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Sound Mind Investing®

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Money and the Grace of Surrender

The request came from one of the disciples: "Lord, teach us to pray" (Luke 11:1). And Jesus did, providing His followers with an enduring model prayer that is both simple and profound. In the article below, excerpted from his book *Redeeming Money*, pastor and author Paul Tripp says the truths inherent in The Lord's Prayer form the foundation for a financial life of peace, purpose and contentment.

by Paul David Tripp

For many people, John was the definition of success. He had come from a poor family. His early years afforded him few advantages. He determined that he would make it. He refused to continue to live the way that he had grown up.

He got his first job at fourteen and worked his way up. It wasn't long before he was given greater responsibilities and, with them, greater pay. He never stopped climbing the corporate ladder until he was the man in charge. John's life was the image of wealth and success. His gated, suburban mansion was featured in magazines. And he had three vacation homes in places we'd all want to be. He drove the best cars, ate the best food, and wore the best clothes. There was never a moment when he was in debt, there was never a bill that he failed to pay, and he never lived with the pain of financial stress. His massive budget was always in order, and his financial future was more than secure. He knew how to handle his money and seemed to do so well. The investments he made were good ones, such that he never lost any of his money.

From a distance, there seemed few reasons to critique John's financial life. But John's world of money was deeply flawed and broken. John had completely missed the reason God created treasure (money) and placed it in human hands. In being so focused on and committed to his use of money, John had missed the whole point of money. What appeared to be success was not success at all. What seemed right was, in fact, sadly foolish. In spite of all the markers of success, John was not a man to admire, but one to pity. He had worked so hard, he had been so careful, he had weighed every decision and guarded every penny, but it had all been misguided and misdirected. The flaw in all that John had done with his money was this: it had been guided by one thing, John.

John's mistake was that while he had been careful with his money, he had not been prayerful. A financial life that is lived to the glory of God and meets the requirements of the two Great Commands (love of God and love of neighbor) doesn't begin with learning financial principles, the qualities of a good investment, and how to structure a wise and workable budget. An economically and spiritually healthy outlook on money begins with a prayer. Notice that I wrote "a prayer." I'm not just talking about prayer in general, but about a specific model prayer, that is, the prayer that our Lord passed down to us in his most lengthy sermon, the Sermon on the Mount.

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IN THIS ISSUE

EDITORIAL

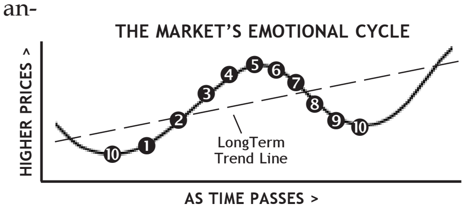
Will You Panic When the Market Eventually Rolls Over?

"For God has not given us the spirit of fear, but of . . . a sound mind."

2 Timothy 1:7

Investing can be challenging, not because the concepts are difficult to master, but because we are emotional creatures.

The markets are merely collections of people who act according to their fears and desires of the moment. In 1841, an Englishman named Charles Mackay became interested in the psychological aspects of crowd behavior with respect to people's investment decisions. After analyzing several early widespread financial manias (such as the Dutch Tulip mania and the South Sea Bubble), he wrote a book that has become a classic: *Extraordinary Popular Delusions and the Madness of Crowds*. When you hear the details of these infamous financial episodes, it's hard to believe that otherwise rational people could get so caught up in a mass delusion.[1] It used to read like ancient history, but many of us witnessed it first-hand in the tech-mania of the late-1990s, then again in the panicked selling of a decade ago.



Because of human nature and our susceptibility to crowd influences, it isn't unusual for markets and stock prices to become overvalued (or undervalued) from time to time. The graph shows how investors' moods swing in predictable patterns as prices rise and fall.

❶ At a bear market bottom, buying is triggered by an unexpected news event or financial report. The mini-rally is initially met with skepticism and caution.

❷ As buying continues, there gradually develops an increasing recognition of positive factors that had previously been ignored. The rush to invest leads to the launch of a new bull market. Confidence returns.

❸ As the bull market ages, optimism begins to outpace economic reality. Opinion overwhelms fact. A "buy on dips" mentality develops, reinforcing the uptrend.

❹ Euphoria sets in. Negatives are overlooked. There is a growing feeling that the old rules no longer apply. With no fear of loss, greed leads to a kind of buying madness.

❺ Buyers become fully invested. The bull market peaks.

❻ Selling is triggered by an unexpected news event or financial report. The selloff initially is treated as a healthy corrective.

❼ As selling builds, fear and doubt begin to surface. A growing rush to the exits leads to a bear market.

❽ As prices continue to fall, pessimism begins to outpace economic reality. Emotion overwhelms fact. A "sell on rallies" mentality develops, reinforcing the downtrend.

❾ Mental depression sets in. Positives are overlooked. There is a growing feeling that the old rules no longer apply. With no hope of gain, fear leads to a selling panic.

❿ Everyone who wants to sell has sold. The bear market hits bottom.

Unfortunately, these stages are usually only obvious in hindsight. From 2009 through 2017, we saw Stages 1 through 4 unfold and enjoyed the ride. It appears we could now be in Stage 5, but it's impossible to rule out that we're still in Stage 4 (with more upside ahead) or Stage 6 (at the beginning of what could eventually become a bear market).

The good news is we've been preparing for this for some time. SMI's strategy toolbox has been updated with defensive approaches such as Dynamic Asset Allocation and the new Upgrading 2.0 protocols. If you're using a blend that includes these strategies, your portfolio is likely prepared for what's ahead, whenever it arrives. Knowing these strategies will guide us through future bear markets, we can confidently stay invested now rather than trying to guess when to exit.

Having your portfolio prepared is half the battle. The other half is preparing yourself emotionally. Those with a short-term focus will be tempted to head for the sidelines because they're worried about the curved line. Long-term investors, on the other hand, have the fortitude to stay committed because they're aware of the power of the dotted line. Yes, an eventual bear market is inevitable, and it could be bruising. But ultimately, those with at least a five-year time horizon can continue investing with confidence—especially if they're using SMI's defensive-oriented strategies to do so. ◆

Austin

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[1] For more on the subject: A Short History of Financial Euphoria by John Kenneth Galbraith.

Money and the Grace of Surrender

(continued from front page)

Before we look at how financial sanity is found in the words of that great prayer, I want to look back at John and his money for a moment. Although John would say he believed in God, it made very little impact on the way he thought about and used his money. Rather than being driven in financial decisions by an awareness of the centrality of God in all things, his decisions were driven by autonomy ("My money belongs to me to use as I want") and self-sufficiency ("I have everything I need in myself to use my money well"). To John, his money was *his* money. As long as he didn't hurt someone as he acquired or spent it, John saw his money as his to use as he saw fit. John's faith seemed to have little impact on his use of money.

Now, I want to stop here and admit something. There are ways in which I am more like John than unlike him, and I would imagine you are, too. I like to be in control. I like to have my own way. I like my plans to happen without interruption. I like people to agree with me. I like my days to be predictable and easy. And because I like these things, I am tempted to use my money to get them.

Money can give you control. Money can purchase an easier life. Money can even make people like you more. Money can buy temporary pleasure, comfort, and ease. Could it be that an embarrassing amount of our money is spent on one thing—us? And could it be that by the time we have finished spending our money on ourselves, we have little money left to invest in anything else?

Admit with me that living for something or someone other than ourselves does not come naturally. Independent, self-sovereign living is what comes naturally. Making ourselves the most important thing is natural, but it is not the way God designed us to live, so it is not the pathway to the wholeness of life that we all want.

God created us to be dependent. He created us to follow his commands and to submit to his will. Real life and true freedom are found when we willingly and joyfully surrender to the One who created us, knows what we need, and rules what we could never ever control. But something else is vital to remember: we were never designed to put ourselves in the center of our world and make our lives all about us. We were never created to live for little more than our personal comfort, pleasure, happiness, and success.

