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Sound Mind Investing®

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Moving From Indifference to Love

SMI helps people apply biblical principles to their financial lives and invest successfully *so that they can experience the joy of giving generously to God's work* (2 Corinthians 8:7). But what if you don't feel motivated to give? This article, excerpted from the book *True Riches*, unpacks the Bible's counterintuitive solution. You don't need to wait for your heart to swell with feelings of generosity. Just get your money involved and your heart will be close behind.

by John Cortines and Gregory Baumer

True confession? I (John) am not a very compassionate person. I once asked a college friend if I should pray for God to help me care more about other people, or if I should just accept that I don't. My focus on myself was keeping me from having concern for the well-being of others. This kind of deeply rooted indifference made giving tricky. We often assume we should give to things that we care about deeply. But what if we just don't care at all?

I eventually realized that I had the process backward. We shouldn't give to things because we care about them deeply. Rather, we should give to things because *God* cares about them deeply. Giving often starts as an obedient step of faith before it blossoms into joyful love over time. Jesus said, "Where your treasure is, there your heart will be also" (Matthew 6:21). He meant that wherever we send our money, our feelings and emotions will eventually go there too. If we send money toward the things God cares about, our hearts will start to look more like God's. Generosity is just a means to an end; it is an investment in the love of God for us and for others.

For example, I never really cared about modern-day slavery until I began giving to International Justice Mission. Slowly, over time, I began to yearn for freedom for everyone in captivity. I never cared much about children trapped in poverty until I began giving to Compassion International. Slowly, over time, I began to ache for every child in need to be fed, educated, and taught about Jesus. And I never cared much about people who didn't have the Bible until I sponsored a Bible translation project through the Seed Company. Now I have a deeper passion that all people on earth would be able to read Scripture in their native language.

My heart was often cold and indifferent to others. But giving is like a seed planted in the barren soil of indifference. If we plant in faith, love will begin to grow and will displace our indifference. How do we obtain the true riches of love? We give in faith, asking God to reshape our hearts in the process.

If a marriage counselor is helping a couple in a bad marriage, he or she would never tell the couple to wait until they feel more love before serving each other. The counselor would say, "Start acting as if you're in love, and the feelings will follow." Giving is the same way. If we want God's heart, we give to the things he cares about. He honors our steps of faith by changing our hearts and aligning our passions with his. *(continued on page 99)*

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

Earth Offers Opportunities That Heaven Doesn't

One of the more popular worship songs of the early 2000s has a wonderful way of lifting us out of our present circumstances and transporting us to our future home.

I can only imagine what it will be like
When I walk by your side.
I can only imagine what my eyes will see
When Your face is before me.
Surrounded by Your glory, what will my heart feel?
Will I dance for you Jesus or in awe of you be still?
Will I stand in your presence or to my knees will I fall?
Will I sing Hallelujah? Will I be able to speak at all?
I can only imagine. I can only imagine.[1]

His face before us…surrounded by His glory…awestruck to see Him at long last. What wonderful images!

That moment may seem far off, but it will be upon you before you know it. Some in the SMI family might well experience it firsthand before the next issue is printed. You could be one of those people. I could be one of those people. Life is a vapor, "a mist that appears for a little while and then vanishes."[2]

As Jonathan Cahn reminds us in *The Book of Mysteries,* as a follower of Jesus you have opportunities to do things for God now that you won't have in heaven.

In heaven you'll never again have the chance to help send missionaries to those who don't know Christ. Everyone will know Him there. Earth, not heaven, is the place for evangelism.

In heaven you'll never again be able to give for Bible translations. Everyone will have access to the Word there. And in heaven you'll never again be able to help provide for the needs of the poor. Heaven has no poor.

The place to sacrifice for the gospel and the Kingdom is here. And every opportunity you have here is one you will not have again in the perfection of heaven.

This should cause us to think deeply on the values we hold, the activities we pursue, and the decisions we make. Our purpose for being here is to delight in and, by any and all means, reflect the glory of God. "Bring my sons from afar and my daughters from the ends of the earth—everyone who is called by my name, whom I created for my glory…"[3]

What are we doing now, in this "little while" before we "vanish," to make the glory of God known? Since this issue of SMI contains our annual emphasis on the giving aspect of stewardship, we might specifically ask: Is *our generosity* pointed in the direction of glorifying God among the nations?

At the personal level, your giving is a tangible indicator of your zeal for His name, your gratitude for the cross, and your trust in His faithfulness.

Whether you want it to be or not.

Is that good news to you? Or is it cause for self-examination? In an audience as large as SMI's, I know there are those who have learned to "excel in this grace of giving."[4] You give to God first and live on what's left over. I applaud your desire to worship in this way. You are cheerful givers, the kind God loves.[5]

Others of you, however, may tend to give Him only what is left over or what is comfortable. You don't trust Him to "meet all your needs according to his glorious riches in Christ Jesus."[6] With all tenderness, may I suggest this neither glorifies our God nor, ultimately, satisfies your own soul. You're undermining what you want most—to please the Father's heart.

Let us help you make a change in direction. It's not too late to begin anew. The painter Andrew Wyeth once said that an artist's greatest irritation is having his work criticized before it is finished.[7] God isn't finished with you. With His help, you can begin building a pattern of faithfulness into this area of your life while there is still time.

So, I encourage you to sow a life of generosity so you might reap an abundant harvest. The King has it all planned out: "Well done, good and faithful servant! You have been faithful with a few things; I will put you in charge of many things. Come and share your master's happiness!"[8]

I wonder, what "many things" will you be in charge of? How can you describe the emotional high of sharing the Master's happiness? We can only imagine.

AUSTIN PRYOR
FOUNDER/PUBLISHER

NECESSARY CAUTIONS
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[1]"I Can Only Imagine," words and music by Bart Millard, from *Almost There* by Mercy Me. Copyright 1999 by Simpleville Music (ASCAP). [2]James 4:14 [3]Isaiah 43:6-7 [4]2 Corinthians 8:7 [5]2 Corinthians 9:7 [6]Philippians 4:19 [7]From *Passing It On* by Gigi Tchividjian (McCracken Press, 1993). [8]Matthew 25:21

FEATURE ARTICLE

Moving From Indifference to Love

(continued from front page)

This is a process. It took me four years of consistent giving to the poor before God awakened a heart for the poor in me. But our faithfulness and obedience, in joy, does lead to heart change. In this article, we'll see this process of heart change play out for a woman named Sheila.

Sheila's savings

Daydreaming in her Chicago office, Sheila could hear her dad's voice as if he were in the room with her: "No. We can't afford it. We must protect what our family has."

She remembered hearing those words a thousand times during her childhood in China. Her parents had survived the Cultural Revolution, meaning that life was marked by scarcity, frugality, and financial conservatism. Family was first, and savings were the key to the future.

Pulling her mind back to the present, Sheila refocused on her dual, 20-inch computer monitors displaying company financials in Microsoft Excel. The financial model she was building was difficult and complex and she needed to have it done before leaving work. But it had been an exhausting day, and her mind soon began to wander again. This time she remembered the first time she learned about sweatshops. At seven years old, a friend had told her about these factories, where workers—her neighbors or friends—might be expected to work tireless, endless hours for minuscule wages. She had even prayed a childlike prayer: "God, someday I'd like to help people trapped in places like that."

After the Cultural Revolution, her parents had immigrated to the United States. Sheila had finished high school in California before heading off to a great college, where she graduated with honors. She'd landed this job in finance and was now making it in America on her own, even earning a couple of promotions within her first few years on the job. True to her upbringing, she had been saving as much as she could along the way.

In fact, Sheila's annual bonus would be coming soon. It had been a good year for her and for the company. Her peers were already discussing international vacations, new cars, and other splurges. Of course, Sheila would sock every dollar away. Life is good, she thought to herself, imagining the potential size of her own bonus. She had a huge nest egg built up for a 29-year-old, and she loved to play out in her mind the different ways it could equip her for the future.

Someday she hoped to be married, put money down on a house, and—in the distant future—retire comfortably. With almost $200,000 in the bank at this early age, she was ready for whatever life might throw her way.

