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Sound Mind Investing®

Financial Wisdom for Living Well

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Your 10 Most Important Financial Moves for 2018

Here's our annual round-up of planning suggestions for the new year. Take our broad list of ideas and narrow it down to your personal Top 10 for 2018. As you read, note the ideas that apply to your situation and put a checkmark (in the box) next to each one. Then choose 10 of your checked items to be your 2018 "action list." We hope the next 12 months will be a season of steady financial progress for you. It can be—if you plan and act.

by Joseph Slife

Wikipedia, the popular online encyclopedia that gets more than 7 billion pageviews per day, has a "current events" section that tracks top news stories. By clicking to January 2017 and moving forward month by month, you can review the big stories of the year: The Trump inauguration, North Korea nuclear saber-rattling, terrorist bombings, cyberattacks, hurricanes, social protests, sexual harassment, the ongoing (and increasingly successful) battle against the Islamic State, the Las Vegas and Texas mass shootings, a far-reaching tax-overhaul bill.

Those are the big stories of the year. There are hundreds of others, of course—many that loomed large for a few days or weeks, only to be replaced in the public's attention by the next thing that came along. To borrow a phrase about the passage of time penned by hymn writer Isaac Watts, the news cycle is "like an ever rolling stream."

All of which argues for developing (as much as we can) an *eternal* rather than a temporal perspective, always "looking to Jesus, the author and finisher of our faith" (Heb. 12:2). One day, "the earth and everything done in it will be laid bare" (2 Peter 3:10) and "[t]he kingdom of the world [will] become the kingdom of our Lord and of his Christ, and he shall reign forever and ever" (Rev. 11:15).

As followers of Jesus Christ, we are called to live in light of that future reality *now*. We are to "[s]eek the Kingdom of God above all else" (Matt. 6:33 NLT) and be "good and faithful servant[s]" (Matt. 25:21) of the Sovereign God who made us and redeemed us. We are to be "generous on every occasion" (2 Cor. 9:11), "shar[ing] with God's people who are in need" (Rom. 12:13).

Our goal at SMI is to help you attain (and maintain) an eternal perspective in your "financial" life—which is inextricably tied to your spiritual life. Such a perspective begins with recognizing that (1) God is the owner of everything, and (2) we are called to manage His resources for His purposes:

- "The earth is the LORD's, and everything in it, the world, and all who live in it" (Psalm 24:1).
- "For everything comes from him and exists by his power and is intended for his glory" (Rom. 11:36 NLT).
- "[R]emember the LORD your God, for it is he who gives you the ability to produce wealth" (Deut. 8:18).
- "What do you have that you did not receive?" (1 Cor. 4:7).
- "God is able to make all grace abound to you, so that in all things at all times, having all that you need, you will abound in every good work" (2 Cor. 9:8).

(continued on page 179)

IN THIS ISSUE

EDITORIAL

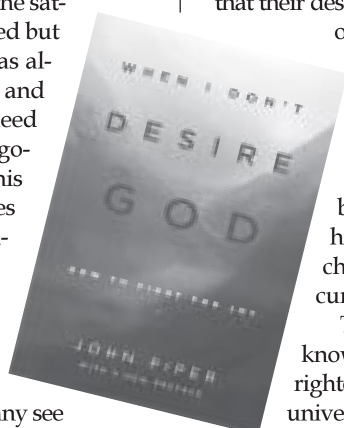
Fighting for Joy in the Supremely Glorious Christ

by John Piper

Following is a brief excerpt from Chapter 1 of *When I Don't Desire God*, a book I am offering as a Christmas gift to SMI members this year. See the announcement on page 191 for details on how you can receive your copy. — Austin

Christian Hedonism is a liberating and devastating doctrine. It teaches that the value of God shines more brightly in the soul that finds deepest satisfaction in him. Therefore it is liberating because it endorses our inborn desire for joy. And it is devastating because it reveals that no one desires God with the passion he demands. Paradoxically, many people experience both of these truths. That certainly is my own experience.

When I saw the truth that God is most glorified in us when we are most satisfied in him, I was freed from the unbiblical bondage of fear that it was wrong to pursue joy. What once had seemed like an inevitable but defective quest for the satisfaction of my soul now became not just permitted but required. The glory of God was at stake. This was almost too good to be true—that my quest for joy and my duty to glorify God were not in conflict. Indeed they were one. Pursuing joy in God was a non-negotiable way of honoring God. It was essential. This was a liberating discovery. It released the energies of my mind and heart to go hard after all the soul-happiness that God is for me in Jesus.



The most common and desperate question I have received over the last three decades is: How can I become the kind of person the Bible is calling me to be? The question comes from an aching in the heart that rises from the hope of great joy. Many see that the truth and beauty and worth of God shine best from the lives of saints who are so satisfied in God they can suffer in the cause of love without murmuring. But then they say, "That's not who I am. I don't have that kind of liberating, love-producing, risk-taking satisfaction in God. I desire comfort and security more than God."

Some are honest enough to say, "I don't know if I have ever tasted this kind of desire. Christianity was never presented to me like this. I was always told that feelings didn't matter. Now I am finding evidence all over the Bible that the pursuit of joy in God, and the awakening of all kinds of spiritual affections, are part of the essence of the newborn Christian heart. This discovery excites me and frightens me. I want this. But I fear I don't have it. In fact, as far as I can see, it is outside my power to obtain. How do you get a desire that you don't have and you can't create?"

To answer that question, I have written this book. I would like to help those who are beginning to see that salvation is the awakening of a new taste for God, or it is nothing. "Oh, taste and see that the LORD is good!" (Ps. 34:8). I want to help those who are starting to see that conversion is the creation of new desires, not just new duties; new delights, not just new deeds; new treasures, not just new tasks.

Lots of people are discovering that God is most glorified in us when we are most satisfied in him. Which means they are finding that their desires, not just their decisions, really matter. The glory of God is at stake. And many, with tears, want to know: What do I do when I don't desire God?

The answer to that question is not simple. But it is crucial. The apostle Paul said, "If anyone has no love for the Lord, let him be accursed" (1 Cor. 16:22). Love is not a mere choice to move the body or the brain. Love is also an experience of the heart. So the stakes are very high. Christ is to be cherished, not just chosen. The alternative is to be cursed. Therefore life is serious.

The aim of this book is that Jesus Christ be made known in all the world as the all-powerful, all-wise, all-righteous, all-merciful, all-satisfying Treasure of the universe. This will happen when Christians don't just say that Christ is valuable, or sing that Christ is valuable, but truly experience in their hearts the unsurpassed worth of Jesus with so much joy that they can say, "I count everything as loss because of the surpassing worth of knowing Christ Jesus my Lord" (Phil. 3:8). Christ will be glorified in the world when Christians are so satisfied in him that they let goods and kindred go and lay down their lives for others in mercy, missions, and, if necessary, martyrdom. He will be magnified most among the nations when, at the moment Christians lose everything on earth, they say, "To live is Christ, and to die is gain" (Phil. 1:21).

His joy will hold us and keep us, if we have tasted it and fought to make it the supreme experience of our lives. Christ is supremely glorious and supremely valuable. Therefore he is worth the fight.

CONTACTING US
Correspondence can be emailed to SMI at help@soundmindinvesting.com. Our toll-free Reader Services line (877-736-3764) is available for handling clerical matters such as subscriptions, billings, newsletters not received, and changes of address. Please be advised, however, that the SMI staff is not trained in matters of personal counseling and it is our policy that they not attempt to do so over the phone. If our staff is busy when you call, you may leave your information on our secure answering system.

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FEATURE ARTICLE

Your 10 Most Important Financial Moves for 2018

(continued from front page)

God has given each of us a management responsibility that we cannot delegate away. We can (and should) turn to others for help in making certain spending and investing decisions, but the responsibility to be a faithful steward ultimately remains ours—and the Lord graciously offers His wisdom for the task: "If any of you lacks wisdom, you should ask God, who gives generously to all without finding fault, and it will be given to you" (James 1:5).

So, as one year ends and another begins, we urge you to focus your thoughts on the One "who does not change like shifting shadows"—or like the news of the day. "He chose to give us birth through the word of truth, that we might be a kind of firstfruits of all he created" (James 1:17). In 2018, may you "[h]onor the LORD with your wealth and with the best part of everything you produce" (Prov. 3:9 NLT).

Selecting your Top 10

You're about to read more than 60 suggestions for improving your financial condition over the next 12 months, primarily based on articles published by SMI in 2017. Next to each suggestion, we've placed a check box. As you read, put a checkmark next to the items that have the most relevance to your particular situation and season of life. Then, go back through your checked items, asking God to guide you in selecting 10 tasks to set as your financial priorities for the new year.

