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Sound Mind Investing®

Financial Wisdom for Living Well

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Your 10 Most Important Financial Moves for 2019

Each December, we offer planning suggestions for the year ahead. But this isn't meant to be a one-size-fits-all list. It's up to you to take our broad collection of ideas and narrow them down to your personal "Top 10" for the new year. As you read, mark each idea that applies to your financial situation and season of life. Then narrow your checked items to 10 that will be your "action list" for 2019. The next 12 months can be a season of steady financial progress for you—if you're willing to plan and act.

by Joseph Slife

"The main difference between Christians and others," wrote the late Eugene Peterson in his book *A Long Obedience in the Same Direction*, "is that we take God seriously and they do not. We really do believe that he is the central reality of all existence." Because we believe that, "we order our lives in response to that reality and not some other."

Interestingly, *A Long Obedience in the Same Direction*, now considered a Christian classic, was rejected by 17 publishing companies before finally being released by InterVarsity Press in 1980. Publishers suggested that Peterson's emphasis on steady, long-term discipleship in the midst of the "instant society" was out of step with what readers wanted. ("I was advised that it was irrelevant to the concerns of contemporary North Americans," the author later recounted.)

Today, of course, our society is far more "instant" than it was then. Smartphones and social media have thrown open the information floodgates, constantly drawing our attention to the latest happenings and "hot takes" on the newest controversies. Some cultural observers warn that the way we now consume information has effectively "rewired our brains" to crave the random and the novel.

It has become increasingly difficult to "tune out the noise" and diligently order our lives around the "central reality of existence" that Eugene Peterson wrote about. But we must. Following Jesus Christ requires both sustained effort and sustained submission. We must be intentional in how we respond—day after day, year after year—to the Lord's call to discipleship.

That call, of course, includes how we use the financial resources God entrusts to us. A true disciple seeks to be a faithful steward who recognizes that (1) God is the owner of everything (1 Chronicles 29:11), and (2) we are called and empowered to manage His resources for His purposes (Romans 11:36, Hebrews 13:20-21).

In 2019, we pray that your "long obedience" will include "honor[ing] the Lord with your wealth and the best part of everything you produce" (Proverbs 3:9 NLT). And one day, when your earthly journey has come to an end, may you hear these words from the lips of the Master himself: "Well done, good and faithful servant"(Matthew 25:23).

Selecting your Top 10

Following are more than 50 suggestions that can help you manage money wisely and improve your financial *(continued on page 180)*

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

The Greatest News Ever Announced!

"So there is now no condemnation awaiting those who belong to Christ Jesus. For the power of the life-giving Spirit —and this power is mine through Jesus Christ—has freed me from the vicious circle of sin and death."

Romans 8:1-2 (TLB)

As is our tradition, I have a gift for SMI print subscribers and web members in celebration of Christmas! As always, it's a book that has been meaningful to me in my Christian journey. We offer it to you in appreciation for your support of our efforts here at SMI, and with the joyful hope that this gift will be an encouragement to you as you walk with Christ.

When I wrote *The Sound Mind Investing Handbook* several years ago, I included the customary page where I thanked some of the people who have made a difference in my life. Among the entries was this one: "To Bill and Vonette Bright: Thank you for modeling the Christian life so powerfully that I knew, beyond ever questioning again, that the gospel must be true. It is the only explanation for your lives."

Those who have read my book know that Susie and I spent two years during the 1970s as volunteers at Campus Crusade's headquarters where I had the opportunity to work closely with Bill Bright, its founder. The above comments refer to what I experienced at that time. But Bill's influence didn't actually begin then. It began years earlier when some friends shared with us a little booklet Bill had written on how to let the power of God reign in your everyday life. When Susie and I understood and applied the principles in that booklet, our lives were dramatically changed.

It's safe to say that apart from learning and applying the biblical principles contained in *The Secret*, there would be no Sound Mind Investing. We made this our Christmas book offering in 2009, and have the pleasure of doing so again this year. Your written request (no emails, please) should be directed to the address shown at the bottom of page 179. That we might be good stewards, please don't request this gift copy unless you are committed to reading it.

An excerpt from *The Secret* follows. I chose this particular material from the book because "spiritual breathing" has been such an important part of my own spiritual growth.

On behalf of the SMI staff and all the Pryor family, may you and your loved ones have a spiritually rich and fulfilling celebration of Christ's *first* coming!

Austin

AUSTIN PRYOR
FOUNDER/PUBLISHER

Excerpt from The Secret: The Holy Spirit is vitally interested in you! His mission is to give you the strength and guidance you need to accomplish God's purpose for you on this earth.

What is our purpose? I like the way the Westminster Shorter Catechism phrases it: "The purpose of man is to glorify God and to enjoy Him forever." That's why we are here—to bring honor, praise and glory to our Lord and Savior, and to enjoy the riches of His presence in our lives. That's joy! That's consistency! And God has provided the Holy Spirit to make it possible.

When you invited Jesus Christ into your life, the Holy Spirit did several important things. First, He came to "dwell" within you, as Jesus promised when He said, "if anyone hears My voice and opens the door, I will come in to Him, and will dine with him, and he with Me" (Revelation 3:20, NASB). Paul wrote of "the Holy Spirit who is in you, whom you have from God" (1 Corinthians 6:19, NASB). If you were sincere in your commitment to Christ, He "will never leave you nor forsake you" (Hebrews 13:5, NASB).

So we can see that if you have received Jesus Christ as your Savior and Lord, you do not need to invite the Holy Spirit to come into your life. He already lives within you, for He came to dwell within you the moment you trusted Christ as your Savior and Lord. There is but one indwelling by the Holy Spirit, one rebirth by the Holy Spirit, and one baptism by the Holy Spirit, for all of these glorious acts take place the moment a person receives Christ.

However, there can be many fillings by the Holy Spirit. In the Greek language, in which the New Testament was originally written, the meaning of "be filled with the Spirit" is clearer than in most English translations. "Be filled" literally means to be constantly and continually filled, controlled and empowered with the Holy Spirit every moment of every day. In other words, we are to consciously give Jesus Christ the control of our lives every moment, looking to His Spirit for guidance and strength and yielding to His leading and conviction.

Because He promised never to leave or forsake us, He will not exit our lives when we sin; but neither will He forcibly maintain control of our wills when we contemplate sin. *(continued on page 179)*

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

POSTMASTER
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EDITORIAL

God created us with freedom of choice, and we can choose whether we will obey or disobey Him. He wants us to obey Him by choice, not by coercion. Thus, if we choose to yield to Him, He will lead us. If we choose to sin, He will let us.

Whenever a Christian stumbles and sins, he faces a similar choice. He can let it go, in which case he will continue to be troubled by spiritual unrest and ineffectiveness; or he can make things right with God and others and clean the slate.

I can testify from firsthand experience that, while making things right with God and others can be humbling, it is the only choice for those who want to live in the mainstream of God's blessings. Unconfessed sin breaks off fellowship with the Savior, resulting in spiritual impotence and unhappiness. On the other hand, confession, forgiveness and restitution restore fellowship with God, cleanse us of the guilt of our sin, and open the door once again for the Holy Spirit to empower us.

I call this process "Spiritual Breathing." You won't find these words in the Bible, for Spiritual Breathing is simply an illustration to help us remember what to do to make things right with God. It is the act of keeping Christ on the throne of your life by confessing sin immediately, whenever the Holy Spirit convicts you, and claiming, by faith, the continued direction and control of the Holy Spirit for your life.

Though simple, Spiritual Breathing is not to be taken lightly. It is an act that requires a genuine desire to live according to God's Word. I believe it is the most important principle I can share with my fellow Christians. In fact, it is so crucial to a joyful, fruitful life that it has become a major emphasis of our ministry. Literally thousands of Christians who have put this principle to work have reported that it has "completely changed" their lives and helped them to realize what "walking in the Spirit" is really all about.

I cannot take any credit, for Spiritual Breathing is just a modern-day picture to help us apply what is already in God's Word. But I rejoice whenever a fellow believer grasps the principle and uses it to help him keep Christ on the throne of his life. As you practice Spiritual Breathing in your own daily walk, I am convinced you will agree that it is one of the most important lessons you will learn about successful Christian living.

Here's how Spiritual Breathing works. In order to stay physically healthy, we must exhale to cleanse the waste air from our systems (carbon dioxide) and then inhale to replenish the good air (oxygen). In similar fashion, Christians need to "breathe spiritually" to stay spiritually healthy. The moment the Holy Spirit convicts us of sin, we should "exhale" by confessing that sin to God.