We'll soon return to Sheila's journey. But first, let's take a quick detour and examine some challenging facts about generosity in our world today.

Loving less than we think

As a thought experiment, let's imagine that the entire world population has been reduced to just 10 families who live on a single street together, in 10 successive homes from poorest to richest.[1]

On one end of the street, a family with no home at all is enslaved or facing starvation. The second family, their neighbor, lives in a leaky lean-to with a dirt floor, eats a basic porridge every day, and hangs on to survival, walking barefoot down to the creek to get dirty water that they drink and bathe in. In Jesus' story of Lazarus and the Rich Man, these two families are "Lazarus."

The middle six houses, representing most families in the world today, have basic cement homes of improving quality as we progress down the street. Their roofs usually don't leak, although a cold draft creeps through the walls in winter and most of them can't afford air conditioning, so the summer can be sweltering. These homes have running water, bicycles or mopeds for transportation, and their electricity works most of the time. These families own conveniences like toothbrushes, refrigerators, and shoes. Their lives are fairly stable and healthy, although they work incredibly hard and cannot yet imagine owning a car or taking a leisurely vacation.

Finally, down on the wealthy end of the street there are two families that amaze their neighbors by earning tens of thousands of dollars per year. Their homes have multiple bedrooms, advanced heating and cooling, and full kitchens. Whereas the poorest family walks barefoot to fetch water, the richest household has a swimming pool full of clean water for purely recreational purposes! These wealthy families have garages with cars parked in them, communicate by smartphone, and leave for a basic vacation once or twice per year. They may not have millions of dollars, but they never miss a meal due to hunger or have to walk to work or school barefoot.

1	2	3	4	5	6	7	9	9	10
$1K	$2k	$2.5k	$3k	$4k	$6k	$8k	$12k	$30k	$54K

The table above shows a statistically accurate picture of what each household would earn *annually* (adjusted for cost-of-living differences across geographies).[2] For every dollar household #1 spends, household #10 has more than 50 dollars to work with! Which house is most representative of the one you would be living in, if this were your street? Go ahead and circle the house that is closest to yours.

We're going to guess that it's the richest or second-richest. Perhaps your family earns much more than $54,000 per year, meaning that your earnings are beyond what even the richest family's would be! If your family makes at or above the median income in the United States, you may be surprised to learn that, among 10 randomly selected families from around the world, you'd likely be the richest. Even those who might feel poor in America—those earning $30,000 per year—are among the world's most financially blessed people.

The point here is not to feel guilt if you're financially blessed. Indeed, Paul writes that God "richly provides us with everything to enjoy" (1 Timothy 6:17). The Cortines family, like the richest family on our fictitious street, owns a swimming pool and we receive it as God's gracious gift. However, we are deeply aware of what a luxurious gift it is, and we seek to cultivate empathy, compassion, and love toward the families on the other end of the street—and that

[1] www.dollarstreet.org has a large collection of photos from the real lives of families around the world living at all points on the income spectrum. [2] Data adjusted using the economic theory known as Purchasing Power Parity. Incomes are based on data published by www.globalrichlist.com, The World Bank, and Pew Research Center.

love must manifest itself in tangible acts of generosity.

Jesus spoke in strong language about the Rich Man whose family would have also been on the wealthy end of the street. He claimed that those who are blessed with great provision—meaning those whose families earn perhaps $30,000 per year or more in the modern economy—have a special requirement to generously share with people facing starvation and lack. It's not about fairness, or socialism, or utilitarian ethics, or honor. It's about love—a love that seeks to love others as we love ourselves, just as Jesus taught us.

Remember, our feelings are not the important factor. Our actions are what counts. The vast majority of readers, and these authors, are the rich man. God invites us to love Lazarus. We don't necessarily have to feel compassion all the time (I still struggle with this myself). We just have to live and give on behalf of others. When our passion for giving to the needy is smaller than God's love for the needy, we face a faith-gap. All it takes to fill in the gap is a step of bold faith in generosity—the kind of step that Sheila would be taking before she knew it.

Sheila's unexpected vacation

Sheila wondered whether she had made a mistake as her plane came in for a bumpy landing in Port-au-Prince. She thought back a few weeks, remembering how she got here.

"Well, are you going to come?" Amy was standing at Sheila's office door, wearing a broad smile. "It's going to be amazing!"

Amy had been applying friendly pressure to have Sheila join an upcoming trip to Haiti to visit various ministries and gain exposure to what true poverty looks like. Finally, this time she caved. "Okay...sure, Amy. Send me details. I think I'll join you."

Now here she was, unsure what to expect during her visit to the most impoverished country in the Western Hemisphere. She had no idea that the next few days would change her life forever. Sheila was captivated by the people. They weren't statistics, opportunities, or names on a page. They were human beings with faces, hands, hopes, dreams, and dignity. Unfortunately, the sad desperation of inescapable poverty hung over them all. As the trip concluded, Shelia thought, *I'll never be able to unsee this*.

When she got home, she immediately began giving to one of the ministries she'd visited that provided employment to local women, enabling them to sell handcrafted products to American retailers. Her love of saving was now pitted against her newfound love for the women she had encountered in Haiti, but her excitement for giving continued to build.

A few days later, she told her parents all about her experience over the phone. The line was silent. After a few long moments, her mother flatly offered, "Well, we hope you've gotten that out of your system."

Sheila's parents were Christians, but their focus on family provision precluded any inkling of generosity toward outsiders. Like the Rich Man, their notion of generosity was constrained to a tight social or family circle and did not include the poor. Sheila was grateful for their hard work and immigration to America, but saddened by their scornful reaction to her generosity. She knew saving was important, but God was stirring something deeper in her as she began to give.

Even if our family or culture tells us not to give to the spiritually and physically needy, God consistently beckons us to give it a try.

The invitation

"Hey, Daddy. What'cha doin'? Can I help?" My (John's) four-year-old has asked me this question a thousand times. No matter what my answer is, he wants in. Fixing a curtain rod, restringing the Weed Eater, sending an email, cooking breakfast, running to the store. He wants in on all of it!

Does he love curtain rods, emails, or shopping trips? Not really. He loves me. He wants to be with me, to be taught by me, and to receive the loving affirmation that only a father can give, as we take on a project together. And you know what? I love when he comes to me like this. Even though I'm an imperfect dad, I nearly always invite him in.

Our Father God is the perfect dad, and like a good earthly dad, he loves when we approach him. He invites us into what he's doing. What if we approached God with the enthusiasm of a four-year-old?

"Hey, God, what'cha doin'? Can I help?"

God has lovingly already said yes. He's adopted us as his children through Jesus and has invited us into his work. He answers us, "Yes, my child. Here's my to-do list today. Do you want to help? I was hoping you'd join me."

God's to-do list

Throughout Scripture, God reveals three top priorities—three big things he is up to in the world. He invites us to help with each of these, and we get to join our eternal dad in doing his work. As we take on these tasks, God grows our capacity to love, breaking us free from indifference.[1]

• **Task 1: Serve the Poor (Mercy and Justice).** Christians throughout the centuries have been moved by God's heart for the poor. Remember early church father Basil of Caesarea? He preached a sermon on this more than 16-hundred years ago:

> *I must not be rich while they go begging, nor enjoy good health without attempting to heal their wounds, nor have abundant food, good clothing, and a roof under which I can rest, unless I offer them a piece of bread and give them, as I can, part of my clothing and shelter under my roof.*

These were more than empty words. Basil grew up wealthy but sold off the majority of his inheritance to serve the poor in his region. Many other Christians have done similar things through the ages. Why do Christians care so much about the poor? Because God does.

Psalm 113, for example, describes the glory and grandeur of God in his heavenly majesty, but then takes a turn, claiming that he "looks far down" to the earth and "raises the poor from the dust and lifts the needy from the ash heap." Psalm 68 identifies God as the "Father of the fatherless and protector of widows." Psalm 82 goes further. In a poetic contest of the gods, our God is the greatest god not because of his omnipotent power, but rather because he gives "justice

[1]The order in which the three tasks are listed isn't meant to suggest any sort of "ranking." All three are clear mandates from Scripture.

to the weak and the fatherless" and "rescue[s] the weak and the needy."

