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Financial Wisdom for Living Well

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Called to Be Free

I'm reaching back 30 years for this article from one of my favorite Christian writers. Bob Benson developed a wide following in the 1980s as a retreat and conference speaker and teacher before going home to be with the Lord in 1986. He had a great way of illustrating his points with homey tales and a wonderful sense of humor. I believe that comes through in this excerpt where he reflects on the freedom and contentment we can find in a life of simplicity. —AP

by Bob Benson

I was brought up in a denomination that spent a great part of its energy and efforts in defining and avoiding worldliness.It has always seemed to me that it was easier for some of those old-time preachers to identify worldliness back in my early days. Most often it was thought of as something the women wore—or didn't wear. Fortunately, as I recall it, women's clothing was not an issue that our pastor dealt with very often. He generally stated his philosophy on this matter by indicating he thought if a barn needed painting it should be painted.

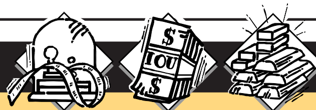
It has been suggested that the key verse of the Sermon on the Mount is "Do not be like them" (Matthew. 6:8). This does indeed seem to be the underlying theme. There is hardly a paragraph in the Sermon in which the life of the Christian is not shown to be in contrast. Sometimes it is with the Gentiles or the heathen, and sometimes with the Jews or the religious people. The Christian life is described as an on-going choice of one way as over against another. There are two roads, two gates, two masters, two treasures, two ways of seeing, two preoccupations in life, and finally, two ways to respond to his words.

The Sermon is a system of Christian values, ethical standards, and religious practices that are to find expression in all of one's life and lifestyle. They are totally at variance with the life of those who are not attempting to base their lives on the teachings of Christ. And the thought expressed in the Sermon is the essential theme of the Bible.

In the Old Testament, God set out to call a people to himself. And the words of Jesus, "Do not be like them," are giving the same call to difference as the words God used when He told the people of Israel, "I am the Lord your God. You must not do as they do in Egypt, where you used to live, and you must not do as they do in the land of Canaan, where I am bringing you. Do not follow their practices" (Lev. 18:1-3).

The question which always must be grappled with is what the call to "difference" means. What was Jesus saying when He said that we were not to be like them? And what was God trying to get the Israelites not to do so they would not be like those in Egypt or in Canaan? It is always the question that those who would follow Christ must be asking among themselves. And the answer must be somehow shaped and formulated to resist the peculiar temptations and pressures of a changing society.

I think most of us would acknowledge that we are thoroughly conditioned by the society in which we live. Our hopes, songs, actions, words and thoughts are (continued on page 35)

IN THIS  ISSUE

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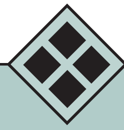

EDITORIAL

The Indispensable Virtue of Persistence

"Nothing in the world can take the place of persistence. Talent will not; nothing is more common than unsuccessful men with talent. Genius will not; unrewarded genius is almost a proverb. Education will not; the world is full of educated derelicts. Persistence and determination alone are omnipotent." - Calvin Coolidge

During SMI's first 23 years of existence, our approach to bear markets was simple: hold on tight and ride them out. Most of the bear markets between 1960-2000 had been either *shallow* enough or *short* enough that trying to protect against them was generally counterproductive (see table on page 39).

Our thinking began to shift following the 2000-2002 bear market, the longest and deepest bear (to that point) in 30 years. Despite SMI's Upgrading strategy holding up well during that bear market, we heard more than a few stories of members who sold near the bottom and then stayed out of the market for years after, missing the rebound.

After riding out another brutal bear market from 2007-2009, it became clear that SMI readers needed more than statistics and encouragement to successfully navigate future bears. We could explain that it took only *five years* for stocks to recover all of their 2007-2009 losses. But it was clear the emotional task of holding on through those types of declines was too much for many SMI members. Too many had sold at some point during these bears and, lacking a re-entry strategy, missed the recoveries. Clearly, the buy-and-hold message wasn't working through such severe downturns.

The reality is buy-and-hold *does* work as a bear-market strategy—for those who actually do it! But the research has long confirmed SMI's experience that many "buy-and-hold" investors *don't* hold through bear markets. Selling *after* stock prices are already deeply depressed, then missing out on a significant portion of the subsequent bull market, is why the annual Dalbar survey has shown for decades that individual investors consistently lag the market's returns by a wide margin.

To combat this tendency, we've introduced two strategies in the past six years that are designed to help avoid a significant portion of future bear-market losses. But as the past few months have demonstrated, this protection comes with its own emotional price tag. These systems introduce the potential for "whipsaws"—signals that turn out to be short-lived and are quickly reversed. That's reflected this month in Upgrading 2.0 as we remove the partial defensive measures put in place over the past few months (see page 44).

Whipsaws are always frustrating, even to old hands that know they're unavoidable in any trend-following approach. For a strategy like Upgrading 2.0 to protect us, it has to act reasonably quickly. But that responsiveness also creates the potential for occasional whipsaws.

This means persistence is required to use strategies such as Upgrading 2.0 and Dynamic Asset Allocation successfully. The research behind these strategies is clear: there will be occasional whipsaws like we've just experienced. But investors who followed the strategy signals in the past would have earned market-beating gains while experiencing much smaller losses during bear markets. Trend reversals such as we've recently experienced aren't anything new. They are an irritating part of the process, but these strategies would have worked historically in spite of them.

What *doesn't* work is following a strategy until its negative features show up, then giving up on it and switching to a different strategy. *Every strategy is vulnerable to something.* It takes persistence to stick with a strategy through its weak periods so it ultimately can succeed for you.

The stock market may be rallying again, but make no mistake, risk remains high. Valuations remain elevated. The U.S. economy is three months away from matching the record for the longest economic expansion ever. The current bull market turns 10 years old this month.

In other words, if the U.S. *doesn't* slip into recession this year, it will be the first time an expansion has ever lasted this long. The last two recessions hit when stock prices were elevated and caused declines of -50%. Is there any reason to expect a better outcome this time?

Unfortunately, no one knows which proverbial "inning" a bull market is in. There could be "two outs in the bottom of the ninth" already. Or we may have just hit the seventh-inning stretch. We *do* know that Upgrading 2.0 and DAA are sensitive enough to protect us, yet flexible enough to back off and say "not yet" when the market's trend suddenly changes direction, as it did recently.

So exercise persistence in sticking with your plan, even when it's frustrating. We believe you'll be glad you did.

MARK BILLER
EXECUTIVE EDITOR

NECESSARY CAUTIONS
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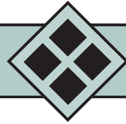


Called to Be Free

(continued from front page)

constantly bombarded by our culture. One morning last spring I was going across a campground to speak in a retreat service. I think I like morning services best of all and, as well as I knew, my mind was ready and my heart was full. In fact, my heart was so full I was humming a song to myself as I walked along in the bright morning sunshine. You can imagine my chagrin when it dawned on me what this prayed-up, ready-to-preach-on-Christian-devotion speaker was humming—"Welcome to Millertime." Well, it is a catchy tune and I guess that's why they wrote it as they did. For the moment I was caught.

Maybe the reason it seemed easier for the old-timers to define worldliness was that it was simply a question of not being like "them," or in abstaining from "their" practices. But with the advent of mass media, no longer is it so easily done. It reaches beyond such matters as the name on a shirt or the manner of accompaniment for the singing of the congregation. Even deeper, it seems to me that worldliness is the spirit of our day. It is our being totally at home here. It is our inability to care. It is a lack of shame or indignation. Things would be so much simpler if it were only a matter of wearing black socks. But Jesus reminded us that the exterior of our lives is only the expression of the spirit within us.

Job makes an interesting commentary on his day when he writes that the "men pasture stolen flocks, they drive away the orphan's donkey and they take the widow's ox in pledge" (Job 24:2-3). Since each of these acts was a specific deed, they could be categorized and avoided. And they could be made right. But another thing was happening that must have caused even greater confusion and difficulty. Job notes that "men move boundary stones" (Job 24:2). And with the markers, or the dividers, no longer in the right place it became impossible to decide where the boundaries should be drawn. There was no reference point. Maybe that describes our present day. The lines that once divided us from the ones whom we were not supposed to be like do not seem to be very plain any more.

We are all confronted by the differences between us and the life of God. Often they are not so much inclinations to perform some evil deed as they are our conformance to the spirit of the day. It is this spirit that forms the foundation of our inability to live the life of God, or rather, our failure to let the life of God possess us.

