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Economic Uncertainty Is Certain

In recent months, investors have become increasingly nervous that weaker economic data and an escalation in the US–China trade war could mean a recession is approaching. This article, by financial author and planner Ron Blue, founding director of Kingdom Advisors, reminds us that economic uncertainties are nothing new. Ron explains how to remain focused on your long-term plan, and he offers suggestions on building a strategy based on truths, not myths.

by Ron Blue

The picture is as clear in my mind as it was 37 years ago. As I pulled off the interstate en route to my office, I did not see the road markers; instead, my eyes swam with the signs of the times. The year was 1982. Interest and inflation rates had soared to all-time highs, investors faced crushing 70% tax brackets, and the price of gold leapfrogged daily. Taking stock of the situation, most analysts warned of a devastating financial explosion within the next few years.

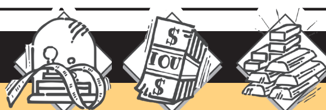
As I drove to work that day, the economic consequences seemed both crippling and inevitable. I had just launched our investment and financial counseling firm. How, I wondered, were we supposed to respond to the clients who came to us for advice? Could anyone afford to purchase a home with 15% to 20% interest rates? Which kinds of investments and tax plans could stand up to double-digit inflation? And if the predicted monetary collapse did occur, would the resulting political turmoil uproot even the best-laid financial plans?

One of my fears as I navigated the interstate highway that day was that we faced a "worst-ever" economic climate. Yet economic uncertainty—and its accompanying effects on our sense of security and well-being—are nothing new.

Ten years earlier, in 1972, we had been saddled with Watergate and an oil crisis that threatened to throttle the world's economy. Who can forget the lines at the gas stations or the rationing of fuel oil that winter? Then, too, I remember being hit with wage and price controls for the first time since World War II. And for the first time in my memory, the prime rate hit 10 percent. Economic security seemed an elusive, if not impossible, dream.

Ten years before that, in 1962, the specter of economic and political uncertainty had hovered in every corner of the world. Our amazement at seeing a shoe-pounding Nikita Khrushchev vow to "bury" us turned to horror as the Cuban missile crisis unfolded. At that point a nuclear holocaust seemed at least possible, if not imminent. And Vietnam lay just around the corner.

In 1952, in the shadow of the spread of Communism, amid the mud and blood of the Korean War, bomb shelters were among the best-selling items in the United States. In 1942, we faced the aftermath of Pearl Harbor and felt the full force of our entry into World War II. In 1932, we awoke to the nightmare of the Great Depression. *(continued on page 147)*

IN THIS  ISSUE

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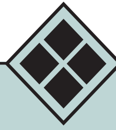
"FOR GOD HAS NOT GIVEN US THE SPIRIT OF FEAR BUT OF POWER, AND OF LOVE, AND OF A SOUND MIND."



EDITORIAL

Determining Worth

"Dad, today I bought all these baseball cards at the flea market for $15 and my catalog says they're worth $25! I've already made $10!"

Have you ever tried explaining to your children that a thing is worth only what someone is willing to pay for it? And that unless they intend to become dealers in baseball cards, it's highly unlikely they will even be able to get their $15 back, let alone gain $10 in profits? My boys inevitably brushed off such explanations as being naive and out-of-touch with the financial realities governing baseball cards (or stamps, comic books, etc.), which apparently are exempt from the normal rules governing commerce. The fact that I had a college degree in economics and was a registered investment adviser carried no weight whatsoever. They regarded me with a kind of bemused tolerance ("Dad means well.")

Children aren't the only ones who sometimes have a difficult time with the concept of worth. Grown-ups were the ones who came up with the "greater fool" theory (even if you are a fool to pay too much for an investment, it's okay because you expect to find a *greater* fool who will overpay even more). The classic example was the early seventeenth-century Dutch frenzy called Tulipmania.

It seems that in the mid-1500s, travelers in Turkey had been struck by the flower's beauty and had brought it to Vienna. It later reached England, where the new flower became popular in court circles. By the early 1620s, excitement over tulips had reached Holland, and the rarest specimens were selling for thousands of florins. Originally, sales occurred over the winter, but by 1634 every level of society had succumbed to this excitement, from laborers to the nobility, and soon deals were being conducted all year round for delivery the following spring. What we call "put" and "call" options were invented and widely traded.

As the frenzy mounted, prices climbed giddily. One "Viceroy" bulb sold for four oxen, eight pigs, twelve sheep, four loads of rye and two of wheat, two hogsheads of wine and four barrels of beer, two barrels of butter and half a ton of cheese, together with a quantity of house furnishings. The Dutch became convinced that not only other Dutch speculators but also foreigners would pay ever-rising prices. Indeed, at one point a single rare bulb was given in France as full payment for a successful brewery.

But trees do not grow to the sky and, inevitably, the reckoning came. When the price levels finally cracked, the entire economic life of Holland crumbled; lawsuits were so numerous that the courts couldn't handle them. The price of tulips returned to their original modest levels. And if you had been an investor with a rare tulip at that point, it wouldn't matter what you paid for it, what it was listed for in the price guides, how scarce or beautiful it was, or what superb condition it was in. All that would matter is what a buyer would be willing to pay you for it. That would determine its true value.

There's an obvious application of this principle to today's financial markets, where prices of both stocks and bonds have been bid up significantly throughout the bull market of the past decade. It's important to remember that a share of stock has a tangible relationship to the real profits of a real business. When that relationship gets lost amid the belief that there will always be another (greater fool?) buyer offering a higher price, valuations get stretched. Historically, when prices have reached the rich valuations we see today, they have tended to be short-lived and headed for eventual decline. Bear markets are the mechanism by which stock valuations get "reset" back to more reasonable, economically-anchored levels.

But this editorial isn't primarily about that. Instead, consider this. How much are *you* worth? Do you value yourself based on the current "going prices" in society's marketplace? Or, do you value yourself by the eternal price Someone was willing to pay for you? *"Your attitude should be the same as that of Christ Jesus who, being in very nature God, did not consider equality with God something to be grasped, but made himself nothing, taking the very nature of a servant, being made in human likeness. And being found in appearance as a man, he humbled himself and became obedient to death—even death on a cross." Philippians 2:5-8.* ◆

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NECESSARY CAUTIONS
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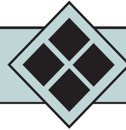
FEATURE  ARTICLE

Economic Uncertainty Is Certain

(continued from front page)

And on and on and on. The point is that we will always face uncertainty. Suddenly, I felt the subconscious click of the proverbial light bulb: The biblical principles of money management I had been teaching and using for years would work under any economic scenario. Armed with these concepts, I knew exactly how to help our clients weather the coming storm, no matter how hard the financial winds blew.

The predicted financial blowout never did occur. Yet as our business grew in the years that followed, we faced a thousand different financial situations that seemed specially tailored to test the worth and endurance of the money-management concepts our firm espoused. But in each and every case the biblical principles held fast, strengthening our clients' economic positions—and bringing them peace and security in the bargain.

Are you a thermometer or thermostat?

The economic upheaval caused by problems such as the federal budget deficit and inflation can create a climate of tension, anxiety, and fear. People tend to respond to this environment in one of two ways: Some of us act like thermometers while others behave as thermostats.

Thermometers respond to mounting fear and uncertainty with a jump in their emotional mercury. The red line shoots up, shouting, "Danger! Danger! Rocky road ahead!" Suddenly, even routine tasks can seem impossible, and small obstacles become insurmountable. Fear takes hold, and our strongest instinct is to moan, cry, or collapse in a puddle of ineffectiveness. When the situation stabilizes, our memory recedes, and we regain a sense of control—at least until the next crisis appears. Often, that crisis is only as far away as the next headline.

Thermometers reflect their environment. They react to and are at the mercy of an ever-changing climate. Thermostats, on the other hand, control their environment. We do not have to react to our changing financial climate in a knee-jerk or haphazard fashion. We can become thermostats, controlling our individual environments through proper planning and preparation. We can thrive during economic uncertainty. This should be not merely our desire, but our expectation—regardless of the financial forecast.

