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SMI's 2018 Broker Review: Choosing the Broker That's Right for You

Since our last broker review three years ago, the online brokerage landscape has consolidated. TD Ameritrade acquired Scottrade in 2017 and is in the final stages of transferring those accounts to the TDA platform. This change affects many SMI members since Scottrade had been one of our recommended brokers. Also since our last review, several brokers have altered policies, changed fees, and/or changed their lineup of funds that trade at no cost. Read on for the details you need to choose the best broker for your situation.

by Mark Biller, Matt Bell, and Joseph Slife

New SMI members have two important choices to make: which strategy (or strategies) to implement, and which broker to use. As you'll soon see, the first choice will help determine the second.

The discount broker landscape has been consolidating for years. Robust competition between the top competitors has drastically cut costs and improved services. The end result for SMI readers is a fairly clean division between the top two options and everyone else. Much as it's difficult for smaller retailers to compete with Amazon, it's tough for other brokers to deal with the size and scope of services offered by Fidelity and Schwab, the clear-cut top options.

What's a former Scottrade customer to do? It's difficult not to interpret TD Ameritrade's acquisition of Scottrade accounts as bad news. After all, TDA requires a 180-day holding period to avoid short-term trading fees on no-transaction-fee (NTF) mutual funds, which is pretty much a deal-breaker when it comes to using TDA for SMI's Upgrading strategy. However, TDA still makes sense for certain groups of SMI readers. So be sure to read the TDA section of this article, as well as this month's announcement on page 40, before concluding you'll have to make a change.

Since Scottrade is no more, SMI has decided to add E-Trade as a replacement. That's not to suggest all Scottrade clients should blindly switch to E-Trade. But E-Trade is a close fit for the low-cost niche formerly filled by Scottrade. Meanwhile, Vanguard continues to improve its services and is pressing in on the top tier of providers. They are a commendable option for many investors. We also looked at several other brokers, including Firstrade, Merrill Edge, and Siebert.

However, *for the specific needs of most SMI members*, Fidelity and Schwab are tough to beat.

Industry background

The discount-brokerage business is only a few decades old, yet because of the opportunities (and pressures) created by the advent of the internet, the industry has undergone dramatic changes and rapid shifts of power. Within that short time frame, we've seen industry leaders lose their way and recover it, as well as a whole new generation of entrants arise (many (continued on page 35)

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

EDITORIAL

Recent Correction Raises the Question: Are You Ready for the Next Bear Market?

The winds of change blew through the financial markets in February, leading to the first stock-market correction (a decline of at least 10% from the previous high) in two years. What caused the correction, and what—if anything—do these developments mean? Here's some perspective on what we've seen so far in 2018.[1]

• **High valuations.** The stock market had been so strong for so long that some sort of drop was overdue. More importantly, stock valuations are *still* so high that everything needs to unfold perfectly for those valuations to be justified. That "Goldilocks" picture was temporarily disturbed by inflation concerns and the market plunged in response.

• **Inflation concerns.** The jobs report released in early February showed wage growth had increased faster than expected, sending bond yields higher and stock prices lower. It's been a long time since *good* news for the economy has been interpreted as *bad* news for the financial markets, but that's what happened here. It could be a harbinger of things to come, if faster economic growth threatens to accelerate the pace of interest-rate increases.

• **Rising interest rates.** Inflation is the bane of fixed-income investments, because it forces bond yields higher and prices lower. Interest rates already had been rising in 2018 before the inflation surprise. Given that some believed inflation was *permanently* buried as an investment concern (due to demographics, automation trends, etc.), its sudden reappearance forced investors to rethink if current valuations were appropriate. For about two weeks, that answer was "apparently not."

• **Portfolio hedging and betting against volatility.** In recent years, some investors made money betting that the lack of market volatility would continue. The sudden unwinding of these risky positions contributed to the speed and severity of the recent correction. And while the *retail* investor side of this trade largely blew up, some believe the *institutional* side of this trade is still intact. Which means it continues to represent a future risk.

The four factors described above remain in play. None was resolved, even if the immediate fears they produced have receded. To those factors, there's another that promises to grow in prominence in coming months:

• **Central bank "Quantitative Tightening."** Since 2009, the central banks of the world have engaged in "Quantitative Easing," which can be loosely thought of as using government money to boost the prices of stocks, bonds, and other financial assets. Now, the U.S. Federal Reserve has set an explicit schedule to sell the assets acquired under its QE program, and other central banks are expected to follow suit. The net effect will be to turn Quantitative *Easing* into Quantitative *Tightening*. This monetary policy experiment has never been tried before, so no one really knows what to expect. But *QE* clearly pushed asset prices higher, so it's not crazy to suspect *QT* might have the opposite effect.

While the recent correction doesn't tell us much about the likelihood of the next bear market, it does remind us of one absolute truth of investing: the market *always* cycles between bull markets and bear markets. If you're going to be an investor over a span of decades, you're going to have to weather a number of bear markets.

Our counsel on how to do that is simple: continue to rely on the discipline imposed by a structured, proven approach to risk management. This will save you from your emotions and counterproductive buying/selling.

Such an approach means following a personalized long-term plan, which balances your need for growth with your fear of loss. If your plan is set correctly, then bear markets can be weathered financially *and* emotionally. If you need help establishing—or sticking with—an appropriate investing plan, see the announcement on page 40.

If the recent correction has you fretting over the risks of an upcoming bear market, consider reducing your stock holdings. SMI's Dynamic Asset Allocation and Fund Upgrading[2] strategies have some risk protection built into them, but that's no substitute for an appropriate blending of riskier and conservative holdings in your portfolio.

When market storms come—and they will—it's important that you trust your predetermined plan, rather than being blown about by the emotion of the moment.

MARK BILLER
EXECUTIVE EDITOR

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[1]Much of this information was provided to SMI members online as events unfolded. If real-time updates like these would be helpful to you, be sure to visit the SMI website during periods of market volatility. [2]See the Jan 2018 cover article for information on "Upgrading 2.0."

SMI's 2018 Broker Review

(continued from front page)

of which were soon gobbled up by larger competitors).

Through it all, change has been the only constant. Competition for customer assets and accounts has produced intense innovation and driven prices down to levels once considered unimaginable. Brokerage customers have been the big winners as more and better services have been added at continually declining prices.

Compare today's competitive environment to 30 years ago. In the mid-1980s, mutual-fund investors essentially had two options: Go with a traditional broker and gain access to a wide variety of pricey load funds, or avoid loads by opening an account directly with a specific no-load mutual-fund company that offered a sharply limited fund lineup. In other words, it was fund variety at high cost or extremely limited choices at low cost.

That changed when Charles Schwab introduced the mutual-fund supermarket in 1984, offering 140 no-load mutual funds through its Mutual Fund MarketPlace. Fidelity quickly followed with its own discount-broker model. The fund-supermarket approach offered investors the best of both worlds: a broad range of fund choices at a fraction of the full-service brokerage price. Not surprisingly, SMI has recommended both Schwab and Fidelity since our first issue in 1990. These two companies continue to lead the discount-broker pack, both in terms of the size of their operations and the customer experiences they offer.

But the rest of the broker marketplace didn't stand still. As the bull market of the 1990s unfolded, Schwab and Fidelity found themselves pushed by a crowd of new competitors. The primary appeal of the challengers was simple: lower fees than the two big guys. It wasn't long before TD Waterhouse (which became TD Ameritrade) and Scottrade showed up on SMI's radar screen because of their lower overall costs for smaller accounts and their more lenient policies in a few key areas of particular interest to Upgraders.

Vanguard's excellence at low-cost indexing has long provided a niche appeal for SMI members as well, although that turf has been encroached upon, and now even exceeded to some degree, by other brokers. As it usually does, competition means lower costs for customers. Just last year, another fee battle broke out, this time leading to lower ETF commissions at most of the brokers that are attractive to SMI members.

Choosing the "right" broker

One of the first questions an SMI member grapples with is, "Where should I open my account?" While Fidelity offers the most overall flexibility for following any of SMI's strategies, the best home for *your* account will be dictated largely by which investing strategy you intend to pursue.