I want to address two telling characteristics of the spirit of our day which lead us away from God. Outwardly, they can be seen in our lives as hurry and clutter. Inwardly, they reside as the spirits of impatience and materialism. They are opposites to a spirit which is epitomized by trust and simplicity.

Hurry, impatience, and trust

Waiting is not easy for us nine-to-fivers. Last fall I was up in the mountains of New Mexico for a week. Early in the week I addressed a group of pastors. When they departed to go back to their respective labors, I stayed on to meet with a group of their parishioners who came in a day and a half later. My life that week took on a very relaxed, orderly, quiet posture. There was time to read and to write, to walk and to pray. I went on walks in the woods and to concerts played by mountain streams splashing across grassy meadows. I saw art shows put on by wild flowers in glorious whites and pinks and purples. There were no telephones, televisions, or radios. Silence and solitude became welcome companions.

Having secured a little bit of serenity with even so tenuous a grasp, I found myself wondering why the rest of these retreaters drove their cars back and forth between the lodge and the dining hall—and why they rushed off to play golf or tennis or go shopping back in town. It seemed to me, as the self-proclaimed guru of the week, that they attacked every hour of the retreat as if their coming could only be justified by thoroughly filling every moment. They gave trophies for golf and horseshoes and volleyball and for the skits and the games. But there were no prizes or premiums for naps or walks in the woods or for stillness. From my new-found place of quietness, I pondered all their ant-like scurrying.

Then I remembered how I came to this place in the mountains. I had spent three exhausting and frantic days prior to arriving here. I had spoken three times the first day, driven almost all the second, and flown across the country on the third to be here to talk to these people about slowing down the pace of their lives. On the last Sunday, I was planning to close the sermon and a car door at about the same time and hurry to the airport some three hours away to catch the first plane I could to get home.

I am beginning to get a sneaking suspicion that some things will only come to us by waiting—that some things will never happen for us because we are in too big a hurry to let the time go by in which they can come true. We are not very patient people.

I often talk with people who firmly believe that God has some rich and deep purpose for their lives. It is evident they are sincere in their willingness and desire to find and fulfill that plan. But they experience difficulty because they cannot seem to trust the God who has ordained such purposes to also bring it about in his good and providential timing. They can't believe that when that something finally does occur, it will be with such obvious rightness that they will almost blush to ever have doubted it would be. They will ponder why it was so difficult to continue the present path with dedication and joy until some new word came to them.

To be able to do so we must become aware that there is some other way of accounting for time. We must begin to hear, however faintly at first, the rhythm and movement of the One who set it all in motion when the world began.

Clutter, stuff, and simplicity

Clutter seems a very descriptive word to me just now. My son Tom has recently gone into the lawnmowing business and the garage had to be rearranged so that there was a place for his equipment to be stored at night. This happened just as Leigh was moving back home from her apartment at college—and she needed part of the garage to store her furniture until she left again for graduate school. All of this was crammed into a garage that was already filled with a workbench, a freezer, the remnants of Peg's antique business, the

garden tractor and equipment, and boxes and boxes and boxes of books. As Tom and I restacked and rearranged, we concluded that we have certainly had plenty of stuff and that clutter was a good word to describe us.

As soon as I finish writing for the day I am headed to the garage to build some more shelves. My experience is that they will not be empty for long. The problem seems that everything which used to be an option is now standard equipment—that our needs are always multiplying.

The late Rabbi Abraham Joshua Heschel, who was an authorative voice in the Jewish community and in the religious life of America, wrote, "The problem of living does not arise with the question of how to take care of the rascals or with the realization of how we blunder in dealing with other people. It begins in relation to our own selves, in the handling of our physiological and emotional functions. What is first at stake in the life of man is not the fact of sin, of the wrong and the corrupt, but the natural acts, the needs. Our possessions prove no less a problem than our passions. The primary task, therefore, is not how to deal with the evil, but how to deal with the neutral, how to deal with our needs. ... Every human being is a cluster of needs. Yet these needs are not the same in all men nor unalterable in any one man. There is a fixed minimum of needs for all men, but no fixed maximum for any man. Unlike animals, man is the playground for the multiplication of needs and interests, some of which are indigenous to his nature, while others are induced by advertisement, fashion, envy, or come about as miscarriages of authentic needs."

We are all familiar with this problem of escalating needs. I think that life was probably intended to be far simpler than we have allowed it to become. In the Sermon on the Mount, Jesus acknowledges that we have needs. But He also seems to be saying that the whole process is far less complicated than we imagine. Physically, He indicates that life consists of something to eat, something to wear, and something over our heads to shelter us from the elements. Psychologically, we are rather simple as well. We need someone to love, something to do, and something to look forward to. Most of us have ready access to food, clothing, shelter, love, purpose and hope. So how does our life get so cluttered, and why do we spend so much of our time worrying and so many of our weekends building new shelves in the garage?

Up the street from our house is a church with a billboard out front usually proclaiming a negative thought for the day. But the other morning, the sign cheerfully proffered some good advice, "Peace is being content with what you have."

Now I think that I am reasonably happy with what I have. At least I do not have some wish list on the back burner of my mind for a bunch of new stuff that I would like to get. So, I asked myself as I waited for the traffic signal to change, why do I seem to be missing what the sign is promising? Where is all the peace? Does it have to do with my fear of losing what I do have—or is it my worry about my ability to pay for it all? Or am I wondering if it will all last as long as I need it, or at least until the final payment? In a way, I wished the sign would have just said something negative I could have ignored, instead of reminding me of the struggle in which I always seem to find myself concerning my needs.

The struggle is real to us all. Every so often, Peg will say to me, "I've got to go to the grocery store today. There is nothing in the house to eat." Or maybe one of the boys will say it to Peg, "Mom, when are you going to the store? I'm starving to death." Sometimes I ask her to wait until later in the afternoon so I can go with her. I like to go to the store with her, so we make the big trip down to Green Hills to her favorite grocery store. I watch the people and push the buggy around behind her, backtracking occasionally for an item or two that she missed as we went along. Depending on my appetite at the time, I add an unlisted item here and there to the buggy. My observation is that it probably is better to go to the grocery when you have just eaten. When you are hungry everything looks good. Leaving Peg to check out and pay, I bring the car around to load up the five or six bags we invariably have.

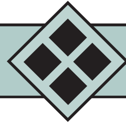
When we get home, I like to help put the groceries away. I guess this is a hold-over from my supermarket, shelf-stocking night job during seminary days—or from playing store when I was a little boy. So I like to restack the soup cans and add little "grocery man" touches here and there.

The strange thing about all this is that when we get back to our house in which there was "nothing to eat," there isn't much room for the goods from our latest shopping spree. The cabinets are full, the pantry is crowded, the refrigerator is crammed, and the freezer is bulging—all overflowing with "nothing to eat." It would be funny if it did not seem to be saying something deeper about us that is probably more tragic than it is comical.

And what is true about the pantry I have found is true also about my closet. While I was in the publishing business, I didn't spend a whole lot of time budgeting the family expenditures. Like most people, I just hoped the next raise would bring us back into line. When I returned to writing and speaking it occurred to Peg and me that there was not going to be anybody to give me a raise next year—and maybe a budget would not be so bad after all. So we sat down and went through a couple of years' worth of canceled checks to see what we had done before. Going through old checks is a revealing process, to say the least. (Humiliating is another word that comes to mind.) But in due time, we came to grips with our past and made resolutions and predictions for the future.

Thus it was that I found myself with a clothing budget. It was not a particularly exorbitant amount, but rather what I deemed adequate in assessing my personal needs. And the truth is that I always spend my budget, plus a little more, but I don't ever buy anything that I truly need.

But on the whole I do not buy anything that I need because I already have shirts, shoes, pants, suits, coats, jackets, belts, swimming suits, underwear, handkerchiefs, ties, socks (even if Peggy does have to find them), and everything else I could possibly use both for modesty and comfort. But still I spend the budget. I buy some clothes because the lapels are wider, or narrower, because there was a new color this year, because I am tired of my old jacket, because I saw a new one I liked better—it's always something. But hardly ever because of need.



I hope that it is not a virtue to continue wearing a doubleknit leisure suit just because you cannot seem to wear a hole in it large enough to merit discarding it. Still, that does not seem to be quite the acceptable way to live if we let the research and development and the advertising divisions of American business define the perimeters of our need for us—especially since they make their living creating needs for the rest of us. Even now, somebody somewhere is designing a new model, something that will run faster, shred it smaller, wash it cleaner, play it more faithfully, do it in cold water, have natural shoulders, or something else that will call for trading our old one in on it.

