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Your Employer-Sponsored Retirement Plan

For many of us, a workplace retirement plan offers a tremendous opportunity to build wealth. But workplace plans can be confusing. Although most plans fall into one of two broad categories, within those categories there can be variations in employer rules, investment responsibilities, contribution limits, and tax treatment. Learning about your employer-sponsored plan so that you can take full advantage of it is likely to be a wise investment in your long-term financial well-being.

by Austin Pryor with Mark Biller

There are two kinds of work-based retirement plans. One promises only to put a certain amount aside for you each year and makes no projections as to the amount of your ultimate monthly benefit. This is a "defined-*contribution*" plan, and it comes in a bewildering array of alphabet-like names such as 401(k), 403(b) and SEP IRA. We'll look at such plans later in this article.

Defined-benefit plans

First, let's concentrate on the *other* type of pension plan, the kind that until the 1990s covered the greatest number of employees. According to government numbers, this kind of plan still covers 15 million active American workers as well as 22 million retirees.

Much like Social Security, these plans promise to pay you, when you retire, a certain dollar amount each month for as long as you live. They promise nothing about how much money your company will put aside each year to accomplish this (other than to observe certain minimum federal requirements). These plans are called "defined-*benefit*" plans because the focus is on the *lifetime monthly benefit* you'll ultimately receive. Under this arrangement, the employer carries the burden of where the money for the contributions comes from as well as how well the investments do between now and your retirement.

The first barrier standing between you and your monthly pension check is meeting the eligibility requirements. Just because you've been hired doesn't mean you immediately qualify for a company's retirement plan. Usually they require (1) that you've reached a certain age, and (2) that you have been with the company for a certain period of time before you qualify to join the plan. It is customary that an employee must be at least 21 years old and have been with the company at least one year.

Once you're eligible, what you really want to know is how much is my monthly benefit going to be when I retire? That depends on several factors. Each is fairly simple; let's take them one at a time.

• **Salary formula.** The goal of a monthly pension check is to help replace the earnings lost when you retire. That means your benefit will be based primarily on the amount of your annual earnings while you are still working. Some formulas take an average of your earnings from all the years you work for the company. Presumably, the earlier years are not as well-paying, so this is not as favorable to you as a plan that uses a formula based on your final year(s) of service. *(continued on page 147)*

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

A Strategy for Minimizing Your Losses During the Next Bear Market

As an investor, what do you fear the most?

Few things stir our emotions more, financially speaking, than experiencing a historically powerful bear market (such as the one that ran from late 2007 to early 2009). The fear of how long it would last and how deep it would go left "investing scars" on many.

In the aftermath, SMI began new research for a lower-risk investing approach that we hoped would provide a safe harbor for our members during the next market storm. That effort eventually led us to a strategy we named Dynamic Asset Allocation (DAA) and introduced in the January 2013 issue of SMI.

In that introductory article, we showed DAA's theoretical year-by-year results from 1982 through 2012 using the mechanical rules we had established. The overall results for those 30+ years were excellent, with DAA turning in annualized gains of +13.6% compared to the S&P 500 (a commonly used proxy for the market) averaging +11.1% per year.

DAA vs S&P 500 DURING PERIODS OF SIGNIFICANT MARKET WEAKNESS
1980-2017 BASED ON MONTH-END DATA

	(1) Decline Started	(2) Decline Ended	(3) Number Months	(4) S&P Change	(5) DAA Change	(6) Diff	(7) S&P to Recover	(8) DAA to Recover
1	Sep 2000	Sep 2002	25	-46.3%	+14.6%	60.9%	+86.2%	na
2	Jan 1981	Jul 1982	19	-21.1%	+16.0%	37.1%	+26.7%	na
3	Nov 2007	Feb 2009	16	-52.6%	-1.4%	51.2%	+111.0%	+1.4%
4	Jun 1990	Oct 1990	5	-15.8%	-2.8%	13.0%	+18.8%	+2.9%
5	May 2011	Sep 2011	5	-17.0%	-5.3%	11.7%	+20.5%	+5.6%
6	Sep 1987	Nov 1987	3	-30.2%	-9.9%	20.3%	+43.3%	+11.0%
7	Jul 1998	Aug 1998	2	-15.6%	-8.9%	6.7%	+18.5%	+9.8%

However, *annual* results don't tell the whole story. They sometimes obscure the heavy emotional impact from weak markets, which don't lend themselves to neat calendar-year measurements. What would have happened during the *specific top-to-bottom periods* of uncommon market weakness?

To help answer that question, I looked through the historical record, beginning in 1980 when our research data began, for every market drop of -15% or more (on an end-of-the-month basis). I found seven such selloffs, and three of them were severe with drops in excess of -30%.

The above table provides the details. The rows are sorted with the longest-lasting period of weakness at the top and the briefest at the bottom. Columns (4) and (5) show the performance of the S&P 500 and DAA respectively for each. Column (6) calculates the difference between the two.

As you can see, *in every instance* the results from DAA were superior to those of the market. Based on our earlier research, this was expected, but it was good to see DAA's effectiveness during *specific* corrections and bear market periods confirmed.

There are other lessons to be learned from this study.

• **As a trend-following system, DAA needs market trends *to endure* to do its best work.** DAA excels at staying in sync with the long-term trend. See Rows 1-3 where the downtrends lasted 16-25 months. During those periods, DAA either made money, or as in Row 3, lost a mere -1.4% (while the market was off -52.6%). These longer-lasting bear markets with deeper losses are naturally the ones investors fear the most, and they're when DAA offers the most protection.

• **DAA doesn't eliminate all losses but it has held them to modest levels.** Losses primarily occur during shorter-term trend shifts when DAA doesn't have sufficient time to adapt before a trend ends. See Rows 4-7 where the periods of weakness lasted five months or less. Even so, DAA *consistently lost less* than the S&P 500 (by double-digit amounts, on average) during those periods.

• **DAA's history of minimizing losses makes a huge difference in the size of the gains needed to recover.** Look in Columns (7) and (8) and compare the size of the gains needed to recover from S&P 500 losses compared to those needed by DAA. The math works against investors who suffer significant setbacks—a 50% loss requires a 100% gain to get back to where you started. This is essentially what happened to S&P 500 index investors during the 2007-2009 financial crisis. During that same brutal bear, DAA's minor loss needed a gain of only +1.4% to entirely make up the lost ground.

As I say in the *SMI Handbook*, "Success in investing comes not in hoping for the best, but in knowing how you will handle the worst." DAA is a strategy in the SMI toolbox designed to help you do exactly that.

Austin

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Your Employer-Sponsored Retirement Plan

(continued from front page)

• **Years of service.** People who spend their entire career with the same company receive more than those who come along later. Your benefit will be affected by the number of "years" you work for your employer. But how many hours are needed to constitute a "year of service"? Some plans may require 500 hours in a 12-consecutive-month period, whereas others require 1,000 hours. Or what if you work for 20 years, leave for two years, and return for another 18 years? Do you get credit for 38 years or just the last 18 years? And does it matter why you leave for those two years? There are countless variations on this theme that can affect your benefit.

• **Vesting requirements.** When can you know for sure that you're guaranteed to receive at least some pension benefit from your employer? The day you start to work? The year you qualify to join the plan? After three years with the company? That's where the concept of "vesting" comes in. It means you have an absolute right to receive some money from a retirement plan, even if you resign or are fired. You're entitled to it no matter what.

Some plans call for "graded vesting," where you receive a right to a pension gradually (for example, 20% after three years, 40% after four years, and so on). Others provide for what is called "cliff vesting," an all-or-nothing approach where, for example, you could become 100% vested after five years but be entitled to nothing if you leave before then. The most favorable is "vesting upon entry" where you must wait for two years before qualifying to participate in the plan, but are immediately 100% vested upon entry. This is especially helpful to working women who, on average, have historically changed jobs more frequently than men.

• **Normal retirement age.** Most plans use formulas that consider 65 as the normal retirement age. If you choose to work past 65 (federal law prohibits age discrimination rules that would *require* you to retire before age 70), will your plan give you credit for the additional years worked? Or what if you want to take early retirement—how much will that decision reduce your monthly pension check? The rules governing these matters vary from plan to plan.

