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Is a College Education Still Worth the Investment?

During the second half of the 20th century, going to college became the assumed "next step" for students graduating from high school. A bachelor's degree is now routinely viewed as a prerequisite to a successful career. But some influential educators, economists, and researchers—along with some parents and students—are re-thinking the "college for all" expectation. The reassessment is driven in large part by the exploding cost and related debt associated with earning a degree.

by Joseph Slife

How's this for a provocative statement? "Two-thirds of people who go to four-year colleges right out of high school should do something else." So argues former U.S. Secretary of Education William J. Bennett. "Rather than simply swallowing the conventional wisdom and following the conventional path," Bennett writes in *Is College Worth It?*, "more students need to make realistic assessments of their abilities and finances and then decide the best path for themselves."

The need to make a realistic assessment of finances is stressed as well by scholar Peter Cappelli, a professor at the University of Pennsylvania's Wharton School, in his 2015 book *Will College Pay Off?* "The relevant question should not just be whether there are benefits to graduating from college—surely there are—but also whether the financial benefits of those degrees are actually worth the cost of attending college," he writes. "We should not kid ourselves about the risks associated with the biggest financial decision many families will ever make."

As for the need to make a realistic assessment of a young person's academic abilities when considering college, social scientist Charles Murray addressed that point forcefully a decade ago in his influential work *Real Education*. After examining SAT scores and other data related to student skills, Murray concluded that most students enrolled in four-year Bachelor of Arts programs probably shouldn't be in college at all. Their gifts lie in areas other than the academic. (Murray also argued that except in fields such as science and engineering, a bachelor's degree is no longer a reliable measure of whether someone is truly educated.)

The views articulated by Bennett, Cappelli, and Murray go against the grain. For decades, the conventional wisdom has been that (1) going off to college to earn a B.A. is the natural next step for high-school graduates, and (2) such a degree is the basic qualification for a well-paying job.

Economist Richard Vedder, Distinguished Professor of Economics Emeritus at Ohio University, believes the conventional wisdom is faulty. He points to a growing "mismatch between labor market realities and college graduation rates," noting that "only about 40% of those entering college full-time end up graduating and taking jobs requiring the skills normally expected of college graduates."

Of course, those who believe that attending college is still the best option for most young people *(continued on page 83)*

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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

The Freedom of Living in Financial Truth

When I began serving in stewardship ministry, I frequently met with individuals and couples to review their financial situation. I was constantly amazed at the disconnect between how people *looked* like they were doing financially and how they were *actually* doing. Very often, they were driving nice cars and wearing nice clothes. They looked just fine, but they weren't fine. Most were deeply in debt.

In just about every case, I was the first person they had shared the details of their financial life with. Few of us share the *true details* of our finances with anyone other than our spouse (and in some cases, people don't even do *that!*).

However, in one important sense, we all share financial information all the time. The choices we make—the home we live in, the car we drive, the vacations we take, and all the rest—gives people a sense of how we're doing financially. And all of us constantly take in this type of information from others.

The problem is, that type of information is often at odds with a person's true financial condition. You might think of it as fake financial news, and it swirls around us every day, impacting us in ways we don't even recognize.

It's a dangerous mistake to assume that people are doing as well as they appear to be doing. We don't really know how they paid for that vacation, whether they can actually afford the car they're driving, or how often they argue about money behind the closed doors of their beautiful home.

If we assume we're making about as much as our friends or neighbors and that it's *normal* for someone with that income to drive the sort of car they drive, it can tempt us to try to keep up, even if that means living beyond our means. Sociologist Juliet Schor wrote about this in her book, *The Overworked American*:

> *It may be as simple as the fact that exposure to their latest "lifestyle upgrade" plants the seed in our own mind that we must have it, too—whether it be a European vacation, this year's fashion statement, or piano lessons for the children.*

Today, social media has taken this to a whole new level. Most of us don't intend to use Facebook or Instagram to brag, but we tend to share only the good things we've experienced. It isn't that we're lying, it's just that we're presenting an incomplete picture. Scrolling through the feeds of everyone's best experiences can leave you feeling like you're missing out.

Not surprisingly, frequent use of social media impacts people's use of money. Millennials (people ages 25-34) are especially vulnerable. According to several studies, they spend more time on social media than older generations and are more likely to say they've spent money they hadn't planned to spend because of something they saw on social media.

So, while there's no evidence that more people are sharing the *true details* of their financial lives with anyone, it's obvious that there has been a great increase in the sharing of people's best experiences through social media, and it's having a negative impact on people's financial well-being. In a 2018 Fidelity study, two-thirds of Millennials acknowledged as much.

That's why, especially today, it can be helpful to have someone in addition to our spouse to share the truth of our financial situation with—a sounding board for accountability, encouragement, new ideas, and to help ensure that our use of money reflects the reality of our financial situation.

Recently, I spent a few days with some good friends I've known for nearly 30 years. One of the guys is a successful commercial real estate developer, but I've never known exactly *how* successful he is until this trip. During our visit, he showed us his estate plan. He wasn't boasting; he was being transparent, inviting feedback, and recommending that we consider using a tool he's developed that provides a simple flow chart of what will happen to his and his wife's assets upon their deaths.

Later, prompted in part by his openness, I shared some details about a recent financial decision my wife and I made and asked for feedback. It was so freeing and helpful to be able to talk openly about a topic most of us keep close to the vest.

Who would you consider sharing some of your financial details with? If no one comes to mind, or if you feel hesitant about the idea, that's understandable. Just think about it, and keep in mind that disclosure tends to beget disclosure. Your willingness to share some details of your financial life may make a friend comfortable sharing some of theirs.

This isn't just about improving your finances. It's about living in more authentic community. And today, we could all use more of that.

Matt

MATT BELL
MANAGING EDITOR

NECESSARY CAUTIONS
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Is a College Education Still Worth the Investment?

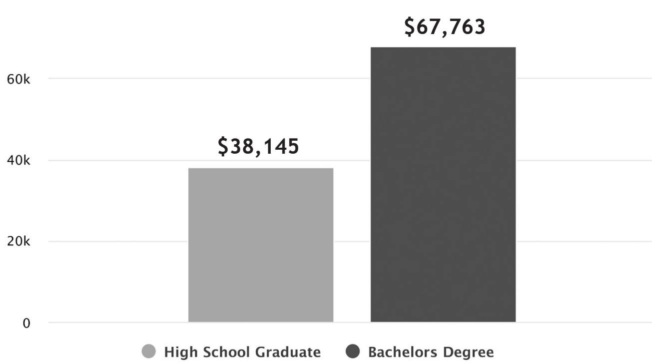
(continued from front page)

can point to statistical measures too. A return-on-investment analysis by researchers at the Federal Reserve Bank of New York concluded that even though today's "college students are paying more to go to school and earning less upon graduation," investing in a college education "still appears to be a wise economic decision for the average person." The analysis points out that "employers are willing to pay a premium for college graduates relative to those with just a high school diploma, even in jobs that are not typically considered college level positions."[1]

That finding is consistent with the results of a Pew Research study titled "The Rising Cost of Not Going to College": "On virtually every measure of economic well-being and career attainment...young college graduates are outperforming their peers with less education," the Pew study found.