Just-the-Basics followers will want no-fee access to the Vanguard index funds. No problem. A brokerage account with Vanguard fills the bill.[1] For those following Fund Upgrading, several brokers offer many of the recommended funds on a no-transaction-fee basis. Those following Dynamic Asset Allocation (DAA), which requires the use of exchange-traded funds (ETFs), will find their needs met at all of our recommended brokers, albeit with slightly varying commission costs.

Here's a look at which brokers work best for each of the SMI strategies.

Fund Upgrading

While the brokers in our survey do a good job with most of SMI's strategies, that's not necessarily the case with Fund Upgrading. The needs here are more specific, and the gap between best and worst broker alternatives is much more substantial. Here are the critical criteria for Upgrading:

- **Selection of No-Transaction-Fee (NTF) Funds (more is better).** These are funds you can buy and sell within your account without paying any commissions or transaction fees. You want a broker that offers an abundance of NTF funds.
- **NTF Holding Periods (shorter is better).** To discourage overly active trading, most brokers require you to hold NTF-fund shares for a certain number of days to qualify for the no-transaction-fee price break. If you sell your holdings too quickly, you're penalized with a "short-term redemption fee."

The most common required holding period is 90 days. However, some brokers, including TD Ameritrade, still mandate a deal-breaking (for Fund Upgrading) 180 days. On the other hand, Fidelity and Vanguard feature 60-day holding periods, which is very Upgrading-friendly.

How often you will have to pay a short-term redemption fee depends on your trading patterns. If you use dollar-cost averaging (investing month-by-month in funds you already hold), you are likely to incur these fees. But if you typically make a single purchase of each fund and don't add additional money, you rarely will pay a trading fee if you use a broker with a 60- or 90-day holding period. That's because SMI seldom sells recommended funds within three months (the average recommended fund is held about nine months). However, a not-insignificant number are sold within *six* months. When that happens, you'll pay for that transaction if your broker has a 180-day requirement.

- **Short-term Redemption Fees (lower is better).** If you eventually do have to pay a short-term trading fee, you want that fee to be as low as possible. All of our recommended brokers charge about $50 for this. (Note that these fees go to the *broker*, and are above and beyond any "early-redemption" fee the *fund* itself might mandate. Broker-imposed short-term fees are listed in the table on page 36; any fund-specific short-term redemption fees for our recommended funds are listed on the "Basic Strategies" page of each monthly issue of SMI.)
- **Transaction Fees on Non-NTF Fund Purchases (lower is better).** Any fund labeled "Yes" in the list of recommended Upgrading funds (see page 42) is available through the particular broker listed, but the broker will charge a transaction fee when you buy that fund and, in most cases, another when you sell it. (Fidelity and Schwab are unique in charging a transaction fee *only* when you buy; it costs nothing to sell.)

If you use Fund Upgrading, keep this important point in mind: When we recommend that a fund be sold, it's basic to our Upgrading strategy that you (1) do so quickly, and (2) normally replace it with the highest-ranked fund available at your broker (as explained in *Upgrading: Easy as 1-2-3* on page 43).

[1] Our other recommended brokers offer adequate alternative funds as well, mostly on a no-fee basis.

While it's perfectly fine to hold a fund an extra day or two if that helps you avoid a short-term redemption fee, we sometimes hear from readers who continue to hold a fund an extra two or three *months* after our "sell" signal. They do this to avoid paying a fee. Or, they bought the third-ranked fund in a certain risk category because the two top-ranked funds required transaction fees. Usually, this preoccupation with avoiding fees doesn't pay off. In our experience, you're better off simply accepting the fact that paying fees sometimes is inevitable in following the Upgrading strategy. That said, choosing a broker with Upgrading-friendly policies and fees will help you avoid the temptation to hold funds longer than you should or to buy funds other than the top-recommended funds simply to avoid a fee.

Dynamic Asset Allocation

Those following Dynamic Asset Allocation need access to only six ETFs, all of which are available at each of the brokers reviewed. The only difference is the commission charged. However, with ETF commissions as low as they are, and with each broker providing at least three of the six ETFs (or adequate alternatives) at no cost, each broker received an Excellent rating for DAA.

One word of caution: While it's rare for DAA to purchase a particular ETF one month only to sell it the next, it *has* happened. With some brokers (Fidelity, E-Trade, and TDA) charging a short-term redemption fee for no-commission ETFs held less than 30 days, be sure to buy the new recommendations as soon as they are recommended, and always be sure you are past the 30-day mark when selling.

Just-the-Basics

The needs of those following Just-the-Basics (JtB) are…basic. You want access to the recommended funds (typically three, but four if your optimal asset allocation calls for the use of bonds) or appropriate alternatives. While it would be nice not to be charged any fees to buy or sell, this matters less with JtB than with SMI's other strategies due to the fact that there is no selling of funds throughout the year.

Vanguard is the go-to broker for Just-the-Basics. All of the recommended JtB funds are Vanguard ETFs, which trade for free at Vanguard. However, JtB can be implemented at the other brokers, using traditional mutual funds or a combination of mutual funds and ETFs. Only at E-Trade will you have to pay a transaction fee, and that applies to only one of the JtB funds.

Sector Rotation

This high-risk/high-reward strategy can be implemented at each broker listed in the table below. However, Sector Rotation (SR) investors will pay the least at Fidelity. That's because the SR fund universe contains many Fidelity funds, which (as you might guess) Fidelity offers on a no-transaction fee basis. In addition, Fidelity generally offers the highest number of non-Fidelity NTF funds used within the SMI strategies.

50/40/10

SMI introduced the idea of combining specific strategies—50% DAA, 40% Fund Upgrading, and 10% Sector Rotation—in May of 2014,[1] demonstrating that doing so can *reduce* risk while *increasing* returns. Those interested in this approach will find Fidelity and Schwab best-suited to their needs.

Here's a look at each broker's strengths and weaknesses:

Fidelity

Fidelity was once in TDA's position: difficult to recommend because of the 180-day holding period it required to avoid paying short-term redemption fees for its NTF funds. What a difference a few years can make! Now, Fidelity is the most SMI-friendly broker in the business, earning "Excellent" ratings for every one of our strategies.

Today, Fidelity requires only a 60-day holding period for NTF funds. While that nearly erases any chance of an SMI member ever incurring a short-term redemption fee, in the unlikely event that it does happen, Fidelity's fee is $49.95—down from the $75 it once charged.

Fidelity's fee for purchasing non-NTF funds is $49.95 for most funds, although some still require a fee of $75. This fee is charged only on the *purchase* of non-NTF funds; there is no fee for selling such funds.

• **Upgrading.** Importantly for those following Fund Upgrading, Fidelity and Schwab tied for the best overall availability of the strategy's recommended funds. Over the past three years, of the 64 traditional mutual funds that were recommended (14 ETFs were also recommended), only *one* was unavailable at Fidelity and Schwab. However, among those, Fidelity offered the highest number with no transaction fee—51 were available NTF at Fidelity. (See fund availability table on next page.)

• **DAA.** For those following Dynamic Asset Allocation, three of the six ETFs can be traded at Fidelity with no commissions (one is

SUITABILITY OF SMI STRATEGIES AT LEADING DISCOUNT BROKERS

	Fidelity	Schwab	E-Trade	TDA	Vanguard
Fund Upgrading	Excellent	Good	Fair	Poor	Fair
Dynamic Asset Allocation	Excellent	Excellent	Excellent	Excellent	Excellent
Just-the-Basics	Excellent	Excellent	Good	Excellent	Excellent
Sector Rotation	Excellent	Good	Good	Good	Fair
50-40-10	Excellent	Good	**Fair**	Poor	Fair
NTF Fund Selection	Excellent	Good	Fair	Fair	Fair
NTF Fund Holding Period	60 days	90 days	90 days	180 days	60 days
NTF Fund S-T Redemption Fee	$49.95	$49.95	$49.99	$49.99	$50
Non-NTF Fund Purchase Fee	$49.95-$75	$76	$19.99	$49.99	$50/$20/$8[1]
Non-NTF Fund Sell Fee	$0	$0	$19.99	$49.99	$50/$20/$8[1]
Commission for Non-NTF ETFs	$4.95	$4.95	$6.95	$6.95	$20/$7/$2[2]
NTF ETFs S-T Redemption Fee[3]	$4.95	N/A	$19.99	$13.90	N/A
Minimum to Open Account	$0	$1,000[4]	$500/$0[5]	$0	$0
Suitability for Small Portfolios	Excellent	Good	Excellent	Excellent	Excellent

[1]$50 if account balance is <$50,000, $20 if account balance is $50,000-$1 million, $8 if account balance is $1 million or more. [2]$7 for first 25 trades. After 25 trades, $20 if account balance is less than $50,000. Customers with holdings above $50,000 pay $7 or $2, depending on account balance. Free if balance is greater than $1 million. [3]If held less than 30 days. [4]Or $100/month. [5]The lower amount is for IRAs.

