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SoundMindInvesting®

Financial Wisdom for Living Well

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The Crucial Role of Diversification in Reducing Risk

In team sports, it's important to have players who complement each other's skills. If a baseball team was stocked exclusively with relief pitchers, it would be unlikely to win a single game! The team's risk of losing goes down as it adds strong starters, top-notch hitters, and solid fielders. Investors would be better off if they built their portfolios the way managers assemble teams—with an eye toward diversifying their talent so they can compete effectively under a variety of conditions.

by Austin Pryor and Mark Biller

Sound Mind Investing enters its 30th year this summer, and over those three decades, we've seen a wide variety of market environments. We've watched the stock market soar in the dot-com bubble of the late-1990s and crumble in the -50% bear markets of 2000-2002 and 2007-2009. We've seen a real-estate bubble and subsequent bust. We've watched gold and other precious metals slumber for a decade at a time in the 1990s and 2010s, punctuated by a wild rally during the 2000s. And after watching bond returns pour in at a rapid clip as interest rates declined throughout the 1990s and 2000s, we've also watched investors starved for income as interest rates were dropped to historic lows and kept there for much of the past decade.

Throughout these ever-changing market conditions, the key to SMI's success has been keeping our focus on three fundamentals: strategic selection of top-performing funds, broad diversification across many asset classes, and having the self-discipline to stay with our strategies through the market storms. We've written frequently in past years on the first and last of these factors; we think it is timely now to devote an article to the importance of the second.

Why timely? Because of the fact that the past decade has been "the worst of times" for diversified portfolios, at least relative to the S&P 500 stock-market index. Investors who have diversified into virtually anything else since this bull market began in 2009 have earned lower relative returns. Meanwhile, the ride higher has been smooth enough (with a few notable exceptions in 2011, 2015-16, and late last year) that investors heavily exposed to equities haven't incurred much of the normal volatility "cost."

Now, after a decade of seemingly getting a free ride in an exceptionally performing S&P 500, many investors understandably may be casting a skeptical eye toward diversification. This article is intended to go back to basics and re-establish the value of this crucial investment principle. Unfortunately, it's those times (such as the present) when investors most need sound diversification that they're most likely to abandon it.

Our collective memory of horror stories about people who saw their retirement and other investment accounts shrink by 50%, 60%, or more during the past two bear markets is fading. But if you could examine those portfolios, we suspect you'd find that somewhere along the way those *(continued on page 67)*

IN THIS ISSUE

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

EDITORIAL

“A Game of Recovery”

In the 2004 film *Bobby Jones, Stroke of Genius*, there’s a scene in which a young Bobby Jones is pitted against U. S. Open champion Walter Hagen. Although Hagen has an erratic swing and seems error prone, he runs away with the match. Afterward, Hagen confides in Jones: “I don’t always hit the ball straight, but you know what I’ve learned? Three bad shots and one good one still make par. Golf is a game of recovery.”

A different sort of recovery story played out at this year’s Masters Tournament, where Tiger Woods captured the title in thrilling fashion, winning by a single stroke. What made this a compelling recovery story was the fact it was Woods’ first major tournament victory in over a decade. His 14 prior “majors” and four Masters titles had all come before his personal life, health, and golf game crumbled a decade ago. But Tiger persevered and finally made it back to the top.

Turning to college basketball, fans are treated annually to “March Madness” and a lineup of games that invariably include several seemingly impossible comebacks. Because of the many stunning recoveries, sportswriters often call the three-week event the most exciting in sports.

Or how about one of my all-time favorite “recovery” stories, the 2004 playoff victories of the baseball’s Boston Red Sox? After losing the first three games of their league championship series with the New York Yankees, they trailed in game four with only three outs standing between them and the end of their season. But, improbably, they recovered. They came back to win that game, and, shockingly, the next three as well! In stunning the Yankees, they became the first team in baseball history to recover from an 0-3 deficit in a league championship and win four straight games to claim the title (and eventually the World Series, their first in 86 years).

Sports fans can talk for hours about amazing comebacks. But the “recovery” principle is applicable across a broad range of life’s experiences, including our finances. Of course, stewardship (and the investing duties that come with it) isn’t a game. It’s quite serious. When we handle this responsibility well, we further God’s kingdom—and earn “Well done!” praise and eternal rewards from our Savior.

But, like athletes, we don’t always carry out our duties with perfection. We sometimes fall behind where we know we should be. None of us can look back at a lifetime of spending, investing, and giving decisions and be totally pleased with our own performance. Being a good steward, however, is a game of recovery—if I may use the term for purposes of illustration. SMI exists to help you in this process. I certainly made my share of mistakes in earlier years! I’m glad to share what I’ve learned so that you don’t repeat them. When I fell down, I got up and kept going; so can you.

You may even want to take a few tips from athletes who’ve learned how to recover from setbacks. If you listen to their interviews, there’s a common thread that runs through how they overcame their poor starts.

1. Let go of the past. They have a long-practiced and rather remarkable ability to put their failures behind them—block them out—and concentrate on the task immediately at hand.

2. Play the next play. The most important thing is to focus on what they can do *now*. They know they can’t make up for past mistakes all at once, but they can begin to regain ground bit by bit—with a birdie on this hole, a basket on this trip down the floor, a single into center to keep the rally alive.

3. Follow their training. Athletes have received training over the years as to how to execute the task at hand, and they know it is essential to stay faithful to that training. When the pressure is on, it isn’t the time for untested strategies or spontaneous innovations. Instead, it is essential to concentrate on doing simple things well, performing as taught.

4. Persevere. Essentially, this means repeating the first three steps over and over. It’s not easy. It requires “a long obedience in the same direction.” It’s called being faithful.

If we invite the Holy Spirit to help us follow this pattern, we’ll have a lot in common with the apostle Paul (who knew a thing or two about recovering from a bad start): “I am still not all I should be, but I am focusing all my energies on this one thing: Forgetting the past and looking forward to what lies ahead, I strain to reach the end of the race and receive the prize for which God, through Christ Jesus, is calling us up to heaven” (Philippians 3:13-14 NLT).

Austin

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FEATURE ARTICLE

The Crucial Role of Diversification in Reducing Risk

(continued from front page)

investors stopped spreading their risk through diversification and began concentrating their holdings too narrowly. When the market turned, they had no exit strategy and rode their investments down.

Diversification is a key biblical investing principle

We believe that, ultimately, it's impossible to self-destruct financially if you follow God's time-tested principles for stewardship. One of those principles is that, to protect against the uncertainties of the future, your investments should be broadly diversified: "*Give portions to seven, yes to eight, for you do not know what disaster may come upon the land*" (Ecclesiastes 11:2). To diversify is to be honest with yourself and say, "Not only do I not know what the future holds, none of the experts do either." Since you don't (and can't) know the future, you can never know with certainty which investments will turn out most profitably. That's the rationale for diversifying—spreading out your portfolio into various areas so you won't be overinvested in any hard-hit areas and you'll have at least some investments in the most rewarding areas.

What we're going to do in this article is build a portfolio, piece by piece, and illustrate the effects that diversification has on risk and return. The idea is to pick investments that "march to different drummers." This means your strategy involves owning a *mix* of investments, a variety of holdings that tend to respond in different ways to economic events. You will see that as we add various kinds of assets into the mix, the volatility of the portfolio is gradually reduced. Surprisingly, it's possible to assemble some lower-risk investment combinations that give similar returns over time as higher-risk ones! Such a mix of investments is said to be more "efficient" because it accomplishes the same investment result while taking less risk.

The portfolio we're constructing here is being built for the sole purpose of illustrating the impact of diversification. Don't be confused by the fact that it doesn't precisely match any of SMI's specific investing strategies. If you follow the SMI strategies, you'll be getting a healthy dose of diversification, the level of which will vary depending on which (and how many) strategies you include in your portfolio. (For a view of the impact of diversification among specific SMI strategies, see the April 2018 cover article, *Higher Returns With Less Risk, Re-Examined*, available on the SMI website.)

