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Sound Mind Investing®

Financial Wisdom for Living Well

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God's Will for Your Finances

God's purpose for us as His children is often frustrated by our preoccupation with money—making it, spending it, investing it and accumulating it. This article by the late financial teacher Larry Burkett focuses on the various ways God will (and won't!) use money to further His work in our lives. It appeared in our premiere issue in 1990. Larry helped SMI get started 28 years ago, and he told many people about us through his radio programs and speaking engagements. After three decades of fruitful ministry, Larry went to be with the Lord 15 years ago this month—July 4, 2003.

by Larry Burkett

A steward is one who manages another's resources. Each of us is a manager, *not an owner*. God is the owner, and we are to manage according to *His* plan. All of the promises God has made regarding His blessings in this area are predicated on the principle that we relinquish ownership. If we refuse to do this we can never experience God's plan for our finances. As a consequence, our lives will be characterized constantly by turmoil and anxiety in the area of money.

It is important for the Christian to trust God in *every* circumstance. If we believe that God really loves us and will give us only that amount of money that we can handle without worry, we can have perfect peace in finances. But not until we have committed *all* of our resources to Him.

It becomes clear that money is a training ground for God to develop (and for us to discover) our trustworthiness. "If therefore you have not been faithful in the use of unrighteous mammon, who will entrust the true riches to you?" (Luke 16:11).

Why do Christians have difficulty trusting God in this area? We really don't believe that He will only do the best for us. So we have the tendency to want to withhold a part of what we have. But until we have experienced freedom in the area of money, we will *never* experience God's total plan for our lives.

To dispel some of the "religious folklore" that exists concerning money, let's look at several common myths and then consider what attitude God wants us to have.

• **Folklore suggests that poverty is next to spirituality.** Wrong! There is no inherent virtue in poverty. There are dishonest poor just as there are dishonest rich. Look through Scripture. God never impoverished anyone *because* of spirituality. Even in Job's case, God allowed his wealth to be removed as a testimony to Him. When Job stood true to God, He returned Job's wealth twofold. God never once relates spirituality to poverty. Therefore, there is no way Christians can attain spirituality by impoverishing themselves or their families.

God condemns the *misuse* or the *preoccupation* with money, not the money itself. In Scripture, God lists the production of money as a spiritual gift. Romans 12:5-8 describes the gift of giving. Obviously, if there is a gift of giving, there must be a gift of gathering, as it is (continued on page 99)

IN THIS ISSUE

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

EDITORIAL

Are You Making Acceptable Sacrifices, Well-Pleasing to God?

Another anniversary has arrived! We're now at 28 years and counting since Larry Burkett challenged me with an idea for a monthly financial publication, one that would build on the biblical principles he taught and would make specific and appropriate investment recommendations without conflicts of interest or ulterior motives.

Larry was God's provision for the early difficult days of SMI. He extended grace to me. Asking nothing in return, his mentoring, encouragement, and public support during the early 1990s allowed us to survive a slow, underfunded start, and his on-going friendship enabled SMI to grow and flourish. Without Larry, there would have been no SMI.

A lot has changed around here since July 1990 when I ordered a printing of 500 copies of our first issue. For one thing, we have about 7,500 or so members rather than a list of a few hundred friends pulled together from my Rolodex! I now have a whole crew of teammates who help support our website, our radio appearances, and our mutual-fund partnership (rather than just one loyal and long-suffering secretary.)

One thing that hasn't changed, though, is the motivation behind our work. It's not, and never has been, because I've always wanted to be a teacher or even because I particularly enjoy the process of helping Christians strengthen their financial foundations.

No, stronger financial foundations mean little to me if they're not accompanied by increased generosity on your part. What motivates me (and our entire team) is a driving desire to see our wonderful God glorified as the message of salvation in His Son is carried around the world to people He loves, people who are lost without Him. And that, more often than not, requires money. *That's* why I want you to have more—so you can give more.

I admit it. I dream big dreams for you in this area, that you will excel in the grace of giving.[1]

- I want you to give more this year than you gave last year, and more next year than you gave this year, and still more the year after that.[2]
- I want you to reap a generous harvest.[3]
- I want you to bring joy to the Father's heart, because He just loves a cheerful giver.[4]
- I want you to experience what it's like to receive God's abundant provision as you give in good measure.[5]
- I want you to demonstrate your faithfulness as you earnestly seek to prove the sincerity of your love.[6]
- I want others to praise and glorify God because of your obedience in giving.[7]
- I want you to make acceptable sacrifices that are well-pleasing to God.[8]
- I want you to give in full proportion to your ability. For many, the tithe is a good place to start but a poor place to stop.[9]
- I want you to know what it's like to see God supply all your needs out of His glorious riches in Christ Jesus.[10]
- I want you to move on toward greater spiritual usefulness by proving yourself faithful in the small things.[11]
- I want your giving to convincingly testify to your belief that God is the owner of everything.[12]
- I want you to be able to gladly lay aside earthly wealth because you have God as your treasure.[13]
- I want you to be loved and prayed for all the more.[14]
- I want you to be Christ-like in making sacrifices so that others might become spiritually rich.[15]
- I want you to have the satisfaction of being singled out as a good example to others.[16]
- I want you to have a sense of urgency about making the most of your opportunities because life is fleeting and you don't know what tomorrow holds.[17]
- I want you to learn and enjoy the secret of contentment.[18]
- I want you to gladly count everything a loss compared to the priceless gain of knowing Christ, our Lord.[19]
- I want you to earn treasures in heaven where you will value them forevermore.[20]

I want all these wonderful things for you. And really, don't you want them, too?

The articles in this anniversary issue have been selected with a desire to encourage and spur you on to love and good deeds.[21] May the Father richly reward your faithfulness as you pursue the grace of giving.

AUSTIN PRYOR
FOUNDER/PUBLISHER

NECESSARY CAUTIONS
It should not be assumed that all investment recommendations will necessarily be profitable. The information published in SMI is compiled from sources believed to be correct, but no warranty as to accuracy is made. SMI is not responsible for any errors or omissions. The counsel given herein is not a substitute for personalized legal or financial planning advice.

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FEATURE ARTICLE

God's Will for Your Finances

(continued from front page)

impossible to give otherwise. In every scriptural reference, God promises that as we give, so it will be given back to us.

• **Money brings happiness is another myth.** There is no relationship between money and happiness. "Instruct those who are rich in this present world not to be conceited or to fix their hope on the uncertainty of riches, but on God, who richly supplies us with all things to enjoy" (1 Timothy 6:17). If riches could bring happiness, then the wealthy of the earth ought to be the most content. Instead, they have anxieties over what they are going to do with their money, how they are going to leave it to their children, and what effect it will have. And few children are appreciative of the large amounts of wealth their families leave them. Most, having grown up in affluence, see the devastating effect that an excess of money used unwisely can have on a family.

• **To be wealthy is a sin.** This is false too. Having money is *not* a sin. As a matter of fact, many times when God finds someone with the proper attitude, He blesses them with great riches. When God bestowed riches on Abraham, it was not His intention to corrupt what would become the nation of Israel. And when Solomon prayed for wisdom to be able to manage the people of Israel, God responded by granting him wisdom *and* great wealth. Psalm 8:6 says, "Thou dost make him to rule over the works of Thy hands." This is God's stewardship to us over *everything* on earth.

• **Money is the root of all evil.** Many people believe this comes from Scripture. They say, "I don't know exactly where, but the Bible says that money is the root of all evil." That is not what the Bible says at all. Paul points out in 1 Timothy 6:10, "For the *love* of money is a root of all sorts of evil, and some by longing for it have wandered away from the faith, and pierced themselves with many a pang." This is God's perspective; the *love* of money is the root of all sorts of evil.

Christ relates this attitude to the rich young ruler. He came before Jesus and asked Him, "Good Teacher what shall I do to inherit eternal life?" and Jesus said to him, "Why do you call Me good? No one is good—except God alone. You know the commandments, 'Do not commit adultery, Do not murder; Do not steal, Do not bear false witness, Honor your father and mother.' And he said, 'All these things I have kept from my youth.' And when Jesus heard this, He said to him, 'One thing you still lack; sell all that you possess, and distribute it to the poor, and you shall have treasure in heaven; and come, follow Me'" (Luke 18:18-22).