We suggest you assign each item a *specific* priority. Make your most important item number 1, the second-most important number 2, and so on up through number 10. If you're married, go through this planning process with your spouse, so that you can discuss the items, clarify understandings, and be united in your financial goals.

This process is aimed at helping you turn intentions into actions. As a practical matter, we suggest you *finish implementing at least one of your top three tasks before starting on the other items on your Top 10 list*. Trying to do too many things at once can create a sense of being overwhelmed, which tends to lead to insufficient follow-through.

Each suggested "action item" is accompanied by a footnote (or a link if you're reading online) that indicates where to find additional information. Most of the notes/links refer to 2017 articles published in the SMI newsletter (e.g., Aug:p120 means the August 2017 issue, page 120). Other footnoted resources include the SMI website (www.soundmindinvesting.com), our Fund Performance Rankings (FPR)—published monthly online, and *The Sound Mind Investing Handbook* (Book:C17 means "See chapter 17 in the Handbook"). ❑ If you don't have a copy of the SMI Handbook, now is a great time to order![1]

First things first

Your financial life is closely connected to your spiritual life. Indeed, they are not separate things. How you view and use money flows from what you believe about God. Since God owns everything (1 Chronicles 29:11) and all you have comes from Him (1 Corinthians 4:7), your "financial calling" is clear: take care of what belongs to God to the best of your ability.

The pressures of life and the messages of our culture tend to pull us away from a stewardship mindset and toward one of financial laziness and material indulgence. You must continually reorient your mind and heart toward the Lord and His purposes. You can do that by:

❑ **Honoring Jesus as the King of kings and the Lord of lords** (Rev. 19:16). As the late preacher S.M. Lockridge put it, "[Jesus is] unparalleled. He's unprecedented. He's supreme. He's pre-eminent!"[2] Find ways to continually remind yourself that "Jesus Christ is Lord" (Phil. 2:11).

❑ **Abiding in Christ Jesus.** Scripture says your relationship to Jesus is to be like the relationship of a branch to a vine (John 15:1-11). The branch places itself at the disposal of the vine for the vine to do with as it pleases. You must do the same: "Lord, here is my life. It's Yours to do with as You please."

❑ **Preparing for the Master's return.** Jesus is coming back. Your task in the meantime, as in the Parable of the Talents, is not merely to hold the master's wealth while he is away, but to *manage* it for him. Being a good manager necessarily involves planning, saving, giving, and investing.[3] As you manage wisely, you'll be fulfilling the purposes for which God has made you.[4]

❑ **Becoming a conduit of God's grace** as you support good works that alleviate spiritual and physical misery. Let your joy in God overflow in a wealth of liberality. Commit to using money in a way that "lays up a good foundation" for the life to come.[5] Be especially generous to your Christian brothers and sisters.[6]

Strengthening your foundation

Building anything solid and lasting requires a firm foundation. Failing to establish such a foundation in your finances will put your short-term and long-term financial health in jeopardy. If your foundation is not yet firm, concentrate your efforts here, rather than jumping ahead to more advanced topics.

❑ **Create a spending plan (i.e., a budget) for the new year (or bring your existing plan up to date).**[7] Many people think having a budget is restrictive. The opposite is true: it's liberating. A spending plan can help you gain financial peace of mind. If you're married, implementing a budget is more likely to work if you follow the six steps to budgeting success.[8]

❑ **Renew your resolve to get out of debt.**[9] Understand the biblical warnings about the dangers of debt and make a firm commitment to pay down your debt in the year ahead. We can't promise that getting out of debt will be easy or fun, but the results will be worth it!

❑ **Even while paying down your debt, resolve to give generously.**[10] As important as getting out of debt is, don't neglect biblical teaching on "firstfruits" generosity (Proverbs 3:9). Giving generously may require sacrifice. To free up money, you may have to give up something you'd like. But by doing so, you will be honoring God above all else.

[1] https://soundmindinvesting.com/sound-mind-investing-handbook/ [2] Apr:p50 [3] Jan:p2 [4] Jul:p98 [5] Jul:Cover [6] Nov:p162 [7] Book:C2 [8] Nov:p166 [9] Book:C1 [10] Jul:p102

❑ **Spend less and save more.**[11] Many people think having a bigger house and more stuff will make them happier, but research suggests otherwise. Instead, focus on keeping your fixed expenses low and making saving as painless as possible, such as by setting up automated transfers to savings or retirement accounts.

❑ **Get the best value for your money.**[12] Take advantage of buyer-protection offers and low-price guarantees.

❑ **Keep the goal of building up your savings in biblical perspective.**[13] It's foolish not to save (Proverbs 21:20), but a preoccupation with saving can turn into self-focused hoarding. That too is foolish—and can be spiritually detrimental (see Luke 12:16-20).

❑ **Investigate options for earning higher rates on your savings.**[14] The rates paid on regular savings accounts and money-market accounts are starting to rise after years of being near zero. Rates offered by online banks are now significantly higher than rates at local brick-and-mortar banks.

❑ **Take a "fiscal health" day and work through items on your financial to-do list.**[15] Some financial tasks are difficult to get done on weekends because banks and other businesses are closed, and/or because you have too many other tasks at hand. Take a day off work and use the time to focus on things such as closing old accounts, automating future payments, and getting insurance/tax paperwork in order.

❑ **Consider living on one income.**[16] This suggestion may seem counterintuitive. However, moving from two incomes to one may yield big dividends (many of them nonfinancial) in the life of your family, especially if you have young children. Approach this decision prayerfully, trusting that if God leads you in the direction of living on one income, He will provide faithfully.

Developing your investing plan

❑ **Sort out the real from the illusory.**[17] Simple misconceptions can undermine your financial health. If you think investing has to be complicated or that financial gurus who show up on TV have reliable insights into market direction, you've got it all wrong.

❑ **Establish a personalized plan that drives you toward your longer-term financial goals.**[18] But don't assume the investing climate will always be good. A wise plan accounts for occasional (and inevitable) bear-market shocks and investing reversals.

❑ **Reorient your thinking about investing.**[19] Become an "inside-out" thinker, basing your decisions on your long-term needs rather than on the latest news. Keep in mind that appropriate diversification is the biblical answer to economic uncertainty.

❑ **Give careful consideration to your most important investing decision**—the choice of how to divide your portfolio between stock-type investments and interest-earning vehicles (such as bonds and money-market accounts).[20] This one decision will determine the overall performance of your investment portfolio more than any other single factor!

❑ **Make investment choices based on a well-researched plan that has a reasonable probability of success.**[21] To that end, we encourage you to read each issue of *Sound Mind Investing* and take advantage of our online resources as well. The Lord has given SMI a great team dedicated to teaching financial and investing principles within the boundaries of God's Word.[22]

❑ **Start investing now rather than waiting for a "better" time.**[23] If you're willing to be a long-term investor, anytime—even a time of market weakness—is a good time to get started. In investing, slow and steady wins the race. Predicting the short-term direction of the overall market (or the performance of the economy) is futile.[24] But if you commit to a long-term plan, it is likely that your investments will be profitable.[25]

❑ **Make it easy on yourself to do the right thing.**[26] SMI's strategies can help you stick to your long-term plan even in the face of market volatility and downturns. But you must be committed to making decisions of reason, not emotion.

❑ **Adopt a strategy (or strategies) that help you contain and focus your impulses.**[27] We need boundaries to keep us from making emotionally driven investment decisions that may harm our long-term financial health. SMI's time-tested strategies provide such boundaries.

❑ **For the simplest approach to stock market investing, follow SMI's Just-the-Basics strategy.** JtB is based on using index funds—funds designed to *match* (i.e., not beat) the performance of the overall market or some portion of the market. Just bear in mind that using index funds, often called "passive" investing, offers no downside protection during market reversals.[28] For more on Just-the-Basics, click on "Basic Strategies" at SoundMindInvesting.com.

❑ **To implement our Fund Upgrading strategy, follow our "Easy as 1-2-3" steps.**[29] At any given time, we recommend a total of 15 Upgrading funds. That gives Upgraders plenty of options. But our research suggests that successful Upgrading requires investing in only *five* out of the 15.[30] You can add diversification by investing in more funds if you want to, but there are advantages to keeping things simple.
❑ Fund Upgrading requires you to open a brokerage account (unless you're Upgrading via a workplace plan). Happily, competitive pressure is continuing to drive down broker fees as well as fund expense ratios.[31]

❑ **If you're concerned about minimizing losses during the next bear market, consider SMI's Dynamic Asset Allocation (DAA) strategy (available to Premium members).**[32] DAA won't eliminate all losses, of course, but our back-tested research suggests the strategy would have notably reduced losses during every period of significant market weakness dating back to 1981.

❑ **Willing to take more risk with a portion of your money? Consider Sector Rotation (available to Premium members).**[33] Since we launched the Sector Rotation strategy in 2003, SR investors have enjoyed annualized gains of +16.4% per year, dwarfing the market's +9.0% rate of return over the same period.

