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Making Sense of Your IRA Options

With the April 15 deadline fast approaching, there's still time to make tax-year 2018 contributions to an IRA—but not much. So, we're here to help you sort through common (and often confusing) questions related to IRAs, such as: "Do I even *qualify* for an IRA?"; "What's the difference between a traditional IRA and a Roth IRA?"; "Should I convert my traditional IRA to a Roth IRA?"; "If I'm eligible to contribute to both, should I use an IRA or a 401(k)?"; and "Should I 'roll' an old 401(k) account into an IRA?"

by Mark Biller and Matt Bell

The retirement income of most Americans rests on what's been referred to as a "three-legged stool." Retirement benefits from Social Security serve as one of the legs, historically providing 35%-45% of retirees' monthly income. But the long-term funding issues facing the Social Security program (relatively fewer workers paying in, more retirees taking out) make it difficult to project with confidence the level of benefits that will be available years into the future (you can see your "*estimated* benefits" by creating an account on the Social Security website).

The second leg of the retirement-income stool is composed of *employer-sponsored retirement plans*. These plans provide about 15%-20% of today's retirees' monthly income on average. There are two main types. Some are traditional defined-*benefit* plans, in which workers are "guaranteed" a certain monthly income when they retire.

However, most are newer defined-*contribution* plans—such as 401(k) plans—in which workers make their own investment decisions from a list of options chosen by the employer. In these plans, the amount of money that will be available for a worker's monthly income during retirement is uncertain. That's because it depends on several variables, such as how much a worker contributes, whether the employer matches the employee's contributions at some level, the quality of the investment options, and how successful the employee is at choosing profitable investments.

The third leg of the retirement-income stool is *personal savings*. It is this leg over which individuals have the most control, and is likely to play an increasingly important role in providing adequate retirement incomes in the years ahead. A key vehicle for building personal retirement savings is the Individual Retirement Account (IRA).

An IRA is not, in itself, an investment. It's a tax-sheltered vehicle through which you make investments. As such, an IRA can hold most of the same investments any other account can hold: stocks, bonds, mutual funds, bank CDs—even gold. This means you can invest your IRA money along the same lines as the rest of your long-term investment plan, and use any of SMI's strategies.

Two types of IRAs

The "traditional" IRA first appeared in 1974 when Congress voted to allow certain working persons *(continued on page 51)*

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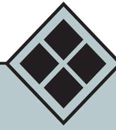
"FOR GOD HAS NOT GIVEN US THE SPIRIT OF FEAR BUT OF POWER, AND OF LOVE, AND OF A SOUND MIND."



EDITORIAL

"Is it Biblical to Save for Retirement?"

Over the years, I've heard numerous people ask various versions of the question in the headline above. For some, retirement doesn't seem like a biblical goal, so why pursue it by saving for it? For others, putting money into an IRA or 401(k) plan account feels like not trusting God to provide for their needs.

To be sure, the type of retirement defined by our consumer culture is *not* a biblical idea. However, *saving* for retirement is. How can both statements be true? Let me explain.

An extended time of leisure?

The Bible mentions retirement only once:

> "The Lord said to Moses, 'This applies to the Levites: Men twenty-five years old or more shall come to take part in the work at the tent of meeting, but at the age of fifty, they must retire from their regular service and work no longer. They may assist their brothers in performing their duties at the tent of meeting, but they themselves must not do the work. This, then, is how you are to assign the responsibilities of the Levites.'" – Numbers 8:23-26 (NIV)

For anyone other than Levitical priests, the Bible never instructs us to retire. At least, it doesn't teach us to work for 40-45 years, all the while building assets *in order to* spend our last decades relaxing. That's a cultural path that emerged from factors related to the Industrial Revolution, the introduction of Social Security, and longer lifespans.

The Bible tells us we have God-given work to do, a contribution to make (Ephesians 2:10). Some of this may be paid work and some of it volunteer work, but there is no instruction to essentially take the last season of our life off. In fact, our last years could be the time of our greatest Kingdom impact.

Who's the provider?

As for whether it's unbiblical to save for retirement because it shows a lack of faith in God's provision, clearly, God is our provider. He knows what we need and promises to take care of us (Matthew 6:31-33). And even though we may work hard, it's God who gives us the ability and opportunities to do so (Deuteronomy 8:17-18).

At the same time, the Bible says we are to be both hearers and doers of God's Word, and providing for our families is something we have a responsibility to do.

> "Anyone who does not provide for their relatives, and especially for their own household, has denied the faith and is worse than an unbeliever." – 1 Timothy 5:8 (NIV)

Wow. So important is our duty to take care of our families that not doing so is described as denying the faith! And here again, there's no end date on that responsibility. It extends throughout our life.

Striking the right balance

Some may assume that at the intersection of these three ideas—the cultural construct of retirement isn't biblical, we have God-given work to do, and we have a long-term responsibility to provide for our family—lies the conclusion that we must work for pay until we die. But that may not be the case, and it could even turn out to be a dangerous assumption.

While a growing number of current workers say they intend to work past the typical retirement age of 65, few of today's retirees actually did so, including many people who planned to work longer. In some cases, their plan was thwarted by a medical condition, the need to care for a loved one, or a job loss coupled with the difficulty of finding a new job in one's 60s.

For a Christ-follower, there's another reason to retire from paid work at some point: God may lead you to spend more time working as a volunteer.

So, while the type of retirement defined by our culture isn't biblical, there's nothing inherently unbiblical about retiring from paid work. In fact, good stewardship requires that we prepare for the possibility that we may need to.

The bottom line? Saving for retirement doesn't necessarily mean you are not trusting in God. In fact, it could be just the opposite. Done with the right spirit, retirement planning could be a powerful expression of your trust that God has a plan to use you for His purposes for your *entire* life. And it could demonstrate your commitment to be ready to pursue that plan by freeing yourself from the need to earn a salary.

Matt

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MANAGING EDITOR

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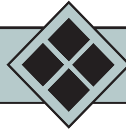
FEATURE  ARTICLE

Making Sense of Your IRA Options

(continued from front page)

—those not covered by a pension at work—to put away up to $2,000 a year for retirement *and deduct it* from their federal income-tax returns. Not only did IRA investors enjoy immediate tax savings, they were also excused from paying any current income taxes on the investment profits they made. Until they began withdrawing the money during retirement, they had the pleasure of watching their money grow tax-deferred. The IRA deduction was second only to the deductibility of home-mortgage interest as the best tax break available to middle-class taxpayers.

In 1997, Congress authorized a second type of IRA, the "Roth IRA." This new option (named after Sen. William Roth, who sponsored the bill) differs from the traditional IRA primarily in the way taxes are handled: Do you want to pay them now or pay them later?

With a traditional IRA, you can take an immediate tax deduction for the amount you contribute (i.e., you save on taxes now). When the money is withdrawn down the road, that's when you pay the income tax—on both contributions and gains. With a Roth IRA, contributions are *not* deductible (i.e., no up-front tax savings). However, all of your future withdrawals, including your investment gains, are tax-free.

Contribution limits

Although traditional IRAs and Roth IRAs receive different tax treatment, certain ground rules apply to both types of accounts. One is that *total contributions* are limited to a certain amount per year. For the 2019 tax year, total IRA contributions are capped at $6,000 per person, unless you are 50 years old or over, in which case you're allowed to contribute $7,000.[1] Contributions may be split between a traditional IRA and a Roth IRA, but your overall contributions may not exceed the limit.

Those contribution limits are far lower than for a 401(k)-type workplace retirement plan, where employees can contribute $19,000 per year (or $25,000 if age 50 or older). However, keep in mind that if a husband and wife file a joint tax return, they can make IRA contributions for both the "working" spouse and the "non-working" spouse (not our choice of terms, we assure you!), providing that their combined earned income is at least as large as the IRA contributions made. It doesn't matter how much each spouse earned, or even if one didn't earn any income at all. So, for 2019, a married couple younger than age 50 could contribute a maximum of $12,000 ($6,000 for each) as long as their overall earnings were at least $12,000 during the year. The contributions must be made to separate IRA accounts, however, since there's no such thing as a "joint" IRA.