[1]May2014:Cover

the official DAA recommended ETF, while two are reasonable alternatives). The other three ETFs can be traded with only a low $4.95 commission.

• **Sector Rotation.** Of the previous 10 SR recommendations, all were available at Fidelity, nine of them on an NTF basis—the best of any broker.

• **Just-the-Basics.** JtB can be easily implemented at Fidelity using Fidelity mutual funds that closely mirror the official Vanguard recommendations. See the JtB page of the SMI website for details.

• **50/40/10** is easily implemented at Fidelity and at the lowest cost of any broker.

Also in Fidelity's favor: top-flight customer service, helpful retirement-planning calculators, and excellent mobile apps.

AVAILABILITY OF RECOMMENDED UPGRADING FUNDS

	NTF	Yes	No
Fidelity	51	12	1
Schwab	45	18	1
E-Trade	40	20	4
TDA	37	23	4
Vanguard	37	21	6

Schwab

Schwab is also a fine choice across all SMI strategies, earning just slightly lower marks than Fidelity for Fund Upgrading and Sector Rotation—primarily because fewer of the recommended funds were available on an NTF basis.

• **Upgrading.** Like Fidelity, of the 64 Upgrading funds recommended over the past three years, only one *wasn't* available at Schwab. However, of the remaining 63, only 45 were available on an NTF basis, compared to 51 at Fidelity. Schwab's 90-day required holding period to avoid short-term trading fees with NTF funds is perfectly acceptable, though 30 days longer than Fidelity's holding period.

• **DAA.** For those following DAA, Schwab offers five commission-free ETFs that are fine alternatives to the officially recommended funds. The remaining fund used in *DAA* trades for only $4.95 at the broker.

• **Sector Rotation.** Of the past 10 funds recommended in SR, all were available at Schwab, but only five on an NTF basis (vs. nine at Fidelity). One benefit at Schwab is the low minimum investment required for some SR funds. Of the last 10 recommended funds, four were available at Schwab for just $100 whereas Fidelity required $15,000 for those particular choices.

• **Just-the-Basics.** JtB can be easily implemented at Schwab, using three Schwab traditional mutual funds and one Schwab ETF. All are adequate alternatives to the official Vanguard recommendations, and trade commission-free.

• **50/40/10.** Schwab customers will find it just as easy to implement SMI's 50/40/10 strategy as Fidelity's customers, although at a somewhat higher cost.

E-Trade

E-Trade offers a respectable number of funds used in Fund Upgrading (60 of the 64 funds recommended over the past three years, 40 on an NTF basis), a reasonable 90-day holding period to avoid short-term trading fees on NTF funds, and low commissions for buying and selling the ETFs used in Dynamic Asset Allocation (three adequate alternatives to the official recommended funds trade for free).

Where E-Trade stands out as a low-cost alternative is on transaction-fee mutual funds, which can be bought and sold for only $19.99 each way. The broker also requires just $500 to open a new account (no minimum for IRAs). We don't believe these factors outweigh the advantages Fidelity or Schwab offer, but E-Trade may be worth investigating for smaller accounts and extremely fee-sensitive investors.

TD Ameritrade

TDA gained many SMI accounts in 2008-2009 through a novel arrangement that provided free trades to SMI customers. Unfortunately, TDA closed that program at the end of 2009 (although it grandfathered existing accounts already in the program, which is why many SMI readers continue to have accounts there.) This illustrates the principle we have always promoted regarding brokers: find the best deal *currently available* given your specific needs, then be ready to move your account elsewhere if either the broker's terms or your needs change.

TDA used to be an SMI-recommended broker, but unfortunately its policies have become less appealing over time, with the biggest drawback being its 180-day NTF holding period.

Still, it provides adequate alternatives for three of the six ETFs used in DAA on a commission-free basis. Just-the-Basics can be implemented at TDA as well, with alternative NTF mutual funds offered in place of the recommended Vanguard ETFs. In addition, TDA still can be a good choice for new investors given it has no opening-balance requirement. And TDA is the custodian for the new Private Client service offered by SMI Advisory Services (see page 40). While TDA has come up with excellent terms for SMI members in specific circumstances (such as the Omnium/TDA program a decade ago and Private Client today), unfortunately their normal terms for retail do-it-yourself investors fall short.

Vanguard

Vanguard has made significant improvements in recent years in terms of SMI's priorities. Most significantly, they shortened the required holding period for avoiding early redemption fees on NTF funds from an industry-*worst* 180 days to an industry-*best* 60 days (tied with Fidelity). Still, while its NTF fund lineup has improved, its fund availability isn't yet up to par with the other leading brokers (six of Upgrading's recently recommended funds were unavailable through Vanguard.) Vanguard holds the greatest appeal for followers of DAA and Just-the-Basics where a large proportion of the recommended funds are Vanguard offerings. In addition, those starting out with small portfolios will find the broker's $0 opening-balance requirement attractive.

Summing up

Fidelity is our top choice for most SMI members, with Schwab earning second-place honors. However, as noted earlier, your personal needs and investing approach should dictate the "best" broker for you. While changing brokers isn't fun, it's a relatively easy process. So if your broker doesn't measure up, consider a move to a more SMI-friendly firm.◆

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

USING MULTIPLE ACCOUNTS TO REACH YOUR SAVINGS GOALS

In 1909, Merkel Landis of the Carlisle (Pa.) Trust Company had what turned out to be a great marketing idea. Knowing that many of his customers set aside money for Christmas spending, he launched the "Christmas Club" savings account. Customers were encouraged to add deposits throughout the year, but they couldn't withdraw from such an account until December.

Even though Christmas Club accounts typically paid low rates and had high fees, they soon became popular across the nation—simply because they provided something people wanted: a dedicated account for a specific future need.

Roughly a century after Mr. Landis's marketing success, online banks began bringing back the specific-purpose savings account. But they went further, allowing a customer to set up and manage *many* such accounts, each targeted to a particular savings goal.

Theoretically, of course, there is no need to segregate savings into different accounts. A saver who kept excellent records would know, for example, that $356 of the money in the family savings account is for new curtains and $1,442 is for repairing the driveway. But human nature being what it is, our record-keeping tends to be haphazard and our "mental accounting" can get fuzzy: "How much of this money is for our summer vacation and how much is for the annual life insurance premium?" So having multiple savings accounts—each with its own specified purpose—can be helpful.

The nuts and bolts

Here are six online financial institutions that have made setting up multiple savings accounts relatively simple: Alliant Credit Union, Ally Financial, Barclays, Capital One, Discover Bank, and Synchrony Bank. (Online banks tend to pay higher rates on savings than local banks.[1] As of mid-February, these six institutions were paying between 1%-1.5% on savings accounts, typically with no minimums or fees.) Once you establish an initial account, you can then set up additional accounts. Each account will have its own account number, and you can give each account a descriptive "nickname."