That young man turned sadly and went away, for he was very rich. And Jesus said, "How hard it is for those who are wealthy to enter the kingdom of God!" (Luke 18:24). Why? Christ knew that *inside* this man loved his money. He had kept all the external commandments, but he could not keep that internal *attitude* straight. Because of this, Jesus asked him to sell what he had and follow Him. He refused to do so; yet, we can be sure that, in death, he surrendered what in life he could not.

Attitude is always God's concern. Christ's statement dealing with the rich young ruler was based on that man's attitude, his motivation, and the purpose behind his money.

How is God's will expressed in finances?

The key to realizing God's will in the area of finances is a proper understanding of stewardship. Unfortunately, this term has been so misused that today most people think of stewardship only in terms of Christian fund-raising activities. As defined earlier, a steward is one who manages another's property. We are merely stewards of God's property while we are on this earth, and God can choose to entrust us with as much or as little as He desires. But in no case do we ever actually take *ownership*. When we try to do so we are depending either on what Satan can supply or what we can achieve through our own self-will.

Once we accept our role as stewards and manage God's resources according to His direction, He will entrust more and more to us. But why would God entrust property to those He knows will hoard it and to those who feel they are owners?

God will not force His will on us. A verse that relates specifically to God's attitude is Proverbs 28:26, "He who trusts in his own heart is a fool, but he who walks wisely will be delivered." God is looking over the entire earth for men and women who have the proper attitude toward money and who will use it according to His direction and not according to their own interests. Every parable that Jesus Christ left us about money tells us many things about the attitude He desires for us. The parable of the talents is rich in wisdom (Matthew 25:14-30, summarized):

The master was going on a trip, and he called in three of his servants, telling them, "I'm taking a long trip and entrusting to you money to use on my behalf." To the first he gave five talents, to the second he gave two talents, and to the third he gave one, each according to his own ability. (Note that he didn't give each the same; he gave them according to the physical, worldly ability that they possessed.)

Immediately, upon the master's leaving, the first took the five talents, invested them, and promptly earned five more. The second, who had the two talents, took them out and invested them and promptly earned two more. But the one to whom one talent had been entrusted, knowing that his master was a harsh man, wrapped it in a handkerchief and buried it in the ground.

Later the master returned and called for his three servants. He spoke to the first saying, "How did you fare?" The first said, "I've done well, Master; I've taken your five and gotten five more talents with them." His master then replied, "Well done! You were good and faithful with the few things I put you in charge of, and you have entered into my great joy." Then the one who had the two came up and said, "Master, you gave me two, and I've gained two more with them." The master said, "Very good. You are faithful also. I'll put you in charge of many things!"

And the one who had received the one talent came to the master and told him, "Master, I knew you to be a hard man, reaping where you did not sow and gathering where you scattered no seed. I was afraid and I went away and hid your talent in the ground. Here, I'll return it to you!" But his master told him, "You are a wicked and lazy slave. You knew that I would reap where I did not sow and gather where I scattered no seed. You should have put my money in the bank and at least earned interest on it!" He told those around him, "Take the talent from the one who has invested poorly and give it to the one who had five. Because to everyone who has shall more be given, and he shall have abundance. But from the one who does not have, even what he does have will be taken away, and cast him out into the darkness."

This parable is *prophetic* in nature. It is given in Matthew 25, a chapter that deals with the Second Coming of Christ. It reveals many things. Among them:

1. God will entrust to us that which is within our own ability and not beyond it.

2. God is the owner and has the right to recover what He has given us to manage.

3. God thoroughly disapproves of slothfulness on our part and expects multiplication of the assets He leaves us, not simply maintenance of them. That multiplication is to be achieved according to ability.

God expects those who have the ability to invest to do so, but He also expects the return of what is given. This involves *wisdom* in finances—another key to understanding God's plan.

How can we seek the Lord's wisdom in our finances? God says that if we pray anything in His will, believing, it shall be given to us. But God's will and His ways do not always coincide with ours. So when we turn our finances over to God, we must also be willing to accept His direction.

It is wrong to go our own way, and then expect Him to bail us out when we run into trouble. Christians who do this regularly have not accepted that God's wisdom is superior to theirs.

How God works through our finances

• **God will use money to strengthen our trust in Him.** It is often through money that God can clearly and objectively show us that He is God and in control of everything. Matthew 6:32-33: "For all these things the Gentiles eagerly seek; for your heavenly Father knows that you need all these things. But seek first His kingdom and His righteousness; and all these things shall be added to you." This principle establishes that God will use money to strengthen our trust if we will just accept our positions as stewards and turn it over to Him.

• **God will use money to develop our trustworthiness.** This principle is important because our lives revolve around the making, spending, saving, and other uses of money. Luke 16:11 states: "If therefore you have not been faithful in the use of unrighteous mammon, who will entrust the true riches to you?"

• **God will use money to prove His love.** Many Christians remain outside God's will because they are afraid to yield their lives and their resources to Him. Matthew 7:11 has the answer: "If you then, being evil, know how to give good gifts to your children, how much more shall your Father who is in heaven give what is good to those who ask Him!" By this Scripture, we can see God assumes the responsibility of providing the basic necessities for everyone trusting Him.

• **God will use money to demonstrate His power over this world.** Too often we forget that we worship the creator of the universe. We think of God in human terms and relate to Him as we relate to a human. It is important that we understand God's power and His resources. When God promises us things, He promises them through His Word. And the Bible has in it everything God will ever do for us. As we read it, we begin to understand that God indeed is the owner of everything. He is a multi-zillionaire, He is a multi-universaire, and when He says He can supply things, He can. In talking to others, we find that what God promises in Scripture He delivers.

He then begins to give—small things at first, because we are only capable of trusting Him for small things. But as He gives us small things, our confidence begins to grow; and the more our confidence in Him grows, the more He is able to supply. Thus God can use money to demonstrate His power to us. "For the Scripture says, 'Whoever believes in Him will not be disappointed.' For there is no distinction between Jew and Greek; for the same Lord is Lord of all, abounding in riches for all who call upon Him" (Romans 10:11-12).

• **God will use money to unite Christians through many shared blessings.** "He who gathered much did not have too much, and he who gathered little had no lack" (2 Corinthians 8:15). God will use the abundance of one Christian to supply the needs of another. Later He may reverse the relationship, as described in 2 Corinthians 8:14: "At this present time your abundance being a supply for their want, that their abundance also may become a supply for your want, that there may be equality." It is important that Christians accept the principle that a surplus of money in our lives, indeed everything that we have, is there for a purpose. For example, God sent Joseph into Egypt specifically to supply the needs of Israel. Had Joseph refused his position of stewardship, God simply would have assigned it to someone else.

• **God uses money to provide direction for our lives.** There is probably no way God can direct our lives faster than through the abundance or lack of money. Too often we believe God will direct our lives only through an abundance of money, and we keep probing to see where He supplies it. However, through the lack of money, God will steer us down His path just as quickly. "And let us not lose heart in doing good, for in due time we shall reap if we do not grow weary" (Galatians 6:9). We don't give up just because we face some difficulty. God will ultimately provide the direction we are seeking, and one of the primary ways He gives insight into His will is by supplying or withholding money. A Christian seeking God's will must be certain that he has first relinquished control of his life, including his finances, and is truly seeking God's direction.

• **God can use money to satisfy the needs of others.** Christians who hoard money and never plan for their financial lives cannot experience this area of fulfillment. Often I hear Christians say, "How can I give? I only have enough to barely meet my needs now." If we have never learned to give, God can never give back. God cannot be in control as long as we believe we are the owners.

Attitudes of self-control

Let's look at some guides that will clearly define when God is *not* in control; understanding that is just as important as understanding when He is in control.

• **God will never use money in our lives to worry us.** If a Christian is worried, frustrated, and upset about money, God is not in control. God said that wealth without worry is His plan for our lives. "For this reason I say to you, do not be anxious for your life, as to what you shall eat, or what you shall drink; nor for your body, as to what you shall put on. Is not life more than food, and the body more than clothing?" (Matthew 6:25). If we are operating within His plan, God promises to supply food, clothing, and shelter—the needs of life. Believing that, we can concentrate on other things, using the ability God has given us to accomplish the plan He has for our lives.