[11] Jun:Cover [12] Dec:p182 [13] Feb:p22 [14] Aug:p118 [15] Jan:p6 [16] May:p70 [17] Mar:p34 [18] Sep:p130 [19] Jun:p87 [20] Book:C10 [21] Aug:p114 [22] Jun:p82 [23] Jul:p103 [24] Jan:Cover [25] May:p66 [26] Feb:p23 [27] Sep:135 [28] Nov:p167 [29] Dec:p187 [30] Jan:p7 [31] Aug:p119 [32] Oct:p146 [33] Nov:p168

❑ **If you're implementing Upgrading, DAA, and/or Sector Rotation, be sure you understand the process of selling one fund and buying another.**[34] Depending on the type of funds you're trading (and the policies of your particular broker), some sell/buy transactions may involve a lag time. Others will occur almost immediately.

❑ **Want to follow SMI's strategies but don't have the time or the inclination to implement them yourself? Consider the professionally-managed SMI mutual funds.**[35]

❑ **Learn how fund distributions affect your total returns.**[36] Looking only at share price may lead you to believe (mistakenly) that a particular fund hasn't performed well. Taking into account distributions (dividends, interest, capital gains) can change the picture considerably.

❑ **Watch out for fund-related capital gains taxes!**[37] Fund distributions can create a tax liability for you. Plan wisely so you can avoid, lessen, or delay the tax impact.

❑ **Participate fully in your workplace retirement plan.**[38] An employer-sponsored plan can offer a tremendous opportunity to build wealth, especially if it's a "defined-contribution" plan, such as a 401(k) or 403(b). If your company has a defined-contribution plan, take full advantage of any employer-offered matching funds.

❑ **Make the most of the fund options in your employer plan.**[39] Many workplace plans offer a very limited selection of funds. That makes Upgrading difficult. But you may be able to use an alternate "fallback strategy" by taking advantage of SMI's online Personal Portfolio Tracker.[40]

❑ **Concerned that you're not saving enough for retirement? Put "positive inertia" to work for you.**[41] Give your workplace HR department advance instructions about increasing your retirement contribution every time you get a raise, with part of the raise going to retirement and part to take-home pay. This makes saving more almost painless, and pays off in big ways later in life.

❑ **If you work for the federal government, make the most of the Thrift Savings Plan (TSP).**[42] The TSP is a 401(k)-type plan for federal workers and military personnel. It has a simple structure and generous employer matching. Because the plan makes some default investment choices, be sure you know which funds your money is being invested in. Override the defaults if necessary.

Broadening your portfolio

❑ **Take advantage of personalized financial planning with MoneyGuidePro® (MGP).**[43] MGP is considered by many advisors to be the best financial-planning software on the market, and now it's available to SMI Premium-level members. MoneyGuidePro® can help you stick to your investment strategy, make smarter decisions, and relieve anxiety about the future.

❑ **If you're concerned about a steep decline in the market, use MoneyGuidePro® to model the potential impact on your finances.**[44] When a bear market arrives, fear can take hold and cause you to abandon your plan. MGP enables you to test various portfolio combinations and return assumptions in advance, thus helping you stick to a planned, well-thought-out approach.

❑ **Study the history of stock-market performance.**[45] Although past performance is no guarantee of future results, the market's long-term averages make clear that time is on the side of the long-term investor.

❑ **Recognize that time is your portfolio's friend and inflation is its enemy.**[46] An investor's best answer to short-term risk is to invest for the long haul. Over time, market fluctuations even out, increasing the likelihood of gains. But if you're overly cautious as an investor, or fail to stick with your long-term plan, your gains could be overtaken by inflation, which relentlessly destroys purchasing power.

❑ **Be realistic about the distribution of market returns.**[47] Don't confuse solid long-term averages with what may happen in any given year. Year-to-year returns are quite unpredictable.

❑ **Understand why diversification is important.**[48] It's tempting to throw caution to the wind and load up on a particular investment type, hoping to make outsized gains. A better approach is to spread your investments across several risk categories. Diversification ensures you'll participate to some degree in the "hot" areas en route to meeting your financial goals, but with less overall volatility.[49]

❑ **Learn what *not* to do.**[50] Investing strategies that involve high-risk speculation can be tempting. After all, there is potential for great returns! But there's also potential for significant losses. To stay safe, rule out strategies that don't fit your long-term plan.

❑ **Take time to understand the pros and cons of investing internationally.**[51] Foreign markets account for a larger share of the global economy than ever before, offering investors new opportunities for growth. As large and as strong as the U.S. economy may be, America's GDP represents only about one-fourth of worldwide economic activity.

❑ **Study what goes into stock valuations.**[52] Many stock investors make buy/sell decisions based on price-to-earnings (or P/E) ratios. Be sure you understand which type of P/Es are being referenced when you hear analysts say stocks are cheap, expensive, or fairly priced.

Looking toward retirement

❑ **Get on the same retirement page as your spouse.**[53] Husbands and wives often have different assumptions and expectations about retirement. It's important to talk through issues such as when to retire, and what to do if retirement comes earlier than expected (because of an illness or layoff).

❑ **Review your estate-planning documents.**[54] As a general rule, you should review your estate plan at least every five years, not only because of changes in your own life (moving to a different state, change in family situation, etc.) but because laws change. Increasingly, banks, hospitals, and medical offices won't accept older documents because they don't take into account current requirements and terminology.

❑ **Take charge of your medical records.**[55] *(continued on page 189)*

34 Oct:p151 35 www.smifund.com 36 Mar:p39 37 Dec:p183 38 Oct:Cover 39 Jun:p88 40 bit.ly/smi401ktracker 41 May:p71 42 Jan:p9 43 Feb:Cover,Feb:p18,Mar:Cover 44 Sep:Cover 45 Mar:p40 46 May:Cover 47 Apr:p56 48 Oct:p152 49 Apr:Cover 50 Jul:104 51 Aug:Cover 52 Apr:p55 53 Feb:p25 54 Jun:p89 55 Oct:p153

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

HOW TO BUY LOW THIS CHRISTMAS SEASON (AND ALWAYS)

It used to be easier for low-price shoppers to find the best deals. They had their go-to stores where they knew they could find the best prices—one store for shoes, another for electronics.

Then it got even easier. Smartphones equipped with bar code-scanning apps, such as ShopSavvy, gave rise to *showrooming*—the practice of looking at a product in a traditional retail store, but then searching for the best price—and usually buying the product—online.

In response, retailers fought back with *reverse showrooming* or *webrooming*, actively encouraging shoppers to compare prices online *while in their stores* and then promising to match a competitor's price.

Through it all, savvy shoppers were the winners as brick-and-mortar stores and etailers kept one-upping each other in a quest to offer the best deals.

However, the latest salvo in the ongoing price wars requires a different game plan and a different set of tools to determine who has the best price.

When the price is not the price

Most travelers have long understood that as the seats on a particular flight fill up, the price for remaining seats goes up as well. Today, *dynamic pricing* (also referred to as *surge pricing*) has found its way into the selling process for a much wider variety of products and services.

Jason Jacobs, founder of a company that makes a popular shoe deodorizer, told CBS News[1] every time his company is written up in the press his product's price goes up temporarily on Amazon. He attributes the price hikes to increases in demand.

Prices on Amazon change so often that CamelCamelCamel.com, a site that tracks the etailer's prices, checks the price of popular products three to four times a day. "We wish we could do hourly price checks," company founder Daniel Green said, "but we're monitoring 50 million products. This is the best we can do."

Dynamic pricing is even catching on with traditional retailers. In England, two supermarket chains are replacing fixed price tags on shelves with electronic price tags, which will make it much easier to change prices. The technology is beginning to be used by some U.S. retailers as well, such as Kohl's and Home Depot.

What's a shopper to do?

Price match when you buy

Many retailers offer price matching. When you're ready to buy a product, if you have proof of a lower price being offered elsewhere, the store will honor that price. In some cases, if you find a lower price for a limited time *after* you've made your purchase, the store will give you a credit for the difference. So, before you shop at a particular store, know that store's price-match policies. Here are some examples.

- **Target** will match the price of a "qualifying" item—either in a Target store or online—if you find the same item for less at Target.com, certain other online competitors, or in Target's or one of its competitor's local ads. It will also adjust your payment if you find a lower price within 14 days of purchase.[2]
- **Walmart** has separate policies for in-store[3] and online[4] price matching. For in-store purchases, it matches prices only for identical items found on Walmart.com or Jet.com (owned by Walmart). There's no mention of price matching *after* making a purchase at Walmart. For online purchases, the company promises to match prices found at any of several etailers it names on its site. As for after-purchase price matching, the company's policy says if a product was bought on Walmart.com "recently" and you then find a lower price to "let us know."
- **Best Buy** promises, at the time of purchase or during the return and exchange period, to match prices offered by local competitors (including their online prices) as well as those offered by a handful of major etailers.[5]

Of course, each company's policy includes limitations and exclusions. For example, certain types of products, such as gift cards, usually are off limits, and many stores do not offer price matching from Thanksgiving Day through the week after Thanksgiving. So be sure to read the fine print.