You probably will want to call your initial account something like "Emergency Fund." This is where you set aside money equal to several months worth of living expenses so you'll have adequate funds to ride out a financial storm.[2]

Next, you can set up accounts that align with particular budget categories that require periodic (rather than monthly) payments. Examples: "Car Insurance," "Life Insurance," and (if applicable) "Property Tax." The amounts going into each of these accounts each month would reflect the figures in your budget. So, for example, if your life insurance costs $1,200 a year, and therefore your budget requires a $100-per-month set aside, that $100 would go into your dedicated "Life Insurance" savings account, rather than simply into your checking account or general savings.

You also may want to hearken back to the old days and set up a "Christmas" savings account, where each month you set aside one-twelfth of your projected Christmas-related spending. Planning that annual spending, and putting the money aside in its own separate account each month will help ensure that it doesn't get spent on something else!

Once set up, all your savings accounts and their current balances will be listed on your main account page online. This makes it easy to see how much you have saved in each.

Further, you can automate savings deposits by establishing recurring transfers from a checking account linked to your savings accounts. For example, you could set up an automatic transfer that sends $200 to a "Property Tax" account once a month, and another transfer that puts $150 monthly into a "Family Vacation" account. (You'll set up the checking-account link during the process of opening your savings accounts, as instructed by the financial institution you're using for your savings. The checking account can be at your local "brick-and-mortar" bank.)

Funds also can be moved from one savings account to another. This could be helpful, for example, if your vacation turns out not to cost as much as expected and you want to transfer the remaining balance to your emergency savings. Making such a transfer is as simple as typing an amount and clicking a button.

But here's a caveat. For these types of online savings accounts, Federal Reserve regulations limit the total number of internal transfers and withdrawals—including bill payments—to six per month. If you exceed the limit, the financial institution may charge a fee or even close your account. So if you're using multiple savings accounts, it's better to transfer funds directly into each one, rather than funding one and then transferring to the other accounts from there.

A powerful motivator

Setting up a series of dedicated savings accounts, especially when combined with automatic transfers from your checking account, puts a structure in place that will ensure that you have money available when a periodic bill or expense needs to be paid.

You will be able to see at a glance how much is in each accumulation account (as well as in your emergency fund), and you'll know precisely where you stand in relation to your various goals. As you watch your balances rise toward your savings targets, you'll be encouraged to keep moving forward. ◆

[1] Aug2017:p118 [2] March2015:p38

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

SHOULD YOU TRADE "AFTER HOURS"?

The U.S. stock markets, such as the New York Stock Exchange and Nasdaq, are open for business weekdays from 9:30 a.m. until 4:00 p.m. Eastern Time. Those are *normal* market hours. However, certain brokers allow customers to buy or sell some stocks and exchange-traded funds (ETFs) before the market opens in a *pre-market* session or after the market closes in an *after-hours* session.

The question for SMI members, especially those following the ETF-based Dynamic Asset Allocation strategy, is *should* you buy/sell during "extended" hours?

Reasons to trade outside normal hours

Extended-hours trading (which encompasses both the pre-market and after-hours sessions) is mostly of interest to short-term traders who want to buy or sell securities immediately when new information becomes available. They try to be among the first to trade when a company's latest earnings report is issued after the close of normal market hours or an employment report is issued before the normal trading day begins.

Others may want to trade based on technical indicators that can't be tallied until after the 4:00 close. Still others may simply prefer the convenience—perhaps their work schedule prevents them from placing orders during the day.

Reasons for caution

Because far fewer investors participate in extended hours trading, *liquidity is much lower and volatility can be much higher* than during normal market hours. A Vanguard representative we spoke with referred to extended-hours trading as "a bit like the wild West." The shortage of sellers in the security you want to buy, or a lack of potential buyers of the security you want to sell, can make it more difficult, if not impossible, to get a reasonable price—or for the order to be filled at all.

Because of these risks, in order to participate in extended-hours trading, your broker may require you to fill out extra paperwork or even to discuss the dangers with a representative.

A whole different ballgame

Different brokers offer different hours on their extended-hours trading.

• At Fidelity, after-hours trading is permitted from 4:00 to 8:00 p.m. ET and pre-market trading is available from 7:00 to 9:28 a.m ET.

• At Schwab, the after-hours session runs from 4:05 to 8:00 p.m. and pre-market orders are allowed from 8:00 to 9:25 a.m.

• E-Trade offers after-hours trading from 4:05 to 8:00 p.m., and pre-market from 8:00 to 9:30 a.m.

Note that only stocks and exchange-traded funds (ETFs) can be traded during extended-hours sessions—not traditional mutual funds. In an effort to boost liquidity, some brokers further limit which securities can be traded.

TD Ameritrade (TDA) recently announced 24-hours-a-day, five-days-a-week trading, with orders allowed *anytime* from 8:00 p.m. Sunday until 8:00 p.m. Friday. For now, however, orders placed outside of normal market hours through the broker are limited to 12 popular ETFs. Steve Quirk, TD Ameritrade's executive vice president of trading and education, told Fox News the move is a step toward an always-open stock market. "I think three-to-five years from now, we'll probably say, 'Why did the market ever need to close?'"

Because of the added volatility and risk inherent in extended-hours trading, the only order type allowed is a limit order,[1] which enables you to set the maximum price you're willing to pay for a security you want to buy or the minimum price you're willing to accept for one you want to sell. At most brokers that allow extended-hours trading, if an order placed during extended-hours trading can't be filled, it will expire at the end of that session. At TD Ameritrade, unfilled orders remain open for up to 24 hours, expiring the next time the clock strikes 8:00 p.m. ET.

What's an SMI member to do?

The one SMI strategy where extended-hours trading is potentially attractive is Dynamic Asset Allocation (DAA), given its exclusive use of ETFs and the fact that buy/sell instructions often arrive late in the day. Should SMI members use extended-hours trading to buy or sell those ETFs? For most, the answer is "no." Higher volatility, wider bid/ask spreads, and the possibility that an order won't be executed because of a lack of liquidity make such trading considerably more risky.

However for those inclined to try it occasionally, our suggestion is setting a limit price within a few cents of that ETF's last closing price. If you get that price, great! If not, wait until the next normal session to execute your trade.

For members who own investments outside of SMI's strategies, buying and selling based on earnings reports or other breaking news typically amounts to *short-term trading*, which is the opposite of the *long-term investing* approach SMI encourages.

When the apostle Paul made the point that just because some things are *permissible*, that doesn't necessarily make them *beneficial* (1 Corinthians 10:23), he probably didn't have anything related to investing in mind. Nonetheless, his counsel is perfectly suited to extended-hours trading—it's *available* to SMI members, but for the vast majority, it wouldn't be *constructive*. ◆

[1] See "Giving a Broker Buy/Sell Instructions Ahead of Time" at bit.ly/SMI-customorder.

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

SMI PRIVATE CLIENT: PROFESSIONAL MANAGEMENT OF YOUR PERSONAL PORTFOLIO IS NOW AVAILABLE

Have you ever wished you could keep up with the SMI strategies without having to devote as much time to it? Despite the newsletter's best efforts to keep the SMI strategies as simple as possible, the reality is that, if you desire to manage a portfolio of *multiple strategies*, as many SMI readers do these days, it takes considerable time and effort.

If you've ever thought it would be nice to have your portfolio managed for you, the new "Private Client" offering from SMI Advisory may be of interest. (SMI Advisory Services is an affiliated, but separate, company from the SMI newsletter and website.)

One of the most important aspects of investing is knowing yourself. This applies in numerous ways—we often discuss it in terms of not exceeding your true emotional risk tolerance. But it can also apply in terms of realizing that managing your investments isn't what you want to spend your time on! Many readers would find it liberating to be free of the ongoing duties and responsibility of implementing their portfolio strategies. That option has just become available.

Introducing SMI Private Client

Private Client is the latest evolution of implementing SMI's investing strategies in investor portfolios. For the first 15 years of SMI's existence, the only way to follow SMI's strategies was to implement them on your own via the SMI newsletter. Then, in 2005, SMI Advisory launched their mutual funds which gave investors the ability to outsource the management of certain SMI strategies for the first time. But those funds were, by necessity, one-size-fits-all solutions.