• **God will never use money in our lives to corrupt us.** Naturally, God would not use money to corrupt us. But many Christians have fallen into Satan's trap and are being corrupted. They fail to realize that *God cannot be in control when they are becoming corrupted.* "For the Lord knows the ways of the righteous, but the way of the wicked will perish" (Psalm 1:6). A Christian whose financial life is characterized by greed, ego, deceit, or any of the many other worldly snares is not God's ally.

• **God will never use money in our lives to build our egos.** Frequently, Christians are trapped by financial ego. Most people cater to the wealthy in our country (Christians included). Read through the book of James. It makes very clear the admonition not to fawn over the wealthy. In Christ we are all financially equal. The things of this world will quickly pass away. Death will remove all wealth from us. And, when we as Christians meet again, there are going to be many surprises. Those who will have the crowns of heaven and are placed in charge of the cities of God will not be those using money to build egos. "And let the rich man glory in his humiliation, because like flowering grass he will pass away. For the sun rises with a scorching wind, and withers the grass; and its flower falls off, and the beauty of its appearance is destroyed; so too the rich man in the midst of his pursuits will fade away" (James 1:10-11).

• **God will not allow Christians to hoard money.** There is a distinct difference between saving and hoarding. The writer of Proverbs 30 said (in paraphrase), "Lord, I ask but two things from You: first, help me to never tell a lie; second, give to me neither riches nor poverty because in my poverty, I might steal, and in my riches I might become content without You!" (see Proverbs 30:8-9). The wealthy have a great responsibility to understand why God gave them money and to avoid hoarding. A Christian *cannot* be within God's will and hoard money. "For he sees that even wise men die; the stupid and the senseless alike perish, and leave their wealth to others. Their inner thought is, that their houses are forever, and their dwelling places to all generations; they have called their lands after their own names" (Psalm 49:10-11). That is an important spiritual lesson.

Those who hoard large sums of money to leave to their children or for "security" are fooling themselves. It cannot be done. It is important that Christians understand and believe that. Scripture speaks very strongly about true values: "I advise you to buy from Me gold refined by fire, that you may become rich, and white garments, that you may clothe yourself, and that the shame of your nakedness may not be revealed, and eye salve to anoint your eyes, that you may see" (Revelation 3:18).

Hoarding can evolve into a trap. It is possible to see others in need and ignore them rather than abandon a hoarding plan. Unfortunately, those trapped by hoarding can rationalize their behavior with arguments that contradict God's Word.

• **God will not use money to allow us to satisfy our every whim and desire.** It is important that we begin to adjust to lifestyles compatible with a Christian commitment. That means something less than lavishness. God does not want us to live in poverty; we have discovered that there is nothing inherently spiritual in poverty. Neither is there any sin in wealth. However, God does not desire for a Christian to live in worldly lavishness while His work needs money and other Christians go without food and clothing. So, while we can live well—and in this country we live very well—it is important that there be a difference in our commitment as compared to that of the nonbeliever.

What kind of commitment is it to be? It must be one for *you* personally, brought on by a conviction of the Holy Spirit. But you must ask yourself, "Is there a difference between my lifestyle and the nonbeliever's?" If not, you need to seek God's direction. First Timothy 6:6-8 says, "But godliness actually is a means of great gain, when accompanied by contentment. For we have brought nothing into the world, so we cannot take anything out of it either. And if we have food and covering, with these we shall be content."

God does not supply money to satisfy our every whim and desire. His promise is to meet our needs and provide an abundance so that we can help other people. It is when we accept this principle that God will multiply our abundance as well.

Application

Just as Christians cannot experience the fullness of the Holy Spirit until they surrender ownership of their lives to Christ, so too they cannot experience freedom and peace in the area of finances until they surrender control of this area to God and accept their position as stewards.They also must *listen to Him*, through Scripture and through prayer, and *apply* what He says. A Christian who does not surrender to the Lord and never asks for God's direction about his or her finances will never get an answer. ◆

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

BUILDING GENEROSITY INTO YOUR MONTHLY BUDGET

by Jason Topp[1]

Imagine you are out to eat with your family and you strike up a conversation with the server. You learn she is a single mom with three kids and works two jobs to make ends meet. After her children go to bed, she spends several hours taking online classes in hopes of getting a college degree and moving forward in life.

Your heart goes out to her, all the more when you find out she is a fellow believer. She seems happy and energetic, yet underneath the smiles you sense a deep longing for things to be different. She tells you how she's working hard to make a better life for herself and her kids. You can only imagine how difficult it must be to juggle the demands of employers, children, and professors.

You would love to help in some way, but you feel like you can't afford to. You leave the restaurant with an empty feeling in your heart and you hope she "makes it." After you get in the car, you turn to your spouse and remember the words of James 2:15-16:

Suppose a brother or a sister is without clothes and daily food. If one of you says to them, "Go in peace; keep warm and well fed," but does nothing about their physical needs, what good is it?

Conviction sets in. You decide it's time for a change. You imagine how exciting it would be if you had an extra $25, $50, or even $100 a month set aside specifically for times like this. You picture yourself plopping down an extra large tip with a note that says, "We're praying for you!"

But how can you increase your ability to give without hurting your own financial situation? After all, you don't want to do anything financially foolish, like going deeper into debt or taking an early IRA withdrawal. The answer lies in *building generosity into your budget*.

Designing your giving plan

Before adding more generosity to your budget, first be sure you decide on an appropriate amount to give to your local church. Budget a specific percentage that you will faithfully give via your local body of believers.

Next, go above and beyond—put additional generosity into your plan. This involves setting aside a monthly amount that allows you to be a direct financial blessing to others. It doesn't have to be a large amount, but this money should be a "non-negotiable"—just like you'd treat your savings or expenses.

The challenge is finding a figure you're comfortable with and sticking to it. (To keep things simple, my wife and I use a *dollar* amount for our generosity money, rather than a percentage of income.)

Finally, agree on the details. I can't stress enough that if you're married (or are engaged and are starting to plan a budget together), you need to agree on the details of your generosity plan. If you don't, what typically happens is that one person is overly ambitious with giving, while the other gets upset that too much hard-earned money is given to others when it could be used to meet family goals such as debt reduction or savings.

Here are a few of the details my wife and I have agreed on:

- **A set amount.** We have decided on a specific dollar amount, and each of us gets the same amount.
- **No hoarding.** Generosity money must be used in that particular month (this keeps us active in looking for opportunities to be generous).
- **Autonomy.** We're not allowed to tell each other whom to give to or what to use the money for. We make our own decisions—and then we have the fun of sharing with each other how the Lord has led us to give.

Benefits of a generosity budget

One benefit we have experienced from building generosity into our budget is that we receive a tremendous amount of joy. It's a great feeling to be able to help someone by giving a gift unexpectedly. Here are other blessings we've enjoyed—and you will too:

- A generosity budget allows you to help others immediately—when they need it—rather than waiting until the end of the month and hoping there is extra money to give.
- It keeps you actively looking for opportunities to assist those in need—thus continually fostering an attitude of personal generosity.
- Implementing your generosity plan is a fun way to store up treasure in heaven. Not all the benefits of giving are enjoyed now. Some will come later!

Ideas for being generous

There are no hard-and-fast rules when it comes to putting your generosity budget into action, so be creative and stay attentive to the needs of those around you. Here are a few examples to get you thinking:

- Leave a card with money inside on the desk of a financially struggling coworker;
- Buy grocery gift cards for a family whose breadwinner has lost a job;
- Give a gift card from a local restaurant to someone experiencing a rough patch in life;
- Buy gas cards for a single parent trying to make ends meet;
- Pay for a babysitter for a single parent, foster family, or a married couple that needs a break;
- Buy birthday cards and presents for women and children in local shelters;
- Purchase Bibles for inmates in your local jail;
- Leave an extra tip for a server you know is struggling with life;
- Mentor an

(continued on page 109)

[1] Jason Topp is a Private Wealth Advisor and Certified Financial Planner in Merrillville, Indiana. He's been married to Jen for 15 years and has three kids who keep him busy.

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

THE REAL COST OF MUTUAL FUNDS

At first glance, the cost of investing in a mutual fund seems straightforward. The net asset value (NAV) is the price of each share. For example, the NAV of the Allianz International Small Cap fund (AOPAX) as of this writing is $45.44. That's what one share costs.