After exhaling the impure, we can "inhale" the pure. This involves two important acknowledgments: (1) we receive God's forgiveness and cleansing; and (2) we appropriate (take into our personal possession) the fullness of the Holy Spirit.

How do we know God will forgive, cleanse and fill us? First, we know that being filled with the Holy Spirit is His will, for He has so commanded in Ephesians 5:18. Second, He promised in 1 John 5:14,15 that when we pray according to His will, He will grant our request. Third, He promised in 1 John 1:9 that if we confess our sins, He will forgive our sins and cleanse us of all unrighteousness. When we sincerely return the throne of our life to Him, we can know by faith in the promises of His Word that He will resume His rightful position on that throne.

If done with a genuine desire to please God and achieve victory in this area of life, Spiritual Breathing is all it takes to make things right between you and your heavenly Father, and you can once again be filled with the Spirit. You have fulfilled the requirement of 1 John 1:9 by acknowledging and repenting of your sin; God has fulfilled His promise to forgive, cleanse and fill you with His Holy Spirit. No further payment is due! The account is paid in full! Fellowship with God is restored, guilt is washed away, and the sin does not linger to deteriorate into carnality. You are free to move forward in your walk with Jesus Christ.

The tangible benefit of keeping accounts short with God is that you allow Him to cleanse you of the impurity of sin before it can desensitize you to His guidance. As you deal honestly with sin, you will learn how to anticipate those temptations that are likely to be a stumbling block for you. You will begin to develop the strength and resolve to respond as Jesus would when that temptation comes along in the future.

Jesus said that when He left earth He would send the Spirit to do His work in us and through us. He promised that we would receive power from the Spirit to do great things in His name, to resist the pull of the kingdom of darkness, to live a life that brings honor to Him and joy and fulfillment to us.

Jesus keeps His promises! That same Holy Spirit who empowered the apostle Paul centuries ago is available to you and me today. Paul wrote from personal experience, "Walk by the Spirit, and you will not carry out the desire of the flesh" (Galatians 5:16, NASB).

Do you want to conquer a bad habit? Walk by the Spirit. Want to introduce a friend to Christ? Walk by the Spirit. Do you want purpose and power in your life? Walk by the Spirit! ◆

This offer is for currently active SMI members only. Send your request to: Gift Book, Sound Mind Investing, Ste 202, 9700 Park Plaza Ave, Louisville, KY 40241-2287. *Your envelope must be postmarked no later than December 20*. You should receive your gift book by the end of January.

Your 10 Most Important Financial Moves for 2019

(continued from front page)

condition over the next 12 months, based primarily on articles published in the SMI newsletter in 2018. Next to each suggestion, we've placed a small box. As you read, put a checkmark ☑ in the box next to each item that's particularly relevant to you. Later, go back through your checked items, asking the Lord to guide you in selecting 10 tasks to set as your financial priorities for the new year.

Then, assign each item a *specific* priority. Make your most important item number 1, the second-most important number 2, and so on up through number 10, keeping in mind that some items can be accomplished quickly while others may take some time. If you're married, go through this planning process with your spouse, so that you can discuss the items, clarify understandings, and be united in your financial goals.

This process is aimed at helping you turn intentions into actions. However, don't try to accomplish too many things at once. Taking on too many things at a time can create a sense of being overwhelmed, which tends to lead to insufficient follow-through. As a practical matter, we suggest you *finish implementing your top three tasks before starting on the other items on your list*.

Each of the suggested "action items" below is accompanied by a footnote that indicates where to find additional information. Most of the notes refer to articles published in the SMI newsletter in 2018 (e.g., Aug:p121 means the August 2018 issue, page 121). Other footnoted resources include the SMI website at soundmindinvesting.com and *The Sound Mind Investing Handbook* (Book:C2 means "See chapter 2 in the Handbook").

Keep in mind that SMI's "Top 10" approach to planning for the year ahead is intended to be a *spiritual* exercise as well as a practical one. Use this planning time meditatively, thanking the Lord for His faithfulness in the past and expressing your trust in Him for the future.

Focusing on things of first importance

Before turning to financial matters, consider your spiritual life and outlook. (Items in this section are not meant to be part of your 10 financial goals for 2019. They relate to foundational practices of Christian discipleship.)

❑ **Are you spending time each day with the Lord?**[1] Faithful stewardship isn't just about doing all the right things, it's about becoming like the Master. To become Christlike, we must spend time with him—in prayer, study, devotion, and worship.

❑ **Are you seeking God's will for your finances?**[2] Doing so means accepting your role as a steward and faithfully managing resources according to the Lord's direction.

❑ **Are the precepts of The Lord's Prayer guiding your financial outlook?**[3] Do you see God as a wise and loving heavenly Father who owns everything and is in control of everything? Can you honestly pray, "Lord, if you provide just my 'daily bread'—i.e., my basic needs (not wants, demands, or desires)—I would be grateful"?

❑ **Are you trusting God or leaning on your own understanding?**[4] Biblical wisdom acts as a counterweight to various behavioral tendencies that tend to result in bad financial decisions.

❑ **Do you know the foundational pillars of Christian stewardship?**[5] Learn to articulate the biblical teaching that shapes your outlook on money.

❑ **Are you making acceptable sacrifices, well-pleasing to God?**[6] SMI wants you to have more so you can give more. Are you a cheerful giver? Is your life characterized by increasing generosity? Are you learning to excel in the grace of giving (2 Corinthians 8:7)?

❑ **Are you investing with a "sound mind"?**[7] This involves basing your decisions on spiritual wisdom and guidance that come through faith in Jesus Christ. It is in contrast to making choices based on emotions and immediate circumstances.

❑ **Are you longing for the return of the Lord?**[8] Career goals and retirement plans should pale in comparison with our desire to see the return of Jesus, the King of glory. We should long for His appearance even more than we long for our next meal.

Strengthening your foundation

A strong financial foundation is essential to short-term and long-term financial health. If your foundation isn't yet firm, concentrate your efforts here, rather than moving ahead to more advanced topics.

❑ **Create a spending plan (i.e., a budget) or bring your existing plan up to date.**[9] Don't think of a spending plan as restrictive but as liberating. Having a plan will help you gain financial peace of mind.

❑ **If married, work together on setting up and implementing your financial management system.**[10] Whatever approach you use, be sure it provides financial transparency and fosters good husband/wife communication.

❑ **Take the steps necessary to get out of debt.**[11] Paying off debt can be hard, but you can do it if you create a plan and stick to it. Trust in God's grace to see you through.

❑ **Save before you invest.**[12] Building an emergency fund is essential to financial stability. Make sure you have such a fund in place—equal to three-to-six months' worth of living expenses—*before* putting money at risk in the stock market.

❑ **Use multiple savings accounts as an aid to reaching your savings goals.**[13] Setting up a series of dedicated savings accounts, especially when combined with automatic transfers from your checking account or direct deposits from your paycheck, will help ensure that you have savings on hand both for periodic expenses as well as emergencies.

❑ **Learn how the new tax law affects you.**[14] 2018 saw the biggest changes in the federal tax code in decades—altering your deductions, credits, and overall federal income-tax liability. Do you need to adjust your withholding or make other changes to take advantage of the new law?

❑ **Use tax data to gauge your tax bite as well as your level of giving.**[15] The data you put on your federal income-tax forms,

[1]Jan:p2 [2]Jul:Cover [3]Nov:Cover [4]Feb:p18 [5]Sep:p130 [6]Jul:p98 [7]Oct:p146 [8]Apr:p50 [9]Book:C2 [10]Aug:114 [11]Jan:p6 [12]Sep:p134 [13]Mar:p38 [14]Feb:p22 [15]Apr:p54

especially if you itemize, can help you measure your tax liability and your giving as a percentage of your overall income. (Note: Fewer taxpayers will itemize under the new law.)

❑ **Add a "generosity" category to your budget.**[16] This category isn't for tithing (a practice we also strongly recommend), but rather for spontaneous giving in response to needs you learn about day-by-day. You might help someone who's lost a job or a single parent struggling with an unexpected expense. It's fun to be not only *willing* but *able* to help others.

❑ **Have a will drawn up—and be sure it protects your minor children.**[17] Parents who die without a will empower the government to decide how to distribute their assets and to choose who will raise their children.

Developing your investing plan

❑ **Understand how people commonly "misthink" money.**[18] Irrational behavior can interfere with your best intentions regarding saving, spending, and investing—and can cost more than you know.

❑ **Create a written long-term investing plan.**[19] Without a written plan, your ongoing financial decisions likely will be driven by the emotions of the moment. That is not a formula for long-term success.