Jesus instructed his disciples to love their neighbors as they loved themselves. We don't often stop and think about the implications of this, but the concept came alive for us (John and Megan) when we learned that our sponsored child in Honduras had an eye problem. We felt a personal connection to this little four-year-old girl and knew that she lacked the resources for proper medical care. Would we spend $1,000 on our own child's eye? Yes, without hesitation. And, for the first time ever, we felt God's love well up so strong within us for *someone else's child*. We quickly wrote to the ministry, asking for their help in determining whether our financial assistance could solve this medical problem. We would pay any cost to help her.

Jesus affirmed the importance of serving the poor, even telling a parable about how the cups of cold water we give to, or withhold from, the poor are being counted by God.[1] In his story, those who fail to serve the poor are thrown into hell! The Bible teaches salvation by grace alone, through faith alone. We can't earn our way to heaven by doing good things. So why did Jesus tell this story?

Perhaps Jesus is telling us that we never truly know him as Savior and Lord unless we know him well enough to figure out that his business is in caring for the downtrodden. As Jesus' brother James wrote, pure religion is found in caring for orphans and widows in their time of need (James 1:27).

Claiming to be a Christian but not giving to the poor is like claiming to be a chef but not knowing how to cook. It just doesn't make sense; it's a contradiction of terms. Christians care for the needy; it's in our spiritual DNA. As the 4th-century church father John Chrysostom (c. AD 349–407) put it, "Do not tell me you cannot look after others. If you are Christians, what is impossible is for you to *not* watch after them."[2]

• **Task 2: Save the Lost (Evangelism).** More than once, Jesus' instruction after helping or healing someone was, "Go and sin no more." What a strange thing to say! Why not, "Enjoy your life! Be blessed!" One time before he healed a paralyzed man, he said, "Son, your sins are forgiven." Why would he say this?

Jesus cared for the whole person. He fed the hungry and healed the sick, but he did so in the context of holistic healing, including an invitation to enter the kingdom of God. He knew that there was limited value in making people more comfortable in life if they were still hurtling toward eternal separation from God. He wanted to truly save them, forever. When he looked at a paralyzed person, his first thought was, *They need forgiveness for their sins*. Physical pain and suffering is secondary to our spiritual reality.

In fact, Jesus' final instruction to his disciples, known as the Great Commission, was this: "Go therefore and make disciples of all nations, baptizing them in the name of the Father and of the Son and of the Holy Spirit, teaching them to observe all that I have commanded you" (Matthew 28:18-20).

Jesus had a clear vision that his gospel would reach the ends of the earth, giving all people a chance to respond to God's invitation. Today, two thousand years after Jesus walked the earth, we are within reach of this goal. You may not be called specifically to go to the edges of the world to share the gospel, but you can give generously to support those who do.

Bible translation provides one unique perspective into global evangelism. The Bible has been successfully translated into thousands of languages, but there are still approximately 1,800 spoken languages on earth that have no Bible at all.[3] Thousands of people are working diligently to continue translation, and hundreds of thousands of generous believers are funding this work. Many believe that the last Bible translator has been born—that we will finish the task in our lifetime.

Millions of people still wait for someone to bring them liberation from their greatest poverty of all: separation from God. They need the Bible. They need churches and pastoral care. They need a fellowship of believers.

In our postmodern culture, it's not popular to assert claims of truth or to imagine that someone needs to have their belief system changed. Yet, 2+2 still equals 4, and Jesus is still the only way to God. To deny this is to deny the heart of Christianity, and if we really believe in Jesus, we must believe that his message of hope is a message for all mankind. Reconciliation with God, through Jesus, is the most important thing anyone can ever experience.

Despite the clarity and force of the Great Commission, less than 0.2% of Christian income is given to global foreign missions (less than $8 per person, per year).[4] The truest love we can show our neighbors around the globe is to bring them an opportunity to know the God who made them and loves them.

• **Task 3: Strengthen Believers (Discipleship).** The first half of the Great Commission is baptism, or salvation. The second half is "teaching them to observe all that I have commanded you." This is the primary and ongoing task of our local churches.

Jesus cares deeply about his followers having a maturing, growing, healthy faith that guides their daily lives. In fact, the Bible clearly instructs that those who provide spiritual instruction are to be paid well: "Let the elders who rule well be considered worthy of double honor, especially those who labor in preaching and teaching. For the Scripture says, 'You shall not muzzle an ox when it treads out the grain,' and, 'The laborer deserves his wages'" (1 Timothy 5:17-18).

Many church staff have taken on their jobs as a response to God's calling on their lives, forgoing significantly higher earning power to serve God's people. In a large church, the senior pastor and executive pastor are the CEO and COO of a multimillion-dollar organization. They hire and fire staff, set strategy, establish a vision, carry culture, manage board relationships, and fight fires every week. Did I mention that they need to have an excellent sermon ready every weekend? And they do all this while potentially earning half what they could be earning in the private sector!

The church is God's plan for the world—his chosen vehicle to grow his family, and to serve the poor and save the lost. Without our local churches, we would have no place to take our children for regular worship, no steady *(continued on page 108)*

[1]See the parable of the sheep and the goats in Matt. 25:31-46. [2]John Chrysostom, *On Wealth and Poverty* (St. Vladimir's Seminary Press, 1999). [3]Figure from www.everytribeeverynation.org. [4]From David B. Barrett and Todd M. Johnson, *World Christian Trends, AD 30-AD 2200* (Willliam Carey Library, 2001), p. 655.

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

GIVING THAT DELIGHTS THE FATHER'S HEART

by Austin Pryor

As part of SMI's mission, we want to help you *have more* so you can *give more*. This assumes you're already giving on one level, and we want to help you move up to a higher level. As you strengthen your financial foundation (the topic in this column each month), you will be in a better position to do that.

It's common for Christians to hear that they should "tithe," which literally means to give a tenth. That sounds a little ambitious to many new Christians, so they often begin their giving at more modest levels. Unfortunately, too many stay there. Studies have shown for years that the average American church-goer gives roughly 2.5%-3% of his or her income annually.

This stat is an annual disappointment for those who set the tithe as the biblical benchmark for giving. But in my experience, you'll always be disappointed in the results *whenever you challenge Christians beyond their level of maturity*. This is true whether you're talking about a person's prayer life, willingness to share their faith, interest in Bible study...or giving.

So, rather than berate those whose giving seems meager, I suggest trying to help them mature in the area of managing their finances and their stewardship. They need encouragement in getting their financial houses in order, and also in seeing their Father in heaven as One who has promised—and can be trusted—to meet all their needs.

Giving at least at the level of the tithe (and eventually beyond!) is a worthy goal, one that—in my view—every follower of Christ should aspire to. In light of what Christ has done for us, how can we ever be too generous with him? ("I am not commanding you, but I want to test the sincerity of your love by comparing it with the earnestness of others. For you know the grace of our Lord Jesus Christ, that though he was rich, yet for your sakes he became poor, so that you through his poverty might become rich."[1])

But focusing on the tithe raises a few questions.

• **Is giving at the 10% level the same as the tithe in the Old Testament?** Actually, anyone trying to follow the OT model would need to give *at a much higher level*. The Law required three tithes: one annually for the support of the Levites (the priesthood), a second annually to pay for the various religious feasts, and a third tithe every three years to help the poor. If you add them up, it averages about 23% each year. This giving was *mandatory under the law*, and was used essentially to support the Jewish forms of worship and governance. That's quite different than your pastor encouraging you to give a tithe of 10%. Such giving is *voluntary*, and it's only one tithe (thankfully, you may say!) rather than three.

• **Is the tithe binding on Christians today?** I know this is a common debate, but it seems to me it puts the spotlight in the wrong place. It leads to a discussion of "What is the minimum I can give?" rather than "How can I magnify His glory through my life?"

We all understand, don't we, that God doesn't need our money?[2] So why would He find pleasure in a gift that was given grudgingly? He doesn't. On the contrary, "Each of you should give *what you have decided in your heart* to give, not reluctantly or under compulsion, for God loves a cheerful giver" (2 Corinthians 9:7).