Price match after you buy

As stated above, some stores will honor a competitor's price *after* you make your purchase by refunding the difference between what you paid and the lower price you found. However, the time frame tends to be somewhat limited.

Many credit cards offer more liberal policies. For example, some Citi credit cards offer "Price Rewind." If you find a lower price on a retailer's website within 60 days of a purchase you made with your Citi card, the company will credit you the difference up to $500 per purchase and $2,500 per year. Other credit cards provide price protection for 90 days. Go to your credit-card company's website and look for its shopping benefits.

Using Price Rewind, one SMI staffer received $130 back for a laptop computer purchased for one of his sons, and honestly, the website where he found and documented the lower price was pretty obscure! Citi will even search for lower prices for you.

As with store price-matching policies, credit-card policies come with limitations. Citi's Price Rewind, for example, excludes cars, airline or concert tickets, food, and collectibles. *(continued on page 190)*

[1] cbsn.ws/2iKHcEg [2] Target's policy: bit.ly/2yNUefd [3] Walmart's in-store policy: bit.ly/2zLyy3q [4] Walmart's online policy: bit.ly/2yp90Vq [5] Best Buy's policy: bit.ly/2yp9I52

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

BEWARE THE MUTUAL FUNDS' END-OF-THE-YEAR TAX TRAP

December is the most dangerous time of the year for investors who own mutual funds in *taxable* accounts.[1] Here are some basics concerning taxes and mutual funds that can help you navigate what otherwise can be a tricky and confusing month.

Mutual funds, as they invest their shareholders' money throughout the year, incur capital gains and losses. They also receive dividend and interest income. From a tax point of view, all of this is done on behalf of shareholders. *It's as if you owned all the investments outright, and the gains and losses that result are all your personal gains and losses.* There are three ways this happens:

• Funds invest in stocks that pay dividends. The funds collect the dividends and pay them to you periodically.

• Funds invest in bonds or other debt securities that pay interest. They collect the interest and pay it out periodically.

• Funds sell one of their investments for more than they paid for it, thereby reaping a capital gain. They keep track of these gains (and offset them against any capital losses), and pay them out to you periodically.

All of these payments to you are called "distributions." The fund decides whether to make these periodic distribution payments monthly, quarterly, semiannually, or annually. The amount you receive depends on how many shares you own.

A fund goes through a two-step process in making distributions. First, it "declares" the amount of the distribution it intends to make, and sets aside the necessary cash. This has the effect of suddenly lowering the net asset value of the fund—one day the money is being counted as part of the fund, and the next day, the day of the declaration, it isn't.

This sudden drop in value startles inexperienced investors because they mistakenly think that money has been lost.[2] It hasn't—it's merely being removed from the fund so it can be paid out to you. The date this declaration happens is called the "ex-dividend" date, *and is the significant date as far as your taxes are concerned.*

The second step of the distribution process is when the fund actually mails your check. This is called the "payment date" but has no significance when computing your taxable income. Now let's look at two common misconceptions that investors have about mutual-fund taxation.

• **Misconception #1: "As long as I don't sell any of my mutual-fund shares, I won't have any capital gains taxes to pay."** The mutual fund, within its portfolio, is continually buying and selling securities. Each time it sells one, it creates another capital gain or loss. You participate in your fair share of these gains or losses at the time the fund declares a capital-gain distribution, and will owe tax on that distribution, *regardless of whether you've sold any shares.*

Separate from any distributions, *when you eventually do sell* your fund shares, any capital gain or loss must be reported on Schedule D of your form 1040 tax return just like any other investment. One easy way to delay paying this capital-gains tax is to avoid selling mutual funds for gain just before the end of the year. If you sell near year-end, taxes will have to be paid by April 15, just a few months later. Instead, you might wait to sell until the first week of January. The tax on such gains would then not be owed until April 2019. (By the same token, a good time to sell a fund at a *loss* is in December, as the loss will be deductible on the tax return filed next April.)

• **Misconception #2: "It's a good idea to invest in a mutual fund just before one of its periodic distributions."** Actually, it's a bad idea for investors in taxable accounts because it will create an immediate tax liability. If an investor buys a fund today and the fund declares a distribution tomorrow, the investor owes tax on the amount of the distribution. There is no additional benefit to owning a fund on the ex-dividend date *because the amount the shareholders receive is deducted from the value of the fund that same day.*

Most funds make distributions at roughly the same time each year (December is the busiest month of all), and usually can tell you ahead of time when they will happen. This presents an opportunity for savings. Before making a major purchase of shares in any mutual fund, check (1) if a distribution will be made soon, and (2) what is the fund's estimate of the amount. Most funds post this information on their website. If a distribution is scheduled soon, you have the option of waiting to purchase your shares until after the distribution to avoid its tax impact.

Most investors likely didn't receive significant distributions last year, due to the pair of market corrections in late-2015 and early-2016 offsetting any gains. But given the big gains most stock funds have had in 2017, significant distributions this year are likely. If you're following SMI's strategies in a taxable account (Stock Upgrading is the strategy where this is most likely to apply), paying attention to these distribution dates can save you money at tax time—or at least delay the paying of those taxes for another year.

One cautionary note: A preoccupation with taxes can end up being counterproductive. Sometimes a few days in the market can make a big difference in the price you pay or receive for your shares. Don't let tax considerations become the *overriding* factor in your investing decisions. ◆

[1]Note that investors in tax-advantaged accounts such as IRAs, 401(k)s, and 403(b)s are not impacted by fund distributions. Fund distributions typically affect only investors using taxable accounts. [2]See Dec2014:p183 for a visual illustration of how distributions impact share prices and returns.

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

FIXED INDEX ANNUITIES: UNDERSTANDING THE DRAWBACKS

Imagine an investment with the stock market's upside potential, but the downside protection of a bank CD. You can gain but not lose. Interested?

That's the marketing angle of the fixed index annuity (FIA)[1], an insurance-based retirement vehicle that's grown sharply in popularity during this era of low interest rates and ever-increasing market highs. Sales of FIAs are on track to hit $60 billion this year, according to industry estimates—double the $30 billion in sales racked up in 2009.

But FIA sales pitches—often presented at free "dinner seminars" hosted by persuasive agents—sometimes obscure the impact of both fees and restrictions on earnings, according to government regulators and some industry insiders. "It is important to ask your agent to explicitly define how the product works," warns Tim Gannon an executive at Fidelity Investments Life Insurance Company.[2] "[You want to] know up front about any factors that could put a drag on your potential return."

A fixed annuity with a twist

A *traditional* fixed annuity is an insurance product—purchased either via a single premium or a series of premiums—that guards against "longevity risk," i.e., the possibility of outliving one's income. In most cases, an insurance company invests the premium(s) in bonds and promises the customer a fixed rate of return plus a steady stream of payments—usually monthly—for the rest of the customer's life (or for the remainder of a surviving spouse's life).

A fixed *index* annuity, in contrast, adds a stock-market component. Instead of simply offering a fixed return, an FIA pays at least a minimum interest rate (usually 1%-3%) or a return tied to the performance of a stock index, whichever is higher. In essence, a fixed index annuity is a "hybrid" of a traditional fixed annuity and a market-based variable annuity.

Most FIAs have an accumulation phase during which earnings grow tax-deferred. This is followed by a payout phase, during which the annuity holder receives money from the annuity—either as periodic "annuitization" payments or via customer-initiated withdrawals.

The earnings upside has a downside

The market-based upside potential of fixed index annuities seems attractive, offering at least some hedge against the effects of inflation. However, the upside potential of FIAs is restrained by the application of one or more rules, the parameters of which vary from annuity to annuity.

It is common, for example, for fixed index annuities to have a "participation rate" that limits how much market growth is credited to the annuity. If the participation rate is set at 50%, for instance, and the index being tracked returns 10%, the annuity would earn only 5% (i.e., 50% of the 10% gain).

Some FIAs also "cap" the return allowed during a given period. (Generally, the higher the participation rate, the more likely an FIA will have a cap.) If the cap is set at 6%, it doesn't matter if the market surges 20%. Only 6% will be credited to the annuity holder. In addition, FIA contracts typically give insurance companies the right to adjust the cap annually.

There also may be a "spread fee"—a percentage-based amount subtracted from the index's gain. If the tracked index gains 8% and the FIA has a 3% spread fee, the amount credited to the annuity would be 5%.