Building a model diversified portfolio step by step

We'll launch our imaginary portfolio at the beginning of 1989 (30 years ago) and initially put all our money in mutual funds that invest in small companies experiencing rapid growth. The idea here is that these companies have the best growth prospects, so an investor might reasonably assume they are likely to earn the highest returns. Our initial portfolio looks like the one shown at left. Small-cap-growth funds as a group returned 10.23% annually, on average, during the 30-year period that ended 12/31/18.[1] This is slightly better than the 9.93% turned in by the overall market[2] during that period. However, the above-average returns come at a cost: the "relative risk" score is 1.38, meaning that the month-to-month volatility of the portfolio is 38% *greater than* that of the market taken as a whole. (By definition, the market's volatility in this calculation is 1.00.)

PORTFOLIO A	
Small/Growth	100%
Risk	1.38
Return	10.23%

To reduce our risk, let's move one-half of our money into growth funds that invest in larger companies such as those found in the S&P 500 stock index (Portfolio B). The average large-growth fund returned 9.09% during the test period. The lower return is not surprising. Since the growth prospects for large companies aren't as great as smaller companies, we would expect to earn a somewhat lower return as a result. This change causes the average annual return of our portfolio to fall to 9.76%.[3] What we gain, however, is more stability—now the portfolio is only 21% more volatile than the market (relative risk of 1.21). But we can improve on that.

PORTFOLIO B	
Small/Growth	50%
Large/Growth	50%
Total Portfolio	100%
Risk	1.21
Return	9.76%

So far, we've been concentrating our money in growth-oriented funds. There's a more conservative approach to picking stocks called "value investing," and many mutual funds specialize in that area. Value investors are bargain hunters, seeking out companies whose stock is underpriced due to (hopefully) temporary factors. During the 30-year test period, *small*-company value funds returned 9.95% and *large*-company value funds returned 8.50%. Further dividing our portfolio so as to include equal allocations to these value-oriented funds (Portfolio C) is a win/win tactic. For one thing, we further reduce our portfolio's relative risk—it drops to 1.06, only a little higher than the market overall. We would expect this, since we're now equally divided among the four primary asset classes that make up the U.S. market. Second, our average annual returns decline only slightly, despite the fact that value funds have lagged growth by a wide margin over the past five years. Over longer periods, value managers have a history of slightly outperforming their growth-oriented rivals, so we'd caution against reading too much into the slight performance decline in this recent period.

PORTFOLIO C	
Small/Growth	25%
Large/Growth	25%
Small/Value	25%
Large/Value	25%
Total Portfolio	100%
Risk	1.06
Return	9.63%

The bigger takeaway regarding growth vs. value funds is this: there are periods when growth funds dramatically outdistance value funds and vice versa. We've written about some of the similarities between the current market and that of the late 1990s.[4] This is another: just as growth has outperformed value the past five years, the performance gap was even more striking in 1998-1999 when it was +76% for growth funds versus a meager +7% for value funds! Since you can't know with any degree of certainty when these episodes will occur, the safest (and easiest) thing to do is always be invested in both groups.

Now that we've covered the U.S. market, let's consider adding a foreign flavor. International diversification was long viewed as a strong diversification move, as other

[1] All returns in this article are based on the average returns of all mutual funds in a given category. [2] As measured by the Wilshire 5000 stock index. [3] Because portfolios are rebalanced regularly, the 30-year results are not the same as simply averaging the various components. [4] bit.ly/FebDAA

country's economies and markets often moved out of sync with the U.S. However, as the global economy has become more thoroughly integrated, world markets now seem to rise and fall almost in lock-step with ours. As can be seen in the Portfolio D table, adding a 12% allocation to foreign funds did little to dampen our portfolio's volatility—the relative risk score barely moved, dropping from 1.06 to 1.04. But, because foreign markets trailed the U.S. in 18 of the 30 years, performance in our portfolio took a slight hit, falling from 9.63% annually to 9.33%. Still, SMI continues to think foreign diversification makes sense and still includes foreign components in most of our main strategies.[1]

PORTFOLIO D	
Small/Growth	22%
Large/Growth	22%
Small/Value	22%
Large/Value	22%
Foreign	12%
Total Portfolio	100%
Risk	1.04
Return	9.33%

In terms of *stock-market* diversification, SMI's two original model portfolios (Just-the-Basics and Fund Upgrading) stop here, with a mix of domestic and foreign stock funds. But SMI's primary defensive strategy, Dynamic Asset Allocation (DAA) includes two additional asset classes: real estate and precious metals.

Looking first at U.S. real estate, it's worth noting that this asset class has a track record of occasionally zigging when the stock market zags. The Wilshire 5000 index outperformed real estate over the full 30-year period, but real estate was actually the better performer in 17 of the 30 years. Allocating 8% to real-estate funds as shown in Portfolio E resulted in a slight *decrease* to our risk score and *increase* to annual performance vs. Portfolio D.

PORTFOLIO E	
Small/Growth	20%
Large/Growth	20%
Small/Value	20%
Large/Value	20%
Foreign	12%
Real Estate	8%
Total Portfolio	100%
Risk	1.02
Return	9.40%

Adding a precious-metals component to our portfolio (see Portfolio F) lowered both risk and returns slightly. Precious metals funds performed rather poorly over the 30-year period as a whole (the period from 2001-2010 was great, but the remaining years not so much). Based purely on past performance, it's hard to argue that metals are worth adding, at least on a permanent buy-and-hold basis, which is why for many years SMI advised not to bother. But they can be a valuable addition in certain circumstances, which makes them a great addition to DAA where we can own them *some* of the time without being committed to them *all* of the time. We've included them here to show that a modest allocation to metals hasn't been a significant detriment, even during a period that wasn't especially favorable to them on the whole.

PORTFOLIO F	
Small/Growth	20%
Large/Growth	20%
Small/Value	20%
Large/Value	20%
Foreign	10%
Real Estate	5%
Gold	5%
Total Portfolio	100%
Risk	1.01
Return	9.32%

There's still more that can be done to lower risk, and that involves the most significant diversification move yet—moving some of our money out of invest-by-*owning* types of mutual funds (the higher-risk kind) into invest-by-*lending* types of funds (the lower-risk kind).[2] Portfolio G shows the effects of making slight reductions in each of the equity allocations in order to carve out a 20% position in intermediate-term bonds. Making this change reduces the volatility of our portfolio by about 1/5th (by lowering our relative risk score from 1.01 in Portfolio F to 0.82) while reducing our return only about 1/16th (from 9.32% to 8.72%).

PORTFOLIO G	
Small/Growth	16%
Large/Growth	16%
Small/Value	16%
Large/Value	16%
Foreign	8%
Real Estate	4%
Gold	4%
I.T. Bonds	20%
Total Portfolio	100%
Risk	.82
Return	8.72%

With bonds, it's always a question of balancing your need for income (longer-term bond funds typically yield more) with your desire for safety (shorter-term bond funds are more stable). SMI's Bond Upgrading strategy uses a variety of bond types, but for our purposes in this article, using *intermediate*-term bonds makes sense. Choosing intermediate-term funds is a middle-of-the-road solution that presents something of a "best of both worlds" dynamic. Historically, intermediate-term bonds have been the sweet spot of the bond market, offering most of the extra return provided by longer maturities with only a modest increase in risk.

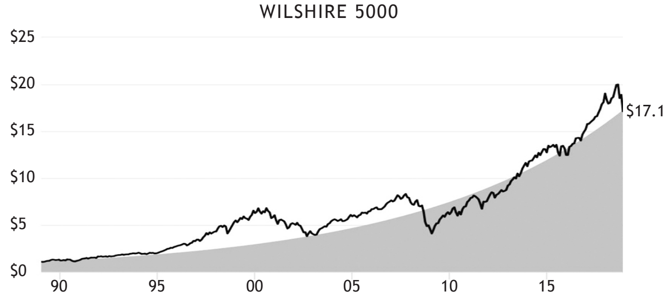
Review and conclusion

Let's review. We began our journey with a go-go portfolio made up solely of small-company growth stocks (Portfolio A). Now, we've diversified into large companies, value strategies, real estate, precious metals, and bonds (Portfolio G). As a result of these changes, our annual return has declined just under 15% (from 10.2% to 8.7%). But more importantly, our measure of risk has fallen by more than 40% (from 1.38 down to 0.82). The graphs that follow illustrate why, for most investors, that's a good tradeoff to make.