• **Social Security considerations.** So-called "integrated plans" deduct a portion of your monthly Social Security check from your monthly benefit check. Remember that your employer already has paid hefty Social Security taxes. From that point of view, it seems reasonable for the company retirement plan formula to recognize that you are receiving Social Security benefits to which the company has contributed.

• **Survivors' benefits.** As an alternative to the basic "monthly check for life" benefit, federal law requires most plans to offer you another approach: a "joint and survivor annuity." If this is selected, the monthly benefit check doesn't stop coming when you die; it goes instead to your spouse (or whoever you have named in the annuity). The trade-off is that your pension will be 10%–20% lower than it otherwise would be—after all, it has to last for two lifetimes now instead of only one—and the amount of the monthly check is cut in half when you pass on. Even so, it's good to know that your spouse will be provided for at some level.

Armed with this information, you might now be wondering how the plan at your company measures up in these various areas. If you aren't sure, it's time to find out! And don't worry about how you'll ever get your thoughts together in order to ask the right questions. Your employer is required by law to offer every participant a summary of the plan that's written in layman's terms. This is called a "summary plan description" and should be readily available from your human resources department. Ask for one. It will explain all of the above and lots more.

Many companies also provide a personalized "employee benefit statement" once a year that explains the amount of benefits you've earned to date and provides an estimate of how much your monthly retirement check will be. Other items you're entitled to receive upon request include: the "summary annual report" (your plan's balance sheet), the Form 5500 (your plan's tax return and an excellent source of information concerning its financial health), and the retirement plan document itself (in case you happen to enjoy digging through page after page of mind-numbing legalese).

Defined-contribution plans

Thus far, we've been talking about retirement plans that promise to pay, upon retirement, a certain dollar amount every month for as long as you live. As noted earlier, the employer makes all the contributions into the plan plus carries the burden of how well the investments perform until your retirement.

The burden of responsibility is quite different in "defined-contribution" plans. No promises are made with respect to how much your account will be worth when you retire, and the employer may or may not contribute to the plan. (In this respect, they are like IRAs.)

The advantage to employers of this approach is that *you* bear the investment risk rather than your company. If your investments do great, you'll have a healthy amount in the plan at retirement; if they perform poorly, you must make do with a lesser amount. This shift of the investment risk from the employer to you is significant; you no longer can "count on" having a specific monthly income. (But don't fret. Instead, look on this as an opportunity! SMI strategies can help you shape a balanced long-term portfolio that will be personalized to your specific goals and risk tolerance.)

Congress has created several varieties of defined-contribution plans over the years, which altogether now cover 75 million active workers. We've listed the various types in a table on the next page to give you an overview of the possibilities. Many companies have more than one of these plans in place to help you take the fullest advantage of the tax-sheltering possibilities. Though we can't review all the complexities, the table will provide a general idea of the kinds of plans your employer may offer. Make an appointment with the appropriate person at your company to get your specific questions answered.

By far the most popular of these is the 401(k).

About 75% of companies with 100 or more employees sponsor a 401(k) plan. In such a plan an employee elects to contribute (via payroll withholding) a portion of his or her paycheck to a tax-advantaged investment account set up in the employee's name. Here are the primary features of *traditional* 401(k) plans.

• **Contributions are tax-deductible in the year they're made.**

However, there are limits imposed that affect the maximum amount you can contribute. According to IRS guidelines for 2017, the most a 401(k) plan can permit you to contribute is $18,000 plus an extra $6,000 "catch up" contribution if you're at least 50 years old. Your employer can elect to apply even more stringent limitations.

(In contrast, the Roth 401(k), a retirement-plan option introduced in 2006, works the other way around. There's no tax break up front, but later you can withdraw your contributions, *plus all the earnings accumulated over the years*, tax-free. This makes the Roth 401(k) an attractive option for young investors who have many years to accumulate earnings.)

• **Employees control how their money is invested.**

However, usually they must choose from among a lineup of stock, bond, and money-market funds selected by the employer. This limits the flexibility of the employee to invest in the funds or securities of his or her choice. To offset this drawback, some plans offer a "self-directed" or "fund window" option that allows you to enter buying and selling instructions through a broker, thus opening up a vast range of investment choices.

• **All investment income and capital gains in the account grow tax-deferred.**

However, withdrawals are taxed at ordinary income tax rates in the year they're made. Thus, capital gains ultimately lose their potentially advantageous tax status when occurring within a 401(k) account.

• **Payroll deduction provides a disciplined, consistent approach to saving for retirement.**

However, once you put the money in, you normally can't get it out before age 59½ without paying a 10% early withdrawal penalty (plus the customary income taxes due on plan withdrawals as mentioned above). Most plans, however, do allow employees to borrow from their 401(k) accounts.

• **Most employers with 401(k) plans match their employees' contributions to some degree.** For example, a company might contribute 50 cents for every $1 the employee puts in. This is the feature that makes 401(k)s so attractive; the employer match provides an automatic and immediate profit on your contribution.

However, employers who offer matching programs put a ceiling on the amount they will match, say up to 6% of the employee's income. Money contributed above the ceiling will not be matched. Furthermore, many plans require employees to remain with the employer for a certain number of years before the matching contributions *vest,* that is, become

AN OVERVIEW OF THE MAJOR TYPES OF DEFINED-CONTRIBUTION PLANS

Your company may offer one or more of the following defined-contribution pension plans. These are the most common types; however, there are many variations depending on the way your company's plan was initially structured. This is a highly technical area, and this table is intended merely to provide an overview. For more information on your specific rights and benefits, contact your company's HR department.

Type of Plan	Profit Sharing	SEP IRA	401(k) Plan	403(b) Plan	Roth 401(k) or 403(b)
Brief summary	Your company annually contributes a portion of its profits, if any, into a fund for employees. Can be either a corporate plan or, if employer is not incorporated, can be a Keogh plan.	Simplified Employee Pensions use a form of employee IRAs rather than set up a separate company plan. Primarily funded by your employer, these accounts are highly portable if you change jobs.	A salary reduction plan where you decide how much of your salary to put in (up to a maximum level that is raised annually for inflation). The amount you contribute is not counted as taxable income.	Similar to the 401(k) plan, but limited to employees of public schools, government agencies, hospitals, religious organizations, and other nonprofit institutions.	Similar to traditional 401(k) and 403(b) plans, except you receive no tax deduction on the money you put in. No taxes are assessed upon withdrawal if you're over 59½ and have had the Roth for at least five years.
What is the most you can put in each year? *	You don't contribute.	You don't contribute.	$18,000 + $6,000 "catch-up" contribution if 50+ years old.	$18,000 + $6,000 "catch-up" contribution if 50+ years old.	Same as traditional 401(k) and 403(b) plans.
What is the most your employer can put in each year? *	25% of employee's W-2 compensation. Cannot exceed $54,000 (or $60,000 if 50+ years old).	25% of employee's W-2 compensation or $54,000.	Can match a percentage of your salary deferral. Your contribution plus employer's can't exceed $54,000 or 25% of your salary (after deducting your contribution), whichever is less.	Can match a percentage of your salary deferral up to 100%. Your contribution plus employer's can't exceed $54,000 or 25% of your salary (after deducting your contribution), whichever is less.	Same as traditional 401(k) and 403(b) plans. Note: Matching contributions are on a *pre* tax basis; they will be taxed when you begin taking money out.
Are annual contributions fixed?	No. The amount contributed can change from year to year.	No. The amount contributed can change from year to year.	No. The amount contributed can change from year to year.	No. The amount contributed can change from year to year.	No. The amount contributed can change from year to year.
When do you receive ownership rights to your pension?	Typically 3-6 years.	Immediately.	Immediately on your contributions, but at the employer's discretion on any matching amounts.	Immediately on your contributions, but at the employer's discretion on any matching amounts.	Same as traditional 401(k) and 403(b) plans.
Can you borrow from your account?	Some plans allow borrowing at the employer's discretion.	No.	At the employer's discretion, but generally yes.	At the employer's discretion.	At the employer's discretion.