Choosing between an IRA and a 401(k)

If you are eligible to participate in a 401(k), 403(b), or similar-type plan at work *and your contributions are matched by your employer, don't even consider an IRA until you are contributing enough money to your work-based plan to get the full amount of the employer match.* That match is some of the easiest money you'll ever make. In essence, it's a guaranteed return on your investment. For example, if your employer will contribute 50 cents for every dollar you contribute (usually up to a limit, such as 6% of your salary), that's a guaranteed 50% return!

Above the matching level, however, it often makes more sense to contribute to an IRA rather than contributing more to the 401(k). Why? Because of the greater variety of investment choices available in IRAs. Many employer-sponsored plans have only a handful of investment options from which to choose. That restricts your ability to create the kind of portfolio you'd like to have. With an IRA, on the other hand, the options are wide open.

So, get the "free money" of your 401(k) match first. Then, if you want to invest more than the amount of your salary that qualifies for the match, put those additional dollars in an IRA, assuming you qualify to contribute to one (our next topic). If you contribute the maximum to an IRA and still have more you want to invest for retirement, go back to your workplace plan and contribute more there.

Eligibility

For **traditional IRAs** (contributions deductible, withdrawals taxable), whether you qualify to make deductible contributions depends on whether you are "covered" by a workplace retirement plan and how much Modified Adjusted Gross Income (MAGI) you earn. According to the IRS, you're "covered" by an employer's retirement plan if your company offers such a plan and you contributed to the plan or your employer contributed to the plan on your behalf. In the case of a defined-benefit plan, such as a traditional pension plan, if you're eligible for the plan, you're "covered." IRS Pub 590-A has a worksheet for determining your MAGI.

The nearby table assumes you are covered by a workplace plan. If you're not, see the next section for details on these two possibilities not shown in the table: You're not covered by a workplace plan but you're married and your *spouse* is covered (Group 6), or you're not covered by a workplace plan and your spouse isn't covered either (Group 7).

For **Roth IRAs** (contributions not deductible, withdrawals tax-free), whether you qualify to make contributions at all depends on your income, as outlined in the table. Your participation in a workplace retirement plan does not matter.

YOUR INCOME LEVEL DETERMINES YOUR IRA OPTIONS FOR 2019

Your Income Group	Modified Adjusted Gross Income for Single Taxpayers	Modified Adjusted Gross Income for Married Taxpayers[1]	Deduction for Contribution to Traditional IRA?	Eligible for Contribution to Roth IRA?
Group 1	$64,000 or less	$103,000 or less	Yes	Yes
Group 2	$64,001 or $73,999	$103,001 or $122,999	Partial	Yes
Group 3	$74,000 or $121,999	$123,000 or $192,999	No	Yes
Group 4	$122,000 or $136,999	$193,000 or $202,999	No	Partial
Group 5	$137,000 or more	$203,000 or more	No	No

The income level thresholds are adjusted annually. [1]When filing jointly.

[1]For IRA ontributions made through April 15, 2019 (for tax year 2018), the limits are $5,500/$6,500. The contribution rules and limits discussed in this section and going forward are for tax year 2019.

Now consider the following general guidelines:

• **Group 1:** If you are in this group, you have the greatest flexibility when it comes to your IRA options. You can choose to make either a fully deductible contribution to a traditional IRA or a non-deductible contribution to a Roth IRA. (We'll touch on the "Traditional versus Roth" decision in a minute. The article on page 57 will help you sort through that decision in greater detail.)

• **Group 2:** You're in the "phase-out range" where the government begins taking away your tax deduction for contributing to a traditional IRA. If you are married, filing jointly, and your Modified Adjusted Gross Income is more than $103,000 but less than $123,000, only a portion of your contribution is tax-deductible. Single taxpayers have a lower threshold at each step along the way, as can be seen in the table. However, Group 2 people are still fully eligible to contribute to a Roth.

• **Group 3:** You're over the limit for a traditional IRA. Because your family income is $123,000 or more, you receive no deduction—*unless* neither you nor your spouse are covered by a retirement plan at work. You could make a non-deductible contribution to a traditional IRA, but why do that with the Roth option available? You're Roth material all the way.

• **Group 4:** As with Group 3, a Roth is your best option. But you're in the "phase-out range" where the government begins taking away your right to make a full Roth contribution. Still, take what you can get.

•**Group 5:** Sorry. Congress figures you don't need any tax incentives to save for retirement. You're on your own—no IRAs for you. (Well, that's not strictly true. You could make *non*-deductible contributions to a traditional IRA, then convert those holdings to a Roth. More on this momentarily.)

• **Group 6**: This group, which isn't represented in the table, is for anyone who isn't covered by a workplace plan, but whose spouse *is* covered. You qualify for a full deduction for money contributed to a traditional IRA as long as your household income is $193,000 or less. If it's above that threshold but below $203,000, you qualify for a partial deduction. At $203,000 of household income or above, you may not take any deduction.

• **Group 7:** Finally, all you folks who aren't covered by a retirement plan at work (and, if married, neither is your spouse), you're the exception to most of the rules. No matter which other group you're in, *you are entitled to a full tax deduction for any contributions you make to a traditional IRA*. And unless you're in Group 5, a Roth IRA is also an option.

Choosing between a traditional IRA and a Roth

To a great degree, what type of IRA to use depends on whether you expect to be in a higher tax bracket when you retire than the one you're in now. When you're just starting your career, your income usually puts you in a low tax bracket. With the assumption that you'll be in a higher tax bracket when you retire—whether because of your retirement income, higher tax rates, or some of both—it usually makes the most sense to go with a Roth IRA. That way, you give up the tax break now while your taxes are low and take advantage of it later when your taxes are higher.

However, this tax-bracket question is not as straightforward as you may think. Other factors must be considered.[1]

Other considerations

One drawback of a traditional IRA is it can have the effect of turning capital gains (currently taxed at lesser rates) into ordinary income (taxed at higher rates). That's because, under current law, when you take money out of a traditional IRA, it *all* gets taxed the same way—as ordinary income—even though a sizable portion of your growth may have come from capital gains (the only exception being if you've made any non-deductible contributions). If your income is relatively high in retirement, having these gains taxed at your maximum regular income-tax rate (potentially as high as 37%) is painful.

This drawback of turning capital gains into ordinary income is typically only an issue if you're buying *and holding* individual stocks or index funds (which are highly tax-efficient anyway). In those instances, you may be better off holding such assets in a taxable account. Generally speaking, if you have a mix of taxable and IRA accounts and want to own both stocks and bonds, hold the *bond investments in the traditional IRA and the stock index funds or individual stocks you plan to hold long-term in the taxable account.*

However, if you are following SMI's active strategies (Upgrading, DAA, Sector Rotation, 50/40/10), you should keep your stock funds in the IRA due to the likelihood of their larger long-term gains and the fact that each trade would be taxable right away otherwise.

Withdrawing funds from an IRA *after* age 59½

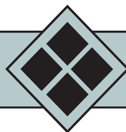
With a traditional IRA, this is the age at which penalty-free withdrawals of contributions and earnings are allowed. Of course, you'll owe ordinary income tax on those withdrawals since you received a tax deduction for your contributions. At age 70½, withdrawals are *required*. Your required minimum distributions (RMDs) are based on your age and account balance. (The IRS has a worksheet to help you determine the amount). The penalty for not taking RMDs is substantial—50% of the RMD amount—so be sure to take those distributions. Age 70½ is also the age at which you are no longer allowed to contribute to a traditional IRA.

With a Roth IRA, you can withdraw the principal you've contributed at any time for any reason without facing income taxes or penalties (because you already paid income tax on the money you contributed). Whether you can withdraw *earnings* tax-free depends on whether you have met the standards of the five-year rule.

The rule states that you must have contributed to a Roth IRA (*any* Roth IRA, not necessarily the one you want take a withdrawal from), in January of the calendar year at least five years prior to the year in which you would like to take the withdrawal. Want to take a withdrawal of earnings in July of this year? You would have had to contribute to your first Roth in January of 2014 or earlier.

Two benefits that are unique to Roth IRAs are that you never have to make withdrawals (Roth account holders are not subject to RMDs) and you never have to stop making contributions. So, if you don't need the money in your Roth IRA for living expenses, you can continue to let the money grow tax-free for the benefit of your heirs or favorite charities.

[1]See p. 57 for more on the Roth vs. Traditional decision.