But there's more to the story. Of course, the company offering the fund has to get paid for its services, and it does so through one or more of the fees described below. To be an informed investor requires an understanding of the true cost of the funds you buy.

Expense ratios

A look at AOPAX's prospectus reveals a "net expense ratio" of 1.25%. That indicates the total amount a shareholder will pay annually to help cover the fund's overhead and profits. For every $1,000 invested in the fund, $12.50 will go toward the fund's management each year. (You may also see a higher *gross* expense ratio listed, but it's the *net* expense ratio that affects you. Any added costs included in the gross expense ratio are waived or reimbursed to investors.)

Costs covered by a fund's expense ratio include operating/management expenses and marketing expenses.

• **Operating/management expenses.** All funds cover their operating expenses out of the money shareholders invest. The largest such expense is typically the fund's "management fee," which pays the salaries of the portfolio managers and any supporting staff (financial analysts, etc.). Other operating expenses include the costs of having an office and equipment, additional staff, and the fees paid to a bank to maintain shareholder accounts and safeguard all the money and securities constantly coming and going. There are also the costs of presenting regular reports to shareholders, and obtaining legal and auditing services. Finally, after all the above are paid for, any remaining money constitutes the fund's profits.

• **Marketing expenses.** Many funds pay their marketing expenses out of the management fees they collect. Others, including AOPAX, add a separate item called a 12b-1 fee, named after the SEC ruling that permits it. This money is used to promote the fund to prospective investors, typically by paying distribution fees to brokers. Schwab, for example, charges a fund 0.40% of its assets annually for the fund to be listed as a "no-transaction-fee" offering on Schwab's platform. It's not difficult to understand why some funds recoup a portion of those costs by adding a 12b-1 fee. (The maximum allowed for a no-load fund is 0.25%.)

Even though a fund's 12b-1 fees may be listed separately on a prospectus, *all* of the operating/management and marketing expenses (including any 12b-1 fee) are included in a fund's stated expense ratio. These expenses aren't paid all at once. Rather, in a manner invisible to the shareholder, a small portion is subtracted daily from the fund's net asset value. The NAV a fund reports each day has already had that day's share of the annual costs deducted. (As a result, SMI's momentum scores already take into account the impact of each fund's expenses.)

IMPACT OF EXPENSES & LOADS

	No Load	Class A Loads	Class C Loads
Expense Ratio	1.00%	1.26%	1.95%
Front Loads	None	5.75%	None
Deferred Loads	None	None	1.00%
Sell After Year 1	$10,700	$10,060	$10,499
Sell After Year 2	$11,449	$10,738	$11,134
Sell After Year 3	$12,250	$11,462	$11,808
Sell After Year 4	$13,108	$12,235	$12,522
Sell After Year 5	$14,026	$13,059	$13,280
Sell After Year 6	$15,007	$13,939	$14,083
Sell After Year 7	$16,058	$14,879	$14,935
Sell After Year 8	$17,182	$15,882	$15,839
Sell After Year 9	$18,385	$16,952	$16,797
Sell After Year 10	$19,672	$18,095	$17,813

Assume a fund would have returned +8% each year *if no expenses were taken out.* In the table below, the first column shows a no-load fund that charges, as all funds do, an expense ratio. If there were no fees whatsoever, a $10,000 investment that earns 8% would be worth $10,800 after one year. However, since the fund charged 1% to cover its operating/management expenses, the amount grew to $10,700 instead.

Remember, published returns are always reported *after* the expense ratio costs have been deducted, so this fund's published return would be 7%, not 8%. This makes it easy for investors to simply compare the stated returns for one fund against another without having to make further adjustments for expenses.

Sales loads

So far, we've been looking at no-load funds—those that are sold without sales charges. No-load funds charge fees to cover their costs, such as those expressed as an expense ratio, but they don't make investors pay a sales commission.

No-load funds deal directly with investors without having a sales force represent them. They count on investors doing their own research and paperwork (or relying on a trustworthy investment newsletter for recommendations as to which funds to buy and sell!) and, therefore, not needing a broker to recommend which funds to buy.

In contrast, some brokers and financial planners get paid for their advice by earning commissions from the funds they steer money into. Those charging a *front-end* load (a commission that is paid right away when you buy a fund) are most commonly called "Class A" funds. The second column shows how significant a drag such fees can be on returns.

"Class C" funds compensate brokers by charging higher expenses (some of which are returned to the broker as an ongoing

(continued on page 109)

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

A ROAD MAP TO RETIREMENT PLANS FOR SMALL-BUSINESS OWNERS

by Chris Toadvine[1]

Did you know that according to the National Center for Health Statistics, the average 65-year-old man today can expect to live at least 18 more years, while his similarly aged wife can expect to live more than 20 more years? Another fact: Social Security payments generally replace less than 40% of a retiree's pre-retirement income.

What do these statistics tell you about the need to save for retirement? Everything. They underscore the importance of taking responsibility to prepare for your own retirement. This is especially true for small-business owners (and the self-employed) who don't have a company contributing to a plan on their behalf. But small-business owners should be encouraged: they have access to the same types of plans large corporations use.

Let's review the benefits of saving in a retirement account. One of the biggest is that funds contributed to a retirement plan usually aren't taxed as current income. Further, contributions made by a business owner (but not employee deferrals) are tax-deductible as a business expense. And, unlike salaries, they're not subject to payroll taxes.

Additionally, funds inside a retirement account grow tax-deferred. This means no income tax is due on contributions or the investment profits they generate until the money is withdrawn during retirement—unless one is using a Roth account. (With a Roth 401(k), contributions are taxed *before* going into the plan, but withdrawals of principal and earnings are tax-free in retirement.)

Offering a good retirement plan also helps attract and retain employees!

Many types of retirement plans exist, so business owners often have difficulty identifying which are best suited to their business. Let's take a look at the plans available for use by for-profit organizations.

1. Qualified Plans. There are two main categories of qualified plans:

• *Defined benefit* specifies a monthly amount a retiree will receive, i.e., a pension. For example, the plan might guarantee a retiring worker 70% of his or her pre-retirement income for life.

• *Defined contribution* specifies the contribution to be made by the employer/owner. It does not, however, guarantee a specific level of benefit at retirement. For example, the plan might specify a contribution amount equal to 3% of annual salary. The most popular types of defined contribution plans are the 401(k), SIMPLE 401(k), Profit-Sharing, and Employee Stock Ownership Plans (ESOP, not shown in table).

Qualified plans must comply with extensive government rules regarding employee participation and coverage, and IRS reporting requirements can make such plans costly to set-up and maintain.

2. IRA-Funded Plans. These plans use *individual retirement accounts* to hold the assets in an employee's name. But unlike traditional and Roth IRAs, an employer funds at least part of the account. The two main types of employer-sponsored IRAs are Simplified Employee Pensions (SEP-IRAs) and Savings Incentive Match Plans for Employees (SIMPLE-IRAs).

Employer-sponsored IRAs typically require less time and (continued on page 110)

RETIREMENT PLANS AVAILABLE TO OWNERS OF SMALL BUSINESSES

	Defined Benefit Plan	Defined Contribution Plans				IRA Funded	
		401(k)[2]	Simple 401(k)	Profit Sharing	Money Purchase	SEP IRA	SIMPLE IRA
Employer required to make annual contributions?	Yes	Depends	Yes	No	Yes	No	Yes
Employees allowed to make tax-deductible contributions?	No	Yes, lesser of 100% of compensation or $18,500[3]	Yes, up to $12,500 in 2018[4]	No	No	No	Yes, up to $12,500 in 2018[4]
Maximum annual employer contribution?	Determined by actuary	25% of total plan W-2 compensation	Required match or nonelective contribution	25% of total plan W-2 compensation	25% of total plan W-2 compensation	25% of each employee's W-2 compensation	Required match or nonelective contribution
Limit on contributions of employer/employee combined?	Based on the benefit to be received	Lesser of 100% of participant's compensation or $55,000/year[4]	Depends	Lesser of 100% of participant's compensation or $55,000/year[4]	Lesser of 100% of participant's compensation or $55,000/year[4]	Lesser of 25% of participant's compensation or $55,000/year[4]	Depends on amount of employer match
Vesting requirements allowed?	Yes	Can be	No	Yes	Yes	No	No
Required to file annually with the IRS?	Yes	Yes	Yes	Yes	Yes	No	No

[2]Self-employed business owners with no full-time employees should investigate a Solo 401(k) [3]In 2018, individuals 50 or older can defer up to an additional $6,000
[4]In 2018, for individuals 50 or older, the maximum contribution is increased by $3,000

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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

THE HIGH COST OF DYING

Christians can declare confidently, along with the Apostle Paul, that "to die is gain" (Philippians 1:21). Even so, the end of our mortal lives does carry a cost—literally. Almost everything connected with the death of the body has a price: The casket (or urn), the funeral home, transportation and preparation of the body, the ceremony—it adds up.