* Note: The amounts reflect year 2017 limits.

the property of the employee. They do this to discourage employee turnover.

The 401(k) has become the bedrock of our private pension system. In 2017, 401(k) accounts (and similar retirement accounts) held an estimated $5.0 trillion. According to a study by the Plan Sponsor Council of America, nearly 88% of those eligible to participate in a 401(k) do so. Yet, it's been estimated that only 12% of those who participate in a 401(k) plan contribute the maximum amount allowed.

We encourage you to participate in your company's 401(k) plan at least to the point where you take full advantage of any employer-matching funds. If you're still working on getting your consumer debt paid off or building your emergency fund, that may not be possible immediately, but it should be one of your intermediate-term financial goals. If your 401(k) plan doesn't offer a matching feature, or if you can afford to contribute beyond the maximum matching percentage, then you will want to weigh the remaining advantages of 401(k)s versus the pros and cons of IRAs before deciding which should have the priority in your retirement planning.

The impact of changing jobs

Your first priority should be to repay any money you may have borrowed from your 401(k) account. Otherwise, it will be considered a distribution and applicable taxes and penalties will be assessed. Check with your current employer immediately to see how much time you have to repay the loan and avoid this.

As for the longer-term considerations, you have several options and they can vary dramatically in terms of the investment and tax consequences. Two of them should be *avoided* if at all possible because they immediately bring the tax man into the picture:

• **Cash it out in a lump sum.** You'll have to pay income taxes on the entire amount, plus a 10% penalty for premature withdrawal if you're not at least 59½. (There are exceptions—see the IRS article, "Exceptions to Tax on Early Distributions."[1]) As a down payment on your tax bill, 20% of the account will be withheld and forwarded to the government.

• **Annuitize it.** This means to sign up for a series of regular withdrawals, usually monthly, based on your life expectancy using IRS tables. The withdrawals are designed to last through retirement, but if you change your mind and prefer to leave the money in your retirement account for further tax-deferred compounding, they can be discontinued after five years or upon reaching age 59 ½, whichever is later. You'll still owe income taxes, but you'll avoid the 10% penalty even if you're younger than 55.

The remaining options avoid any immediate tax liability. They leave the money in a tax-deferred account where it can continue to be invested and grow tax-deferred. The primary difference is where the account is held.

• **Move your money to an IRA.** This is usually your best option. It gives you the most flexibility in terms of investment choices and tax planning. You can transfer it either to an existing IRA into which you've been making contributions, or to a Rollover IRA. Moving to an IRA preserves the option of converting to a Roth IRA should that be advisable in years to come. A Rollover IRA also preserves the right to later move the funds back into a future employer's 401(k). Why might you want to do that? Two possibilities: (1) You can borrow from a 401(k) account (not that I encourage *that*!), and (2) Creditors cannot come after assets in a 401(k) account.

Be careful when "rolling out" of your company's retirement plan. Prior to 1993, you were given 60 days to deposit your lump-sum benefit check into a Rollover IRA in order to avoid any tax bite and preserve your tax-deferred program. Under current law, though, your benefit check will be hit with a 20% withholding rate *if it's made out to you*. This is a form of withholding similar to what your employer takes out of your paycheck. So, even if it's your intention to deposit the money into a Rollover IRA, you're going to be 20% short!

Say you have $50,000 in your employer's plan. They're going to withhold $10,000 (which they'll turn over to the IRS where it will be applied as a credit against your total tax liability for the year) and give you $40,000. But to avoid any penalty, you've got to deposit $50,000 in the Rollover IRA. See the problem? Unless you have an extra $10,000 you can spare to make up for what was withheld, you're going to get hit with a 10% penalty (if you're under 59½) *plus* taxes.

You can avoid this potential problem by removing yourself from the transfer process. Arrange in advance for your employer to send your money *directly* to your new IRA rollover account. This is called a trustee-to-trustee transfer, and eliminates the possibility that you might end up with an unexpected tax bill by running afoul of the rules governing transfers where the employee temporarily takes possession of the money.

Why did Congress change the old way, which was working fine? Perhaps to discourage workers from electing the lump-sum option (where they might spend it rather than save it). According to one survey, nearly half (46%) of the people who change jobs cash out their 401(k) holdings

• **Leave the money in your former employer's 401(k) plan.** If your account is worth $5,000 or more, you have this option. You wouldn't elect this, of course, if you've been unhappy with the investment choices available. Nor if you contemplate borrowing from the plan in the future, because borrowing by former employees typically is not permitted. The advantage of this approach is its simplicity.

• **Move it to your new employer's 401(k) plan, if allowed.** The biggest consideration is whether you find the investment choices in the plan to be attractive. If so, check to see if there's a waiting period before new employees are allowed to transfer in. Again, use the trustee-to-trustee transfer approach rather than personally taking possession of the money. ◆

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[1]bit.ly/2fok3tY

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

PROTECTING YOUR INFORMATION AFTER THE EQUIFAX HACK

"On a scale of 1 to 10, this is a 10." So said fraud analyst Avivah Litan about the recent cyber-theft at credit-reporting firm Equifax that potentially compromised the financial and identity information of more than 140 million Americans. Equifax, one of the nation's big-three credit-reporting companies, said the incident occurred over a period of months as hackers exploited a vulnerability in an Equifax "website application."

Among the data accessed: Names, Social Security numbers, birth dates, home addresses and, in some cases, driver's license numbers. In addition, thieves snatched the credit card numbers of more than 200,000 people, along with credit-dispute documents containing personally identifiable information for 182,000 people.

Although the attack isn't the *largest* cybersecurity breach (a 2016 Yahoo incident that exposed the data of one billion consumers tops it), the Equifax incident is the *most severe* data theft yet because of the multiple types of data involved. A swindler with access to a person's name, SS number, birth date, and home address could get approved for credit in that person's name, tap his or her health insurance coverage, and/or commit tax fraud.

Perhaps most worrying of all is that this particular cyber-theft is expected to have ongoing effects because the stolen information can be used (and resold to other thieves) for years to come.

What can you do?

The FBI is investigating the attack, but it may be months before there's a breakthrough. Even if the thieves are caught, data theft can't be undone. So it's wise to do what you can to prevent illegal use of your personal data.

To start, find out if Equifax has tagged your information as being among the data compromised. Go to www.equifaxsecurity2017.com and click "Am I Impacted?" But whether or not the site says your data was included in the breach—Equifax may not know the full scale of the attack—it's prudent to sign up for Trusted ID Premier, a suite of protective services Equifax is offering for one year at no charge.[1] The sign-up deadline is Nov. 21, 2017.

• **Credit lock.** Trusted ID Premier includes the ability to "lock" your credit report. The "lock" (a term Equifax uses to differentiate this one-year service from a longer-lasting and legally defined "security freeze") prevents lenders from accessing your Equifax credit report—except for those lenders you're already doing business with—thus making it more difficult for someone to get credit in your name. "[M]ost creditors need to see your credit report before they approve a new account," notes the Federal Trade Commission. "If they can't see your file, they may not extend the credit."

That said, the credit lock will not prevent a thief from making charges on *existing* accounts. So monitor your bank, credit card, and insurance statements for fraudulent transactions.

Also, be aware that while locking your credit report won't affect your credit score (a measure of your credit-worthiness), it may create inconvenience. If you're in the market for a loan, or if you're trying to rent an apartment or buy insurance, you may have to request that your report be temporarily unlocked. However, Equifax says locking your report won't prohibit a potential employer from accessing your report as part of the hiring process.

Unfortunately, the free lock-your-report offer is for Equifax reports only. It will have no impact on access to your credit files compiled by the other two big credit-reporting agencies, Experian and TransUnion. To freeze those reports, you'll have to contact each company separately (and, depending on the state in which you live, you may have to pay a fee[2]). If you're at a stage of life where you're not in the market for credit, it's wise to lock or freeze all your credit reports.

• **Credit monitoring.** Fortunately, all three bureaus are included in a monitoring service that's part of the complimentary Trusted ID Premier package. Credit-file monitoring will alert you to any key changes that occur in your Equifax, Experian, or TransUnion reports.