The first graph shows how a dollar invested in the U.S. market (Wilshire 5000) at the beginning of 1989 would have grown to be worth $17.13 by the end of 2018. The shaded area of the chart shows what the path would have looked like if the portfolio had eliminated all volatility and simply showed the same consistent return, month after month, as it moved toward the $17.13 mark. That's the ideal—the path we're trying to move toward with our diversification efforts. That is the path that offers the least volatility, and accordingly, the least emotional stress. Obviously, the U.S. stock market wasn't close to that ideal, racing out ahead of the mark during the three major bull

U.S. MARKET

WILSHIRE 5000



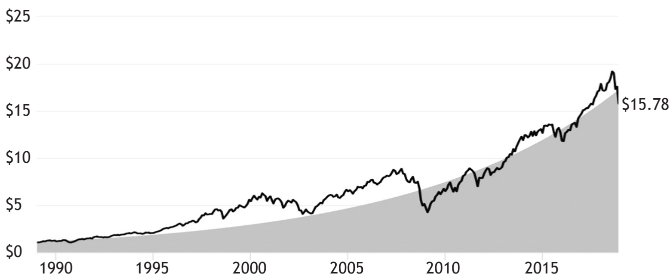
[1] To learn why, see SMI's August 2017 cover article, *Diversifying Abroad: A Primer on International Investing*. [2] Investments through which you lend money include CDs, money-market funds, U.S. Treasury bills, and bonds. Their primary advantage is safety. Investments where you become an owner include common stocks, real estate, and precious metals.

PORTFOLIO A

SMALL GROWTH STOCKS

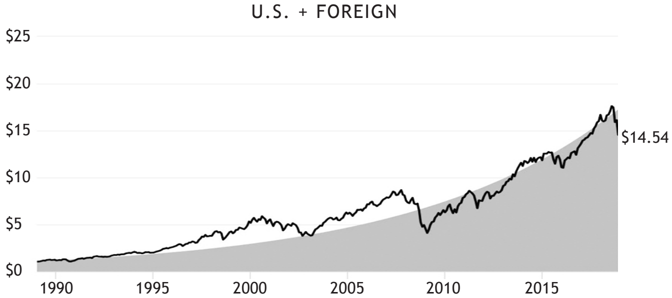
PORTFOLIO C

FOUR U.S. STOCK CATEGORIES



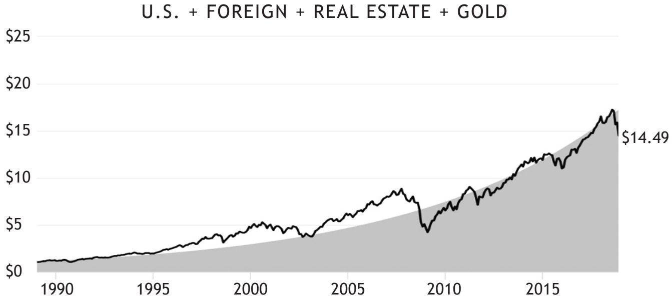
PORTFOLIO D

U.S. + FOREIGN



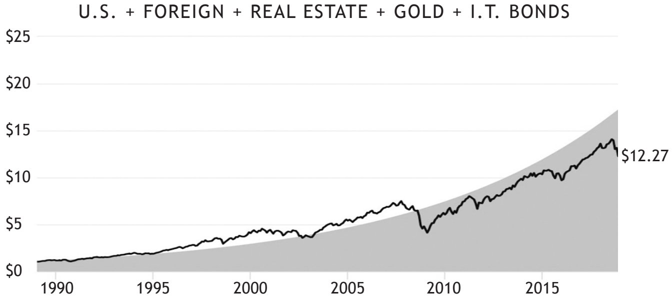
PORTFOLIO F

U.S. + FOREIGN + REAL ESTATE + GOLD



PORTFOLIO G

U.S. + FOREIGN + REAL ESTATE + GOLD + I.T. BONDS



markets, then falling dramatically during the two major bears. It's completely reasonable to expect a third repetition of this dynamic, likely not too many years in the future.

Portfolio A, with its emphasis on higher returns with small-growth stocks, had an even wilder ride than the overall market (see top graph at left). But as we added asset classes on our way to Portfolio G, the path gradually moved toward the "ideal" of the smooth line. Yes, the bull and bear markets remained clearly visible, but their impact was less dramatic.

By the time we reached our most diversified portfolio, we had done a reasonably good job—our total gains were lower than the overall market (as one would expect from a portfolio with a 20% bond allocation), but not by a huge amount. More importantly, the volatility in this portfolio was reduced to a level most investors could live with.

It's important to note the stock market is likely nearing the end of the current bull cycle. So the smooth line may be at a "high ebb"—the stock market's average long-term returns rarely have been as strong as they are today. Following the next bear market, it's probable the smooth line will retreat more than the diversified portfolios shown in each chart.

Again, please understand that we're *not* suggesting you should adopt the "one size fits all" allocation scheme shown in Portfolio G. The process of building the retroactive portfolios in this article was done for the specific purpose of illustrating diversification tradeoffs step-by-step.

For real-world investing, we encourage blending the SMI strategies to whatever degree you're willing to implement them. Because each SMI strategy is unique in how it chooses investments and diversifies against risk, there's an additional diversification benefit to be gained by adding more strategies to your portfolio. However, this needs to be balanced against the fact that implementing more strategies requires more effort. So add only what you're willing to keep up with and implement well. That said, if we were implementing the strategies for you, all of the SMI strategies would be represented in the portfolio, as they all bring something different—and valuable—to the table.

The main point of this exercise is to drive home the point that maintaining a healthy level of diversification in your portfolio can lower risk without substantially hurting your returns. Many investors who suffered grievous losses in past bear markets lost sight of this; many shifted to a "Portfolio A" mentality in pursuit of greater gains and had no safety net when bear markets took them by surprise. Similarly, many investors today are being seduced by the S&P 500's strong recent returns and are ridding their portfolio of other investments in pursuit of those higher gains.

Mark Twain is often credited with the saying, "History doesn't repeat itself, but it often rhymes." We believe the current market is "rhyming" pretty strongly with the late 1990s bull market, and we know how that story ended. To avoid a similar fate, we encourage you to keep your eye on the big picture: How much money do you have invested in each strategy, and by extension, in each of the various asset classes? A well-diversified portfolio is the best defense against future market storms. ◆

LEVEL 1 ONE

Strengthening Your Foundation

Wise money management begins with a strong financial foundation. In this column, we cover topics such as how to manage cash flow, apply strategies for getting debt-free, make wise purchasing decisions, build savings, choose appropriate insurance protection, navigate marital financial issues, and many more.

"By wisdom a house is built, and through understanding it is established." Proverbs 24:3

SHOULD YOU REFINANCE?

With 30-year mortgage rates rising to nearly 5% by late 2018, many homeowners thought they had missed the opportunity to refinance. But then rates crested and began an unexpected and rapid descent. By April 1, 30-year rates in some areas had plunged below 4%. The average rate for a 15-year mortgage plummeted to near 3.5%, falling from a November high of 4.3%.

The surprising downswing means anyone holding a higher-rate mortgage has another opportunity to replace an existing loan with a new one that has more favorable terms.

Although many people use refinancing as a means to borrow more money, this article focuses on refinancing to either lower monthly payments or speed up the process of getting out of debt. (In some instances, you may be able to accomplish both.)

The factors involved

Whether refinancing makes sense in your case depends on your current interest rate, the balance remaining on your existing loan, the term (i.e. length) of both your existing loan and the new loan, and how long you plan to be in your current house. Another factor is the cost of refinancing—covering an updated appraisal, attorney fees, related documents, etc. This cost can run into several thousand dollars. It can be paid up front or rolled into the loan amount (meaning the fees added to the loan and will incur interest over the life of the mortgage).

Let's suppose you took out your existing mortgage—a $250,000, 30-year loan—near the end of 2008 at a rate of 6.0%. After making principal-and-interest payments of $1,498.88 for more than a decade, your remaining balance is $206,463. If you could get a new loan at 4%, that would reduce your payment to $988.70, a monthly savings of more than $500—but you'd start the 30-year clock all over again! Fortunately, that's not the only alternative.