AVERAGE ANNUAL EARNINGS BY HIGHEST DEGREE EARNED

(WORKERS AGED 18 AND OLDER, 2017)



SOURCE: JP MORGAN BASED ON CENSUS BUREAU DATA

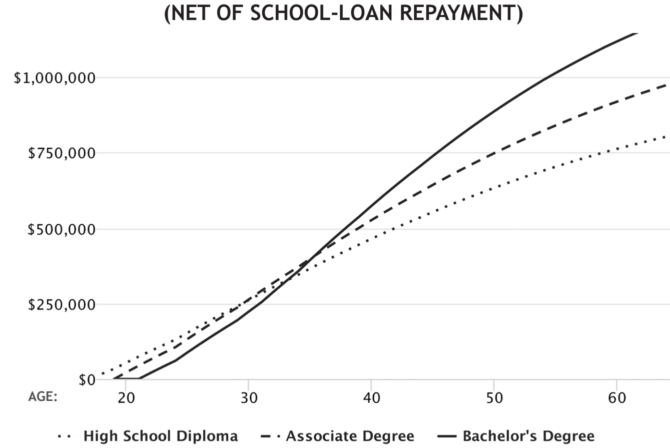
It is worth noting, however, that according to the U.S. Department of Education, about 40% of students who start college never finish—or at least don't finish in a timely fashion (i.e., within six years). In his 2015 book, *Will College Pay Off?*, Peter Cappelli, professor of management at the University of Pennsylvania, warns that "it's hard to get a return from going to college if you don't finish college, and a lot of people don't."[2]

Putting statistics in perspective

Aggregate data related to the earnings and employment status of college graduates tell us little about the experience of specific graduates or even groups of graduates. A more informative measure filters the data by areas of education specialization. Not surprisingly, outcomes differ across college majors. "In particular, students majoring in fields that provide technical training, such as engineering or math and computers, or fields geared toward growing parts of the economy, such as health care, have tended to earn higher returns on their educational investments," notes the Federal Reserve Bank of New York study cited earlier.

Earnings data, however, must be placed into a larger financial context. A person earning plenty of money but carrying high expenses isn't much better off than one earning less but with lower expenses. Therefore, earnings after college must take into account the cost of getting a degree, especially if a significant portion of a graduate's income is going toward repaying school loans for many years.

ESTIMATED CUMULATIVE EARNINGS DISPARITY BETWEEN HIGH-SCHOOL GRADUATES AND COLLEGE GRADS (NET OF SCHOOL-LOAN REPAYMENT)



According to the College Board, when loan-repayment amounts are subtracted from gross earnings, college graduates are at a net income *disadvantage* relative to high-school-only graduates for more than a decade after completing a bachelor's degree (see graph).

On average, it requires 12 years in the full-time workforce for the typical B.A. recipient who has borrowed money for college to reach cumulative net-pay parity with a high-school-only graduate.[3] This is not only because of years of school-related debt payments after graduation, but also because college students forgo full-time income for several years while earning a degree. Eventually, as seen in the graph above, the cumulative net earnings of college graduates (including those with two-year degrees) begin to outperform the earnings of those with only a high-school education and continue to do so.

The growing debt burden

Most college students today incur education debt and the amounts borrowed are rising. A study released last year by the Institute for College Access & Success found that nearly two-thirds of students who earned a bachelor's degree in 2017 used loans to help pay for college.[4]

For those graduating with school debt, the average debt load (not including any loans taken out by parents) was $28,650, 23% higher than for students who graduated a decade earlier.[5] Assuming a standard payoff schedule and an average interest rate of 4.50%, the payment needed to retire that level of debt would be just under $300/month for 10 years.

The shifting cost/benefit picture

What are today's students (and their parents) getting for their college-education outlay? That question isn't easy to answer. For one thing, it can be difficult—especially early in

[1] "Do the Benefits of College Still Outweigh the Costs?" *Current Issues in Economics and Finance*, Vol. 20, No. 3. [2] *Will College Pay Off?* (PublicAffairs, 2015). [3] *Education Pays 2016* (College Board). [4] "Student Debt and the Class of 2017" (Sept. 2018). [5] The sharpest increases in average indebtedness occurred between 2008 and 2012.

the process—to get a clear picture of the true dollars-and-cents cost of attending a particular school. Although each college has a per-year (or per-semester) "sticker price," few families actually pay that price. The sticker price is discounted by means of institutional grants, scholarships, and other aid.

Avg. tuition, fees, room, and board for full-time students in 4-year degree-granting institutions

School Year	Cost
1988-1989	$6,725
1989-1990	$7,212
1990-1991	$7,602
1991-1992	$8,238
1992-1993	$8,758
1993-1994	$9,296
1994-1995	$9,728
1995-1996	$10,330
1996-1997	$10,841
1997-1998	$11,277
1998-1999	$11,888
1999-2000	$12,349
2000-2001	$12,922
2001-2002	$13,639
2002-2003	$14,439
2003-2004	$15,505
2004-2005	$16,510
2005-2006	$17,451
2006-2007	$18,471
2007-2008	$19,363
2008-2009	$20,409
2009-2010	$21,126
2010-2011	$22,074
2011-2012	$23,011
2012-2013	$23,871
2013-2014	$24,701
2014-2015	$25,409
2015-2016	$26,132
2016-2017	$26,593

Source: National Center for Education Statistics

How much aid a student receives depends on several factors, including the student's academic or athletic prowess, the family's overall financial situation, and a particular school's ability to offer institutional aid. To help prospective students get a somewhat clearer view of the final cost, the U.S. government requires all colleges and universities to post on their websites a "net price calculator" that estimates the level of aid.

Even though sticker prices are often discounted, those prices remain the "baseline" from which any institutional aid will be subtracted. Therefore, increases in sticker prices are a reliable indicator of the pace at which the cost of attending college is rising. The table at left shows the increases in average annual sticker prices over the past 30 years—at a rate nearly three times that of overall inflation.

In a market economy, steady price increases are difficult to maintain without an accompanying increase in quality. People may be willing to pay more for an upgraded product, but they balk at paying more for a product that hasn't improved or perhaps has declined in quality. Thus far, however, higher education has been able to turn basic economics on its head. Demand for a college education remains high despite abnormal price increases (in comparison to the overall economy) and even though there is little indication that those investing in a college education today are getting an improved product over what was available decades ago.

To be sure, colleges have implemented technological advancements and expanded facilities, but the quality of the education itself is no better—and in some areas it is worse—than it used to be, according to a 2011 book titled *Academically Adrift* by sociologists Richard Arum and Josipa Roska. They found that nearly half of college students showed "no statistically significant gains in critical thinking, complex reasoning, and writing skills" in their first three semesters.[1] That finding buttressed the conclusions of an earlier report by the Commission on the Future of Higher Education which found "disturbing signs" that "many students who...earn degrees have not actually mastered the reading, writing, and thinking skills we expect of college graduates."

The apparent lack of academic rigor at many colleges may be disconcerting, but even more alarming is what many students *are* learning. As William Bennett writes in *Is College Worth It?*, "In today's colleges, much of what is taught in the humanities and social sciences is nonsense (or nonsense on stilts), politically tendentious, and worth little in the marketplace and for the enrichment of...mind and soul."[2]

Yet despite concerns about cost, quality, and content, consumer demand for a college education remains strong—driven in part by abundant financial aid available to students. Beyond the institutional aid offered by colleges themselves, the federal government and the states serve up an alphabet soup of grants, loans, and work-study programs. While such aid surely makes college more accessible for some, the perverse overall effect is to drive prices even higher.

As government aid swells college coffers, the money typically is spent on the expansion of faculty, staff, and facilities. This results in ongoing higher costs for running the institution. These increased costs, "inevitably [put] upward pressure on tuition," notes Andrew Gillen, an adjunct professor of economics at Johns Hopkins University, "setting the vicious cycle in motion all over again."

The times they are a-changin'

The late economist Herb Stein once wryly observed, "If something can't go on forever, it won't." Applying Stein's Law to the higher-education marketplace, it seems clear that the model of rising costs and stagnant (or reduced) quality isn't sustainable. The ways in which higher education will change in the years ahead, however, remains unclear.

What is clear is that the "full-time residential model of higher education is getting too expensive for a larger share of the American population"—to use the language of a report from the Chronicle Research Service, affiliated with the Chronicle of Higher Education. The report notes "more and more students are looking for lower-cost alternatives."

So far, they are finding such alternatives in—among other things—online learning, hybrid class schedules (part in-class, part online), and the growth of for-profit colleges (where market discipline helps hold down costs). Further, some colleges are responding with options such as three-year degrees—i.e., accelerated programs—and no-frills satellite campuses (since you're not getting access to the new student lounge and a state-of-the-art fitness center, you don't pay for it).