Planning for a secure future

We have seen how the federal deficit, income taxes, inflation, and the like can sabotage our financial-planning efforts and threaten our personal security. Their impact on the national economy is equally significant. As a result, the desire to harness these problems and manipulate the financial forecast generates more discussion and debate on the floor of the U.S. Congress than anywhere else.

In the early 1990s, I had the opportunity to testify before a Senate subcommittee holding hearings on "Solutions for the New Era: Jobs and Families." While others on the panel pressed for more social programs, I said I believed the American family could benefit from following a four-part financial plan: (1) spend less than you earn; (2) avoid the use of debt; (3) maintain liquidity; and (4) set long-term goals. These four principles are simple. So simple, in fact, that they may easily be overlooked. Yet they have stood the test of time, having been developed and outlined thousands of years ago in the Old and New Testaments.

As you study today's financial horizon, which will it be: inflation or deflation? Economic growth or a return to recession? Do you know what to expect? Can you guess?

These are among the many things we cannot control. What we *can* control is our preparedness to deal with these financial realities. We can trade in our thermometer mentality for that of a thermostat. With an effective money-management plan in place, we can approach the future—any future—with a sense of genuine security.

Unexpected events such as the 1987 stock market crash and the 2008 financial crisis bring our worst nightmares to life. The question of what to do in a crisis situation is a universal concern. Many people panic, others are paralyzed by fear, and still others fall prey to the temptations that uncertainty creates.

The perils of panic

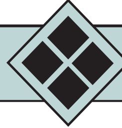
Many investors viewed the '87 crash from a perspective of panic. One of our 500 clients terminated his relationship with our firm, pulling all of his money out of the market in a fear-driven frenzy. I heard a similar story about another client who had left our firm a few months before the crash. We had not been "aggressive" enough to suit him, he said. He had wanted to invest most of his life savings entirely in the stock market, which seemed—to him—to know no limits. When he left us, he bought the most aggressive stocks he could find. On the day after the crash, he panicked and sold everything—at just about the worst possible time. Panic often stems from two sources: the fear of a missed opportunity and the fear of an economic or political collapse.

1. Fear of a missed opportunity. Surefire "opportunities of a lifetime" arise every day, from business deals to stock-market "finds." I view these investments with a skeptical eye, keeping in mind three rules: First, if it sounds too good to be true, it probably is. Second, there are no "bad deals" from the promoter's perspective. And finally, I have lived long enough to know that there is always another "guaranteed opportunity" coming tomorrow.

2. Fear of forces beyond our control. Our firm had a client named Bill, the head of a large corporation, who asked us to manage his company's pension fund. He had benefited from the personal financial plan he had established with our help, and he was eager to develop a similar program for his employees. You can imagine my surprise when I learned that a week after Bill solicited our help, he wanted to take all of his personal holdings out of the stock market and convert everything to cash. Curious about his sudden change of heart, I discovered that several arch-conservative economic analysts had convinced him of an impending financial collapse in which the entire nation would become bankrupt. Terrified by that prospect, Bill panicked, grabbed his money, and ran.

Fear or reasonable caution?

How can you tell if a decision is motivated by fear or simply by conservative caution? A "gloom and doom" forecast may



be entirely legitimate, yet it should never be the foundation of your decision making. Fear-based decisions may be characterized by one or more of the following traits:

• The decision is made quickly, with little forethought.

• The decision is presumptive, based on conclusions that have little or no substantiating proof.

• The decision is ill-advised, having been made under the counsel of untested, unreliable, or biased sources.

A fear-based decision often has an accompanying gut reaction of anxiety or tension. By contrast, wise and thoughtful decisions are usually characterized by a sense of stability and calm. Scripture attests to this pattern. Philippians 4:7 promises that *"the peace of God, which surpasses all understanding, will guard your hearts and minds through Christ Jesus."* Good decisions, financial and otherwise, are marked by peace, not panic.

Panic can ruin even the best-laid financial plans. Equally devastating, though, is an inability to act. Fear of making a wrong decision can result in our making no decision at all. Or we may get caught in "analysis paralysis," endlessly weighing our options until we are completely unable to make a move of any kind.

As you consider any financial decision, three simple questions are useful in gauging your degree of panic, paralysis, or peace:

1. What is the very worst that can happen if I do (or do not do) this?

2. How likely is that worst-case scenario to occur?

3. Am I willing to live with the consequences—favorable or not—of this decision?

The answers to these questions will help remove the biases created by fear and greed, allow you to view your options objectively, and help you honestly evaluate your level of peace.

Rather than allowing the spiritual and economic fragility of our society to corner us with fear and uncertainty, we must go on the offensive. Christ knew the trials His disciples—and we—would face, and He provided a battle plan: *"Watch and pray,"* he said, *"lest you enter into temptation"* (Mark 14:38).

Tackling temptation

Probably the single greatest temptation during times of economic uncertainty is to hoard our wealth. This desire is nothing new. In Luke 12, Christ told of a rich fool who thought he could protect himself by building bigger barns to store his better-than-expected crops. Having thus secured his economic future, the fellow reasoned he could *"eat, drink and be merry"* (verse 19), enjoying his good fortune on easy street. This story illustrates three temptations fear and uncertainty can create:

1. The first temptation is a longing for a life of comfort and ease. The rich fool probably figured he had worked hard managing his farm and that he deserved to enjoy his remaining years in comfort. Likewise, most Americans look forward to their retirement years. The thought that some financial calamity could prevent their "rightful relaxation" is intolerable.

To me, however, the resort communities and fun-in-the-sun spots that dot our southern and coastal landscapes are the most depressing places in the world! I do not condemn retirement; on the contrary, our firm helps people plan to enjoy it. I do, however, feel very strongly that a life of leisure and total freedom from responsibility has no place in a God-directed plan. Christians should never retire. They may leave their paying jobs or change vocations, but their new found freedom should not be used exclusively for self-indulgence and entertainment. Instead, it should become a vehicle for fulfilling God's call to service.

2. The second temptation is the perceived right to a particular life-style. Just as the rich fool wanted to "eat, drink and be merry," we have all sorts of similar desires and demands. The 10-year-old boy must have the right pair of athletic shoes—despite a price tag topping $100. By the time that same boy turns 16, he will expect a car—and not just any old jalopy. Next, it's a college education and then a particular job.

This list goes on and on. After we land that perfect job, we want a lovely house in a good neighborhood. Then it's the right vacation, followed by acquiring a second home, and ultimately, retirement. When we view these things as our "rights," any threat to our achieving them becomes intolerable. The thought of not getting into a "good" college or being able to afford that ski-lodge getaway fills us with great anxiety and fear. Yet none of these things that make for a "desirable" life-style are our inalienable rights. We must watch out for this kind of desire and pray against that temptation.

3. The third temptation is the desire to protect ourselves from the consequences of economic uncertainty. The rich fool wanted to build bigger barns to create self-sufficiency in his future. Yet this kind of protection is not our responsibility. It is God's. God promises to protect us. Psalm 50:14-15 paints God as our source of help: *"Offer to God thanksgiving, and pay your vows to the Most High. Call upon Me in the day of trouble; I will deliver you, and you shall glorify Me."* Inherent in these verses is the need to credit God with our protection and deliverance. Nowhere does the Bible give any indication that we can do anything to protect or save ourselves.

God does, however, vest us with the responsibility to provide for our families. Proverbs 6:6-8 advises us to consider the hard working ant, that *"provides her supplies in the summer, and gathers her food in the harvest."* Moreover, God's view of those who fail to provide is clear in 1 Timothy 5:8: *"If anyone does not provide for his own, and especially for those of his household, he has denied the faith and is worse than an unbeliever."*

Thus, being able to provide for your family becomes a legitimate concern. Many Christians, however, take this responsibility to an extreme, allowing their responsibility for provision to become a self-sufficient desire to protect. A hoarding mentality ensues, driving people to "build bigger barns" as a hedge against an uncertain future.