The table below presents seven options: **(A)** Staying with the original loan, **(B)** taking out a new 30-year loan with refinancing costs paid upfront, **(C)** getting a 30-year loan with refinancing costs rolled into the mortgage, **(D)** obtaining a 20-year loan with costs paid up front, **(E)** getting a 20-year loan with costs rolled in, **(F)** choosing a 15-year mortgage with costs paid up front, and **(G)**, getting a 15-year loan with refinancing costs rolled in.[1] (Note: Some numbers in the table have been rounded.[2])

For each new loan, refinancing costs are estimated to be $4,129, i.e., 2% of the $206,463 loan applied for. Actual costs may be higher or lower and will affect the "breakeven point" shown in the final column. (Refinancing costs can vary greatly from lender to lender. Shop around!)

Option	Interest Rate[1]	Length of Loan	Starting Balance	Monthly Payment	Total Payments	Total Interest	Breakeven Point
A	6.0%	19.5 years[2]	$250,000	$1,498.88	$350,0721[3]	$144,276[4]	N/A[5]
B	4.0%	30 years	$206,463	$985.69	$354,848	$148,385	8 months
C	4.0%	30 years	$210,592[6]	$1,005.40	$361,946	$151,354	N/A
D	3.75%	20 years	$206,463	$1,224.10	$293,784	$87,321	15 months
E	3.75%	20 years	$210,592[6]	$1,248.58	$299,659	$89,067	N/A
F	3.5%	15 years	$206,463	$1,475.97	$265,675	$59,212	N/A
G	3.5%	15 years	$210,592[6]	$1,505.40	$270,988	$60,396	N/A

TABLE NOTES: [1]Rates shown for Options B-G are hypothetical. They may or may not be available in your area. [2]For Option A, length remaining. [3]For Option A, payments remaining. Total payments over 30 years: $539,598. [4]For Option A, interest remaining. Total interest over 30 years: $289,598. [5]Not applicable. [6]Includes loan balance plus rolled-in closing costs.

30 years

Government-sponsored lender Freddie Mac notes that 75% of refinances are from one 30-year loan to another. As you can see by looking at Options B and C below, even though the monthly payment declines substantially with this kind of refinancing, you won't save on total interest vs. the original loan. Even at the lower rate, a new 30-year loan will require more to be paid interest than if you hadn't refinanced at all. Also consider that while reducing your monthly payment may seem attractive, what if it comes at the cost of carrying the refinanced mortgage well into your retirement years?

The one positive aspect of Option B is that the substantially lower monthly payment means the estimated upfront cost would be recouped quickly—you'll "break even" within eight months. (With Option C, the refinancing cost is spread over the full 30 years of the loan.)

20 years

Next, consider Options D and E. These involve refinancing to a 20-year mortgage. Since the existing 30-year loan (Option A) has 19.5 years remaining, moving to a 20-year loan will add a mere six months to the loan-payout term—a reasonable trade-off for cutting overall interest costs, reducing the amount of total payout (relative to the original loan), and lowering the monthly payment (by $250-$275). And with Option D, upfront refinancing costs will be recouped within 15 months.

15 years

Options F and G illustrate refinancing from the original 30-year loan to a 15-year loan. As you can see from the table, the monthly payment for the new mortgage remains roughly the same as for the original loan. Overall interest, however, declines sharply, as does the amount of the total payments.

(continued on page 77)

[1]Another option is to have refinancing costs "rolled into the interest rate," which simply means you won't get the lowest-possible rate. [2]Most calculations were made using the refinancing calculator at www.hsh.com/refinance-calculator/ and the amortization calculator at www.hughcalc.org/genloan.php.

Developing Your Investing Plan

Investing decisions are best made as part of a comprehensive personalized plan. In this column, we focus on topics that will help you implement an investment strategy that takes into account your personal goals, attitude toward risk-taking, and current season of life. We explain investing essentials, discuss SMI's core investing strategies, and help you decide which strategy is best for your situation.

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

HOW TO START INVESTING WITH SMI IF YOUR PORTFOLIO IS SMALL

Years ago, SMI considered $25,000 to be the *minimum* amount needed to implement what was (at the time) our primary investment strategy—Fund Upgrading. For investors with smaller balances, "Getting Started" portfolios were available that showed how to begin Upgrading with less. We compared them to training wheels on a child's bike: "They're helpful to get you up and going...but eventually you'll outgrow them."

That was then. Today, because some brokers have significantly reduced the minimum investment amounts they require for the mutual funds they offer, and because of our growing use of exchange-traded funds (ETFs), you can get started with any SMI strategy for as little as $500! This article will show you how.

How to go small

The easiest way to implement SMI's Fund Upgrading, Dynamic Asset Allocation, or 50/40/10 strategies is to make use of the professionally managed solutions available for each one. You can begin with as little as $50 per month.[1]

For those desiring to use the more hands-on approaches available to people with SMI Basic and Premium memberships, here are three factors that will impact your ability to use our strategies: (1) The minimum needed to open an account at a brokerage firm where the strategy can be easily implemented, (2) the minimum required to buy the funds used in the strategy, and (3) the commission costs or other fees related to buying and selling those investments.

Account minimums

Of the five brokers recommended by SMI,[2] only E-Trade requires a minimum amount ($500) to open an account and that minimum applies only to brokerage (non-retirement) accounts. There is no minimum for opening an IRA.

Investment minimums

SMI's strategies that use exchange-traded funds exclusively (Dynamic Asset Allocation) or where ETFs *could* be used (Just-the-Basics) are relatively easy to implement with small portfolios at any of our recommended brokers. All it takes to purchase an ETF is enough money to buy a single share. Because ETFs can be purchased only in whole-share amounts, you won't be able to hit your allocation targets exactly, but that's okay as long as the allocations don't get too far out of line.

For SMI's strategies that use traditional mutual funds for most recommendations (i.e., Fund Upgrading and Sector Rotation), a small-portfolio investor will need to use a brokerage company that doesn't require large minimum investments per mutual fund. That criterion narrows the broker landscape quite a bit.

Commissions or fees

The commissions brokers charge for buying and selling exchange-traded funds have come down considerably in recent years, making such costs practically irrelevant for many investors. Still, for small-portfolio investors, those expenses matter, so such investors will want a broker that offers a large number of ETFs commission-free.

For the Fund Upgrading and Sector Rotation strategies, small-portfolio investors will want—in addition to low minimum-investment amounts—access to a large number of no-transaction-fee (NTF) mutual funds. That's a pricing combination available at only a couple of SMI's recommended brokers.

Let's get more specific.

Just-the-Basics

While either traditional mutual funds or ETFs could be used to implement the JtB strategy, traditional funds are preferred because they can be purchased in fractional shares. That means you can invest the exact amount you need to match the recommended allocations. At three of SMI's recommended brokers, suitable JtB traditional mutual funds are available with no minimum required investment amount and without transaction fees.[3] All three—Fidelity, Schwab, and E-Trade—are fine choices, but Fidelity is especially attractive since the expense ratios for its JtB funds are 0%.

At two other brokers, Vanguard and TD Ameritrade, ETFs could be used to implement Just-the-Basics with a small portfolio, but the allocations won't work out precisely. That's because—as noted above—ETFs can be purchased only in whole share amounts. The table below shows how you could use commission-free ETFs to follow JtB at TD Ameritrade with just under $500.

JtB Recommended Funds	VFIAX	VEXAX	VTIAX
Targeted Allocation	40%	40%	20%
Targeted Dollar Amount	$200	$200	$100
Actual ETFs Purchased	SPLG	SPMD	SPDW
Price per Share*	$33.90	$34.26	$29.72
# of Shares Purchased	6	6	3
Actual Dollar Amount	$203.40	$205.56	$89.16
Actual Allocation	40.7%	41.1%	17.8%

*Share prices shown are as of mid-April 2019.

Notice that the portfolio's allocations don't perfectly match the target allocations, but they're close. You should be able to come closer to the ideal as you add to your account over time and purchase additional shares.