In God's plan for us, we will never find the rest of heart that we all seek until we live according to the purpose and glory of the One who created us. Self-sovereignty is a delusion. Self-glory is a disaster. Independence does not work. Self-rule never goes anywhere good. Living for yourself never delivers what you hoped it would. With all his success, John could never stop working, never stop investing, and never stop spending. He couldn't stop, because he was never able to find what he was looking for—true contentment, true joy, and lasting peace.

But John was not dead, and the final chapter of his story had not yet been written. The beginning of the rescue of John and the rebuilding of his financial world began with a prayer, that very same prayer that I wrote of earlier. The words of the Lord's Prayer began to open John's eyes and change his view of money forever:

> When you pray, you must not be like the hypocrites. For they love to stand and pray in the synagogues and at the street corners, that they may be seen by others. Truly, I say to you, they have received their reward. But when you pray, go into your room and shut the door and pray to your Father who is in secret. And your Father who sees in secret will reward you.
>
> And when you pray, do not heap up empty phrases as the Gentiles do, for they think that they will be heard for their many words. Do not be like them, for your Father knows what you need before you ask him. Pray then like this:
>
> "Our Father in heaven, hallowed be your name. Your kingdom come, your will be done, on earth as it is in heaven. Give us this day our daily bread, and forgive us our debts, as we also have forgiven our debtors. And lead us not into temptation, but deliver us from evil." (Matthew 6:5-13)

You may be wondering what this prayer has to do with a life of financial sanity. The Lord's Prayer is not born first from need. Much of our prayer arises from need and involves a long list of things that we hope God will deliver. The words of this prayer arise from a posture of surrender, which is precisely why it is so helpful when it comes to how we view and use the money that has been entrusted into our care.

Financial sanity doesn't begin with hard work and careful budgeting, although both are beneficial. Money sanity begins with surrender, a surrender that rescues us from ourselves and frees us to use what God has provided in the way he intended. Let me unpack the money sanity found in the words of this prayer by focusing on its opening words, because those words set the posture and direction of this prayer.

Your Money Identity: "Our Father in heaven"

It is something everyone does: we each assign to ourselves some kind of identity. From their earliest days, children begin thinking about this. The identity you assign to yourself determines how you think about life and how you respond to everything that comes your way.

When we come to Christ and are adopted into his family, we are blessed not only with his forgiveness and a secure destiny, but with a brand-new identity. Between the "already" and the "not yet," we are blessed to be the children of God. The gospel of Jesus Christ doesn't just define for us who God is and how he responds to us, but it redefines everything about who we are. This new identity carries with it new provisions and new potential.

In Matthew 6:31-32 Jesus argues that because we are now the children of God, we don't have to give way to the normal anxiety that most people feel over the question of whether their needs will be met. Because we now have a wise and loving heavenly Father, who owns everything and is in control of everything, we can rest assured that all of our needs will be met. This means we have been freed from the fear of want that causes us to focus all of our time, energy, and money on making sure all our needs are met.

Sadly, this is not the view of money that most of God's children have. They think that the primary purpose for the resources they have been given is personal provision, and if anything is left over, they will give to his work. Connected to your welcome into the family of God is the promise that God will supply what you need to be what he has called you to be and to do what he has called you to do. He hasn't promised to fund your dreams, but he will meet your needs.

Paul argues in Romans 8:31-32 that the cross is our guarantee of God's faithful provision. If God would go to the extent of controlling nature and the events of human history so that Jesus would come at the right moment to live like we could never live and die the death we should die and rise again defeating sin and death, would it make any sense for God to then abandon us, failing to meet our needs? You can be sure that since God was willing to give you his Son, he will give you everything you need now and until he takes you to the place he has prepared for you.

Now, with this new identity also comes new potential. This is another thing that every human being does—we all are constantly measuring our potential. Whether it's the toddler measuring his potential to wobble across the room, or the teenager measuring his potential to drive in traffic, or the single woman measuring her potential to live and work alone in the big city, human beings are always defining and measuring their potential.

Not only does your new identity give new meaning to the purpose for your resources; it changes you on the inside. As God's child, your eyes are now open to his truth, and a new set of desires has now been enlivened in your heart. Your heart is now open to something bigger than your little kingdom of wants, needs, and dreams, and your eyes are open to the grand purposes of the kingdom of God. And your resources are free for investing in a greater and more lasting purpose than personal provision.

What if the main purpose for your money as a child of the Father is not personal provision, but giving to others and to your Father's work? How would that change the way you think about your finances and use your money? Financial sanity begins with knowing your Father and surrendering to his wise plan.

Your Money Purpose: "Hallowed be your name"

These four words—"Hallowed be your name"—are more than a prayer for God's name to be known and revered; they are a commitment to expend the time, energy, and resources you have to that end. So these words are specifically and practically helpful when it comes to understanding God's purpose for your money and his will for how you use it.

Let me explain. Whether you have thought about it or not, you always save, spend, or invest your money in the pursuit of someone's name. You spend your money to make your name great or to make God's name great. Now, this sounds way too simplistic, but it is true for all of us, no matter how much money we have.

So much of what attracts us to buying what we buy is that we are buying not just a thing but an image. We buy clothes because they are cool (fashionable), so they make us look cool. We like a certain car for the image attached to it. We want to live in a certain neighborhood because it has a good image. We don't just pay to go to a beautiful resort location, but we send selfies back home to let others know we are there. We spend so much on things because of what we think of ourselves and what we want others to think of us. Image drives much more of our spending than most of us have ever considered.

Sadly, with our wallets we tend to be glory thieves, wanting for ourselves what belongs to God. We want people to respect us and to see us as successful. We love to be the center of attention. We want people to know what we've accomplished and be impressed. We spend in pursuit of our own glory more often than we think. Although God is our provider, and our successes actually come from God's hands, we claim them as our own and steal the glory that belongs to God. All this leads to houses that are bigger than we need, more clothes than we can reasonably wear, more food than we should ever eat, more luxuries than we should desire, and more debt than anyone should ever carry.

Don't misunderstand. It's not wrong to invest in a home for your family or to feed your children well or to take a weeklong sabbath of rest and relaxation somewhere nice with your loved ones. God calls you to do all those things. I'm attempting to get you to examine how much self-glory drives the way that you spend your money.

Contrast that with a view of personal finances that is shaped by a heart-ruling, desire-shaping, and decision-forming commitment to do all you can with what you have to make God's name great. When my heart is committed to and satisfied by the glory of God, my heart is content, and I am thereby freed from the debt-inducing tyranny of hoping that the next big purchase will finally make me content. Spending in pursuit of personal happiness never results in lasting happiness; it only results in the acquiring of debt and all the emotional and spiritual stress that goes with it.

Embedded in the words "Hallowed be your name" is a call to invest your resources in worship of and for the sake of One infinitely greater than you. If you did that, how would it alter the way you view and use your money? These four words infuse your money with a grander purpose than what drives the budgets of most of us. Financial sanity is rooted in surrendering your use of money to the glory of One greater than you.

Your Money Commitment: "Your kingdom come, your will be done"

It's true for me, it's true for you, and it's true for everyone who will read this article: life between the "already" and the "not yet" is one big war of kingdoms. Your parenting is formed by the kingdom you serve. Your joys and disappointments are shaped by the kingdom you have tied your hopes to. Your marriage is guided by the kingdom you serve. Your relationship to your neighbors is kingdom driven. And your finances are always assessed, spent, and invested in pursuit of a kingdom.

When it comes to kingdoms, there are really only two choices. With every choice, decision, or action, you live out of a deep heart allegiance to the kingdom of self or the kingdom of God. I'm not saying that you are always conscious of this or that your decisions are intentionally kingdom driven. What I am saying is that with everything you do, you are either serving the purposes of God or the desires of self.