A Funeral Price Survey[1] conducted last year by the National Funeral Directors Association (NFDA) pegged the median cost for a traditional funeral at $7,360, a figure that includes itemized costs as well as about $2,000 in funeral-home "service fees" (covering everything from permits to insurance to administration).

But there's more. That NFDA survey *didn't* include the price of a burial plot, a grave marker, and a vault (the protective container for a casket that prevents the ground above from sinking—required by many cemeteries). Adding those items raises the median cost to more than $10,000, according to Funeralwise.com.

There are ways to economize—if you plan ahead. Unfortunately, decisions related to "death care" often are made "at need," i.e., shortly before a person dies or immediately afterward. It's not uncommon for a spouse (or other family members), while racked by emotional distress and squeezed by time pressure, to face a series of potentially costly choices. Making "pre-need" decisions, well in advance of death, is better both emotionally *and* financially.

A helpful resource for starting the process is the "Quick Plan," an online cost estimator and planning tool available from the for-profit website Funeralwise.com (click "Funeral Planning" on the top toolbar). Although there is no charge or obligation to use the Quick Plan, you will be required to provide your name and email address.

What do you want?

There is no "right" way to commemorate a death. What you choose is up to you and your loved ones, and cost is an important consideration.

In the U.S., traditional aspects of death care have included embalming, dressing of the body, a finely detailed casket, a viewing of the deceased at a funeral home, etc. But none of these things is required. Embalming, for example, is not required by law in any state, except in some cases involving long-distance transportation of the body.

It is also not required that you have any particular kind of casket, or that you buy a casket from the funeral home that's handling the arrangements. Caskets can be purchased online (from Walmart, Costco, or any number of online casket sellers) and quickly shipped directly to a funeral home. Styles range from simple wooden boxes to ornate metal units, with costs varying accordingly. (The Federal Trade Commission's "funeral rule"[2] says funeral providers can't refuse to handle a casket purchased elsewhere.)

Choosing cremation over burial is an increasingly common way to lower costs, with a cremation typically being several thousand dollars cheaper than a burial. That's one reason the U.S. cremation rate has now passed the burial rate, according to statistics from the National Funeral Directors Association.

However for Christians, theological issues come into play with cremation. Some pastors and theologians stress that burial should be preferred over cremation because of the dignity of the human body, as evidenced by the Incarnation of Christ (Hebrews 2:14), and the body's eventual resurrection in glorified form (1 Corinthians 15:42-44). That said, cremation isn't specifically forbidden in Scripture, so whether to choose cremation generally is considered a matter of individual choice, not one of established doctrine.

For those who prefer burial, a "direct burial" is one means of keeping the cost of an interment as low as possible. With direct burial, there typically is no viewing, visitation, or embalming, and the remains are buried in a simple casket (there may or may not be a graveside service). Direct burials can be as much as $5,000 cheaper than a "traditional" approach. (Sometimes a direct burial is followed a few days later by a "memorial service," thus providing an opportunity for friends and family to gather to celebrate the life of their loved one.)

Comparing costs

Until recently, finding funeral home prices online was hit-or-miss. Although the Federal Trade Commission requires funeral homes to reveal prices to any consumer who asks, that requirement—which dates back to 1984 (i.e., pre-internet)—applies only to requests made in person or on the phone.

In 2015, the start-up website parting.com began compiling a searchable database of funeral home prices nationwide, enabling users to easily compare costs and services. (Site employees posed as shoppers, asking funeral homes to provide their prices as required by the FTC.) As the website has grown, an increasing number of funeral homes have started working directly with parting.com to supply pricing information and other details.

Of course, price doesn't necessarily tell you anything about quality. But doing a preliminary price comparison online may help you narrow the field to a few funeral providers that you can investigate in person. Interestingly, locally owned funeral homes tend to have lower prices than homes run by national chains.

Although most funeral homes offer pay-in-advance options that (typically) lock in costs at today's prices, prepaying can have a downside. Sometimes funeral homes go out of (continued on page 110)

[1]nfda.org/news/statistics [2]bit.ly/2rW1kra

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 5/31/2018	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	9.2	-1.4%	-1.6%	-1.6%	0.7%	10.1%	5.2%	1.12	0.11%	20%	16%	12%	8%	VXUS
Extended Market Index ETF	Small company stocks	29.8	5.2%	4.9%	5.8%	5.5%	18.5%	9.8%	1.19	0.08%	40%	32%	24%	16%	VXF
S&P 500 Index ETF	Large company stocks	17.8	1.9%	2.4%	0.2%	3.2%	14.4%	11.0%	1.00	0.04%	40%	32%	24%	16%	VOO
Total Bond Mkt Index ETF	Medium-term bonds	-1.3	-1.8%	0.7%	0.5%	-1.2%	-0.5%	1.3%	1.02	0.05%	None	20%	40%	60%	BND

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

RECOMMENDED FUNDS FOR SMI'S FUND UPGRADING STRATEGY

Risk	Data through 5/31/2018[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	25.7	4.3%	1.1%	-0.3%	5.3%	20.7%	11.1%	1.41	0.45	133	None	VWIGX
	2. Advisory Res Intl Sm Cp Val	06/18	Yes	Yes	Yes	32.7	4.5%	-0.8%	3.6%	8.5%	20.6%	9.7%	1.03	1.20	72	2%90days	ADVIX
	3. Allianz Intl Sm Cap - LW[12]	05/18	NTF	NTF	No	24.6	2.8%	0.0%	-0.8%	5.4%	20.0%	9.3%	1.13	1.25	98	None	AOPAX
Category 4 Small/Growth	1. Delaware Smid Cap Gro - LW[12]	02/18	NTF	No	NTF	71.0	13.4%	7.8%	7.3%	18.8%	44.8%	13.0%	1.40	1.21	36	None	DFCIX
	2. Kinetics Small Cap Oppor	02/18	NTF	NTF	NTF	83.1	18.0%	7.9%	11.6%	24.4%	47.1%	15.1%	1.34	1.66	39	2%30days	KSCOX
	3. Baron Opportunity	03/18	NTF	NTF	NTF	58.4	17.9%	5.9%	7.7%	20.4%	30.3%	14.7%	1.51	1.41	56	None	BIOPX
Category 3 Small/Value	1. Huber Capital Sm Cap Val	06/18	NTF	NTF	NTF	45.1	7.7%	4.7%	13.7%	7.9%	23.5%	6.0%	1.57	1.75	46	1%60days	HUSIX
	2. Hodges Small Cap	04/18	NTF	NTF	NTF	46.2	7.7%	5.4%	5.9%	12.5%	27.8%	6.2%	1.50	1.28	52	1%30days	HDPSX
	3. Aegis Value	05/18	Yes	Yes	Yes	57.3	5.9%	3.4%	6.7%	14.5%	36.2%	16.8%	2.68	1.50	50	None	AVALX
Category 2 Large/Growth	1. MS Multi-Cap Gro - LW[12]	05/18	NTF	NTF	NTF	60.6	17.6%	8.1%	6.9%	19.4%	34.3%	19.4%	1.53	1.24	38	None	CPOAX
	2. ☎ Touchstone Sands Cap Sel	07/18	No	NTF	NTF	58.4	19.3%	6.8%	7.3%	19.4%	31.8%	13.0%	1.58	1.22	28	None	PTSGX
	3. Invesco S&P 500 EW Tech	04/17	ETF	ETF	ETF	38.4	11.1%	5.1%	2.5%	10.7%	25.2%	19.9%	1.33	0.40	73	None	RYT
Category 1 Large/Value	1. Miller Opportunity - LW[12]	06/17	NTF	Yes[10]	NTF	28.7	4.7%	6.2%	5.0%	6.1%	17.6%	6.4%	2.06	1.35	37	None	LGOAX[10]
	2. ☎ Oppen S&P Ultra Divd Rev	07/18	ETF	ETF	ETF	30.3	3.7%	3.8%	6.8%	6.0%	17.5%	12.2%	1.18	0.39	61	None	RDIV
	3. Toreador Core	05/17	NTF	NTF	NTF	27.6	3.1%	3.3%	2.4%	4.3%	20.9%	10.7%	1.18	1.20	108	2%60days	TORLX
Bond Categories	Vanguard Inflation Protect [6]	02/18	Yes[11]	Yes[11]	Yes[11]	1.3	-0.8%	0.2%	1.1%	0.1%	0.2%	1.3%	1.08	0.20	7.6[7]	None	VIPSX[11]
	Permanent: Vanguard I-T Bond	Perm	ETF	ETF	ETF	-3.6	-2.3%	0.8%	0.2%	-2.1%	-1.8%	1.2%	1.29	0.07	6.4[7]	None	BIV[8]
	Permanent: Vanguard S-T Bond	Perm	ETF	ETF	ETF	-0.5	-0.4%	0.4%	0.4%	-0.5%	-0.5%	0.7%	0.45	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-June, not those shown on this report. The fund ranked third is the one that currently appears most likely to be replaced next. A telephone symbol (☎) next to a fund's name indicates that fund is a new recommendation. See the fund writeups in "MoneyTalk" for more information. **[2]** Fund Availability: NTF means the fund can be bought and sold free of transaction fees as long as you stay within the trading limitations imposed by 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. **[12]** Normally is a load fund but is available load-waived (LW) through some brokers. Purchase only if available to you at your broker without paying a load. See original fund write-up for details.