Dynamic Asset Allocation

DAA uses exchange-traded funds exclusively. Since ETFs can't be purchased in fractional shares, matching the recommended DAA allocations (33% for each of three funds) can be challenging for small-portfolio investors.

The process can be even more challenging when a recommended fund has an especially high net asset value (NAV). That's the situation, for *(continued on page 77)*

[1]www.soundmindinvesting.com/articles/view/smi-funds-update [2]bit.ly/smibroker [3]You can see broker-specific suitable alternate funds for each strategy on the SMI website. Go to the Basic or Premium Strategies tab, choose the appropriate stratgegy, click on the Recommendations tab, and then click on View Alternate Funds.

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

1ST QUARTER REPORT: BACK TO THE RACES FOR STOCKS

The stock market began 2019 with its strongest first-quarter gain since 1987, and one of its best first quarters ever. Coming off the heels of a wicked December drop, that outcome was way outside the mainstream expectation as the new year began.

The reason for this dramatic course change is easy to identify. In mid-December, with economic reports looking strong but the financial markets showing signs of weakness, investors were hoping the Fed would scale back their aggressive plans for more 2019 rate hikes while simultaneously shrinking its massive balance sheet. Instead, Fed Chairman Jerome Powell poked investors in the eye by saying there was no intention of scaling back those plans.

Many interpreted this statement as a sign that the Fed was no longer going to respond to every whim of the financial markets, as has been the trend since the financial crisis in 2008. As soon as the words came out of Powell's mouth, the stock market started falling and was on the verge of bear-market territory by Christmas Eve.

Following a brief bounce into year-end, the stock market resumed its downside trajectory and a bear market seemed imminent. But on January 4, a mere *three weeks* after his previous comments, Chairman Powell reversed course by announcing the Fed actually *was* paying close attention to the financial markets, and that they were pausing their interest-rate hikes and balance-sheet reduction plans.

The response to this news was just as dramatic as the reaction had been weeks earlier. Investors heard, "The Fed still has our back!" and the stock market began to party like it was (literally) 1999 again.

The irony is that when economic reports were stronger in the fourth quarter of 2018, the financial markets were weak, fearing the Fed would continue tightening monetary policy in response to that economic strength. But as economic concerns grew during the first quarter of 2019, the financial markets rallied strongly, as further Fed action became less likely.

It's not unusual for the markets to consider *bad* economic data to be *good* news late in bull-market cycles, precisely for the reason we saw here: it slows the Fed down from tightening monetary conditions. But it is telling that Fed policy has become *so* dominant in the minds of investors that the risk of a global economic slowdown seems less important than adding 0.25% to a 2.50% Fed Funds rate at a time of record-low unemployment and following a decade-long economic expansion.

Just-the-Basics (JtB) & Stock Upgrading

The timing of the Fed's flip-flop couldn't have been worse for Stock Upgrading. Had the Fed said in mid-December what they ultimately would say three weeks later in early-January, we would have been spared a lot of aggravation. Instead, the late December plunge triggered Upgrading's defensive protocols for the first time in live practice, and just the fourth time in the past 20 years (taking into account our backtesting).

With the market rallying immediately and powerfully from that January 4 announcement, the fact that Upgrading was defensively positioned was clearly detrimental. Thankfully, Upgrading phases in its defensive protocols and hadn't moved very far into that process. So while it was disappointing to be on the wrong side of this whipsaw, Stock Upgrading still made +10.0% during the first quarter. That's a fantastic absolute return for a quarter, which is only disappointing in comparison to the +14.1% gain of the stock market as a whole.

That 10% gain makes it easier to chalk up the difference as an unfortunate opportunity cost. Yes, we paid an "insurance premium" and the house didn't end up burning down after all. But our portfolios will need that protection eventually, and occasionally we pay a premium like this to have it.

Just-the-Basics did better (assuming one didn't apply Upgrading's defensive signals), gaining +13.9%. An interesting dynamic was playing out between the large- and small-stock indexes that comprise 80% of JtB's portfolio. Small stocks were slightly stronger than large for the first quarter as a whole, but the two groups were trending in opposite directions as the quarter came to a close. March saw the small-company Russell 2000 index lose -2.1%, while the large-company Russell 1000 index continued its first quarter gains by adding +1.7%.

More interesting than their March returns is the fact that the Russell 2000 finished the quarter -11.5% below its August 2018 high, while the large-company S&P 500 was a mere -3.3% below its September 2018 high. Small-company stocks *began declining* sooner last year, and *stopped advancing* sooner this year. Normally, small-company stocks lead during market rallies, but that wasn't the case as the first quarter drew to a close.

Bond Upgrading

Inflation is the mortal enemy of bond investors, so when growth expectations were strong in late 2018, bond returns were poor. But the Fed's January reversal, coupled with declining growth expectations, did wonders for the bond market. Bond Upgrading gained +2.7% during the first quarter, which is roughly an +11.25% annualized pace. The full bond market earned a bit more at +2.9%, but Bond Upgrading didn't have any exposure to (riskier) longer-term bonds which pushed the overall bond-market's return higher.

(continued on page 77)

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

TRANSFERRING YOUR WEALTH TO THE NEXT STEWARDS

By Howard Dayton[1]

The Bible makes it clear that parents should leave an inheritance: *"A good man leaves an inheritance to his children's children"* (Proverbs 13:22). But God's Word also issues a warning: *"An inheritance gained hurriedly at the beginning will not be blessed in the end"* (Proverbs 20:21).

Deciding how best to transfer wealth is one of the biggest challenges facing affluent families. Henry Ford said, "Fortunes tend to self-destruction by destroying those who inherit them."

Indeed, there is sobering evidence that an inheritance often hurts the recipient. Even an *expectation* of a large inheritance can diminish personal drive, sap motivation, and erode life purpose.

To help ensure that the inheritance you leave for your children and grandchildren will be a blessing, consider these suggestions:

• **Train your heirs.** The younger generation must develop financial wisdom *before* they can manage wealth. Unfortunately, some parents purposely make money mysterious or use it as a tool to control their children. You will have more influence over their behavior if you *teach them how and why to handle money wisely*. The worst thing you can do is to transfer wealth if you haven't first transferred wisdom.

• **Design wealth transfer to develop character.** Some parents have designed incentives into their transfer of wealth to motivate their children to develop character, initiative, and work habits.

Stan and Kay Watson decided to give each of their children their inheritance in the form of an investment in a start-up business. They invested both finances and experienced counsel to assist their children. The businesses have done well, but most importantly, this has helped the children mature into remarkably responsible young people.

• **Evaluate the impact on your heirs.** Financial author Ron Blue recommends asking three questions as you consider transferring wealth.

1. What is the worst thing that can happen if I transfer wealth to ________?
2. How serious is it?
3. How likely is it to occur?

Then repeat the questions in a positive form: "What's the *best* thing that can happen if I transfer wealth to ________?"

Ask the questions for each potential recipient, whether it involves a child, grandchild, or charity. If you want to distribute your assets responsibly, the answers to these questions are crucial.

•**Decide how much to give your heirs.** Pray and seek counsel. If you're married, discuss this with your spouse. Take whatever time is necessary for the Lord to confirm His direction.

Affluent people have reached a variety of conclusions. Some have limited inheritance to money for college or vocational training. Others have left sufficient resources to provide children with a start in life, but not so much that it undermines hard work and character development. A minority believe their children are wise and mature enough to trust them with large estates.

• **The amount may be different for each child.** As you contemplate choosing the next stewards of your resources, you may realize that some of your children are much better equipped to handle wealth than are others. And some have more genuine needs than others.

We are to love our children equally, which often means helping them uniquely. They are unique in not only their character, values, commitment to Christ, and ability to deal with life but also in their vocation, health, and immediate family situation. These circumstances may influence how much you plan to leave each child and, as circumstances change, you may need to adjust your plan accordingly.

Decide when to transfer

Many people wait until after death to distribute their wealth. Others choose to distribute some while they live and the rest through a will. Consider these benefits for giving your heirs some of their inheritance while you are living.

• **Giving now may be more timely for their needs.** Helping a young mother stay at home or enabling your children to send their kids to a Christian school may be much more beneficial than simply adding to their net worth when they are 50 or 60.

