%	-1.2%	8.4%	18.0%	32.4%	0.7%	1.70	1.33	21	None	LLINX
Category 4 Small/Growth	1. Baron Discovery	04/17	NTF	NTF	NTF	79.6	24.6%	4.8%	11.6%	24.6%	43.4%	9.7%	1.69	1.35	61	None	BDFFX
	2. Oberweis Micro Cap	11/15	NTF	NTF	NTF	51.3	12.4%	2.6%	4.7%	12.4%	34.2%	11.8%	1.41	1.65	91	1%90days	OBMCX
	3. Wm Blair Small Cap Grow	05/17	NTF	NTF	NTF	55.4	15.5%	4.6%	7.9%	15.5%	32.1%	10.0%	1.39	1.50	86	None	WBSNX
Category 3 Small/Value	1. AllianzGI NFJ Mid-Cap Val	06/17	No	NTF	NTF	55.6	15.9%	2.5%	9.2%	15.9%	30.5%	9.7%	1.13	1.30	102	None	PQNAX
	2. Royce Opportunity	06/17	NTF	NTF	NTF	46.4	8.0%	3.3%	2.7%	8.0%	35.7%	5.2%	1.68	1.49	253	1%30days	RYOFX
	3. AMG Fairpointe Mid Cap	03/17	NTF	NTF	NTF	33.9	5.1%	1.7%	-1.0%	5.1%	29.8%	5.1%	1.51	1.12	46	None	CHTTX
Category 2 Large/Growth	1. Fidelity OTC	06/17	Yes	NTF	Yes	69.3	23.5%	0.7%	9.3%	23.5%	36.5%	15.5%	1.50	0.91	220	None	FOCPX
	2. Baron Partners	05/17	NTF	NTF	NTF	76.1	28.4%	1.8%	14.6%	28.4%	33.1%	9.2%	1.64	1.35	29	None	BPTRX
	3. Guggenheim S&P 500 Tech	04/17	ETF	ETF	ETF	53.1	15.5%	-2.1%	3.5%	15.5%	34.1%	15.6%	1.38	0.40	69	None	RYT
Category 1 Large/Value	1. Miller Opportunity	06/17	Yes[10]	Yes[10]	NTF	81.7	20.0%	7.1%	12.0%	20.0%	49.7%	7.2%	2.15	1.36	35	None	LGOAX[10]
	2. Toreador Core	05/17	NTF	NTF	NTF	31.7	7.2%	0.3%	-0.4%	7.2%	24.9%	7.3%	1.20	1.20	77	2%60days	TORLX
	3. Dodge & Cox Stock	12/16	Yes	Yes	Yes	37.2	6.8%	1.4%	1.8%	6.8%	28.7%	8.5%	1.24	0.52	67	None	DODGX
Bond Categories	Vanguard I-T Bond Index [6]	07/17	ETF	ETF	ETF	3.4	2.9%	-0.2%	1.8%	2.9%	-1.2%	3.0%	1.30	0.07	6.5[7]	None	BIV[8]
	Vanguard I-T Bond Index	01/15	ETF	ETF	ETF	3.4	2.9%	-0.2%	1.8%	2.9%	-1.2%	3.0%	1.30	0.07	6.5[7]	None	BIV[8]
	Vanguard S-T Bond Index	07/12	ETF	ETF	ETF	1.8	1.2%	-0.1%	0.6%	1.2%	0.0%	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-July, 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.

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 is Selected 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.

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).

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
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	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	

[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

SIGHTING: ENJOY WALL STREET'S QUIET TIME WHILE IT LASTS

Stock market calm has reached new extremes as ongoing central bank asset purchases—mainly out of Japan and Europe—quell volatility. Investors have rarely had it better. A breakdown in the GOP's health care reform effort? Doesn't matter. Uneven big-bank earnings? Boring and irrelevant. Evidence of a retrenchment by U.S. consumers? Sorry, I was busy browsing Amazon.

One gets the impression that anything—even an eruption of the Yellowstone super-volcano—would result in a rally to new record highs. In fact, by multiple measures, these are the easiest market conditions in decades. Stocks haven't suffered a 5% pullback in more than a year.

This is all behavior that has presaged periods of market weakness in the past. But perhaps it's different this time.

For now, nothing seems to matter besides the ongoing flow of central bank asset purchases, led currently by the Bank of Japan and the European Central Bank. Investors are ignoring the acrimony and gridlock in Washington, even though hopes of action by President Donald Trump and Congressional Republicans on things like health insurance and tax cuts fueled the post-election ebullience in the first place.