This conflict of kingdoms is brilliantly laid out for us by Christ in Matthew 6:19-33, where Jesus argues that if you live for the right-here, right-now pleasures of the kingdom of self, you will tend to invest your time, energy, and money in the physical treasure of this present world. You will attempt to satisfy the longings of your heart with earthbound treasures, that is, with people, places, and possessions. The core lie of the kingdom of self is that by satisfying your self-oriented desires, you will find life. And the corollary lie is that physical things will be the delivery system.

This whole delusional system is driven by the reality that as sinners we tend to live for ourselves, to make life all about us. We tend to be obsessed about what we want, why we want it, how we want it, when we want it, and who we want to deliver it. We invest so much of our time and energy acquiring things for the sole purpose of our comfort and pleasure. We keep telling ourselves that the next thing will be what satisfies us, but it never does, so we go out and buy something else.

The car that we told ourselves we'd always wanted doesn't satisfy us for long. Soon we have our sights on another that we think we'd like better. The house we bought, vowing that it was the last house we'd ever live in, now no longer seems so special, and we begin to notice other houses in other neighborhoods. We rent storage rooms and fill them with the discarded delivery systems of promises that never delivered. Sadly, so much of our money is spent looking for life in all the wrong places.

This is why Jesus's words in the Lord's Prayer, "Your kingdom come, your will be done, on earth as it is in heaven," are so important to hear, to pray, and to live. Embedded in these words is a plea that God, in grace, would cause our hearts to love his kingdom more than we love our own, and embedded in that plea is the hope for financial sanity and practical-spending wisdom.

How would your finances change if you loved God's kingdom so much that it is where you wanted to invest your time, energy, and money? How specifically would a God's-kingdom focus serve as your defense against frivolous and selfish spending? Are you ready to pray, "Your will be done right here, right now, in my finances as it is in heaven"?

If you would budget with God's kingdom in view, how would your budget change? If you would give with God's kingdom in view, how much more would you be giving? Are the large purchases you make driven by God's kingdom? Are your incidental purchases made in allegiance to what God says is important and of eternal value? Is your car payment too big or your mortgage too heavy?

Where is this issue of kingdom allegiance laying out for you an agenda of financial change? True, God-honoring financial sanity is only ever found when you surrender the kingdom of self to the greater purposes and the eternal vision of the kingdom of God.

A New Way of Living with Your Money: "Give us this day our daily bread"

It's only after surrendering your heart to the first part of the Lord's Prayer that you can honestly pray these words. Embedded in this prayer is a request for a contented heart. Embedded in this prayer is a request for the ability to trust in the Father's promise to provide. Embedded in this prayer is a desire for a heart filled with praise and not complaint. Embedded in this prayer is a cry for freedom from a heart ruled by an endless quest for more. Embedded in this prayer is a cry for rescuing and empowering grace.

I'm afraid that although many of us pray this prayer, few of us would be content with God's answering it. Most of us crave more and collect much more than just our daily bread. Could you honestly pray, "God, if you would just meet my basic needs (not wants, demands, or desires), I would be so grateful"? What would God have to give you in order to satisfy you? Could it be that, in reality, we need much less than we think we need and we have loaded into our "need" definition many things that are not needs at all?

More than just the meeting of needs, this is a prayer that cries out for a heart so satisfied with the provisions of the Father that the wallet is freed to invest in the bigger and better agenda of God's eternal kingdom.

The vast majority of our debt and financial stress would be alleviated if we would surrender our desires to our Lord's faithful provision of what we truly need. A contented heart is a necessary ingredient in any long-term lifestyle of God-honoring financial sanity.

I must confess that this has been a hard and deeply convicting article to write. As I wrote, I celebrated how this prayer provides a model for us of where contentment and the resulting proper use of our resources are to be found, and I mourned how far I still am from the claims it makes on my money.

Sure, I have determined to live generously and to pass on to others the blessings God gives me. And, no, I am not in great debt. In fact, I don't even carry a credit card. But my heart still looks for life where it can't be found. I am still way too attracted to stuff I don't need. I am way too skilled at justifying expenditures that should never have been made. And I struggle with these things because I still live with too much allegiance to that little kingdom of one, the kingdom of self.

So, I end by going back to the confession and prayer of King David in Psalm 51. I make his word a personal prayer; I hope you will pray it with me: "Create in me a clean heart, O God, and renew a right spirit within me" (Ps. 51:10).

And with this prayer, we can acknowledge that debt is not first a size-of-the-paycheck or adequacy-of-the-budget problem. Debt is the financial result of a heart problem, and for that we need forgiving, rescuing, and transforming grace. Isn't it wonderful that we can rest assured that this grace is what God has promised to bestow on each one of his children? And when God makes a promise, he always delivers! ◆

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

SHOULD YOU BUY FLOOD INSURANCE?

Anywhere rain can fall, a flood can follow. Obviously, flooding is more likely in certain areas—such as near rivers and coasts—than in others. But *low* risk doesn't mean *no* risk. Floods can occur even in seemingly unlikely places, as thousands of people who suffered flood damage in the wake of recent hurricanes Florence and Michael can testify.

Once inside a house, even a small amount of flood water can do a great deal of costly damage—to doors, walls, carpet, floors, insulation, and electric circuits. To make matters worse, subsequent mold and mildew must be remediated to make the home livable again.

Unfortunately, standard homeowners insurance provides no financial protection against flood damage. Homeowners insurance almost always *excludes* destruction and impairment caused by *rising waters*, i.e., a flood (or a related mudslide). The only financial protection is specific "flood insurance." (See the online version of this article for information on the limitations of flood insurance.)

ESTIMATED FLOOD LOSS POTENTIAL
2,500 Square Foot One-Story Home
Possessions Worth $50K

Interior Water Depth	Cost to Structure	Cost to Property	Combined Loss
2"	$23,720	$3,172	$26,892
3"	$24,370	$4,917	$29,287
4"	$31,345	$7,207	$38,552
5"	$31,425	$13,914	$45,339

Source: FloodTools.com/LossCalculator.aspx

For decades flood coverage wasn't available in the U.S. Companies stopped selling such insurance after the Great Mississippi Flood of 1927, a deluge that inundated 27,000 square miles and left hundreds of thousands of people homeless. By 1965, when Hurricane Betsy slammed into the Gulf Coast and the resulting storm surge and heavy rainfall flooded 165,000 homes, no one in the disaster area had flood insurance. It simply wasn't being sold.

In response, Congress created the National Flood Insurance Program (NFIP) in 1968,[1] authorizing the issuance of federally backed policies in communities willing to meet certain land-use and flood-control requirements. Today, NFIP insurance is available in more than 22,000 cities and counties. Homeowner policies cover up to $250,000 in damage to a house, plus another $100,000 for damage to contents (renters can get contents-only protection). Businesses can purchase up to $500,000 of coverage for building/contents.

Likely or unlikely?

Unless you live near the coast or along a river, the likelihood of a flood damaging your home or property isn't great. But *unlikely things do happen*. The Federal Emergency Management Agency (FEMA) gauges the likelihood of flood risk and illustrates that risk via a series of "zone maps." Zone A (near a river, stream, or lake) and Zone V (beachfront) are "Special Flood Hazard Areas." In such places, property owners who get mortgage loans from federally regulated or insured lenders (i.e., most lenders in the U.S.) are *required* to buy flood insurance.

The premium rates in these zones can vary widely, depending on factors such as specific location, year of construction, number of floors, and deductible amount (ranging from $1,000 to $10,000). In some cases, flood insurance in Zone A or Zone V might cost only about $1,000 annually. In other cases, it could cost thousands of dollars more.