I don't think I can tell you what your needs are. I am having enough difficulty in determining my own. But I do think it is fair to say that neither one of us will have much success in "not being like them" if we let society continually escalate our needs, real or imagined. Somehow we must find some new priority or some new stick by which to measure our lives.

Paul tells us in Galatians that the answer is to "live in the Spirit." The essence of the matter of worldliness, of "being like them," finds its meaning and its dangers in our spirits. It is true that there are wrong deeds and acts. But they are only carried out in our lives because they have taken root in our desires.

A gracious invitation

I particularly like Paul's choice of words here. Whether the accusation is true or not, some people have described the message of the church as being a long list of things that people could not do and places they should not go. The words that were used to picture the church were legalistic, narrow, and strict. Paul does not say that we are called to be deprived. Rather, he says that we are called to be free. And when you read the catalogue of evil deeds, which are characteristic of life in the flesh (Gal. 5:19–21) and contrast them with the listing of the lovely and desirable fruits of the Spirit (Gal. 5:22), the wisdom of Paul's use of the word "freedom" is magnified.

Paul is echoing the theme of Jesus, ". . . seek first His kingdom and His righteousness and all these things will be given to you as well" (Matt. 6:33). The calling is to a trust in the Father and simplicity of life that does make us free. And I hear those words coming to me as a gracious invitation.

Here is the way I heard them recently. I was invited out to a college to speak the other day—you always want to do your best at a college. They are such reservoirs of knowledge and erudition—at least it seems they certainly should be when one considers how much learning the freshmen bring with them and how little the seniors actually take away.

There was also the added disadvantage of being in my own hometown. Five hundred miles is about the distance at which I begin to change into a downright expert on any number of important topics and subjects. So I had studied hard—and prayed earnestly—for seriously, it is a deep challenge to speak to people that age. To try to add some direction to them from out here where I am these thirty-odd years from commencement. And to try to do so in a way that will not tarnish the brightness of their optimism. It is not a task that I take lightly.

I put on my best three-piece navy pinstriped suit—thinking maybe I would at least look like "a wise man from the east." And I went out to chapel and spoke. They were courteous and they listened attentively to me. Afterward I was down talking to some students. I wasn't mobbed or anything like that—my safety was never endangered. When someone looked down at my suit and said, "Well look at that."

And I looked down to see what that was—only to see that my vest was buttoned wrong. All the time I had been standing in front of those students not to mention the faculty and the administration thinking I was looking reasonably important. And all the time they must have been sitting there thinking where did they get this guy who doesn't even know how to button his clothes? But since it happened, let me try to salvage a bit of my wounded pride and honor by philosophizing about it for a moment or two.

It is not hard to button your vest wrong, you know—all you have to do is put the second button in the top hole. Or else slip the second hole over the top button. From then on it is as easy as falling off a log. Because the rest will follow along slick as a whistle. All you have to do is start wrong—ending wrong will take care of itself. And do you know how I hear the words of Christ coming to me these days? Very simply. I guess they would have to be for a fifty-four-year-old who hasn't passed buttoning yet.

But I hear Him saying to me there is just one way to button your vest right. There is just one place to begin your life. There will always be a button left over or an extra hole when you start wrong. But if you begin right, if you seek first the kingdom and His righteousness, the Father and I will guarantee that the rest will find their rightful places.

If I could have told them anything that morning—I mean in a way that it really stayed with them—I guess it would have been about the place to start. I don't know if they heard my words that morning, I just hope they heard my vest.

I think at this juncture in my life I am becoming more and more aware that I am not smart enough to make all the decisions I must make. Neither am I strong enough to do all the things I should be doing. I'm not nearly wise enough to properly choose the path through the myriad ways that life can go wrong. So it comes as deep consolation and comfort to me to know that if I will begin right, if I will live in the Spirit, if I will seek to be like Him, He will see to the endings.

What a calling it is! A calling to be finished and done with impurity, greed, hatred, jealousy, selfish ambition, and envy—to name a few of the things Paul lists as marks of being "like them." His call is to love, joy, peace, patience, kindness, goodness, faithfulness, gentleness, and self-control.

Have you ever felt you should be true? Have you ever been impressed to be faithful? Have you known you should be honest? Have you ever wanted to know joy? Have you ever desired goodness, or wanted to live in peace? Have you ever wished that you were loving, and patient, and kind?

Then you have heard His voice. From deep within, He was calling you to be free. ◆

From He Speaks Softly, Learning to Hear God's Voice by Bob Benson. Copyright 1985 by Bob Benson. This book is out of print, but can be purchased used through Amazon.com. For more from Bob Benson, I can heartily recommend See You at the House and The Journey Home: A Walk with Bob Benson, both of which occupy an honored place in the Pryor family library.

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

BULLETSHARES: GOOD NEWS FOR SAVERS AND BOND INVESTORS

Savers and investors have long had two options for the bond portion of their portfolio. They could buy a portfolio of individual bonds, or they could buy one or more bond mutual funds. But recently a third option has become available that blends some of the best aspects of each into a single, easy-to-use ETF.

To better understand this new option, let's briefly review the pros and cons of investing in individual bonds vs. investing in bond mutual funds.

• **Individual bonds** offer a high degree of certainty as to what future returns will be. Buying and holding an individual bond *until it matures* locks an investor into a known return. For example, unless Company X defaults, its December 2024 bond yielding 5% is going to pay exactly 5% each year and return the face value of the bond at the end of 2024. Importantly, it will do this *regardless of whether interest rates rise or fall* during this time. Holding until maturity eliminates the interest-rate risk by guaranteeing the full return of the principal borrowed.

However, building a portfolio of individual bonds isn't easy. SMI has written articles on how to do this, but it's a challenging process for most individuals to attempt on their own. Not only that, but because most bonds trade in large dollar amounts, it takes quite a large sum of money to adequately diversify a portfolio of individual bonds—even if you're otherwise willing to take on the task of building and maintaining such a portfolio.

• **Bond funds** are popular precisely because they solve these problems. A bond fund offers immediate and easy diversification. And by combining a few different bond funds, it's easy to quickly assemble a bond portfolio that covers as much of the bond universe as you want to. Furthermore, bond funds provide regular distributions, usually monthly, and unlike individual bonds, are easy to buy or sell as needed.

Alas, the downside of bond funds is they never mature, so their returns are always subject to interest-rate risk. Specifically, this means that if interest rates are rising, the value of a bond fund is going to decline—or at least its return will be lower than it would have been if interest rates hadn't risen.

That's because bonds are governed by the iron rule that when interest rates rise, bond values decline, and vice versa. That's why bond funds aren't good options when investing an emergency fund. (An individual bond is subject to this rule too—but only if it is sold before it matures.)

Enter BulletShares (and iBonds)

Wouldn't it be great to have the return certainty provided by individual bonds coupled with the "ease of use" of bond funds? Now you can.

BulletShares (Invesco) and iBonds (iShares) are the brand names of two series of ETFs that offer a very similar experience to owning individual bonds while trading as conveniently as any other ETF. This article focuses on BulletShares (because the name is cooler!), but iBonds are functionally equivalent, with virtually identical yields and expenses, and they can be used interchangeably.

Each BulletShare ETF is named with a particular year—for example, the BulletShares 2020 Corporate Bond ETF. Each ETF owns only bonds that mature during the year in its title. So in this case, BulletShares has assembled a diversified portfolio of 300-400 corporate bonds that all mature during 2020. This portfolio includes bonds from a wide variety of industries—you'll find everything from a 7.0% Discover Bank bond to a 1.85% Merck bond in this 2020 portfolio.

The key is that all of the bonds mature in 2020 and *this ETF is going to hold them all until they mature*, at which point the ETF will return all the money in the fund to the shareholders and the ETF will disappear. This is what distinguishes BulletShares from other bond funds, and this setup allows Invesco to calculate what an investor should earn if the ETF is purchased today and held until the end of the target year.

Other bond funds can tell you the current yield of their portfolio, but they can't tell you what future returns to expect because they don't know how changes in interest rates will affect those returns. Because BulletShares hold the individual bonds through maturity, investors have a relatively known outcome regardless of changes in interest rates.

(They can't guarantee *exactly* what returns will be because some small number of the portfolio's bonds may default. However, with so many bonds in the portfolio, projected returns should be quite close to actual returns even after any defaults.)