Withdrawing funds from an IRA *before* age 59½

With a traditional IRA, early withdrawals may be made penalty- but not tax-free under the following circumstances: death, disability, high medical expenses, medical insurance premiums while unemployed, qualified higher education expenses (for you, a spouse, child or grandchild), or first-time homebuyer expenses up to $10,000 (a couple of other allowable circumstances are described in IRS Pub 590-B). If you make an early withdrawal outside of those situations, you'll be subject to income tax on the full amount *and* a 10% penalty.

Roth IRAs offer more flexibility than traditional IRAs when it comes to early withdrawals. As noted earlier, you're always free to withdraw the principal you've contributed to a Roth. Investment gains also may be withdrawn before age 59½ without penalty (though regular taxes will still apply) if 1) the withdrawal is related to any of the reasons listed above for early withdrawals from a traditional IRA *and* 2) if the "five-year rule" conditions described earlier are met.

What about converting a traditional IRA to a Roth?

A law that took effect in 2010 allows such conversions, regardless of income level. Converting from a traditional IRA to a Roth will enable you to enjoy tax-free withdrawals of your investment gains when you retire (rather than paying deferred tax on those gains as you would when making withdrawals from a traditional IRA). In addition, converting can help you manage and reduce your future required mandatory distributions (RMDs). As stated earlier, with traditional IRAs, RMDs begin the year you reach age 70½. With Roth IRAs, there are no RMDs.

Of course, you'll have to pay income tax on the money you convert (the only exception would be any non-deductible contributions you made, but most IRA account holders haven't done that), so if possible, doing a conversion in a year when your tax rate is relatively low would be ideal. You can convert as much or as little as you want each year—it's not an all-or-nothing deal.

Whether to convert a traditional IRA to a Roth is a question that deserves considerable thought because it may affect other aspects of your tax picture. For example, you might trigger the alternative minimum tax (although that's far less likely under the new tax code that went into effect in 2018) or reduce eligibility for certain tax credits.

Is it worth converting? If you have the resources to pay the extra taxes without having to use any of the IRA balance to do so, it may be. But again, because a conversion may affect other aspects of your overall tax picture, don't make a decision without considering all the implications.

If you do have the cash on hand to pay the taxes and converting looks appealing to you, there are two more questions to consider. First, are you likely to need the money five years or more before you turn 59½? With money converted from a traditional to a Roth IRA, it isn't just the *earnings* that are subject to the five-year rule; *all* of the money is. After age 59½, only the earnings are subject to the rule. Second, are you absolutely certain you want to do an IRA conversion? Under the new tax code, a conversion cannot be undone.

Should you move 401(k) money to an IRA?

Most of today's workers hold multiple jobs in the course of their careers. One result is that people often find themselves with multiple retirement accounts. There's your old 401(k) from Glad-I-Left Corp., the traditional IRA you opened with your 2010 bonus check, your current company's retirement plan account, and the Roth IRA you opened last year. Plus, your spouse may have a similar assortment of accounts. What to do with them all?

Generally speaking, it makes sense to "roll over" old work-based accounts into IRAs. A rollover (that is the legal term in the tax code) is simply a tax-free distribution of cash or other assets from one retirement program that you then contribute to another retirement program.

The reason you would want to roll money from an old 401(k) into an IRA is that, as noted earlier, your investment choices usually are going to be much broader in an IRA. Besides that, many companies *require* former employees to move their holdings out of the company plan within a certain period after leaving the company's employ.

(That said, if you have a 401(k) account with a company for whom you stop working *at or after age 55*, you may not want to automatically roll it to an IRA. In that situation, you can withdraw from the 401(k) penalty-free. This unique "early retirement" provision goes away if you roll the 401(k) money into an IRA.)

The term "rollover" can be a bit confusing because there are actually two types of rollovers. In one, the money you're putting into your new IRA comes from a qualified employer plan such as a 401(k). For this type of transfer, you should try to coordinate with your old company's HR department and your new IRA custodian. The big fund companies and financial institutions handle these transactions all the time and can walk you through this normally painless process.

In the second type of rollover, you are moving an existing IRA from one company to another. While it's possible to have the old custodian write a check which you then reinvest in a new IRA yourself (within a 60-day deadline), that is *not* what we recommend. Instead, it's better to have the company you're transferring to handle the process for you. This is called an IRA asset transfer (sometimes called a trustee-to-trustee transfer). A transfer of funds from your old IRA *directly* to your new one is not only simpler, but it also avoids any potential problems associated with missing the 60-day deadline.

If you have multiple IRA accounts, consider combining them into one. By combining accounts, you'll save on fees and reduce paperwork. More importantly, you'll have an easier time managing your investments and tracking their performance.

Conclusion

The next generation of retirees will be strongly reliant on personal savings for retirement income. Individual Retirement Accounts—both traditional and Roth—are helpful tools for building those savings. Maximizing your IRA savings opportunities should be a high financial priority. The combined benefits of tax-advantaged treatment and investment flexibility make IRAs tough to beat. ◆

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

CREDIT CARD PERKS CAN BE ATTRACTIVE, BUT USERS BEWARE

In 1949, Frank McNamara had an idea—a big idea. He knew certain department stores and oil companies allowed their customers to charge purchases using a "charga-plate" or "courtesy card." What if there were a charge card for *restaurants*? And not just for a single restaurant or chain but a card that would be accepted at eating establishments just about anywhere?

McNamara's idea became Diners Club. Within a year, the Diners Club card was accepted at more than 300 U.S. restaurants and the club had 42,000 members, each of whom paid $3 a year for the card plus a 7% fee for each charge. The success of Diners Club led to a burgeoning credit card industry, populated by cards with names such as American Express, BankAmericard (now VISA), and MasterCharge (now MasterCard)—and these cards were accepted not only at restaurants but virtually everywhere.

The Discover card was a latecomer, making its appearance in 1986. However, Discover quickly disrupted the credit card marketplace by offering higher credit limits, no annual fee, and (introduced somewhat later) a "cash back" bonus program. Since then, "rewards" programs have proliferated across the industry, leading to today's wide range of enticing card offers, from cash-back programs to rewards points, and from extended-warranty coverage to travel miles.

Today, 74 percent of U.S. adults have at least one credit card, according to Equifax. Just over half pay their cards in full each month (known in industry lingo as "convenience users"). The rest carry a balance from month to month ("revolvers"), with an average outstanding balance of around $6,600.

Be savvy

Reward-laden credit card offers can be tempting. After all, who wouldn't want to travel around the world at low or no cost by using rewards points?

But card issuers don't offer rewards programs and introductory benefits just to be nice. They want to gain customers and make profits. There is nothing wrong with that, but for card usage to benefit you, and not just the card issuer, you must be a savvy user.

At a minimum, follow these basic "rules" for using credit cards wisely:

• **Plan ahead.** Use credit cards only for planned purchases, not for impulse spending.

• **Pay attention.** Keep track of your usage, making sure each charge counts against your current monthly budget for clothing or groceries or whatever else you bought on credit.

• **Pay the bill.** Pay your balance in full each month to avoid interest charges (credit cards typically charge high rates of interest—often higher than 20% APR).

• **Pull the plug.** If you can't pay in full, stop using your credit cards, at least until you pay off the balance(s).

If you follow these practices, credit cards can work in your favor. However, understand that banks and other card issuers structure their reward programs to try to keep you charging.

A merchant has to pay a fee to the issuer each time you charge, and multiple studies have found the typical cardholder spends 15%-30% more when paying with plastic than when using cash.[1] Research by the Federal Reserve Bank of Chicago documented[2] that new users of cash-back cards not only charge more but the amount of their monthly credit-card payments tends to decline. The study concluded: "[Cash-back programs are] a cost-effective tool *to increase bank revenue*" (emphasis added).

Finding a better card

If you're shopping for a card, the Internet is your friend. Websites such as nerdwallet.com and wallethub.com[3] offer credit-card comparisons that take into account the terms and perks you're seeking (rewards points, bonus miles, cash back, etc.), as well as your overall creditworthiness.

After narrowing the offers, *read the fine print*. Is there an annual fee added after an initial period? Will an introductory rate be forfeited if you make a late payment? Do the air miles have blackout dates? What is the per-year cash-back limit?

If you have existing consumer debt and you're thinking about transferring it to a "0% balance transfer" card, here's what you need to know. Such cards allow you to transfer debt (up to a certain amount that varies by offer) to a new account that will charge no interest for a defined period of time, typically 12-18 months. In most cases, such transfers require you to pay a one-time fee—usually 3%-5% of the transferred amount.[4] (With some balance-transfer cards, if you make any new purchases with the card and don't pay for those new purchases in full by the monthly due date, the issuer will start charging interest on the *entire* balance, including on the transferred debt!)