Our protection is God's job—and yet we must recognize our own accountability for good stewardship. My wife, Judy, and I like to remind each other, "You can only do what you can do, and only you can do what you can do." Your talents and abilities are unique; the circumstances of your life are yours alone to confront.

So what can you do? In financially difficult times, you can confront uncertainty from a perspective of peace instead of panic or paralysis. You can, as Christ commands, "watch and

pray" against the temptation to hoard your resources in a futile attempt to protect yourself. Trusting in God's guidance, you can establish plans, make decisions, and accept responsibility for your own actions.

Your investment philosophy: truth or "mythconception"?

I want to help you develop a commonsense investment strategy. With this plan, you can weather the economic storms of today as well as those in the far-off financial future. In times of economic uncertainty, the strength of your storm shelter—supported by your investment philosophy—will determine whether you struggle, thrive, or just survive.

Many investors believe that good decision making requires expert knowledge and constant updates. In reality, though, the best decision-makers are those who have developed a sound investment philosophy on which to base their choices. As we counsel clients, our firm has identified two distinct investment philosophies. One is rooted in a secular perspective that is shaped by worldly "mythconceptions." The other is based on strategic truths that are outlined in the Bible and proven through practical experience. Consider the following contrasts:

- **Mythconception: Spend and consume, saving can wait.**
- **Strategic Truth: Save and invest, spending can wait.**

As a society, Americans have run up a $2.5 trillion tab in car loans, credit card debt, home-equity loans.[1] When buying opportunities present themselves, we take the bait, reasoning that there will always be money to save out of the next paycheck. To build a solid storm shelter, however, saving and investing must take top priority—and even more so in an uncertain economic climate. (As noted earlier, Proverbs 6:8 commends the hardworking ant, who *"provides her supplies in the summer, and gathers her food in the harvest."*)

- **Mythconception: Get rich quick.**
- **Strategic Truth: Get rich slow.**

One young man I know spends $5 per week on lotto tickets. Not long ago he won a $14 payoff. He was elated and, I suspect, more determined than ever to keep playing in pursuit of "the big one." Consider, though, what that young man could do instead by investing his $5 each week. Even at a (relatively low by historic standards) 5% return, his money would grow to $1,476 in just five years. And in 48 years, when the fellow was ready to retire, he would have $52,054. Proverbs 21:5 says, *"The plans of the diligent lead surely to plenty, but those of everyone who is hasty, surely to poverty."* From an economic standpoint, it makes no sense to pursue long-shot odds in a hurry-up effort to get rich when there is a guaranteed—albeit slower—way to make money.

- **Mythconception: Time is an enemy.**
- **Strategic Truth: Time is an ally.**

Watching today's investors is like watching a rerun of the old *Beat the Clock* TV game show. Thinking that time is short, people scurry around looking for the "best" investment options since every day that passes is one less day available for wealth accumulation. Too often, such anxiety-driven decisions turn out to be poor ones.

Harrison is a dermatologist I know. The short-term mindset that once drove him to buy a big house, join an expensive country club, and generally go for life's "gusto" has come back to haunt him. Burdened by debt and with no preparations made for his retirement, Harrison is in a race against time. He delayed starting to invest for the future, and now sees time as an enemy. Had Harrison adopted a long-term outlook, time would have become his ally.

Time is a tool—and the more you have of it, the better. It does not matter whether you have a lot of money to invest or just a little as long as you are willing to let time work on your behalf.

- **Mythconception: Expect upward trends.**
- **Strategic Truth: Expect cycles.**

People purchase stocks in the hope or belief that the stock price will go up. In our dogged attempts to ride the upward trends, any investment loss generally comes as an unwelcome surprise. In reality, however, market cycles—the highs and the lows—should be expected. What goes up must come down, and vice versa. The cycles experienced by stocks and bonds characterize every investment, from money markets to real estate. Such ups and downs would make perfect sense to King Solomon, who referred to a *"day of prosperity"* and a *"day of adversity"* (Ecclesiastes 7:14) and wrote that there is a time for everything—from mourning to dancing (see Ecclesiastes 3). As investors, we must be prepared for both scenarios.

- **Mythconception: Time the market.**
- **Strategic Truth: Diversify your assets.**

One of the most common investment strategies pursued by today's investors is market timing. The hope is that, with the proper combination of guess-work, maneuvering, and luck, the investor can "beat the system" and make money fast. The idea is simply to buy low and sell high—a strategy that works well in theory but is virtually impossible to put into consistent practice.

Instead of trying to time the market, biblical wisdom encourages a diversification of assets. We ought to divide our assets into seven or eight portions, says Ecclesiastes 11:1-2, since we *"know not what disaster may happen on earth."* As an investment strategy, asset diversification succeeds where market timing fails.

And peace will follow

My firm is in the business of imparting peace of mind to people who want to take proactive and responsible control of their resources. Peace of mind is the foundation of prosperity. Scripture is full of admonitions against fearfulness. Hand in hand with these verses are promises of God's provision. He is fully aware of our fears and desires—as Matthew 6:8 says, *"Your Father knows the things you have need of before you ask Him."*

God will provide. He has already given us a scriptural outline for proactive financial planning. The points are the same ones I shared with the Senate subcommittee more than 25 years ago: spend less than you earn, avoid debt, maintain liquidity, and establish long-term goals. By creating—and practicing—your own proactive plan, you will defeat fear and uncertainty and enjoy a thriving financial future. ◆

Adapted from *Storm Shelter: Protecting Your Personal Finances* by Ron Blue. Copyright 1994 by Ronald W. Blue. Published by Thomas Nelson, Inc. Used by permission.

[1] 2nd quarter 2019 data from nyfed.org/2kJj9um.

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

PUTTING THE BRAKES ON CAR-BUYING COSTS

Ah, that new car smell! Ugh, that new car price.

According to Kelley Blue Book, the 2019 average selling price for a new car is $37,185. No wonder nearly 9 out of 10 new vehicles are financed (the average amount borrowed is $32,590). The length of a new-car loan? The average is just shy of six years.[1]

Not surprisingly, having a monthly car payment is one of the most common roadblocks to achieving financial stability and progress. Here are nine keys to steering clear of car debt and controlling your overall auto expenses.

1. Break the cycle of financing. If you're making payments on a car or truck, determine that *this will be the last vehicle you finance*. Once your loan is paid off, keep making payments—but send them to a savings account instead of to a lender! Resolve to keep your current vehicle as long as it takes to save enough to buy your next car with cash.

2. Buy the most reliable vehicle you can afford. An "affordable" car is one you can *purchase with cash* while still leaving enough in savings for an adequate emergency fund. That likely means you'll be buying a used vehicle, but it *doesn't* necessarily mean you'll have to sacrifice quality or safety. Well-maintained late-model used cars are widely available, including many that carry a dealer (or even a manufacturer) warranty. A starting point for finding a dependable vehicle is *Consumer Reports*' annual "Best Used Cars for Under $20,000" report.[2]

3. Research market pricing and availability online. Reliable sources of vehicle-value information include kbb.com, nadaguides.com, and edmunds.com. For availability, you can search offerings (from both dealers and private sellers) at cargurus.com, autotrader.com, ebaymotors.com, and craigslist.com. Also check truecar.com (pricing information from 16,000 "certified dealers") and costcoauto.com (pricing from 3,000 dealers). If you prefer no-haggle pricing, visit carmax.com and carvana.com.

Buyer beware: To pique your interest, some used-car dealers may advertise prices online that are substantially less than prevailing market values. Actual contract prices, however, may include an assortment of fees running into the hundreds or even thousands of dollars. If you're interested in a car that's listed at a price that seems significantly lower than market value, send the dealer an email asking for an itemized list of all charges that would be included in the sales contract. Be prepared to walk away from any deal that's padded with questionable add-on charges.

4. To keep future maintenance costs down, consider a "certified pre-owned" car. CPO cars, available only from automaker dealerships, are reconditioned late-model vehicles that are still under factory warranty.[3] CPO vehicles tend to cost more than other used cars, but they have relatively low mileage and are typically less than five years old.