• **Insurance.** Another Trusted ID Premier feature is identity-theft insurance that'll cover certain out-of-pocket expenses (up to $1 million) in the event you're a victim of identity theft.

Other steps

In addition to signing up for the free services from Equifax, taking two other steps may help you avoid problems related to data theft.

• **Inspect.** Regularly review your credit reports from all three major credit bureaus. Since federal law allows you to get a free report from each bureau once a year, you may want to order one report every four months. Get details at AnnualCreditReport.com.[3]

• **File early.** File your 2017 income taxes as early in the tax season as possible. This will help prevent a fraudster from claiming a refund by filing as you.

If you don't want the hassle (and potential cost) of adding and "thawing" a security freeze, you can add a 90-day "fraud alert" to your credit files at no charge. The alert requires lenders to take additional steps to verify your identity before issuing a credit card or opening a new account in your name. If you're a victim of ID theft, you can request that each credit bureau place an "extended" alert that will remain in force for seven years. *(continued on page 156)*

[1] Equifax is facing pressure from consumers and from some members of Congress to extend certain complimentary services, including the credit lock, beyond one year. [2] A state-by-state fee schedule is available at bit.ly/2xwia2R. [3] Jan 2014:p6

LEVEL 2 TWO

Developing Your Investing Plan

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

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

A PRIMER ON SELLING ONE MUTUAL FUND AND BUYING ANOTHER

Most of SMI's strategies are built on the idea of being invested in funds that are current outperformers. Funds whose momentum is waning must be sold and replaced with others that are showing superior strength at present.

A sell-one-fund/buy-another transaction may seem straightforward, but several factors can affect whether the two-part transaction takes place in one day, two days, or over the course of several days. The transaction will be affected by:

- How many fund companies are involved (one or two);
- The type of funds you're trading (traditional mutual funds or ETFs);
- The calendar—specifically, the occurrence of weekends and market holidays.

In this article, we explain how three brokerage firms commonly employed by SMI Members each handle sell/buy transactions: Fidelity, Schwab, and TD Ameritrade (TDA).[1]

(We are assuming that all of the trading described below is taking place in "non-marginable" accounts. Investors with margin accounts can borrow broker money—at interest—and make immediate purchases without having to wait for the completion of sale transactions. IRS regulations restrict the use of margin in tax-advantaged retirement accounts.)

Selling/buying traditional funds

On their websites, Fidelity, Schwab, and TDA each offers three options for trading traditional mutual funds: "Sell," "Buy" and (as Fidelity puts it) "Sell one Mutual Fund and use the proceeds to buy another mutual fund." Schwab calls this "Sell one and buy another," while TDA simply uses the word "Exchange."

• **Trading within the same fund family.** Whatever it may be called, the sell-and-buy combination order is the best option if both the fund being sold and the one being purchased are part of the same fund family—for example, selling one Oakmark-branded fund and buying another Oakmark fund. In such a case, the full proceeds from the sale will go immediately toward the same-day purchase of the newly acquired fund.

• **Trading between different fund families.** Things work differently with a "cross-family trade"—i.e., a sell/buy trade involving funds from two fund families. Your brokerage firm either will execute this type of trade over two business days, or perhaps will make the trade "same day" but without the full proceeds from the sale going toward the purchase (as explained below).

The reason cross-family trades are processed differently than same-family trades is related to the fact that traditional mutual funds are priced once a day—when the market closes at 4 p.m. Eastern Time—and there is necessarily a lag time between when a "sell" transaction can be completed by one fund family and the proceeds be made available to another fund family.

Fidelity and Schwab initiate the sell portion of your transaction on the date you placed your order but then holding the buy portion until after the "settlement" of the sale. (Settlement is when the paperwork is complete and money changes hands.)

For traditional mutual funds, settlement occurs "T+1"—or one business day after the trade date. This means, for example, if you place a cross-family sell/buy order on a Monday, the sale price will be Monday's closing price but your newly acquired fund won't be purchased *until the following day* at Tuesday's closing price. As the Fidelity website explains it, "[Y]ou receive the next available price for the sale, and the next business day's price for the purchase."

TDA handles this kind of sell/buy transaction in a different fashion. If you place a cross-family "Exchange" order online with TDA and choose "Sell All," both the sell and buy transactions will be executed on the order date but *only a portion* of the proceeds from the sale will go toward the purchase of the fund you wish to buy. As the TDA site explains about such trades: "Since the transaction you requested is between funds that are not eligible for a same-day exchange, this purchase will be made with 95% (or 90% if this account is an IRA) of the fund's market value based on the previously published closing price for the fund that is being redeemed."

If you want the *full* proceeds from your liquidation of Fund A to go toward the purchase of Fund B (in a cross-family trade) at TDA, you have two options. You can choose the "Exchange" option and then enter a second purchase order the following day to invest the 5%-10% of your sale proceeds that weren't invested initially. (This does offer the potential advantage of getting 90%-95% of your money invested one day sooner.) Or, you can enter a sell order initially, followed the next day by a buy order. This approach will minimize any trading costs that may apply. In either case, be sure to check how much cash you have available for buying (referred to as your "available funds for trading" on the TDA website.)

Adding ETFs to the picture

Exchange-traded funds (ETFs) have a different settlement period than traditional mutual funds. Rather than being settled next day (T+1), ETFs have a two-day settlement (T+2). You might think this would create a significant "lag time" between selling one ETF and buying another, but that isn't the case.

The reason this longer settlement period typically doesn't introduce a delay is that instead of being priced just once a day at closing, as traditional mutual funds are, ETFs are priced *in real-time* throughout the day. *(continued on page 157)*

[1] We're not including Scottrade because of the mid-September merger of Scottrade into TD Ameritrade. As of this writing, it remains unclear how the merger will affect Scottrade's trading policies.

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

THE GUARDRAILS OF DIVERSIFICATION

This Level 3 "Broadening Your Portfolio" column frequently deals with specific investments you can add in an effort to increase diversification. But occasionally it's good to pull back and take a wider view: establishing the value of—and need for—diversification in the first place.

The chart below is a variation of what is often called the "Periodic Table of Investment Returns." We've modified it to include only the five major stock-risk categories tracked by SMI's Stock Upgrading strategy. The columns show the returns for each risk category for a particular year, with the best-performing group at the top and the worst at the bottom. For example, the first column shows returns from 2008. The average small/value fund tracked by Morningstar lost -32.5% that year. Each square below that shows the returns of another risk category until you finally reach the foreign funds, which were the worst performers during the depths of the financial crisis, losing -44.4% that year.

The layout of this table is helpful for tracking how specific market segments fared relative to each other over several years. The colors of the boxes help you visually track a particular category from year to year. Without exception, each market segment has gone through years of strength and years of weakness relative to the other categories. All five categories spent at least one year of the past decade as the best performer, and all but large/growth also spent at least one year at the bottom.

The chart vividly illustrates how the relative performance of particular market segments can be volatile from one year to the next. A great example is the relative performance of the small/value and foreign categories in recent years. In 2015, small/value funds were the worst performers while foreign funds were among the best. In 2016, this reversed strongly, with small/value taking the top spot, foreign the bottom spot, and small/value outperforming foreign by a whopping 25 percentage points! But through eight months of 2017, the script had flipped yet again: foreign was back on top, small/value was the worst, and this time foreign was winning by more than 22 percentage points (+20.5 compared to -1.8).

Many investors, seeing a huge disparity between their results and a particular market segment, start chasing the hot areas. This leads to a never-ending game of catch-up, always *trailing* the market average as a result of jumping from one sector to another just as it's about to cool off. Few people can "tune out" the market and ride through the volatile ups and downs that come with being heavily invested in only a single market theme.

The better path for most investors is to spread their money across all of the primary market segments. Yes, this ensures your overall portfolio result won't match the returns of that year's hottest performers. But it also ensures you'll always *participate to some degree* in each year's hot area too.

This "spreading your risk" mentality is the essence of diversification, and its real beauty is seen in the fact that it produces long-term returns similar to the individual risk categories while smoothing out an incredible amount of volatility along the way. By muting the sharp ups and downs in your portfolio's performance, you protect yourself from the most dangerous obstacle an investor faces—your own emotions.