Your generosity toward your children, exercised with wisdom, can open doors and alleviate financial burdens when it comes to things such as starting a business, buying a first home, or funding your grandchildren's college education.

• **Giving now will help train them.** If you want to include your children in your will but are unsure about their ability to handle money, consider giving them a "training" inheritance while you are alive. Experience is a very good teacher, but coached experience is a *great* teacher. In other words, experience coupled with a mentor is of greater benefit.

And you can be comforted to know that even though mistakes will be made with the money you provide now, those mistakes will help minimize larger ones with the amounts you leave at death.

• **Giving now may reduce estate taxes.** Under current law, you can give away, tax-free, $15,000 a year (as of 2019) to as many individuals as you like. Giving money away will shrink the size of your assets that later will be subject to estate taxes.

• **Stay out of the way of God dealing with your children.** As beneficial as current giving to your children can be, it is not always God's will for you to solve their problems with money.

The Lord may have *(continued on page 78)*

[1]Howard Dayton is the founder of Compass—Finances God's Way, a nonprofit ministry that teaches biblical financial principles via small-group studies. This article is excerpted with permission from the new Compass study, *Charting Your Legacy*. Learn more at www.chartingyourlegacy.org.

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 3/31/2019	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	2.4	10.2%	0.7%	10.2%	-2.6%	-5.2%	8.1%	0.98	0.11%/0.09%	20%	16%	12%	8%	VTIAX/VXUS
Extended Market Index	Small company stocks	15.8	16.0%	-1.0%	16.0%	-5.1%	5.0%	13.3%	1.31	0.08%/0.08%	40%	32%	24%	16%	VEXAX/VXF
S&P 500 Index	Large company stocks	21.4	13.7%	2.0%	13.7%	-1.7%	9.5%	13.5%	1.00	0.04%/0.04%	40%	32%	24%	16%	VFIAX/VOO
Total Bond Market Index	Medium-term bonds	12.0	2.9%	2.0%	2.9%	4.6%	4.5%	2.0%	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 3/31/2019[1]	Date Added	E-Trade Avail[2]	Fidelity Avail[2]	Schwab Avail[2]	MOM[3]	Performance YTD	1Mo	3Mo	6Mo	12Mo	3Yr Avg	Rel Risk[4]	Exp Ratio	Number Holdings	Redemp Fee?[5]	Ticker Symbol
Category 5 Foreign	1. Longleaf Partners Intl	03/19	Yes	Yes	Yes	18.5	12.5%	1.4%	12.5%	1.4%	4.6%	12.3%	1.08	1.15	22	None	LLINX
	2. Invesco Intl Dividend Achievers	03/19	ETF	ETF	ETF	19.3	12.6%	0.6%	12.6%	2.2%	4.5%	8.7%	1.02	0.55	66	None	PID
	3. Lazard Global Infrastructure	11/18	NTF	NTF	NTF	25.7	9.4%	0.9%	9.4%	4.9%	11.5%	9.6%	0.87	1.22	36	None	GLFOX
Category 4 Small/Growth	1. ☎ Neuberger Sm Cap Gr - LW[10]	05/19	NTF	NTF	NTF	59.9	27.8%	2.8%	27.8%	6.7%	25.4%	26.6%	1.51	1.27	91	None	NSNAX
	2. Value Line Mid Cap Focus	12/18	NTF	NTF	NTF	42.0	17.6%	3.2%	17.6%	4.2%	20.3%	16.7%	1.03	1.18	38	None	VLIFX
	3. Baron Opportunity	03/18	NTF	NTF	NTF	42.7	21.4%	3.1%	21.4%	1.2%	20.1%	23.9%	1.42	1.37	59	None	BIOPX
Category 3 Small/Value	1. ☎ Touchstone Mid Cap Z	05/19	NTF	NTF	NTF	28.3	15.3%	1.9%	15.3%	2.6%	10.4%	14.1%	1.03	1.24	30	None	TMCTX
	2. Neuberger Intrins Val - LW[10]	03/19	NTF	NTF	NTF	26.3	21.3%	-1.9%	21.3%	-3.4%	8.3%	12.1%	1.50	1.37	98	None	NINAX
	3. Invesco S&P MidCap LowVol	12/18	ETF	ETF	ETF	28.6	12.2%	0.7%	12.2%	3.4%	13.1%	12.7%	0.93	0.25	82	None	XMLV
Category 2 Large/Growth	1. ☎ Akre Focus Retail	05/19	NTF	NTF	NTF	49.2	19.3%	4.9%	19.3%	9.3%	20.6%	20.4%	0.98	1.32	22	1%30days	AKREX
	2. MS Insight Fund - LW[10]	05/18	NTF	NTF	NTF	60.6	25.2%	3.2%	25.2%	5.3%	30.1%	29.0%	1.57	1.15	45	None	CPOAX
	3. Polen Growth Investor	10/18	NTF	NTF	NTF	40.1	16.6%	3.9%	16.6%	1.7%	21.7%	16.8%	1.11	1.25	22	2%60days	POLRX
Category 1 Large/Value	1. Voya Corporate Leaders Trust	03/19	NTF	Yes	NTF	24.8	13.3%	0.8%	13.3%	-0.4%	11.9%	12.5%	1.10	0.59	22	None	LEXCX
	2. Invesco S&P 500 LowVol	12/18	ETF	ETF	ETF	35.6	13.5%	2.3%	13.5%	7.5%	14.6%	11.6%	0.88	0.25	102	None	SPLV
	3. AMG Yacktman Focused	03/19	NTF	NTF	NTF	26.1	8.7%	1.6%	8.7%	4.6%	12.8%	12.7%	0.67	1.27	33	2%60days	YAFFX
Bond Categories	Vanguard I-T Bond[6]	2/19	ETF	ETF	ETF	15.3	3.8%	2.2%	3.8%	5.9%	5.7%	2.0%	1.22	0.07	6.3[7]	None	BIV[8]
	Permanent: Vanguard I-T Bond	Perm	ETF	ETF	ETF	15.3	3.8%	2.2%	3.8%	5.9%	5.7%	2.0%	1.22	0.07	6.3[7]	None	BIV[8]
	Permanent: Vanguard S-T Bond	Perm	ETF	ETF	ETF	8.4	1.7%	1.0%	1.7%	3.1%	3.6%	1.3%	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 April, rather than on the end-of-March 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 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.

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, the investor selects the stock/bond mix for his or her 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 Longleaf Partners, the highest-rated Cat. 4 fund is Neuberger Small Cap Growth, 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	Longleaf Partners
Stock Cat. 4: Small/Growth	16%	$8,000	Neuberger Sm Cap Growth
Stock Cat. 3: Small/Value	16%	$8,000	Touchstone Mid Cap Z
Stock Cat. 2: Large/Growth	16%	$8,000	Akre Focus Retail
Stock Cat. 1: Large/Value	16%	$8,000	Voya Corporate Ldrs Trust
"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

STOCK UPGRADING — NEW FUND RECOMMENDATIONS

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

◆ **In the Small/Growth group, Alger Small Cap Focus (AOFAX, 3/2019) is being replaced.[$]** Sometimes Upgrading's selling discipline requires us to make moves we wouldn't necessarily prefer to make. This decision to replace Alger is such a move, as we just bought it two months ago and the fund has a long track record of being a consistent top performer. However, we've caught it in a rare slump, as its relative performance over the past two months has been among the worst of its peer group. That's been enough to drive Alger down below the median of the small/growth category momentum rankings.

While we'd like to be more patient, over the past month (through 4/23) there's a 4.3% performance gap between this Alger fund and the new Neuberger Berman fund replacing it. So we're following our discipline and making the change. If you own Alger at Fidelity, where the short-term trading period ends after 60 days, we'd recommend replacing it now (after checking your specific transaction dates to make sure you're outside the 60-day window). If you own it at Schwab, E-Trade or another broker with a 90-day holding period, holding it another month to avoid the $49.95 or similar short-term transaction fee isn't unreasonable (particularly if the amount you have invested in this fund is not large). Of course there's no way to know if the performance gap between the two funds will be as large over the *next* month as it has been over the *past* month, but we're moving ahead with the change this month.