Of course, most people in the U.S. don't live in areas at high risk for flooding. They live in minimal-to-moderate risk areas (FEMA's "X," "B," and "C" zones) where flood insurance isn't mandatory.[2] NFIP's "preferred-risk" policies for these areas have standardized premiums (see nearby table for 2019 rates), with deductibles ranging from $1,000-to-$1,250, depending on coverage amount. (Note: Separate deductibles apply to building and contents.)

How to buy flood insurance

Policies underwritten by the National Flood Insurance Program aren't sold directly by the federal government. Instead, they are marketed and serviced via private companies—the government calls them "Write-Your-Own" companies—including Allstate, Liberty Mutual, USAA, and more than 50 others.[3]

2019 NFIP RATES FOR ZONES X, B, C*
Homes with Basement/Crawlspace and/or Attached Garage

Coverage Amounts Structure / Contents	Annual Premium (x fees/surcharges)
$125,000 / $50,000	$325
$150,000 / $60,000	$345
$200,000 / $80,000	$385
$250,000 / $100,000	$415

* These coverage amounts/rates also apply to specialized zones AR and A-99.
Source: Federal Emergency Management Agency

Effective Oct. 1, 2018, FEMA began allowing companies that sell NFIP policies to also sell private flood insurance (i.e., not federally backed) as well—a consumer-friendly change expected to expand the availability of private policies, either as supplements to or replacements for NFIP policies. Another recent regulatory change allows NFIP policyholders to cancel federal flood insurance in favor of private insurance at any time, instead of having to wait until a renewal period. Both changes are part of FEMA's effort to encourage private insurers to cover more flood risk.

Your call

If you live in an area of low-to-moderate flood risk, deciding whether to buy flood insurance is a judgment call. You may never need it—or it could turn out be a financial lifeline. Just bear in mind: anywhere rain can fall, a flood can follow. ◆

[1]Because the NFIP now pays more in claims than it receives in premiums, Congress may soon overhaul the program and tie future premium rates more closely to actual risk. [2]Find out which zone you live in via floodsmart.gov. Click on "Understand Your Risk." [3]Approved companies are listed at floodsmart.gov.

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

DURATION: A SIMPLE WAY TO GAUGE BOND RISK

In early October, longer-term Treasury-bond yields crossed the proverbial "line in the sand" in the eyes of some bond observers. In just three days, the 10-year yield soared from 3.05% to 3.23%, reaching its highest level since 2011. The 30-year jump was similarly dramatic, from 3.20% to 3.40%, a new five-year high.

The immediate cause of this bond yield surge was stronger-than-expected economic growth, coupled with Fed Chairman Jerome Powell's comments that interest rates are "a long way from neutral"—with the clear implication being that more rate increases should be expected.

But the real backdrop goes beyond these recent events. For most of the past decade, the Fed and other global central banks have purposely pushed interest rates down to historic lows and held them there. Only recently have these rates been allowed to begin their rise back toward "normal" market rates. While this normalization of interest rate policy is a good thing overall, the swift and brutal reaction of stock market investors showed why significant concerns exist regarding the impact of this normalization on the future prices of financial assets.

Bond Investing 101

At Sound Mind Investing, we try to teach you what you *need* to know about money without burdening you with all there *is* to know. At the same time, becoming a successful investor generally involves also becoming a more knowledgeable investor. This topic of bond risk is presented in that vein. It's a little more challenging than some of our content. But before we're through, we think you'll see how it can help you be a more successful investor, especially if your asset allocation calls for a portion of your portfolio to be invested in bond funds.

Before we pull back the curtain on bond risk, let's review a few bond basics. When you buy a bond (which is essentially a glorified IOU), you're acting as a *lender*. You are lending your money at interest to a company, organization, or government. In contrast, when you buy a stock, you're acting as an *owner*. You are buying a partial equity stake in a company.

There are two major risks when it comes to buying bonds. *Credit risk* speaks to the fact that you might not get all your money back. You're counting on the borrower to be creditworthy—to keep making interest payments and pay off the bonds when they mature. The most common way to minimize credit risk is to diversify, spreading your holdings among different bond issues, which is exactly what bond *funds* do.

The second major risk for bondholders, and the one that often poses the bigger threat, is *interest-rate* risk. That speaks to the possibility that you could get locked into a below-market rate of return. It is the same risk you face when trying to decide how long to tie up your money in a CD, but it has even greater significance when investing in bonds. Suppose you invest in a one-year CD, but rates rise after six months. You'll miss out on the higher returns for the final six months of your term. But with long-term bonds, it can mean enduring *years* of inferior performance. That's why when interest rates go *up*, bond prices go *down*, and vice versa.

The longer you have to wait until a bond reaches maturity, the longer you're vulnerable to interest-rate risk. To shorten the wait (and reduce the risk), investors can simply buy bonds that were issued many years ago and are now only a few years from their maturity. The shorter the maturity, the less volatile a bond's price will be. Likewise, the shorter the average maturity of all the individual bonds held by a bond fund, the less volatile that fund's price will be.

This explains why bond investors have commonly relied on a fund's *average weighted maturity* when assessing risk. It provides some sense as to how long it will take for the collection of bonds in the fund to mature. The higher the number representing the average weighted maturity, the longer the term (and hence, the higher the risk) of the overall bond fund.

As helpful as the average weighted maturity is, it doesn't tell the whole story of a bond fund's risk. It looks only at the amount of time before the *principal* of the bonds is due to be repaid. But bondholders also receive regular *interest* payments over the remaining life of a bond. Let's say you have a $10,000 bond with a 5% rate that's due to be fully repaid in 20 years. Average weighted maturity takes the 20 years into account, but ignores the $250 in interest received every six months.

So financial pros developed a better calculation for measuring bond risk. It goes by the name *duration* and is equal to the average weighted maturity of all the principal *and interest* payments due to flow into a bond portfolio.

Including the interest payments makes duration a much more precise way to predict bond-fund volatility. In fact, the duration of a bond fund can tell you roughly how much its value is likely to change in response to a change in interest rates. For every percentage point (1%) change in interest rates, the fund's price will move in the opposite direction *by a percentage roughly equal to the fund's duration*.

How duration predicts risk

Here's how this information is helpful. Since 2015, SMI *(continued on page 172)*

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

3RD QUARTER REPORT: NEW ALL-TIME HIGHS MASK TRANSITIONS UNDERWAY

Given the scary October we've endured, the third quarter (July-September) may feel like ancient history. It's easy to forget how strong the market was during the typically weaker second and third quarters this year. That strength—and unusual *lack* of volatility—certainly contributed to the shock value of October's volatile slide.

In July, the third quarter picked up where the second left off, with strong economic data driving the stock market relentlessly forward. August's unemployment rate of 3.9%, for example, was the best seen in nearly two decades (since December 2000). Strong growth in the U.S. economy coupled with the resolution of some of the simmering trade disputes (most notably the reworking of NAFTA with Mexico and Canada) kept the market indices climbing steadily higher.

This positive backdrop resulted in the S&P 500 index setting a new all-time high late in the quarter (September 20). SMI investors clearly benefited from this strength as well, as all-time highs were reached during the third quarter in SMI's Just-the-Basics, Stock Upgrading, DAA, and 50/40/10 model portfolios.

Just-the-Basics (JtB) & Stock Upgrading

The strength of the U.S. stock market was the headline of the third quarter. But the primary subplots were 1) the extreme divergence in foreign-stock performance throughout the quarter, and 2) the sharp turn lower in smaller-company stocks in September.

Both JtB and Stock Upgrading posted solid gains for the third quarter as a whole. JtB gained +4.9%, which is a great return for a single quarter. But it masks a stark split between JtB's three components. JtB uses an S&P 500 index fund as its U.S. stock component, which rose a whopping +7.6% during the third quarter. Its "extended market" component, which covers small and medium-sized stocks, was up a solid (but significantly lower) +4.5%. And its foreign stock component barely squeaked out a gain of just +0.3%. Obviously, comparing that combined output with the large-company dominated indexes (like the S&P 500 and Wilshire 5000), JtB's return doesn't seem so great, but that was the cost of diversification this quarter.