❑ **For shorter-term savings, consider a bank money-market account or money-market mutual fund.**[20] Don't let your shorter-term savings languish in a low-paying regular savings account. You can earn more in a money-market account (i.e., an insured account available through banks) or a money-market fund (a type of mutual fund available through brokerage firms).

❑ **Choose the brokerage firm that's right for you.**[21] Your choice of a broker will be determined in part by which SMI strategy (or strategies) you use. Fidelity and Schwab are tough to beat when it comes to the specific needs of SMI investors. Vanguard is a good option too,[22] especially now that it allows free trades for almost all exchange-traded funds.

❑ **Learn about mutual-fund expense ratios and various fund "classes."**[23] All mutual funds carry costs, but those costs—and how they are charged—can vary widely from fund to fund.

❑ **Study how investment returns are measured.**[24] Many investors confuse "total return," "average annual return," and changes in "net asset value." All are important, but they aren't interchangeable.

❑ **Know the probabilities of stock-market success.**[25] No other asset class has grown like stocks—over the long haul. But over shorter periods of time, the market is subject to unsettling reversals. Don't be surprised when the market goes through up-and-down cycles (or when investors go through related up-and-down emotional cycles[26]).

❑ **Prepare for investment "accidents."**[27] Unanticipated things happen sometimes. But you can stay the course if you have an investing approach that's governed by "mechanical" guidelines rather than emotional triggers.

❑ **Understand "regression to the mean."**[28] Periods of above-average performance in the stock market (or in particular stocks or funds) are eventually and inevitably followed by times of below-average performance. Knowing that will help you manage your expectations regarding returns.

❑ **Know the difference between "growth" and "value" stocks.**[29] Sometimes "growth" dominates for an extended period (as in recent years). At other times "value" can have the upper hand for years at a time. Understand why such long swings are not uncommon.

❑ **Submit to the discipline of a structured, proven approach to managing investment risk.**[30] This will save you from counterproductive buying/selling.

❑ **Automate your investing whenever possible.**[31] One of the best ways to follow through on your investment plan is to insulate yourself from having to make regular decisions about where, when, and how to invest. Putting your investing on autopilot via an employer-sponsored retirement plan (or another automated approach) can help you maintain a steady course over a long period of time.

❑ **If you're still relatively young, be sure your long-term investing plan isn't too conservative.**[32] Many millennials, frightened by the financial crisis of 2008, are reluctant to put their money at risk in the stock market. Unfortunately, they're exposing themselves to the greater risk that inflation will eat away at the value of their money. Unlike bonds and other fixed-rate vehicles, stocks have the potential to beat inflation.

❑ **If you're at the stage of life where *bonds* should be part of your portfolio, learn about gauging bond risk.**[33] Knowing a fund's "duration" will help you project how the fund's performance will be affected by interest-rate changes.

❑ **Don't raid your retirement account to meet short-term needs.**[34] Early withdrawals result in taxes and penalties, plus there can be an extremely high "opportunity cost."

❑ **If you like SMI's strategies but don't have the time or the inclination to implement them yourself, consider using the professionally managed SMI mutual funds**[35] **or the SMI Private Client service.**[36]

Broadening your portfolio

❑ **Familiarize yourself with "Upgrading 2.0."**[37] This new iteration of our long-standing Fund Upgrading strategy seeks to offer downside protection during bear markets. During times of particular market stress, Upgrading 2.0 will call for "going to cash" rather than staying fully invested in stock-based funds.

❑ **Investigate the best cash option(s) at your broker.**[38] Money-market funds, for example, are an increasingly attractive option for holding cash.

❑ **Study the rationale behind SMI's Dynamic Asset Allocation (DAA) strategy.**[39] The "winning-by-not-losing" advantages of DAA play out slowly, over long market cycles. To stick with it, you must constantly keep the big picture in mind.

❑ **Don't underestimate the risk of SMI's Sector Rotation (SR) strategy.**[40] Because SR's overall returns have been so impressive, you might be tempted to tilt your portfolio too strongly in SR's direction. Beware of the danger.

❑ **Learn how to combine SMI strategies to build a portfolio that potentially offers higher returns** *(continued on page 190)*

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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

IT'S YOUR RETIREMENT ACCOUNT, NOT A PIGGY BANK

A 401(k) plan account is a tax-advantaged investment vehicle designed for the long haul. Setting money aside paycheck-by-paycheck, year-after-year, a worker steadily builds retirement savings. Sometimes this is accelerated by employer-supplied matching funds.

However, some retirement savers treat their 401(k) accounts like a piggy bank for short-term wants or immediate needs. While 401(k) loans are easily accessible and the terms seem attractive, there's a price to pay for borrowing against these accounts.

How do 401(k) loans work?

The ability to borrow from your 401(k) balance is determined by your employer. If such loans are allowed, they're available to all participants in the plan—no credit check required. Borrowers usually may take the lesser of 50% of their vested balance, or $50,000.

The money needs to be repaid within five years (or up to 15 years for the purchase of a home) at an interest rate set by the employer (typically the prime rate plus 1%). The principal-and-interest payments made to repay the loan go back into the borrower's 401(k) account, usually through payroll withholding.

With generous terms like these, it's easy to see why such loans are popular among workplace retirement-plan participants. According to a study published by the National Bureau for Economic Research (NBER), about one in five active participants in 401(k) plans have a loan in any given month.

What's wrong with a 401(k) loan?

While 401(k) loans may seem appealing, there are downsides.

• **Opportunity costs.** By taking money out of your retirement account, you lose out on the potential for valuable tax-advantaged growth of that money. In essence, you are robbing your future to pay for your present.

In addition, some companies won't allow you to contribute to your plan or won't make matching contributions if you have a loan outstanding. Even if further contributions *are* allowed, plan participants with a loan typically reduce or stop their contributions, according to Fidelity. The reason is simple: Some of the money they had been using to make contributions now has to go toward repaying their loans, and a reduced contribution rate means diminished retirement preparedness. Also according to Fidelity, it takes borrowers two to five years to return to their previous savings rate after taking out a loan.

• **Tax and penalty risk.** This is potentially even more damaging to your finances: If you leave your job—whether by your choice or your employer's choice—you have to put the amount you borrowed into an IRA or a new employer's plan by the time current-year taxes are due. According to the NBER study, 86% of people who leave their jobs with a loan outstanding fail to repay. Such defaults trigger tax payments *and* a 10% penalty for those younger than age 59½.

• **An ongoing temptation.** Once you borrow against your 401(k), it's all too easy to make a habit of it. Fidelity has found that people who take one 401(k) loan are more likely to take another.

Other options

The best alternative to a 401(k) loan is to reconsider your need for the money in the first place. If the money is for a *want* such as a kitchen remodel, new car, or vacation, it'll serve your bottom-line much better to wait until you can use other savings.

Likewise, using a 401(k) loan to pay off current debts is often unwise. Not only does such a strategy carry the downsides previously discussed, it fails to address the underlying problems that led you into debt. Using a budget to free up money for debt repayment almost always proves to be a better long-term solution.

Taking a loan against the cash value of a whole-life insurance policy may be a viable alternative if you have such a policy. Doing so reduces the policy's death benefit, but you're required to pay only interest on the loan, and the dividends from the policy may be sufficient to cover those costs. Check with your agent.

A home-equity loan is another alternative, since the interest may be tax-deductible. Note, however, under the new tax code that took effect at the start of 2018, only home-equity loans taken for the purpose of home improvement qualify for this tax deduction. Also, keep in mind that borrowing against your home equity may put your home at risk if you can't make the payments on *that* loan.

If you're considering a 401(k) loan for a *true emergency*, there may be better options as well. For starters, simply suspending new contributions to your account can free up cash flow. If that's not enough, those with a Roth IRA can withdraw their *contributions* (not earnings) at any time without having to pay taxes or a penalty.

(With a Roth 401(k), the rules on early withdrawals are more complicated. Any withdrawal is considered to be a mixture of both contributions and earnings. You need to determine the percentage that is earnings and pay tax on that amount.)

Final thoughts

SMI generally advocates using retirement savings vehicles to, well, save for retirement! The "retirement crisis" many people are facing because of insufficient savings has been well documented.

Having a "hands-off" policy toward your retirement account can help prevent a lack of retirement savings from becoming a crisis in *your* household. ◆

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

HOW FUND DISTRIBUTIONS AFFECT FUND SHARE PRICES

[Editor's note: Even though the market is up strongly in recent years, 2018 saw two substantial sell-offs. That's why mutual-fund "distributions" are likely to be a significant event this year. During those sell-offs, some funds sold long-held winning positions. The gains from those sales must be distributed to investors.]