Another popular introductory offer is "no interest on new purchases." Typically, the no-interest terms remain in effect for 12-14 months from the time the customer activates the card. However, with some cards, the no-interest provision applies only to purchases made within a brief, defined period (such as 60 days) after opening the account.

Be on your guard

By separating the time of payment from the time of purchase, credit cards prompt users to spend more than they would if paying upfront with cash. Therefore, any "rewards" must be measured against the "spending creep" associated with credit-card use. So tread carefully. Coming out ahead requires a plan and considerable discipline. ◆

[1]Early research suggests this also holds true for payments made by app-based methods such as Venmo. [2]"Why Do Banks Reward Their Customers to Use Their Credit Cards?" (2010). [3]These sites derive income from card issuers. [4]A calculator at bit.ly/transfer-calculator gauges how much interest can be saved by transferring to a 0% card.

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

TWO TYPES OF ASSET ALLOCATION

Asset allocation is sometimes referred to as "your most important investing decision." However, it is not a magic bullet that always protects a portfolio from loss, nor does it guarantee market-beating returns. Let's take a closer look at exactly what asset allocation can—and can't—offer investors.

Asset allocation describes the process an investor goes through in dividing money among various *types* of investments (also called "asset classes"). This typically begins with a decision about how to divide a portfolio between stocks and bonds, but it may also involve including other broad asset classes (such as gold, real estate, and others). Academic studies indicate that these asset-allocation decisions play a larger role in determining investment returns than do the specific investments chosen *within* each asset class.

Done properly, asset allocation enables an investor to build a portfolio that balances risk and reward. The most common way to do this is based primarily on the investor's age. The younger the investor, the more appropriate it is for the portfolio to be heavily, if not completely, concentrated in stocks (and other "invest-by-owning" types of investments). While a portfolio consisting primarily of stocks and stock funds will experience significant ups and downs, such an approach has rewarded the long-term investor better than any other asset class.[1]

However, as an investor ages, he or she has less time to ride out market losses. So, it's wise to gradually decrease portfolio volatility by reducing one's stock-based investments and increasing allocations to safer investments, which traditionally has meant more bonds.

What asset allocation *can't* do

Perhaps the greatest myth of traditional asset allocation is that it will eliminate losses. Diversifying across different asset classes can decrease the *volatility* of a portfolio, but there are occasions when almost all asset classes move down together and losses are inevitable. This was true in 2008. Although bonds generally made money, virtually everything else plummeted. However, that year provides a good illustration of how asset allocation can affect *how much* an investor loses.

Consider the table below. An investor who was 100% invested in SMI's Stock Upgrading strategy lost -38.8% in 2008. Shifting the allocation mix to 40% stocks and 60% bonds limited losses to just -12.7%. (Note: these numbers don't account for the newer Upgrading 2.0 defensive protocols, which would have limited losses significantly.)

100% Stocks 0% Bonds	80% Stocks 20% Bonds	60% Stocks 40% Bonds	40% Stocks 60% Bonds
-38.8%	-30.0%	-21.3%	-12.7%

Of course, this works both ways. As the market recovered after the bear market, the 100% stock investor enjoyed much larger gains than those with more conservative allocations.

To fix or to flex?

The process we've been discussing so far is known as *strategic* asset allocation. This form is what SMI long emphasized: begin with your risk tolerance and season of life, and build a more-or-less permanent asset allocation plan based on those factors.

For strategic asset allocation to work, however, it requires investors to stick with the allocation through good markets *as well as bad*. Normally, the only changes made to the allocations are to rebalance the portfolio annually in order to bring it back into alignment with the initial allocation schedule.

The problem with strategic asset allocation is that investors' emotions frequently get the best of them. They may start out with the best of intentions to stick with their long-term allocations "through thick and thin," but eventually the fear created by steep market losses causes them to shift to a more conservative portfolio (that is, they sell stocks mid-bear market). This usually locks in existing losses at the worst possible time. When the market eventually rallies, the recovery of such investors' portfolios is slowed by their new, more conservative allocation.

Understanding *tactical* asset allocation

As market declines steepen, emotional stress grows. SMI's nearly 30 years of experience has made clear that many investors are going to do *something* in an effort to relieve the emotional pain at those pressure points.

This emotional-stress dynamic is partially responsible for the changes SMI has made to its strategies in recent years—specifically building defensive protocols right into the regular operating procedure of two key strategies, Dynamic Asset Allocation and Stock Upgrading 2.0. This allows investors to respond protectively *within the context of their long-term plan and long-term strategy mix*, without sabotaging their long-term results. By keeping these changes within the confines of a structured, mechanical system, the hope is that emotional reactions which might ultimately damage their long-term investing returns can be avoided.

Making allocation changes in response to market events is known as *tactical* asset allocation. Such an approach offers a particular set of strengths and weaknesses just as *strategic* asset allocation does.

Critics sometimes dismiss tactical asset allocation as "market timing," and depending on the way it is carried out, it can be just that. But there are different approaches to tactical asset allocation, ranging from making *(continued on page 61)*

[1] Aug2018: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

ROTH IRAs AND ROTH 401(K)s: SIMILAR, YET DIFFERENT

You may think a Roth IRA and a Roth 401(k) are essentially the same, the main difference being that one is a personally managed retirement account while the other is a workplace retirement plan. But there is more to the story. There are key—and somewhat confusing—differences in how Congress has structured the two types of similarly named accounts.

To put it in genetic terms, while the Roth IRA and Roth 401(k) share certain traits as "close cousins," the Roth 401(k) shares other important traits with its "older brother," the traditional 401(k).

Perhaps the muddled "some-of-this-some-of-that" nature of Roth 401(k)s is one reason for their slow adoption since coming on the market in 2006. Although 60%-70% of employers with retirement plans now offer a Roth 401(k) option, fewer than 20% of workers with access to Roth 401(k) accounts have signed up for them, according to data from the Plan Sponsors Council of America.

Here's a quick overview of how Roth IRAs and Roth 401(k)[1] are similar and how they differ (also see nearby table).

Similarities/differences of the Roths

• **After-tax dollars.** As noted in this month's cover article, Roth IRAs are designed for "after-tax" contributions. Ditto for the Roth 401(k). You pay tax on your income first, then make a contribution to the Roth account. You'll get no tax deduction for contributing to a Roth account.

• **Tax treatment on earnings growth.** Because Roth account holders pay taxes *before* making contributions, there's no tax on earnings growth related to their contributions. (For Roth 401(k)s, however, earnings on *employer-matching contributions* will be taxable upon withdrawal.)

• **Early withdrawals.** Any early withdrawals (i.e., before age 59½) from a Roth 401(k) are treated less favorably from a tax standpoint than such withdrawals from a Roth IRA. With a Roth IRA, an early withdrawal is tax- and penalty-free as long as the amount withdrawn doesn't exceed the owner's contributions.[2] But with a Roth 401(k), the IRS considers any early withdrawal to be taken partly from contributions and partly from earnings. (Example: If your account is made up of 70% contributions and 30% earnings, you'll pay tax on 30% of your withdrawal.) An early Roth 401(k) withdrawal also will incur a tax penalty.

• **Tax treatment of regular withdrawals.** Roth IRA account holders can make withdrawals fully tax-free after age 59½ (providing the account holder has had a Roth account for at least five years). For Roth 401(k) account holders, however, the proportion of withdrawals related to employer matching funds is taxable, as noted above.

Similarities/differences of the 401(k)s

• **No income limit on participation.** Even the super-wealthy can contribute to a 401(k) account, whether it's a traditional or a Roth 401(k). In contrast, Congress allows Roth IRA contributions only for people below a certain level of income (see table).

• **Higher contribution limits.** Traditional and Roth 401(k)s have the same contribution limit: $19,000 (for 2019 tax year), or $25,000 for account holders over age 50. Compare that to just $6,000/$7,000 for IRAs.

• **Mandatory distributions.** Unlike Roth IRAs, Roth 401(k)s (like traditional 401(k)s) are subject to mandatory distributions once the account holder reaches age 70½. The mandatory-distribution requirement doesn't apply, however, if the person is still working. Also, mandatory distributions can be avoided by rolling a Roth 401(k) into a Roth IRA.[3]

Why the difference in tax treatment?