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

Upgrading: Easy as 1-2-3

Fund Upgrading has long been SMI's most popular Basic Strategy. Whether used in isolation or in combination with SMI's Premium Strategies, Upgrading forms a solid foundation for an investing plan. Upgrading has proven itself over time with market-beating returns over the long haul, and it is easy to implement. This page explains exactly how to set up your own Upgrading portfolio.

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

WHY UPGRADE?

SMI offers two primary investing strategies for "basic" members. They are different in philosophy, the amount of attention they require, and the rate of return expected from each. Our preferred investing strategy is called Fund Upgrading, and is based on the idea that if you are willing to regularly monitor your mutual-fund holdings and replace laggards periodically, you can improve your returns. While Upgrading is relatively low-maintenance, it does require you to check your fund holdings each month and replace funds occasionally. If you don't wish to do this yourself, a professionally-managed version of Upgrading is 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 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 Basic Strategies page, the highest-rated Cat. 5 fund available is Vanguard Intl Growth, the highest-rated Cat. 4 fund available is Kinetics Small Cap Opp., and so on. After doing this for each category, the orders are placed and the stock portion of the Upgrading portfolio is complete!

From then on, it's just a matter of checking the Basic Strategies page each month. When an owned fund is *removed* from this page (not when it merely shifts out of the #1 ranking), you should immediately sell that fund and invest the proceeds in the highest-ranked fund in the same risk category that is available at your broker.

❶ PICK YOUR ALLOCATION

Seasons of Life	Stocks	Bonds
15+ years until retirement	100%	0%
10-15 years until retirement	80%	20%
5-10 years until retirement	70%	30%
5 years or less until retirement	60%	40%
Early retirement years	50%	50%
Later retirement years	30%	70%

Note: These are SMI's recommendations for those with an "Explorer" temperament. See Step ❶ in the text for information on our investment temperament quiz. You may want to fine-tune the above percentages to suit your personal approach to risk-taking.

❷ FIND YOUR PORTFOLIO MIX

Portion of Portfolio Allocated to Stocks:	100%	80%	60%	40%
Portion of Portfolio Allocated to Bonds:	**None**	**20%**	**40%**	**60%**
Stock Cat. 5: Foreign Stocks	20%	16%	12%	8%
Stock Cat. 4: Small Companies /Growth	20%	16%	12%	8%
Stock Cat. 3: Small Companies /Value Strategy	20%	16%	12%	8%
Stock Cat. 2: Large Companies /Growth	20%	16%	12%	8%
Stock Cat. 1: Large Companies /Value Strategy	20%	16%	12%	8%
Bond Cat. 3: "Rotating" Bond Fund	None	10%	20%	30%
Bond Cat. 2: Intermediate-Term Bond Fund	None	5%	10%	15%
Bond Cat. 1: Short-Term Bond Fund	None	5%	10%	15%

❸ BUY YOUR FUNDS

Example uses an 80/20 mix between stocks and bonds		Dollars	Invest In Funds
Stock Cat. 5: Foreign	16%	$8,000	Vanguard Intl Growth
Stock Cat. 4: Small/Growth	16%	$8,000	Kinetics Small Cap Oppor
Stock Cat. 3: Small/Value	16%	$8,000	Huber Small Cap Value
Stock Cat. 2: Large/Growth	16%	$8,000	MS Multi-Cap Growth
Stock Cat. 1: Large/Value	16%	$8,000	Miller Opportunity
"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	

BOND UPGRADING

Your bond allocation is divided among three funds as seen in Table 2. One-half of that is invested in the rotating Upgrading selection, which is reviewed monthly and changes from time to time. The other half is divided evenly between short-term and intermediate-term index bond funds, which are permanent holdings. For more on why SMI approaches bond investing in this way, see "Introducing an Upgrading Approach to Bond Investing that Outperforms the Bond Market" (bit.ly/smibondupgrading).

[1]Rounding off to the nearest hundred is fine. As time goes by, your portfolio will gradually move away from these starting percentages as some funds perform better than others. This will be fixed once a year when you "rebalance" back to your desired portfolio mix (see 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 Large/Growth group, iShares Edge USA Momentum ETF (MTUM, 12/2017) is being replaced.** Until the past month or so, this ETF had been a solid performer since being recommended last December. But in recent weeks, it has started to lag its large/growth peers. That slowdown has cost it the performance lead it had built and pushed it out of the top quartile. Altogether, MTUM gained +6.7% for us, which isn't bad given we only owned it seven months, and that period included the first -10% market correction in two years. But it trailed the +8.1% return of the average large/growth fund tracked by Morningstar, so it's time to move on.

• **Touchstone Sands Capital Select Growth Z (PTSGX) is being added.**[1] We've recommended this fund once before and been rewarded for it. But it's important to recognize the significant risks it carries at this point in the market cycle.

We first recommended this Touchstone fund in September 2010 and owned it through the end of 2011. Over those 16 months, it gained +31.3% while the average large/growth fund tracked by Morningstar gained just +20.5%. So in the right market environment, it can definitely be great.

But the fund carries considerable risk. Manager Jerry Sands, Jr. runs a very concentrated portfolio of only 25-30 pure growth stocks. And recently those stocks have been heavily concentrated in the technology sector. The fund's March 31 portfolio showed nearly 50% of the fund's assets invested in the top 10 holdings, which included Amazon, Alibaba (the Chinese version of Amazon), Netflix, Facebook, and Alphabet (Google). That's been a great portfolio to own so far in 2018, and not surprisingly the fund ranks in the top 2% of large/growth funds year-to-date. But that type of concentration and risk can also lead to negative performance extremes, as demonstrated by the fund's 2016 finish in the *bottom* 1% of the large/growth category.

Upgrading is a trend-following, momentum-driven strategy. So it shouldn't be a surprise when we are led to buy funds like these that have been soaring during market advances. But that doesn't mean we should ignore the risks either. If the tech leaders that have driven the market over the past 18 months stay hot, this fund will keep rising. But if they falter, this fund will likely drop faster than its average peer en route to being replaced.

◆ **In the Large/Value group, SPDR Dow Jones Industrial ETF (DIA, 12/2017) is being replaced.** This ETF, which tracks the performance of the Dow Jones Industrial Index, followed the market higher in December and January, then lower through the February and March correction, and has more or less treaded water ever since. Overall, the ETF is up +1.0% in the seven months we've owned it, while the average large/value fund tracked by Morningstar is up +0.7%. That's slightly better than average, but not good enough to keep DIA ranked in the top quartile.

• **Oppenheimer S&P Ultra Dividend Revenue ETF (RDIV) is being added.**[1] It's been a couple of years since dividend funds were hot—as many as four of our 15 recommendations were in dividend-related funds in the fall of 2016. This ETF adds a wrinkle to the dividend story that makes it more interesting than most.