This verse suggests to me our Father would take pleasure in young-in-their-faith Christians beginning at a 3% level if done gladly and willingly, but that He would not take pleasure in someone giving at a 10% level that was done "reluctantly or under compulsion."

I don't say this to encourage meager giving but rather to help us see things from God's perspective. He wants giving that's cheerful. The root problem is not that a 3% level of giving is too low; it's that our hearts aren't larger toward the things on God's heart, and as a result we're satisfied to express our love and gratitude to Him in such a restrained way. We should, therefore, pray—and give God permission to do whatever is needed in our lives to work a change in our hearts so that, more than the things of this life, we want more of *Him*. To that end, we should pray that He makes us cheerfully generous people.

• **Assuming one wants to tithe, how is the correct amount calculated?** This leads to many common questions.

"Do I give based on my gross or net income?" My answer is which *would you be happy* to give on?

"I receive benefits at work such as health insurance that's worth many thousands. Should I tithe on that?" My answer is *would you be happy to do so in gratitude for God's provision*?

"How do I treat my capital gains?" My answer is *can you cheerfully give on such gains in response to God's blessing*?

"Should I tithe on gifts and inheritances?" My answer is *do you want to?*

I don't want to lay down rules on these questions because (1) I don't believe the Scriptures do so, and (2) rules cultivate a "what am I required to give" attitude rather than one of giving with gladness. So for each of those questions, my advice is to examine your heart, pray for God's direction, and do what you believe He would have you do. Cheerfully.

As you strengthen your financial foundation, you should be willing, even eager, to increase your giving each year. If you're already giving generously, I appreciate you! If not, I'm trying to encourage you to move decisively in that direction. Under His Spirit's direction, you can increasingly become the kind of cheerful and grateful giver that delights the Father's heart. He's always been faithful to you. By your generosity, you can be increasingly true to Him. ◆

[1] 2 Corinthians 8:8-9 [2] It's actually not ours at all, it's His (1 Chronicles 29:10-13, Psalm 50:8-12, among others)—but that's a different discussion.

LEVEL 2 TWO

Developing Your Investing Plan

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

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

IS ACTIVE MANAGEMENT BROKEN?

SMI's first investing strategy was Just-the-Basics, a passive strategy built on index funds. This may surprise some readers, given that all of SMI's strategies since then have been actively managed—meaning investment decisions are regularly being made in an effort to beat the market's return, or at least produce a better risk/return tradeoff than index funds alone would provide.

It's been our contention that if an investor is willing to diligently follow these active strategies, he or she has a good chance of outperforming the market. Up until the financial crisis a decade ago, the returns of SMI's strategies consistently backed up that assertion.

However, the past decade has been a different story. SMI's Sector Rotation strategy has continued to amaze, with annualized returns of +17.8% over the past decade. But Stock Upgrading and the newer Dynamic Asset Allocation strategy (launched in 2013) have lagged during this long bull market. DAA's struggles are somewhat understandable, given its "defense-first" orientation. But Stock Upgrading had always outperformed during past bull markets.

It's not just SMI's Upgrading strategy that has struggled. The underperformance of all types of active management approaches throughout this bull market has been a topic of frequent discussion in the financial media. Although there have been other contributing factors, poor relative performance has surely played a key role in the huge number of investors leaving the active fold and shifting to indexing over the past decade. When this bull market began in 2009, the split of U.S. equity investments was roughly 75% active, 25% passive. This year, the share of U.S. investments passively invested will top 50% for the first time. There are many new passengers on the indexing train that have never before ridden it through a bear market.

Two separate issues

In assessing the reasons behind the relative underperformance of active strategies over the past decade, there are two issues to consider. Before we can consider what's happening at the active/passive level, we first must consider the impact of diversification on returns.

1. Diversification. The simplest way to illustrate the impact of diversification on returns during this 10-year bull market is to compare the returns of the S&P 500 index with the returns of SMI's Just-the-Basics strategy. Both are passive indexing approaches, so this strips out the active management element. The difference is simply a matter of diversification. The S&P 500 index measures the performance of the largest 500 U.S. stocks. JtB is comprised 40% of an S&P 500 index fund, 40% of a U.S. extended market index fund (measuring the performance of medium- and smaller-company stocks), and 20% of an international index fund.

When this bull market was getting started in March 2009, a review of the prior 10 years (1999-2009) would have shown the S&P 500 losing -3.0% annualized, while JtB had lost less at -0.9%. Again, this difference simply reflects the impact of adding smaller and foreign companies to the allocation mix. While it's likely shocking to some that both approaches lost money over that full decade, adding small and foreign companies via JtB produced returns that were +2.1% better *per year* than simply owning the S&P 500.

Fast forward to today. The same comparison over the past 10 years produces the opposite result: the S&P 500 has compounded at +13.9% annualized, while JtB trails at +12.5%, a gap of 1.4% per year in favor of the S&P 500.

Clearly, diversification has hurt performance over the past decade, just as it boosted performance over the decade before that. Of course, most passive investors don't buy only the S&P 500 index, they also own some type of diversified mix, as JtB investors do. But many active investors compare the returns of their active strategies to a single benchmark figure like the S&P 500 index. As these numbers illustrate, that's been a recipe for growing dissatisfaction throughout this bull market.

But is diversification a bad idea, even if it has led to lower returns during this bull market? Of course not. SMI readers are reminded every month that it's a biblical investing principle (see the Level 3 header at the top of the next page), and any investment advisor worth their salt diversifies their client's holdings.

2. Active/Passive. Having isolated the impact of diversification on investing returns during this bull market, we can now better tackle the current status of actively managed investment strategies.

Morningstar's John Rekenthaler recently wrote an article on Yale's endowment fund,[1] which for 25 years under manager David Swensen has been "its industry's shining city on a hill, demonstrating to the masses the brilliance of institutional investing." That's not hyperbole—apart from Warren Buffett, Swensen may be the closest thing to a superhero left in the industry, and the Yale endowment fund has long been viewed as the ultimate in institutional investing.

Given that, it's surprising that over the most recent decade (using performance data through mid-2018), the Yale fund gained just +7.4% annualized while the S&P 500 gained +10.0% (Upgrading gained +8.0%).[2] Extend that period out to the past 20 years however, and the numbers flip: Yale +12%, S&P 500 +7%. This despite the Yale endowment rarely allocating much of its portfolio to U.S. stocks.

The point here is simple: the S&P has crushed the competition over the past decade. But the S&P 500 doesn't always lead. *(continued on page 109)*

[1] bit.ly/2XUhXme [2] These 10-year return figures differ from the earlier JtB example because the available data from the Yale endowment fund only run through the middle of last year.

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

SHOULD YOU INVEST USING A TAXABLE ACCOUNT?

Most investors focus initially on tax-advantaged retirement accounts, such as IRAs and 401(k)s—and rightfully so, because these accounts provide substantial tax benefits. Most SMI readers also have a taxable emergency savings account. But between an IRA/401(k) and a savings account lies the world of *taxable investment* accounts.

Why use a taxable account?

One of the biggest benefits of a taxable investing account is the flexibility it provides. Below are a number of reasons people choose to utilize these accounts. And because there are no restrictions on them, a single taxable account can potentially serve multiple of these goals at the same time.

• **For retirement.** While a taxable account shouldn't be your first choice for retirement savings, it can be a viable way to save *more* after making full use of tax-advantaged accounts. If you're in the enviable position of having maxed out your contributions to a 401(k) and/or IRA, a taxable account offers an unrestricted opportunity to invest additional dollars. There are no eligibility rules, contribution limits, penalties for early withdrawals, limits on how long you can add to the account, or deadlines for when you must start making withdrawals. Plus, your investment options are unlimited.

• **For non-retirement goals.** One of the most common reasons for investing in a taxable account is to save for a non-retirement goal. Examples include saving for a down payment on a house, a daughter's future wedding, a home remodeling project, or the replacement of a vehicle. For shorter-term goals, it's best to invest conservatively (bonds and saving vehicles), while longer-term goals (minimum of five years away) may include stock market investments.