The reason Roth 401(k)s get different tax treatment (in some respects) than Roth IRAs is that Roth 401(k) accounts typically hold two types of money, as viewed from a taxation perspective. Roth 401(k)s contain both *after*-tax employee contributions (and related earnings) and *before*-tax employer matching money (and related earnings). Therefore, the IRS treats Roth 401(k) matching contributions as though *(continued on page 61)*

COMPARISON OF FEATURES

Roth IRA	< Roth 401(k) >	Traditional 401(k)
Employee contributions made with after-tax dollars	<<< Same as Roth IRA	Employee contributions made with before-tax dollars
Earnings accumulate without tax consequences	<<< Same as Roth IRA	Earnings accumulate tax-deferred, but not tax-free
Withdrawals of contributions and earnings not taxed if recipient is at least 59½ and account has been held for at least five years	<<< Same as Roth IRA	Withdrawals of contributions and earnings subject to federal and most state income taxes
Income limits (2019): Married couples $203,000 / Singles $137,000	Same as traditional 401(k) >>>	No income limitation to participate
Contribution limit: $6,000 in 2019 ($7,000 for age 50 or over)	Same as traditional 401(k) >>>	Contribution limit: $19,000 in 2019 ($25,000 for age 50 or over)
No requirement to start taking distributions	Same as traditional 401(k) >>>	Distributions must begin no later than age 70½

[1]Provisions of the Roth 403(b)—for employees of non-profits—mirror the Roth 401(k). [2]Early withdrawal of some Roth IRA *earnings* is allowed—without taxes or penalties—for certain financial needs. [3]When rolling over, money in a Roth 401(k) that is the result of employer matching contributions must be rolled into a *traditional* IRA.

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

TRADITIONAL IRA vs. ROTH: WHICH MAXIMIZES RETIREMENT INCOME?

Retirement savers face two initial decisions. First is the *choice of a retirement-savings plan*, with the two most-common options being a workplace plan—such as a 401(k) or 403(b)—or an individual retirement account (IRA). The second decision is the choice between *making contributions on a "traditional" (pre-tax) basis, or a "Roth" (after-tax) basis*. This second decision is the focus of this article.

As this month's cover article explains, the primary difference between traditional and Roth tax treatment is one of timing. If you prefer to pay the taxes *now*, you can opt for *Roth* treatment—contributing already-taxed dollars now and never paying tax in the future on any earnings. If you prefer to pay the taxes *later*, you can opt for *traditional* IRA/401(k) treatment—this provides you with a tax benefit today (dollars contributed reduce your taxable income now), but you will pay tax on all withdrawals in the future.

Because of its "pay me now or pay me later" nature, much of the decision between these two options boils down to an educated guess as to how your future tax rate will compare to your current one.

If you expect to be in a much higher tax bracket in retirement, you may prefer to pay taxes now at lower rates and opt for Roth treatment. In contrast, if you expect to be in a lower tax bracket in retirement, you may want to postpone taxes until that point by opting for a traditional IRA/401(k).

The problem, of course, is that none of us has any idea what tax rates will look like in the future! This complicates the decision-making process. Still, thinking through the answers to a few questions about your personal financial situation can help you make a reasonably informed decision.

• **Question #1:** Can you afford to contribute the maximum allowable amount to your IRA and/or 401(k) each year? If you can, Roth treatment will likely be your best choice, because it's effectively "bigger" than its traditional counterpart. The reason why is because Roth contributions are made with *after-tax* dollars. So for someone in the 22% tax bracket, it actually takes $7,692 to fully fund a Roth IRA for 2019 ($6,000 for the Roth and $1,692 for federal taxes). The Roth investor is really getting the benefit of $7,692 in the account—the $6,000 which will grow tax-free, plus the $1,692 that has paid all the future tax. In contrast, the traditional IRA gets the benefit of less than the $6,000 being contributed, because future taxes will eventually consume part of the money saved. The same principle holds true for Roth and traditional 401(k) contributions.[1]

• **Question #2:** Do you expect to have plenty of other retirement income, allowing you to postpone withdrawals beyond age 70½, or possibly leave the account intact for your heirs? If so, opt for the Roth, which—unlike its traditional counterparts—has no mandatory withdrawal requirements, ever. (Technically, a Roth 401(k) does require distributions, but this can be easily avoided by rolling a Roth 401(k) into a Roth IRA at retirement age.)

• **Question #3:** Do you expect to be in a higher tax bracket in retirement? If so, it *may* be best to take your tax lumps now and put the money in a Roth. Given that many people expect tax rates to be generally higher across the board in the future, this factor causes some to assume Roth treatment is almost always better.

Unfortunately, this "future tax rates" question isn't as simple as it first appears. That's because with traditional contributions, the tax dollars you save now are coming off the "top" of your income, i.e., at your *highest* marginal tax rate. But when you retire and start withdrawing money from your IRA, unless you have significant other income sources (which most retirees don't), your withdrawals won't immediately be taxed at the highest tax rates. Instead, they will start filling in the tax brackets from the *bottom up*.

Consider the nearby table, which shows the tax rates applied to retiree income. (Read table from the bottom up.) It shows that most retired married-filing-jointly couples who take the standard deduction would pay zero tax on their first $24,400 of income, then would pay only 10% on their next $19,400, and so on. What the table illustrates is that, while someone may end up, for example, with a *marginal* (highest) tax rate of 22% in retirement, their first $103,350 of retirement income would be taxed at significantly lower rates than that.

Tax Rate	Retirement Income Increments[1]	Total Retirement Income
37%	All additional income	
35%	Next $204,150	$636,750
32%	Next $86,750	$432,600
24%	Next $153,050	$345,850
22%	Next $89,450	$192,800
12%	Next $59,550	$103,350
10%	Next $19,400	$43,800
0%	First $24,400	$24,400

[1]Assumes 'married, filing jointly' status and use of the standard deduction.

Many of today's workers expect to have only two sources of income in retirement: Social Security and their own savings. Even if Social Security continues to provide benefits similar to today's, this table shows that the tax rates applied to much of the money that will be withdrawn from retirement plans in the future will likely be relatively low.

For many workers, this is a strong argument in favor of using traditional 401(k)s and IRAs rather than Roths. Traditional tax treatment allows you to take your tax deduction today at your *highest* tax rate while you're working, then likely pay tax at lower *average* rates in retirement when you're not, due to this "filling in from the bottom" effect of the progressive tax *(continued on page 61)*

[1]This is an admittedly tricky concept. See p.261 of The SMI Handbook for a detailed explanation.