Private Client takes the next step, providing professional management of each investor's *unique account*. SMI Advisory has designed a system that helps each investor determine his or her ideal portfolio, then implements that portfolio on the investor's behalf.

Traveling on the date the next DAA recommendations will be released? That's no longer a problem—the trades will be executed automatically. Want exactly 13% of your portfolio allocated to Sector Rotation? Private Client can handle that too.[1]

Consider the following benefits Private Client provides:

1. Freedom. Simplify your investing life. Everyone faces limitations on their time and emotional energy—there's only so much to go around. If you love handling your own investing process, great! But if you don't, save that time and energy for the things you *do* enjoy by turning over the implementation of your portfolio to the pros.

2. Confidence. There's tremendous peace of mind in knowing your portfolio is customized to your personal situation, and that it is under the watchful eye of SMI Advisory's investment team *every single day* regardless of what's going on in your busy life.

Many SMI readers wonder what mix of strategies they should use. With Private Client, you'll work with a knowledgeable Stewardship Advisor to construct a portfolio that's tailored to your needs, free of the complexity that often restrains individuals from using the full complement of strategies best suited to their situation.

Your Stewardship Advisor gives you an *ongoing, personal contact* to interact with regarding your portfolio. This can be especially helpful in ensuring the continuity of your investment plan over time. For example, the advisor can help in the transition process to a surviving spouse, making sure your investing plan continues uninterrupted. This has been a long-standing concern expressed by SMI newsletter readers through the years.

While the Stewardship Advisor you'll be introduced to at the beginning of the Private Client process may be new to you, the SMI Advisory management team is headed by a very familiar face: Mark Biller, who has served as the SMI newsletter's Executive Editor for nearly two decades. He is joined by Eric Collier, CFA and Anthony Ayers, CFA, his co-managers at the SMI Funds since 2005. This management team directly oversees your portfolio and implements all of the trading on your behalf.

3. Flexibility. The Private Client process will guide you to what SMI Advisory believes is an optimal portfolio, but you're ultimately in control of which strategies are used and in what amounts. Want Upgrading and no indexing? More Sector Rotation and less DAA? You're in control.

This means the full range of SMI strategies is available to you: stock and bond indexing, stock and bond Upgrading, Dynamic Asset Allocation, and Sector Rotation—in the combination designed to meet your specific individual needs—without having to compromise for simplicity's sake, as many SMI readers do when managing their own portfolios.

4. Value. In addition to the benefits of professional management already discussed, Private Client provides 100% *free trades/commissions*, regardless of how many strategies are utilized in your portfolio. SMI Advisory also will cover the cost of the MoneyGuidePro® financial planning software for any client not already using it. You'll also get any transfer fees reimbursed if your current broker charges you to transfer your account(s).

Fees for Private Client are as follows: 1% annually for total household accounts up to $250,000, 0.95% for households between $250,000-$1 million, and only 0.85% (continued on page 45)

[1] Private Client is available in three service tiers, explained on page 45. The descriptions in this article apply to the *Premier* and *Select* tiers debuting this month. The *Classic* tier is limited in its portfolio customization abilities and interaction with SMI Advisory's Stewardship Advisors.

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

BUCKET CHALLENGE: MANAGING CASH FLOW IN RETIREMENT

The rapid stock market decline in early February serves as a stark reminder that downside moves can develop quickly. Long-term investors can ride out such volatility, of course—but what if you're a retiree relying on regular investment withdrawals to fund current living expenses? A sharp downturn can be a fearful thing.

Indeed, as Bankrate financial analyst Greg McBride warned in a recent *Marketwatch* article, "Nothing kills a portfolio quicker than taking withdrawals in a declining market."

To help retirees avoid having to take withdrawals from beaten-down investments, many financial advisors suggest adopting a "bucket approach" to retirement cash flow. The word "bucket" here is simply a metaphor used to describe segregating money according to its intended use. In this case, money for near-term spending goes into a "cash bucket," while money for longer-term investments remains in an "investments bucket."[1]

The cash bucket

The cash bucket could be called your "peace-of-mind" bucket. It's where you stash money you'll need to live on over the next two or three years. Your goal is to have enough set aside that you can be largely indifferent to market fluctuations and corrections (i.e., a drop of 10% from a previous high). A three-year cash bucket would enable you to ride out the worst of an average-length bear-market.[2]

Of course, the more cash you set aside, the greater the "opportunity cost." Money sitting in cash has meager earning potential. In addition, the longer you hold money in cash, the greater the danger that the purchasing power of that money will be eroded by inflation.

Because the most important objectives for your cash-bucket funds are liquidity and safety, *not* earnings, you'll want to put this money into safe instruments such as a brokerage money-market fund, a bank money-market account, or short-term CDs. Another possibility, if you're willing to take slightly more risk in exchange for a potentially higher yield, is a short-term bond fund. Keep in mind, however, that while short-term bond funds tend to outperform money-market rates, you can lose money in a short-term bond fund.[3]

How much money?

If you're already retired, you probably can come up with a fairly accurate figure for your annual living expenses. If you haven't retired yet, you'll need to do a cost-of-living projection before deciding how much to set aside in your cash bucket.

Fortunately, some expenses likely will go down after you retire.[4] Your income-tax burden may fall, for instance, and (depending on your age and where you live) you may get a property-tax break too. Additionally, your transportation costs will decline if you're no longer commuting, and you won't need to set aside retirement savings anymore.

For purposes of illustration, let's assume your annual cost-of-living in retirement is (or is projected to be) $60,000. From that amount, subtract the annual benefits you expect to receive from Social Security, along with any amount(s) expected from other guaranteed income sources, such as an annuity or pension.

If Social Security and other sources furnish you with, say, $35,000 a year, you'll need $25,000 in cash-bucket money each year to fully fund your $60,000 annual cost of living. To fully fund a two-year cash bucket, therefore, you would need $50,000. A three-year bucket would require $75,000—with perhaps some additional dollars added to account for inflation. (If you don't already have an emergency fund set aside for *unexpected* expenses, you'd be wise to fill your cash bucket even more!)

From theory to practice

To begin, withdraw from your investments the amount you've determined to put in your cash bucket. Place those withdrawn funds in safe instruments (as described above), leaving the rest of your retirement funds in your investments bucket.

Once you have a strong reserve in savings, you should be able to relax about what the market may be doing. A downturn, a correction (decline of 10%), or even a full-blown bear market (a decline of 20% or more), will not affect your immediate cash flow because you'll be drawing monthly from safe, liquid holdings.

In effect, your cash holdings will become the funding source for your monthly "paycheck," along with Social Security income and any income you may have from other sources.

All this sounds simple in theory, but in practice, it's likely to a bit more complicated. For one thing, implementing the bucket approach to retirement cash flow involves timing issues—namely, when do you first fill your cash bucket, and when do you refill it with more money from your longer-term investments?

Ideally, you'll begin the process during a period when the stock market has been performing well.[1] (Now would be a good time.) After all, the goal of the bucket approach is to avoid withdrawing living-expense money during (or in the close aftermath of) a market drawdown.