The story was similar for Upgrading, which gained a solid +4.8%. As the table below shows, SMI's recommended funds matched or exceeded the gain of the average fund in all four domestic fund categories. But whereas Upgrading's small-stock diversification helped it beat the broad market indices during the second quarter, those diversified holdings (along with Stock Upgrading's foreign component), pulled down its overall return in the third quarter.

THIRD QUARTER PERFORMANCE OF STOCK FUNDS BY RISK CATEGORY

Risk Category		SMI Funds[1]	Average Fund[2]
Cat 5:	Foreign Stock Funds	-1.3%	-0.4%
Cat 4:	Small Company/Growth	9.1%	7.1%
Cat 3:	Small Company/Value	1.3%	1.0%
Cat 2:	Large Company/Growth	7.5%	7.5%
Cat 1:	Large Company/Value	6.4%	5.5%

FOOTNOTES: [1] Average of the three recommended funds for each risk category (page 170), assuming any suggested changes were made on the last trading day of each month. [2] An average of all the mutual funds in the SMI risk category shown, including both load and no-load funds.

Growth stocks trounced value stocks in the third quarter, continuing a theme that has run through most of 2018. As of mid-October, SMI's two growth-fund categories had strong positive returns of better than +7% so far in 2018, while both value categories had posted small losses for the year.

While the growth/value divide is easily observed in the table, what isn't obvious is the split between large- and small-company stocks that showed up in September. While the small/growth group posted strong returns for the third quarter as a whole, performance for both small-company categories turned negative in September (and suffered larger losses in the October slide).

Given the most popular stock market indexes are dominated by large/growth stocks (i.e., the market standouts in 2018), those indexes have been tough benchmarks for *diversified* strategies to measure up to. While they've trailed these indexes, at the end of the quarter both Stock Upgrading and JtB had gained roughly +14% over the prior year (and +14-15% annualized the prior three years). Sometimes diversification costs us in the short-term, but it's still the right approach for these core strategies.

Bond Upgrading

After a brief reprieve over the summer, interest rates started rising again in September (before spiking rapidly higher during the opening week of October). The "core" holdings of SMI's Bond Upgrading portfolio ended the third quarter with small gains. But our Upgrading bond holding took a hit as stronger economic news brought with it expectations of higher interest rates than investors had previously expected.

The Federal Reserve hiked its short-term rate in September for the eighth time in this cycle. That rate of 2.25% is the highest short-term rates have been since 2011. While short-term rates have been slowly rising for two years now, the big shift in September (and October) was that longer-term rates finally started moving higher as well.

Increasing interest rates hurt bond investors, because the higher rates push down the value of existing bonds. But there are two "good news" aspects of the recent interest-rate moves. First, we're getting closer to "normal" interest rates after a decade of artificially low ones. Believe it or not, most experts still consider today's *(continued on page 173)*

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

YOUR RETIREMENT PLANNING CHECKLIST

Before takeoff, airline pilots go through a checklist to make sure the flaps are in the right position, there's enough fuel, and everything else is as it should be for a safe flight.

While your retirement may not be a matter of life or death, before wrapping up your career, you owe it to yourself and your family to make sure everything is "as it should be"—that you're as prepared as possible for a safe transition to post-paycheck living. If you're within 10 years of your anticipated retirement date, review the checklist below and see which items may need attention.

❑ **Intended retirement age set.** The natural starting point for retirement planning is choosing a retirement date. However, for many people, that's easier said than done. You may like your work, want or need to keep your income flowing, or prefer to keep your workplace health insurance (if eligible) rather than transition to Medicare. Besides, retirement is a relatively modern invention and the typical retirement age of 65 is somewhat arbitrary. Perhaps most importantly, the Bible doesn't say God's people should plan to stop working one day (unless you're a Levitical priest!).

Still, whether for health or family reasons, or because you sense God leading you to spend your time in other ways in your later years, it's likely that you will one day step away from your full-time career. So, pray about this, and if you're married, be sure to talk it over with your spouse. (According to a Fidelity study, half of couples disagree on their exact retirement age.)

Once you've landed on an intended retirement age, consider this: Is it realistic? For many years, the Employee Benefit Research Institute has been tracking a notable disconnect between the age at which current workers *intend* to retire and the age when today's retirees *actually* retired. According to its latest study, 48% of current workers expect to retire after age 65. However, only 19% of today's retirees actually waited that long.

For many, their deteriorating health (or that of a loved one) required them to stop working earlier than planned. Even if you hope to work past age 65, it may be wise to build an earlier retirement age into your plan. For example, if you'd like to work until age 70, consider building your plan around an age-67 retirement. It's easy to adjust a plan to accommodate earning money longer, but quite difficult to go the other way.

❑ **Retirement budget estimated.** How much will you need to live on in retirement?[1] It's a fundamental question, but like so many retirement questions, not easy to answer. Some expenses should disappear (saving for retirement or your kids' college) and some may decrease (commuting costs). However, spending in other categories may go up, such as entertainment or travel. Plus, your budget is likely to look very different at the beginning of your retirement than several years into it.

Some writers describe three distinct phases of retirement—the "go-go" years (when entertainment and travel-related expenses are likely to be their highest), the "slow-go" years (when your health may begin to slow you down, causing less spending on entertainment and travel), and the ominous-sounding "no-go" years (when your golfing and sightseeing days may be over). Of course, as your health declines, your healthcare spending[2] is likely to grow.

What's a retirement planner to do? For now, do the best you can in estimating your initial retirement budget, and then reevaluate it each year.

❑ **Debt-free plan in place.** Paying off all debt,[3] including your mortgage, by the time you retire will be a great help to your cash flow. If you have a 15- or 30-year mortgage, and if you keep making the scheduled payments, will it be paid off by your intended retirement age? If not, you may want to begin making accelerated payments. Use an online calculator[4] to figure out how much more you'll need to pay each month to make that happen.

It's the same with vehicle debt, student-loan debt, credit-card debt, and any other type of debt. If you have a lot of debt, it may be overwhelming to think about making extra payments on all of it. So, start where you can. The less debt you bring into retirement, the better.

❑ **Living arrangements determined.** Are you in your "forever home" or do you think you'll live somewhere else in retirement? If you're staying put, you should have a good handle on the cost of taxes, insurance, utilities, and maintenance. But are you planning to do any remodeling after you retire? How much should you budget for that?

If you're planning to move, ideally you'll be able to use the proceeds from your current home to buy your new home with cash. But now's the time to look into other expenses in the town you're planning to move to, such as taxes and insurance.

If there comes a time when you can't live on your own anymore, what will you do? Do you have adult children who could help out? Have you talked about that with them? Should you consider moving closer to them? Is an assisted-living facility an option? These questions may seem irrelevant if you are in good health, but better to consider them now than wait until a sudden need to make a change arises.

❑ **"Guaranteed" income estimated.** Such income sources include Social Security, a defined-benefit pension (if you're one of the dwindling number of people who will still receive one), and perhaps an annuity.