• **For college.** Here, too, a taxable account shouldn't be the first choice for most people. A 529 plan account is usually better, as some states offer a tax credit or deduction for contributions, and as long as the money ends up being used for college, earnings are tax-free.

However, there may be some upside in using a taxable account *in addition to* a 529 plan. For example, what if your child decides not to go to college? Money from a 529 plan used for a non-educational purpose will incur tax on the earnings plus a 10% penalty. Of course, you could shift the 529 money to use for another child's education (or your own), but money in a taxable account could be used for any purpose with no strings attached.

The investment options within 529 plans also tend to be limited whereas taxable accounts have no such limits.

• **For more income.** Another reason why some people use a taxable account is to generate additional current income by buying dividend-paying stocks or income-oriented mutual funds.

• **For tax-advantaged giving.** If you give a taxable asset that has appreciated in value, such as shares of a stock or mutual fund, neither you nor the charity will owe tax on the gains and you get a deduction for the current value.

• **For your heirs.** When you die, your heirs receive all of the money in a taxable account tax-free. That's because the cost basis of your investments "steps up" on the date of your death. For example, let's say you invest $10,000 in a taxable account that grows to $100,000 by the time you pass away. The cost basis for your heirs would be $100,000, making the inheritance essentially tax-free (unless estate taxes factor in).

If the money had been in a traditional IRA instead, non-spouse heirs would be required to take taxable distributions, either by the end of the fifth year after your death or over their expected lifetime (a "stretch" IRA[1]). If your spouse were the beneficiary, distributions would be taxable as well. (A surviving spouse, however, has the option of becoming the IRA account owner and thus continuing the tax-deferral.)

Necessary cautions

Of course, taxes are the most significant drawback of taxable accounts! While your heirs may enjoy generous tax benefits when inheriting your account, *you* can derive a few tax benefits while you're still alive. Such benefits are based primarily on the specific types of investments you make and how long you hold them.

• **Individual stocks.** If you sell an individual stock for a profit within a year of buying it, you'll owe *short-term* capital gains taxes. The short-term rate is the same as your ordinary income tax rate (ranging from 0%-37%). On the other hand, if you sell the stock after holding it for more than a year, you will owe tax at the more favorable *long-term* capital gains rate (0%-20%).

If you sell a stock that has *declined* in value, the loss can be used to offset gains you've earned on other stocks. If your losses exceed your gains, up to $3,000 per year can be deducted, with additional losses carried forward to future tax years.

• **Dividend-paying stocks.** If you have dividend-paying stocks, how the dividends are taxed depends on whether they are "non-qualified" or "qualified." Non-qualified dividend income is taxed at ordinary income tax rates. Qualified dividend income is taxed at the more favorable long-term capital gains rates.

To qualify for the lower tax, a dividend has to have been paid by a company (U.S. or foreign) listed on a major U.S. stock exchange. In addition, you have to have owned the stock for more than 60 days within a 121-day holding period that extends from 60 days before the ex-dividend date (i.e., the day a stock starts trading *(continued on page 110)*

[1]Congress is considering legislation that would eliminate the "stretch" IRA.

LEVEL 4 FOUR

Looking Toward Retirement

As you move through your 50s, 60s, and beyond, you face a new set of financial decisions related to reducing your investment risk and generating income from your portfolio. In this column, we address such topics, as well as those pertaining to Social Security, long-term health care, advanced giving strategies, estate planning, and other matters of importance to those nearing and in retirement.

"There is precious treasure and oil in the dwelling of the wise." Proverbs 21:20a

THE QCD: A GIVING-RELATED TAX BREAK AVAILABLE TO OLDER TAXPAYERS

Ever considered making a QCD of an RMD from your IRA? That's not just a bunch of unintelligible alphabet soup. It's a shortened description of a simple strategy that could reduce your tax burden while also enabling you to donate greater amounts to a church or charity.

Let's define the terms. An IRA, of course, is an *Individual Retirement Account*. An RMD is an annual *Required Minimum Distribution*, an IRS-defined amount that must be withdrawn from a non-Roth IRA[1] once the account owner reaches age 70½. And, finally, a QCD is a *Qualified Charitable Distribution*—money donated directly from an IRA account to a charity. This direct donation enables the account owner to avoid paying taxes on the RMD.

Qualified Charitable Distributions have been allowable since 2006. But the 2018 tax law, with its near doubling of the standard deduction, has made QCDs more attractive. Under the new law, fewer taxpayers have sufficient deductions (from charitable giving, mortgage interest, etc.) to make itemizing worthwhile, so QCDs have taken center stage as the means by which non-itemizers can still garner a tax benefit related to giving.

The details about RMDs

Because traditional IRAs (and other non-Roth IRAs) are tax-deferred—i.e., taxes are avoided on contributions but must be paid on withdrawals—tax law mandates that withdrawals begin no later than age 70½.[2] Uncle Sam wants to start collecting the deferred tax.[3]

These Required Minimum Distributions are calculated each year by dividing the IRA balance—as of December 31 of the prior year—by the account owner's life expectancy (or applicable distribution period). The IRS treats these annual mandated withdrawals as taxable income.

Because an RMD increases the IRA owner's Adjusted Gross Income (AGI), the mandated distribution can have cascading effects. A boost in AGI may result in higher Medicare premiums, raise the level of one's Social Security benefits that are subject to tax, and trigger a reduction in certain income-based benefits.

A win-win

By taking advantage of a Qualified Charitable Distribution, an IRA owner can transform an RMD into a charitable gift—issued directly from the IRA. This not only shelters the taxpayer from the potential downside of a Required Minimum Distribution, but it allows charities to benefit more than they would if the account holder received the RMD, paid the taxes, and donated the remainder. By avoiding the tax bite, the IRA holder is able to make a larger donation. A hypothetical example is shown below, using a $10,000 RMD.

	No QCD	With QCD
Income Before RMD	$110,000	$110,000
Taxable RMD	$10,000	$0
Adjusted Gross Income	$120,000	$110,000
Standard Deduction*	$27,000	$27,000
Taxable Income	$93,000	$83,000
Tax on RMD (22%)	$2,200	$0
RMD dollars to charity	$7,800	$10,000

*2019 deduction for a married couple 65 or older filing jointly.

If desired, a taxpayer may elect to use only a portion of a Required Minimum Distribution as a QCD. For example, from a $10,000 RMD, an IRA holder could receive $4,000 as taxable income and then use a QCD to donate the remaining $6,000 to a charity (or multiple charities).

QCDs are flexible another way too: A Qualified Charitable Distribution can *exceed* the IRS-mandated RMD amount. An IRA owner could make a $15,000 QCD, for example, even if the RMD amount was only $10,000.

What the IRS *won't* allow, however, is applying a particular calendar year's Qualified Charitable Distribution against a subsequent year's RMD. Nor can an IRA holder exceed the $100,000 QCD annual limit.

Other restrictions apply

Qualified Charitable Donations are subject to other IRS rules as well:

• **Only people of a certain age can employ a QCD.** The IRS won't allow a QCD before a taxpayer turns 70½, even if the IRA is an inherited account.

• **QCDs are allowed only from IRAs**—including traditional, rollover, and inherited IRAs, plus inactive[4] SEP and SIMPLE IRAs. 401(k) accounts aren't eligible for QCDs. (In most cases, there's no point in making a QCD from a Roth IRA since distributions are non-taxable anyway.)

• **The receiving charity must be an IRS-recognized 501(c)(3) organization.** QCDs can't be made to donor-advised funds or private foundations.

• **QCDs must be made directly.** Funds must be sent directly from the IRA to the charity, or if a check is sent to the account holder, it must be made out to the charity.

• **An RMD can't be characterized as a QCD retroactively.** The IRS deems the first money withdrawn from an IRA each year to be applied against any Required Minimum Distribution. Once an RMD is taken, it can't be made a QCD later.

• **Itemizers can't take a tax deduction for a gift made via a QCD.** No double tax break is allowed.