• **Neuberger Berman Small Cap Growth (NSNAX) is being added.[1]** We've owned several different Neuberger Berman funds in the past with generally good success, but this is our first experience with this particular fund. Neuberger Berman is a formerly no-load family that has become a load shop. Thankfully, we have access to their funds once again now that many are offered on a load-waived basis through the biggest brokers.

This particular fund has strong performance credentials as it approaches its 10th birthday. In addition to ranking in the top 1% of Morningstar's small/growth group over the past 12 months (which is why it ranks so well in SMI's current momentum rankings), the fund also ranks in the top 5% over the past 3- and 5-year periods. This recommendation is lower-risk than the fund it replaces, though it's not "low risk" in absolute terms: its relative risk score is 1.51 (roughly 51% more volatile than the S&P 500).

◆ **In the Small/Value group, Merger (MERFX, 12/2018) is being replaced.** This fund has performed exactly as expected when we bought it at the end of November, delivering small, steady gains. That was great when it was up +0.55% last December as the stock market collapsed. But the market environment has changed dramatically since then and it's now appropriate to switch to a faster horse.

• **Touchstone Mid Cap Z (TMCTX) is being added.[1]** Be sure you're purchasing the correct share class of this fund, as the other classes charge loads. This Z-class isn't technically a load-waived fund (it has no load to begin with), so you won't see the load-waived language on your broker site.

This is another fund with excellent risk-adjusted ratings (to go along with the pure performance necessary to land near the top of our momentum rankings). Touchstone Mid Cap's relative risk score of 1.03 is among the lowest in the small/value peer group. It's reassuring to see that the fund's risk measures are *below* average, while its returns have been well *above* average. From September 1 through the end of 2018, this fund declined slightly less than -13%. In comparison, the Russell 2000 Value index, which measures the small/value portion of the stock universe, lost -20.7% during that time.

◆ **In the Large/Growth group, iShares Edge MSCI Minimum Volatility ETF (USMV, 12/2018) is being replaced.** This ETF did exactly what we hoped it would when it was purchased. It reduced our December volatility substantially relative to the market, which kept it recommended at a time when several other Upgrading funds were being replaced with cash. That enabled its owners to experience the +12.7% rebound gain it has posted so far in 2019. That said, these "cautious" funds and ETFs are starting to lag as the market has rebounded to new highs, so it's time to move on.

• **Akre Focus (AKREX) is being added.[1]** This fund looks exceptional by every measure, beating its highly competitive large/growth peer group on both an absolute and risk-adjusted basis over every time interval back to its 2009 inception. The fund is concentrated in relatively few holdings, but has nonetheless managed to be less volatile than most of its peers. Its 0.98 relative risk score means it has been 2% less volatile than the S&P 500 index over the last three years.

Granted, the fund hasn't faced a bear market yet, having been created after the last one ended in 2009. But its late-2018 drawdown of just -8.5% was much lower than the -15%-16% decline of its average peer. Below-average risk with above-average returns is a great combination, and it's especially attractive at a time when the market is rallying, yet remains potentially high-risk. ◆

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

MONEY TALK

LEVEL 1 / CONTINUED FROM PAGE 70

SHOULD YOU REFINANCE?

Because the monthly outlay stays almost the same (relative to the original loan), the upfront refinancing cost of Option F won't be recouped by a lower payment. However, the *interest savings* over the term of the loan will be substantial and will more than compensate for the refinancing cost.

A faster payoff

Whatever the length of your loan, you can always accelerate your payoff by making prepayments. Suppose you refinanced for 20 years at 3.75% (as in Option D) but you want to pay off the loan in just 17 years. A prepayment calculator[1] will show that to shave three years off your 20-year loan, you would need to add $146.15 to each monthly payment.

Other considerations

Although it may seem attractive to refinance simply to lower your monthly payment, consider the long-term impact. Would refinancing require you to stretch your mortgage debt into your 60s or perhaps even into your 70s? How would that affect you in retirement?

Further, if you do lower your payment, have you decided what to do with the money you free up? (The best use for it may be to make prepayments on the new mortgage so you can retire the loan as soon as possible.) It's important to determine *in advance* what you'll do with the freed-up money. That way you can ensure that "lifestyle creep" doesn't consume that extra cash flow, leaving you with little to show for refinancing your mortgage. ◆

LEVEL 2 / CONTINUED FROM PAGE 71

HOW TO START INVESTING WITH SMI IF YOUR PORTFOLIO IS SMALL

example, with SPY, the S&P 500 fund recommended for use in DAA. The good news is that an S&P 500 index fund is easy to replicate. Commission-free alternatives to SPY—with lower NAVs—are readily available.

DAA Recommended Funds	SPY	VNQ	BLV
Target Allocation	33.3%	33.3%	33.3%
Targeted Dollar Amount	$167	$167	$166
Actual Funds Purchased	SPLG	VNQ	BLV
Price Per Share*	$33.90	$87.63	$91.12
# of Shares Purchased	5	2	2
Actual Dollar Amount	$169.50	$175.26	$182.24
Actual Allocation	33.9%	35%	36.5%

*Share prices shown are as of mid-April 2019.

The table above shows how the three most recently recommended DAA ETFs could be purchased commission-free for a little more than $500 at Vanguard, using a suitable substitute for SPY, which carried a $290 NAV as of this writing.

Vanguard offers all six of the recommended DAA ETFs—and every suitable alternate—commission-free. At Schwab, four of the ETFs are available commission-free. TD Ameritrade has three, Fidelity two, and E-Trade one.

Fund Upgrading

While Upgrading uses a mix of traditional mutual funds and ETFs, most of our recommendations are traditional funds. To make the strategy work, a small-portfolio investor would need access to a high percentage of the recommended funds on an NTF (no-transaction-fee) basis and with low minimum-required investment amounts. Schwab is an especially good choice.

Of the 27 traditional mutual funds recommended for use with Fund Upgrading over the past 12 months, Schwab offered 22 on an NTF basis, with 21 requiring a minimum investment of only $100. E-Trade was the second most appealing broker for small-portfolio Upgraders, offering 21 of the recommended funds with no trading costs, 17 of which required a minimum investment of just $100. None of the other three brokers offered recommended funds with such a low minimum.

Sector Rotation

As with Fund Upgrading, Sector Rotation (SR) relies on both traditional mutual funds and ETFs. A review of recommended SR funds shows that E-Trade and Schwab are the best options for small-portfolio investors.

Seven of the last eight funds recommended in SR were traditional mutual funds. Of those, E-Trade offered all of them for $100 or less and all traded for free. Schwab offered five of them for $100 and with no trading fees. The remaining brokers aren't even close to being so small-portfolio friendly.

SMI is more accessible than ever

It's never been easier to get started with SMI—just $50 per month for those interested in a managed solution, or roughly $500 up front for those wanting to take a hands-on approach to implementing any SMI strategy. (Remember, your allocations don't have to be perfect at first!) Getting started with a small dollar amount is a great way to build your knowledge of investing—while starting to build your net worth at the same time. ◆

LEVEL 3 / CONTINUED FROM PAGE 72

1ST QUARTER REPORT: BACK TO THE RACES FOR STOCKS

Another interesting dynamic as the first quarter closed was the disconnect between the bond- and stock-market outlooks. The bond market still seems pessimistic in its view of future economic growth and the risk of recession, as evidenced by low interest rates and the "inversion" of parts of the yield curve. Normally, longer-term bonds carry higher interest rates than shorter-term bonds. Inversion happens when this gets flipped and lower interest rates are charged for longer-term bonds than shorter-term bonds.[2] This dynamic implies that bond investors see a high risk of economic weakness or recession in the future. In contrast, U.S. stock investors seem to

[1]Such as the one at www.mtgprofessor.com/calculators/Calculator2c.html [2]June2018:p87

have embraced the idea that the global economy is experiencing a short-term economic slowdown, but one that won't have lasting impact. This is evidenced by the fact that some of the main market indexes recently hit all-time highs.

Historically speaking, it usually has paid to side with the bond market when those two disagree, but that's not always true. Time will tell which is reading the economic-growth tea leaves correctly.