While *estimating guaranteed income* may be an oxymoron, it's the best you can do until you're *(continued on page 174)*

[1]Sep2016:p137 [2]May:Cover [3]Jan:p6 [4]One such calculator can be found at bit.ly/2QKLues

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 9/30/2018	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	-1.3	-3.2%	0.2%	0.3%	-3.0%	1.4%	9.9%	1.13	0.11%	20%	16%	12%	8%	VXUS
Extended Market Index ETF	Small company stocks	31.3	10.8%	-1.6%	4.5%	10.7%	16.2%	16.2%	1.23	0.08%	40%	32%	24%	16%	VXF
S&P 500 Index ETF	Large company stocks	36.7	10.4%	0.6%	7.5%	11.3%	17.9%	17.3%	1.00	0.04%	40%	32%	24%	16%	VOO
Total Bond Mkt Index ETF	Medium-term bonds	-1.4	-1.7%	-0.6%	0.1%	-0.1%	-1.3%	1.3%	1.01	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 9/30/2018[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. ☎ Lazard Glob Infrastructure	11/18	NTF	NTF	NTF	6.4	0.2%	-0.1%	-0.1%	6.3%	0.2%	10.7%	0.99	1.22	34	None	GLFOX
	2. ☎ Invesco Intl Divd Achievers	11/18	ETF	ETF	ETF	5.4	-2.4%	0.2%	2.1%	2.2%	1.0%	6.9%	1.34	0.55	65	None	PID
	3. iShares Curr Hedged EAFE	10/18	ETF	ETF	ETF	16.1	2.9%	1.5%	3.2%	6.3%	6.6%	10.3%	0.96	0.35	16	None	HEFA
Category 4 Small/Growth	1. Delaware SmidCap Gro - LW[11]	02/18	NTF	No	NTF	98.8	33.4%	0.5%	13.5%	28.0%	57.3%	22.2%	1.70	1.17	38	None	DFCIX
	2. Kinetics Small Cap Oppor	02/18	NTF	NTF	NTF	57.2	24.9%	0.7%	5.9%	17.9%	33.4%	25.0%	1.26	1.66	41	2%30days	KSCOX
	3. Baron Opportunity	03/18	NTF	NTF	NTF	63.9	29.5%	-0.6%	7.8%	18.6%	37.4%	23.1%	1.57	1.41	60	None	BIOPX
Category 3 Small/Value	1. AMG RR Small-Mid Cap Value	10/18	NTF	NTF	NTF	33.4	12.1%	1.4%	8.2%	11.1%	14.1%	19.0%	1.15	1.38	59	None	ARSMX
	2. iShares Core S&P Small Cap	08/18	ETF	ETF	ETF	37.9	14.6%	-3.1%	4.9%	14.0%	19.1%	19.5%	1.44	0.07	606	None	IJR
	3. Hodges Small Cap	04/18	NTF	NTF	NTF	39.1	11.4%	-1.2%	5.0%	10.7%	23.4%	12.1%	1.59	1.30	53	1%30days	HDPSX
Category 2 Large/Growth	1. Polen Growth Investor	10/18	NTF	NTF	NTF	59.1	23.3%	1.6%	10.1%	19.7%	29.3%	18.9%	1.17	1.25	22	2%60days	POLRX
	2. MS Multi-Cap Gro - LW[11]	05/18	NTF	NTF	NTF	80.1	33.4%	0.3%	9.5%	23.6%	47.0%	26.8%	1.64	1.24	41	None	CPOAX
	3.Touchstone Sands Cap Select	07/18	No	NTF	NTF	56.5	28.3%	0.1%	6.3%	17.2%	33.1%	19.5%	1.66	1.22	29	None	PTSGX
Category 1 Large/Value	1. Pear Tree Quality	09/18	NTF	NTF	NTF	46.3	12.2%	1.0%	10.6%	14.8%	20.9%	18.6%	0.99	1.29	51	None	USBOX
	2. Oppen S&P Ultra Dividend	07/18	ETF	ETF	ETF	30.8	8.5%	-0.7%	1.9%	12.2%	16.7%	16.6%	1.24	0.39	60	None	RDIV
	3. Miller Opportunity - LW[11]	06/17	NTF	Yes[10]	NTF	66.6	23.0%	-2.3%	10.8%	26.2%	29.7%	16.9%	2.24	1.35	37	None	LGOAX[10]
Bond Categories	☎ Vanguard S-T Bond[6]	11/18	ETF	ETF	ETF	0.3	-0.1%	-0.2%	0.3%	0.5%	-0.4%	0.6%	0.46	0.07	2.7[7]	None	BSV[9]
	Permanent: Vanguard I-T Bond	Perm	ETF	ETF	ETF	-2.2	-2.2%	-0.7%	0.1%	-0.1%	-2.2%	1.1%	1.29	0.07	6.4[7]	None	BIV[8]
	Permanent: Vanguard S-T Bond	Perm	ETF	ETF	ETF	0.3	-0.1%	-0.2%	0.3%	0.5%	-0.4%	0.6%	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-October, 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]** 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 Lazard Global Infrastructure, the highest-rated Cat. 4 fund available is Kinetics Small Cap 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.

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	Lazard Global Infrastructure
Stock Cat. 4: Small/Growth	16%	$8,000	Kinetics Sm Cap Opportunity
Stock Cat. 3: Small/Value	16%	$8,000	AMG RR Small-Mid Cap Value
Stock Cat. 2: Large/Growth	16%	$8,000	Polen Growth Investor
Stock Cat. 1: Large/Value	16%	$8,000	Pear Tree Quality
"Rotating" Bond Fund	10%	$5,000	Vanguard S.T. Bond Index
Intermediate-Term Bond Fund	5%	$2,500	Vanguard I.T. Bond Index
Short-Term Bond Fund	5%	$2,500	Vanguard S.T. Bond Index
Total	100%	$50,000	

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 Foreign group, Morgan Stanley Intl Opportunity (MIOPX, 8/2018) and Advisory Research Intl Sm Cap Value (ADVIX, 6/2018) are being replaced.** As difficult as October has been for U.S. stocks, international stocks have been feeling even greater pressure for a longer period of time. As is often the case in market downturns, the stocks that performed the best on the way up have been hit the hardest on the way down. That certainly applies to this Morgan Stanley fund (MIOPX), which Upgrading is cutting off quickly after owning it for only three months. It had been a great performer leading up to its recommendation, but has fallen hard since, losing roughly -16% since then. That's worse than the average foreign-stock fund over that time. The Advisory Research fund (ADVIX) performed better, roughly in line with the rest of the foreign group. But unfortunately that still means it has lost -12.8% since it was recommended at the beginning of June. Both funds have fallen below the category quartile, so it's time to upgrade.

• **Lazard Global Listed Infrastructure (GLFOX) is being added.**[1] This fund was recommended by SMI once before, when it held up much better than its average foreign peer during the back-to-back corrections of late-2015 and early-2016. Lazard describes it as a "defensive, low-volatility" fund that emphasizes infrastructure investments in things people need (roads, utilities, railroads, communication infrastructure, airports, and so on). Because of its relatively conservative focus, it's not the type of fund that typically will lead the pack during bull markets. But it's reassuring to have first-hand experience with it successfully navigating rocky markets similar to what we're going through currently.

• **Invesco International Div Achiev ETF (PID) is being added.**[1] We've also recommended this ETF in the past, way back in late 2011. That year, U.S. stocks fell -15.0% in just three months, leading to the selection of this conservative choice. It did well during the initial rebound, then was sold as the market found its footing and started accelerating again. That's what we'd expect from a fund that invests in conservative foreign companies that have increased their dividends for at least five consecutive years. We can expect this ETF to hold up better than most if stocks continue to struggle, while still offering us some upside potential if they turn around and start heading higher again. ◆

BOND UPGRADING — NEW FUND RECOMMENDATION

[The SMI Bond Upgrading strategy debuted at the beginning of 2015. *This approach involves investing half of the bond portfolio in two "core" funds which do not change.* These two funds provide stability to the portfolio. The other half of the bond portfolio is invested in a single upgrading recommendation. This is the selection being updated this month. For more details about how the SMI Bond Upgrading strategy works, see Jan2015:p7.]