As an example of online learning, Penn State's World Campus now offers 36 web-based bachelor's programs. If taken on campus, most courses in these majors would cost $866 per credit hour for a Pennsylvania resident or about twice that out-of-state students. Online, however, the standard per-credit-hour cost is about $560—no matter where the student lives.

Many established colleges and universities now have

[1] *Academically Adrift: Limited Learning on College Campuses* (University of Chicago Press, 2011). [2] *Is College Worth It?* (Thomas Nelson, 2013).

similar online programs. According to the National Center for Education Statistics, about 15% of college students now attend school exclusively online while another 18% take a mix of classroom and online courses.

Two-year degrees

A lower-cost alternative that has been around for years is the two-year associate's degree—typically offered by community colleges and junior colleges. Such degrees can be a cost-effective step up to the job market, but that isn't always the case.

Most students who pursue an associate's degree intend to use it as a stepping stone to a bachelor's degree. Unfortunately, only about 10% of such students actually go on to complete a B.A., according to the National Student Clearinghouse Research Center. As a result, these students end up with a generalized "sub-baccalaureate" degree (in liberal arts or "general studies," for example), rather than a degree that demonstrates proficiency in specific, marketable skills.

In contrast, some associate's programs are aimed at preparing students for particular career fields, such as information technology, manufacturing, and health services. A 2018 report from data-analytics firm Burning Glass Technologies cites research which found that "graduates with associate degrees in STEM,[1] nursing, and construction earned a significant payoff compared with associate degrees in the humanities."[2]

The better outcomes for holders of specialized associate's degrees is because jobs that require post-high school training but not a four-year college degree are reasonably plentiful. A 2017 study by the Georgetown University Center on Education and the Workforce found that "30 million good jobs [in the U.S.] do not require a bachelor's degree. These good jobs pay an average of $55,000 per year, and a minimum of $35,000 annually."[3] The report notes that while many "good" jobs once required only a high school education or less, "the new good jobs almost all require at least some postsecondary education and training…. [In filling these] jobs, employers favor those with associate's degrees or some college."

However, Peter Cappelli, author of *Will College Pay Off?*, says students should be wary of *four*-year degree programs focused on specific vocational-type training. "These narrow, vocational degrees lock students into a single occupation, and [young people] often have to make that decision at age 17 when they apply for college. They may change their interests and want to switch fields, which may be hard to do in these practical programs."

Considering the options

Post-secondary education is an investment—and it involves risk, especially if large sums of borrowed money are involved. To manage that risk, parents of today's (and tomorrow's) teenagers should at least re-think the assumptions that have guided post-high-school choices for decades.

Is earning a four-year bachelor's degree the best choice? It may be, depending on your child's gifts and field of interest. If so, is going the route of a high-cost residential program worth it? Again, it may be—perhaps especially for the intangibles that don't show up on the tuition bill, including the very real possibility of finding a husband or wife.

As a parent, you must prayerfully consider the hard question: "Will my son or daughter be best served by going off to college in pursuit of a bachelor's degree, or should we take a different approach to post-high school education?"

What about earning a bachelor's degree online or in a hybrid part online/part on-campus program? Would it be better for your student to live at home and (at least initially) pursue a degree at a "commuter college"? Would a specialized two-year degree be sufficient? Should your son or daughter consider a lower-cost (and perhaps more-marketable) education at a vocational school—or maybe a certification program in an area such as accounting or computer programming?

Ideally, parents and their older teens will work together to make (in the words of Bill Bennett) "realistic assessments of... abilities and finances." As together you seek to discern a wise course of action, consider the following ideas:

• **Wait and work.** No rule says a high school graduate must immediately enroll in college. Perhaps your son or daughter would be better served by taking a year to work and save. During that time, he or she can gain workplace skills, grow in maturity, and seek the Lord about the next step.

• **Know thyself.** One of the best ways for parents and students to gain confidence in making educational and vocational decisions is to get a clear picture of the young person's personality, skills, interests, and what type of work he or she is likely to find most satisfying. Among the assessments that provide this kind of information is Career Direct,[4] an online assessment tool from Crown Financial Ministries. Reviewing the results may make the "next step" much clearer.

• **Research and reflect.** If your child does want to pursue a four-year degree at a residential school, keep in mind that cost—although important—is only one factor among many. Other factors include location, size, and spiritual life. Visit campuses if possible and ask plenty of questions.

• **Take tests.** You can cut the cost of college significantly if your son or daughter can pass Advanced Placement or College Level Examination Program tests (both offered through the College Board). Students who pass these tests can gain full credit for certain courses at a fraction of the cost of tuition.[5]

• **Make a transfer.** Another option for reducing the cost of a four-year degree is to go to a community college for the first two years, then transfer to a four-year school. (Check ahead regarding which courses will transfer!) Keep in mind that failing to follow through with completing a bachelor's program is likely to hamper job prospects.

• **Search for scholarships.** You can search online via bit.ly/college-board-search and bit.ly/petersons-search. Also look through *The Scholarship Handbook* (published by the College Board) and similar books that list available scholarships.

• **Consider the military.** Military life isn't for everyone, but entering the armed services is an excellent way to gain a solid education at low or no cost, while also serving the nation.

As you consider the options, remember we serve a God who made each of us for a purpose, and He is fully able to guide us toward fulfilling it. "For it is God who is working in you, enabling you both to will and to act for His good purpose" (Philippians 2:13). ◆

[1]Science, technology, engineering, and mathematics. [2]"Saving the Associate of Arts Degree" by Mark Schneider and Matthew Sigelman. [3]"Good Jobs That Pay Without a BA" by Anthony P. Carnevale et al. [4]www.careerdirect.org
[5]Not all schools accept credit for all tests. Advanced Placement tests require taking AP courses in high school.

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

BANKING WITH YOUR CHURCH

How does a 2.99% interest rate sound for a one-year CD with just a $500 minimum? That's a bit better than the best nationally advertised rate of 2.70%. Or how about 4.65% on a five-year CD with a $10,000 minimum? That's significantly better than the 3.15% best nationally-advertised rate.

Where can you get such rates? Possibly through a "church extension fund."

What is a CEF?

The Lutheran Church—Missouri Synod (LCMS) traces its history with the church extension fund concept back to 1902 when several congregations pooled $400 to help Zion Lutheran Church in Bridgeport, Conn., build a school.

That's the essence of the CEF idea—members of a particular denomination (individuals and churches) pool their resources to help "extend" their denomination's reach and impact by funding the building or improvement of churches, schools, universities, or seminaries affiliated with the denomination.

The Disciples Church Extension Fund, which is affiliated with the Disciples of Christ denomination, dates even farther back, to 1883.

For individuals who are part of denominations that offer CEFs, the value proposition is two-fold: They get competitive interest rates on their savings—sometimes even *better* rates—when compared to rates available at banks or credit unions, plus they gain the satisfaction of knowing their money is being used to further the work of their particular denomination.

For borrowers affiliated with the denomination, such as churches or schools, they may gain easier access to capital and at more favorable rates than are available through conventional lenders.

The CEF landscape

Without a central source of information about church extension funds, it's difficult to determine how many such funds exist. However, using "church extension fund" as an Internet search term leads to quite a few funds offered by denominations, including the United Methodist Church, the Evangelical Lutheran Church of America, the Presbyterian Church USA, the American Baptist Church, the United Church of Christ, the Assemblies of God, and others.

Today, according to its website, the Lutheran Church Extension Fund (LCEF) supports more than 200 ministries with the help of some 60,000 investors who have invested $1.7 billion. The Solomon Foundation, an extension fund that serves churches which trace their heritage to the "Restoration Movement" (i.e., Christian Churches and Churches of Christ), has over 5,000 investors and more than $550,000 million under management.

Typically on CEF account applications, prospective investors are asked to list the name of their home church. However, an LCEF representative said an investor doesn't have to attend a Lutheran Church to open an account at the LCEF; the investor simply needs to be aware of the fund's purpose. Other CEFs may—or may not—share that stance.