SOUND MIND PORTFOLIOS

Basic Strategies

The fund recommendations shown for Upgrading account holders 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 2/28/2019	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	-5.4	9.5%	1.7%	4.2%	-3.1%	-6.5%	10.7%	1.01	0.11%/0.09%	20%	16%	12%	8%	VTIAX/VXUS
Extended Market Index	Small company stocks	5.6	17.1%	5.0%	4.6%	-5.8%	6.8%	16.7%	1.30	0.08%/0.08%	40%	32%	24%	16%	VEXAX/VXF
S&P 500 Index	Large company stocks	3.0	11.5%	3.2%	1.4%	-3.1%	4.6%	15.2%	1.00	0.04%/0.04%	40%	32%	24%	16%	VFIAX/VOO
Total Bond Market Index	Medium-term bonds	7.9	1.0%	-0.1%	2.8%	2.0%	3.1%	1.6%	1.00	0.05%/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 your returns are in line with those of the overall market. You won’t “beat the market” but neither will you fall badly behind. Your JtB portfolio should be allocated among as many as four traditional mutual funds or ETFs (ticker symbols in rightmost column), 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 2/28/2019[1]	Date Added	E-Trade Avail[2]	Fidelity Avail[2]	Schwab Avail[2]	MOM[3]	Performance YTD	1Mo	3Mo	6Mo	12Mo	3Yr Avg	Rel Risk[4]	Exp Ratio	Number Holdings	Redemp Fee?[5]	Ticker Symbol
Category 5 Foreign	1. Lazard Glob Infrastructure	11/18	NTF	NTF	NTF	20.6	8.4%	2.5%	4.7%	3.8%	12.1%	11.0%	0.86	1.22	36	None	GLFOX
	2. Invesco Intl Divd Achievers	03/19	ETF	ETF	ETF	10.5	12.0%	2.1%	5.2%	1.8%	3.6%	11.9%	1.09	0.55	65	None	PID
	3. Longleaf Partners Intl	03/19	Yes	Yes	Yes	11.1	10.9%	1.9%	8.3%	-1.0%	3.8%	16.5%	1.21	1.15	22	None	LLINX
Category 4 Small/Growth	1. Baron Opportunity	03/18	NTF	NTF	NTF	21.1	17.8%	6.5%	7.3%	-2.4%	16.2%	25.5%	1.38	1.37	59	None	BIOPX
	2. Value Line Mid Cap Focus	12/18	NTF	NTF	NTF	24.7	14.0%	5.9%	5.4%	2.7%	16.7%	18.1%	1.03	1.18	38	None	VLIFX
	3. Alger Sm Cap Focus – LW[10]	03/19	NTF	NTF	NTF	29.7	18.7%	5.4%	6.6%	-6.9%	30.0%	29.8%	1.67	1.18	51	None	AOFAX
Category 3 Small/Value	1. Invesco S&P MidCap LowVol	12/18	ETF	ETF	ETF	19.8	11.4%	3.8%	2.8%	2.0%	15.0%	15.3%	0.96	0.25	82	None	XMLV
	2. Neuberg Intrins Val – LW[10]	03/19	NTF	NTF	NTF	15.7	23.7%	7.8%	7.4%	-2.3%	10.6%	15.5%	1.46	1.37	96	None	NINAX
	3. Merger Investor Fund	12/18	NTF	NTF	NTF	11.9	1.4%	0.7%	2.0%	4.3%	5.6%	4.9%	0.25	1.91	182	None	MERFX
Category 2 Large/Growth	1. MS Insight Fund – LW[10]	05/18	NTF	NTF	NTF	36.9	21.4%	7.3%	10.8%	2.4%	23.7%	30.%	1.53	1.24	45	None	CPOAX
	2. Polen Growth Investor	10/18	NTF	NTF	NTF	18.8	12.2%	4.4%	4.3%	-0.6%	15.1%	17.3%	1.08	1.25	23	2%60days	POLRX
	3. iShares Edge MSCI MinVol	12/18	ETF	ETF	ETF	17.2	9.7%	3.8%	2.4%	2.7%	12.2%	13.6%	0.85	0.15	218	None	USMV
Category 1 Large/Value	1. Invesco S&P 500 LowVol	12/18	ETF	ETF	ETF	21.1	11.0%	4.0%	3.4%	4.7%	13.0%	13.0%	0.88	0.25	102	None	SPLV
	2. AMG Yacktman Focused	03/19	NTF	NTF	NTF	16.3	7.0%	1.3%	2.0%	3.6%	10.7%	14.6%	0.71	1.27	33	2%60days	YAFFX
	3. Voya Corporate Ldrs Trust	03/19	NTF	Yes	NTF	15.5	12.5%	3.7%	3.0%	1.5%	11.1%	14.9%	1.10	0.59	22	None	LEXCX
Bond Categories	Vanguard I-T Bond[6]	2/19	ETF	ETF	ETF	10.4	1.5%	-0.1%	3.6%	2.9%	4.0%	1.7%	1.22	0.07	6.3[7]	None	BIV[8]
	Permanent: Vanguard I-T Bond	Perm	ETF	ETF	ETF	10.4	1.5%	-0.1%	3.6%	2.9%	4.0%	1.7%	1.22	0.07	6.3[7]	None	BIV[8]
	Permanent: Vanguard S-T Bond	Perm	ETF	ETF	ETF	6.6	0.7%	0.1%	1.7%	2.0%	2.9%	1.2%	0.45	0.07	2.6[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 March, rather than on the end-of-February performance data shown on this report. The fund ranked third is the one that currently appears most likely to be replaced next. If there is a telephone symbol (☎) next to a fund’s name, that fund is a new recommendation. **[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 Jan2019:Cover. **[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. To learn more, see Nov2018:p167. **[8]** Those preferring a traditional mutual-fund option can buy VIBLX. **[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.

Upgrading: Easy as 1-2-3

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

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

WHY UPGRADE?

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

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

WHERE TO OPEN YOUR ACCOUNT

Opening an account with a discount broker that offers a large selection of no-load funds greatly simplifies the Upgrading process. This allows you to quickly and easily buy/sell no-load mutual fund shares without having to open separate accounts at all the various fund organizations. There are several good brokerage choices available. We recommend reading our latest Broker Review (March 2018:Cover article, also available online at bit.ly/smibroker) for details regarding the pros and cons of each broker, as your specific investing needs will largely dictate which broker is best suited to your situation.

401(K) INVESTORS

For a detailed explanation of how to Upgrade within your 401(k) plan, see bit.ly/smi401ktracker. That article also contains ideas on Upgrading in any type of account where your available fund choices are limited.

HOW TO BEGIN STOCK UPGRADING

❶ First determine your stock/bond target allocation by working through the investment temperament quiz online in the "Start Here" section (see the link near the top of the home page on the main navigation bar). For example, Table 1 below provides guidelines for those with an "Explorer" temperament. For more on asset allocations, see Jan2018:p8.

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 amount to calculate the dollar amount to invest in each risk category.

❸ Buying your funds is easy. Look at the recommended funds on the opposite page. In each category, start with the #1 listed recommendation. If it's available at your brokerage (indicated by Yes, NTF, or ETF), buy it. If it's not, continue down the list to the next available fund. Then contact your broker—online or via phone—to buy the fund you've picked.

Let's see how a new subscriber 12 years from retirement with $50,000 to invest and an account at Fidelity would proceed. First, he or she selects the proper stock/bond mix for their situation (let's assume 80/20). Then, from Table 2, finds the percentages for each risk category. Multiplying $50,000 by each percentage yields the dollar amount for each category as shown in Table 3.[1] Looking at the Fidelity column on the Recommended Funds page, the highest-rated Cat. 5 fund is Lazard Global, the highest-rated Cat. 4 fund is Baron Opportunity, and so on. After making decisions 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 position 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%

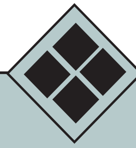
❸ BUY YOUR FUNDS

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	Baron Opportunity
Stock Cat. 3: Small/Value	16%	$8,000	Invesco S&P MidCap Low Vol
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).



MONEY TALK

SIGHTING: THE YIELD CURVE INVERTED, SO THERE'S A RECESSION ON THE WAY WITHIN A YEAR...

A closely watched measure of the yield curve briefly inverted Friday [3/22]—with the yield on the 10-year Treasury note falling below the yield on the 3-month T-bill—and rattled the stock market by underlining investor worries over a potential recession. Here's a look at what happened and what it might mean for financial markets.

What's the yield curve?

The yield curve is a line plotting yields across maturities. Typically, it slopes upward, with investors demanding more compensation to hold a note or bond for a longer period given the risk of inflation and other uncertainties. An inverted curve can be a source of concern for a variety of reasons: short-term rates could be running high because overly tight monetary policy is slowing the economy, or it could be that investor worries about future economic growth are stoking demand for safe, long-term Treasurys, pushing long-term rates down.

Why does it matter?

Inversions of [the 3-month/10-year yields] have preceded each of the past seven recessions, including the 2007-2009 contraction, according to the Cleveland Fed.

Is recession imminent?

Some economists have argued that the aftermath of quantitative easing measures that saw global central banks snap up government bonds may have robbed inversions of their reliability as a predictor.

Meanwhile, recessions in the past have typically come around a year *after* an inversion occurred. Data from Bianco Research shows that the 3-month/10-year curve has inverted for 10 straight days six or more times in the last 50 years, with a recession following, on average, 311 days later.

Is the stock selloff overdone?

Some investors argued that until other recession indicators, such as the unemployment rate, start blinking red, it's probably premature to press the panic button. Also, many analysts see the Fed eager to avoid an inversion of the yield curve, which could prompt policy makers to move from standby mode toward easing mode.

– By *MarketWatch* reporter William Watts. Read more at on.mktw.net/2TBjCKC. ◆

SIGHTING: ...OR IS THERE? REASONS THE YIELD CURVE WARNING MAY BE WRONG THIS TIME

[The recent inversion prompted] warnings that the U.S. is headed for recession later this year or in early 2020. Historically, such 'curve inversions' have tended to precede major economic slowdowns by about a year.... [But] the latest curve inversion could prove to be an exception to the rule—unless a misreading creates a detrimental self-fulfilling prophecy.