It's not unusual for new readers to become concerned when one of our recommended funds suffers what appears to be a severe one-day decline! We assure them there's no cause for alarm: the drop was caused by a fund distribution.

Let's review the basics of mutual-fund distributions.[1] In the process of investing, mutual funds incur capital gains and losses, and they receive dividend and interest income on their investments. From a tax point of view, all of this is done on behalf of shareholders. It's as if *you* owned all the investments outright, and the gains and losses that result are all your *personal* gains and losses. There are three ways this happens:

- A fund invests in stocks that pay dividends. It collects the dividends and pays them out to you periodically.
- A fund invests in bonds or other debt securities that pay interest. It pays the interest out periodically.
- A fund sells an investment for more than it paid, thereby earning a capital gain. The fund keeps track of such gains (and offsets them against any losses), and pays them out periodically, usually once a year.

All of these payments to you are called distributions, and the amount you receive will depend on how many shares you own. A fund company decides whether to make these periodic distribution payments monthly, quarterly, semiannually, or annually.

Making distributions is a two-step process. First, the fund company "declares" the amount of the distribution it intends to make, and sets aside the appropriate amount of cash that will be needed to write you a check (or deposit money in your account). This has the effect of suddenly lowering the net asset value (NAV) of the fund—one day the money is being counted as part of the fund, and the next day (the day of the declaration), it isn't.

This sudden drop in value understandably startles inexperienced investors. They may think the money has been lost! It hasn't—it's merely being removed from the fund so it can be paid out to all the fund's investors. The date this declaration happens is called the "ex-dividend" date. It is the significant date as far as computing one's tax liability is concerned. The second step of the distribution process is when the fund actually makes the distribution (either by check or electronic transfer).

Most funds issue distributions at roughly the same time each year (December is the busiest month of all). Typically, a fund company will tell you ahead of time when a distribution will happen, often by publishing that information on the fund's website. If you're investing in a taxable account, knowing ahead of time when a distribution will be declared presents an opportunity for tax savings.

Before making a major purchase of shares in any mutual fund, check the fund company's website to see (1) if a distribution will be made soon, and (2) if there is an estimate of the amount. (If you don't find this information on the website, call the company.) If a distribution is scheduled soon, you can avoid its tax impact by waiting to purchase your shares until the day after the distribution.

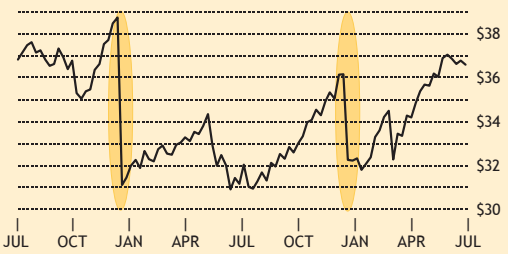
You also can use this information to move up the sale of any holdings you plan to sell in January anyway for rebalancing reasons. By making a before-distribution sale of any positions that are worth *less* than your purchase price, you'll avoid a distribution and also book a loss that may offset other gains on your 2018 tax return. (On the other hand, if you earn a profit—i.e., you sell your shares before year's end for *more* than you paid for them—you'll have to pay capital gains tax on your profit by next April 15.)

One cautionary note: A preoccupation with taxes can end up being counterproductive. In investing, a few days can sometimes make a big difference in the price you pay (or receive). Don't let tax considerations become the *overriding* factor in your buy/sell decisions. ◆

EFFECT OF FUND DISTRIBUTIONS

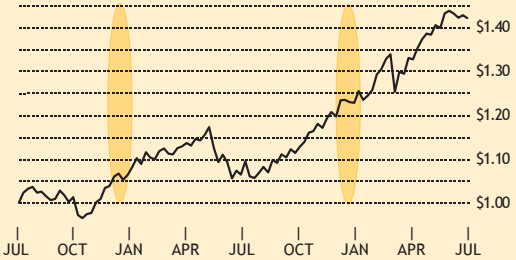
PRICE GRAPH

This is a picture of the weekly price behavior of an example fund over a recent 24-month period. The dark ovals each December show the effects of the year-end distributions on the fund's price. If looking at the price alone, one might think that the fund experienced deep drops at the end of each year and has been a poor investment, essentially breaking even for the period.



GROWTH OF $1 GRAPH

However, the price graph is misleading. Assuming the dividends were reinvested in more shares, which is the common practice, a dollar invested would have grown to $1.42 for an average compounded gain of 19.2% per year. Both months of December actually showed gains.



[1]For more details, see Dec2017:p183

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

PARKING YOUR BROKERAGE-ACCOUNT CASH IN A MONEY-MARKET FUND

When SMI has written about managing cash, typically it's been in the context of building a savings reserve via a bank-based savings account. We haven't focused much on the cash-management options within *brokerage* accounts because, until somewhat recently, SMI's specific investing strategies haven't called for "cash" allocations.

Times are changing. Cash is one of the six asset classes from which we choose in carrying out SMI's Dynamic Asset Allocation (DAA) strategy, launched in 2013. In addition, the new "2.0" defensive protocols introduced this year to SMI's Stock Upgrading strategy occasionally will shift some holdings to cash.[1] So it's a good idea to become familiar with the cash options your brokerage firm has available.

A better place to put your cash

Any time you sell a mutual-fund position, the proceeds are deposited into your broker's "sweep" account, unless you enter an order for the money to be immediately invested in another fund (or other investment vehicle). Sweep accounts are considered "cash" accounts, but they're not appealing places to park money for very long. At many brokers, such accounts pay minuscule rates—as low as 0.22% at Schwab, 0.04% at E-Trade, and 0.01%(!) at TD Ameritrade.

Fortunately, there are better alternatives if you want to stay "in cash" for an extended period of time. One option at some brokers is to purchase short-term CDs. (Keep in mind this approach will tie up your money for specified periods of time.) You might also consider moving money to a cash-based exchange-traded fund such as SHY, the 1-3 Year Treasury Bond fund sometimes recommended in DAA. A third and increasingly attractive option as interest rates rise is a money-market fund (MMF).[2]

An MMF is a type of mutual fund[3] that invests in short-term debt. It receives money from investors and then lends that money out to businesses and to governments (federal, state, municipal). MMFs come in three varieties: "Prime" funds that hold corporate debt, and "Taxable" and "Non-Taxable" funds that hold government debt (whether a fund is taxable or not depends on the debt issuer). Of the three types, Prime Funds typically pay the highest rates.

A different way of measuring

Most mutual funds measure changes in value via fluctuations in share prices. Money-market funds don't. The share price of a "retail" money-market fund (i.e., an MMF targeted to individual investors) stays constant: $1. As the fund receives interest from its debtors, it pays investors by crediting them with more shares. MMF investors receive fractional shares every day. When cashing out, an investor gets back the money he invested, plus the interest earned, based on a calculation of $1 per share.

It's important to note that, unlike bank savings accounts, money-market funds are *not insured against loss*. Still, only a small number of retail investors have ever lost money in an MMF. The losses occurred with only one fund—Reserve Primary Fund—as the financial crisis unfolded in 2008.[4] Since then, the Securities and Exchange Commission has tightened credit-quality standards to further ensure the safety of MMFs.

Post-crisis regulations created a possible downside for MMF investors, however: During times of extreme volatility, Prime funds can now charge fees for redeeming shares or even temporarily prevent investors from making withdrawals.

Which MMF?

Most major MMFs offer similar services and risk, so deciding which fund to choose is a function of performance, availability, and cost. One way to compare performance is to consult the financial publication *Barron's*. Each week, *Barron's* posts online a listing of top-performing MMFs, based on data from the MMF research firm iMoneyNet.[5] The list shows two yields for each fund. The first is the "7-Day Simple Yield," which reflects the *annualized equivalent* of what the fund earned for its shareholders over the past week. The second is the "7-Day Compound Yield," which adds the effect of daily compounding.

Fortunately for SMI investors, three of our recommended brokers—Vanguard, Schwab, and Fidelity—all have well-performing "in-house" Prime MMFs. That means customers of those firms not only have appealing money-fund options, but also won't incur transaction costs when investing in those funds. *Barron's* regularly lists both Vanguard Prime (VMMXX) and Schwab Value Advantage ("Investor Shares" are SWVXX) among the top-yielding MMFs. Fidelity investors have access to Fidelity Money Market Fund (SPRXX or FZDXX), an MMF similar in makeup to a Fidelity "institutional" fund that regularly tops the *Barron's* listing.

Options at other brokers

Although TD Ameritrade provides access to hundreds of MMFs, unreliable data on the TDA website doesn't make finding an appropriate one easy! Locating suitable options for SMI investors required multiple chats with TDA reps (plus a bit of testing).