As for replenishing your cash bucket, there is no one-size-fits-all system. Obviously, you'll to want sell investments during a time when market performance has been strong, not weak. Having a cash reserve that's supplying your near-term living expenses allows you to wait for an opportune time. When the market has (continued on page 46)

[1]Some advisors recommend three buckets: one for cash, a second for intermediate-term bonds, and a third for stock-based investments. [2]On average, the U.S. stock market has required slightly more than three years to fully recover from a bear-market decline. [3]Jun2014:p86 [4]Sep2016:p137

SOUND MIND PORTFOLIOS

Basic Strategies

The fund recommendations shown for Upgrading accountholders are based primarily on “momentum” scores calculated just before this issue was published (not the earlier end-of-month scores shown on this page). Consistency of performance is also considered, along with the portfolio manager’s philosophy and number of years at the helm. Three recommendations are made in each risk category. 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 1/31/2018	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	51.6	5.7%	5.7%	8.6%	13.5%	29.5%	10.5%	1.15	0.11%	20%	16%	12%	8%	VXUS
Extended Market Index ETF	Small company stocks	38.7	3.3%	3.3%	6.9%	12.5%	19.4%	11.8%	1.20	0.08%	40%	32%	24%	16%	VXF
S&P 500 Index ETF	Large company stocks	51.9	5.6%	5.6%	10.2%	15.4%	26.3%	14.6%	1.00	0.04%	40%	32%	24%	16%	VOO
Total Bond Mkt Index ETF	Medium-term bonds	0.8	-1.2%	-1.2%	-0.8%	-0.5%	2.1%	1.0%	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 1/31/2018[1]	Date Added	E-Trade 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. Vanguard Intl Growth	09/17	Yes	Yes	Yes	75.6	9.1%	9.1%	11.0%	19.2%	45.4%	16.3%	1.43	0.45	133	None	VWIGX
	2. Selected International S	06/17	NTF	NTF	NTF	61.8	5.3%	5.3%	9.5%	13.3%	39.0%	12.8%	1.44	1.30	39	2%30days	SLSSX
	3. Calamos Intl Growth	12/17	No	NTF	NTF	70.9	6.6%	6.6%	10.0%	19.6%	41.3%	12.4%	1.24	1.38	94	None	CIGRX
Category 4 Small/Growth	1. Delaware Smid Cap Gro	02/18	No	No	NTF	95.0	8.9%	8.9%	22.1%	33.5%	39.4%	15.1%	1.37	1.21	47	None	DFCIX
	2. ☎ Baron Opportunity	03/18	NTF	NTF	NTF	80.7	11.7%	11.7%	15.2%	19.4%	46.1%	15.9%	1.54	1.41	51	None	BIOPX
	3. Kinetics Small Cap Oppor	02/18	NTF	NTF	NTF	73.0	7.7%	7.7%	15.3%	24.5%	33.2%	15.3%	1.37	1.66	36	2%30days	KSCOX
Category 3 Small/Value	1. Alpha Architect US Quant Val	02/18	ETF	ETF	ETF	78.0	5.4%	5.4%	19.9%	26.3%	31.8%	9.7%	1.52	0.79	40	None	QVAL
	2. Royce Opportunity	06/17	NTF	NTF	NTF	37.9	1.2%	1.2%	3.7%	12.4%	21.8%	13.4%	1.58	1.49	240	1%30days	RYOFX
	3. AllianzGI NFJ Mid-Cap Val	06/17	No	NTF	NTF	45.9	3.3%	3.3%	6.6%	11.9%	27.4%	14.9%	1.09	0.99	102	None	PQNAX
Category 2 Large/Growth	1. iShares Edge USA Momentum	12/17	ETF	ETF	ETF	77.7	8.2%	8.2%	11.4%	22.1%	44.3%	19.7%	1.03	0.15	128	None	MTUM
	2. Guggenheim S&P 500 Tech	04/17	ETF	ETF	ETF	68.6	8.8%	8.8%	9.4%	20.7%	38.5%	23.0%	1.41	0.40	69	None	RYT
	3. Fidelity OTC	06/17	Yes	NTF	Yes	70.7	8.3%	8.3%	10.5%	18.3%	41.9%	19.8%	1.53	0.81	296	None	FOCPX
Category 1 Large/Value	1. SPDR Dow Jones Industrial	12/17	ETF	ETF	ETF	68.0	5.7%	5.7%	12.5%	20.8%	34.7%	17.8%	1.08	0.17	31	None	DIA
	2. Toreador Core	05/17	NTF	NTF	NTF	55.3	4.2%	4.2%	7.9%	19.9%	27.5%	13.8%	1.19	1.20	102	2%60days	TORLX
	3. Miller Opportunity	06/17	No	Yes[10]	NTF	49.1	4.0%	4.0%	9.3%	8.8%	31.0%	10.7%	2.10	1.36	36	None	LGOAX[10]
Bond Categories	Vanguard Inflation Protect [6]	02/18	Yes[11]	Yes[11]	Yes[11]	1.3	-0.9%	-0.9%	0.0%	0.4%	0.9%	0.5%	1.14	0.20	8.0[7]	None	VIPSX[11]
	Permanent: Vanguard I-T Bond	Perm	ETF	ETF	ETF	-1.2	-1.5%	-1.5%	-1.6%	-1.4%	1.7%	1.0%	1.31	0.07	6.4[7]	None	BIV[8]
	Permanent: Vanguard S-T Bond	Perm	ETF	ETF	ETF	-1.2	-0.5%	-0.5%	-0.8%	-0.8%	0.4%	0.7%	0.46	0.07	2.7[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-January, 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 E-Trade (800-387-2331), 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 (June2017:p93) before purchasing. **[11]** If available, those investing at least $50,000 should buy the Admiral share (VAIPX) instead.

☎ 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 (March 2018: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 Jan2018: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 Vanguard International Growth, the highest-rated Cat. 4 fund available is Baron Opportunity, 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	Vanguard International
Stock Cat. 4: Small/Growth	16%	$8,000	Baron Opportunity
Stock Cat. 3: Small/Value	16%	$8,000	Alpha Arch US Quant Value
Stock Cat. 2: Large/Growth	16%	$8,000	iShares Edge USA Momentum
Stock Cat. 1: Large/Value	16%	$8,000	SPDR Dow Jones Industrials
"Rotating" Bond Fund	10%	$5,000	Vanguard Inflation Protected
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 Jan2018:p8).

MONEYTALK

STOCK UPGRADING — NEW FUND RECOMMENDATIONS

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

◆ **In the Small/Growth group, Baron Discovery (BDFFX, 4/2017) is being replaced.$** This fund shot out of the gate when it was first recommended last April, opening a significant early performance lead over its small/growth peer group. Since then, it has slowly been relinquishing that momentum edge, to the point where this month it has fallen below the category quartile and is being replaced. Overall, it was a strong performer for us, gaining +20.1% in the roughly 11 months since it was recommended. That compares favorably to the +17.3% of the average small/growth fund tracked by Morningstar during this period.

It's worth noting that this fund is being replaced just one month shy of passing the 365-day holding period required to qualify for long-term capital gains treatment. For those readers *owning the fund in a taxable account*, we've included the "$" symbol to signify that they may wish to hold the fund another month. (This suggestion does not apply to owners of IRAs and other retirement accounts.) With a 20%+ gain already in hand, the difference in taxes paid at the short- and long-term capital gains rates could be significant.

• **Baron Opportunity (BIOPX) is being added.**[1] It's unusual for SMI to replace a fund with another from the same fund family. In this case it makes sense, given their specific differences. These two Baron funds land as bookends to the small/growth category: Baron Discovery sports one of the smallest average "market capitalizations" (or average stock size) in the group, while Baron Opportunity has one of the largest. So we're basically trading a fund that's as far on the "small" side of the small/growth group as you can get, for one on the opposite side, right on the dividing line between our small and large risk categories.

Given that large/growth stocks as a group have outperformed small/growth by a +4.5% to +1.6% margin in the first six weeks of 2018, it's no surprise that Upgrading is shifting in that direction. Other than the size of the companies they invest in, the two funds share a similar high-growth, pioneering/innovative focus, reflected by their similarly high relative-risk scores. ◆

SIGHTING: OBSERVATIONS ON THE MARKET CORRECTION

There's rarely a good reason for a stock market downturn. I've been studying many of the historical bear markets and corrections that don't get as much publicity as the usual suspects (looking beyond the Great Depression, 1973-74, Black Monday crash, the dot-com bust, Great Financial Crisis, etc.). The theme I've found in many of the other instances where markets fell is very few have a catalyst for the downfall, even after the fact.

It always feels better to have an explanation for these things because then we can tell ourselves we'll look for similar circumstances in the future to try and avoid a market fall. But most of the time the reason stocks fall is because they can't simply rise forever.…

[I]t's always tough using a historical playbook for these things because every new market move is unique in its own way…. The biggest thing to remember is that no one has a clue what's going to happen next. Short-term market moves are controlled by human emotions, which are impossible to predict. – By Ben Carlson, at his blog *A Wealth of Common Sense*. To read the full article, go to bit.ly/2sLkbcy. ◆

SIGHTING: TAKING STOCK

Yes, stocks…[briefly] surrendered a tenth of their value [a few weeks ago]. But the reality is, our stocks and stock funds are typically a small part of our overall net worth. We might also have bonds, cash investments like savings accounts and certificates of deposit, our future Social Security benefits, any traditional pension plan we're entitled to, our home and our income-earning ability....