Yield-curve inversions are unusual because they involve lenders being willing to earn less interest income on money they commit, and therefore underpin both credit and liquidity risk, for longer. This typically happens when investors expect that yields on shorter-term maturities will fall substantially as the Federal Reserve cuts rates, also potentially dragging down longer-term bonds. This is most likely to occur if the economy is slowing sharply and faces a meaningful risk of recession....

But [any current] pessimism about growth ignores the fact that a solid labor market continues to underpin consumption, the most important driver of U.S. economic activity. Average monthly job creation remains well above what would be expected so late in the cycle. Moreover, more workers have been attracted back into the labor force, expanding productive capacity and income generation. And the current level of wage growth—an annualized rate of more than 3%—entails gains in real as well as nominal terms.

Consumption isn't the only driver. U.S. growth this year and next will also benefit from rising business investment. And while the effects of the [2018] tax cuts are diminishing, they are being offset by higher government spending....

All of this suggests that, when it comes to the direct economic and markets effects, this curve inversion is unlikely to be the traditional signal of a U.S. recession.

– By Mohamed El-Erian, chief economic adviser at Allianz SE. Read more at bit.ly/2JFR0QL. (For SMI's perspective on this topic, read *What the Flattening Yield Curve Says About the Economy and Markets* at bit.ly/2WmCvmh.) ◆

SIGHTING: ROTH CONVERSION BRACKETOLOGY

Every year, the NCAA basketball season concludes with the March Madness playoffs. Many Americans engage in bracketology—trying to figure out which teams will get knocked out in each round and which will advance....

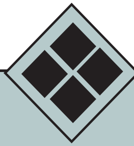
This year, however, Americans with substantial retirement accounts might also want to try another form of bracketology: studying the 2017 tax law—and asking whether it offers a unique opportunity to convert hefty amounts of traditional IRA money to a Roth IRA.

For most middle-income Americans, the 2017 tax law lowered their marginal income tax rates by three or four percentage points.... How does all this affect Roth conversions? There are two important considerations. First, suppose you've accumulated a sizeable sum in all your 401(k)s, IRAs and similar tax-deferred accounts, including those of your spouse. Once each of you turn[s] age 70½, you'll be required to draw down those accounts and pay income taxes on the distributions.

That brings us to the second consideration: 2017's tax cuts are scheduled to end in 2025—and they could disappear after 2020's election. That means there's a [potentially] brief...opportunity to take advantage of today's...low marginal tax rates....

If you do opt for large Roth conversions, make sure you have enough money set aside to cover the resulting tax bill. Ideally, you should try to avoid dipping into your retirement accounts to pay that bill—and you certainly don't want to be doing so if tapping your traditional retirement accounts triggers tax penalties as well.

– From the *Humble Dollar* blog. More at bit.ly/2Fuc7QE. ◆



MONEY TALK

LEVEL 2 / CONTINUED FROM PAGE 55

TWO TYPES OF ASSET ALLOCATION

incremental adjustments to an otherwise unchanging asset allocation (as Upgrading 2.0 does by gradually shifting stock holdings to cash during bear markets), to making more significant ongoing changes based on various factors, as DAA does.[1]

Conclusion

The asset-allocation aspect of setting up a portfolio used to be more straightforward when all SMI investors started with the traditional allocation process based on age and risk tolerance. Now, the asset allocation process an SMI member uses depends on which strategies he or she chooses. In other words, SMI used to take all new members through the asset-allocation process first, then had them select which strategies they would use. Now, we select the strategy (or strategies) first, then deal with asset allocation second.

This change is due primarily to our DAA strategy, which relies solely on *tactical* asset allocation. So if DAA is a person's only strategy, there's no need to go through the asset allocation process at all—DAA will take care of it as part of the strategy's ongoing process. If, on the other hand, an SMI investor is using either Fund Upgrading or Just-the-Basics for part (or all) of a portfolio, the traditional strategic asset-allocation process is applied. This involves taking SMI's risk-tolerance quiz and using our Seasons of Life chart to determine the portion of Upgrading and/or JtB to devote to stocks versus bonds.

While this has required SMI's "getting started" process to change a bit, it's worth it. The new tactical asset-allocation tool, as implemented within DAA and Upgrading 2.0, *strengthens one's ability to respond to—and to weather—market storms*. We believe these defensive improvements to our portfolios will be vital in the years ahead.

When it comes to investing, emotional decision-making typically leads to poor performance. While the fixed asset allocations of the past have been partially replaced by a more flexible approach driven by SMI's mechanical strategies, these objective, measurable processes for dividing your portfolio among diversified asset classes provide an important defense against future bear markets—and your own emotions. ◆

LEVEL 3 / CONTINUED FROM PAGE 56

ROTH IRAs AND ROTH 401(K)s: SIMILAR, YET SIGNIFICANTLY DIFFERENT

they were made to a non-Roth account. That means employer matching funds, along with any earnings growth related to those employer contributions, are accounted for separately and will incur taxes upon withdrawal.

One of each?

The most obvious benefits of a Roth 401(k) account are 1) the employer match, if available, 2) tax-free (not just tax-deferred) growth, and 3) the availability of a Roth vehicle to high-income employees who make too much money to be eligible for a Roth IRA.

Unfortunately, many 401(k) plans—whether traditional or Roth—offer limited investment options, often coupled with fairly high expenses. Still, a generous employer match likely will compensate for those downsides. If you have access to a Roth 401(k) at your workplace (and you prefer to pay taxes now rather than later), be sure to contribute enough to get the full employer match. (For more on this, see the section "Choosing Between an IRA and a 401(k) in this month's cover article.)

Beyond that, if you're eligible for a Roth IRA, you may want to consider one of those as well. Although it will have lower contribution limits than a 401(k), a Roth IRA will have more investment options, greater flexibility, and ultimately will serve as a source of truly tax-free retirement income. ◆

LEVEL 4 / CONTINUED FROM PAGE 57

TRADITIONAL IRA vs. ROTH: WHICH MAXIMIZES RETIREMENT INCOME?

brackets. Roth treatment, in contrast, turns this on its head, causing you to pay tax now at a higher rate, while saving you less tax later on any income used to fill in the lower tax brackets.

The case for traditional 401(k)s/IRAs is even stronger if you live in a high income-tax state. You'll save several extra percent in taxes now (whatever your state tax rate is). At worst, you'll pay a similarly high state tax when you take the money out in retirement. But at best, you may pay much less if you retire in a low- or no-tax state (such as Florida or Texas)—or you may live in such a state at some point in your life, providing an excellent opportunity to convert to Roth treatment at a lower overall tax rate.

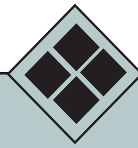
There's a final significant benefit to traditional contributions rather than Roth: they lower your current income for tax purposes. There are many benefits in the tax code that are phased out or you become ineligible for as your income rises. Deducting your 401(k)/IRA contributions helps keep that from happening.

Conclusion

So should everyone choose traditional tax treatment instead of Roth? No. But we do think the playing field is more level than some Roth enthusiasts seem to believe.

Some people are quite likely to benefit from Roth treatment. As noted earlier, super savers who contribute the maximum allowed to their 401(k) and/or IRAs each year have a strong incentive to use the Roth options. Those who suspect they will have enough income to fill in the lower tax brackets in retirement will likely also benefit from Roths. And finally, anyone who is likely to see significantly higher pay in the future than they earn now should favor the Roth. If you can pay tax today at relatively *low* rates, it probably makes sense

[1]See the October 2018 cover article, *The Role of SMI's Dynamic Asset Allocation Strategy in Light of Current Market Dynamics*, for a detailed explanation.



MONEY TALK

to do so, especially if you think your tax rate may be higher in retirement. This is why we typically encourage young people to use Roth IRAs and Roth 401(k)s.

While some people will come down clearly on one side of the Roth/traditional divide, for many others it's unclear which approach is best, even after working through this information. That's okay—it doesn't need to be an "either/or" issue. Over the years, SMI has increasingly embraced the idea of "tax diversification." No one knows what taxes will look like a decade or two from now, so we think having a blend of account types may help future retirees navigate whatever tax situations they face in the future.