So the next time you wonder if it's really necessary to own *(continued on page 157)*

PERIODIC TABLE OF INVESTMENT RETURNS

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 8mos
Small Value -32.5%	Foreign Stocks 38.8%	Small Growth 27.0%	Large Value -0.8%	Foreign Stocks 18.9%	Small Growth 40.9%	Large Value 10.2%	Large Growth 3.6%	Small Value 26.0%	Foreign Stocks 20.5%
Large Value -37.4%	Large Growth 35.7%	Small Value 26.2%	Large Growth -2.3%	Small Value 16.0%	Small Value 36.2%	Large Growth 10.0%	Foreign Stocks 1.5%	Large Value 14.8%	Large Growth 18.2%
Large Growth -40.9%	Small Growth 35.5%	Foreign Stocks 16.2%	Small Growth -3.6%	Large Growth 15.3%	Large Growth 33.9%	Small Value 3.3%	Small Growth -2.4%	Small Growth 11.2%	Small Growth 10.4%
Small Growth -41.8%	Small Value 31.3%	Large Growth 15.5%	Small Value -4.5%	Large Value 14.6%	Large Value 31.2%	Small Growth 2.4%	Large Value -4.1%	Large Growth 3.2%	Large Value 6.0%
Foreign Stocks -44.4%	Large Value 24.1%	Large Value 13.7%	Foreign Stocks -14.3%	Small Growth 13.2%	Foreign Stocks 22.4%	Foreign Stocks -5.4%	Small Value -6.7%	Foreign Stocks 0.8%	Small Value -1.8%

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

HOW TO MANAGE YOUR MEDICAL RECORDS (AND WHY IT'S SO IMPORTANT)

by Matt Bell

It doesn't take very many years of life to amass a medical history. There are immunizations, allergies, medications, and dates of medical procedures. Think of this information as your *medical profile*.

Having ready access to your medical profile can be convenient when you're applying for insurance or when you're asked (yet again!) to fill out forms in a medical provider's office. More importantly, having ready access to this information can be a *life saver* should you experience a medical emergency.

Adults have additional medical documents to consider. Collectively they are known as *advance directives*, which include: (1) a living will that states what medical interventions you want (or don't want) taken on your behalf in extreme medical circumstances; (2) a durable power-of-attorney or healthcare surrogate document that authorizes someone to make medical decisions for you if you are unable to make them yourself; and (3) a HIPAA form that indicates who is authorized to receive information about your medical condition. Think of these documents as your *medical plan*.

Ready access to your medical plan is helpful to medical providers who may need to make fast, important decisions about your care in an emergency, and it can be *a gift* to your loved ones since it prevents them from having to make difficult decisions on your behalf.

So, consider this: How complete and accessible are your medical *profile* and your medical *plan*?

Your medical profile

A good starting point is to *review your medical profile*. Your primary care physician should have it on file, and it probably is accessible to you online. For example, my physician is part of a medical group that uses MyChart software, the most widely used medical information software in the U.S. Some 190 million patients have a MyChart electronic record.

When I accessed my medical record online, I found that my profile was incomplete (dates of medical procedures were missing) and, even worse, inaccurate (the date of an important future screening procedure was listed as 2023 when it should have been 2018).

I also found it strange that something as fundamental as my blood type wasn't listed. When I asked about that, I was surprised to find that my doctor doesn't even know my blood type. Apparently, that information is gathered only when you donate blood or receive a transfusion. So, if you want to add that information to your medical profile, you'll have to donate blood or buy a home test kit.

After making sure your medical profile is complete and accurate, take action to make it accessible. I took two steps. First, I downloaded the MyChart app to my smartphone. Second, I filled in the information in the Medical Profile section of the *Health* app that came with my Apple iPhone, including medical conditions, allergies, and medications (I'll add my blood type once I get that information). A similar app is available for Android phones.

The *Health* app can be especially helpful in an emergency. If I were unconscious and a medical provider wanted to access my medical profile on the MyChart app, he or she would need to know my phone's password as well as my login information for MyChart. However, the *Health* app is accessible without my phone's password or any login information. On the same screen where you would normally enter your password, there's an "Emergency" tab in the lower left corner. The medical provider can click on that and then see where to click on "Medical ID." This leads to a screen with the profile information you've entered.

If you have a particularly dangerous medical condition and want to be sure an emergency medical technician could access your medical information (your phone might not be with you when you have a medical emergency), you may want to get a medical ID bracelet.[1]

Your medical plan

The best starting point here is making sure you *have* a medical plan. If you've worked with an estate-planning attorney to have a will or trust created, you probably have a living will, durable power-of-attorney for healthcare or healthcare surrogate document, and possibly a HIPAA document as well. However, if it's been a while since you had those documents created, it may be time to review them.[2]

If you do not have such documents, you may be able to take care of the healthcare-related forms on your own. Each state has its own living will and healthcare power-of-attorney (or healthcare surrogate) forms. Just search on "advance directives" and the name of your state. You'll probably need to get the forms witnessed and notarized. Your next step is to make your medical-plan forms accessible to the people who would need them.

First, make sure your spouse and/or other loved ones know where to find those documents and give copies to anyone you have named on the forms. Next, give a copy to your primary-care physician. Ask what online document storage capabilities your physician's office has and find out how accessible your documents would be to other medical providers.

My doctor told me that once I give him a copy of my advance directives, he'll have them scanned and added to my medical record on MyChart. He said that would make (continued on page 157)

[1]MedicAlert (www.medicalert.org) is the leading provider, although you can also buy medical ID bracelets and wallet cards from Amazon and other online retailers. [2]June2017:p89

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 8/31/2017	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	36.7	19.4%	0.5%	4.6%	13.2%	19.0%	2.9%	1.18	0.11%	20%	16%	12%	8%	VXUS
Extended Market Index ETF	Small company stocks	21.8	8.1%	-0.3%	3.1%	3.4%	15.3%	7.1%	1.25	0.08%	40%	32%	24%	16%	VXF
S&P 500 Index ETF	Large company stocks	24.9	11.7%	0.3%	3.0%	5.7%	16.2%	9.5%	1.00	0.04%	40%	32%	24%	16%	VOO
Total Bond Mkt Index ETF	Medium-term bonds	4.6	3.6%	0.9%	1.3%	2.8%	0.5%	2.6%	1.02	0.05%	None	20%	40%	60%	BND