"Dealer certified" cars are another option. As with CPO vehicles, these cars are reconditioned and inspected but carry a dealer or third-party warranty (a "vehicle service contract") rather than a manufacturer warranty.

5. Investigate a vehicle's history. A report from Carfax[4] or AutoCheck[5] will tell you if a vehicle has been in an accident or if it's been used as a rental. (To get a report, you'll need to supply the car's license number or Vehicle Identification Number). Some dealers will provide a vehicle-history report for free, or you can purchase one from Carfax for $40 or from AutoCheck for $25.

The website of the National Insurance Crime Bureau[6] has data on whether a car has been reported stolen, damaged, or deemed a total loss by an insurance company that paid a claim on it. Also check with the National Highway Transportation Safety Administration[7] to find out if a vehicle has been subject to any recalls.

6. If buying from a private party, take nothing for granted. Buying a used vehicle from an individual lowers your upfront cost but raises your risk. It's strictly an "as is" deal with no guarantee, certification, or warranty. To protect yourself, ask to look at all repair records and arrange for a mechanic to inspect the vehicle. Companies such as LemonSquad[8] and Wrench[9] will send a mechanic to where the car is. Expect to pay about $150-$200 for such an inspection.

7. Consider all the costs. The purchase price is only one part of the car-buying equation. As the nearby table shows, similarly priced vehicles can vary widely in "operational" costs.

Edmunds.com has a "True Cost to Own"® tool[10] that provides projections of ongoing costs. For more-refined insurance estimates, you may want to contact your insurance agent. For additional fuel-efficiency information, go to fueleconomy.gov.

8. Once you buy a vehicle, keep it maintained. If taken care of, today's vehicles can last a long time. Budget for regular maintenance *(continued on page 157)*

ESTIMATED FIVE-YEAR OWNERSHIP COSTS*

	2016 Honda Accord LX	2015 Toyota Venza	2015 BMW 3 Sedan
Cash Purchase Price	$15,125	$15,764	$15,491
Insurance	$4,449	$5,081	$5,904
Maintenance/repairs	$7,723	$9,669	$17,849
Fuel	$7,262	$8,516	$8,737
TOTAL	$34,559	$39,030	$47,981

*Source: Edmunds.com. Operational costs shown are based on 15,000 miles driven per year. Some costs can vary significantly based on state and locality. Additional costs include taxes and fees.

[1]msn.com/08/en-us/AAHabBF [2]bit.ly/CR-20Kcars [3]bit.ly/used-car-warranties [4]www.carfax.com [5]www.autocheck.com [6]www.nicb.org/vincheck [7]www.nhtsa.gov/recalls [8]www.lemonsquad.com [9]bit.ly/wrench-inspection [10]www.edmunds.com/tco.html

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

THE SURPRISINGLY SMALL BENEFIT OF PERFECT MARKET TIMING

Following a decade of mostly rising stock prices, last year's fourth-quarter correction of nearly -20% reminded investors that the stock market's rewards come with substantial risk. Given weakening economic data in recent months, it wouldn't be surprising if some investors are thinking it might be time to scale back any new investing (or even head for the exits altogether) and wait for the next bear market to pass.

Such timing moves are intended to improve long-term returns, but as we've explained before, that's rarely the result. First, as the last few years have clearly demonstrated, it's extremely difficult to time these moves correctly. But another reason is often overlooked—timing simply isn't as significant a factor as most investors think.

The long-term stock investor prospers because he or she owns shares in businesses that participate in a productive economy. The important thing is not so much *when* you buy, but *that you buy and continue to buy*. The nearby table (above, right) shows the results of two different approaches, applied across three separate 20-year periods. Both Peter and Paul started each period with a balance of $60,000 and invested $6,000 more each year in an S&P 500 index fund, but they did it differently. Peter is the world's best timer: every year he invested his $6,000 on the very lowest day of that year. Paul, on the other hand, simply divided his $6,000 into 12 parts and invested $500 on the last day of every month. The results shown assume dividends were reinvested.

20-Year Periods	Peter — World's Best Timer*	Paul — Monthly Investor**
Jan 1973 - Dec 1992	13.9%	12.7%
Jan 1987 - Dec 2006	12.2%	11.0%
Jan 1999 - Dec 2018	8.4%	7.4%

*Invests $6,000 at the lowest price of each year.
**Invests $500 at the end of each month.

Two facts stand out. First, they were both quite successful in all three periods. We specifically chose these periods to simulate today's fears of investing new money immediately prior to some horrible market breakdown. The first period begins just as the famously difficult 1973-1974 bear market is about to start; the second begins with the infamous "Black Monday" drop of 22.6% only months away; and the last begins just prior to the bursting of the "dot-com" bubble. Second, the impact of even *perfect timing*—impossible to actually achieve—was minimal. Despite being perfect for 20 years, Peter's annualized returns were just 1.0%-1.2% better.

It turns out you don't need to have Peter's timing skills (yay!) to see your capital grow handsomely in the market over time. Taking this idea one step further, another analysis compared buying on the *best* day vs. the *worst* day of each year. The result across multiple 30-year periods was that the very best timing portfolios ended only about 20% ahead of the very worst timing portfolios.[1]

We thought it would be interesting to push this idea one step farther. What if someone *only* bought infrequently, at the market high immediately prior to each big bear market?

Poor Percy also started each period with $60,000 and saved $500 each month, just like Peter and Paul. But Percy only mustered the nerve to invest his new money when each bull market reached its peak (prior to the 1973, 1987, 2000, and 2007 bear markets). His one saving grace was he never *sold* any of his holdings, but he would just save his monthly deposits in *(continued on page 157)*

HOW LONG DOES IT TAKE TO BREAK EVEN?

Facing Your Fears

The current bull market celebrated its 10th birthday in March, a fact that makes some investors nervous about continuing to invest new money. For the sake of argument, let's assume the worst: that a new bear market is right around the corner. The table at right shows how long it would have taken an investor in the market (as measured by the S&P 500 index) to break even following the 11 major market selloffs of the past 50+ years. The key statistic is that, on average, it has taken a little over three years for the market to complete the cycle from high to low and back to new bull-market highs once again. If you're reinvesting your dividends, as SMI suggests, it has taken about two and a half years to break even (SMI's strategies have often recovered even more quickly). This history suggests that stock investors who have at least the five-year time horizon SMI recommends should continue to invest, despite the perception of higher risk later in bull markets.[2] On the other hand, if you will definitely need some or all of your capital within the next few years, your long-term plan should already have scaled back your commitment to stocks.

S&P 500 Top Occurred in This Year	Time From Top to Bottom	+	Time for Prices to Recover	=	Break-Even Based on Stock Prices	Break-Even if Dividends Reinvested
1961	6 months		14 months		20 months	16 months
1966	8 months		7 months		15 months	13 months
1968	18 months		22 months		40 months	28 months
1973	21 months		70 months		91 months	42 months
1976	18 months		6 months		24 months	21 months
1980	21 months		3 months		24 months	23 months
1987	3 months		20 months		23 months	21 months
1990	3 months		4 months		7 months	7 months
2000	18 months		69 months		87 months	79 months
2002	9 months		25 months		34 months	24 months
2007	17 months		48 months		65 months	58 months
Average	**13 months**		**26 months**		**39 months**	**30 months**

[1] bit.ly/30yrexample [2] See Oct2018:Cover for an explanation of Dynamic Asset Allocation, a lower-risk SMI strategy that may offer increased peace of mind in the current market environment. Also see April2018:Cover to learn how combining SMI's strategies can reduce overall portfolio risk without sacrificing much long-term return.

LEVEL 3 THREE

Broadening Your Portfolio

This column goes beyond the investing essentials taught in Level 2, introducing you to a wider range of investment securities and markets. By further diversifying your holdings, you can create a more efficient, less volatile portfolio. We also comment quarterly on the performance of the various markets, and on how SMI's fund recommendations and strategies have fared.