One attractive option is Federated Prime Cash Obligations Fund (PCOXX)—another *Barron's* top performer. It's a no-transaction-fee fund with low expenses (currently 0.20%). Although the TDA website says PCOXX requires a minimum investment of $500,000, apparently the minimum is being waived. We invested just $200(!) and the trade went *(continued on page 191)*

[1] Jan:Cover [2] An MMF is also a good alternative—in lieu of a sweep account—for cash being held only temporarily before being invested elsewhere. [3] Not to be confused with a money-market *account*, a type of bank-savings account. [4] Losses amounted to less than 1 cent per $1 share. [5] bit.ly/barrons-moneyfunds

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

EASING YOUR FINANCIAL FEARS WITH MONEYGUIDEPRO®

Detailed planning is essential for the successful navigation of your later years, when paid work may cease completely or partially. And it can be tremendously helpful for your peace of mind as you move toward that season of life.

For a one-time fee of $50, SMI premium-level members have access to such planning via MoneyGuidePro® (MGP), a sophisticated software package normally available only to clients of financial planners who pay more than $1,000 for an MGP license. A strength of MoneyGuidePro® is its ability to model many what-if scenarios.

Developing a viable plan

Our February 2017 walkthrough[1] of MoneyGuidePro® provided much more detail, but here's a quick, partial review of the process. After completing the *About You* section of the software—inputting your age, income, investments, goals (categorized as needs, wants, or wishes), and more—you can see your "Current Scenario" in the *Results* section. A Monte Carlo analysis of 1,000 scenarios generates your "Probability of Success"—essentially showing you how likely you are to reach your goals.

From there, any needed refinements can be explored with the "Recommended Scenario." When you click on "Choices," the software will offer options for improving your plan's likelihood of success, suggesting clear changes within each of your goal categories. For example, MoneyGuidePro® might suggest reducing your hoped-for retirement travel budget by a specific amount. (The recommendations are clear, though not always easy to accept!) From there, you could go back to the *About You* section and change your goals accordingly.

Stress-testing your plan

Once you have a workable plan in place, MoneyGuidePro® enables you to test your plan against a series of threats. Using the software's appropriately named *What Are You Afraid Of?* tool, you can explore the impact of eight different risks. (If you see a blue triangle with an exclamation point next to any of the risks, that means it relates to a specific concern you noted in the *About You* section.)

You'll see how each risk could impact your ability to achieve three sets of your goals: *All* of your goals (those you categorized as *needs, wants*, and *wishes*), just those goals labeled *needs* and *wants*, and only the goals you identified as *needs*.

You also can weigh the impact of combining *multiple* risks (perhaps the husband dies early *and* the wife needs long-term care at a certain point) by "locking" one risk and then adding another. Here are the risks MoneyGuidePro® enables you to evaluate,[2] along with suggestions for managing them.

• **Concentrated position.** This is when more than 10% of your portfolio consists of one security. You can see how various levels of decline in the value of that one holding could impact your plan's chances of success, which may prompt you to reduce your exposure to that security.

• **Inflation.** Throughout the data-entry process, MGP uses a 2.25% default inflation rate, but here's where you can put your plan up against more extreme rates. You can't go all 1979 on your scenarios (when inflation topped 13%!), but you can explore options up to 5.25%.

One of the best defenses against inflation is to invest in asset classes that have a good chance of outpacing inflation. For most investors, that means maintaining some exposure to stocks throughout your retirement. For very conservative investors who've dialed their equity exposure way back, these inflation scenarios may prompt a shift toward a somewhat higher equity allocation.

• **Social Security cuts.** Countless articles have been written about the Social Security system's deteriorating financial condition. What will Congress do to shore up the system? No one can say for sure, so this threat is particularly difficult to gauge. Still, MoneyGuidePro® will help you see how various levels of reduction in SS benefits would impact your financial plan.

What to do about this risk depends on how concerned you are about the prospect of benefits cuts. If you're *very* concerned and see that even a 5- or 10-percent reduction would seriously threaten your plan, you may want to increase how much you're contributing to your retirement accounts.

• **Low returns.** This risk may prompt you to double check your portfolio's asset allocation, which impacts estimated returns. If it's unrealistic for you to invest any more aggressively, the best solution may be to increase your plan's margin of safety by investing more each month.

• **Die early/live long.** For married couples, this may be the most complex (and unpleasant) risk to examine, but it's necessary because it could have a significant impact on the likelihood of your plan's success.

You've probably heard more warnings about the risk of living a long life (longevity risk) than a short one, but both are risks. Consider a situation where the husband has been the higher earner and is planning to wait until age 70 to start taking Social Security benefits, primarily because he assumes his wife will outlive him and will then be able to receive his monthly benefit amount instead of hers. But what if he dies before age 70? MoneyGuidePro® can help you model that. (At the very least, make sure your estate-planning documents are in order.)

• **Health Care/LTC.** We've cautioned before about the potential costs of long-term care, as well as the possibly inflated risks of someday needing nursing-home care.[3] The wisdom of purchasing a long-term-care insurance policy *(continued on page 191)*

[1]Feb2017:Cover [2]Another risk, "Great Recession Loss," was addressed in a previous article found at bit.ly/2QJcYRT. The "Concentrated position" and "Cuts to pension" risks will not appear in MoneyGuidePro® if your plan doesn't carry those risks. [3]May2018:Cover

SOUND MIND PORTFOLIOS

Basic Strategies

The fund recommendations shown for Upgrading accountholders are based primarily on "momentum" scores calculated just before this issue was published (not the earlier end-of-month scores shown on this page). Consistency of performance is also considered, along with the portfolio manager's philosophy and number of years at the helm. Three recommendations are made in each risk category. Select the one(s) most in accord with your preferences and broker availability.

"Plans fail for lack of counsel, but with many advisers they succeed." Proverbs 15:22

RECOMMENDED FUNDS FOR SMI'S JUST-THE-BASICS STRATEGY

Data through 10/31/2018	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	-31.3	-11.5%	-8.6%	-10.6%	-11.7%	-9.1%	4.5%	1.18	0.11%	20%	16%	12%	8%	VXUS
Extended Market Index ETF	Small company stocks	-5.1	-0.3%	-10.1%	-7.6%	-0.7%	3.1%	10.2%	1.37	0.08%	40%	32%	24%	16%	VXF
S&P 500 Index ETF	Large company stocks	7.4	2.8%	-6.8%	-3.3%	3.4%	7.3%	11.5%	1.00	0.04%	40%	32%	24%	16%	VOO
Total Bond Mkt Index ETF	Medium-term bonds	-3.0	-2.6%	-0.9%	-0.7%	-0.2%	-2.2%	1.0%	1.00	0.05%	None	20%	40%	60%	BND