What savings accounts are available?

Most CEFs offer accounts similar to money-market accounts. The interest rate is higher than for a traditional savings account and savers can access their funds at any time. CEFs also offer accounts that are similar to CDs—i.e., the investor chooses a time frame and higher rates of interest are paid on longer-term notes.

The table below shows rates currently offered by several CEFs, as compared to the best nationally advertised rates.

What happens with the money?

Most church extension funds provide mortgage and construction loans and lines of credit for the building, improvement, or expansion of denominational churches, schools, universities, and seminaries. The LCEF also provides residential mortgages and home-equity loans to LCMS "Rostered Church Workers"—in essence, people who work full-time for denominational organizations.

Some CEFs, such as the LCEF and the Solomon Foundation, also offer consulting services on building design, budgeting, architect and general contractor selection, and construction.

Risks to investors

Before opening an account with a CEF, a prospective investor is encouraged to read the fund's "circular offering" that contains all the fine print, including details of the risks involved

(continued on p. 93)

RATES OFFERED BY VARIOUS CHURCH EXTENSION FUNDS[1] | CEF WEBSITES

	No term	1 year	3 years	5 years	Online at
Best national bank rates[2]	2.25%	2.70%	2.85%	3.15%	
Disciples Church Extension Fund	0.25%	1.00%	2.01%	2.52%	www.disciplescef.org
Lutheran Church Extension Fund	0.50%	2.02%	N/A	2.65%	www.lcef.org
Presbyterian Church USA Investment & Loan	0.70%	1.35%	2.00%	2.70%	www.pilp.pcusa.org
The Solomon Foundation	2.27%	2.99%	3.30%	4.65%	www.thesolomonfoundation.org
United Methodist Development Fund	1.40%	1.90%	2.70%	3.30%	www.umdevelopmentfund.org

[1]All rates shown are Annual Percentage Yield (rounded). [2]Via www.bankrate.com in mid-May 2019. Minimum-required amounts and maximum-allowed amounts per account vary. See websites for details.

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

HAVING TIME ON YOUR SIDE PUTS YOU IN CONTROL OF RISK

Despite significant bear markets in 2000-2002 and 2008, the stock market has returned, on average, about 11% per year over the past 92 years. That's for a portfolio that is one-half large company stocks and one-half small company stocks (using performance data that goes all the way back to 1926 as published by Ibbotson Associates—an industry leader in compiling market statistics).

This 11% average assumes all dividends were reinvested and ignores the unfortunate fact that in real life Uncle Sam steps in and confiscates a hefty portion of your gains. (If an 11% average is a bit higher than you've heard in the past, it's because small-company stocks have averaged 1.8% per year more than the large-company's 10.0% annual average.)

Of course, knowing the market has averaged gains of 11% annually since 1926 doesn't tell you what the return will be *this* year. Such an average obscures some wild rides along the way (such as periods in the 1930s when 12-month losses were as horrifying as -69% and gains were as breathtaking as +240%). In fact, only about 4% of the time have stocks *actually returned 11%* (give or take 1%) in a 12-month period.

What the average *does* tell you, however, is that time is on the side of the long-term investor. The longer you are willing to keep your money in the market, the greater your likelihood of success. According to the Ibboston data, if you owned stocks during any random 12-month period[1] from the past 92 years, you had a 75% chance of making money. How much money? Study the historical evidence in the table below. You would have had about a 39% probability of making 20% or more, a 21% chance of making 10%-20%, and a 15% chance of earning <1% up to 10%.

Notice that while stocks lost money in 25% of the *one*-year periods, only 11% of the *five*-year holding periods saw losses, and just 3% of the *10*-year periods did. Clearly, the longer you are able to leave your money invested in stocks, the better your chances of ending up with a gain. The table shows that as the holding period increases, the very large gains and losses gradually disappear as the market moves closer to its long-term historical average.

More importantly, by the time you cross the five-year holding period and move out toward a 10-year period, any losses you experience are likely to be minor. While losses over 10-year holding periods have happened before, they've been rare—only 3% of the time. This is why SMI has long advised readers to invest in stocks only if they have at least a five-year time horizon, and preferably 10 years or more.

How can you apply this? By aligning your investment expectations accordingly. Begin judging your investment progress in terms of the market's long-term average annual return (11%) and how much time remains before you will need to start selling your holdings. It may be that, on occasion, your stock portfolio will show far greater growth than 11% annually (as it did in 2017). Don't expect this to continue indefinitely. Recognize it for what it is—one of those above-average results. Your additional profits will provide you with a cushion in case the market is not as kind another year.

On the other hand, if you finish a year with a loss (as happened last year), don't despair. You would temporarily be "behind schedule" with respect to the 11% average, but as long as you still have many years remaining in your expected holding period, the odds are in your favor. Hang in there and wait for the stock market to do what it has always done in the past—reward the patient investor.

Some investors are nervous about continuing to invest today given that the end of this long bull market may be approaching. This is an appropriate concern, especially if you'll need to withdraw money from your stock portfolio during the next 5-10 years. But if your time horizon is at least 10 years, take comfort from the experience of investors faced with the same dilemma at the last bull market peak in October 2007. An investment made

(continued on page 93)

THE PROBABILITIES OF STOCK MARKET SUCCESS

	Invest for 1 Year	Invest for 3 Years	Invest for 5 Years	Invest for 7 Years	Invest for 10 Years
Probability of Annual Gain of 20% or More	**39%**	**25%**	**18%**	**12%**	**5%**
Average value of a $1,000 portfolio	$1,375	$2,047	$2,977	$3,999	$6,835
Probability of Annual Gain of 10% to 20%	**21%**	**39%**	**47%**	**50%**	**64%**
Average value of a $1,000 portfolio	$1,148	$1,516	$1,989	$2,678	$3,891
Probability of Annual Gain of 10% or Less	**15%**	**20%**	**24%**	**32%**	**28%**
Average value of a $1,000 portfolio	$1,052	$1,197	$1,330	$1,534	$1,853
Probability of Annual Loss of 10% or Less	**11%**	**11%**	**7%**	**5%**	**3%**
Average value of a $1,000 portfolio	$952	$864	$807	$806	$754
Probability of Annual Loss of 10% to 20%	**7%**	**3%**	**3%**	**<1%**	
Average value of a $1,000 portfolio	$861	$649	$480	$433	
Probability of Annual Loss of 20% or Worse	**7%**	**2%**	**1%**		
Average value of a $1,000 portfolio	$653	$279	$285		

[1]The numbers are based on "rolling" periods. After looking at the results from holding periods that began January 1, we then "rolled" to the next month to look at the results if the holding period had begun on February 1. And so on through the year. This gives a better understanding of the extremes one might expect.

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

THE POSITIVES—AND PERILS—OF "BACK-DOOR" ROTH IRA CONTRIBUTIONS

As we explained in our April 2019 cover article, "Making Sense of Your IRA Options," Roth IRAs offer a compelling tax benefit: withdrawals are tax-free in retirement. Further, Roth IRAs have no mandatory withdrawal requirement, which creates greater flexibility in managing retirement assets.

Unfortunately, if you're a high-income earner and would like to contribute to a Roth IRA, a quick review of the IRS rules suggests you are out of luck. For single filers, modified adjusted gross income must be under $137,000 to be eligible. For married couples filing jointly, the income cutoff is $203,000.[1] But there are ways around those income-level restrictions, as we'll explain shortly.

Workplace Roth accounts—in contrast to Roth IRAs—have no income restrictions. Even if you earn a large salary, you can contribute to a Roth 401(k), 403(b), or 457 account if one is available to you. But you may want a Roth IRA too. Perhaps you're maxing out how much you can contribute at work and would like to invest more via an IRA. Or maybe the investment options in your workplace plan are too narrow, in which case you may prefer to invest only enough to take advantage of any employer match and then do the rest of your investing via an IRA.[2]

But how can you make Roth IRA contributions if you're not eligible? By using a technique—allowed by IRS rules—known as a "back-door" Roth IRA contribution. A word of warning: Depending on your overall retirement-account situation, the back-door approach can get a bit complicated.