◆ **Vanguard Inflation-Protected Securities (VIPSX/VAIPX, 2/2018) is being replaced.** This fund was running about half a percent ahead of the Barclays U.S. Aggregate Bond Total Return index going into October. But unfortunately, it has given back that advantage as bond yields spiked higher. That's a little surprising, given that the recent interest-rate surge was due at least in part to stronger-than-expected economic growth and rising inflation expectations, and that's the type of environment we would have expected to favor this fund (at least relative to conventional bonds). But it hasn't played out that way, so we're taking shelter elsewhere. Over the nearly nine months we owned the fund, it lost a total of -1.4%.

• **Vanguard Short-Term Bond Index (BSV/VBISX/VBIRX) is being added.**[1] As this month's Level 3 article on bond duration explains, as interest rates rise, funds that own bonds with relatively short maturities typically hold up better than funds with longer maturities. It makes sense, then, that short-term bond funds have suffered much smaller losses than most other types since rates started surging in early October. Short-term bonds haven't completely avoided losses, but they've been minimal. Meanwhile, gradually rising short-term interest rates over the past two years have boosted the current yields now being earned by short-term bond funds. So it's not a big surprise that Bond Upgrading is directing us there.

Note that SMI's Bond Upgrading strategy always invests 25% of our total bond allocation in the Vanguard Short-Term Bond Index. To that static position, this month we're adding the 50% Upgrading allocation. So Bond Upgraders will have only two holdings after this change rather than the typical three: 75% of the total portfolio will be allocated to Vanguard Short-Term Bond Index, while Vanguard Intermediate-Term will retain its typical 25% allocation. ◆

LEVEL 2 / CONTINUED FROM PAGE 167:

DURATION: A SIMPLE WAY TO GAUGE BOND RISK

has recommended that Bond Upgraders split their bond portfolios into two pieces. One half of the bond allocation is invested equally between two "permanent" Vanguard index-fund holdings. The other half of the bond allocation is invested in a rotating "Upgrading" fund that changes periodically.[2]

[1]For more on this fund, visit www.morningstar.com. [2]See Table 2 on page 171.

MONEYTALK

The first of the two permanent bond holdings is the low-risk Vanguard Short-Term Bond Index, with an average duration of 2.7. This duration figure means that *if interest rates were to rise* one percent this year, the value of the bonds in this fund would *fall* approximately 2.7%. When that loss is subtracted from the fund's current yield of 1.8%, the expected return for the year would be a loss of roughly -0.9%. This is why bond investors get nervous about interest rates rising!

Our other permanent bond-fund recommendation is the slightly higher-risk Intermediate-Term Bond Index, with an average duration of 6.4. Under the same interest rate scenario, we would subtract this fund's expected loss of 6.4% from its current yield of 2.8%, leaving us with a total expected loss of -3.6% for the year.

A glance at the Long-Term Bond Index fund explains why we don't have a permanent allocation to long-term bonds (although we can own them at times in the rotating "Upgrading" slot of the portfolio). Its duration of 14.9, coupled with a modest current yield of 3.9%, means that a one-percent rise in interest rates could leave this fund's owners with losses of roughly -11.0%. Ouch!

Bond market sweet spot?

Historically, intermediate-term bonds have inhabited the "sweet spot" of the bond market, where the risks and returns are most optimal for investors. But given the artificially low interest rate environment of the past decade, that's not necessarily the case today. Moving from short-term bonds to intermediate-term currently carries with it an increase in risk (represented by duration) from 2.7 for short-term to 6.4 for intermediate-term. Our reward for this increased risk is a relatively modest boost in current yield from 1.8% to 2.8%.

In the context of the gap between intermediate-term bonds and long-term bonds, this historical precedent still makes sense. That's because in moving from intermediate-term to long-term, our risk (again, using duration) soars from 6.4 to 14.9, while our reward is paltry: the yield boost of +1.1% is nearly identical to the increase we got in moving from short- to intermediate-term!

This relative risk/reward relationship is why intermediate-term bonds have the reputation as the sweet spot. But in *absolute* terms, given today's still-low-but-rising interest rate environment, it's not clear that intermediate-term bonds are more attractive than short-term.

Conclusion

While our focus in this article has been on using duration to gain insight into the potential risk that rising interest rates pose to bond funds, understand that duration also demonstrates the potential *upside* a fund has if interest rates *decline*. Remember, duration demonstrates how much a fund is expected to move in the opposite direction of an interest-rate change. So if interest rates *decline*, these bond fund values would be expected to rise by roughly the amount of their duration. However, in the current rising interest-rate environment, most of the attention is focused on the potential *risk* to bond funds if interest rates rise.

To summarize, duration doesn't take into account every factor that can affect bond performance, but it does offer an easy way to project the likely impact of interest-rate changes on various bond funds. Duration data for bond funds is supplied by Morningstar, and can be found in the "Avg Duration" column in the bond section of SMI's *Fund Performance Rankings*.[1] ◆

LEVEL 3 / CONTINUED FROM PAGE 168:

3RD QUARTER REPORT: NEW ALL-TIME HIGHS MASK TRANSITIONS UNDERWAY

rates—even after two years of increases—to be lower than what would historically be expected given current economic and market conditions. Second, while higher rates hurt the value of *current* bonds, they help the returns of *new* bonds, as those bonds are issued with today's higher yields. This higher earning power slowly trickles through to create higher bond income over time. That's already being felt in savings yields (the shortest end of the yield curve), and it presumably will begin to positively impact returns of short-term bond funds at some point. For now though, at most bond funds the losses in current principal due to rising rates outweigh the greater income being generated from those same higher yields.

ANNUAL STATEMENT OF OWNERSHIP, MANAGEMENT, AND CIRCULATION

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[1] Both duration and current yield are reported in the bond-fund section of SMI's Fund Performance Rankings.

MONEYTALK

Dynamic Asset Allocation (DAA)

The DAA universe was split like a "barbell" during most of the third quarter: there was one very good class, one very bad class, and the other four didn't do much of anything. The good news for DAA investors is the strategy was positioned on the right side of both of the *big* moves, owning U.S. Stocks and avoiding Gold. Looking at DAA's long-term history, getting those big trends right has been the key to its success. While we'd love to perfectly navigate all the minor twists and turns as well, their impact has been much less significant over time.

3RD QUARTER 2018 DAA ETF UNIVERSE

Ticker & Category	3Q Result
SPY U.S. Stocks	7.7%
EFA Foreign Stocks	1.5%
VNQ Real Estate	0.5%
BLV Long-Term Bonds	-0.4%
SHY Money Market	0.1%
GLD Gold	-5.0%

The abrupt performance reversal of small-company stocks in September (followed by broader losses in October) is an important reminder of the importance of playing solid defense via strategies such as DAA. While the October drop has been relatively mild to this point, someday a pull-back like this will follow through and turn into the next full-fledged bear market. So while we'd rather earn 100% stock returns whenever stocks are rising, October has provided a good reminder that less-volatile strategies such as DAA should have a place in our portfolio as well. (The fact that a third of the DAA portfolio was safely in cash certainly was a mental balm as stock losses mounted during the October decline.)

Sector Rotation (SR)

Sector Rotation was the main exception to the string of new all-time highs set by SMI strategies during the third quarter. SR was solid, gaining +3.4% during the quarter, but that still left it a bit below its May peak. The recommended SR holding changed at the end of August, after two years in the previous recommendation. But with stocks generally sluggish in September and the recent top performers being among the hardest hit once stocks turned lower, the new recommendation isn't off to a great start. That said, at the end of the third quarter SR still sported a market-beating year-to-date gain of +9.4%. As long-time SR investors will attest, volatility is part of the bargain when shooting for the type of long-term returns SR has generated historically.