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

RECOMMENDED FUNDS FOR SMI'S FUND UPGRADING STRATEGY

Risk	Data through 10/31/2018[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	-2.7	-0.1%	-0.3%	-2.7%	0.5%	-0.5%	9.2%	0.95	1.22	34	None	GLFOX
	2. Invesco Intl Divd Achievers	11/18	ETF	ETF	ETF	-17.5	-8.8%	-6.5%	-7.3%	-5.4%	-4.8%	2.1%	1.32	0.55	66	None	PID
	3. iShares Curr Hedged EAFE	10/18	ETF	ETF	ETF	-13.6	-3.6%	-6.4%	-6.4%	-4.0%	-3.2%	5.5%	0.96	0.35	28	None	HEFA
Category 4 Small/Growth	1. ☎ Value Line MidCap Focus	12/18	NTF	NTF	NTF	17.4	9.2%	-7.6%	-1.5%	7.7%	11.2%	13.3%	1.04	1.18	35	None	VLIFX
	2. Baron Opportunity	03/18	NTF	NTF	NTF	22.8	17.0%	-9.7%	-3.0%	5.0%	20.7%	16.0%	1.64	1.41	60	None	BIOPX
	3. Delaware SmidCap Gro - LW[11]	02/18	NTF	No	NTF	41.9	16.5%	-12.6%	0.4%	10.8%	30.7%	15.7%	1.88	1.17	39	None	DFCIX
Category 3 Small/Value	1. ☎ Invesco S&P MidCap Low Vol	12/18	ETF	ETF	ETF	5.6	3.2%	-4.8%	-3.1%	3.6%	5.1%	12.4%	0.91	0.25	78	None	XMLV
	2. ☎ Merger Fund	12/18	NTF	NTF	NTF	8.5	5.3%	-0.3%	0.9%	2.9%	4.7%	3.4%	0.30	1.91	170	None	MERFX
	3. AMG RR Small-Mid Cap Value	10/18	NTF	NTF	NTF	7.9	4.0%	-7.3%	-2.4%	3.3%	7.1%	13.6%	1.21	1.38	60	None	ARSMX
Category 2 Large/Growth	1. ☎ iShares Edge MSCI Min Vol	12/18	ETF	ETF	ETF	15.0	5.2%	-4.0%	0.1%	6.2%	8.7%	11.5%	0.82	0.15	210	None	USMV
	2. Polen Growth Investor	10/18	NTF	NTF	NTF	21.4	13.1%	-8.3%	-1.6%	8.2%	14.8%	12.0%	1.17	1.25	23	2%60days	POLRX
	3. MS Multi-Cap Gro - LW[11]	05/18	NTF	NTF	NTF	33.1	19.9%	-10.1%	-1.2%	10.2%	24.1%	20.0%	1.75	1.24	41	None	CPOAX
Category 1 Large/Value	1. ☎ Invesco S&P 500 Low Vol	12/18	ETF	ETF	ETF	7.9	2.3%	-2.9%	-1.5%	4.1%	5.3%	10.1%	0.82	0.25	102	None	SPLV
	2. Pear Tree Quality	09/18	NTF	NTF	NTF	17.6	6.4%	-5.2%	-0.5%	8.4%	9.8%	13.6%	0.97	1.29	51	None	USBOX
	3. Miller Opportunity - LW[11]	06/17	NTF	Yes[10]	NTF	18.0	8.4%	-11.9%	-6.0%	10.0%	13.9%	9.1%	2.29	1.35	38	None	LGOAX[10]
Bond Categories	Vanguard S-T Bond[6]	11/18	ETF	ETF	ETF	0.7	0.0%	0.1%	0.3%	0.8%	-0.3%	0.7%	0.45	0.07	2.7[7]	None	BSV[9]
	Permanent: Vanguard I-T Bond	Perm	ETF	ETF	ETF	-2.6	-2.6%	-0.5%	-0.4%	0.4%	-2.7%	1.0%	1.26	0.07	6.2[7]	None	BIV[8]
	Permanent: Vanguard S-T Bond	Perm	ETF	ETF	ETF	0.7	0.0%	0.1%	0.3%	0.8%	-0.3%	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 November, not those shown on this report. The fund ranked third is the one that currently appears most likely to be replaced next. A telephone symbol (☎) next to a fund's name indicates that fund is a new recommendation. See the fund writeups in "MoneyTalk" for more information. **[2]** Fund Availability: NTF means the fund can be bought and sold free of transaction fees as long as you stay within the trading limitations imposed by 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 Nov2018:p167. **[8]** Those preferring a traditional mutual-fund option can buy VBILX. **[9]** Those preferring a traditional mutual-fund option can buy VBIRX. **[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.

SOUND MIND PORTFOLIOS

Upgrading: Easy as 1-2-3

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

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

WHY UPGRADE?

SMI offers two primary investing strategies for "basic" members. They are different in philosophy, the amount of attention they require, and the rate of return expected from each. Our preferred investing strategy is called Fund Upgrading, and is based on the idea that if you are willing to regularly monitor your mutual-fund holdings and replace laggards periodically, you can improve your returns. While Upgrading is relatively low-maintenance, it does require you to check your fund holdings each month and replace funds occasionally. If you don't wish to do this yourself, a professionally-managed version of Upgrading is available (visit bit.ly/smifx).

SMI also offers an investing strategy based on index funds called Just-the-Basics (JtB). JtB requires attention only once per year. The returns expected from JtB are lower over time than what we expect (and have received) from Upgrading. JtB makes the most sense for those in 401(k) plans that lack a sufficient number of quality fund options to make successful Upgrading within the plan possible. See the top section of the Basic Strategies page at left for the funds and percentage allocations we recommend for our Just-the-Basics indexing strategy.

WHERE TO OPEN YOUR ACCOUNT

Opening an account with a discount broker that offers a large selection of no-load funds greatly simplifies the Upgrading process. This allows you to quickly and easily buy/sell no-load mutual fund shares without having to open separate accounts at all the various fund organizations. There are several good brokerage choices available. We recommend reading our latest Broker Review (March2018: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 Value Line MidCap Focus, 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	Value Line MidCap Focus
Stock Cat. 3: Small/Value	16%	$8,000	Invesco S&P MidCap Low Vol
Stock Cat. 2: Large/Growth	16%	$8,000	iShares Edge MSCI Min Vol
Stock Cat. 1: Large/Value	16%	$8,000	Invesco S&P 500 Low Vol
"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).

STOCK UPGRADING — NEW FUND RECOMMENDATIONS

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

◆ **In the Small/Growth group, Kinetics Small Cap Opportunities (KSCOX, 2/2018) is being replaced.** This Kinetics fund performed better than its average peer when the market was rising earlier in the year, and was also above average during the big October decline. The problem? Subpar November returns. This is a direct result of the fund being so concentrated in a small number of holdings, including having more than 25% of its portfolio invested in a single holding, Texas Pacific Land Trust. That holding is down -26% so far in November, which has been enough to drag KSCOX below its category quartile. Through the first nine months we owned it (ending 10/31), it was leading its average small/growth peer by an +8.0% to -1.1% margin, but its November slide is dictating that we move on.

• **Value Line Mid Cap Focused (VLIFX) is being added.**[1] Value Line has served generations of investors through its *Value Line Investment Survey*, a monthly report that ranks individual stocks according to a rigorous process for both timeliness and safety. The Value Line rankings were to individual stocks what the Morningstar rankings would later become to many investors for mutual funds—considered to be something of a gold-standard in objective rankings—particularly in the pre-internet era when such information was hard to come by for individual investors.

This particular Value Line mutual fund was launched way back in 1950, the first of several funds launched by the firm over the years. It currently sits atop SMI's small/growth fund rankings and seems an especially good option at this particular market juncture. Over time, the fund has established a low-risk reputation, while still being able to deliver above-average returns. SMI's relative-risk score bears this out, with this Value Line fund's 1.04 suggesting the fund is barely more risky than the S&P 500 index. That's unusual for the small/growth risk category, which normally sports more aggressive fare like the other two currently recommended options, which have relative-risk scores of 1.88 and 1.64.

◆ **In the Small/Value group, iShares Core S&P Small-Cap (IJR, 8/2018) and Hodges Small Cap (HDPSX, 4/2018) are being replaced.** The iShares S&P Small-Cap ETF wasn't recommended for long. For the three months that IJR was recommended (ending 10/31), its overall performance of -9.1% wasn't far off from the -8.5% loss of its average small/value fund peer. But looking only at October when the correction was in full throttle, IJR lost -10.5% vs -8.9% for the average small/value fund. Index funds can't play defense when the market falls. That was evident in October, and ultimately led to IJR falling below the quartile cutoff this month.

Hodges started out strong when it was first recommended last April, but has been closer to a middle-of-the-pack performer in recent months. Eventually that led to the fund slipping out of the top quartile. It slightly outperformed its average small/value peer through the first seven months we owned it (thru 10/31) -1.5% vs. -2.9%.

• **Invesco S&P MidCap Low Volatility ETF (XMLV) is being added.**[1] This ETF is one of three being recommended this month that are essentially risk-managed versions of popular index funds. XMLV is similar to this month's large/value group recommendation, SPLV, in that they both take a popular S&P index, screen for the stocks in that index with the lowest volatility (as measured by standard deviation), and then weight the stocks so that those with lower volatility get higher representation in the ETF. In this case, XMLV is doing this with the S&P 400 index, which focuses on medium-sized companies (roughly the next 400 largest after the companies included in the S&P 500 index).

These ETFs offer us a few important benefits right now. First of all, their momentum scores make them highly ranked within their peer groups, or they wouldn't even be considered for purchase. But beyond that, they avoid any potential late-year distribution effects, which as this month's Level 2 column suggests on page 183, are already becoming an issue with many traditional mutual funds. These low-volatility ETFs also provide solid exposure to any returns their particular risk category may earn, but with a measure of downside protection should the market correction resume and head lower still. In other words, they seem like a great way to play a *little* defense while we're waiting to see if this market correction follows through to an extent where Upgrading 2.0's defensive protocols kick in with more significant defensive measures. Finally, given that these ETFs can be bought and sold for limited cost and without restriction, we know that short-term trading fees won't be a hindrance should the 2.0 defensive protocols call for Upgrading holdings to be shifted to cash in a month or two. In short, these ETFs seem perfectly suited to the current market.