The path to the back door

The back-door approach to a Roth IRA is to first make a contribution to a traditional IRA. Although a high income may disqualify you from making *deductible* contributions to a traditional IRA, the IRS says its perfectly fine for you to make *non-deductible* contributions (as long as you're younger than 70½). Then, under the tax law, you can move ("convert") money from the traditional IRA to a Roth IRA.

Sounds easy enough, right? But there may be a complicating factor. Making a non-deductible contribution to a traditional IRA and then converting it to a Roth will be become complex if you have other money in non-Roth IRAs—including traditional, SEP, or SIMPLE IRAs. You'll find the IRS standing guard at the back door ready to apply its "pro-rata rule" and collect taxes on a portion of your conversion—possibly a large portion.

This may seem nonsensical since the back-door contribution money has been taxed already! But the IRS won't let you specify that only the new, non-deductible IRA money is being converted to the Roth. In the eyes of the tax law, the non-deductible contribution you made is just a portion of your total IRA assets. And in a conversion to a Roth, *all* of your traditional IRA assets—deductible and non-deductible contributions alike—are treated as though they are drawn from the same pot.

For example, assume you have $95,000 in a traditional IRA and you make a new, non-deductible contribution of $5,000. Your intent is to convert only the new $5,000 to a Roth. But when you convert, the IRS will characterize 95% of the $5,000 conversion amount as coming from the original IRA assets and only 5% as coming from the new, non-deductible contribution. Even worse, you'll have to go through a similar pro-rata calculation for any future conversions or distributions (including required minimum distributions starting at age 70½).

Don't be discouraged. There are three possible workarounds.

The options

• **Turn to your spouse.** If you're married and your spouse has no non-Roth IRA assets, the back-door approach can be undertaken in his or her name. Problem solved!

• **Do a "roll-in."** If you have a workplace plan that accepts "roll-ins," you could transfer all of your non-Roth IRA funds into that plan, freeing you to pursue the back-door approach without extra tax complications. (A "roll in" is a rollover contribution from a former workplace plan or IRA.[3]) Just be sure to review the investment choices offered by your workplace plan. If your 401(k) offers a wide variety of options that enable you to invest as you have been, this route may be fine. If not, you may be giving up too much for this approach to be worthwhile.

• **Bide your time.** You could go ahead and make a non-deductible, traditional IRA contribution but not convert it right away. By doing so, you'd at least get that money growing on a tax-deferred basis. You could convert some or all of it down the road—preferably before the lower tax rates instituted last year expire in 2026. (Note that this approach delays but doesn't eliminate the pro-rata rule complications that result from having both deductible and non-deductible traditional IRA assets.)

Just so you know

Depending on your situation, the potentially cumbersome nature of making back-door Roth IRA contributions may be more than you bargained for. We're not trying to talk you out of it, but you need to be aware of the tax complexity you could be inviting so you can determine if going through the process is worth it.

That said, if you don't have other traditional IRA assets (or your spouse doesn't), the Roth IRA back door is open and inviting. ◆

[1]Roth IRA eligibility begins phasing out for singles at $122,000 of income and for married couples filing jointly at $193,000. [2]For 2019, the annual maximum for IRA contributions is $6,000, or $7,000 for those age 50 or older. [3]Self-employed investors could set up a solo 401(k) for this purpose.

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

QUALITIES TO LOOK FOR IN A FINANCIAL ADVISOR

By Sandra Morrison, Bryce Fathauer, and Paul Wilkin[1]

Most SMI newsletter readers are do-it-yourself (with help!) investors. That's great, because spending time as *your own financial advisor* greatly increases the odds of learning at least the basics of investing and personal finance. That knowledge, plus the hands-on experience of making investment decisions, puts SMI members way ahead of most people.

But over the past 14 years, we've seen that many do-it-yourselfers eventually reach a point where they need or want an advisor. The reasons vary. Some are trying to set up their affairs for the benefit of a spouse who has less investing interest or experience. Others find that while their skills were sufficient during the asset-*accumulation* phase of life, they see the benefit of having an advisor's expertise as they reach retirement and the often-trickier asset-*distribution* phase. Still others just get tired of handling all of the financial management themselves and want to outsource the heavy lifting while also ensuring another set of eyes is fixed on their investing affairs.

Whatever the reason(s), once the decision is made to engage a financial advisor, there are key issues to address in order to find an advisor that is a good fit for you.

Does the advisor share your worldview?

At first glance, whether or not an advisor is a Christian may seem unimportant. But sound financial advice isn't simply about tax strategies and withdrawal rates. Overarching values come into play. SMI readers are among those who believe the goal of good financial management isn't simply to gain and keep more stuff. "He who dies with the most toys" *doesn't* win.

In Matthew 6:19-21, Jesus warns, "*Do not lay up for yourselves treasures on earth, where moth and rust destroy and where thieves break in and steal; but lay up for yourselves treasures in heaven, where neither moth nor rust destroys and where thieves do not break in and steal. For where your treasure is, there your heart will be also.*" This is the polar opposite of the secular financial-planning mindset, where the accumulation of ever-more assets as protection against the uncertainty of the future is often the goal.

The mindset of a Christian investor—and Christian advisor—should be different. In Psalm 90, Moses prays, "*So teach us to number our days, that we may gain a heart of wisdom.*" Believers should begin with the end in mind—meaning *because* we know this life isn't all there is and the idea of wealth "protecting" us is a mirage, we instead seek to manage our finances with a *stewardship* mentality rather than *ownership* mentality.

This stewardship responsibility absolutely includes the need to plan and invest to provide for ourselves and our families. But it goes well beyond that.

Being of like mind with your advisor is going to be crucial when it comes to "counter-intuitive" financial planning moves such as potentially paying off your mortgage early or being an "aggressive" giver. While clearly based on principles encouraged by Scripture, these are examples of activities that 1) threaten to reduce the asset base on which your advisor is being paid, and 2) reduce the "security" of your plan by removing assets from your pile. Good luck convincing your non-Christian advisor that the spiritual benefits outweigh the here-and-now costs!

Practical questions

Holding a common Christian worldview is vital, but you should investigate other issues as well. Here's a list of practical questions to consider and discuss with any potential advisor.

• **Is the advisor a fiduciary?** A fiduciary is obligated to act in your best interest. A non-fiduciary is obligated only to present you with "suitable" investments. Fiduciary is better.

• **Who has custody of the assets?** Most advisors are custodied through well-known brokerage firms such as Fidelity, Schwab and TD Ameritrade. But it's imperative to ask—and to investigate further if the custodian isn't familiar to you.

• **What professional designations has the advisor earned?** For investment advisors, designations such as Accredited Asset Management Specialist (AAMS®), Certified Investment Management Analyst (CIMA®), and Chartered Financial Analyst (CFA®) indicate the advisor has demonstrated a commitment to the profession and has satisfied industry standards for competence and ethics. The same is true for the Certified Financial Planner (CFP®) designation for comprehensive financial planners.

• **Active vs. passive?** Many advisors rely exclusively on passive investments (index funds). This isn't inherently bad, but as SMI has written many times, indexing looks best after long bull markets, but provides no downside protection during bear markets. Given the current bull market is more than 10 years old, it's important to understand the implications for indexing when the market cycle inevitably turns bearish.

• **Do you understand the advisor's strategies?** Even if you're no longer the one implementing the investment strategies, it's important that you understand how they work—and, more importantly, *why* they should work.

• **What are the fees?** This includes the management fee you'll pay the advisor plus any trading fees. It may also include loads, commissions, and wrap fees. Ask for a detailed breakdown of *all* the fees associated with your account and get it in writing. *(continued on page 93)*

[1]Sandra, Bryce, and Paul are not employees of the SMI newsletter. They are Stewardship Advisors with SMI Advisory Services, a separate (but affiliated) business. The opinions expressed are based on their personal experiences as financial advisors. Learn about SMI Advisory's Private Client service at smiprivateclient.com.