"Divide your portion to seven, or even to eight, for you do not know what misfortune may occur on the earth." Ecclesiastes 11:2

DAA AND INVESTING IN REAL ESTATE

As conditions warrant, SMI's Dynamic Asset Allocation strategy (DAA) looks beyond stocks and bonds to other asset classes, including real estate. Which raises the question: Just what are we investing in when "real estate" is one of the recommended classes? Here's an explanation.

Real estate funds

Contrary to what their fund names may imply, most mutual funds that specialize in real estate don't actually invest in real estate—at least not directly. Instead, they typically invest in the stocks of companies known as "real estate investment trusts" (REITs).

In turn, a REIT (rhymes with street) owns and—in most cases—manages income-producing real estate. Apartments, office buildings, hotels, and shopping centers provide the major focus for REITs, but health-related facilities, restaurants, industrial parks and other types of real estate are fair game too. A few REITS even specialize in things such as farms or timberlands.

Real estate investment trusts make their money primarily as landlords from the rents they charge their tenants. As a result, they have four characteristics of particular interest to investors:

• **REITs offer relatively generous yields.** By law, a REIT must distribute at least 90% of its taxable income to its shareholders every year. (The mutual funds that own REIT shares pass this money through to their shareholders.) These dividends create a steady stream of cash payments similar to payments from interest-earning investments such as bonds. As this is being written, the average publicly traded REIT is yielding about 3.6%, considerably better than the 1.7% yield on a 10-year Treasury bond.

• **REITs have tax advantages.** When dividends exceed a REIT's taxable income—which is quite common—the excess is considered a "return of capital" and therefore is not taxed as ordinary income. Instead, it's treated as a reduction in the investor's cost basis in the security. When the shares are ultimately sold, any taxes due are paid at the lower long-term capital-gains rates (assuming they were held at least one year). If the investor dies while holding REIT shares, or donates the shares as a charitable gift, the unrealized appreciation is never taxed.

• **REITs march to their own drummer, potentially adding stability to an overall portfolio.** This was the primary appeal of including REITs as we constructed SMI's DAA strategy. Historically, there's been a low correlation between the performance of the S&P 500 and the average real estate mutual fund. The cash flow for a real estate investment trust comes from rent (rent levels are locked in under long-term lease agreements) rather than earnings (which are more susceptible to the economic cycle), thus REITs have their own cycle. REIT ups and downs typically occur at different times than those of the stock market.

However, it's worth noting that REITs fell even harder than stocks during the 2008 financial crisis, so while this low correlation may be true generally, there are times when REITs and the stock market follow the same path.

• **REITs can profit from inflation.** The inflation-fighting aspect of real-estate investment trusts was a strong secondary benefit of including them as an asset class in the DAA strategy. REITs tend to profit from inflation in two specific ways. First, REITs profit when their properties go up in value. Generally, the higher the rate of inflation, the greater the increase in property values. Second, the rents that REITs charge on their properties typically are adjusted annually for inflation. This tends to boost profits because most capital costs for REITs are relatively fixed.

Investing in REITs

The real estate investment trusts we're describing in this article are *publicly traded* REITs, not the often illiquid "non-traded" REITs that have sprung up over the past decade. Publicly traded REIT shares change hands on the major exchanges, in the same manner as company stocks. You can buy into a REIT directly, just like buying a stock.

REITs come in three types: equity REITs, such as we've been describing; mortgage REITs, which primarily serve as lenders to real estate owners; and hybrid REITs, which both own properties and make loans.

There are also different areas of focus. Some REITs diversify among the kinds of properties they own (apartments, offices, hotels, malls, etc.). Others specialize in one property type only. Some REITs invest across the country, others limit themselves to one city or region.

Two types of funds

Evaluating the merits of a specific REIT can be a daunting task, so we prefer the mutual-fund approach to buying them. As with other mutual funds, there are two ways to go: actively managed or passive (i.e., an index-fund approach).

SMI's Sector Rotation universe includes several actively managed real estate funds, where the managers grapple with questions such as: Is the REIT's management capable? Are the properties valued realistically? Is the debt load acceptable? Is the yield to investors sustainable? A good manager focused on the right slice of the market at the right time can produce fantastic results.

In our DAA strategy, however, we've gone the other direction. There, as with the other DAA asset classes, we use an index fund to gain cheap, liquid access. Vanguard's REIT index (VNQ) offers us ETF access without any minimum investment amounts or minimum holding periods.

(continued on page 158)

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

FINAL INSTRUCTIONS

A well-drafted will can run to 10 pages; a trust can go on for more than 20. Given the thoroughness of these important estate-planning documents, you might think they cover every detail pertaining to the distribution of your assets after you die. But you would be wrong.

There's a lot of other information that your executor, trustee, and heirs would benefit from knowing. For all of that, a letter of instruction (sometimes referred to as "a letter of intent") can be invaluable.[1]

You don't need a lawyer to draft it, nor is it legally binding, but a letter of instruction can be very helpful to your heirs and those tasked with the responsibility of administering your estate. Think of it as an overview of your estate plan, along with your suggestions for the many decisions not covered by the formal documents.

What to include

A letter of instruction usually contains the following three sections.

1. Your funeral. One important goal of an estate plan is to ease the burden of those you leave behind. Their first task, and therefore a good starting point for your letter of instruction, is funeral planning.

Do you have a preference for what funeral home to use? Have you prepaid any funeral expenses? Where would you like to be buried? Do you already own a plot? If you prefer cremation, let your loved ones know, along with suggestions of where to spread your ashes. You might even write your own obituary.

Who should be contacted about your funeral or memorial service? Which friends, relatives, past co-workers or neighbors, leaders of ministries you were part of and people you served with? Do you have a preference as to who should officiate and who might serve as pallbearers? If you were in the military, would you like a military ceremony? What music would you like played during the service?

If you'd prefer people to make donations in lieu of flowers, which charities should receive them?

2. Your estate. While your will or trust specifies much about the administration of your estate, a letter of instruction can be helpful in describing how it all works in plain English, while filling in additional blanks.

Begin by listing the names and contact information for various professionals you've worked with—your accountant, financial planner, attorney, insurance agents, and doctors.

Help your executor and trustee locate all of the necessary papers. Where will they find your estate-planning documents, property titles, insurance policies, birth and marriage certificates, tax returns, military discharge papers, records of any debts, and other important papers? Do you have a home safe? Where is it located and what's the combination or where is the key? What about a safe deposit box?

Where do you have brokerage and bank or credit-union accounts? Do you have a donor-advised fund or a health savings account? Do you own a vacation home or have a stake in a business? Be sure to include all online accounts and passwords.

While a will or trust specifies how much of your estate is to go to each heir, it typically won't specify *what to do* with the money once it is inherited. Through a letter of instruction, you could recommend how to invest the money and perhaps encourage your heirs not to spend the principal (at least not *all* of it) but enjoy the ongoing gift of the added income it could generate instead.

If your heirs will inherit an IRA, you might explain the retitling options for your spouse, their pros and cons, along with your recommendation. For younger heirs, you could explain how a stretch IRA works (assuming Congress doesn't do away with this option) and give an example that shows how it could be so beneficial.

Because some of the language in a will or trust can be somewhat difficult to understand, a letter of instruction could unpack it more clearly. For example, unless the trust requires all assets to be distributed at a certain point, you could explain to your heirs the beneficial legal protections they would enjoy by keeping inherited assets in the trust.

You could also use a letter of instruction to express how you would prefer specific possessions, such as heirlooms or items with sentimental value, to be distributed. Ultimately, it's probably best to let your heirs decide what they want, but the letter could at least document where you bought certain furniture or artwork and help your heirs understand their value or why they meant something to you. Did you get that blue vase on your honeymoon or the painting that hung in your dining room on a trip to France?

Another purpose of a letter of instruction is to explain any seemingly unequal distributions specified in your will or trust. For example, perhaps you're leaving a bit less of your estate to one child because you paid for his or her graduate school.

In addition, a letter of instruction could be used to express how you would like your executor or trustee to be compensated.