But that's poised to change in September. The Federal Reserve is expected to unleash its "quantitative tightening" program to start rolling back its $4.4 trillion balance sheet. This also coincides with the appearance of policy risk as Washington contends once more with the debt ceiling. — Anthony Mirhaydari, *CBS Money Watch*, 7/20/17. To read the full article, go to cbsn.ws/2vFfUnR. ◆

SIGHTING: THIS ONE SIMPLE EXERCISE CAN DRAMATICALLY IMPROVE YOUR RETIREMENT PROSPECTS

[Note: The MoneyGuidePro® financial planning tool available to SMI premium members will help you create the kind of plan this Sighting talks about. For details on how to sign up, see SMI's February 2017 cover article.]

Wouldn't it be great if there were a simple exercise that could help you better prepare for retirement and make you feel more confident about your prospects for a financially secure post-career life? Well, there is: Put your retirement plan in writing.

A recent Schwab report shows that people who have a written retirement plan were 60% more likely to increase their 401(k) contributions and twice as likely to stick to a monthly savings goal than people without such a plan. Similarly, a Wells Fargo/Gallup survey released earlier this year found that investors who had a written plan for retirement were almost twice as likely as those who didn't to feel they would have enough money to maintain their lifestyle after they retired.

"Putting your plan in writing makes planning for retirement less intimidating," says Joe Ready, head of Wells Fargo Institutional Retirement and Trust. "It helps you see what steps you need to take, which builds confidence and makes it more likely you'll follow through."

Unfortunately, not enough people go to the trouble of putting pen to paper (or, as is more likely the case today, fingers to keyboard). According to the Schwab study, only 24% of Americans say they have a financial plan in writing.

Which is a shame, because it's not as if you have to produce a magnum opus to significantly improve your shot at a secure retirement. Indeed, I'd say you should be able to reap the benefits of a written plan with a straightforward document that includes these three basic elements:

1. A target savings rate
2. A long-term investing strategy
3. A regular monitoring schedule

None of this is to say that a written plan is some sort of a silver bullet. It's not; you'll still have to do the actual saving and investing. But by putting the steps you need to take in writing and then monitoring your progress and making adjustments as you go along, you'll be much less likely to find yourself on the threshold of the date you hoped to retire, but woefully unprepared to do so. - Walter Updegrave, editor of *Real Deal Retirement*, 7/18/17. To read the full article, go to ti.me/2uBgKCy. ◆

SIGHTING: WHAT I LEARNED FROM MY 'FAUX-TIREMENT'

I'm not ready to retire any time soon, but my recent sabbatical from Morningstar—a six-week break totally free from work obligations, available to Morningstar's U.S. employees every four years—gave me a chance to noodle on what retirement would feel like for me.

Here are three of my key takeaways.

• **My to-do list wasn't all that long after all.** As sabbatical dawned, I had a long list of projects that I hoped to accomplish—tasks like settling the final details of my mom's estate, organizing files on my computer, and figuring out what to do with all of my photos, digital and otherwise. But while my to-do list was daunting, I found that I knocked off most of those tasks in short order. If I were embarking on my actual retirement, I might be asking myself, "Is that all there is?" We're all different, of course, but the experience underscored that I don't want to spend my retirement years attending exclusively to my own to-dos (and there may not be that many, anyway). I suspect I'll need more of a sense of purpose on an ongoing basis, probably community-service work, a part-time job, or both.

• **The balanced days were the best days.** In a related vein, I found that I enjoyed my days the most when I combined doing something fun or leisurely with knocking off some bothersome task that had been hanging over my head. Just as we workers enjoy the weekends most when they've been preceded by a particularly tough workweek, my free time was more enjoyable when I had a sense of having accomplished something beforehand. To help keep myself on track and maintain a sense of balance during my time off, I maintained to-do lists for each day, just as I do

MONEYTALK

when I'm working.

• **My spending was a mixed bag.** Because I've focused so much on the financial side of retirement in my work, I was keen to see if my spending habits differed significantly during my break from when I'm working. I detected a mixed picture. On the one hand, not working gave me more time to engage in pleasurable activities that don't cost anything—walking, reading, and gardening, for example. On the other hand, having more time brought more shopping opportunities—I could readily pop by Target after having lunch with a friend, for example. On the spending front, I'd call it a draw. — Christine Benz, writing for Morningstar, 7/3/17. To read the full article, go to bit.ly/2h30Ca4. ◆

SIGHTING: THE COMPLEX MOTIVATIONS OF MONEY AND RETIREMENT

The traditional view of work is that it's something we wouldn't otherwise do, without the financial reward of getting paid… such that the whole point of work in the modern era is to earn and save enough to get to the point where you can "retire" and not need to work anymore.