Build a ladder

When SMI has discussed owning individual bonds or CDs in the past, we've usually suggested the concept of "laddering." These new ETFs are a natural for this as well, which simply means including several BulletShares of varying lengths within a larger portfolio. This initially spreads your investment across multiple maturities, with the longer-dated bonds paying higher yields. As each BulletShare matures, you would reinvest in a new ETF at the end of the ladder earning higher yields.

For example, an investor might start with a portfolio evenly divided across the 2020, 2021, 2022, 2023, and 2024 BulletShares. The yield-to-maturity increases with each year, so when the 2020 matures, the investor would reinvest the proceeds *(continued on page 46)*

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

LEARNING TO LOVE BEAR MARKETS: A LESSON IN CONTRARY THINKING

Robert Sharp, in his *Lore and Legends of Wall Street*, says that the investment usage of the terms "bull" and "bear" may date back to the California gold rush of 1848 when miners would entertain themselves with bullfights. It was probably inevitable that someone would wonder aloud how the bulls would do against the powerful grizzlies that roamed wild in the area. It wasn't long before they were turning the bulls and the grizzlies loose in the same arena and betting on the outcome.

Sometimes the bull would win by impaling the bear and tossing it *up* over his shoulder. But more often the grizzly emerged the victor by using its massive strength to wrestle the bull *down* to the ground, frequently breaking its neck in the process. The bull won by taking its opponent up, but the bear won by taking its opponent down. The terms were soon introduced in San Francisco, where active trading took place in mining shares, to describe opposing investors who fought to establish the direction of the market.

If you're like most investors, you cheer for the bull. *This makes sense if you need to cash out your stock investments in the next 3-5 years.* But otherwise, you've got it all wrong—you should be pulling for the bear. Why? Because during the investing phase of your life, you're going to be a net buyer of stocks for many years to come. You want your monthly investing dollars to stretch as far as possible, acquiring as many stock and stock-fund shares as you possibly can. And that happens when prices are down. The traditional definition of a bear market has been when the market takes 9-18 months to drop at least 20% in value in the face of widespread investor pessimism. Stock prices that have been battered by a bear market work in your favor, allowing you to stockpile shares to the max. You like it when you can get bargains on clothes, electronics, furnishings, cars, vacations, and houses. Nobody cheers when those things cost more. Similarly, you should also like it when you can get bargains on stocks.

So, learn to love the bear! The truly long-term investor realizes we need more of them. There have been only 10 in the past 50 years. Think of them as buying opportunities, albeit brief ones. They frequently last less than a year before prices bottom out (top table). Fortunately, we have mini-bears (Wall Street calls them "corrections") more frequently. These, too, should be welcomed for the temporary bargains they offer. In fact, that's what we may have experienced late last year, although it's too soon to say for sure. At its low point in December, the market closed -19.8% below its September high. That's as close as you can get to a bear market while staying in correction territory.

As this month's editorial discusses in greater detail, this selloff may already be over. But there are plenty of reasons to suspect we could see lower prices again before too long. If that is indeed the case, don't fret and moan along with your friends when the next bear market rolls around. Enjoy the fact that lower stock prices work to your benefit as a long-term investor. Eventually you'll be the richer for being able to buy at those lower prices!

WINDOWS OF OPPORTUNITY

SELLOFFS SINCE 1960 AS MEASURED BY THE S&P 500 INDEX

"BEAR MARKET" = DECLINE OF 20%+

Low Point Reached	Loss Top to Bottom	Months Top to Bottom
06/62	-28.0%	7
10/66	-22.2%	8
05/70	-36.1%	18
10/74	-48.2%	21
03/78	-20.0%	18
08/82	-27.1%	21
12/87	-33.5%	3
10/90	-20.0%	3
10/02	-49.1%	31
03/09	-56.8%	17
Avg	-34.1%	15

Typically, a selloff has to exceed 20% before it's regarded as a bear market rather than a "correction." Until the 1990s, bear markets appeared about every 4 years. They usually last 9-18 months, but can end surprisingly fast (1987, 1990).

"CORRECTION" = DECLINE OF 10%-19%

Low Point Reached	Loss Top to Bottom	Months Top to Bottom
10/62	-10.5%	2
03/68	-10.0%	5
08/71	-10.7%	4
11/71	-11.0%	2
12/74	-13.6%	1
09/75	-14.1%	2
11/78	-13.6%	2
11/79	-10.2%	1
03/80	-17.1%	1
07/84	-14.4%	9
01/90	-10.2%	4
10/97	-10.8%	1
08/98	-19.3%	2
10/99	-12.1%	3
03/03	-14.7%	4
07/10	-19.3%	2
10/11	-19.4%	6
08/15	-12.4%	3
02/16	-13.3%	3
12/18 ?	-19.8% ?	3 ?
Avg	-13.7%	3

Corrections of 10%-19% (that don't turn into bear markets) are fairly quick, normally lasting no more than a few months. The recent selloff meets that pattern. The 12/24/18 low represented a loss of -19.8% from the September high. That's just shy of meeting the official definition of a bear market, which is why our defensive protocols triggered. Danger was high, even though the selloff ultimately proved short-lived.

What to do now

This line of thought may seem confusing, given that we sold stocks at lower prices in December and are buying back at higher prices now (see page 44). Granted, that's not ideal. Unfortunately, that type of "whipsaw" is possible when trying to avoid the brunt of bear-market declines. We still expect to come out ahead, even after this episode, when the impact of the next bear market is eventually included in the analysis.

So keep following the plan! This means following SMI's Four Levels approach and practicing inside-out thinking.[1] Sacrifice as needed to get free of consumer debt and save for future needs (Level 1). Invest your monthly surplus according to a personalized plan.[2] And while this (continued on page 46)

[1] Jun2017:p87 [2] Feb2017:Cover

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

NEW SMI INVESTMENT-PLANNING RESOURCES AVAILABLE

The development of *Multiply*, SMI's new video-based investing study,[1] led us to create new support materials to help *Multiply* small group or workshop participants act on the ideas they learn. These new materials are potentially useful to all investors, not just *Multiply* participants, which is why we're making them freely available to all SMI members and visitors.

Here's a brief description of these new materials and how they may be helpful to you.

• **Personal Investment Plan Template.** SMI has long advocated that investors develop and follow a written investment plan because, as the Bible teaches, "The plans of the diligent lead to profit as surely as haste leads to poverty" (Proverbs 21:5). Premium members who have signed up to use the online MoneyGuidePro® software (one-time $50 fee) have access to a highly sophisticated planning tool.[2] Those who haven't yet signed up for MoneyGuidePro® can use SMI's new *Personal Investment Plan Template* to develop a simplified plan.

Financial planning is profitable in numerous ways. First, developing a plan will help you think through and make the best decisions about your investments. Second, if you're married, the process of completing the *Personal Investment Plan Template* will foster communication and joint decision making. Third, if one of you dies, the surviving spouse will have a record of the details of your investment plan, which will help him or her continue implementing the plan. Fourth, when the market gets a little crazy, as it's prone to do from time to time, being able to refer back to what you wrote in calmer times will help you stay with your plan.

With SMI's new *Personal Investment Plan Template*, you'll be prompted to think through your investment goals and put them in writing, articulate your investment strategy, determine your optimal asset allocation, and run numbers to see how much you should invest each month to meet your goals.

• **Sample Market-Events Statement.** When the stock market gets especially volatile, it's essential to have made a decision in advance as to what you will do—or not do—with your portfolio in response. Otherwise, your emotions are likely to take over—which tends to lead to counterproductive investing decisions that hurt long-term results.[3] At the end of the *Personal Investment Plan Template* you'll be prompted to write "future instructions to yourself" via a market-events statement.

Ideally, this statement would articulate your commitment to sticking with your investment plan. It should reinforce that you have chosen a strategy well-suited to your investment time frame and your temperament—i.e., a plan you can live with in good times and bad. The statement should clearly detail your rationale for choosing the strategy you are using. SMI's *Sample Market-Events Statement* is meant to be a starting point and guide to help you write your own such statement.

• **(Almost) Everything You Need to Know About IRAs.** At first glance, an Individual Retirement Account (IRA) seems straightforward enough. You can put up to $6,000 per year into such an account ($7,000 if you're 50 or older),[4] choose from a wide variety of investments, and build a nest egg for your future. However, there are two types of IRAs (traditional and Roth), each offering specific tax benefits and governed by its own set of rules. An individual's personal circumstances will influence which type of IRA is most advantageous.