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

RECOMMENDED FUNDS FOR SMI'S FUND UPGRADING STRATEGY

Risk	Data through 8/31/2017[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. Oakmark International	12/16	NTF	NTF	NTF	51.2	21.3%	-0.5%	4.9%	15.6%	30.7%	6.4%	1.53	1.00	85	None	OAKIX
	2. Vanguard Intl Growth	09/17	Yes	Yes	Yes	60.6	33.9%	2.4%	8.5%	23.7%	28.4%	7.8%	1.43	0.46	133	None	VWIGX
	3. Selected International S	06/17	NTF	NTF	NTF	46.9	28.0%	-0.3%	5.2%	20.0%	21.8%	5.2%	1.50	1.30	39	2%30days	SLSSX
Category 4 Small/Growth	1. Baron Discovery	04/17	NTF	NTF	NTF	54.9	25.8%	0.4%	5.8%	17.4%	31.6%	11.3%	1.66	1.35	64	None	BDFFX
	2. Oberweis Micro Cap	11/15	NTF	NTF	NTF	40.2	14.7%	0.2%	4.6%	9.0%	26.6%	13.8%	1.35	1.65	90	1%90days	OBMCX
	3. Wm Blair Small Cap Grow	05/17	NTF	NTF	NTF	38.0	15.1%	0.0%	4.2%	11.0%	22.7%	9.8%	1.39	1.50	86	None	WBSNX
Category 3 Small/Value	1. Royce Opportunity	06/17	NTF	NTF	NTF	30.9	8.2%	-1.0%	3.5%	5.1%	22.3%	5.8%	1.65	1.49	247	1%30days	RYOFX
	2. AllianzGI NFJ Mid-Cap Val	06/17	No	NTF	NTF	37.5	16.3%	-0.4%	2.9%	9.1%	25.5%	9.1%	1.13	1.21	102	None	PQNAX
	3. Fidelity Low-Priced Stock	09/17	Yes	NTF	Yes	24.4	10.1%	0.2%	2.8%	6.5%	15.0%	6.3%	0.89	0.88	909	None	FLPSX
Category 2 Large/Growth	1. Guggenheim S&P 500 Tech	04/17	ETF	ETF	ETF	44.4	22.1%	2.0%	3.5%	11.9%	29.0%	16.5%	1.40	0.40	68	None	RYT
	2. Baron Partners	05/17	NTF	NTF	NTF	45.5	28.3%	0.7%	1.7%	18.5%	25.2%	9.0%	1.60	1.35	26	None	BPTRX
	3. Fidelity OTC	06/17	Yes	NTF	Yes	53.4	29.9%	2.4%	5.8%	17.3%	30.3%	15.6%	1.49	0.91	234	None	FOCPX
Category 1 Large/Value	1. Toreador Core	05/17	NTF	NTF	NTF	29.9	10.8%	1.7%	3.7%	5.3%	21.0%	6.7%	1.19	1.20	97	2%60days	TORLX
	2. Dodge & Cox Stock	12/16	Yes	Yes	Yes	24.8	7.6%	-1.1%	2.2%	2.1%	20.5%	8.0%	1.26	0.52	68	None	DODGX
	3. Miller Opportunity	06/17	Yes[10]	Yes[10]	NTF	29.5	15.2%	-4.3%	2.8%	5.2%	21.5%	5.4%	2.16	1.36	35	None	LGOAX[10]
Bond Categories	Vanguard I-T Bond Index [6]	07/17	ETF	ETF	ETF	5.5	4.6%	1.1%	1.5%	3.5%	0.5%	3.2%	1.30	0.07	6.5[7]	None	BIV[8]
	Vanguard I-T Bond Index	01/15	ETF	ETF	ETF	5.5	4.6%	1.1%	1.5%	3.5%	0.5%	3.2%	1.30	0.07	6.5[7]	None	BIV[8]
	Vanguard S-T Bond Index	07/12	ETF	ETF	ETF	2.8	1.9%	0.3%	0.6%	1.4%	0.8%	1.5%	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-September, 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 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 Oakmark 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	Oakmark International
Stock Cat. 4: Small/Growth	16%	$8,000	Baron Discovery
Stock Cat. 3: Small/Value	16%	$8,000	Royce Opportunity
Stock Cat. 2: Large/Growth	16%	$8,000	Guggenheim S&P 500 Tech
Stock Cat. 1: Large/Value	16%	$8,000	Toreador Core
"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: MYTHS, MARKETS AND EASY MONEY
by Charlie Bilello

"The easy money has been made." If that saying sounds familiar, it's because you've been hearing it over and over again since 2009…. In hindsight, the path higher since March 9, 2009 indeed seems like "easy money." The S&P 500 has returned over +340%, including dividends. What could be hard about that? To answer that question, let's take a look back.

• **2009:** Faced with the worst bear market since the Great Depression, [investors] were being told prices could go lower still. The case seemed airtight: earnings "drive" stock prices, and earnings were going down, not up. You see, as it turns out, stock prices *lead* earnings, not the other way around. By the time earnings data is released on the prior quarter, the market is already looking ahead. That's precisely what happened in March 2009. By the time earnings turned back up in 2010, the S&P 500 had already surged substantially higher.

• **2010:** On May 6, 2010, in what will forever be known as the "Flash Crash," panic selling and a waterfall decline ensued. Pundits said the severity of the decline was bearish omen. How could one have avoided falling prey to such prognostications? By basing their investing decisions on evidence. [Since] 1970, the average returns following 90%+ downside days are not only positive but higher than your typical day.

• **2011:** The biggest test would come in 2011. The S&P 500 would decline roughly 20% from May through October. Such a large decline could only mean another recession was coming. The only problem with such logic: Before 2011, we had seen eight bear markets without an accompanying recession since 1933. After 2011, this number would move up to nine.

• **2012:** The S&P 500 hit a new all-time high, and pundits starting saying that the new highs were pointing to a top. What evidence did they present supporting such a position? None. From that first high in 2012, the S&P 500 has gained 98%.

• **2013:** If all-time highs in 2012 didn't scare you, "rising rates" in 2013 were said to be the "death knell" of the bull market. Confounding the experts, the S&P 500 would advance 32% in 2013, its best year since 1997.

• **2014:** In [late] 2014, the dollar experienced an unrelenting advance as markets began anticipating an end to Quantitative Easing. Since a falling dollar and easy Fed were said to be responsible for the gains since 2009, the opposite environment was said to unwind all such gains. The only problem? The S&P 500 and the U.S. Dollar Index have a zero correlation historically. The S&P 500 would end 2014 up 13.7%.

• **2015:** As the Fed hiked rates in December 2015 for the first time since 2006, it was the opinion of many that one should sell all of their stocks, particularly in Emerging Markets. Not only did Emerging Market stocks not suffer from the hikes as predicted, they would go on to outperform.

• **2016:** In early 2016, the S&P 500 experienced a sharp sell-off, hitting new 52-week lows in January and February. Such an occurrence was said to be extremely "bearish." Near the market's lows in February, another concern emerged: Many pundits suggested that "political risk" was high, and investors would do well to sit out the year. As election years have historically returned *slightly higher than non-election years* (9.6% vs. 9.5%), sitting them out would have resulted in a return 2.5% below a simple buy-and-hold. The S&P 500 would end 2016 up 12%.

• **2017:** This has been the least volatile start to a year since 1964. The constant barrage from pundits saying things like "the calm before the storm" and "this won't end well" started in early January. What evidence is there that low volatility means stocks cannot continue higher? None. If all of this sounds confusing, good. It should be. No one said this game was easy.

The 21 corrections (of at least 5%) since March 2009 all seemed like the end of the world at the time. Each one was difficult to hold through. The only way you had any chance of holding your position was to tune out the noise (extreme forecasts, predictions, prophesies, targets and myths), have a plan, and stick with that plan when you were punched in the face.

— Charlie Bilello is the director of research at Pension Partners. Read the full article at bit.ly/2k1HScs. ◆

SIGHTING: A CONTRARIAN WARNING FROM SMALL INVESTORS
by Wolf Richter

Optimism about the stock market has reached the record highs established during the Dot.com bubble, just before it all fell apart. In the quarterly Wells Fargo/Gallup survey of investors with at least $10,000 in the markets, undertaken in early August when the Dow Industrials exceeded 22,000, investor optimism about the stock market did something very special—something it hadn't done in 17 years: 68% of these investors said they're optimistic about the stock market's performance next year. This matches the prior records set in December 1999 and January 2000. Peak optimism occurred two and three months before one of the most epic crashes commenced in March 2000.

In late 1999-early 2000, high enthusiasm for stocks was a powerful sign the stock-market bubble was on its last legs. Of course, no one can say how much higher retail investors' enthusiasm will surge this time around. But the current level has already left the optimism before the financial crisis in the dust.

— Wolf Richter is the author of the *Wolf Street* blog. Read the full article at bit.ly/2fR1n2C. ◆

LEVEL 1 / CONTINUED FROM PAGE 150:

PROTECTING YOUR INFORMATION AFTER THE EQUIFAX HACK

Stay wary

Fraud experts are warning about scams related to the Equifax theft. One involves a phone call from a con artist posing as an Equifax rep. You'll be told that your case is being investigated and that the caller needs you to "confirm certain information." It's a ruse to get you to reveal your account numbers and Social Security number.

You also might receive an official looking email, purporting to be from your bank or broker, asking to you to click a link to learn more about how you may be affected by the Equifax incident. Don't click. The link likely will infect your computer with malicious software. ◆

MONEYTALK

LEVEL 2 / CONTINUED FROM PAGE 151:

A PRIMER ON SELLING ONE MUTUAL FUND AND BUYING ANOTHER

So when you sell an ETF, the sale price is known immediately. Even though it will take two business days for all the paperwork to be completed and money to change hands, you can buy another ETF with the proceeds right away (because your brokerage firm knows the exact details of the sale transaction).