Reporting requirements

Reporting a QCD on a tax return is relatively straightforward. On Form 1040, list the total amount of your IRA distribution for the year, then note (in the appropriate box) the specific amount that was *taxable*. Next to that taxable amount (which could be zero if your entire RMD was used for a Qualified Charitable Distribution), simply write "QCD."[5] ◆

[1]RMDs are mandated for certain other tax-deferred accounts as well. [2]Congress is considering delaying the first Required Minimum Distribution to age 72. [3]Failure to take an RMD triggers a steep tax penalty. [4]"Inactive" means no longer receiving employer contributions. [5]IRS Publication 590-B has more on reporting requirements.

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 5/31/2019	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	-7.3	7.0%	-5.5%	-2.2%	1.9%	-6.9%	6.6%	0.95	0.11%/0.09%	20%	16%	12%	8%	VTIAX/VXUS
Extended Market Index	Small company stocks	-8.2	11.9%	-7.0%	-4.5%	-0.1%	-3.6%	10.7%	1.27	0.07%/0.07%	40%	32%	24%	16%	VEXAX/VXF
S&P 500 Index	Large company stocks	3.8	10.7%	-6.4%	-0.7%	0.7%	3.8%	11.7%	1.00	0.04%/0.03%	40%	32%	24%	16%	VFIAX/VOO
Total Bond Market Index	Medium-term bonds	17.3	4.9%	1.8%	3.9%	6.8%	6.7%	2.5%	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 5/31/2019[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. Sextant International	06/19	NTF	NTF	NTF	27.1	16.4%	-1.0%	3.7%	11.6%	11.8%	13.4%	0.90	1.05	27	None	SSIFX
	2. Invesco Intl Dividend Achievers	03/19	ETF	ETF	ETF	10.0	12.1%	-3.8%	0.2%	5.3%	4.5%	7.4%	0.93	0.55	67	None	PID
	3. Lazard Global Infrastructure	11/18	NTF	NTF	NTF	16.9	10.4%	-1.7%	1.9%	6.7%	8.4%	10.4%	0.80	1.21	34	None	GLFOX
Category 4 Small/Growth	1. Value Line Mid Cap Focus	12/18	NTF	NTF	NTF	36.8	19.7%	-1.9%	5.0%	10.7%	21.2%	16.4%	0.97	1.18	40	None	VLIFX
	2. Baron Opportunity	03/18	NTF	NTF	NTF	19.4	19.4%	-5.0%	1.4%	8.7%	9.3%	21.4%	1.35	1.37	63	None	BIOPX
	3. Neuberger Sm Cap Gr - LW[10]	05/19	NTF	NTF	NTF	25.7	24.4%	-5.3%	0.1%	12.1%	13.4%	23.5%	1.43	1.27	99	None	NSNAX
Category 3 Small/Value	1. Touchstone Mid Cap Z	05/19	NTF	NTF	NTF	10.9	13.5%	-6.5%	-0.4%	6.1%	5.1%	12.6%	1.04	1.21	31	None	TMCTX
	2. Weitz Hickory	06/19	NTF	NTF	NTF	10.3	17.1%	-5.9%	1.9%	5.8%	2.6%	4.9%	1.13	1.24	36	None	WEHIX
	3. Invesco S&P MidCap LowVol	12/18	ETF	ETF	ETF	12.8	12.1%	-3.1%	0.6%	3.4%	8.9%	11.7%	0.87	0.25	83	None	XMLV
Category 2 Large/Growth	1. MS Insight Fund - LW[10]	05/18	NTF	NTF	NTF	40.6	26.6%	-2.1%	4.3%	15.6%	20.7%	28.3%	1.45	1.15	48	None	CPOAX
	2. Akre Focus Retail	05/19	NTF	NTF	NTF	40.7	21.5%	-2.5%	6.8%	13.8%	20.1%	20.4%	0.93	1.32	22	1%30days	AKREX
	3. Polen Growth Investor	10/18	NTF	NTF	NTF	26.3	16.7%	-4.8%	4.0%	8.5%	13.8%	17.1%	1.07	1.25	22	2%60days	POLRX
Category 1 Large/Value	1. ☎ SPDR Large Cap Low Vol	07/19	ETF	ETF	ETF	28.6	15.9%	-1.5%	4.4%	7.2%	17.0%	13.1%	0.83	0.12	127	None	LGLV
	2. ☎ Vanguard Div Appreciation	07/19	ETF	ETF	ETF	10.2	11.2%	-4.6%	0.0%	1.5%	8.7%	12.2%	0.96	0.06	185	None	VIG
	3. Invesco S&P 500 LowVol	12/18	ETF	ETF	ETF	26.9	15.0%	-1.0%	3.7%	7.2%	16.1%	11.8%	0.81	0.25	102	None	SPLV
Bond Categories	Vanguard I-T Bond[6]	2/19	ETF	ETF	ETF	21.1	6.1%	2.1%	4.5%	8.2%	8.4%	2.7%	1.22	0.07	6.1[7]	None	BIV[8]
	Permanent: Vanguard I-T Bond	Perm	ETF	ETF	ETF	21.1	6.1%	2.1%	4.5%	8.2%	8.4%	2.7%	1.22	0.07	6.1[7]	None	BIV[8]
	Permanent: Vanguard S-T Bond	Perm	ETF	ETF	ETF	10.4	2.8%	0.9%	2.1%	3.8%	4.6%	1.7%	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 June, rather than on the end-of-May 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 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	Touchstone Mid Cap Z
Stock Cat. 2: Large/Growth	16%	$8,000	MS Insight Fund
Stock Cat. 1: Large/Value	16%	$8,000	SPDR Large Cap Low Vol
"Rotating" Bond Fund	10%	$5,000	Vanguard I.T. Bond Index
Intermediate-Term Bond Fund	5%	$2,500	Vanguard I.T. Bond Index
Short-Term Bond Fund	5%	$2,500	Vanguard S.T. Bond Index
Total	100%	$50,000	

BOND UPGRADING

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

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

MONEY TALK

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 Large/Value group, Voya Corporate Leaders Trust (LEXCX, 3/2019) and AMG Yacktman Focused (YAFFX, 3/2019) are being replaced.** Both funds were purchased in March as Upgrading shifted from its defensive cash holdings back into conventional mutual funds. These were relatively cautious recommendations, given that they came just two months after December's vicious correction ended. Staying conservative at that point turned out to be wise, as it didn't take long for the market to run into another significant pullback in May.

Yacktman handled the three months through the end of May particularly well, losing just -0.3%. That compared to the -3.1% loss of both Voya and the average large/value fund tracked by Morningstar. June has been a different story though, as stocks pivoted sharply higher again. While both of these recommendations have posted gains in excess of +5% in June, that hasn't been enough to keep them ranked in the top quartile, as other funds have gained even more.

•**SPDR Large Cap Low Volatility ETF (LGLV) is being added.**[1] This fund is similar to the Invesco S&P 500 Low Volatility ETF (SPLV) already recommended in the large/value group. (Because of the similarities, if you already own SPLV, the Vanguard Dividend Appreciation ETF—also being recommended this month—will make a better portfolio diversifier than adding a second low-volatility ETF.)

These two ETFs—i.e., LGLV and SPLV—differ primarily because they follow different indexes. This helps introduce some variety between their portfolios, despite both focusing on the lowest volatility stocks within their respective indexes. While SPLV targets the S&P 500 index, LGLV draws from the broader Russell 1000 index.

It has been difficult for actively managed funds to beat these large stock indexes in recent years. But harnessing the gains of these levitating indexes, while controlling somewhat for risk, seems like a great approach at a time when the market continues to rally, yet valuations and risk remain high.

•**Vanguard Dividend Appreciation ETF (VIG) is being added.**[1] The "Appreciation" in the title of this attractive ETF refers to the fact that Vanguard isn't simply looking for the stocks with the highest yields to populate this portfolio. Instead, it's specifically looking for firms that have increased their dividends for at least 10 consecutive years. This helps weed out weaker stocks whose yields are high only because their share prices have fallen. VIG's stringent hurdle ensures a high-quality bias: profitable firms with a history of being friendly to shareholders. The result has been a portfolio that's tended to hold up better during market downturns than most of VIG's dividend-focused competitors. This fund's approach also pushes it out of the "deep value" corner of the category inhabited by many dividend funds that focus purely on the highest yields. Given that the market has favored growth over value in recent years, having more exposure to the growth side of the large company stock universe has been helpful to VIG's returns. ◆

COVER / CONTINUED FROM PAGE 101

MOVING FROM INDIFFERENCE TO LOVE

stream of biblical teaching to sit under, no gathering place for fellow believers. God is all-in for the church. Are you?