Another important detail involves the methodology used for measuring the performance of the stock index that the annuity uses as a benchmark (typically the S&P 500). Some fixed index annuities simply measure the percentage change in the index over a one-year period. Others use monthly averaging. Still others use multi-year periods when calculating returns.

No matter what period is being measured, the return of any FIA will be affected by the stock market's notoriously uneven distribution of returns.[3] The U.S. stock market may gain roughly +10% annually on average, but rarely does any particular year match the average. Over a five-year period, for example, the market could surge in year one, be down slightly in year two, suffer a larger loss in year three, surge again in year four, and show a moderate gain in year five. Even if all those moves work out to something close to a +10% average annual gain, an FIA's return could be quite different.

Here's an illustration for an annuity tied to the annual performance of a stock index. Let's suppose the index is up +24% in the first year. The annuity, however, is credited with only +5% (because of a cap). The following year, the index is down -1%. The annuity is credited with a +1% return (the minimum rate kicks in because the market dropped). In the third year, the index is down again, this time by -5%. The annuity is again credited with the minimum +1% return. In year four, the market bounces back and the index gains +19%. As in year one, the annuity is credited with only +5% because of the cap. Finally in year five, the index shows a +4% gain but the annuity is credited with only +3% (the index's gain is not affected by the cap this time, but it is reduced because of a 75% participation rate, i.e., 75% of 4%=3%)

In this five-year example, the annualized market return was +7.6%, but the annuity's return was less than half of that—only +3.0%.

Another obstacle to receiving true market-based returns is that fixed index annuities typically don't include dividends when measuring performance. This is significant (continued on page 190)

[1]Also known as an equity-indexed annuity. [2] www.fidelity.com/viewpoints/retirement/considering-indexed-annuities [3]Apr2017:p56

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

AVOIDING AN UNNECESSARILY FRUGAL RETIREMENT

Experts frequently warn that most people are not saving enough for retirement. And for good reason. According to the Employee Benefit Research Institute (EBRI), many workers closest to retirement have far too little set aside for their later years. The EBRI's latest annual Retirement Confidence Survey found that 45% of workers age 55 or older have less than $100,000 in savings and investments.

However, there's a segment of retirees with a very different "problem." They have enough of a nest egg, but they are overly reluctant to spend.

A study published in the *Journal of Financial Planning*[1] found a "consumption gap" among wealthier retirees in which they "were spending nowhere near an amount that would place them in danger of running out of money."

Similarly, United Income CEO Matt Fellowes wrote a report titled "Living Too Frugally?"[2] In it, he cited research showing as people age they become more pessimistic about the stock market and their own financial situation, leaving wealthier retirees vulnerable to living "overly insular lives because they may feel relatively less free to travel and spend money on entertainment, or socialize with friends over meals out."

An enviable problem?

Some may argue this isn't a problem at all. Spending cautiously in retirement is the better part of wisdom, they would say, not an issue of concern. Besides, some retirees may *want* to live modestly in order to leave a large bequest.

However, living an unnecessarily frugal life *can* be a problem if fear or faulty assumptions leave you scrimping on healthcare, refusing to enjoy the fruits of your hard work and disciplined saving, or missing out on the joy of doing more of your "givin' while you're livin.'"

Here are three common reasons why some retirees find it difficult to spend, along with some suggestions.

1. A general hesitancy to spend

After years of systematic saving, many retirees find it difficult to flip the switch and start spending from their nest egg. What to do?

First, use the most powerful personal finance tool available—a budget.[3] Instead of relying on general rules of thumb, such as planning to spend 80% of your pre-retirement income, a personalized budget will help you accurately plan for your essential and discretionary expenses. Plus, whereas a budget helps some people avoid *over*-spending, it may help you avoid *under*-spending. Instead of instinctively believing you can't afford to take a trip or eat out, seeing in black and white that you actually *can* afford it may give you a new sense of financial freedom.

Also, covering most of your essential expenses with guaranteed income, such as Social Security and perhaps an immediate fixed annuity (purchased with a portion of your nest egg[4]), can be liberating. Knowing your essentials are covered may help you feel a bit more freedom regarding discretionary expenses.

2. Fear of catastrophic medical bills

There are some scary healthcare-related statistics floating around! One Fidelity study found that a 65-year-old couple retiring this year will need to spend $275,000 on healthcare over the course of their retirement (not including potential long-term care expenses). And Genworth's latest annual "Cost of Care" study reported the average monthly cost of a private room in a skilled nursing facility is now more than $8,000.

Here are some ways to combat those potentially debilitating expenses. First, fill Medicare coverage gaps with a Medigap or Medicare Advantage policy[5] and consider at least some long-term care insurance coverage,[6] especially if you have a family history of dementia.

Also consider purchasing a longevity (or "deferred income") annuity, which is a relatively affordable way of generating additional income starting at age 80 or 85, when your medical costs are likely to increase.

Last, if you're still working and using a high-deductible health insurance plan, make the maximum contributions to a Health Savings Account with an account provider that allows you to invest your balance.[7]

3. Fear of falling markets

Recent retirees may keep an especially tight rein on spending over concerns about *sequence of returns risk*—the possibility of a downturn right at the beginning of retirement, which *can* cause serious damage to a nest egg's staying power. What to do?

First, take *the bucket approach* in which you enter retirement with your nest egg distributed across several buckets. One, containing three-to-five years' of living expenses, would be in savings. Another, containing the majority of your portfolio, would be invested.

When the market is doing well, you tap your investment bucket to pay living expenses. When it isn't, you tap the savings bucket, allowing time for the market—and the invested portion of your portfolio—to recover. This can give you peace of mind about how much you're spending because your entire nest egg is not subject to the ebb and flow of the stock market.[8]

Next, make an informed decision about how much of your nest egg to withdraw each year. One of the most common approaches, *the 4% rule*, is to withdraw that percentage from your nest egg in the first year of retirement and then increase that amount by the inflation rate in each *(continued on page 190)*

[1]bit.ly/2yqnnZK [2]bit.ly/2yPLFjO (PDF) [3]July2015:p102
[4]March2013:Cover [5]Nov2017:p169 [6]Sept2012:Cover [7]bit.ly/2zx2z47
[8]Read more about this approach at bit.ly/2zrVFj5.