50/40/10

This portfolio refers to the specific blend of SMI strategies—50% DAA, 40% Upgrading, 10% Sector Rotation—discussed in our April 2018 cover article, *Higher Returns With Less Risk, Re-Examined*. It's a great example of the type of diversified portfolio we encourage most SMI readers to consider.[1] As we've seen repeatedly in recent years—and again just recently—the markets can shift suddenly between rewarding risk-taking and punishing it, so a blend of higher-risk and lower-risk strategies can help smooth your long-term path and promote the type of emotional stability that is so important to sustained investing success.

A 50/40/10 portfolio would have gained +3.7% during the third quarter, en route to a new all-time high for this strategy. That's considerably less than the Wilshire 5000 index's gain of +7.3%. As we've discussed, diversification didn't pay off this quarter for Stock Upgrading or DAA as compared to the large/growth dominated indexes.

Given the recent market volatility, it's worth reiterating that 50-40-10 investors have the lion's share of their portfolio protected via some type of defensive protocol. Like any type of insurance, its cost (in the form of lower returns during the third quarter) can be annoying—until you need the insurance. Over the *full market cycle* (bull *and* bear market), we remain confident that the performance of a 50-40-10 portfolio likely will wind up ahead of the broad market, and the emotional toll of the journey will be reduced significantly. Whether you're using this specific 50/40/10 blend or a different combination, we think most SMI readers can benefit from blending these strategies in some fashion. ◆

LEVEL 4 / CONTINUED FROM PAGE 169:

YOUR RETIREMENT PLANNING CHECKLIST

actually retired. Social Security benefits[2] are based on your age when you begin receiving them. How much you earn in your last years of full-time employment will likely impact the amount as well.

❑ **Healthcare needs reviewed.** Are you planning to take Medicare when you qualify at age 65 or do you plan to work past that age and stay on your employer's plan? Either way, estimate how much you'll pay in premiums. If you're going with Medicare, consider filling coverage gaps either by adding a Medigap plan to a traditional Medicare plan or going with a Medicare Advantage plan.[3]

❑ **Investment income estimated.** Between your estimated expenses and your guaranteed income there is probably a gap that will need to be filled by your investment portfolio. Here, too, the math is less than a perfect science. But don't let that stop you from estimating how large your nest egg may be by the time you retire and how much income that may produce. That may motivate you to increase your retirement plan contributions.

There are many free online retirement planning calculators available, but the one SMI recommends is MoneyGuidePro®, which is available to SMI Premium members for a one-time fee of $50.[4] Many financial advisors consider it the gold standard when it comes to retirement calculators because it takes so many factors into consideration.[5]

Clearly, there are many moving parts to the retirement planning process. In the end, there is no perfect plan. Still, the *process* of planning should prove beneficial, prompting you to think through aspects of your retirement you may not have considered otherwise. As General Dwight D. Eisenhower noted, reflecting on the war-planning process and how many things can't be fully anticipated, "Plans are useless, but planning is indispensable." ◆

[1]Blending multiple strategies adds complexity. Some members may prefer an automated approach. See September's Private Client announcement at Sep2018:p136. [2]Sep2016:Cover [3]Nov2017:p169 [4]Feb2017:Cover [5]Jun:Cover

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

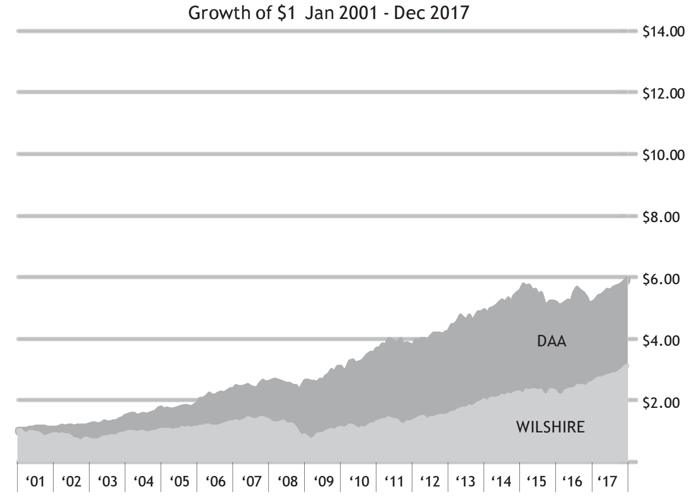
This is a stand-alone strategy that can be used in combination with (or in place of) SMI's basic strategies. DAA is designed to help you share in some of a bull market's gains, while minimizing or even preventing losses during bear markets. It's a low-volatility strategy that nonetheless has generated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

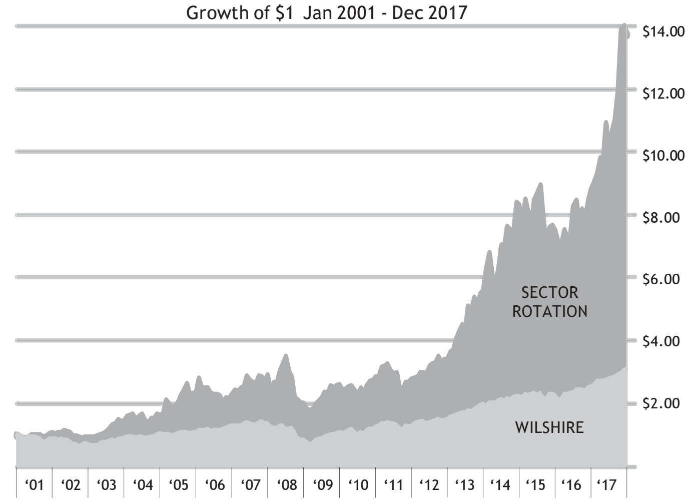
This high-risk strategy involves investing in a single special-purpose fund that focuses on a specific sector (such as biotech, energy, or financial services). Because these stock funds invest in a narrow slice of the economy, they carry a higher degree of risk. Only one fund, selected based on having 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-Dec2017 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.

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PERFORMANCE DATA

SOUND MIND INVESTING MODEL PORTFOLIOS • DATA THROUGH SEPTEMBER 30, 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]	10.5%	0.2%	7.3%	17.6%	17.3%	13.6%	12.0%	10.0%
Just-the-Basics[2]	7.8%	-0.4%	4.9%	13.9%	15.4%	11.1%	10.9%	9.8%
Stock Upgrading[3]	10.0%	-0.8%	4.8%	14.2%	14.6%	10.5%	10.6%	10.2%
U.S. Bond Market[4]	-1.7%	-0.5%	0.0%	-1.3%	1.2%	2.0%	3.6%	3.6%
Bond Upgrading[5]	-1.3%	-0.7%	-0.3%	-1.4%	1.2%	2.4%	5.9%	5.8%

PREMIUM STRATEGIES

	Year to Date	1 Month	3 Months	12 Months	3 Yrs Annual	5 Yrs Annual	10 Yrs Annual	15 Yrs Annual
DAA[6]	2.1%	-0.7%	2.8%	6.7%	6.2%	5.3%	9.6%	11.1%
Sector Rotation[7]	9.9%	-3.2%	3.4%	26.6%	29.5%	23.1%	21.5%	17.8%
50-40-10 Blend[8]	6.1%	-1.0%	3.7%	11.9%	11.9%	9.3%	11.7%	11.8%

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 9/30/2018	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	12.27%	-1.36%	4.39%	17.08%	14.10%	9.26%	9.50%
Wilshire 5000	10.53%	0.16%	7.27%	17.59%	17.27%	13.63%	12.02%
S&P 500	10.56%	0.57%	7.71%	17.91%	17.31%	13.95%	11.97%

Quarterly Returns as of 9/30/2018	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	12.27%	-1.36%	4.39%	17.08%	14.10%	9.26%	9.50%
Wilshire 5000	10.53%	0.16%	7.27%	17.59%	17.27%	13.63%	12.02%
S&P 500	10.56%	0.57%	7.71%	17.91%	17.31%	13.95%	11.97%

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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