Even if the tax landscape doesn't change much, having traditional accounts you can draw from in retirement to fill in those lower tax brackets is a positive thing, while having Roth accounts to supplement your income tax-free will also be welcome. Because the Roth 401(k) doesn't enjoy all the benefits of the Roth IRA (see page 56), if you are going to mix Roth and traditional account types, our recommendation is to favor Roth IRAs and traditional 401(k) contributions (rather than vice versa).

There's no question that adding the Roth options to the IRA and 401(k) discussions in recent decades has complicated things. But it's a great problem to have. These new tools present powerful new opportunities for those investors diligent enough to take advantage of them. ◆

MARKET NOTES, QUOTES, AND ANECDOTES

Proceed with caution

"Think of it this way. The yield curve is a yellow light, not a red one. We're still going to proceed, but with caution." – Eddy Elfenbein, writing on his *Crossing Wall Street* blog on 3/25/19 about the recent inversion of the yield curve. On 3/22, the yield on 10-year Treasury notes slipped below the yield on three-month T-bills. When long-term rates fall below short-term rates, especially when they fall below the yield on *two-year* Treasury bills (which hasn't happened—yet), that is widely viewed as a recession indicator. It has preceded all nine recessions going back to 1955. Elfenbein noted, however, that it doesn't mean a recession is imminent. The last time two-year and 10-year rates inverted was in late 2005—two years before the last recession. Read more at bit.ly/2HYjvXB.

No reason to worry

"...in fact it might signal that the Fed would at some point need to cut rates, but it certainly doesn't signal that this is a set of developments that would necessarily cause a recession." – Former Federal Reserve Chairwoman Janet Yellen, commenting on the economy in light of the recent yield-curve inversion. Yellen was quoted by *CNBC* on 3/25/19. Read more at cnb.cx/2HDTvBo.

Weathering the next market storm

"You must have some kind of strategy for dealing with market volatility.... [I]nvest in programs that give you at least a chance to dodge bear markets. Buy and hold works in theory, but not for most people because we are humans with emotions. We should recognize that and take steps to control it." – Economist John Mauldin, in a 3/14/19 guest column in *Forbes*. He believes the next recession and bear market will be devastating to many baby boomers, especially those who are heavily invested in index funds and take a buy-and-hold approach to investing. Read more at bit.ly/2Tr7g7M.

The 4% rule may not add up

"Simple as that. At a stroke of the calculator anyone grappling with a defined contribution pension can treat it like it's one of those turnkey defined benefit, gold-plated jobs! If only."– "The Accumulator," writing in his *Monevator* blog on 3/19/19. In his post, he finds lots of concerns with "The 4% Rule," which theorizes that retirees can withdraw 4% of their portfolio to live on in their first year of retirement, and then adjust that amount upward for inflation each year thereafter, and not run out of money. Read more at bit.ly/2HBxwei.

Investor, know thy market

"95% of the time you're underwater. The less you look, the better off you'll be." – *The Irrelevant Investor* blogger Michael Batnick, commenting on the fact that since 1916, the Dow Jones Industrial Average has made new all-time highs less than 5% of all days, but over that time it's up 25,568%. That was among "The Twenty Craziest Investing Facts Ever" he wrote about in a 3/13/19 post. Read about the other 19 at bit.ly/2TOgZcu.

Is your glass half-empty?

"The most expensive investing mistake in the world to make is to be a pessimist, and it's a common one. I think that's actually the most common mistake to make in life." – Sam Altman, chairman of the venture capital firm Y Combinator, refuting the notion that it's become more difficult to find innovative companies to invest in. Read more at bit.ly/2tReLKS.

Beyond the active/passive debate

"...active management's death has been erroneously forecast and proclaimed." – Robert Seawright, arguing on his *Above the Market* blog on 3/21/19 that most investing is active investing. Read more at bit.ly/2uqXNDh.

SOUND MIND PORTFOLIOS

PREMIUM STRATEGIES

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

DYNAMIC ASSET ALLOCATION

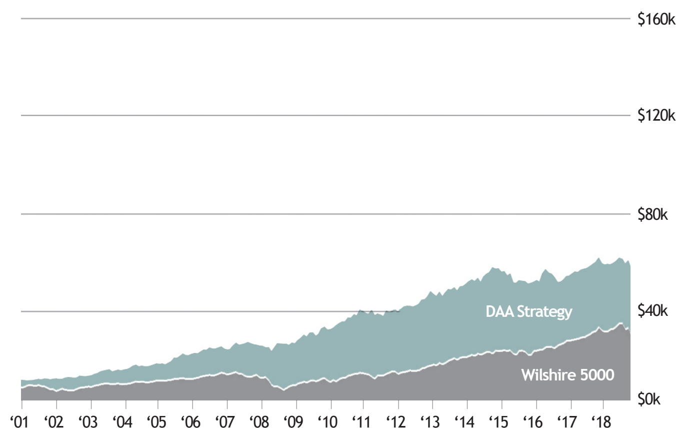
Overview

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

Who Should Consider This Strategy

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

Dynamic Asset Allocation vs Wilshire 5000
Growth of $10,000 January 2001-December 2018



Strategy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Avg[1]	Worst12[1]	Rel Risk[1]
DAA	4.0%	10.4%	22.4%	19.3%	8.6%	25.7%	10.1%	1.3%	17.6%	20.3%	1.4%	13.9%	16.2%	13.0%	-6.8%	-0.5%	16.0%	-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

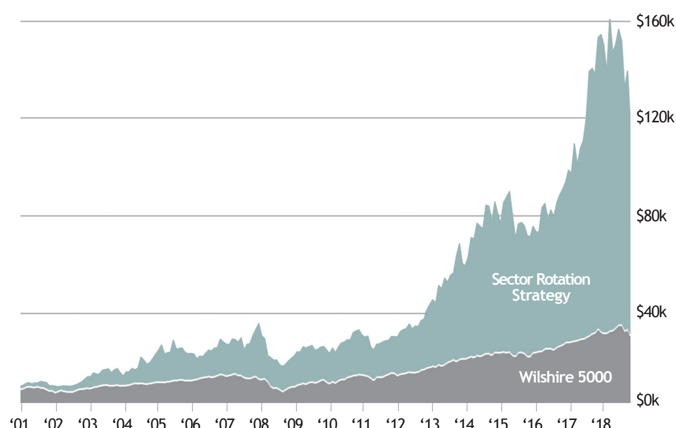
Overview

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 January 2001-December 2018



Strategy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Avg[1]	Worst12[1]	Rel Risk[1]
Sector Rotation	3.7%	-13.1%	54.4%	12.6%	46.1%	-1.9%	28.1%	-31.5%	30.5%	9.1%	-3.2%	23.3%	65.7%	49.9%	-9.7%	16.8%	56.7%	-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. "Worst12" represents the worst investor experience over 181 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 FEBRUARY 28, 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]	12.4%	3.5%	2.0%	5.1%	15.6%	10.3%	16.8%	8.6%
Just-the-Basics[2]	13.3%	3.6%	3.2%	3.2%	15.0%	8.0%	15.9%	8.3%
Stock Upgrading[3]	8.3%	2.8%	-0.4%	-1.8%	11.4%	5.9%	13.9%	8.1%
U.S. Bond Market[4]	1.0%	-0.1%	2.8%	3.0%	1.5%	2.1%	3.5%	3.7%
Bond Upgrading[5]	0.8%	0.0%	2.1%	2.4%	1.4%	2.1%	5.8%	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]	1.4%	-0.2%	-4.1%	-2.4%	4.3%	3.1%	8.4%	9.5%
Sector Rotation	4.1%	4.5%	-13.1%	-21.6%	19.6%	12.3%	21.6%	14.5%
50-40-10 Blend[7]	4.5%	1.4%	-3.5%	-4.2%	8.8%	5.4%	12.1%	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 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. 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 2/28/2019	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	8.06%	2.70%	-1.43%	-4.94%	10.15%	3.98%	12.45%
Wilshire 5000	12.42%	3.47%	1.97%	5.07%	15.63%	10.34%	16.79%
S&P 500	11.48%	3.21%	1.42%	4.68%	15.28%	10.67%	16.67%

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: 2.04% as of 2/28/19 (includes expenses of underlying funds)
Adjusted expense ratio: 1.16% as of 2/28/19 (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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