If we're employed, we have paychecks ahead of us. Those paychecks are a source of future savings, which we can think of as a chunk of cash that's yet to be invested. Once we factor in that cash, our portfolios may be far more conservatively positioned than our current asset allocation suggests—and a big market drop could be a huge plus, because it'll allow us to invest those future savings at lower prices.

It's hard to be so sanguine if we're retired or close to it. When markets tumble, our emotional time horizon often shrinks, and we obsess over every rise and fall in the market averages. My advice: Add up the money you have in bonds and cash investments, and compare that sum to the income you need each year from your portfolio. In all likelihood, you could go many years without selling stocks. – By financial writer Jonathan Clements, from his website *Humble Dollar*. The full article is at bit.ly/2Fk6pQR. ◆

SIGHTING: OPTIMISTIC PERSPECTIVE

The key inflection point for bond yields wasn't when the Fed announced the unwinding of QE; it was Election Day 2016, when the 10-year yield ended the day at 1.9% while assuming the status quo, which meant more years of Plow Horse growth ahead. Since then, we've seen a series of

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

policy changes, including tax cuts and deregulation, which have raised expectations for economic growth and inflation. As a result, yields have moved up.

Corporate earnings are rising rapidly, too, and the S&P 500 is now trading at roughly 17.5 times 2018 expected earnings. This is not a bubble, not even close. Earnings are up because technology is booming in a more politically-friendly environment for capitalism. And while it is hard to see productivity rising in the overall macro data, it is clear that profits and margins are up because productivity is rising rapidly in the private sector....

The good news is that QE did not lift the economy. Markets, technology and innovation did. And this realization is the key to understanding why unwinding QE is not a threat to the bull market. – By Brian S. Wesbury, *Chief Economist*; Robert Stein, CFA, Dep. Chief *Economist*; and Strider Elass, *Economist*, First Trust Advisors LP. Read the full article at bit.ly/2HFU0Yh. ◆

SIGHTING: NEW BOSS, SAME AS THE OLD BOSS?

Jerome Powell formally took over the chairmanship of the Federal Reserve.... And he is no clone of Janet Yellen, the recently retired chair, contends David Rosenberg, chief economist and strategist at Gluskin Sheff. “He is sensitive to the criticism of the Fed, that it is a serial asset-bubble blower. He is no fan of [quantitative easing] or ultralow interest rates. At his recent Senate confirmation hearing, he made it clear that it is time to normalize rates,” Rosenberg writes.

Normalizing means a 2.75% rate for federal funds, which he notes is twice the midpoint of the current 1.25% to 1.5% target range for the Fed’s key interest-rate target. “This spells something more than two or three hikes this year, something I don’t think the stock market fully appreciates, but has begun to at least contemplate in recent weeks (which is why we have begun to see this intense volatility).” Reduced liquidity more than offset strong fundamentals in 1987, 1994, 1998, and 2007, which saw steep market drops. – By Randall W. Forsyth, writing for *Barron’s*, February 10, 2018. Access the full article at bit.ly/2o0NmTg. ◆

SIGHTING: CONDITIONS MATTER MOST, NOT CAUSES

“[T]he specific manner by which prices collapsed is not the most important problem: A crash occurs because the market has entered an unstable phase, and any small disturbance or process may have triggered the instability. Think of a ruler held up vertically on your finger: This very unstable position will lead eventually to its collapse, as a result of a small (or an absence of adequate) motion of your hand or due to any tiny whiff of air. The collapse is fundamentally due to the unstable position; the instantaneous cause of the collapse is secondary.” – Didier Sornette, French geophysicist, as quoted by John Mauldin in his weekly *Thoughts from the Frontline* newsletter. Read the full article at bit.ly/2oj0AvR. ◆

LEVEL 3 / CONTINUED FROM PAGE 40:

SMI PRIVATE CLIENT: PROFESSIONAL MANAGEMENT OF *YOUR* IDEAL PORTFOLIO NOW AVAILABLE

for households over $1 million (additional fee discounts are available at higher asset levels).

What to expect from the Private Client process

Private Client offers three tiers of service, based on total household assets invested. Private Client *Select* ($250,000 to $1 million) and *Premier* ($1 million+) are available now. Private Client *Classic*, for accounts under $250,000, is still “under construction” as some software components are being fine-tuned. It should be ready within the next few months.

Here’s what the process will look like for Private Client *Select* and *Premier* members.

1. Upon visiting smiprivateclient.com and clicking “Get Started” for the appropriate service tier, you’ll be prompted to begin the risk assessment. This process will pinpoint your specific risk tolerance, designated as a risk score. This risk score and your data will be sent to SMI Advisory Services to review as they construct your recommended portfolio.

2. Within 1-2 business days you will receive an email linking to a couple of brief suitability questions. After answering those, you’ll be able to view your recommended portfolio of SMI strategies.

3. You’ll then have the option to either continue the new client process online (if you’re comfortable continuing with the portfolio that has been recommended for you), or schedule an appointment with a Stewardship Advisor. Scheduling an appointment will provide you the opportunity to discuss the recommended portfolio and potentially refine it, based on your preferences for certain strategies or other factors unique to your situation.

More information regarding the process for Private Client *Classic* will be announced as its launch approaches.

Note that using SMI Private Client involves transferring your accounts to TD Ameritrade. If your account is already at TDA, or is being transferred there from Scottrade, the setup process is a breeze. If your account is elsewhere, your Stewardship Advisor will coordinate the brief account transition process for you.

Conclusion

There are any number of reasons why individuals turn to professional management of their investments: time restrictions, lack of interest, desire for professional input and oversight, desire to provide an easy continuation path for their spouse, and many more. Whatever the reason, if you feel it would be worthwhile to at least explore the option of professional management for your portfolio, contact SMI Advisory Services via smiprivateclient.com and have a conversation about it. There’s no longer any reason to go it alone with your portfolio now that Private Client is available. ◆

MONEYTALK

LEVEL 4 / CONTINUED FROM PAGE 41:

BUCKET CHALLENGE: MANAGING CASH FLOW IN RETIREMENT

been strong lately, fill the cash bucket by harvesting some of your recent investment gains. During long bear markets, you'll let your cash bucket gradually dwindle, spending from it without selling investments while their prices are down. As the market recovers, you can begin gradually refilling the cash bucket again.[1] Your overall goal is simply to try to sell into market strength, not into declines.[2]

As for *what* to sell, many financial advisors suggest looking first to rebalancing proceeds. As you rebalance—i.e., scaling back on holdings that have performed well to bring them back in line with your optimal asset allocation— move at least a portion of the "excess" money to your cash bucket, rather than pulling it from other investments. Another source of funds is to take fund distributions (capital gains and dividends) and move those to your cash bucket. If you have required minimum distributions (RMDs) from an IRA, you can use that money to help replenish your cash bucket.

No system is perfect. But a bucket approach can go a long way toward helping you maintain a relatively stable standard of living in retirement, while largely ignoring the shorter-term ebbs and flows of the market. ◆

MARKET NOTES, QUOTES, AND ANECDOTES

When the tide goes out

• "A portfolio that gets so scary that you bail out at the bottom is destined to fail. There will always be apparent dangers and steep declines." – Jeff Miller, encouraging readers of his *Dash of Insight* blog on 2/17/18 to consider whether their reactions to recent market volatility mean they have taken on more risk than they can handle. Read more at bit.ly/2BE0K8B.

A portfolio for any type of weather

• "Size your position in risk assets to the level where you can live with it under bad conditions, and be happy with it under good conditions. Then when markets get weird, you can smile and bear it. The most important thing is to stay in the game, not giving in to panic or greed when things get 'weird.'" – David Merkel, writing on *The Aleph Blog* on 2/6/18 that market volatility is normal; what was strange was the *lack* of volatility throughout 2017. Read more at bit.ly/2Hw8ObP.