What About "Other" Giving?

We've discussed the three clear giving tasks in Scripture, but there are also times we've had to face the dilemma of whether we should give to other causes. We've each been modest supporters of our alma maters, we both enjoy the arts and museums, and we're not opposed to medical research or many other great causes.

As we've each prayed through this issue, we've been convicted that as Christians our primary focus in giving has to be on the tasks God has clearly given us, in his infinite wisdom and goodness. So while we might send $50 to our alma mater as a token of appreciation, we'll save the vast majority of our giving for the big three tasks: serving the poor, saving the lost, and strengthening believers. As we turn back to Sheila's story, we'll see that she would soon have the opportunity to make these kinds of investments.

Sheila's eternal investment

Sheila and Amy couldn't believe it. The ministry they loved and supported was going to be shut down.

Apparently the ministry had missed a deadline for a shipment due to a major American retailer. Contractually, this meant the retailer could fine them $250,000! They had pled their case to the retailer, explained that they were a ministry serving impoverished women, and tried every other avenue they could think of. It seemed that nothing was going to work.

The $250,000 fine was simply beyond what the ministry could afford to pay. It seemed unreal, but their only option might be to shut their doors, consigning all the women they served to return to unemployment.

With this news ringing fresh in her mind, Sheila set off for a conference called the Celebration of Generosity. This was a gathering of five hundred radical, all-in Christian givers

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

hosted by Generous Giving (the organization John works for) and designed to encourage givers and share stories of the joy of generosity. As she prayerfully engaged with the Lord that weekend, he began to stir up a crazy idea.

I have just over $200,000 sitting in a savings account now, Sheila thought. *That's almost the full amount they need*. It was her life savings, squirreled away diligently, dollar by dollar, as she had lived frugally and stashed every bonus. It would be unthinkable to part with it. What would her parents say? What if she needed the money?

She would push the thought away, but it kept coming back. Somehow, her love for the women in Haiti and her desire to follow God's prompting began to outweigh her fear and her desire for self-preservation. Finally, she made up her mind.

Shelia emptied her checking and savings accounts the next week, taking her funds down to zero. She said that at the moment she delivered the check, she felt "peace and freedom, rather than fear or regret."

As she reflected on this event, she realized that the ministry she had given her savings to keeps people out of sweatshops. God spoke quietly to her heart. "You may have forgotten your prayer at age seven," he whispered, "but I did not. You've helped these women and rescued them from desperate conditions. I answered your childhood prayer by giving you a part in this story!"

The cost of the gift has been high. It was everything she had. In fact, Sheila has not told her parents. She knows they would react in an extremely negative way. Although that aspect of it has been painful, she rejoices in partnering with God to shine a light on those living in darkness, in Jesus' name!

We find inspiration in the radical obedience and sacrifice Sheila made, driven by the love in her heart. She overcame her own fears and self-interest to choose the road to life, and we know God is thrilled to lead her on this adventure of grace.

Where do I start?

So, every Christian has three interlocking tasks in front of them: serving the poor, saving the lost, and strengthening believers. Investing in these tasks is an investment in the true riches of heaven.

Having spoken to countless people about giving, the most common objection at this point is usually, "Okay, I want to jump in! But I don't really know any poor people. And most of my friends are Christian." Well, here's the good news. You don't need to start your own ministry from scratch; you just need to find a good organization to support. Your gift to a highly effective nonprofit can have a huge impact, and all it requires is a few clicks online or dropping a check in the mail.

Remember, the goal is to walk in relationship with God, and to ask him, "Hey, Daddy . . . what'cha doin'?" He will invite us into his mission! ◆

LEVEL 2 / CONTINUED FROM PAGE 103

IS ACTIVE MANAGEMENT BROKEN?

Pivoting to Upgrading, we see a dynamic similar to the Yale fund in that both attribute their long-term success to finding the best managers within their peer groups, which allows these strategies to "win" within the individual allocations of the broader portfolio. Last year, for example, Upgrading's fund choices outperformed the average fund in *all five of SMI's risk categories*—yet Upgrading still lagged the S&P 500 index by 3.5%.

These examples aren't failures of active management, per se. It's simply that the S&P 500 is dominated by large growth stocks, whereas Upgrading, the Yale endowment fund, and most other active strategies are diversified across other stock types and/or asset classes. Many active strategies continue to do what they've always done, which is to identify superior investments within their assigned parameters. They just aren't being rewarded because large growth stocks have been so dominant during this bull market.

Past as prologue?

Morningstar's Rekenthaler ends his article this way: "The last time Yale's endowment fund looked this out of sorts was the late 1990s, and it promptly posted outstanding relative results. Perhaps history will not repeat. But I would not bet against such an occurrence."

Neither would we. We've also pointed to the late-1990s as a parallel of sorts to the current market. The investor exuberance of that era isn't present today, but the incredible outperformance of the S&P 500 relative to other stock types and investing approaches is similar. So, too, is the feeling among investors today, similar to 20 years ago, that the Fed is waiting in the wings to rescue them should the market falter at the end of a similarly extended economic expansion and bull market.

We know how that turned out last time. After its last period of similar relative outperformance in the late 1990s, the S&P 500 fell a total of -26% over the following decade. Meanwhile, Upgrading gained +65%, creating a stunning 91% performance gap between the two approaches.

But 10 years is a long time and many SMI members weren't around for that 1999-2008 period. So when they see Upgrading lagging the S&P 500 over the past decade, it's understandable they may be tempted to think an S&P 500-only approach is a better way to invest. We've shown the false implication there. Any responsible investor would diversify beyond the S&P 500, and the return gap erodes rapidly as diversification is added. But even more important is recognizing that market leadership doesn't last forever. The S&P 500 has been on a great run, and its +2.6% annualized performance edge over the past decade is impressive. But it pales beside the -10.1% annual performance deficit the S&P 500 experienced relative to Upgrading during the decade before this bull began!

There's an old market saying: "Trees don't grow to the sky." The point is simply that while investors have a strong tendency to extrapolate the recent past indefinitely into the

[1] www.TrueRichesBook.com.

future, real life doesn't turn out that way. "Reversion to the mean" (the tendency for asset classes to gravitate toward their long-term averages) kicks in, pulling prior winners down and boosting the former losers back up. Over this bull market's 10-year run, indexing—and specifically the large growth stocks that dominate within the S&P 500 index—have been the most impressive trees in the investing forest. But we don't have to look far into the past for a vivid reminder that one decade's leader is often the next decade's laggard. ◆

LEVEL 3 / CONTINUED FROM PAGE 104

SHOULD YOU INVEST WITH A TAXABLE ACCOUNT?

without the value of its next dividend payment) to 60 days after the ex-dividend date.

• **Mutual funds.** The holding periods that apply to stocks apply here too, but there's another factor as well. Mutual funds incur capital gains and losses on the investments they make and also earn dividend and interest income. *All* of these earnings are paid out to shareholders in the form of distributions. You can elect to receive the distributions in cash or have them reinvested in more shares. But either way, a distribution is a taxable event to an investor using a taxable account. In other words, it isn't only when you *sell* a mutual fund that you will owe tax. Just *holding* a mutual fund will generate a tax bill.

Index funds (and most exchange-traded funds) are more tax efficient than actively managed funds. Index funds and ETFs replace very few holdings each year (i.e., their "turnover ratio" is low), which means they generate lower distributions than actively managed funds. Index funds often sport turn-over ratios of just 1-2%, whereas actively managed funds can have turnover ratios of 20-100% or more. Generally speaking, the lower the turn-over ratio, the lower the tax bill.

• **Municipal bonds/funds.** Income generated by municipal bonds is exempt from federal tax, and in some cases, state tax as well. If your asset allocation calls for bonds, this feature makes municipal bonds an especially good choice for a taxable account.