Like most dividend funds/ETFs, RDIV starts out by selecting the top dividend-yielding stocks from a particular index. In this case, that index is the S&P *900*—which is the combination of the S&P 500 *large*-cap index and the S&P 400 *mid*-cap index. Basically, RDIV combines the large and medium-sized company pools, then selects the 60 or so stocks with the highest dividend yields from that group.

What makes this ETF different is what happens next. Most index funds or ETFs determine how much money to invest in each holding based on the total stock-market valuation of each stock (known as the company's *market cap*). So if the total value of Company A's stock is $10 billion, while the total of Company B's stock is $5 billion, most index funds will invest twice as much money in Company A as Company B. This approach to weighting the holdings gives the larger stocks more influence on the returns of the index (or the fund/ETF tracking the index).

But instead of weighting its holdings by market capitalization, RDIV is *revenue*-weighted instead. In other words, after it selects the highest-yielding stocks from the S&P 900 index, RDIV looks at the company revenues of each of those selected stocks and weights its holdings according to how much revenue each company brings in.

Why does this matter? Well, this bull market is more than nine years old, and a huge amount of money has flown into index funds during that time. That has pushed the stock prices of the largest companies disproportionately higher. Market-cap weighted indexes and funds have given ever-increasing allocations to the largest companies simply by virtue of the long bull market and the indexing effect.

Revenue weighting sidesteps that issue to a significant degree by ignoring the stock prices and focusing on the underlying businesses instead. With this approach, a company's actual business has to grow—not just its stock price—in or-

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

der to get a higher allocation. Granted, the largest companies still get big allocations, but they're not *as big* as they would be in most cap-weighted funds. This fund also moves beyond the arguably overpriced S&P 500 stocks by including the much less widely owned mid-cap universe. That means RDIV presumably is getting a better mix of stocks, at better valuations. The fund's superb recent returns indicate this approach has been paying off lately. ◆

LEVEL 1 / CONTINUED FROM PAGE 102:

BUILDING GENEROSITY INTO YOUR MONTHLY BUDGET

underprivileged young person in your church or community and use your generosity money for occasional splurges;

• Buy food (or gift cards to restaurants) for the homeless in your community;

• Support local charities that are doing good things.

Now it's your turn. Go and be generous! ◆

LEVEL 2 / CONTINUED FROM PAGE 103:

THE REAL COST OF MUTUAL FUNDS

quarterly fee) *and* a back-end sales charge—one that investors pay when they sell such a fund. At a glance, these funds seem almost like no-load funds. Their deferred load is typically a relatively small 1%, and usually only applies to redemptions made during the first year an investor owns the shares.

You can see that, under similar market conditions, C-shares start off with a significant advantage over A-shares, due to avoiding the upfront commission. The table reflects a common front-end load of 5.75% and typical expenses for each share class, revealing that C-shares are usually a better deal than A-shares for several years after purchase. Only if a fund is held many years does the A-share eventually become a better deal due to its lower annual expenses (see circled data in the table).

As the table shows, no-load funds have a tremendous cost advantage over load funds. It would take an exceptional load fund to overcome the structural overhang of its higher costs.

SMI's Upgrading strategy has historically focused primarily on pure no-load funds (with only occasional C-share recommendations). Recently though, some A-share funds have become available without a load, and have been recommended *as long as one or more of SMI's recommended brokers offers them on a load-waived basis*. For example, AOPAX normally charges a 5.5% front-end load, but that load is waived at some of SMI's recommended brokers, including Fidelity.

Avoiding class confusion

Many mutual funds have multiple share classes available. These differing classes of the same fund are *invested* the same way, but are either *sold* differently (through a salesperson or not), or are designed for different groups of investors (individual investors vs. institutional investors). Each class may require a different minimum investment amount and will likely have a different expense ratio.

In addition to load funds, which typically come in at least A- and C-shares, many no-load fund companies also offer multiple classes of their funds, usually charging lower expenses to customers with larger sums to invest.

For example, Vanguard offers some of its funds in both "Investor" and "Admiral" share classes. The Vanguard 500 Index Fund (VFINX) Investor shares charge an expense ratio of .14% and require a minimum investment of $3,000. The Admiral shares of the same fund have a lower expense ratio of .04%, but require a minimum investment of $10,000. For institutional investors, Vanguard offers some funds with even lower expense ratios, but the minimum account balance requirements are much higher. Fidelity offers similar distinctions on some of its funds (typically index funds), labeling them "Investor," "Advantage," and "Institutional" share classes. Schwab offers only retail vs. institutional shares.

Transaction fees

Just because an investor avoids paying a *commission* doesn't mean he or she will never have to pay to buy or sell a fund. Many brokerages charge *transaction fees* for some no-load funds. That's why SMI indicates whether each recommended fund is NTF (no transaction-fee) or not.

As if the share class/transaction fee discussions aren't complex enough, some brokers offer both a transaction fee and no-transaction-fee version of the same fund! Typically this occurs when a fund offers a second share class with higher ongoing expenses (perhaps by adding a 12b-1 fee) that help offset the cost of making the share class available NTF. SMI calls attention to this when recommending a fund by footnoting it and listing the alternate ticker symbol. In general, the larger the sum of money you are investing and the longer you expect to keep it invested, the more it makes sense to pay the transaction fee in return for the lower expense ratio, and vice versa.

Short-term redemption fees

One final fee to look for is a fee some brokers and funds charge if you sell funds within a relatively short amount of time after buying them. With brokers, the fee, ironically enough, pertains to no-transaction-fee funds. Different brokers have different policies. Among our recommended brokers, Fidelity and Vanguard have the most generous policies, charging a short-term redemption fee only if you sell an NTF fund within 60 days of purchase. Schwab and E-Trade require a 90-day holding period, and TD Ameritrade has the most restrictive policy at 180 days. In each case, the fee is around $50.

On top of the short-term redemption fee *brokers* charge, some *funds* charge these fees as well, equating to a percentage of the money you have invested. For example, the Hodges Small Cap fund (HDPSX) charges a 1% fee if you sell within 30 days of purchase.

The short-term redemption fee policy of each recommended broker is listed on the *Choose Your Broker* page of the SMI website. The policy for each Fund Upgrading recommendation is listed on the *Basic Strategies* page of the newsletter (p106) and the *Recommended Funds* page of the SMI website.

Clearly, understanding the true costs of buying and owning a mutual fund requires looking beyond its NAV. While it's smart to steer clear of the most obvious fees, such as front-end loads, it's also important to make fund performance a higher priority than fee avoidance. ◆

LEVEL 3 / CONTINUED FROM PAGE 104:

A ROAD MAP TO RETIREMENT PLANS FOR SMALL-BUSINESS OWNERS

attention to establish and maintain than qualified plans. However, these plans have a key disadvantage from the employer's perspective: *amounts are fully vested as soon as they are contributed*. As the vesting row of the table on page 104 shows, IRA-funded plans don't allow an employer to require a certain length of service before owning the funds in his/her account. If an employee quits the day after a contribution is made, the funds will still belong to him.

Qualified or IRA-funded?

There are tradeoffs when deciding which type of plan is best for your business. Contributing higher levels of money may mean annual reporting to the IRS is required (see table). Conversely, being free from the reporting requirements (IRA-funded plans) may mean contributions to employee accounts can't follow a vesting schedule. The goal is to find a balance between flexibility and utility.

Answering the following questions should narrow your choices:

- **Are you willing to make mandatory contributions annually?** If yes, then consider all plans. The determining factors will be which group of employees you are targeting, whether you would like employees to be able to contribute, and whether you prefer gradual or immediate vesting of contributions. (If you'd rather not have to fund the plan every year, consider only SEP-IRA, Profit Sharing, and 401(k) plans.)
- **How much are you—as the employer—prepared to contribute annually?** If you're willing to commit greater than 3% of payroll, but less than $55,000 for each key employee, consider Profit-Sharing, 401(k), SEP, or SIMPLE-IRA plans. If you want to contribute up to $55,000 or more for key employees, consider Money Purchase, Defined Benefit, or possibly Profit-Sharing plans with some additional features.
- **Are you willing to make annual filings with the IRS?** If so, then any type of plan is fair game. If not, stick with either a SEP or SIMPLE-IRA plan.