This new SMI resource helps simplify the decision-making process by first helping you determine whether you are even *eligible* to make tax-advantaged contributions to an IRA. The answer to that question depends on your income and, in the case of a traditional IRA, whether you're covered by a workplace retirement plan. (Even that can be confusing—for example, what does it mean to be "covered" by a workplace plan? This new resource explains.)

Assuming you're eligible to contribute, you'll learn which type of IRA may be best for you, whether a stay-at-home spouse can contribute to an IRA, how much you can contribute overall, and about the unique benefits of a Roth IRA.

• **401(k)/IRA Decision Tree.** If your employer offers a 401(k) or similar retirement plan and you earn too much to be eligible to contribute to an IRA, your choice of which vehicle to use for retirement savings is simple—use your employer's plan. On the other hand, if your employer doesn't offer a workplace retirement plan, use an IRA. But what if both are true—you have access to a 401(k) plan at work *and* you are eligible to contribute to an IRA? In that case, which one should you choose? SMI's new *401(k)/IRA Decision Tree* will help.

By answering a series of questions, you'll be led to the best course of action. Among the factors taken into consideration: Does your employer match your contributions to the workplace plan? And do the investment options offered through the plan enable you to invest as you'd like to?

You'll also see that in some situations, the best decision isn't to choose between two kinds of retirement accounts. Sometimes the best course of action is to use both. The *Decision Tree* explains how to utilize both options and prioritize between them.

You can find each of these new tools in the Resources section of SMI's website at www.soundmindinvesting.com. We hope you find them helpful. ◆

[1] Feb2019:p18 [2] Feb2017:Cover [3] Feb2019:Cover [4] These are the allowable amounts for 2019.

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

PROTECTING SENIORS FROM FINANCIAL FRAUD AND EXPLOITATION

Mildred Smith[1] of Stockbridge, Ga., answered the phone. "Señora Smith," said a serious voice on the other end, "This is Rafael Lopez with the Mexico City police. Your grandson is here and asked if we would call you. He was in a car accident. He's not hurt, but he has been charged with DUI. And we must hold him indefinitely unless someone can pay his bail and legal expenses."

"Oh, dear! May I talk to him?"

"Si, Señora. Just a moment."

"Grandmother? I'm so sorry. I hope you can help me. I'm really scared, and I need some money right away..."

Mildred Smith grew suspicious. The voice didn't sound quite like her grandson. Fortunately, she didn't fall for what fraud investigators call the "grandparent scam." But many people do.

A year ago, a Connecticut woman was moments away from wiring her "grandson" $30,000 following "a car accident in Mexico" when a local bank employee intervened. An elderly New York man lost nearly $80,000 in a similar fraud, according to *The Wall Street Journal.*

To help protect seniors, last year Congress created the Senior Safe Act, a law that allows bank employees, insurance agents, and investment advisors to report "suspected exploitation of a senior citizen" without violating financial-privacy regulations. Also last year, FINRA (the Financial Industry Regulatory Authority) issued a rule allowing brokerage firms to place a temporary hold on disbursements if elder financial exploitation is suspected.[2]

At the state level, more than a dozen U.S. states now allow certain financial firms to refuse or delay suspicious transfers involving elderly customers.

Tempting targets

Older people are particularly vulnerable to financial fraud and exploitation for at least four reasons:

- **The effects of aging:** As people age, their cognitive abilities gradually grow less sharp. One common symptom is financial impairment—i.e., difficulty understanding financial concepts that once were familiar.
- **Retirement-funding trends:** The shift from defined-benefit (i.e., pension) plans to defined-contribution plans such as 401(k) accounts gives many seniors ready access to their retirement savings.
- **Unwillingness to report fraud:** Getting scammed is embarrassing and an older person may fear losing independence if he reports it ("Dad just can't take care of himself anymore").
- **Stress caused by major life changes:** People tend to be especially vulnerable after a significant stress, such as the loss of a spouse or a rapid change in health.

Non-criminal abuse

Financial exploitation isn't always criminal. Some scams simply take advantage of an older person by means of slightly misleading information or subtle psychological pressure.

A 2015 study by financial-services firm True Link Financial found that victims of non-criminal abuse tend to fall into two distinct age groupings. The likelihood of being scammed hits a peak between the ages 60 and 65, and then peaks again for people around age 85.

Seniors in the younger group typically suffer losses related to "fine print," such as unknowingly authorizing recurring fees charged to a credit card (this is known as a "continuity billing scam"). The older group tends to lose money from "problems stemming from too much generosity, such as unaffordable charitable contributions or gifts to family members and caretakers." In many cases, such "gifts" are made under the undue influence of legal guardians, paid home-care workers, or marketers who pressure older adults by phone or through the mail.

Interestingly, one of the top risk factors for older adults is "friendliness." The True Link report offered this example: "You tell mom to hang up on telemarketers, but she is just too polite to hang up on anyone."

The top scams

According to the U.S. Senate Committee on Aging, here are the most common scams targeting seniors[3] (these are the typical versions—each has variations):

- **IRS impersonation:** A phone caller poses as an IRS agent, with the caller ID showing "Internal Revenue Service." The "agent" informs the victim that she owes back taxes and penalties and must pay immediately by certified check, credit card, or wire transfer to avoid home foreclosure and possible arrest.
- **Robocalls:** A fraudster first "spoofs" a local phone number, so the call appears to be coming from the victim's area code (making it more likely the victim will answer). The scams themselves vary, from phony fundraising appeals to "credit repair" to claims that a victim's warranty is about to expire and must be renewed.

(continued on page 46)

TYPE OF ABUSE	COMMITTED BY	WHAT THEY DO
Criminal fraud	Thieves and fraudsters	Trick seniors into sending money or disclosing personal information
Exploitation	Businesses, charities, individuals	Gain money via pressure tactics or misleading language
Caregiver abuse	Family, friends, advisors, paid helpers	Get money by taking advantage of a relationship of trust

Source: True Link Report on Elder Financial Abuse

[1]Not her real name, but the story is true. [2]The regulation applies only to disbursements, not to transactions within an account. [3]Based on the incidence of calls to Committee's Fraud Hotline.

SOUND MIND PORTFOLIOS

Basic Strategies

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

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

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

Data through 1/31/2019	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	Foreign stocks	-15.8	7.7%	7.7%	3.7%	-6.8%	-12.8%	9.2%	1.03	0.11%	20%	16%	12%	8%	VTIAX/VXUS
Extended Market Index	Small company stocks	-6.9	11.6%	11.6%	1.5%	-6.2%	-2.1%	15.0%	1.29	0.08%	40%	32%	24%	16%	VEXAX/VXF
S&P 500 Index	Large company stocks	-5.1	8.0%	8.0%	0.3%	-3.0%	-2.4%	14.0%	1.00	0.04%	40%	32%	24%	16%	VFIAX/VOO
Total Bond Mkt Index	Medium-term bonds	8.1	1.0%	1.0%	3.4%	2.6%	2.1%	1.9%	1.00	0.05%	None	20%	40%	60%	VBTLX/BND

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 traditional mutual funds (or ETFs) depending on your stock/bond mix. For more on JtB, see Jan2019:p7-8.