• **Selling one ETF and buying another ETF.** Because the sale price of an ETF is known at once, Fidelity, Schwab, and TD Ameritrade allow investors to trade immediately with proceeds from an ETF sale (if the money is used to buy another ETF), even though the sell/buy transactions won't settle until two business days after the trade (T+2).

In addition, because both the ETF sale and new ETF purchase will settle at the same time (T+2), the trades "line up"—meaning the money from the sale will become available at the same time it is needed to settle the new purchase.

Things are slightly more complicated if you sell a traditional mutual fund and use the proceeds to invest in an exchange-traded fund—or vice versa.

• **Selling a traditional mutual fund and buying an ETF.** If you're selling a traditional fund and using the proceeds for an ETF purchase, each order must be entered separately (brokerage websites do not allow combination sell/buy orders involving both traditional funds and ETFs). Because the sale price of the traditional fund won't be known until the market's close on your order date, you'll have to wait until the following day (i.e., settlement day for the sale) to enter your buy order for the ETF.

• **Selling an ETF and buying a traditional mutual fund.** Another timing issue comes into play when selling an ETF and using the proceeds to invest in a traditional mutual fund. The issue again is settlement, but in this case, brokers won't allow a two-step transaction in which the settlement of a *purchase* is scheduled to occur before the settlement of a sale.

Since ETFs have T+2 settlements and traditional mutual funds have T+1 settlements, you're not allowed to sell an ETF and use the money right away to buy a traditional fund. This boils down to the money for the sale of the ETF not being technically available for two days, while the money for the purchase of the traditional fund would be required in one day. As a result, you'll have to wait one day between the two transactions so that both will settle on the same day.[1] For example, you could sell an ETF on a Monday and use the proceeds to purchase a traditional fund on a Tuesday, because both transactions will settle on Wednesday.

Weekends and holidays

Keep in mind that fund-transaction settlements occur only on business days. So if you sell a traditional mutual fund on a Friday, it won't settle until Monday. If Monday is a holiday, the sale won't settle until Tuesday. (You'll still get Friday's price though. Settlement dates matter only in terms of when your money is available for another purchase, and even then become relevant only when combining buy/sell orders with different settlement periods.) That means, for example, if a Schwab or Fidelity customer enters an order for a cross-family traditional fund trade on a Friday going into a holiday weekend, the sale will take place at Friday's closing price, but the purchase won't occur until the following Tuesday at that day's closing price—four calendar days after the order was entered.

Questions? Call your broker!

If you're not sure about the timing of a particular sell/buy transaction, call your brokerage firm. An account representative can tell you when your sell and buy orders will be executed and how settlement times may come into play. ◆

LEVEL 3 / CONTINUED FROM PAGE 152:

THE GUARDRAILS OF DIVERSIFICATION

funds in all five SMI risk categories, or you're tempted to throw caution to the wind and load up on a particular investment type, remember the periodic table of investment returns and the diversification lessons it holds.

It's said that fear and greed drive the markets, and sadly that's often the case. As an individual, your goal should be to eliminate "fear and greed" from your investment life. They're the twin ditches on opposite sides of the road that threaten to wreck your investment journey. Thankfully, a handy set of guardrails labeled "diversification" is available to every investor. Secure those guardrails first and you're much more likely to enjoy your investment ride. ◆

LEVEL 4 / CONTINUED FROM PAGE 153:

HOW TO MANAGE YOUR MEDICAL RECORDS (AND WHY IT'S SO IMPORTANT)

them available to any doctor affiliated with his medical group. However, a "Share Everywhere" initiative is in the works that will allow patients with MyChart medical records to grant access to *any* provider who has Internet access, which will be especially helpful if a medical emergency occurs away from home. "Share Everywhere" will be delivered to MyChart users in a November software update.

The website for my physician's medical group allows patients to complete and store a HIPAA form online. See if yours does the same. If not, ask your physician for guidance.

If your physician's website doesn't allow you to store a copy of your advance directives, or if it does but it doesn't make them accessible to other healthcare providers, you could consider storing them with another cloud storage company or keep them on a flash drive. Some states now offer online registries for advance directives as well.

There are other services, such as Everplans,[2] which offer the ability to organize and store online everything needed for end-of-life planning—from your will or trust to advance directives, and from account passwords to funeral wishes.

[1] Until Sept. 5, 2017, the settlement period for ETFs was "T+3" (transaction day plus three business days), meaning an investor who wished to use ETF sale proceeds to purchase a traditional mutual fund had to wait two days after selling before entering a buy order. [2] www.everplans.com

MONEYTALK

In light of the many data hacks that have occurred recently (See this month's Level One article about the Equifax hack), you'll need to weigh the pros and cons of the various electronic storage options, balancing your need for accessibility with your desire for security. If you decide to store your advance directives online, use a service that offers two-step (or "two-factor") verification for added security.

Options for other groups

If you use Medicare, VA healthcare, or Tricare (for active-duty members of the military), you may want to use iBlueButton[1] for online storage and access to your medical profile and medical plan.

If you have children, make sure you know what online medical information is available about them and how to access it in an emergency. Our kids' pediatric group offers online access to their records, including immunizations, allergies, medications, and more.

It can seem a bit overwhelming to prepare for medical emergencies in the ways described above. It's similar to making sure you have adequate insurance coverage or that your beneficiary designations are filled out properly—items that are important but may not feel urgent. We recommend periodically setting aside a *fiscal health day* to complete such tasks.[2] There likely will come a day when you and your loved ones will be glad you did. ◆

MARKET NOTES, QUOTES, AND ANECDOTES

Reasons for caution

• "If it's true, as I believe, that (a) the easy money in this cycle has been made, (b) the world is a risky place, and (c) securities are priced high, then people should probably be taking less risk today than they did three, five or seven years ago. – Howard Marks, co-chairman of Oaktree Capital Management, in a 9/7/17 memo titled, "Yet Again?" Read more at bit.ly/1PwsGuA.

• "The complete market cycle is enormously forgiving of investors who become defensive 'too early' in a strenuously overvalued market. This is a lesson that investors still have an opportunity to act upon, by reducing portfolio sensitivity to general market fluctuations." – John Hussman, founder of the Hussman Funds. Read more at bit.ly/2fpX5Pe.

Carry on

• "So, am I predicting 12% returns for the next 40 years? No, of course not. But I am suggesting 12% annual returns don't require a perfect Golden Age. They can, and have, blossomed in the midst of turmoil, war, grief and economic collapse." – J.L. Collins, author of *The Simple Path to Wealth*, on his look back at 40 years of economic ups and downs—a period that generated double-digit average annual returns. Read more at bit.ly/2xFeWMl.

• "Mass opinions may well change, but for now, in the critical psychological dimension, the stock market does not closely resemble the market in the dangerous years of 1929 or 2000." – Nobel Laureate Robert Shiller, writing in *The New York Times,* that current investor sentiment shows no signs of an impending market crash. Read more at nyti.ms/2yCpWbo.

'Often the best time to buy'

• "Since [1980], the S&P 500 has experienced 737 new highs. Of those 737 new highs, only three were major tops. So the data emphatically suggests that new highs are often the best time to buy, not to sell. But even if you do buy stocks at a major market top, it doesn't have to end in agony if you've got a long time horizon and a balanced portfolio that doesn't leave you with more risk than you can stomach." – Michael Batnick, writing at *The Irrelevant Investor*. Read more at bit.ly/2hu5aqF.

Investing at times of crisis

• "I know it can seem unbecoming for any of us to worry about our net worth at a time of global crisis. But think about it this way: If military conflict with North Korea does erupt, we help no one by compounding the crisis by doing something stupid in our portfolios." – *MarketWatch* columnist Mark Hulbert. At times of geopolitical crisis, he said history suggests that doing nothing is "almost always the best investment strategy." Read more at on.mktw.net/2wy2CLa.