3. Your legacy. In this last section of your letter of instruction, you could describe the values you'd like to be remembered for and perhaps how your loved ones could keep those values alive. For example, if generosity was a high priority for you, you might suggest that your heirs tithe on the inheritance they receive from you. If it's your desire that your grandchildren receive a Christian education, you *(continued on page 158)*

[1]Be sure to tell your executor, trustee, or heirs where to find your letter of instruction.

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 8/31/2019	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	-3.4	8.5%	-2.3%	1.4%	-0.9%	-3.9%	5.6%	0.94	0.11%/0.09%	20%	16%	12%	8%	VTIAX/VXUS
Extended Market Index	Small company stocks	-3.1	16.4%	-4.2%	4.0%	-0.7%	-6.4%	9.9%	1.26	0.07%/0.07%	40%	32%	24%	16%	VEXAX/VXF
S&P 500 Index	Large company stocks	15.9	18.3%	-1.6%	6.9%	6.1%	2.9%	12.7%	1.00	0.04%/0.03%	40%	32%	24%	16%	VFIAX/VOO
Total Bond Market Index	Medium-term bonds	23.0	9.3%	2.8%	4.2%	8.3%	10.5%	3.1%	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. Depending on your particular stock and bond mix, your JtB portfolio should be allocated among either three or four traditional mutual funds/ETFs (see ticker symbols in rightmost column). For more on JtB, see Jan2019:p7-8.

RECOMMENDED FUNDS FOR SMI'S FUND UPGRADING STRATEGY

Risk	Data through 8/31/2019[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. Lazard Global Infrastructure	11/18	NTF	NTF	NTF	20.1	14.9%	0.0%	4.1%	6.0%	10.0%	11.1%	0.77	1.21	33	None	GLFOX
	2. Fidelity Intl Capital Apprec	09/19	Yes	NTF	Yes	22.1	22.9%	0.1%	5.5%	10.1%	6.6%	10.7%	1.01	1.06	104	None	FIVFX
	3. Sextant International	06/19	NTF	NTF	NTF	20.1	20.6%	-0.8%	3.6%	7.4%	9.1%	12.8%	0.85	1.05	33	None	SSIFX
Category 4 Small/Growth	1. Value Line Mid Cap Focused	12/18	NTF	NTF	NTF	42.2	30.9%	1.5%	9.4%	14.9%	17.9%	18.3%	0.96	1.18	45	None	VLIFX
	2. ☎ Janus Henderson Contrar T	10/19	NTF	NTF	NTF	24.9	28.4%	-1.6%	9.7%	7.9%	7.3%	11.9%	1.28	0.74	42	None	JSVAX
	3. DF Dent Midcap Grwth Inv	09/19	NTF	Yes	NTF	35.0	33.2%	0.5%	8.5%	14.1%	12.4%	19.3%	1.12	0.98	33	2%60days	DFDMX
Category 3 Small/Value	1. Touchstone Mid Cap Z	05/19	NTF	NTF	NTF	24.5	23.4%	-1.8%	8.7%	8.3%	7.4%	13.4%	1.04	1.21	31	None	TMCTX
	2. Weitz Hickory	06/19	NTF	NTF	NTF	19.4	24.3%	-1.1%	6.2%	8.2%	5.0%	6.1%	1.11	1.27	38	None	WEHIX
	3. Invesco S&P MidCap Low Vol	12/18	ETF	ETF	ETF	19.0	17.9%	0.1%	5.2%	5.8%	8.0%	11.8%	0.82	0.25	83	None	XMLV
Category 2 Large/Growth	1. Akre Focus Retail	05/19	NTF	NTF	NTF	45.2	31.8%	1.8%	8.5%	15.9%	20.7%	22.0%	0.88	1.32	23	1%30days	AKREX
	2. ☎ Calvert Equity A - LW[10]	10/19	NTF	NTF	NTF	45.9	30.0%	2.2%	10.3%	15.1%	20.5%	19.2%	0.85	0.99	87	None	CSIEX
	3. Polen Growth Investor	10/18	NTF	NTF	NTF	30.3	25.4%	0.4%	7.5%	11.8%	11.1%	19.0%	1.01	1.25	22	2%60days	POLRX
Category 1 Large/Value	1. Invesco S&P 500 Low Vol	12/18	ETF	ETF	ETF	35.1	23.5%	2.4%	7.3%	11.3%	16.5%	13.0%	0.75	0.25	102	None	SPLV
	2. SPDR Large Cap Low Vol	07/19	ETF	ETF	ETF	37.5	25.4%	1.1%	8.2%	12.9%	16.5%	14.2%	0.81	0.12	128	None	LGLV
	3. Vanguard Div Appreciation	07/19	ETF	ETF	ETF	29.7	22.0%	0.6%	9.7%	9.7%	10.4%	13.9%	0.95	0.06	186	None	VIG
Bond Categories	Vanguard I-T Bond[6]	2/19	ETF	ETF	ETF	26.8	11.1%	3.1%	4.8%	9.5%	12.6%	3.4%	1.18	0.07	6.1[7]	None	BIV[8]
	Permanent: Vanguard I-T Bond	Perm	ETF	ETF	ETF	26.8	11.1%	3.1%	4.8%	9.5%	12.6%	3.4%	1.18	0.07	6.1[7]	None	BIV[8]
	Permanent: Vanguard S-T Bond	Perm	ETF	ETF	ETF	11.9	4.7%	1.1%	1.9%	4.0%	6.0%	2.1%	0.44	0.07	2.6[7]	None	BSV[9]

Upgrading Footnotes: [1] The funds in each risk category have been selected and ranked (1 through 3) based primarily on their momentum scores in late September, rather than on the end-of-August data shown above. 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 Lazard Global Infrastructure, 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%

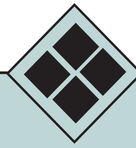
❸ BUY YOUR FUNDS

Example uses an 80/20 mix between stocks and bonds		Dollars	Invest in Funds
Stock Cat. 5: Foreign	16%	$8,000	Lazard Global Infrastructure
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	Akre Focus Retail
Stock Cat. 1: Large/Value	16%	$8,000	Invesco S&P 500 Low Vol ETF
"Rotating" Bond Fund	10%	$5,000	Vanguard I.T. Bond Index
Intermediate-Term Bond Fund	5%	$2,500	Vanguard I.T. Bond Index
Short-Term Bond Fund	5%	$2,500	Vanguard S.T. Bond Index
Total	100%	$50,000	

BOND UPGRADING

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

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



MONEYTALK

STOCK UPGRADING — NEW FUND RECOMMENDATIONS

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

◆ **In the Small/Growth group, Baron Opportunity Retail (BIOPX, 03/2018) is being replaced.** This is the first of two Upgrading "success stories" being sold this month. As we noted when Baron Opportunity was recommended 19 months ago, it landed on the "large" edge of our "small/growth" risk category. Given the continued outperformance of large-company stocks during this time, it's no surprise that the fund excelled relative to the rest of its small/growth peer group. Through the end of August, Baron Opportunity had gained +25.7%, while its average small/growth peer gained only half as much (+13.0%). That's a great example of how Upgrading can take advantage of investment trends even within specific peer groups.

Unfortunately, as they say, "All good things come to an end." September brought with it a bit of a market reversal that caused many of the previously strong stocks and funds to drop, while elevating more value-oriented stocks and approaches. It's too early to say this is a new trend, but the change did cause this fund to drop a bit in September even as most of its peers continued with modest gains. Taken together, that was enough to tip this fund below the category quartile. Getting excellent performance over a year-and-a-half is a great result though, so we're smiling as we move on.

• **Janus Henderson Contrarian T (JSVAX) is being added.[1]** SMI has a long history with Janus Contrarian, which has been held with great success in the past. Unfortunately, we can't draw any direct lines to those past successes because the strategy of this fund has changed a couple of times as management has turned over at the fund.