Answering these questions may not point you to a single "best" plan, but doing so should narrow the options. However, *unless you are comfortable working with detailed rules and regulations, seeking the help of a professional in making a final selection and implementing a plan is strongly advised.*

That said, don't allow the confusing nature of these plans to keep you from saving for retirement, or from helping any employees you have to do likewise. As the Book of Proverbs tells us, "Ants are creatures of little strength, yet they store up their food in the summer"—and they are called "extremely wise" for doing so (Proverbs 30:24). May it be so with us. ◆

LEVEL 4 / CONTINUED FROM PAGE 105:

THE HIGH COST OF DYING

business, for example. There also have been cases of prepaid funds being mismanaged or stolen. But a more common issue is that a customer who paid a local funeral home in advance simply relocates, and then faces the challenge of attempting to cancel the prepaid contract and getting his or her money back.

A payment approach that offers greater flexibility (and consumer protection) is to set aside personal savings in an "emergency" fund or perhaps a dedicated "final expenses" account or CD. Savings spent to cover death-related expenses can be reimbursed later from life-insurance proceeds.

Cemeteries

The cost of cemetery space varies widely—from a few hundred dollars to many thousands—depending on location and the type of gravesite (standard burial plot, mausoleum, etc.). If you have a specific cemetery in mind, first check the cemetery's website for general information about gravesite availability. You likely will have to contact the cemetery office in person or by phone for pricing information. Cemeteries typically have multi-year payment plans and pricing discounts may be available for "family" sites, such as for a husband and wife and other family members.

Re-sale listings for cemetery plots and mausoleum space can be found on craigslist.org (under the "For sale>general" category). A similar website, dedicated solely to classified ads for burial sites, is gravesolutions.com.

Free gravesites are available for military veterans and their spouses at national cemeteries overseen by the U.S. government.[1] In addition, most states have veterans cemeteries that offer free or reduced-price burials.

Memorial societies

For many people, the best way to save on funeral and burial/cremation costs is to join a nonprofit memorial society. The one-time fee typically is $25-$35.

Memorial societies have agreements with certain funeral homes and cemeteries to provide simple death-care services to society members at reduced prices. In addition, society volunteers are available to answer questions and even to help with practical tasks such as transporting a body. You can learn more from the Funeral Consumers Alliance at funerals.org.

Faithful to the end

Because death is accompanied by financial costs, we must plan for it. This is part of our stewardship responsibility. By making thoughtful and cost-effective preparations, we can be faithful stewards even to the end of our mortal lives. ◆

[1] www.cem.va.gov

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

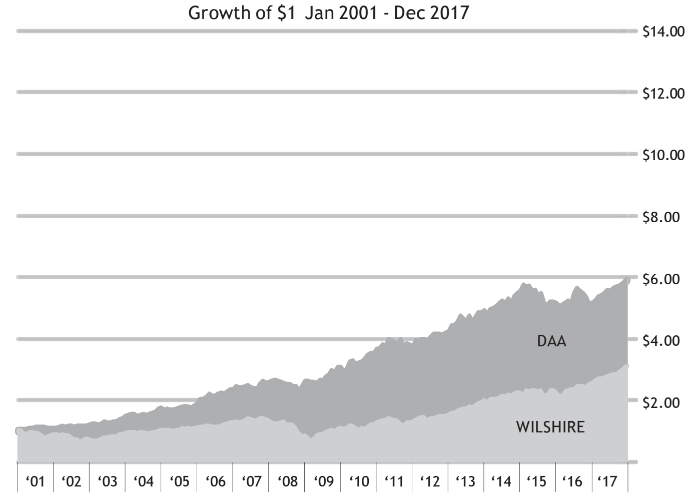
This is a stand-alone strategy that can be used in combination with (or in place of) SMI's basic strategies. DAA is designed to help you share in some of a bull market's gains, while minimizing or even preventing losses during bear markets. It's a low-volatility strategy that nonetheless has generated 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 2017



Strategy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Avg[1]	Worst12[1]	Rel Risk[1]
DAA	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%	16.0%	11.0%	-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%	21.0%	6.9%	-43.3%	1.00

SECTOR ROTATION

Overview

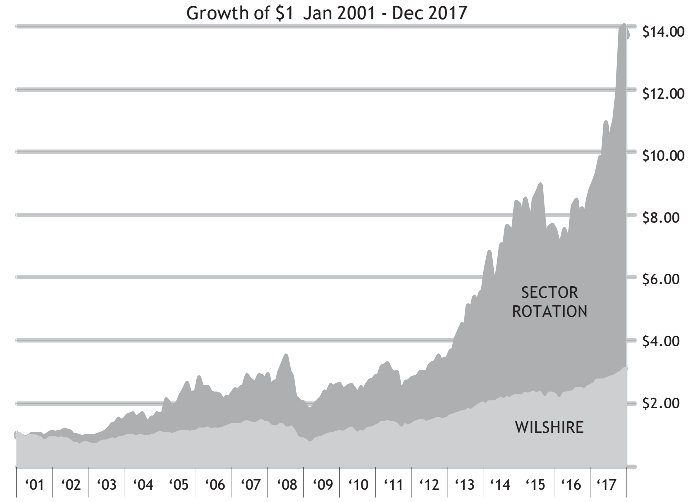
This high-risk strategy involves investing in a single special-purpose fund that focuses on a specific sector (such as biotech, energy, or financial services). Because these stock funds invest in a narrow slice of the economy, they carry a higher degree of risk. Only one fund, selected based on having 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 2017



Strategy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Avg[1]	Worst12[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%	56.7%	16.7%	-38.6%	1.70
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%	21.0%	6.9%	-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 2001-2017. "Worst12" represents the worst investor experience over 181 rolling 12-month periods from 2001-2017.

PERIODICALS POSTAGE
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Dated Investment Material
Please Do Not Delay!

PERFORMANCE DATA

SOUND MIND INVESTING MODEL PORTFOLIOS • DATA THROUGH MAY 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]	2.4%	2.8%	1.0%	14.9%	11.0%	12.9%	9.2%	9.8%
Just-the-Basics[2]	2.6%	2.6%	2.1%	15.2%	9.4%	11.4%	8.2%	9.9%
Stock Upgrading[3]	4.7%	4.2%	3.0%	16.8%	9.2%	11.2%	7.4%	10.8%
U.S. Bond Market[4]	-1.7%	0.6%	0.4%	-0.6%	1.2%	1.7%	3.5%	3.6%
Bond Upgrading[5]	-1.4%	0.4%	0.7%	-0.8%	1.1%	2.2%	5.7%	5.9%

PREMIUM STRATEGIES

	Year to Date	1 Month	3 Months	12 Months	3 Yrs Annual	5 Yrs Annual	10 Yrs Annual	15 Yrs Annual
DAA[6]	-1.7%	-0.2%	-0.9%	5.4%	1.7%	4.8%	8.8%	10.9%
Sector Rotation[7]	16.9%	16.7%	4.5%	47.7%	23.9%	29.3%	17.4%	20.3%
50-40-10 Blend[8]	2.7%	3.3%	1.3%	14.1%	7.0%	10.0%	9.6%	12.3%

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 April 2018 cover article for details. The results prior to January 2013 are hypothetical, calculated from backtesting the strategy following a mechanical rules-based system.

THE SOUND MIND INVESTING MUTUAL FUND (SMIFX)

Current Returns as of 5/31/2018	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	7.55%	5.03%	3.64%	19.86%	8.35%	10.11%	6.33%
Wilshire 5000	2.37%	2.75%	0.99%	14.90%	10.96%	12.93%	9.23%
S&P 500	2.02%	2.41%	0.19%	14.38%	10.97%	12.98%	9.14%

Quarterly Returns as of 3/31/2018	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	2.32%	-1.41%	2.32%	16.56%	7.00%	9.82%	6.93%
Wilshire 5000	-0.76%	-2.10%	-0.76%	13.69%	10.48%	13.13%	9.65%
S&P 500	-0.76%	-2.54%	-0.76%	13.99%	10.78%	13.31%	9.49%

Total/Gross expense ratio: 2.09% as of 4/27/18 (includes expenses of underlying funds)
Adjusted expense ratio: 1.15% as of 4/27/18 (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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