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 4/30/2019	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	11.0	13.3%	2.8%	5.2%	9.2%	-3.4%	8.2%	0.97	0.11%/0.09%	20%	16%	12%	8%	VTIAX/VXUS
Extended Market Index	Small company stocks	25.7	20.2%	3.7%	7.7%	9.4%	8.5%	14.0%	1.30	0.07%/0.07%	40%	32%	24%	16%	VEXAX/VXF
S&P 500 Index	Large company stocks	32.7	18.3%	4.1%	9.5%	9.8%	13.5%	14.8%	1.00	0.04%/0.03%	40%	32%	24%	16%	VFIAX/VOO
Total Bond Market Index	Medium-term bonds	12.8	3.0%	0.1%	2.0%	5.4%	5.4%	1.9%	1.00	0.05%/0.035%	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 three or four traditional mutual funds/ETFs (see ticker symbols in rightmost column), depending on your stock and bond mix. For more on JtB, see Jan2019:p7-8.

RECOMMENDED FUNDS FOR SMI'S FUND UPGRADING STRATEGY

Risk	Data through 4/30/2019[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. ☎ Sextant International	6/19	NTF	NTF	NTF	39.9	17.6%	3.1%	9.9%	16.6%	13.4%	13.8%	0.97	1.05	27	None	SSIFX
	2. Lazard Global Infrastructure	11/18	NTF	NTF	NTF	22.7	12.3%	2.7%	6.2%	8.0%	8.6%	10.2%	0.87	1.21	34	None	GLFOX
	3. Invesco Intl Dividend Achievers	03/19	ETF	ETF	ETF	26.5	16.5%	3.5%	6.2%	13.1%	7.1%	7.9%	0.98	0.55	66	None	PID
Category 4 Small/Growth	1. Value Line Mid Cap Focus	12/18	NTF	NTF	NTF	56.4	22.0%	3.7%	13.4%	17.0%	26.0%	18.1%	1.03	1.18	40	None	VLIFX
	2. Neuberger Sm Cap Gr - LW[10]	05/19	NTF	NTF	NTF	64.9	31.3%	2.8%	15.2%	19.8%	29.9%	27.0%	1.49	1.27	92	None	NSNAX
	3. Baron Opportunity	03/18	NTF	NTF	NTF	51.4	25.6%	3.5%	13.6%	16.0%	21.8%	25.0%	1.40	1.37	63	None	BIOPX
Category 3 Small/Value	1. Invesco S&P MidCap LowVol	12/18	ETF	ETF	ETF	35.8	15.7%	3.1%	7.9%	12.0%	16.0%	14.2%	0.92	0.25	82	None	XMLV
	2. Touchstone Mid Cap Z	05/19	NTF	NTF	NTF	45.5	21.5%	5.4%	13.1%	15.9%	16.4%	16.2%	1.04	1.24	31	None	TMCTX
	3. ☎ Weitz Hickory	6/19	NTF	NTF	NTF	37.2	24.5%	6.7%	12.3%	12.7%	12.3%	7.2%	1.16	1.24	36	None	WEHIX
Category 2 Large/Growth	1. MS Insight Fund - LW[10]	05/18	NTF	NTF	NTF	68.4	29.3%	3.2%	14.3%	20.9%	33.3%	30.5%	1.55	1.15	45	None	CPOAX
	2. Akre Focus Retail	05/19	NTF	NTF	NTF	64.1	24.6%	4.4%	16.2%	21.5%	26.5%	21.9%	0.97	1.32	22	1%30days	AKREX
	3. Polen Growth Investor	10/18	NTF	NTF	NTF	56.7	22.6%	5.1%	14.1%	16.5%	26.1%	19.6%	1.10	1.25	23	2%60days	POLRX
Category 1 Large/Value	1. Invesco S&P 500 LowVol	12/18	ETF	ETF	ETF	40.2	16.1%	2.3%	8.9%	13.3%	18.0%	12.8%	0.87	0.25	102	None	SPLV
	2. AMG Yacktman Focused	03/19	NTF	NTF	NTF	32.8	12.0%	3.0%	6.0%	9.6%	17.2%	13.7%	0.67	1.27	33	2%60days	YAFFX
	3. Voya Corporate Leaders Trust	03/19	NTF	Yes	NTF	35.9	18.0%	4.1%	8.8%	11.2%	15.8%	12.9%	1.10	0.59	23	None	LEXCX
Bond Categories	Vanguard I-T Bond[6]	2/19	ETF	ETF	ETF	15.7	3.9%	0.1%	2.2%	6.5%	6.9%	1.9%	1.23	0.07	6.1[7]	None	BIV[8]
	Permanent: Vanguard I-T Bond	Perm	ETF	ETF	ETF	15.7	3.9%	0.1%	2.2%	6.5%	6.9%	1.9%	1.23	0.07	6.1[7]	None	BIV[8]
	Permanent: Vanguard S-T Bond	Perm	ETF	ETF	ETF	8.5	1.9%	0.2%	1.2%	3.2%	4.0%	1.4%	0.46	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 May, rather than on the end-of-April 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.

SOUND MIND PORTFOLIOS

Upgrading: Easy as 1-2-3

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

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

WHY UPGRADE?

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

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

WHERE TO OPEN YOUR ACCOUNT

Opening an account with a discount broker that offers a large selection of no-load funds greatly simplifies the Upgrading process. This allows you to quickly and easily buy/sell no-load mutual fund shares without having to open separate accounts at all the various fund organizations. There are several good brokerage choices available. We recommend reading our latest Broker Review (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 Basic Strategies page, the highest-ranked Cat. 5 fund is Sextant International, the highest-ranked Cat. 4 fund is Value Line Mid Cap Focus, 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	Sextant International
Stock Cat. 4: Small/Growth	16%	$8,000	Value Line Mid Cap Focus
Stock Cat. 3: Small/Value	16%	$8,000	Invesco S&P MidCap LowVol
Stock Cat. 2: Large/Growth	16%	$8,000	MS Insight Fund
Stock Cat. 1: Large/Value	16%	$8,000	Invesco S&P 500 LowVol
"Rotating" Bond Fund	10%	$5,000	Vanguard I.T. Bond Index
Intermediate-Term Bond Fund	5%	$2,500	Vanguard I.T. Bond Index
Short-Term Bond Fund	5%	$2,500	Vanguard S.T. Bond Index
Total	100%	$50,000	

BOND UPGRADING

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

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

MONEYTALK

STOCK UPGRADING — NEW FUND RECOMMENDATIONS

[When more than one fund in the same risk category is replaced, you should evaluate which of the newly recommended funds is the best fit for your portfolio. The simplest method for picking new funds is to refer to our 1-3 rankings on the "Basic Strategies" page and invest in the highest-ranked fund in each risk category that is available through your broker. • We choose our recommended funds with the hope they will be held for at least 12 months and therefore qualify for long-term capital gains tax treatment (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.]

The stock market hit a rough patch in May, with trade talks between the U.S. and China acting as the immediate catalyst of the market's decline. But a longer view indicates deeper issues are at work. Lost in the excitement of the stock market (barely) setting a new all-time high in early May is the fact that stocks haven't been particularly strong performers for some time now. The stock market is roughly flat over the past 10 months, and is down slightly over the past 16 months, measuring from the January 2018 highs. Upgrading looks at multiple performance intervals over the past year, so this lackluster longer-term performance is showing up in the fund rankings.

A balanced view is appropriate at present. The stock market did recently set a new all-time high and today sits just -5% below that level, despite the declines of recent weeks. So it's premature to be overly bearish about the short-term direction of the market. But as these longer-term trends put down deeper roots, it's not surprising to see Upgrading rotate toward more conservative funds again.