Yet research on what actually motivates us reveals that "money" is a remarkably inferior motivator (both to incentivize and reward desired behavior, and to punish bad behavior) compared to the motivation we derive from interpersonal relationships with other people. To the point that turning social connections into financial arrangements can reduce our motivation to engage in the desired behaviors. Yet due to our inability to judge our own motivations, and what will make us happy in the future, we continue to pursue financial rewards… even as a growing base of research reveals that it doesn't actually improve our long-run happiness.

The reason why all of this matters is that it implies the whole concept of "retirement" may be predicated on a mistaken understanding of our own motivators…a realization that most people don't have until they actually retire (or at least, are on the cusp of it), and suddenly discover that "not working" isn't nearly as enjoyable as expected, despite all the sacrifices of potentially undesirable work that was done to earn the money *to* retire along the way. — Michael Kitces, writing on *Nerd's Eye View*, 7/26/17. To read the full article, go to bit.ly/2uBgS4Z. ◆

LEVEL 3 / CONTINUED FROM PAGE 120:

2ND QUARTER REPORT: SMI'S STRATEGIES POST STRONG GAINS

need it *most* when its recent performance is the *least* compelling. The current market draws more comparisons to 1999 and 2007 by the day, so be sure you aren't abandoning this important defensive strategy just as it's about to be needed most.

Sector Rotation (SR)

Surprisingly, SR was the only SMI equity strategy that lagged the market by any distance this quarter. SR performed quite well in April and May, but ran into a brief correction in June. That caused SR's return for the quarter to drop to +1.9%. It's hard to be too disappointed by that though, given that (1) SR was still up +21.0% over the prior 12 months, and (2) SR quickly rebounded to gain +7.9% in the first two weeks of July.

SMI's research on SR goes back more than a quarter-century to 1990. Backtesting from that point to the present reveals that SR would have earned average annualized gains of +23.2% over that 27½-year period. Since SMI launched SR as a live strategy over 13½ years ago, SMI readers investing in SR have earned average annualized returns of +15.3% per year. In that context, the +21.0% gain of the past 12 months, or even the +26.0% average gains SR investors have earned over the past five years, aren't terribly far outside our historical experience with SR.

We're unaware of any other strategy that has provided these types of returns. The fact that SR is so easy to understand and implement is icing on the cake. SR pays for the cost of an SMI membership many times over each year. If you're a Basic Member (or not an SMI member at all), gaining access to this single strategy by purchasing a Premium Membership is a smart move that more than justifies its cost.

50/40/10

This portfolio refers to the specific blend of SMI strategies—50% DAA, 40% Upgrading, 10% Sector Rotation—detailed in our May 2014 cover article, *Higher Returns With Less Risk: The Best Combinations of SMI's Most Popular Strategies*. It's a great example of the type of diversified portfolio we encourage most SMI readers to consider.[1] While the markets have been unusually calm so far in 2017, history vividly illustrates the markets can shift suddenly between rewarding risk-taking and punishing it, so a blend of higher-risk and lower-risk strategies can help smooth your long-term path and promote the type of emotional stability that is so important to sustained investing success.

Given the success of the individual component strategies during the second quarter, it's no surprise that a 50/40/10 portfolio slightly outperformed the broad market, +3.0% to +2.9%. To get that strong a return in this portfolio *while also getting the downside risk protection that DAA provides* is a great risk/return trade-off that we'd happily sign up for any time during a rising market. Gathering a significant percentage of the market's gains during rising markets while avoiding the majority of its losses during falling markets is a recipe not just for superior long-term returns, but the type of emotional stability that leads to long-term success as investors.

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

[1] Blending multiple strategies adds complexity. Some members might want to use an automated approach. See tinyurl.com/hzamzge.

MONEYTALK

LEVEL 4 / CONTINUED FROM PAGE 121:

SEARCHING FOR AN ALTERNATIVE TO AARP? HERE ARE SIX OPTIONS

distinctly conservative companies whenever possible."