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 10/31/2017	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	40.4	24.1%	2.0%	4.5%	11.9%	24.0%	6.0%	1.16	0.11%	20%	16%	12%	8%	VXUS
Extended Market Index ETF	Small company stocks	38.7	14.2%	1.3%	5.2%	8.1%	25.4%	9.5%	1.21	0.08%	40%	32%	24%	16%	VXF
S&P 500 Index ETF	Large company stocks	37.3	16.7%	2.3%	4.7%	9.1%	23.5%	10.7%	1.00	0.04%	40%	32%	24%	16%	VOO
Total Bond Mkt Index ETF	Medium-term bonds	2.7	3.1%	0.0%	0.4%	1.5%	0.8%	2.4%	1.03	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 10/31/2017[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. ☎ Calamos Intl Growth	12/17	No	NTF	NTF	57.4	34.9%	3.6%	8.7%	19.3%	29.4%	8.0%	1.23	1.38	88	None	CIGRX
	2. Vanguard Intl Growth	09/17	Yes	Yes	Yes	62.4	40.5%	2.3%	7.4%	19.7%	35.3%	11.2%	1.41	0.46	133	None	VWIGX
	3. Selected International S	06/17	NTF	NTF	NTF	44.7	32.8%	1.1%	3.4%	13.0%	28.3%	8.0%	1.48	1.30	39	2%30days	SLSSX
Category 4 Small/Growth	1. Oberweis Micro Cap	11/15	NTF	NTF	NTF	68.9	25.9%	1.8%	10.0%	16.3%	42.6%	18.2%	1.35	1.65	90	1%90days	OBMCX
	2. Conestoga Small Cap	11/17	NTF	NTF	NTF	73.0	28.1%	3.3%	11.1%	19.6%	42.3%	16.4%	1.38	1.10	50	None	CCASX
	3. Baron Discovery	04/17	NTF	NTF	NTF	59.9	32.0%	0.6%	5.3%	15.1%	39.5%	13.8%	1.60	1.35	64	None	BDFFX
Category 3 Small/Value	1. Royce Opportunity	06/17	NTF	NTF	NTF	59.1	18.6%	0.9%	8.5%	11.9%	38.7%	10.9%	1.65	1.49	246	1%30days	RYOFX
	2. Zacks Small Cap	11/17	NTF	NTF	NTF	61.8	17.9%	3.5%	11.2%	12.8%	37.8%	13.0%	1.35	1.39	107	2%30days	ZSCCX
	3. AllianzGI NFJ Mid-Cap Val	06/17	No	NTF	NTF	53.8	22.6%	1.6%	5.0%	14.7%	34.2%	12.0%	1.12	0.99	102	None	PQNAX
Category 2 Large/Growth	1. Guggenheim S&P 500 Tech	04/17	ETF	ETF	ETF	64.0	32.2%	5.5%	10.3%	16.4%	37.3%	19.2%	1.42	0.40	70	None	RYT
	2. Fidelity OTC	06/17	Yes	NTF	Yes	62.4	35.8%	3.9%	7.1%	16.4%	38.9%	16.7%	1.50	0.81	235	None	FOCPX
	3. ☎ iShares Edge USA Moment	12/17	ETF	ETF	ETF	63.0	33.6%	5.0%	9.6%	19.2%	34.3%	16.3%	0.98	0.15	127	None	MTUM
Category 1 Large/Value	1. Toreador Core	05/17	NTF	NTF	NTF	58.3	21.0%	3.5%	11.1%	13.0%	34.2%	10.8%	1.23	1.20	97	2%60days	TORLX
	2. ☎ SPDR Dow Jones Indust	12/17	ETF	ETF	ETF	52.3	20.4%	4.5%	7.4%	13.0%	31.9%	13.1%	1.09	0.17	31	None	DIA
	3. Miller Opportunity	06/17	Yes[10]	Yes[10]	NTF	41.2	19.9%	0.4%	-0.5%	11.3%	30.3%	6.8%	2.14	1.36	37	None	LGOAX[10]
Bond Categories	Vanguard I-T Bond Index [6]	07/17	ETF	ETF	ETF	2.0	3.7%	0.0%	0.2%	1.4%	0.4%	2.9%	1.31	0.07	6.5[7]	None	BIV[8]
	Vanguard I-T Bond Index	01/15	ETF	ETF	ETF	2.0	3.7%	0.0%	0.2%	1.4%	0.4%	2.9%	1.31	0.07	6.5[7]	None	BIV[8]
	Vanguard S-T Bond Index	07/12	ETF	ETF	ETF	1.1	1.5%	0.0%	0.0%	0.5%	0.6%	1.3%	0.45	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-November, not those shown on this report. The fund ranked third is the one that currently appears most likely to be replaced next. A telephone symbol (☎) next to a fund's name indicates that fund is a new recommendation. See the fund writeups in "MoneyTalk" for more information. **[2]** Fund Availability: NTF means the fund can be bought and sold free of transaction fees as long as you stay within the trading limitations imposed by Scottrade (800-619-7283), Fidelity (800-343-3548), and Schwab (800-435-4000). Policies change frequently, so be sure to verify their accuracy. ETFs trade like stocks and are typically available at all brokers for a modest commission. **[3]** Momentum is a measure of a fund's performance over the past year and is our primary performance evaluation tool. For more, see July2014:p103. **[4]** A 1.0 relative risk score indicates the fund has had the same volatility as the market in general over the past three years. For example, a fund with a score of 1.4 would mean the fund was 1.4 times (40%) more volatile than the market. See June2015:p88. **[5]** Depending on how long you hold this fund, a redemption fee may be applicable when selling (for example, a fee of 1% if you sell within 60 days of purchase). Fees change often and vary from broker to broker, so be sure to check with your broker for the most current information. **[6] Rotating Fund:** This bond recommendation changes periodically based on SMI's Upgrading methodology. The Short-Term and Intermediate-Term Index recommendations shown below that fund are fixed and don't change from month to month. See January2015:p7 for more information. **[7] Duration:** For bond funds, this column shows the average duration of the bonds in the portfolio in years. Typically, the longer the duration, the greater the risk/reward. See Jun2012:p88. **[8]** Those preferring a traditional mutual-fund option can buy VBILX where available, otherwise VBIIX. **[9]** Those preferring a traditional mutual-fund option can buy VBIRX where available, otherwise VBISX. **[10]** At some brokers, the load-waived share class is LMNOX. Read the fund writeup (June:p93) before purchasing.

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

SOUND MIND PORTFOLIOS

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 Calamos International Growth, the highest-rated Cat. 4 fund available is Oberweis Micro Cap, 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	Calamos Intl Growth
Stock Cat. 4: Small/Growth	16%	$8,000	Oberweis Micro Cap
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

STOCK UPGRADING — NEW FUND RECOMMENDATIONS

[When more than one fund *in the same risk category* is replaced, you should evaluate which of the newly recommended funds is the best fit for your portfolio. The simplest method for picking new funds is to refer to our 1-3 rankings on the "Basic Strategies" page and invest in the highest-ranked fund in each risk category that is available through your broker. • We choose our recommended funds with the hope they will be held at least 12 months and therefore qualify for long-term capital-gains tax treatment (in taxable accounts). Nevertheless, we suggest a change when a recommended fund's performance falls below the threshold of our mechanical guidelines. Our guidelines provide objective criteria for making the decision as to when to "upgrade" to a better-performing fund. When a fund no longer meets our performance guidelines, we suggest you sell it even if the 12-month holding period hasn't been met. However, a "$" symbol following the name of the fund being sold lets you know we still think well of the fund and its management and you may wish to continue holding the fund for a month or two to achieve a tax benefit or to save on transaction or redemption fees. Be aware, however, that from 2006-2010, the average performance "cost" of retaining such funds was roughly 0.5% per month. For more details, see Oct2011:p153.]

◆ **In the Foreign group, Oakmark International (OAKIX, 12/2016) is being replaced.$** This fund has earned a whopping +31.8% for us in the year that we've owned it (through 11/24), which makes it rather remarkable that we're replacing it as a result of it falling out of the top quartile. While that performance was solidly ahead of the +26.4% gain of its average peer in the Morningstar "Large Blend" group for the same period, foreign funds with a more specific focus on growth stocks have been performing even better lately. Note that we're selling with a significant gain right at the one-year mark, so those who own this fund in a taxable account should note their buy/sell dates carefully—holding for longer than 365 days will qualify for long-term capital-gains treatment.

• **Calamos International Growth (CIGRX) is being added.[1]** This fund focuses on foreign large-growth stocks, which puts it squarely in the market's recent sweet spot and explains its rise up the rankings this year.

Important note: Calamos is likely a new name to most SMI members. That's because this is a load fund that has recently been made available on a load-waived basis through certain brokerage platforms, including Fidelity, Schwab, and TD Ameritrade. As we wrote last March and June when recommending other load-waived funds, it is crucial that you check the terms of purchase for this fund at your broker (especially if using a different broker than the three listed above), and *buy this fund only if you can do so without paying the load/sales charge on your purchase*. The fund is *not* recommended if you cannot buy it on a load-waived basis.

◆ **In the Large/Growth group, Baron Partners (BPTRX, 5/2017) is being replaced.** We never thought we'd see the day Baron Partners was replaced for underperforming during a raging bull market, but that's indeed the case this month. Despite Baron's solid +9.5% gain in the first six months it was recommended (May-October), that trailed the +11.1% gain of the average fund in SMI's large/growth group. It's a surprise because Baron Partners is one of the most aggressive funds in its class. Baron's significantly below-average exposure to the technology sector was likely responsible, as the market's gains have become increasingly tech-focused as 2017 has gone on.

• **iShares Edge MSCI USA Momentum Factor ETF (MTUM) is being added.[1]** The concept of momentum likely needs little explanation (as most of SMI's investment strategies are built upon it), but here's a brief summary for newer readers: Momentum refers to the process of investing in recent top-performing stocks/funds based on the observation that recent performance tends to persist into the short-term future.[2] That said, there are many different ways to implement the momentum concept, and this ETF's approach is to use mostly medium- and large-company stocks, evaluating them on a risk-adjusted basis. Taking volatility into account can water down the momentum approach a bit, but it definitely helps keep turnover—and as a result, the ETF's costs—down, which is important for a fairly high-turnover portfolio of roughly 120 stocks. So far the approach is working, as this ETF has landed in the top 10% of large/growth funds tracked by Morningstar in three of the four calendar years since it was introduced in 2014.

◆ **In the Large/Value group, Dodge & Cox Stock (DODGX, 12/2016) is being replaced.$** This is another recommendation being replaced right at the one-year mark, so if you own it in a taxable account be sure to read the instructions detailed in the Oakmark International write-up above.

This Dodge & Cox fund performed well for us over the past year, gaining +14.1% (through 11/24) which was slightly ahead of the +13.8% gain of the average large/value fund tracked by Morningstar. Once again, the market's strength is the driving factor in replacing this fund. Despite a solid gain, other funds are simply advancing faster. Large/*value* funds such as this Dodge & Cox offering have performed well in 2017 (up +11.5% year-to-date), but the real action has been in large/*growth* stocks, where the average fund is up more than twice as much (+23.6% year-to-date). Given that SMI's large/value group contains *both* pure-value funds as well as hybrid growth/value funds (the so-called "blend" funds), it's not surprising that those with a blend emphasis are shining brightest right now.