Dynamic Asset Allocation (DAA)

DAA's first quarter gain of +5.1% reflects the fact that it entered 2019 in its most defensive posture. With no stocks in the portfolio, DAA was another victim of the Fed's abrupt change of mind. While that's frustrating, it's also reassuring that even having DAA's worst whipsaw scenario play out this quarter, the strategy was still nimble enough to produce gains at a rate that would annualize to 22%. In *absolute* terms (rather than relative), that's a great quarter. To have that type of upside potential despite being defensively positioned for a potentially imminent bear market—which is what late December was steering toward prior to the Fed's course reversal—is pretty remarkable. Again, sometimes we have to pay insurance premiums for a while before the insurance pays off. But most people still regard insurance as a wise thing to have!

1ST QUARTER 2019
DAA ETF UNIVERSE

Ticker &	Category	1Q Result
SPY	U.S. Stocks	13.5%
EFA	Foreign Stocks	10.3%
VNQ	Real Estate	17.4%
BLV	Long-Term Bonds	6.0%
SHY	Money Market	1.0%
GLD	Gold	0.6%

Sector Rotation (SR)

SR posted a strong first-quarter gain of +8.3%. Interestingly, SR was down in January when other stocks saw their strongest gains. But SR came on strong in February and March, producing an excellent overall quarterly return.

While 2018's fourth-quarter decline put a significant dent in SR's recent returns, the strategy has earned annualized gains of +21.6% over the past 10 years, making it the clear standout among SMI's strategies during this bull market. But the fourth-quarter stands as a warning about allocating too heavily to this aggressive strategy during what appears to be a late-stage bull market. The standout performers during the *next* phase of the market's cycle are likely to be SMI's more defensively-oriented strategies.

50/40/10

This portfolio refers to the specific blend of SMI strategies—50% DAA, 40% Upgrading, 10% Sector Rotation—discussed in our April 2018 cover article, *Higher Returns With Less Risk, Re-Examined*. It's a great example of the type of diversified portfolio we encourage most SMI readers to consider.[1] As we saw again in the transition from 2018 to 2019, the markets can shift suddenly between punishing risk-taking and rewarding it, so a blend of higher-risk and lower-risk strategies can help smooth your long-term path and promote the type of emotional stability that breeds sustained investing success.

A 50/40/10 portfolio gained +7.4% during the first quarter. Despite starting the quarter in an extreme defensive posture, the portfolio was able to pivot quickly enough to still generate a nice quarterly gain. At some point, we're going to need that defensive protection, but it's good to know that we can still earn decent returns even when we occasionally get caught positioned on the wrong side of what the market is doing.

Overall, the first quarter provided a good illustration of how balancing return and volatility between the various strategies can produce a smoother ride and solid overall returns. Whether you're using this specific 50/40/10 blend or a different combination, we think most SMI readers can benefit from blending these strategies in some fashion. ◆

LEVEL 4 / CONTINUED FROM PAGE 73

TRANSFERRING YOUR WEALTH TO THE NEXT STEWARDS

other lessons for them, including learning to trust Him for their provision.

• **Funding the work of God now.** The same principles of deciding when to give apply to the work of Christ. Suppose your church or your favorite ministry has a current need to complete a God-directed mission. By waiting to give until after you die, you may have missed funding the most strategic opportunity for the ministry in your lifetime.

The wealth-transfer family conference

A family conference can provide tremendous benefits, including peace of mind. It gives your heirs the opportunity to hear from you—your heart, your wishes. It also gives them permission to ask questions. Although parents still make the distribution decisions, such a conference promotes dialogue concerning these issues while all parties are present rather than after a death—when most unplanned and emotionally stressful family conferences occur.

Some find it helpful to involve a facilitator, a trusted advisor to direct and mediate the discussion. Mom and Dad can explain their current estate plan. Together the family can discuss amounts to be given to God's work and even help select the ministries. In such a setting, children have the opportunity to express honest feelings regarding the amounts their parents are leaving to them. Avoiding these issues throughout life means more uncertainty, anxiety, and escalated conflict after the parents' death.

Review your plan

Keep in mind that wealth-transfer plans represent a process. As circumstances, ministry opportunities, and tax laws change, and as you gain new information, you should review your plan. Experts recommend a review at least every three years. You may want to review sooner if you or your family have experienced significant changes. ◆

[1]Blending multiple strategies adds complexity. Some members may prefer an automated approach. See bit.ly/SMIPrivateClient.

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

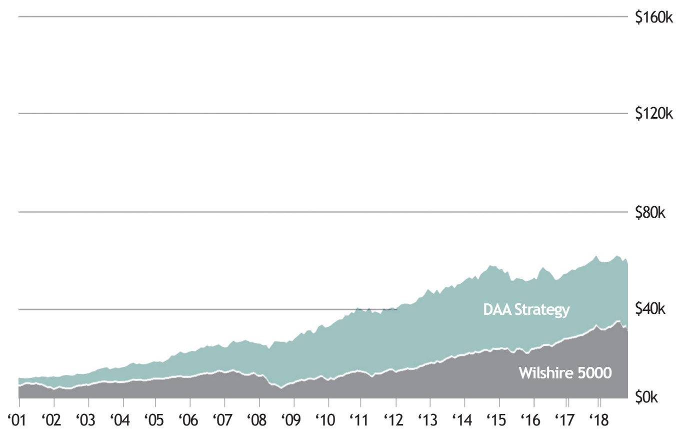
Overview

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

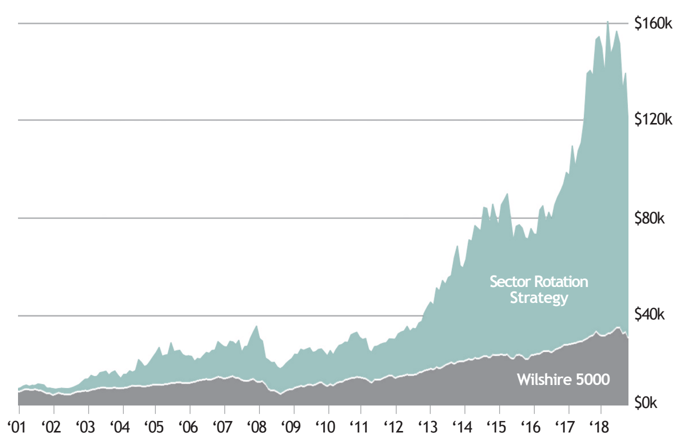
Overview

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
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Dated Investment Material
Please Do Not Delay!

PERFORMANCE DATA

SOUND MIND INVESTING MODEL PORTFOLIOS • DATA THROUGH MARCH 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]	14.1%	1.5%	14.1%	8.9%	13.6%	10.5%	16.0%	8.8%
Just-the-Basics[2]	13.9%	0.5%	13.9%	4.6%	12.4%	8.1%	14.9%	8.3%
Stock Upgrading[3]	10.0%	1.5%	10.0%	1.4%	9.9%	6.5%	13.2%	8.2%
U.S. Bond Market[4]	2.9%	2.0%	2.9%	4.4%	1.9%	2.6%	3.6%	3.7%
Bond Upgrading[5]	2.7%	1.9%	2.7%	3.6%	1.8%	2.5%	5.9%	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]	5.1%	3.6%	5.1%	2.2%	5.2%	3.8%	8.8%	9.6%
Sector Rotation	8.3%	4.0%	8.3%	-16.1%	18.8%	16.1%	21.6%	14.7%
50-40-10 Blend[7]	7.4%	2.8%	7.4%	-0.1%	8.6%	6.3%	12.0%	10.0%

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 3/31/2019	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	9.72%	1.54%	9.72%	-2.10%	8.79%	4.70%	11.88%
Wilshire 5000	14.11%	1.50%	14.11%	8.93%	13.59%	10.52%	15.99%
S&P 500	13.65%	1.94%	13.65%	9.50%	13.51%	10.91%	15.92%

Quarterly Returns as of 3/31/2019	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	9.72%	1.54%	9.72%	-2.10%	8.79%	4.70%	11.88%
Wilshire 5000	14.11%	1.50%	14.11%	8.93%	13.59%	10.52%	15.99%
S&P 500	13.65%	1.94%	13.65%	9.50%	13.51%	10.91%	15.92%

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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