• **The Merger Fund (MERFX) is being added.**[1] Merger is a unique bird. It invests primarily in the stocks of companies involved in mergers, takeovers, leveraged buyouts, spinoffs, and other reorganizations. What typically happens in these

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

cases is some (loose) variation of the following example:

Company A announces it will be buying company B in a deal intended to be complete four months from now. The transaction will be all stock, with shareholders of Company B receiving 7.5 shares of Company A stock for each share of Company B stock they currently own. Immediately when this news is announced, the share prices of both Company A and Company B are impacted as they start converging toward this 7.5 to 1 ratio. But depending on the news in the intervening four months (if one company releases results that are better/worse than expected, if the deal moves faster/slower than expected, if the deal looks like it could be called off, etc.), the price of each stock will vary. This creates arbitrage opportunities for investors (such as this fund) to buy and sell the stocks of both companies in an effort to squeeze out profits from any disparities between current prices and the prices at which the deal will be consummated.

If that sounds complex, it is. This is a highly specialized area, but one this fund has profitably navigated for decades. This fund has a radically different approach and risk profile than our other recommended funds, and as a result, is technically considered a "market-neutral" fund. Most market-neutral funds are designed so their performance doesn't depend on the market's direction. This fund wasn't designed with that in mind, but its behavior is similar enough to be included in that category. Bottom-line: if the market bounces back strongly, Merger won't be recommended for long. But if the market continues to drift sideways or lower, this should be a good portfolio diversifier.

◆ **In the Large/Growth group, Touchstone Sands Capital Select Growth (PTSGX, 7/2018) is being replaced.** This fund had one of the highest relative-risk scores among our currently recommended funds, so not surprisingly it was hit hard in the October correction. Its loss of -13.9% was significantly larger than the -8.9% October loss of the average large/growth fund, and ultimately set the fund up to fall out of the top quartile in November.

• **iShares Edge MSCI Minimum Volatility USA ETF (USMV) is being added.**[1] Like XMLV (recommended above in the small/value group) and SPLV (recommended below in large/value), this ETF is assembled with the specific goal of minimizing volatility. But the approach is different from those other two ETFs in a couple of key respects. First, the index from which the individual stocks are being selected is different. While SPLV (below) uses the S&P 500, USMV uses an index that includes both large and medium-sized stocks. But the biggest difference is that while XMLV and SPLV simply target the least-volatile stocks within their respective indexes, this ETF adds an algorithm-driven process that looks for correlations between the stocks in the portfolio. In other words, this ETF considers how the portfolio holdings interact with each other, which allows it to further reduce volatility and optimize the portfolio.

Morningstar reports some interesting statistics regarding USMV that can help us understand what to expect from it. They note that between November 2011-May 2018, USMV "exhibited 17% less volatility and about a third less market sensitivity than its parent index." The "cost" for this volatility protection was that it lagged by 1.1% in annualized returns, though of course, this was during a very bullish market period. As we would expect, the picture looks considerably different during market downturns, as evidenced by USMV holding its recent 3-month loss to a mild -1.6%, whereas the S&P 500 index's total return was -7.0%. That type of "winning by not losing" (to borrow a phrase from our DAA strategy) pays long-term dividends, as USMV now leads the S&P 500's total return over the most recent five years by an +11.6% to +10.5% annualized return margin.

◆ **In the Large/Value group, Oppenheimer S&P Ultra Dividend (RDIV, 7/2018)** is being replaced. RDIV held up better than most of the large/value group during the worst of the correction in October, but has lagged by a surprising margin in November, leading it to fall below the quartile.

It's worth noting that while the move from RDIV to the new ETF being recommended this month (SPLV, below) is a relatively neutral move in terms of expected risk, there is a much more significant step that particularly risk-averse readers could take. That would be to replace Miller Opportunity with the new recommended ETF below instead. Miller is significantly more volatile than either RDIV or SPLV. While Miller is being held in the official portfolio this month, that would be an easy way to further reduce risk for those readers particularly concerned about further losses.

• **Invesco S&P 500 Low Volatility ETF (SPLV) is being added.**[1] Similar to XMLV (being recommended in small/value this month), SPLV takes a simple approach to reducing the volatility of the S&P 500 index. Selecting roughly 100 of the 500 stocks in the index that have exhibited the lowest daily volatility over the past year, it weights them to favor those with the least volatility. This means the portfolio doesn't look all that much like the S&P 500 when the process is complete. But it does accomplish the objective of producing large/value type returns with an emphasis on reducing risk.

Given that both SPLV and USMV (recommended this month in large/growth) focus on the same large-stock part of the market and have similar volatility-reduction objectives, it's interesting to compare their historical performance and tendencies. As we might expect from the way the two ETFs are assembled, simply screening for the lowest-volatility stocks and sticking them in a volatility-weighted basket, as SPLV does, produces a more value-oriented, defensive portfolio than USMV, which adds more optimization to its process. As a result, USMV has earned a more "large/growth"–type +11.8% annualized return over the last three *years*, while SPLV has earned a more "large/value"–type return of +10.5%. But during the recent market correction, the tables have been turned, with the more conservative SPLV outperforming over the past three *months* by a -0.5% to -1.6% margin. ◆

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

COVER ARTICLE / CONTINUED FROM PAGE 181:

YOUR 10 MOST IMPORTANT FINANCIAL MOVES FOR 2019

with less risk.[41] Investment volatility can inflict wear-and-tear on your emotions. Combining SMI strategies to minimize overall volatility can help you stick with your long-term plan.

❑ **Understand the implications of a "flattening yield curve."**[42] As the Federal Reserve has raised interest rates, the gap between short-term rates (set by the Fed) and long-term rates (set by market forces) has narrowed. Learn why that could be an important indicator for both the economy and the markets.

❑ **Learn how "fund distributions" affect share prices.**[43] A sudden one-day drop in a fund's share price may not reflect a loss! It could be that fund is simply distributing dividends, interest, or capital gains to its investors.

❑ **Review SMI's approach to investing in late-cycle bull markets.**[44] Warning signs suggest the long-running bull market may be running out of steam. But that doesn't mean a bear market is imminent. High returns can continue long after warning indicators start flashing—returns you can miss if you try to predict the timing of the bear market.

❑ **Exercise caution if using "after-hours trading."**[45] With some brokers, you can now trade stocks and exchange-traded funds anytime, not just during normal market hours. But liquidity tends to be lower and bid/ask spreads wider than during normal hours.

❑ **Take advantage of personalized financial planning with MoneyGuidePro®.**[46] MoneyGuidePro® is considered by many advisors to be the best financial-planning software on the market, and now it's available to SMI Premium-level members. MoneyGuidePro® can help you stick to your investment strategy, make smarter decisions, and relieve anxiety about the future. (If you started with MoneyGuidePro® but didn't follow through, you may find it helpful to reactivate the step-by-step "labs" videos[47] and start again.)

Looking toward retirement

❑ **Start planning for the transition to post-paycheck living.**[48] Work on answering these questions: Have you decided on a retirement age? Can you be debt-free by then? Have you estimated your retirement cost-of-living? Do you want to sell your house and move when you retire or stay where you are?

❑ **Use MoneyGuidePro® to project how long your retirement nest egg will last.**[49] MoneyGuidePro® is able to test 1,000 scenarios at a time. You can learn how even small changes in your projected spending levels, drawdown rates, and Social Security claiming strategy can increase the likelihood that your money will last until a ripe old age. ❑ Also discover how MoneyGuidePro® can help you evaluate specific retirement threats.[50]

❑ **Study how to use a "bucket strategy" to manage cash flow in retirement.**[51] It's wise to insulate the money you need month-by-month to live on from the ups and downs of the market. Creating a "cash bucket" (i.e., two or three years of living expenses set aside in a savings account, CDs, or a money-market fund) can provide peace of mind during times of market volatility.

❑ **Avoid making an ill-informed decision about claiming Social Security benefits.**[52] The Social Security Administration can't be relied on to explain the best approach. Resources are available that can help you conduct your own careful research.

❑ **Learn how to convert a "traditional" retirement account to a Roth IRA.**[53] And be sure you understand the upside and downside of such a conversion.

❑ **Understand recent rule changes for reverse mortgages.**[54] New rules affect reverse mortgage contracts entered into as of October 2017 or later. They make reverse mortgages less attractive for some borrowers.

❑ **Learn about "managed payout funds"—mutual funds that pay like an annuity.**[55] These funds are among several options for establishing a steady income stream in retirement. We don't necessarily recommend them, but it's a good idea to understand what they are and how they work.

❑ **Develop a plan to cover the cost of long-term care.**[56] Long-term care, which is not necessarily synonymous with nursing-home care, could prove to be one of your biggest expenses in retirement. Assess the risk and plan accordingly.