• **National Association of Conservative Seniors (NAOCS).** This group, founded in 2012, primarily offers travel discounts. The NAOCS has two levels of membership: "Silver" and "Gold Patriot." The Gold Patriot membership includes a vacation voucher plus a "click to call" feature that promises to simplify the process of contacting elected officials.

• **The Seniors Coalition (TSC).** This organization was launched in 1989 to lobby for repeal of the short-lived Medicare Catastrophic Coverage Act—an unpopular law that forced many seniors to pay for coverage they didn't want. TSC's website claims it is "one of the largest grassroots advocacy organizations" in Washington, D.C., "representing nearly 3 million seniors." The group offers travel, insurance, and health-related discounts.

• **60 Plus Association.** Founded in 1992, 60 Plus is a "nonpartisan seniors advocacy group with a free enterprise, less government, and fewer taxes view towards issues important to seniors," according to the organization's website. Its top legislative priorities are "ending the federal estate tax and saving Social Security for the young." 60 Plus is focused on political advocacy only and does not offer member discounts. The group claims more than seven million members. ◆

MARKET NOTES, QUOTES, AND ANECDOTES

Low volatility means...what exactly?

• "I'm uncomfortable that people are so comfortable with this. I'm concerned about the very, very low volatility levels. But valuations aren't super stretched, and companies are cashed up. It's a new paradigm that's challenging people's long-held assumptions." — James Audiss, wealth manager at Shaw and Partners, quoted by *Bloomberg* on 6/27/17. He said low stock-market volatility is making investors too complacent. Read more at bloom.bg/2ucy6V4.

• "I don't think it means anything. There's no way to determine whether volatility is too high or too low. It just is what it is." — William Schwert, finance professor at the University of Rochester, in a 7/21/17 post on Jason Zweig's blog. He said long periods of low volatility, such as the one we're in now, are not uncommon and are not a reason to worry about an impending bear market. Read more at bit.ly/2eIo6Av.

Everything is awesome, or is it?

• "I'd love to be wrong...But without significant changes, and soon, the economy will drift sideways and down." — John Mauldin, chairman of Mauldin Economics, on 7/9/17. Read more at bit.ly/2tTr4Ee.

• "When everything is awesome it's best to prepare for things to be a little less awesome in the future, even at the cost of missing out on some of the gains if investors get still more complacent from here." — *Wall Street Journal* columnist James Mackintosh. Read more at on.wsj.com/2gXcpXk.

No reason to worry

• "When we worry about our investments, we tend to look at our statements more.... We chase performance to our detriment. The net result of this worrying is substantially lower returns. For most of us most of the time, worrying will surely be counterproductive. It will lead to bad decisions and poor returns. So please, remember, worrying is a serious offense." — *Above the Market* blogger Robert Seawright on 7/4/17. Read more at bit.ly/2gXqYdc.

When the tide goes out...

• "Every time stocks fall...you realize very quickly whether or not you have a plan in place...[and] it becomes easier to make short-term decisions with long-term capital." — *A Wealth of Common Sense* blogger Ben Carlson on 7/2/17. Read more at bit.ly/2tDuNKM.

Trendy investments are not your friend

• "Most alternatives are actually an alternative to retirement in my experience." — *The Reformed Broker* blogger Josh Brown on 6/23/17, responding to news that millennial investors have 17% of their portfolios allocated to "Alternatives." Read more at bit.ly/2vBhQ1r.

Women out-invest men

• "If you want to invest like a wonder woman, that means shifting to a long-term focus, saving more up front and giving up on trying to time the market with brilliant trades. Men regard their stock picks as a sport that comes with bragging rights, and that is what gets them into trouble." — From a *Reuters* article about a Fidelity study that found women tend to generate better investment returns than men. Read more at reut.rs/2sezIzS.

Timeless investment wisdom

• "...you have to keep reminding yourself: We don't know what's going to happen with anything, ever... And so it's inevitable that a certain percentage of our decisions will be wrong.... That doesn't mean you're an idiot. But it does mean you must focus on how serious the consequences could be if you turn out to be wrong." — Peter Bernstein, author of *Against the Gods*, on one of the most important lessons about risk. He was quoted on the *Novel Investor* blog on 6/30/17. Read more at bit.ly/2uQW5fT.

• "A strong investment process is easy to describe, challenging to implement, and rewarding when done well." — Jeff Miller, from his from his "Weighing the Week Ahead" *Dash of Insight* blog on 7/8/17. Read more at bit.ly/2uuzOUR.