RECOMMENDED FUNDS FOR SMI'S FUND UPGRADING STRATEGY

Risk	Data through 1/31/2019[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	4.4	5.8%	5.8%	1.7%	-1.1%	3.8%	10.2%	0.86	1.22	36	None	GLFOX
	2. ☎ Invesco Intl Divd Achievers	03/19	ETF	ETF	ETF	-0.4	9.7%	9.7%	6.5%	-1.3%	-5.5%	11.0%	1.09	0.55	65	None	PID
	3. ☎ Longleaf Partners Intl	03/19	Yes	Yes	Yes	3.5	8.9%	8.9%	8.2%	-1.4%	-3.2%	16.5%	1.21	1.15	22	None	LLINX
Category 4 Small/Growth	1. ☎ Alger Sm Cap Focus - LW[10]	03/19	NTF	NTF	NTF	25.9	12.6%	12.6%	2.3%	2.6%	21.0%	26.9%	1.67	1.20	51	None	AOFAX
	2. Value Line MidCap Focus	12/18	NTF	NTF	NTF	11.7	7.6%	7.6%	3.2%	1.6%	6.9%	16.0%	1.00	1.18	38	None	VLIFX
	3. Baron Opportunity	03/18	NTF	NTF	NTF	8.3	10.6%	10.6%	2.2%	-0.9%	7.1%	21.7%	1.39	1.37	59	None	BIOPX
Category 3 Small/Value	1. Invesco S&P MidCap Low Vol	12/18	ETF	ETF	ETF	11.0	7.3%	7.3%	3.8%	0.6%	6.7%	14.5%	0.95	0.25	80	None	XMLV
	2. ☎ Neuberg Intrins Val - LW[10]	03/19	NTF	NTF	NTF	-3.1	14.7%	14.7%	1.3%	-4.4%	0.0%	13.2%	1.42	1.37	99	None	NINAX
	3. Merger Investor Fund	12/18	NTF	NTF	NTF	13.5	0.7%	0.7%	2.9%	3.8%	6.7%	4.8%	0.25	1.91	192	None	MERFX
Category 2 Large/Growth	1. MS Insight Fund - LW[10]	05/18	NTF	NTF	NTF	27.0	13.1%	13.1%	5.8%	4.5%	16.7%	26.0%	1.55	1.24	43	None	CPOAX
	2. Polen Growth Investor	10/18	NTF	NTF	NTF	9.9	7.5%	7.5%	2.2%	0.5%	7.2%	15.2%	1.07	1.25	23	2%60days	POLRX
	3. iShares Edge MSCI Min Vol	12/18	ETF	ETF	ETF	7.2	5.7%	5.7%	1.8%	1.9%	3.5%	12.6%	0.84	0.15	218	None	USMV
Category 1 Large/Value	1. Invesco S&P 500 Low Vol	12/18	ETF	ETF	ETF	10.5	6.7%	6.7%	4.1%	2.5%	3.9%	11.9%	0.87	0.25	102	None	SPLV
	2. ☎ Voya Corp Leaders B	03/19	NTF	Yes	NTF	0.8	8.4%	8.4%	2.2%	-1.5%	0.2%	14.2%	1.10	0.59	21	None	LEXCX
	3. ☎ AMG Yacktman Focused	03/19	NTF	NTF	NTF	13.1	5.6%	5.6%	3.4%	3.8%	5.9%	14.0%	0.71	1.27	33	2%60days	YAFFX
Bond Categories	Vanguard I-T Bond[6]	02/19	ETF	ETF	ETF	10.9	1.6%	1.6%	4.2%	3.7%	3.0%	2.1%	1.23	0.07	6.3[7]	None	BIV[8]
	Permanent: Vanguard I-T Bond	Perm	ETF	ETF	ETF	10.9	1.6%	1.6%	4.2%	3.7%	3.0%	2.1%	1.23	0.07	6.3[7]	None	BIV[8]
	Permanent: Vanguard S-T Bond	Perm	ETF	ETF	ETF	6.7	0.6%	0.6%	2.0%	2.3%	2.5%	1.2%	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 February, 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 this issue's cover article. **[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]** 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.

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 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 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 Alger Small Cap 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.

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%

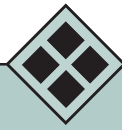
❸ BUY YOUR FUNDS

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	Alger Small Cap Focus
Stock Cat. 3: Small/Value	16%	$8,000	Invesco S&P MidCap LowVol
Stock Cat. 2: Large/Growth	16%	$8,000	MS Insight Fund
Stock Cat. 1: Large/Value	16%	$8,000	Invesco S&P 500 Low Vol
"Rotating" Bond Fund	10%	$5,000	Vanguard I.T. Bond Index
Intermediate-Term Bond Fund	5%	$2,500	Vanguard I.T. Bond Index
Short-Term Bond Fund	5%	$2,500	Vanguard S.T. Bond Index
Total	100%	$50,000	

BOND UPGRADING

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

[1] Rounding off to the nearest hundred is fine. As time goes by, your portfolio will gradually move away from these starting percentages as some funds perform better than others. This will be fixed once a year when you "rebalance" back to your desired portfolio mix (see Jan2018:p8).



MONEYTALK

STOCK UPGRADING — NEW FUND RECOMMENDATIONS

[When more than one fund *in the same risk category* is replaced, you should evaluate which of the newly recommended funds is the best fit for your portfolio. The simplest method for picking new funds is to refer to our 1-3 rankings on the "Basic Strategies" page and invest in the highest-ranked fund in each risk category that is available through your broker. • We choose our recommended funds with the hope they will be held for at least 12 months and therefore qualify for long-term capital gains tax treatment. Nevertheless, we suggest a fund change when a recommended fund's performance falls below the threshold of our mechanical guidelines. Our guidelines provide objective criteria for making the decision as to when to "upgrade" to a better-performing fund. When a fund no longer meets our performance guidelines, we suggest you sell it even if the 12-month holding period hasn't been met. However, a "$" symbol following the name of the fund being sold lets you know 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.]

Given the market's sudden and surprising rally so far in 2019, we're turning the Upgrading 2.0 defensive protocols off and reinvesting our cash in new stock funds. Upgrading 2.0 is a trend-following system, so when the market's trend changes, we have to be willing to change with it. When the 2.0 defensive protocols turned on in December, the market trend was clearly down. It's easy to forget the huge relief Upgraders felt at moving partially to cash prior to the market bottoming out around Christmas.

Of course, it's frustrating to have turned the defensive protocols on only to see the market trading higher now than it was when we went to cash in these portfolio slots. It's also frustrating to see, yet again, the Fed playing the lead role in setting the direction of the market. But these are the cards today's investors have been dealt, so our only option is to play them as best we can.

This month's editorial briefly discusses the reasons why we still consider the risk level of the stock market to be high. Given that, it won't surprise us if the Upgrading 2.0 defensive protocols are triggered again in 2019. Eventually, the market will experience a downturn that doesn't turn around and rebound quickly. That's the one we have to stay diligent about protecting against, even as the market has resumed climbing again.

There are no funds being replaced this month, only new funds being added back to the slots previously occupied by cash. Here are the new recommendations.

◆ **In the Foreign group, Invesco Dividend Achievers ETF (PID) is being added.**[1] Thankfully, PID is an ETF and not a traditional fund—so it's only irritating (but not expensive) to be adding it back after replacing it just a month ago. This ETF never did drop down the Foreign category momentum rankings, but was replaced due to the weakness of the whole foreign-fund group. PID is a pretty conservative holding, composed of foreign companies with a history of raising their dividends each year for at least the past five years. So if the market does turn lower again, we would expect it to hold up relatively well.

◆ **In the Foreign group, Longleaf Partners International (LLINX) is being added.**[1] Longleaf International is a value fund, but its rather extreme concentration makes it subject to significant performance swings. It had only 22 holdings as of year-end, so it tends to chart its own course rather than looking like the market indexes. Over the past few years, this fund has navigated the tricky foreign-market trends as well as anyone, landing in the top percentile of Morningstar's Foreign Large Blend category for the past three years (as well as currently being ranked near the top of SMI's momentum rankings, which focuses on performance exclusively over the past 12 months). The fund does require a larger initial investment than many of its peers (normally $10,000), though this may vary by broker and type of account (IRA, taxable, etc.).

◆ **In the Small/Growth group, Alger Small Cap Focus A (AOFAX) is being added.**[1] Alger will be a new name to most SMI members, as it is a load fund shop that has joined the recent trend of making certain of its load funds available on a load-waived and no-transaction-fee basis through the leading discount-broker platforms. *It's important to note that if this fund is not available without paying the load, we do not recommend buying it.*

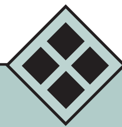
While this Alger fund is new to SMI, the manager of the fund is not. Amy Zhang took over managing this fund in early 2015 after being a key contributor for many years at the Brown Capital Management Small Company fund. That Brown fund, some veteran members may recall, was recommended by SMI in the depths of the 2008 bear market and held for 18 months as the market recovered. That performance is particularly relevant today, as it demonstrates this manager's past prowess navigating rapidly changing markets such as we've experienced lately. Zhang's old fund held up very well on a relative basis in the last big bear market and subsequent recovery, and it has done the same in this recent correction. That's comforting moving forward with a rallying market that still carries significant risk.

◆ **In the Small/Value group, Neuberger Berman Intrinsic Value A (NINAX) is being added.**[1] This is another fund that normally charges a load, but is available load-waived through many leading brokers. *Do not buy it unless it is available load-waived through your broker.*

This fund searches for small companies that the managers believe are being undervalued due to concerns about their complexity, the cyclical nature of their business, or other factors that have interrupted their growth. Somewhat unusually, this fund will engage with management teams and company boards to unlock the value they think is hidden in these stocks. It's a niche approach, but the lead manager has been using it for more than 20 years. We're willing to give it a shot based on the fund's current position near the top of the small/value group's momentum rankings.