❑ **Consider funeral and burial pre-planning.**[57] Making "pre-need" decisions—i.e., well in advance of death—is better financially as well as emotionally. Planning ahead allows you to compare costs and make well-considered decisions.

Engaging with other important financial matters

❑ **Teach your children (and perhaps other young people you know!) to be wise money managers.**[58] The financial habits they establish now will be magnified—for better or worse—as they go through life.

❑ **Leave a financial legacy: Make a one-time investment on behalf of an infant child or a grandchild.**[59] Just $3,000, invested when a child is born, could grow (under the right conditions) to more than $4 million by the time the child reaches age 65—thus providing a solid retirement income. It might even grow to tens of millions more (!) during his or her retirement years.

❑ **Help a high-school age child or grandchild fund a Roth IRA and then teach them how to manage that investment using SMI's high-risk/high-reward Sector Rotation strategy.**[60] A one-time investment could grow to many millions over the course of a lifetime.

❑ **If you're going to buy a house, learn the pros and cons of both "conventional" and FHA mortgages.**[61] The type of loan you choose will make a difference in the down payment required, closing costs, and (possibly) even whether you qualify for the loan.

[41]Apr:Cover [42]Jun:87 [43]Dec:183 [44]Sep:135 [45]Mar:39 [46]Feb2017:Cover [47]Feb:p25 [48]Nov:p169 [49]Jun:Cover [50]Dec:185 [51]Mar:p41
[52]May:p73 [53]Aug:p121 [54]Jun:p89 [55]Sep:p137 [56]May:Cover [57]Jul:p105 [58]Jun:p82 [59]Jan:p9 [60]Oct:p152 [61]Aug:p118

❑ **If you think you'll need to replace a car soon, research buying a used car that has a warranty.**[62] In comparison with buying a new car, buying "pre-owned" can save money up front and on the ongoing cost of insurance. Today, many late-model used vehicles come with warranties, providing peace of mind (for a certain period of time anyway) about future repair bills.

❑ **Take action to cut your prescription costs.**[63] Finding lower prices on prescription drugs has become much easier with the advent of discount cards and cost-comparison websites. You also can save by buying generic substitutes (when available) rather than name brands.

❑ **If you have medical debt, whether from a one-time health-related issue or an ongoing condition, take action to reduce it.**[64] Sometimes you can reduce your debt or get more favorable repayment terms simply by asking or by proposing a payment plan. Also consider hiring a patient advocate who can negotiate on your behalf.

❑ **Educate yourself about flood insurance.**[65] Standard homeowners policies don't cover flood damage, so a flood policy might be worth considering. Although flood risk is greatest near coasts, rivers, and streams, flooding can occur almost anywhere.

❑ **If you're the owner of a small business, learn how you can provide a retirement plan for your employees.**[66] Several types of plans are available under federal law. Find out which are likely to be the best fit for your business.

Walking in the way

Being a faithful servant of Jesus Christ is the work of a lifetime. It is, as Eugene Peterson said, "a long obedience in the same direction." And you will face resistance.

"Not a day goes by," he wrote, "[that we don't] deal with that ancient triple threat that Christians in the Middle Ages summarized under the headings of the world, the flesh, and the devil: the world—the society of proud and arrogant mankind that defies and tries to eliminate God's rule and presence in history; the flesh—the corruption that sin has introduced into our very appetites and instincts; and the devil—the malignant will that tempts us and seduces us away from the will of God…. There is a fight of faith to be waged. But the way of faith itself is in tune with what God has done and is doing. The road we travel is the well-traveled road of discipleship. It is not a way of boredom or despair or confusion. It is...a way of blessing."

May you walk in the well-trod "way of faith" in 2019 and beyond, holding fast to the promise that "God has not given us the spirit of fear, but of power, and of love, and of a sound mind" (2 Timothy 1:7). ◆

[62]May:p70 [63]Apr:p57 [64]Oct:p153 [65]Nov:p166 [66]Jul:104

LEVEL 3 / CONTINUED FROM PAGE 184:

PARKING YOUR BROKERAGE-ACCOUNT CASH IN A MONEY-MARKET FUND

through without a problem. The TDA site also notes that PCOXX has a 180-day holding period to avoid short-term redemption fees. That is incorrect. You can trade out of the fund at any time without paying a fee.

A second option—one likely to appeal to SMI investors grandfathered into the Omnium/TDA program[1]—is the already mentioned Vanguard Prime Fund (VMMXX), which carries an expense ratio of just 0.16%. Because Omnium/TDA members avoid TDA's $49.99 transaction fee, they can buy and sell VMMXX without incurring any transaction costs. More good news: Despite what the TDA website says, VMMXX can be purchased without an initial investment of $3,000 (we invested $200 and the order went through with no difficulty) and there is no holding period.

Unfortunately, investors using the E-Trade platform face more-limited options. Although E-Trade offers several no-transaction-fee MMFs, most are aimed at institutional clients and have prohibitively high minimums—especially among Prime funds. Two *Government*-fund options are DWS US Treasury Money Fund (IUSXX) and T. Rowe Price Government Money Fund (PRRXX). ◆

LEVEL 4 / CONTINUED FROM PAGE 185:

EASING YOUR FINANCIAL FEARS WITH MONEYGUIDEPRO®

depends largely on whether your family has a history of dementia, how high your net worth is, and your comfort level with tapping some of your net worth should an expensive long-term care need arise. At a minimum, consider how well your current home would allow you to "age in place" and whether you should move closer to your adult children.

• **Cuts to pension.** This risk only applies to those who will receive a defined-benefit pension (which would be entered in the *About You* section of the software).

Backup plans

One of the built-in solutions to all of these risks has to do with the earlier categorization of your goals as *needs, wants,* or *wishes*. When you run various scenarios in the *What Are You Afraid Of?* section, you'll see that the confidence level of achieving *all* of your goals (*needs, wants*, and *wishes*) will fall before the confidence level of achieving just your *needs and wants*. And the confidence level of achieving your *needs* and *wants* will fall before the confidence level of achieving just those goals you identified as *needs*. In other words, even if a worst-case scenario materializes, you still may be able to achieve your most essential goals.

Another solution may be found in your planned retirement spending. You probably have some latitude over the discretionary categories of your retirement budget, such as how much you plan to spend on clothing, entertainment, or travel.

Clearly, retirement planning isn't a perfect science. However, those who go through the process, taking into consideration various worst-case scenarios, will be better prepared for the future than those who don't.

As Scripture says, "A prudent person foresees danger and takes precautions. The simpleton goes blindly on and suffers the consequences" (Proverbs 22:3). ◆

[1]Omnium/TDA is a special-pricing program that TD Ameritrade has closed to new investors.

PERIODICALS POSTAGE
PAID AT LOUISVILLE, KENTUCKY

Dated Investment Material
Please Do Not Delay!

PERFORMANCE DATA

SOUND MIND INVESTING MODEL PORTFOLIOS • DATA THROUGH OCTOBER 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]	2.5%	-7.3%	-3.9%	6.7%	11.4%	11.0%	13.3%	9.0%
Just-the-Basics[2]	-1.3%	-8.5%	-6.4%	2.3%	9.6%	8.4%	12.4%	8.7%
Stock Upgrading[3]	-0.3%	-9.4%	-6.0%	1.8%	8.6%	7.6%	11.7%	8.9%
U.S. Bond Market[4]	-2.4%	-0.7%	-0.8%	-2.1%	0.9%	1.7%	3.8%	3.6%
Bond Upgrading[5]	-2.2%	-0.8%	-0.9%	-2.3%	0.9%	2.0%	6.0%	5.7%

PREMIUM STRATEGIES

	Year to Date	1 Month	3 Months	12 Months	3 Yrs Annual	5 Yrs Annual	10 Yrs Annual	15 Yrs Annual
DAA[6]	-1.3%	-3.4%	-2.1%	1.6%	4.2%	4.0%	10.1%	10.5%
Sector Rotation	-4.4%	-13.0%	-12.3%	-5.2%	20.2%	20.5%	20.3%	15.9%
50-40-10 Blend[7]	-1.2%	-6.9%	-4.7%	0.9%	7.7%	7.3%	12.2%	10.8%

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] 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 10/31/2018	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	0.00%	-10.93%	-7.47%	2.36%	7.76%	6.12%	10.39%
Wilshire 5000	2.47%	-7.29%	-3.89%	6.72%	11.45%	10.98%	13.34%
S&P 500	3.01%	-6.84%	-3.25%	7.35%	11.52%	11.34%	13.24%

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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