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

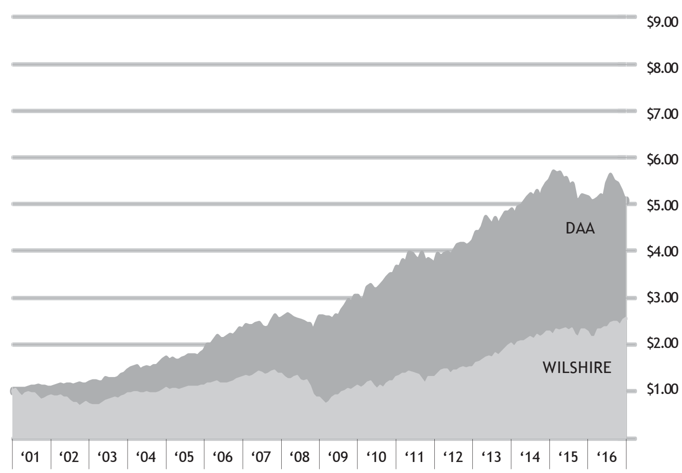
This is a stand-alone strategy that can be used in combination with (or in place of) SMI's basic strategies. DAA is designed to help you share in some of a bull market's gains, while minimizing or even preventing losses during bear markets. It's a low-volatility strategy that nonetheless has generated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

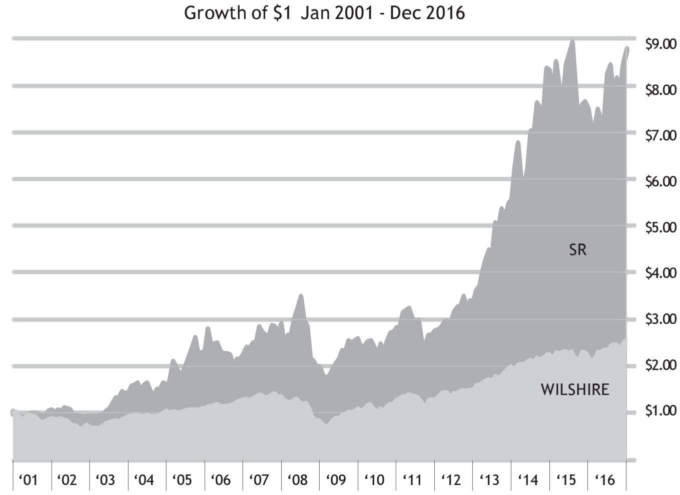
This high-risk strategy involves investing in a single special-purpose fund that focuses on a specific sector (such as biotech, energy, or financial services). Because these stock funds invest in a narrow slice of the economy, they carry a higher degree of risk. Only one fund, selected based on having 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.

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Dated Investment Material
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PERFORMANCE DATA

SOUND MIND INVESTING MODEL PORTFOLIOS • DATA THROUGH JUNE 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]	8.7%	0.9%	2.9%	18.5%	9.3%	14.6%	7.3%	8.8%
Just-the-Basics[2]	9.5%	1.3%	3.5%	19.9%	6.9%	13.2%	6.4%	8.9%
Stock Upgrading[3]	7.7%	1.8%	3.4%	17.3%	6.1%	12.8%	6.2%	9.7%
U.S. Bond Market[4]	2.3%	0.0%	1.4%	-0.5%	2.3%	2.0%	4.3%	4.3%
Bond Upgrading[5]	1.7%	0.0%	1.0%	0.3%	2.7%	3.7%	6.7%	6.8%

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]	7.9%	-0.4%	2.8%	0.9%	1.9%	6.7%	8.9%	11.3%
Sector Rotation[7]	13.8%	-8.3%	1.9%	21.0%	12.5%	26.0%	13.9%	16.3%
50-40-10 Blend[8]	8.4%	-0.4%	3.0%	9.3%	4.8%	11.2%	8.8%	11.6%

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 6/30/2017	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	6.14%	0.70%	2.93%	13.53%	3.59%	10.72%	4.91%
Wilshire 5000	8.74%	0.87%	2.95%	18.55%	9.34%	14.61%	7.29%
S&P 500	9.34%	0.62%	3.09%	17.90%	9.61%	14.63%	7.18%

Quarterly Returns as of 6/30/2017	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	6.14%	0.70%	2.93%	13.53%	3.59%	10.72%	4.91%
Wilshire 5000	8.74%	0.87%	2.95%	18.55%	9.34%	14.61%	7.29%
S&P 500	9.34%	0.62%	3.09%	17.90%	9.61%	14.63%	7.18%

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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