• **SPDR Dow Jones Industrial Average ETF (DIA) is being added.[1]** This ETF is pretty straightforward, investing in the 30 stocks that make up the Dow Jones Industrial Average index. In many respects, "the Dow" is an antiquated index, created for an era when ease of computation (by hand) was paramount.[3] Thus it's more narrow, focusing on only 30 stocks, and uses an odd weighting system that gives greater representation to stocks with higher prices. That said, its history dates back to 1896 and it comprises a who's-who of American industry. These stocks are the biggest, best-known companies in the U.S., which for the most part means mature businesses with a slight value tilt (rather than quickly growing upstarts). That said, there's still some growth mixed in as well, which has helped this ETF rise up the large/value rankings in this year's rallying market. ◆

[1]For more on this fund, visit www.morningstar.com. [2]See bit.ly/smimomentum for a more thorough discussion of the subject. [3]Visit bit.ly/smiindexes to learn the pros/cons of various market indexes.

MONEYTALK

COVER ARTICLE / CONTINUED FROM PAGE 181:

YOUR 10 MOST IMPORTANT FINANCIAL MOVES FOR 2018

Is your up-to-date medical information (immunizations, medications, allergies, dates of medical procedures) readily available? Do you have advanced-directive medical documents (a living will, a power-of-attorney document, a form authorizing release of information to a loved one and friend)?

❑ **Fill the gaps in your Medicare coverage.**[56] If you have Medicare but not a supplemental Medigap policy or a Medicare Advantage plan, you're leaving yourself exposed to potentially costly deductibles and coinsurance obligations.

❑ **Avoid education-related debt.**[57] It is tempting to borrow money to help pay for a child's college education, either directly via a Parent PLUS loan (a type of student loan) or indirectly via a home-equity loan or credit card. It's wise to avoid borrowing altogether, but if that isn't possible, it is better for the student to borrow, rather than the parents. Parents have fewer years to recover financially from the debt burden.

❑ **Be wary of fixed index annuities, an increasingly popular retirement-related financial offering.**[58] An FIA is an insurance product that promises the upside of market-based investing (or at least a portion of it), but without any downside losses. It's an attractive promise but it's not without limitations, so be sure you understand all the details.

❑ **If you are remarrying, consider a premarital agreement.**[59] For first marriages, such agreements rarely are appropriate and can undermine the marital bond. However, such a document can help avoid financial misunderstandings or legal issues that could arise between a surviving second spouse and the children from an earlier marriage. If properly used, a premarital agreement can help ensure harmony in the family and fulfill the biblical injunction to care for one's children, while not undermining a marriage relationship.

❑ **Give wisely to your grandchildren.**[60] In most cases, a young person is better off having too little money than too much. If you want to help, talk to the parents about helping fund private elementary and/or secondary school. Or consider paying for a multi-generational vacation, where children, parents, and grandparents can spend time together and build memories.

❑ **To make your giving more tax-efficient, consider a donor-advised fund.**[61] Donor-advised funds offer significant advantages over setting up a private foundation, including greater simplicity and lesser cost. Such a fund also makes it easy to make anonymous grants and tax-advantaged gifts of non-cash assets.

❑ **Find an alternative to joining AARP.**[62] Many Americans of a conservative bent don't want to support AARP's left-of-center political activism. Millions are turning to alternative organizations for older Americans.

❑ **Be frugal in retirement, but not too frugal.**[63] Many of us worry about running out of money in retirement, but new research suggests the oft-recommended 4% withdrawal rate may be overly conservative. Don't be so tight-fisted that you forfeit opportunities to travel or enjoy other experiences that allow you to spend time with loved ones.

Career / Income Taxes / Cybersecurity / Miscellaneous

❑ **Bullet-proof your career.**[64] Few people have guaranteed *employment*, but you can have almost-guaranteed *employability* if you keep your skills current. Today, there are many options for continuing education, including online courses offered by major universities.

❑ **Advance your career through mentoring.**[65] A mentor can act as a sounding board regarding work-related issues and give you counsel on managing your long-term career path. Are you past the stage of needing a mentor? Consider *being* a mentor for a younger worker. It might help you gain a renewed passion for your own work.

❑ **Take action to balance your work life and family life.**[66] No good comes from overworking, especially when it is at the expense of your spouse and children. Set boundaries for your work-related time commitments and stick to them.

❑ **Take the initiative in addressing a tax liability.**[67] If you owe income taxes but don't have the money to pay, the worst thing you can do is ignore the problem. Run toward the IRS, not away from them. Uncle Sam can be a patient creditor if you stay in touch and work things out.

❑ **Protect your assets by stepping up your cybersecurity.**[68] Easy-to-guess passwords are an open invitation to hackers and online thieves. Start using a password manager app that makes it easy to have many different (and difficult-to-guess) passwords.

❑ **Treat the 2017 Equifax hack as a wake-up call.**[69] The 2017 cyber-theft at credit-reporting agency Equifax compromised the financial and identity information of more than 145 million Americans. Take steps to protect your information by signing up for credit-file monitoring, or by locking or freezing your credit reports at the three major credit bureaus. At the least, regularly review your credit reports at AnnualCreditReport.com.

❑ **Familiarize yourself with bitcoin and other cryptocurrencies.**[70] Returns posted by these newer forms of virtual money have been remarkable, but cryptocurrencies also have been hyper-volatile. Don't lose sight of the fact that investing in cryptocurrencies is a risky business.

❑ **Learn more about the FIRE movement.**[71] A growing number of people in their 20s and 30s are catching FIRE—they want to become Financially Independent and Retire Early. To reach their goal, they're trimming their living expenses and ramping up their saving/investing to half or more of their take-home pay. If FIRE interests you, consider your motives—as well as your willingness (and that of your spouse, if married) to cut your living expenses in pursuit of your goal. ◆

[56] Nov:p169 [57] Mar:p41 [58] Dec:p184 [59] May:p73 [60] Apr:p57 [61] Jul:p105 [62] Aug:p121 [63] Dec:p185 [64] Mar:p38 [65] Sep:p134 [66] Nov:Cover [67] Apr:p54 [68] Jun:p86 [69] Oct:p150 [70] Sep:p136 [71] Sep:p137

MONEYTALK

LEVEL 1 / CONTINUED FROM PAGE 182:

HOW TO BUY LOW THIS CHRISTMAS SEASON (AND ALWAYS)

To do a lower-price search on your own, set a price alert at CamelCamelCamel.com. The service will notify you if Amazon lowers its price for an item you bought (or are considering buying) below a certain amount. Or use a price comparison site, such as PriceGrabber or PriceBlink.

Savvy shoppers can use price matching when making a purchase and then continue to look for even lower prices for 30-60 days after the purchase to see if they are eligible for a rebate from their credit-card company. ◆

LEVEL 3 / CONTINUED FROM PAGE 184:

FIXED INDEX ANNUITIES: UNDERSTANDING THE DRAWBACKS

because dividend payments account for a significant percentage of total returns in stock-based investing.

Further, even the minimum guaranteed rate for FIAs is somewhat restrained because typically it is paid only on 87.5% of the premium, i.e., the "minimum guaranteed surrender value" set by state insurance laws. For example, if you invest $100,000 in an FIA, the fixed rate would be paid on $87,500, not on the full $100,000.

A final consideration is the "surrender charge," the amount assessed if the annuity holder makes withdrawals in excess of a certain amount or chooses to cancel the annuity before the date specified in the contract (usually 5-to-15 years from the date of purchase). Surrender fees commonly start at 10% of the amount withdrawn and decline by one percentage point per year.[1]

The surrender charge, the cap, the participation rate, etc., are all part of the ongoing "built-in" costs of fixed index annuities, which typically don't charge upfront fees or commissions.

Think it through

During market advances, the restraints that limit the upside potential of FIAs represent a significant *opportunity* cost. By tying up money in the annuity, the investor forfeits the opportunity to have those funds earn greater returns in a different type of investment.

Those wishing to accomplish the twin tasks of maintaining market exposure *and* protecting against losses should consider using SMI's Dynamic Asset Allocation approach instead. DAA can't guarantee no loss of capital, as fixed index annuities can, but DAA does significantly reduce downside risk[2] while offering greater upside potential than FIAs. And with DAA, your money remains liquid, rather than being tied up in a long-term contract.

At the very least, we suggest you ask plenty of questions before signing an FIA contract, including:

- What is the financial-strength rating of the insurance company offering this annuity?[3] (Remember, an annuity is the company's multi-year promise that it will meet an obligation to you.)
- What is the minimum rate of return, and what is the principal amount on which it will be paid?
- What happens to my account balance and income payments if I die before the end of the contract?
- Does the FIA offer payments for life (as opposed to another specified period)?
- Which stock index does the annuity track?
- How will the index's performance be measured?
- What is the participation rate? The cap? The spread?
- Does the insurer have the right to change the cap?
- What penalties will I pay if I end the contract early? ◆

LEVEL 4 / CONTINUED FROM PAGE 185:

AVOIDING AN UNNECESSARILY FRUGAL RETIREMENT

subsequent year. This approach is designed to help ensure you don't fully deplete your retirement savings over the course of your remaining years.