◆ **In the Large/Value group, Voya Corporate Leaders Trust B (LEXCX) is being added.**[1] This Voya fund is fascinating on several different levels. First is its structure and history. Nearly 85 years ago this fund was set up to deliberately act as

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



a passive, low-turnover investment vehicle that would own the leading blue-chip, dividend payers in the market of the mid-1930s. Importantly, the fund mandated that the initial 30 holdings would essentially never be sold, nor would new holdings be added. Only if a company suspended its dividend or was in danger of bankruptcy or delisting could it be sold, and the only way new names could be added was through spin-offs or mergers and acquisitions. This sets up some interesting history of how certain companies (like Warren Buffett's Berkshire Hathaway) have ended up in the portfolio.

But the fund's success over this 80+ year time frame is also a testament to the value of low investor expectations. There are no high-flying financial or tech stocks here, just mainly old-economy railroads, utilities, consumer goods, and oil and gas companies. This fund's success shows how those often overlooked "cash cow" type stocks can generate excellent returns. Apparently, we're in the sweet spot for these types of companies at the moment, as Voya has worked its way to the top of the large/value momentum rankings. We don't normally own 85-year old pseudo-index funds, but if that's where the current momentum is, so be it!

◆ **In the Large/Value group, AMG Yacktman Focused (YAFFX) is being added.**[1] Yacktman Focused is a familiar name, as we've recommended either Yacktman or Yacktman Focused at least five times in the past. Interestingly, that includes the periods coming out of both of the past two bear markets (2002-2003 and 2008-2010), as well as the last time the market went through such a close "almost a bear market" correction in 2011. So once again, we see a pattern that certain types of funds tend to consistently produce strong returns relative to their peer groups given a certain set of market conditions. This pattern should be encouraging to Upgraders generally, and specifically in the case of this particular fund, as Yacktman was recommended for over a year with great success in both of the prior bear market recoveries (it was held for six months following the 2011 correction).

The reason Yacktman has done so well in similar past periods is that the fund is run with a defensive mindset—they win over the long-term by losing less during down markets. To accomplish this, Yacktman buys high-quality companies, is always aware of valuations, and isn't afraid to load up on cash when market valuations seem stretched. This led the fund to be more than 25% in cash throughout 2018, which obviously helped the fund rise up our momentum rankings at the end of 2018 when the rest of the market was falling. This means Yacktman is a conservative fund that won't stay recommended long-term if the market stays hot. But with the current level of risk in the market and the potential that Upgrading 2.0 defensive protocol could be triggered again before too long, this seems like an excellent choice. ◆

MARKET NOTES, QUOTES, AND ANECDOTES

Blissful ignorance

"If you had checked your portfolio on January 1, 1987 and then slept through the entire year and woken on December 31st you would have looked at your portfolio and said 'huh, pretty slow year in the markets, but not bad!'" – Cullen Roche, in a 2/5/19 post on his *Pragmatic Capitalism* blog in which he extolled the investor virtues of patience and not watching your portfolio too closely. Of course, 1987 included "Black Monday," which saw the market fall 23% in one day. Read more at bit.ly/2RHzr1v.

Upside risk

"…the retiree who starts out with $1M in a portfolio at a 4% initial withdrawal rate is equally likely to finish with less than $1M, or more than $6M, after 30 years!" – Financial planner Michael Kitces, in a 2/20/19 post on his *Nerd's Eye View* blog. As he wrote, "sequence of returns" is often described as a risk—the possibility that the market could experience a significant downturn at the start of someone's retirement, leaving their portfolio unable to recover. However, a significant upturn at the beginning of retirement is equally likely and could leave the retiree with excessive wealth at the end of his or her life. The best solution, he believes, is to use a rules-based "ratcheting plan" in which spending is adjusted based on the retiree's actual returns. Read more at bit.ly/2Iw2w0C.

A safe bet

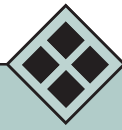
"While I think there is a decent portion of the population that still thinks markets are unpredictable casinos, there are fundamental trends at play that justify the continued rise of markets for decades to come—demographic trends and productivity gains." – Ehren Stanhope, in a 2/19/19 post on his *Factor Investor* blog, in which explained why the stock market's long-term direction has been, and likely will continue to be, upward. Read more at bit.ly/2GFJt23.

Unrealistic plans

"Of the 21% of people who intended to work to age 66 or later, more than half failed to reach this target." – From a new Center for Retirement Research report, which cited "health shocks" as the most common cause of early retirements. Read more at bit.ly/2GRdCL2.

Signifying nothing

"Most of those market reports were and are 'noise'—they don't add up to much at all. Just like the first half of the nightly television weather report, there's perhaps a passing interest in knowing what the temperature had been that day, but so what?" – Former Australian markets reporter Michael Pascoe, in a 2/8/19 *New Daily* article in which he described his daily market reports, and those of most of today's financial reporters, as "mostly rubbish." Read more at bit.ly/2GwUaDW.



MONEYTALK

LEVEL 1 / CONTINUED FROM PAGE 38:

BULLETSHARES: GOOD NEWS FOR SAVERS AND BOND INVESTORS

in the 2025 BulletShare to keep the ladder moving forward. Laddering can be a useful strategy for both accumulation funds as well as longer-term portfolios.

Because interest rates are currently low by historical standards, and a primary reason to own BulletShares is to protect against rising rates, it's probably wise to keep these ladders relatively short, as in the example above. Locking in yields beyond five years may not be a good idea today, as rising interest rates in the future would provide the opportunity to earn higher yields on future BulletShares.

Built for rising interest rates

The certainty of earning a known, positive return despite the threat of rising interest rates makes BulletShares especially appealing right now, following a few years of meager returns for traditional bond funds. Bond fund investors don't mind the extra boost to their returns provided by falling interest rates. But they hate it when rising rates cut into bond fund returns, as has been the case in recent years.

So how likely is it that interest rates keep rising? This isn't as straightforward as one might suppose. If the economy slips into a recession sometime in the next few years, it's a sure bet that interest rates will decline, at least temporarily. But the *timing* of such an event is always uncertain, as is the degree of that decline, should it occur.

BulletShares may or may not come out ahead of traditional bond funds over the next few years, but they definitely provide more *certain* returns. Some investors prize this certainty almost as much as the returns themselves!

SMI isn't changing its official bond recommendations to include BulletShares at this point, so incorporating them (or iBonds) is something an SMI saver or investor would have to do on his or her own. It's relatively easy though, as both Invesco[1] and iShares[2] provide online Bond Ladder tools that show you what yield to expect when combining their ETFs of various maturities. From there, you'd simply take a portion of your bond holdings (or cash holdings that you may currently have in lower-yielding savings accounts or CDs) and buy the specific BulletShares ETFs you've chosen. We recommend sticking with the Corporate Bond version of these products and avoiding their High Yield counterparts at this point in the economic cycle. ◆

LEVEL 2 / CONTINUED FROM PAGE 39:

LEARNING TO LOVE BEAR MARKETS: A LESSON IN CONTRARY THINKING

first foray into Upgrading 2.0's defensive protocols hasn't gone as hoped, we encourage you to continue following the strategy's signals. One significant bear market will make us forget any earlier aggravations the defensive protocols have put us through. And perhaps just as importantly, knowing your portfolio has a measure of protection against the worst downside risks will help you have confidence to keep buying and owning stocks throughout the rest of the market cycle. ◆

LEVEL 4 / CONTINUED FROM PAGE 41:

PROTECTING SENIORS FROM FINANCIAL FRAUD AND EXPLOITATION

• **Sweepstakes:** The victim is informed that he or she has won a large cash prize but first must pay taxes on the winnings in order to collect.

Protective measures

As the population of older Americans grows—by 2030, one person out of every five will be retirement age—attempts to defraud seniors likely will increase. But the problem isn't going unaddressed. As noted above, governments and regulatory bodies are taking steps to protect seniors from fraud. Tech entrepreneurs are also taking action.

An app-based service called Eversafe,[3] created by a developer whose mother was defrauded, alerts a designated person (such as an adult child or caregiver) if an elderly person's accounts show unusual transactions or withdrawals. Meanwhile, some banking institutions are adding in-house software that alerts bank personnel to changes in an older person's transaction patterns.

True Link Financial[4] offers payments cards (i.e., prepaid debit cards) that can be customized by a family member or a financial counselor to disallow certain types of transactions. For example, the card could be used to make a purchase at a grocery store but not to pay a telemarketer.

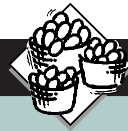
Meanwhile, a service called Nomorobo—available free for many landline phones[5]—blocks robocalls by rerouting all incoming calls to a server that checks the caller against a blacklist of spammers.