Beware the wealth tax

For wealthier households, taxable investment income may trigger an additional 3.8% *net investment income tax*. This tax hits single people with modified adjusted gross income (MAGI) of $200,000 or more and married couples filing jointly with MAGI of $250,000 or more. At those income levels, taxpayers with investment income owe an additional 3.8% of the lesser of their taxable investment income or the portion of their MAGI that exceeds the before-mentioned thresholds.

Using SMI in a taxable account

If you plan to use a taxable account for a portion of your investing, the SMI strategy best suited to the job is Just-the-Basics. Its reliance on index funds makes it very tax-efficient. Because the holdings don't change, a taxable JtB account becomes similar to an IRA in terms of its ability to defer tax indefinitely until the investments are sold. ◆

MARKET NOTES, QUOTES, AND ANECDOTES

In whose best interest?

"The SEC rules, to be implemented by June 30, 2020, are considered a win for Wall Street because, unlike the Department of Labor rules, they would still allow brokers to recommend products that benefit them, provided they disclose the conflict."– Reuters reporter Katanga Johnson, in a 6/5/19 article about recently approved "Regulation Best Interest" rules from the Securities and Exchange Commission. The rules require brokers to recommend only those investment products that are in a client's "best interest," a standard not as high as what the Labor Department fought for last year. Read more at reut.rs/2KR5GeK.

The more things change…

"We keep an eye out for the widespread belief that 'this time it's different' because we want to know if markets are being lifted by bullishness, optimism, risk tolerance and low levels of skepticism. Everything else being equal, these things result in asset prices that are high relative to intrinsic values, and their presence exposes us to the risk that they'll abate, taking asset prices down with them."– Howard Marks, co-chairman of Oaktree Capital Management, from his latest client memo. He described—and then dispelled—nine ways in which today's investors seem to think "this time it's different." Read more at bit.ly/2Fb8aRt.

Like watching paint dry

"Long-term investing is both boring and thrilling at the same time. We take long rides that seem to go nowhere only to hit a new stride out of the blue. This can be maddeningly frustrating, especially when a lifetime of savings is at play. None of us [has] a crystal ball, and trying to time the ups and downs of the market lends itself to two opportunities to be wrong."– Investment advisor Blair duQuesnay, writing on her blog *The Belle Curve* on 6/10/19. She was commenting on the fact that today's market essentially is where it was 18 months ago. Read more at bit.ly/2KpGbSh.

Investing means living in the tension

"This is what makes investing so tough. You can be rewarded in the short run for things that don't matter in the long run, and you can be punished in the short run for things that do matter in the long run. You can be wrong even when you get it right."– *Of Dollars and Data* blogger Nick Maggiulli, writing on 6/11/19 about one of the more maddening aspects of being an investor. Read more at bit.ly/2KVAc7c.

PREMIUM STRATEGIES

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

DYNAMIC ASSET ALLOCATION

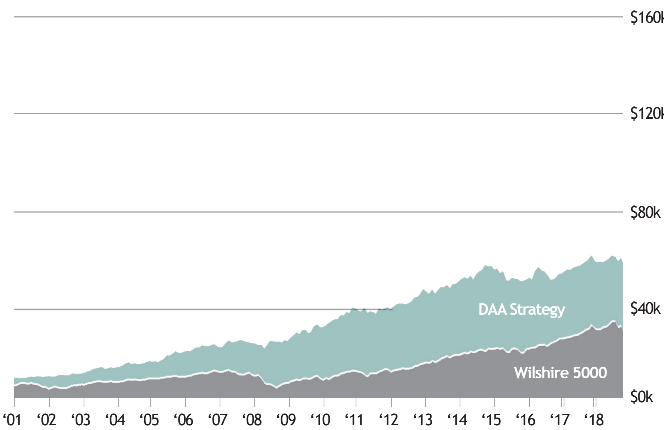
Overview

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

Who Should Consider This Strategy

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

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



Strategy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Avg[1]	Worst12[1]	Rel Risk[1]
DAA	4.0%	10.4%	22.4%	19.3%	8.6%	25.7%	10.1%	1.3%	17.6%	20.3%	1.4%	13.9%	16.2%	13.0%	-6.8%	-0.5%	16.0%	-4.5%	9.9%	-13.7%	0.62
Wilshire 5000	-11.0%	-20.9%	31.6%	12.5%	6.4%	15.8%	5.6%	-37.2%	28.3%	17.2%	1.0%	16.1%	33.1%	12.7%	0.7%	13.4%	21.0%	-5.3%	5.2%	-43.3%	1.00

SECTOR ROTATION

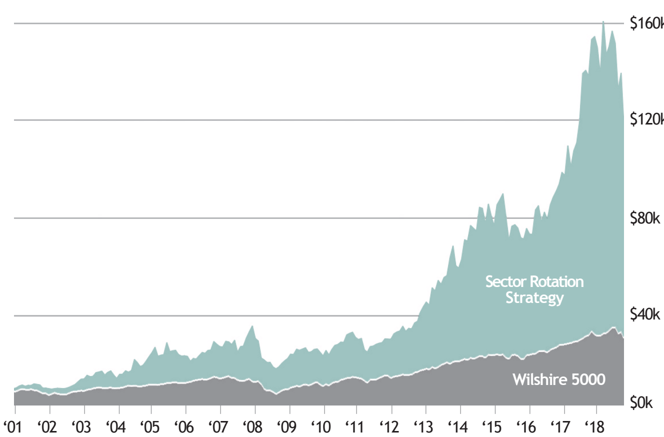
Overview

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

Who Should Consider This Strategy

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

Sector Rotation vs Wilshire 5000
Growth of $10,000 January 2001-December 2018



Strategy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Avg[1]	Worst12[1]	Rel Risk[1]
Sector Rotation	3.7%	-13.1%	54.4%	12.6%	46.1%	-1.9%	28.1%	-31.5%	30.5%	9.1%	-3.2%	23.3%	65.7%	49.9%	-9.7%	16.8%	56.7%	-15.8%	15.7%	-38.6%	1.85
Wilshire 5000	-11.0%	-20.9%	31.6%	12.5%	6.4%	15.8%	5.6%	-37.2%	28.3%	17.2%	1.0%	16.1%	33.1%	12.7%	0.7%	13.4%	21.0%	-5.3%	5.2%	-43.3%	1.00

[1]The three data points on the far right in each of the two tables are for the Jan2001-Dec2018 period. "Avg" represents the average annualized return from 2001-2018. "Worst12" represents the worst investor experience over 181 rolling 12-month periods from 2001-2018.

PERIODICALS POSTAGE
PAID AT LOUISVILLE, KENTUCKY

Dated Investment Material
Please Do Not Delay!

PERFORMANCE DATA

SOUND MIND INVESTING MODEL PORTFOLIOS • DATA THROUGH MAY 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]	10.9%	-6.5%	-1.3%	2.7%	11.6%	9.4%	13.9%	8.6%
Just-the-Basics[2]	10.4%	-6.4%	-2.5%	-1.4%	10.3%	7.1%	12.5%	8.2%
Stock Upgrading[3]	8.3%	-4.3%	0.0%	-4.6%	8.9%	6.1%	11.3%	8.3%
U.S. Bond Market[4]	4.9%	1.8%	3.9%	6.5%	2.4%	2.6%	3.6%	4.1%
Bond Upgrading[5]	4.7%	1.8%	3.9%	5.6%	2.4%	2.6%	6.0%	5.9%

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]	4.3%	-0.7%	2.9%	1.3%	4.9%	2.8%	8.5%	9.8%
Sector Rotation	-9.7%	-14.3%	-13.3%	-35.0%	13.0%	11.0%	17.8%	13.5%
50-40-10 Blend[7]	4.5%	-3.5%	0.1%	-5.4%	7.6%	5.2%	10.8%	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 Bloomberg 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 5/31/2019	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	7.23%	-5.04%	-0.77%	-8.98%	7.39%	4.38%	9.89%
Wilshire 5000	10.93%	-6.52%	-1.32%	2.66%	11.62%	9.38%	13.93%
S&P 500	10.74%	-6.35%	-0.67%	3.78%	11.72%	9.66%	13.95%

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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