◆ **In the Foreign group, Longleaf Partners International (LLINX, 3/2019) is being replaced.** Purchased three months ago when the market was in the midst of its spirited early-2019 rally, Longleaf has failed to keep up with its foreign fund peer group. There has been a distinct gap in performance between foreign *growth* funds and foreign *value* funds in recent months. Morningstar's foreign large-growth category is up +2.3% over the past three months, while the foreign large-value category is down -2.4%. Longleaf's loss of -3.0% would be more understandable if it were a pure value fund, but it's not. It inhabits the "blend" terrain between those two groups. Having fallen below its category quartile, it is being replaced.

• **Sextant International (SSIFX) is being added.**[1] Investors sometimes struggle to understand the difference between the value and growth management styles, and this month's change is an example of why that difference can seem a bit murky at times. We're selling a fund (Longleaf) that is classified as a "blend" fund that is neither purely growth nor value, but owns some stocks from each group. We're replacing it with a fund that is a true growth fund: it focuses on finding stocks that are growing revenues, profits, and free cash flows.

Given that growth stocks usually carry higher risk than value stocks, we might expect Sextant to be a riskier fund than Longleaf. In fact, we find just the opposite! While there isn't a huge difference in risk between the two, Sextant's relative risk score of 0.97 indicates it has been 3% *less* volatile than the S&P 500 in recent years, whereas Longleaf's 1.07 indicates it has been 7% *more* volatile.

How can this be? The answer is that Sextant is investing in growth stocks, but doing so using a value discipline. Think of growth and value stocks as two separate ponds from which a fund manager might fish. In this case, the Sextant managers have decided to focus primarily on the growth stock pond. But having made that decision, they then use *valuation-based* selection tools to decide which of those stocks to purchase. In other words, they are trying to find the most attractively priced stocks within that foreign growth stock pond: a value approach applied to growth stocks.

◆ **In the Small/Value group, Neuberger Berman Intrinsic Value A (NINAX, 3/2019) is being replaced.** *Note: If your broker requires a 90-day holding period to avoid a short-term redemption fee, you may need to delay this sale by a few days. Because this fund was originally purchased in February, we're currently just short of a 90-day holding period. Carefully check your personal buy/sell dates before selling.*

Readers sometimes have the misconception that value stocks are always less risky than growth stocks. But that ignores the impact of stock *size* on riskiness. SMI's category risk ladder demonstrates that *small*/value funds are generally higher risk than *large*/growth funds.

The riskiness of the small/value fund category has been on full display the past three months, tallying the worst performance among all of Morningstar's domestic risk categories. The average small/value fund tracked by Morningstar lost -6.9% over that time, while Neuberger Berman Intrinsic Value was slightly worse at -7.3%. Upgrading requires a fund to rank within the top quartile of its peer group in order to stay recommended, so with this fund's fall below the quartile cutoff, it is being replaced.

• **Weitz Hickory (WEHIX) is being added.**[1] We're taking a significant step down the risk ladder with this change, selling Neuberger's 1.48 relative risk score and replacing it with Weitz Hickory's 1.16. However, even though we're moving down the risk ladder, it's worth pointing out that WEHIX has the highest relative risk score of the three funds recommended in the small/value group.

Over the past four decades, fund manager Wally Weitz has successfully followed the value discipline espoused by Ben Graham and Warren Buffett. Part of that discipline involves *not* investing at times when valuations seem too rich. This fund has held significant levels of cash at various points in the past, though cash levels appear modest at present. ◆

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

MONEYTALK

LEVEL 1 / CONTINUED FROM PAGE 86

BANKING WITH YOUR CHURCH

in putting money on deposit with the fund. Key among the risks is that money held in a church extension fund account is *not insured*.

In addition, the typical circular points out that interest and principal payments on all notes "are made primarily from the amounts received from the principal and interest payments on its outstanding loans." Those loans are made to "unique borrowers," such as churches, who are subject to "eligibility and approval criteria [that] may be more flexible than might be applied by a typical lending institution." Further, the ability of these borrowers to repay their loans "will generally depend upon the amount of contributions it receives from its members" and those contributions tend to fluctuate with the economy.

Should you use a CEF?

Church extension funds aren't for everyone. They are intended for members of specific denominations, and every CEF is not necessarily available in every state. Anyone considering putting money on deposit with a CEF must weigh the benefits of knowing their money is being used for Kingdom-expanding purposes against the risk of knowing the money is not insured. ◆

LEVEL 2 / CONTINUED FROM PAGE 87

HAVING TIME ON YOUR SIDE PUTS YOU IN CONTROL OF RISK

then would have earned +7.9% annualized over the following decade, despite falling roughly -50% over the first year-and-a-half! That's a lower return than the market's long-term average, but a fairly remarkable figure considering the rough start. (If you don't have at least a 10-year time horizon, it's imperative to prioritize risk management over maximizing return.[1])

That example illustrates why we believe most long-term investor portfolios should contain significant stock allocations. But it also illustrates why investors should take on the higher risks of owning stocks only if they *need* the higher long-term returns they offer. Because stocks can be so volatile over the short-term, you should invest at the lowest level of stock exposure consistent with achieving your growth and income goals. ◆

LEVEL 4 / CONTINUED FROM PAGE 89

QUALITIES TO LOOK FOR IN A FINANCIAL ADVISOR

• **What client technology is offered?** Ideally, this would include online tools that enable you to track performance, run detailed reports, and schedule contributions/distributions. Also ask about financial-planning software (for example, MoneyGuidePro®) and the extent to which you have access to it. Having a mobile app is a plus.

• **What advisor technology is being used?** Some advisors offer benefits such as asset location (placing certain assets in specific account types to reduce taxes), tax loss harvesting, and tolerance-band rebalancing (rebalancing based on the performance of the assets in the portfolio, rather than simply rebalancing at the same time each year). These are a few specific examples to ask about that may lead to a deeper conversation regarding other "advanced features" the firm can offer.

• **What about stewardship-specific features?** Ask whether the advisor will assist you with Qualified Charitable Distributions (QCDs), a way for those over age 70½ to make tax-free charitable donations directly from IRA accounts. If you have (or are interested in) a donor-advised fund (DAF), this is another area to inquire about—specifically whether the advisor has the ability to manage assets within a DAF.

A life or death decision?

Scripture warns that prosperity and wealth can capture our affections unless we guard against that happening by keeping our affections focused on Jesus Christ and the Kingdom of God. It's crucial to take a Christian view of your finances and to find an advisor who won't undermine your convictions but rather will help you along the path of financial discipleship.

Ultimately, you are responsible for your financial goals and whether or not those goals are God-honoring. But your advisor can play a key role in helping you stay on track—and potentially in helping your heirs stay on track as well. Choosing an advisor is an important decision deserving careful attention and prayer. ◆

SIGHTING: A MILD RECESSION, A NOT-SO-MILD BEAR MARKET?

Recession fears resurfaced at the end of 2018 as a combination of negative data surprises, communication blunders by the Fed, slowing growth overseas, and rising trade tensions triggered a selloff in risk assets that led many in the market to fear a recession was imminent. While more dovish Fed communication and the recent market rebound have helped allay these fears, many are still left wondering if a recession is around the next corner. We don't think so. Our recession forecasting tools continue to point to the same timing as they have over the past year-and-a-half: recession risk in the near term is moderate, but the next recession could begin as early as the first half of 2020....

Our work shows that the next recession will not be as severe as the last one, but it could be more prolonged than usual because policymakers at home and abroad have limited tools to fight the downturn....

Our work [also] shows that when recessions hit, the severity of the downturn has a relatively minor impact on the magnitude of the associated bear market in stocks. A far more important factor is how high valuations were in the preceding bull market. A good example is the 2001 recession, which was relatively modest economically, but saw one of the worst bear markets on record given the sky-high valuations of the tech bubble. Given that valuations reached elevated levels in this cycle, we expect a severe equity bear market of 40–50 percent

[1] May2019:Cover, Oct2018:Cover, April2018:Cover

MONEYTALK

in the next recession, consistent with our previous analysis that pointed to low expected returns over the next 10 years.