While new laws and tech innovations are helpful, nothing takes the place of personal vigilance. Follow these two guidelines: 1) Never rush into a big financial decision—get details in writing and ask a trusted advisor or family member for a second opinion. 2) Never give personal information over the phone—especially a Social Security or account number—unless you initiated the call and the other party is trusted.

Adult children can help protect aging parents from financial fraud by telling them what you read in this SMI article. Warn them about the "grandparent scam" and impostors who pose as IRS agents. Tell them never to transfer money or make unusual purchases without checking with you first.

If you suspect abuse already has occurred and it involves your parents' bank account, report your concern to their bank. If criminal activity is suspected, contact the local police. Otherwise, call the Fraud Hotline of the U.S. Senate Special Committee on Aging at 1-855-303-9470. A representative will put you in touch with the proper person or agency to address your concern. ◆

[1]www.invesco.com/bond-ladder/ [2]www.blackrock.com/tools/portfolio-analysis/ibonds [3]www.eversafe.com [4]www.truelinkfinancial.com [5]There is a paid version for mobile phones: www.nomorobo.com



PREMIUM STRATEGIES

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

DYNAMIC ASSET ALLOCATION

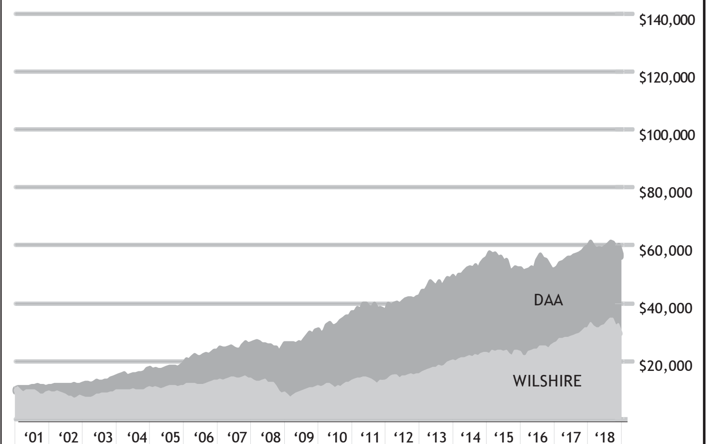
Overview

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

Who Should Consider This Strategy

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

Dynamic Asset Allocation vs Wilshire 5000
Growth of $10,000 Jan 2001 - Dec 2018



Strategy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Avg[1]	Worst[1]	Rel Risk[1]
DAA	4.0%	10.4%	22.4%	19.3%	8.6%	25.7%	10.1%	1.3%	17.6%	20.3%	1.4%	13.9%	16.2%	13.0%	-6.8%	-0.5%	16.0%	-4.5%	9.9%	-13.7%	0.62
Wilshire 5000	-11.0%	-20.9%	31.6%	12.5%	6.4%	15.8%	5.6%	-37.2%	28.3%	17.2%	1.0%	16.1%	33.1%	12.7%	0.7%	13.4%	21.0%	-5.3%	5.2%	-43.3%	1.00

SECTOR ROTATION

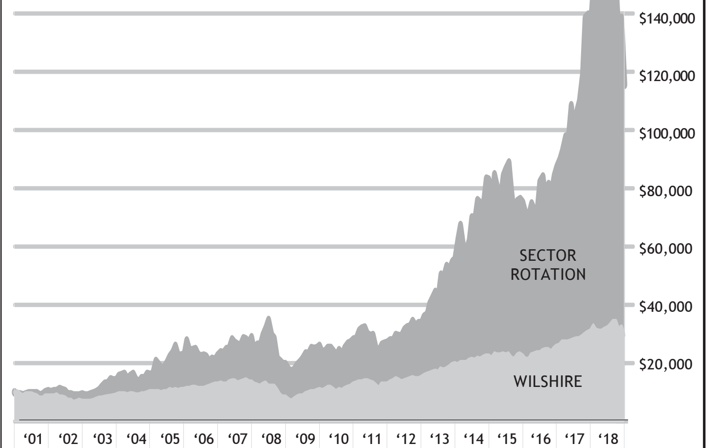
Overview

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

Who Should Consider This Strategy

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

Sector Rotation vs Wilshire 5000
Growth of $10,000 Jan 2001 - Dec 2018



Strategy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Avg[1]	Worst[1]	Rel Risk[1]
Sector Rotation	3.7%	-13.1%	54.4%	12.6%	46.1%	-1.9%	28.1%	-31.5%	30.5%	9.1%	-3.2%	23.3%	65.7%	49.9%	-9.7%	16.8%	56.7%	-15.8%	15.7%	-38.6%	1.85
Wilshire 5000	-11.0%	-20.9%	31.6%	12.5%	6.4%	15.8%	5.6%	-37.2%	28.3%	17.2%	1.0%	16.1%	33.1%	12.7%	0.7%	13.4%	21.0%	-5.3%	5.2%	-43.3%	1.00

[1]The three data points on the far right in each of the two tables are for the Jan2001-Dec2018 period. "Avg" represents the average annualized return from 2001-2018. "Worst" represents the worst investor experience over 205 rolling 12-month periods from 2001-2018.

PERIODICALS POSTAGE
PAID AT LOUISVILLE, KENTUCKY

Dated Investment Material
Please Do Not Delay!

PERFORMANCE DATA

SOUND MIND INVESTING MODEL PORTFOLIOS • DATA THROUGH JANUARY 31, 2019

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]	8.7%	8.7%	0.4%	-2.2%	14.3%	10.6%	15.1%	8.4%
Just-the-Basics[2]	9.3%	9.3%	1.4%	-4.4%	13.5%	8.3%	14.3%	8.1%
Stock Upgrading[3]	5.4%	5.4%	-2.6%	-7.6%	10.4%	6.5%	12.6%	8.0%
U.S. Bond Market[4]	1.0%	1.0%	3.4%	2.0%	1.8%	2.2%	3.5%	3.7%
Bond Upgrading[5]	0.9%	0.9%	2.5%	1.6%	1.5%	2.3%	5.7%	5.6%

PREMIUM STRATEGIES

	Year to Date	1 Month	3 Months	12 Months	3 Yrs Annual	5 Yrs Annual	10 Yrs Annual	15 Yrs Annual
DAA[6]	1.7%	1.7%	-1.7%	-5.6%	4.6%	4.0%	8.4%	9.6%
Sector Rotation	-0.4%	-0.4%	-12.3%	-24.4%	17.6%	13.0%	20.6%	14.3%
50-40-10 Blend[7]	3.0%	3.0%	-3.1%	-8.4%	8.4%	6.1%	11.5%	9.9%

Notes: Transaction costs and redemption fees—which vary by broker and fund—are not included. • [1] Based on the float-adjusted Wilshire 5000 Total Return index, the broadest measure of the U.S. stock market. • [2] Calculated assuming account rebalancing at the beginning of each year with 40% of the stock allocation invested in the Vanguard S&P 500 (VOO), 40% in Extended Market (VXF), and 20% in Total International Stock (VXUS). • [3] For a 100% stock portfolio, assuming the portfolio allocation for each risk category was divided evenly among all the recommended funds. • [4] Based on Barclay's U.S. Aggregate Bond Index, the broadest measure of the U.S. bond market. • [5] For a 100% bond portfolio, assuming 25% of the portfolio was invested in Vanguard I-T Bond Index (BIV), 25% in Vanguard S-T Bond Index (BSV), and 50% in the rotating recommended bond fund. The results prior to January 2015 are hypothetical, calculated from backtesting the strategy following a mechanical rules-based system. • [6] The results prior to January 2013 are hypothetical, calculated from backtesting the strategy following a mechanical rules-based system. • [7] 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 1/31/2019	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	5.21%	5.21%	-3.94%	-9.90%	8.91%	4.52%	11.25%
Wilshire 5000	8.65%	8.65%	0.45%	-2.20%	14.30%	10.59%	15.12%
S&P 500	8.01%	8.01%	0.26%	-2.31%	14.02%	10.96%	15.00%

Quarterly Returns as of 12/31/2018	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	-8.70%	-8.78%	-18.69%	-8.70%	4.89%	3.10%	9.87%
Wilshire 5000	-5.26%	-9.30%	-14.29%	-5.26%	9.12%	8.08%	13.20%
S&P 500	-4.38%	-9.03%	-13.52%	-4.38%	9.26%	8.49%	13.12%

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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