The data hack of all data hacks

• "It hasn't helped that Equifax has handled the situation incredibly poorly. High-level executives sold off almost $2 million of the company's stocks after finding out about the breach in late July, weeks before they went public about the hacks, which prompted the company's stock to fall 18 percent as of this week." – *Vox* writer Karen Turner, writing about the Equifax data theft in which more than 140 million people may have had their personal information stolen. Equifax says the executives "had no knowledge that an intrusion had occurred." Read more at bit.ly/2wXw2oI.

Regrets: Retirees have a few

• Two of the nearly 600 comments Vanguard received when it asked retired readers what they would have done differently, financially speaking:

"My do-over would be to delay Social Security until age 70. That would have resulted in several benefits: a larger Social Security payment, lower RMDs at 70½, and a larger Social Security payment upon my death for my spouse."

"I spent too much time thinking about the money part of it. When I finally got there, I was taken aback by not knowing what else I would do. I needed more *non-financial* planning."

Read more at vgi.vg/2wadEZl. ◆

[1] www.ibluebutton.com [2] Jan2017:p6

PREMIUM STRATEGIES

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

DYNAMIC ASSET ALLOCATION

Overview

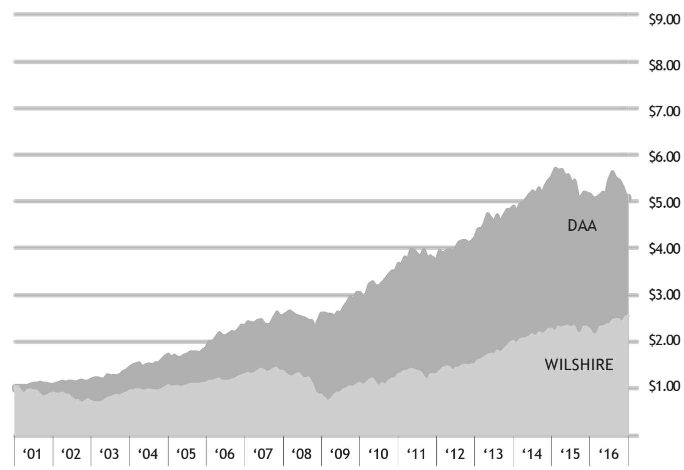
This is a stand-alone strategy that can be used in combination with (or in place of) SMI's basic strategies. DAA is designed to help you share in some of a bull market's gains, while minimizing or even preventing losses during bear markets. It's a low-volatility strategy that nonetheless has generated impressive back-tested results over the long term. DAA involves rotating among six assets classes—U.S. stocks, foreign stocks, gold, real estate, bonds, and cash. Only three are held at any one time.

Who Should Consider This Strategy

Anyone, but especially investors who are more concerned with avoiding major losses during bear markets than they are with capital growth during bull markets. **Pros:** Excellent downside protection during bear markets, reflected in a very low worst-case result and relative-risk score. Great long-term track record. **Cons:** Subject to short-term whipsaws. Lags the market in up years. Making trades promptly and concentrating entire portfolio in only three asset classes can be emotionally challenging.

Dynamic Asset Allocation vs Wilshire 5000

Growth of $1 Jan 2001 - Dec 2016



Strategy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Avg[1]	Worst 12[1]	Rel Risk[1]
Dynamic Asset Allocation	4.0%	10.4%	22.4%	19.3%	8.6%	25.7%	10.1%	1.3%	17.6%	20.3%	1.4%	13.9%	16.2%	13.0%	-6.8%	-0.5%	10.7%	-13.7%	0.64
Wilshire 5000	-11.0%	-20.9%	31.6%	12.5%	6.4%	15.8%	5.6%	-37.2%	28.3%	17.2%	1.0%	16.1%	33.1%	12.7%	0.7%	13.4%	6.1%	-43.3%	1.00

SECTOR ROTATION

Overview

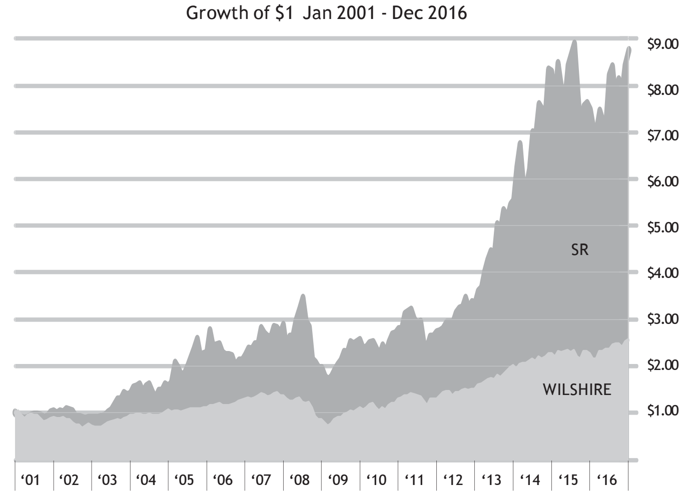
This high-risk strategy involves investing in a single special-purpose fund that focuses on a specific sector (such as biotech, energy, or financial services). Because these stock funds invest in a narrow slice of the economy, they carry a higher degree of risk. Only one fund, selected based on having superior momentum relative to other sector options, is held at a time. The sector-fund recommendations in this strategy are designed to be used in combination with Just-the-Basics, Fund Upgrading, or DAA (or a combination of these) up to a maximum of 20% of the stock allocation. While the performance peaks and valleys of Sector Rotation have been higher and lower than all other SMI strategies, it's a strategy that has generated especially impressive long-term returns.

Who Should Consider This Strategy

Experienced investors willing to concentrate an investment in a single sector of the economy. **Pros:** Very attractive long-term returns. **Cons:** Much greater month-to-month volatility and relative risk with dramatic short-term loss potential.

Sector Rotation vs Wilshire 5000

Growth of $1 Jan 2001 - Dec 2016



Strategy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Avg[1]	Worst 12[1]	Rel Risk[1]
Sector Rotation	3.7%	-13.1%	54.4%	12.6%	46.1%	-1.9%	28.1%	-31.5%	30.5%	9.1%	-3.2%	23.3%	65.7%	49.9%	-9.7%	16.8%	14.5%	-38.6%	1.66
Wilshire 5000	-11.0%	-20.9%	31.6%	12.5%	6.4%	15.8%	5.6%	-37.2%	28.3%	17.2%	1.0%	16.1%	33.1%	12.7%	0.7%	13.4%	6.1%	-43.3%	1.00

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

PERIODICALS POSTAGE
PAID AT LOUISVILLE, KENTUCKY

Dated Investment Material
Please Do Not Delay!

PERFORMANCE DATA

SOUND MIND INVESTING MODEL PORTFOLIOS • DATA THROUGH AUGUST 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]	11.0%	0.2%	3.0%	16.2%	9.3%	14.3%	7.7%	9.5%
Just-the-Basics[2]	11.8%	0.1%	3.4%	16.6%	7.3%	12.9%	6.9%	9.7%
Stock Upgrading[3]	9.4%	-0.2%	3.4%	15.0%	6.4%	12.5%	6.6%	10.6%
U.S. Bond Market[4]	3.6%	0.9%	1.3%	0.2%	2.5%	2.0%	4.2%	4.2%
Bond Upgrading[5]	3.2%	0.9%	1.4%	1.8%	2.4%	3.5%	6.7%	6.7%

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]	10.5%	0.7%	2.1%	2.9%	2.4%	6.5%	9.3%	11.4%
Sector Rotation[7]	25.5%	3.1%	1.2%	42.4%	13.1%	27.5%	15.5%	18.1%
50-40-10 Blend[8]	11.6%	0.6%	2.5%	11.4%	5.2%	11.2%	9.3%	12.2%

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

THE SOUND MIND INVESTING MUTUAL FUND (SMIFX)

Current Returns as of 8/31/2017	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	9.17%	0.42%	3.57%	13.43%	4.29%	10.81%	5.46%
Wilshire 5000	11.04%	0.24%	3.01%	16.20%	9.33%	14.31%	7.74%
S&P 500	11.93%	0.31%	3.01%	16.23%	9.54%	14.34%	7.61%

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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