The latest iteration of Janus (Henderson) Contrarian began two years ago in July 2017 with the appointment of Nick Schommer as manager. Schommer overhauled the fund's approach, which is good because the fund had finished near the back of the pack each year from 2015-2017. The result of the recent change is a concentrated fund in which nearly half of the fund's assets are invested in the top 10 holdings. Not surprisingly, the fund's "active share" is very high, which means it doesn't look like any particular index. That's not a bad thing—in fact, we wish more funds charted uniquely bold courses like this one. It benefits Upgrading to have unique funds available, as opposed to "closet indexers" posing as active funds. But it does mean this fund can zig when everything else is zagging, both for better and for worse.

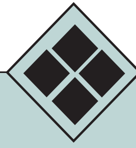
On a relative-risk basis, it is similar to the Baron fund it replaces. At 1.28 (meaning 28% more volatile than the S&P 500 index in recent years), Janus Henderson Contrarian is higher-risk than the other current recommendations in the small/growth group, which sport relative-risk scores of 0.96 and 1.12. However, 1.28 isn't an especially high score for the small/growth group, which tends to be a volatile category. Performance has been outstanding dating back to the management change, so we're excited to see what this fund can do.

◆ **In the Large/Growth group, Morgan Stanley Insight (CPOAX, 05/2018) is being replaced.** This fund hit a home run for us since being recommended 17 months ago. It's a great illustration of why we've been excited in recent years to gain access to many "load-waived" funds that previously weren't available to no-load investors. While buying these funds can be a little confusing/irritating due to the poor communication on many of the online broker websites, returns like we've received from MS Insight make it worth the extra effort. Through the end of August, MS Insight had gained a whopping +36.9% since being recommended, well ahead of the +14.0% earned by the average fund in SMI's large/growth group. While that result already includes a poor relative showing in August, unfortunately MS Insight has continued to slide in the early weeks of September, pushing the fund below the quartile and necessitating its replacement.

• **Calvert Equity A (CSIEX) is being added.[1]** Calvert is a prominent name in (secular) socially responsible investing, which has been re-branded in recent years as "ESG" investing (focusing on environmental, social, and governance factors). Interestingly, the fund rankings initially had us looking into a different fund for this recommendation—the Eaton Vance Atlanta Capital Focused Growth fund (EAALX). However, in researching that fund, we saw that Calvert Equity was sub-advised by the same management team and had nearly identical performance. However, the Calvert fund offered two advantages: it was available at all three of SMI's recommended brokers (whereas the Eaton Vance version was available at only two of the three), and Calvert Equity has a slightly lower expense ratio. Given that, we're buying this Calvert fund instead, despite their social priorities varying from what we would choose to emphasize. (To be clear, the fund is being recommended based on its high momentum-ranking score, not any of these social factors.)

Note that this is a load-waived fund, meaning it normally carries a sales charge (or load), but that load is waived through SMI's recommended brokers. *As with any load-waived fund recommended by SMI, if you can't buy it at your broker without a load, don't buy it!* ◆

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



MONEYTALK

LEVEL 1 / CONTINUED FROM PAGE 150

PUTTING THE BRAKES ON CAR-BUYING COSTS

($125-$175 per month is a good ballpark figure) and spend the money to prevent more-costly repairs down the road. Two websites that can help you remember when maintenance is due are repairpal.com and driverside.com.

9. Conduct a personal attitude check. For many people, owning a certain make-and-model of car is a source of pride and a badge of "success." The Christian, however, should find satisfaction not in what he owns but in the One who owns it all. We must always hold the things of this world loosely, viewing them as tools, not treasures. So prayerfully consider what a car means to you.

As you do, keep in mind that high car-buying and ownership costs can slow your progress toward saving for retirement, increasing your giving, and achieving other financial goals. By putting the brakes on car costs, you can accelerate toward more important things. ◆

LEVEL 2 / CONTINUED FROM PAGE 151

THE SURPRISINGLY SMALL BENEFIT OF PERFECT MARKET TIMING

cash between bull market peaks. (Again, this is impossibly bad timing, but that's the point of the exercise!)

Despite this horrible approach and the worst timing imaginable, Percy's results weren't as bad as you would think. In each of the three periods, his final portfolio total would have trailed Paul's (the monthly dollar-cost-averager) by only about 25%.

Don't misunderstand the point here. A 20%-25% gap in returns is clearly significant. But these examples provide us with a literal example of the "80/20 rule"—80% of the returns came from simply being present in the market. Even the most impossibly good/bad timing parameters could only improve on those results by 20-25%, so the potential reward of a more realistic market-timing approach would be even less significant.

Timing in the SMI strategies

This is why timing plays a distinctly small role in SMI's strategies. For most of SMI's history, timing played *no role at all*. But our experience helping thousands of investors through the 2000 and 2008 bear markets has mirrored the behavioral research that has been done in recent decades. Specifically, the emotional toll of deep bear markets is extremely high for buy-and-hold investors. While some can hold on, many others eventually crack under the emotional pressure and make selling decisions that leave deep scars in their long-term returns. While "buy and hold no matter what" may be the simplest and purest ideology, it simply doesn't work for many investors. So after the last bear market, we decided it would be better for that emotional pressure-release valve to be built right into our strategies, rather than being left to each individual investor.

As a result, there is now a small timing element involved in both SMI's Dynamic Asset Allocation (DAA) and Fund Upgrading strategy. DAA really isn't timing *per se*, but the fact that it rotates between six different asset classes does present the opportunity for DAA to be completely out of a given asset class (i.e., stocks) at certain times. Fund Upgrading received a "2.0" enhancement in 2018 which added a gradually implemented defensive protocol. Importantly though, the bar for this defensive protocol to be turned on is high—in our testing, it would only have triggered (even partially) three or four times in the past 30 years.

This rarity is by design—we want Upgraders to know that if market declines are severe enough, protection will kick in via a predetermined, disciplined fashion. But we only want those defensive protocols triggering in the most extreme cases because most of the time investors are better off staying invested and simply riding out market volatility! Hopefully, knowing these defensive protocols are watching out for them will eliminate individuals trying to make timing decisions on their own.

Conclusion

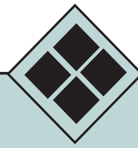
The main takeaway here is simple: *being consistent* in your investing commitment (which anyone can do) *is a much greater contributor to your long-term success* than your timing efforts (which very few can do well). While superior timing can provide a small boost to your returns over the long haul, the true engine for capital growth is the steady increase of your ownership stake in American industry month after month. That's why dollar-cost-averaging can be such a powerful tool for the average investor. You don't need to possess great market experience or trading skills to invest successfully; you need only to be tenacious! It takes *will* power, not mind power.

Investors have had a fairly easy emotional ride in stocks for most of the past decade. Eventually, market storms will return—they always do. When that happens, you can expect most investors' emotions will become as volatile as the markets. At that time, it's crucial that you've trained yourself to ask the right question. Not questions like: "What's the market going to do next?" Or, "How low might it go?" No one knows the answers to such questions. Instead, the correct question is: "What does my long-term strategy call for?" Importantly, if you're investing via SMI's strategies, you can simply continue to follow the monthly instructions, as any defensive "timing" decisions you'll need are built right into their regular mechanics.

For now, if you're following a dollar-cost-averaging program that calls for you to make monthly investments, then follow through—make your monthly investments as planned. If you have a diversified portfolio in place that reflects the amount of risk suitable for you over the next 5-10 years, then relax and look beyond any potential "valley" experiences in the short-term.

The goal is to make "inside-out" decisions[1]—ones based on your personal strategy (which you know) rather than on any speculation as to what the markets may do over the coming 6-12 months (which you will never know). ◆

[1] June2017:p87



MONEYTALK

LEVEL 3 / CONTINUED FROM PAGE 152

DAA AND INVESTING IN REAL ESTATE

When we buy it, we get instant exposure to the real estate asset class along with excellent diversification—dozens of different REITs, each of which might own 20-100 properties.

DAA – A better way to invest in real estate

The share prices of REITs are subject to many external forces, such as the health of the economy, current and anticipated inflation, and the level and direction of interest rates. All of these interact with current valuations to make forecasting the future prospects of REITs difficult.