A winning strategy will only take you so far

• "What if a critical ingredient to being a successful investor isn't exactly *which* strategy you follow? It's that you *have faith* in that strategy? By *faith* I mean the ability to take the leap into risking your money without guarantees, and to continue to adhere to the strategy, even in the face of disappointing results. Markets must crash. Active strategies must underperform. Chasing performance produces lower returns. Buffett underperformed by 67% at one point. Even a clairvoyant who knew exactly what stocks would perform best would get fired, because the journey would be so terrifying. An investor without a faith is doomed." – Daniel Egan, writing on 2/11/18 about the under-appreciated importance of finding the intestinal fortitude to stay with your chosen strategy. Read more at bit.ly/2FkqGG5.

Take the long view

• "So, if you knew nothing else about anything, you would know this: Stop sweating the orange stuff. It's part and parcel to the game and included in the overall package. Focus on the blue. Take more TUMS during the orange, or walk on the beach, laugh with your kids, sail the ocean or listen to the waves. And then be thankful for what's coming after the orange." – Mike Williams, Founder and Managing Partner at Alan Steel Asset Management, writing on 2/19/18 about a chart showing all the bear markets (in orange) and bull markets (in blue) since 1926. It shows clearly that the bull markets have lasted much longer than bear markets and added much more value than bear markets have subtracted. See the chart and read more at bit.ly/2EXKAZJ.

The stock market isn't rational

• "Over thousands of years, mankind learned to obey the laws of physics or suffer the consequences. Then the stock market came along, and with it, strange and conflicting ideas that challenge how we've been conditioned to view physics." – Brian Lund, writing on his *The Lund Loop* blog about the mysteries of stock-market movements. Read more at bit.ly/2sJDrr8.

Bitcoin's uncertain future

• "The investment case for cryptocurrencies is weak.… To date, their prices have depended more on speculation about their eventual adoption and use. The speculation creates volatility that, ironically, undermines their value as a currency.… I see a decent probability that its price goes to zero." – Joe Davis, Vanguard's global chief economist and head of Vanguard Investment Strategy Group, writing about Bitcoin in the *Vanguard Blog* on 2/6/18. Davis said while he's enthusiastic about the blockchain technology that makes Bitcoin possible, "with no cash flows and extreme volatility," the investment case for Bitcoin itself is "hardly compelling." Read more at vgi.vg/2BJOfIK.

What will you leave behind?

• "The greatest legacy one can pass on to one's children and grandchildren is not money or other material things accumulated in one's life, but rather a legacy of character and faith." - Billy Graham, who passed away on 2/21/18.

[1] See Feb2016:p25 for an example of how a cash-bucket replenishment strategy might have been implemented over the past 15 years. [2] If you have both taxable and non-taxable investments, taxation issues will come into play too—see Apr2015:p57.

SOUND MIND PORTFOLIOS

PREMIUM STRATEGIES

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

DYNAMIC ASSET ALLOCATION

Overview

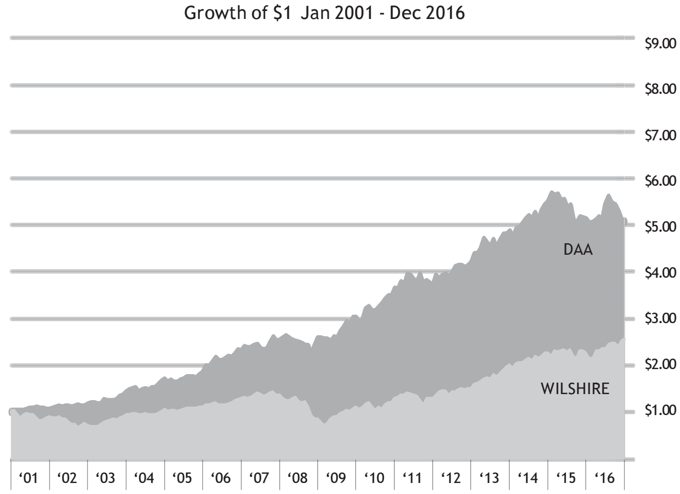
This is a stand-alone strategy that can be used in combination with (or in place of) SMI's basic strategies. DAA is designed to help you share in some of a bull market's gains, while minimizing or even preventing losses during bear markets. It's a low-volatility strategy that nonetheless has generated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

Who Should Consider This Strategy

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

Dynamic Asset Allocation vs Wilshire 5000

Growth of $1 Jan 2001 - Dec 2016



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

SECTOR ROTATION

Overview

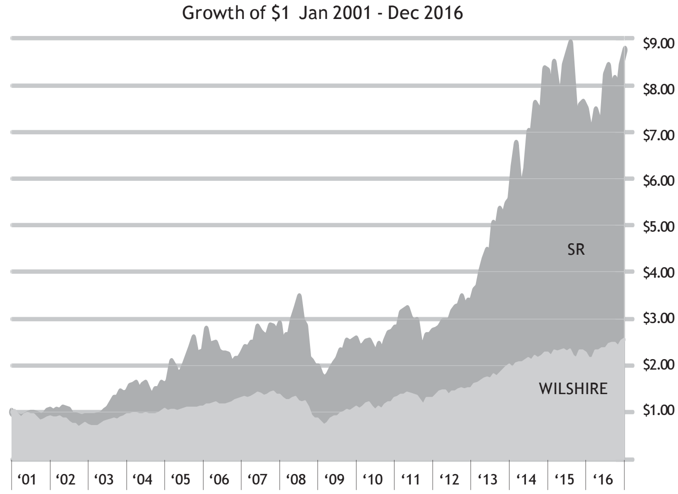
This high-risk strategy involves investing in a single special-purpose fund that focuses on a specific sector (such as biotech, energy, or financial services). Because these stock funds invest in a narrow slice of the economy, they carry a higher degree of risk. Only one fund, selected based on having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

Who Should Consider This Strategy

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

Sector Rotation vs Wilshire 5000

Growth of $1 Jan 2001 - Dec 2016



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

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

PERIODICALS POSTAGE
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Dated Investment Material
Please Do Not Delay!

PERFORMANCE DATA

SOUND MIND INVESTING MODEL PORTFOLIOS • DATA THROUGH JANUARY 31, 2018

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]	5.3%	5.3%	9.6%	25.1%	14.3%	15.6%	9.9%	11.0%
Just-the-Basics[2]	4.7%	4.7%	8.5%	24.2%	12.7%	13.5%	8.9%	11.1%
Stock Upgrading[3]	5.1%	5.1%	7.3%	21.6%	12.0%	13.0%	8.2%	11.8%
U.S. Bond Market[4]	-1.1%	-1.1%	-0.8%	2.0%	0.9%	1.8%	3.5%	3.9%
Bond Upgrading[5]	-1.3%	-1.3%	-1.4%	0.8%	-0.5%	2.3%	5.7%	6.3%

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]	2.8%	2.8%	5.9%	17.4%	2.2%	6.9%	9.0%	11.6%
Sector Rotation[7]	11.0%	11.0%	10.1%	69.3%	25.9%	33.6%	20.4%	20.8%
50-40-10 Blend[8]	4.6%	4.6%	6.8%	24.1%	8.5%	12.2%	10.3%	13.1%

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 1/31/2018	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	6.61%	6.61%	9.13%	23.42%	10.42%	11.73%	7.17%
Wilshire 5000	5.25%	5.25%	9.62%	25.12%	14.34%	15.64%	9.88%
S&P 500	5.73%	5.73%	10.18%	26.41%	14.66%	15.91%	9.78%

Quarterly Returns as of 12/31/2017	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	17.47%	0.83%	4.28%	17.47%	7.09%	11.58%	5.51%
Wilshire 5000	21.00%	1.08%	6.39%	21.00%	11.36%	15.67%	8.64%
S&P 500	21.83%	1.11%	6.64%	21.83%	11.41%	15.79%	8.50%

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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