However, according to an analysis done by Michael Kitces,[4] a financial planner and author of the popular *Nerd's Eye View* blog, "most retirees actually could spend far more, either initially or by increasing spending along the way." In fact, he found that when retirees follow the 4% rule, over two-thirds of the time their nest egg ends up *twice as large* by the time they die as it was at the beginning of their retirement.

To allow more freedom of spending, while also addressing the common desire to err on the side of caution, Kitces recommends taking a *ratchet-style* approach. Begin by following the 4% rule, but allow yourself to increase withdrawals by 10% (above the annual inflation adjustment) if your portfolio balance rises more than 50% above its starting value.

Other planners have suggested pairing the 4% rule with a *dynamic withdrawal strategy*, where an annual review of portfolio returns and spending needs may lead to higher or lower spending in the year ahead.

However, Kitces' ratcheting strategy is designed to avoid ever having to lower spending. "It turns out that any time the account balance ever grows 50% above its starting value (after withdrawals), the portfolio is already far enough ahead that it won't be depleted in a 30-year time horizon and there will be extra money left over," he wrote.

To add one more protective layer to the idea, Kitces recommends not ratcheting up spending any more frequently than once every three years.

Avoiding sequence of *frugality* risk

As you consider your retirement spending, keep this final point in mind. There's a difference between *voluntary frugality* and *frugality that may be dictated by your circumstances*. The early years of retirement are when you will be healthiest and most able to travel and enjoy various recreational activities. As time goes on, declining health may mean transitioning from the *go-go* years to the *slow-go* years to the *no-go* years. Hopefully the ideas discussed here will free you to enjoy financially attainable experiences while those experiences are still an option. ◆

[1]There is also a 10% tax penalty for withdrawing from a tax-deferred retirement vehicle before the age of 59½. [2]Oct2017:p146 [3]You can check company ratings online at bit.ly/2AGYoSH. [4]bit.ly/2zxvLtU

MONEYTALK

CHRISTMAS GIFT BOOK ANNOUNCEMENT
by Austin Pryor

In 1995, I began what has since become an annual Christmas tradition: offering, as a gift to our members, a book that has been meaningful to me in my Christian life. I do this for two reasons. First, because it's appropriate for SMI to express appreciation for your support. Without loyal readers, we could not have served the body of Christ these past 27 years. And second, we want to encourage you in areas beyond the mechanics of stewardship. How we handle God's money is important, but how we walk daily with Christ is life itself.

This year, for the second time, I've selected *When I Don't Desire God* by John Piper. The first time, in 2005, we received the second highest number of requests in the 20+ year history of our Christmas book giveaway. Apparently, many of us believe we don't live out a desire for God as we should.

See the editorial on page 178 for an excerpt in which Piper explains what he hopes to accomplish in the lives of his readers through the book. His emphasis throughout is on finding our joy in the person of Christ.

To receive your gift copy, send your written request (no phone calls or emails, please) to: Christmas Gift Book, Sound Mind Investing, Unit 202, 9700 Park Plaza Ave, Louisville, KY 40241-2287. Please note: *This offer is for currently active SMI members only. Your letter must be postmarked no later than December 20*. (Please don't request this gift copy unless you are committed to reading it—the cost of sending out hundreds of books is substantial.) You should receive your book by the end of January.

My wife Susie and I trust this book will encourage you to "Give thanks to the LORD, for He is good..." (Psalm 106:1). As John Piper points out, our gratitude is ultimately rooted in what God *is*, not in what he *gives*.

May you and your family have a spiritually fulfilling celebration of Christ's first coming as you rejoice in our Savior. From the SMI staff and all the Pryor family, Merry Christmas! ◆

MARKET NOTES, QUOTES, AND ANECDOTES

No love lost on today's bull market

• "The VIX is too low, valuations are too high, the recovery is too old and the Fed is tightening. For an old market dude like me, that is a scary list." — Jim Paulsen, Leuthold Group market strategist, quoted in the *New York Times* on 11/5/17. Read more at nyti.ms/2jaxEmj.

If past were prologue

• "...every study of prior market years that acted like 2017 leaves the benefit of the doubt with the bulls. Whenever the S&P 500 has made a record high in September, or posted seven straight months of gains, or been up at least 15 percent through October (all applicable now) the ensuing months of the year have a better-than-average tendency to rise more than the norm." — CBNC senior markets commentator Michael Santoli, writing on 11/19/17 that history is on the side of a strong finish in the markets. Read more at cnb.cx/2zVJICl.

What's your benchmark?

• "Using a desired return, such as the S&P 500, as your compass for success will likely steer you into troubled waters. Most investors have portfolios more balanced between stocks and bonds, so a performance comparison with an all-stock index is bound to disappoint." — Donald Bennyhoff, Vanguard senior investment analyst. Instead of using a *desired* return, he recommends benchmarking against your *required* return, which should come from a personal investment plan. Read more at vgi.vg/2iyUrc0.

The importance of being humble

• "...almost every epic investment blunder in history was the direct result of overconfidence. Long Term Capital Management were confident that bond spreads couldn't widen beyond a certain point for a prolonged period of time. Investors during the Dot Com Bubble thought that the internet was the future of the economy. When the treasurer of Orange County's investment fund was asked how he knew interest rates wouldn't rise, he replied: 'I am one of the largest investors in America. I know these things.' His fund filed for bankruptcy within a year." — *Of Dollars and Data* blogger Nick Maggiuli writing about the dangers of the Dunning-Kruger effect, a cognitive bias in which people with low ability think of themselves as having high ability. Read more at bit.ly/2hQ6CE2.

With investing, the race is to those who start early

• "It is tempting to look at an outlier—a company, a brand, a net worth—and study the most recent things that added to its success.... So we write 2,000 books on how Buffett sizes up management teams when the biggest and most practical takeaway from his success is, 'Start investing when you're in third grade.'" — Morgan Housel, writer at *The Collaborative Fund*, explaining that a key reason why Warren Buffett was able to build so much wealth was that he started investing so much earlier than most people. Read more at bit.ly/2B8AvEu.

'Tis the season to shop... your Medicare plan

• "Retirees on Medicare view healthcare as their most burdensome expense. But they are less likely to comparison shop for Medicare plans than for their groceries and gas, even though plan shopping would probably save more money." — Kim Blanton, author of the *Squared Away* blog, writing on 11/21/17 about the importance of reviewing your Medicare coverage during open enrollment, which is taking place now until December 7. Read more at bit.ly/2zpBu65.

PERIODICALS POSTAGE
PAID AT LOUISVILLE, KENTUCKY

Dated Investment Material
Please Do Not Delay!

PERFORMANCE DATA

SOUND MIND INVESTING MODEL PORTFOLIOS • DATA THROUGH OCTOBER 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]	16.2%	2.2%	4.9%	24.0%	10.7%	15.2%	7.6%	10.1%
Just-the-Basics[2]	17.2%	1.9%	4.9%	24.5%	9.4%	13.7%	6.7%	10.3%
Stock Upgrading[3]	15.7%	1.7%	5.5%	23.5%	9.3%	13.4%	6.0%	11.3%
U.S. Bond Market[4]	3.2%	0.1%	0.4%	0.7%	2.2%	1.9%	4.0%	4.1%
Bond Upgrading[5]	2.4%	0.0%	0.1%	1.2%	2.2%	2.9%	6.3%	6.6%

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]	12.6%	1.4%	2.6%	8.6%	2.6%	7.1%	8.3%	11.7%
Sector Rotation[7]	58.1%	16.1%	29.8%	76.9%	23.4%	33.7%	17.3%	20.3%
50-40-10 Blend[8]	18.4%	3.3%	6.8%	20.9%	7.6%	12.5%	8.8%	12.9%

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 10/31/2017	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	14.76%	1.87%	5.56%	21.55%	6.98%	11.82%	4.67%
Wilshire 5000	16.17%	2.15%	4.87%	23.96%	10.74%	15.16%	7.64%
S&P 500	16.91%	2.33%	4.76%	23.63%	10.77%	15.18%	7.51%

Quarterly Returns as of 9/30/2017	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	12.65%	3.19%	6.13%	15.94%	6.75%	11.04%	5.11%
Wilshire 5000	13.73%	2.41%	4.59%	18.89%	10.96%	14.27%	7.61%
S&P 500	14.24%	2.06%	4.48%	18.61%	10.81%	14.22%	7.44%

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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