But with DAA, you don't need any real estate expertise or particular insight into interest rates. The strategy provides the timing signals necessary to stay on the right side of the longer-term trends.

While there certainly will be short-term misses (and we have had some with VNQ), real estate, like most asset classes, has tended to move in long up and down cycles. Over most of the past nearly four decades (we've been live with DAA since 2013 but our backtesting goes back to 1982), Dynamic Asset Allocation would have done a reliable job of getting us into real estate for the big runs and, just as importantly, getting us out of real estate for the prolonged declines. ◆

LEVEL 4 / CONTINUED FROM PAGE 153

FINAL INSTRUCTIONS

could express your hope that some of your estate might be used to pay for that.

Throughout your letter of instruction, it's important to carefully consider your tone. Let your loved ones know you are not *requiring* them to follow the instructions—that they are free to use their own discretion. The instructions are simply ideas or suggestions designed to make the distribution of your estate easier and to help your heirs manage wisely the gifts you leave them. ◆

MARKET NOTES, QUOTES, AND ANECDOTES

Blinded by comfort

"In recent years, the U.S. has simultaneously experienced economic growth, low inflation, expanding deficits and debt, low interest rates and rising financial markets. It's important to recognize that these things are essentially incompatible. They generally haven't co-existed historically, and it's not prudent to assume they will do so in the future…. I've seen times in the past when people believed such an ideal state would continue in perpetuity, but it has never worked out that way." – Howard Marks, co-chairman of Oaktree Capital Management, in a client memo titled, "This Time It's Different." Read more at bit.ly/2lWEEIx.

Bubble watch

"People love to say, 'Those who do not learn history are doomed to repeat it.' But another relevant truth for investors is, 'Those who learn their history are doomed to think it's repeating.' – *Bloomberg* columnist Joe Weisenthal, in a 9/19/19 article in which he argued that investors who have been through past market crashes can be too quick to think of any appreciated asset class as being "in a bubble." Read more at bloom.bg/2lYk3DG.

Worrying a downturn into existence

"If enough people begin to act fearfully, their anxiety can become self-fulfilling, and a recession, sometimes a big one, may follow." – Yale economist Robert Shiller, in a 9/12/19 *New York Times* article. He said when the next recession arrives, and how severe it will be, depend to a great degree on "the state of ever-changing popular narratives about the economy." Read more at nyti.ms/2m38LxS.

Compared to what?

"Many people have lost sight of what the real benchmark should be. That is, simply, 'Are you on track to afford the retirement you've imagined?'… The goal isn't and shouldn't be to beat some random benchmark index that may or may not be a good comparison for your portfolio in any case." – Financial Advisor Ashby Daniels, in an 8/28/19 post on his *Retirement Field Guide* blog. For most investors, he said it's a mistake to compare their portfolio's returns to the S&P 500. Read more at bit.ly/2kU1ZdC.

A change of leadership

"It was as if the meek had inherited the market." – *Barron's* reporter Ben Levisohn, in a 9/13/19 article about the returns of value stocks suddenly outpacing those of growth stocks after lagging for many years. Read more at bit.ly/2kUmKGd (paywall).

Don't wait too long

"Depriving yourself of the experiences you have always dreamed of doesn't keep the inevitable at bay.... If there is one thing I can tell clients with certainty it's that they will never regret having those experiences, but they may deeply regret falling ill suddenly while waiting for the 'perfect time' to live [them]." – Investment counselor Dina Isola, in a 9/14/19 post on her *Real$martica* blog. Reflecting on the 9/11 terrorist attacks that took place 18 years ago, Isola said that while planning for the future is a good thing, too much focus on the future can make us miss out on making memories with loved ones now. Read more at bit.ly/2kKEkfU.

SOUND MIND PORTFOLIOS

PREMIUM STRATEGIES

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

DYNAMIC ASSET ALLOCATION

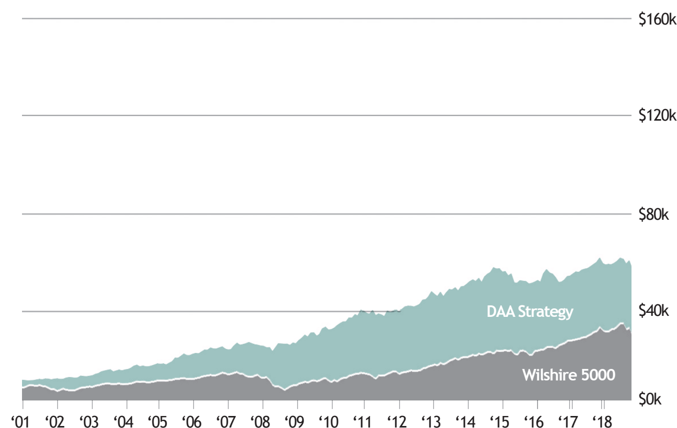
Overview

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

Who Should Consider This Strategy

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

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



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

SECTOR ROTATION

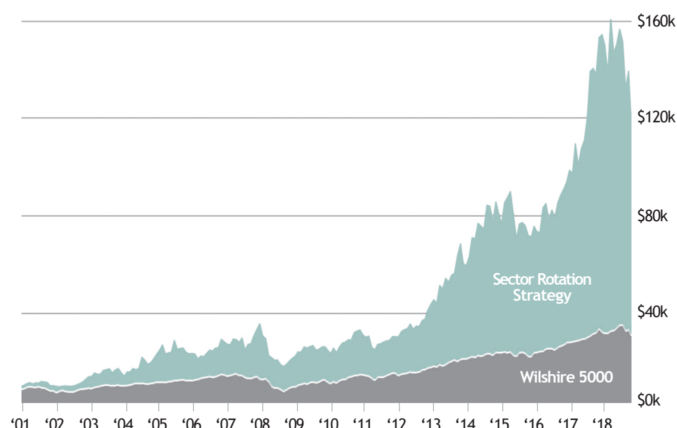
Overview

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

Who Should Consider This Strategy

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

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



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

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

PERIODICALS POSTAGE
PAID AT LOUISVILLE, KENTUCKY

Dated Investment Material
Please Do Not Delay!

PERFORMANCE DATA

SOUND MIND INVESTING MODEL PORTFOLIOS • DATA THROUGH AUGUST 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]	18.0%	-2.1%	6.3%	1.3%	12.3%	9.7%	13.3%	9.2%
Just-the-Basics[2]	15.5%	-2.8%	4.6%	-2.3%	10.2%	7.3%	11.7%	8.7%
Stock Upgrading[3]	15.0%	-0.8%	6.1%	-4.5%	9.5%	6.6%	10.7%	9.0%
U.S. Bond Market[4]	9.3%	2.8%	4.2%	10.4%	3.0%	3.2%	3.8%	4.1%
Bond Upgrading[5]	9.0%	2.6%	4.1%	9.1%	3.1%	2.9%	5.7%	6.0%

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]	14.5%	4.9%	9.8%	6.3%	5.7%	4.3%	8.8%	10.3%
Sector Rotation	-2.9%	-0.9%	7.6%	-28.0%	13.3%	8.1%	17.2%	15.4%
50-40-10 Blend[7]	13.0%	2.0%	8.1%	-2.0%	8.2%	5.8%	10.6%	10.7%

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 8/31/2019	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	13.03%	-1.34%	5.41%	-9.33%	8.00%	4.73%	9.18%
Wilshire 5000	17.96%	-2.05%	6.33%	1.27%	12.26%	9.74%	13.34%
S&P 500	18.34%	-1.58%	6.87%	2.92%	12.70%	10.11%	13.45%

Quarterly Returns as of 6/30/2019	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	12.80%	5.19%	2.81%	-4.25%	8.97%	4.84%	10.39%
Wilshire 5000	18.66%	6.96%	3.99%	9.09%	14.03%	10.33%	14.66%
S&P 500	18.54%	7.05%	4.30%	10.42%	14.19%	10.71%	14.70%

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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