– Scott Minerd, global CIO of Guggenheim Investments, a global manager of more than $209 billion in assets. Read more at bit.ly/2VNj8ab.

SIGHTING: MORE REASONS FOR CAUTION WITH A BACK-DOOR ROTH IRA CONVERSION

Our article on page 88 on the positives and perils of "backdoor" Roth IRA contributions covered one of the most important issues with such a move. Here are three more related watch-outs.

[First], the timing of a conversion to a Roth can have hidden costs. If a taxpayer makes the conversion within a year or two of retirement or after beginning to collect Social Security benefits, the added income from the conversion can easily increase the cost for Medicare part B for both the taxpayer and spouse's Medicare Part B cost. Remember, this cost is determined on the income attributable to two years earlier (i.e., 2019 income determines the Part B cost for 2021).

[Second, state income taxes] can be complicated. Most states with income tax laws treat the conversion in the same manner as the federal income tax laws. So whatever is included in federal income is likewise included in state income. But some states will exempt some part of a pension or IRA distribution from taxes if the person is over a certain age, which varies by states. For example, some amount of an IRA distribution is tax-free in South Carolina and Wisconsin for those who are age 65, in Delaware starting at 60, and in Colorado starting at 55.

Among other states, Pennsylvania and Illinois exclude the entire conversion amount from tax.… So those taxpayers are only subject to the federal income tax on the conversions.... [But] New Jersey and Massachusetts don't allow a taxpayer to deduct contributions to an IRA even if the contribution is deductible for federal income taxes....

Doing a conversion in a year that a taxpayer moves to another state can create another tax situation for the taxpayer. Oregon requires the entire taxable amount of the Roth conversion to be included in state gross income if the taxpayer is a resident of Oregon at the time of the conversion. Iowa, on the other hand, requires a taxpayer to include in state gross income the portion of the taxable amount attributable to the months of their residency in the state—and stipulates that a month is determined if the taxpayer spends 16 or more days (15 days for February) in Iowa.

[Third, don't forget] to calculate the payback period for a conversion. A taxpayer in the 35% federal income tax bracket who converts $12,000 into a Roth incurs $4,200 in federal taxes. To just earn enough to cover those taxes, the remaining $7,800 would need nearly 18 years at a 2% return and nearly 5 years at an 8% return. Of course, the distribution from the Roth IRA will be tax-free after reaching age 59 ½, and you may live another 20 or 30 years from then....

So seek qualified tax advice before moving funds from an IRA to a Roth IRA. Otherwise you may be in for a federal or state income-tax surprise.

– By *MarketWatch* contributor and accounting professor Anthony P. Curatola. Read more at on.mktw.net/2VPoHVT.

MARKET NOTES, QUOTES, AND ANECDOTES

Do not covet what thy Facebook friends have

"Spending is not the enemy, but when we allow social pressure or other forces to lure us into spending beyond our means, it can impact long-term financial stability and become a larger problem." – Terri Kallsen, executive vice president and head of Schwab investor services, commenting on her company's most recent Modern Wealth Survey. The study found that 35% adults believe social media has a bad influence on how they manage money. Read more at bit.ly/2YBGht2.

The year of jubilee

"On behalf of the eight generations of my family that have been in this country, we're gonna put a little fuel in your bus." – Robert F. Smith, founder of venture capital firm Vista Equity Partners, telling this year's graduating class of Morehouse College that he would pay off all of their student loans. Estimated cost? $40 million. Read more at cnn.it/2YKFWof.

Less today, more tomorrow

"The whole process of investing involves putting off consumption now for consumption later. The ability to wait...can help keep you out of credit card debt, compound your money for future use, and give you a margin of safety when things inevitably go wrong." – Ben Carlson, blogger at *A Wealth of Common Sense*, writing on 5/9/19 about the importance of delayed gratification, one of 10 "financial superpowers" he identified. Read about the other nine at bit.ly/2W1P3nG.

What keeps us up at night

Americans' top personal finance concerns? Not having enough money for retirement (54% are somewhat or very concerned about that) and not being able to pay medical costs in the event of a serious illness or accident (51%). – Gallup poll from the first quarter of 2019. Read more at bit.ly/2M262RU.

What do you want?

"People seem to reliably seek out a few things that make them unhappy."– Bloomberg columnist Noah Smith, writing on 5/1/19 about the frequent disconnect between what economists call "utility"—how much people want something—and the degree to which what they want makes them happy. Read more at bloom.bg/2Wm6Kxp.

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

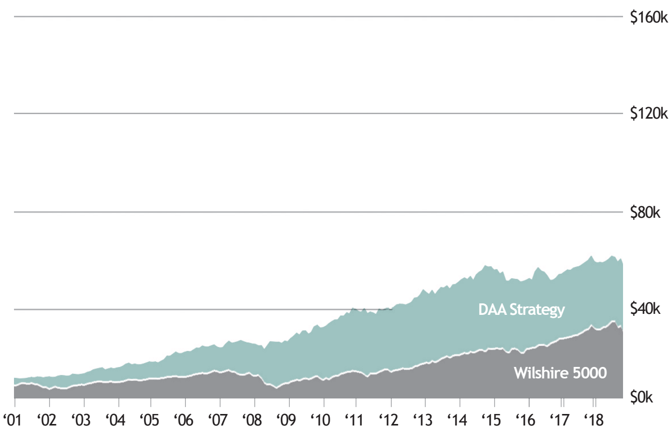
Overview

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

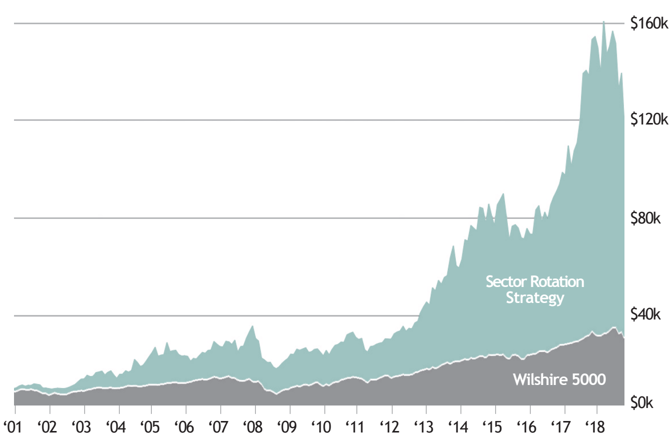
Overview

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
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PERFORMANCE DATA

SOUND MIND INVESTING MODEL PORTFOLIOS • DATA THROUGH APRIL 30, 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]	18.7%	4.0%	9.2%	12.9%	14.8%	11.4%	15.3%	9.2%
Just-the-Basics[2]	18.0%	3.6%	7.9%	8.1%	13.3%	9.0%	14.0%	8.8%
Stock Upgrading[3]	13.3%	3.0%	7.4%	3.9%	10.8%	7.5%	12.4%	8.7%
U.S. Bond Market[4]	3.0%	0.0%	1.9%	5.3%	1.8%	2.4%	3.5%	3.9%
Bond Upgrading[5]	2.9%	0.1%	2.0%	4.1%	1.7%	2.4%	5.9%	5.8%

PREMIUM STRATEGIES

	Year to Date	1 Month	3 Months	12 Months	3 Yrs Annual	5 Yrs Annual	10 Yrs Annual	15 Yrs Annual
DAA[6]	6.3%	1.1%	4.5%	2.9%	5.1%	3.6%	9.2%	10.1%
Sector Rotation	5.3%	-2.7%	5.7%	-11.5%	18.9%	15.8%	20.3%	15.3%
50-40-10 Blend[7]	9.0%	1.5%	5.8%	1.9%	9.0%	6.6%	11.8%	10.5%

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 4/30/2019	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	12.91%	2.92%	7.32%	0.67%	9.62%	5.88%	11.01%
Wilshire 5000	18.67%	4.00%	9.23%	12.85%	14.84%	11.35%	15.29%
S&P 500	18.25%	4.05%	9.48%	13.49%	14.87%	11.63%	15.32%

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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