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Sound Mind Investing®

Financial Wisdom for Living Well

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What's Not to Like? As Commissions Drop to Zero, Already Low-Cost ETFs Become Even More Attractive

The cost of buying and selling exchange-traded funds has been falling for years. But, in October, brokerage powerhouse Charles Schwab "went nuclear" (in the language of one trade publication), eliminating ETF commissions entirely. Competitors TD Ameritrade, E-Trade and Fidelity followed suit. Below is a primer on ETFs, highlighting their growing advantages, plus a few remaining disadvantages.

by Mark Biller and Joseph Slife

The first exchange-traded fund opened to investors in 1993, more than a quarter of a century ago. But as recently as 2011, more than six in 10 investors responded to a survey saying they didn't invest in ETFs because they "don't know what they are."

Now, ETFs have gone mainstream. As of Aug. 31, 2019, U.S.-listed ETFs held a record $3.9 trillion in assets, according to the Investment Company Institute trade association—nearly four times the asset level of 2011. Exchange-traded funds now account for about 16 percent of the overall mutual-fund pie (excluding money-market mutual funds).

Today, more than 2,000 exchange-traded products are on the market, but that number obscures an important fact: The top 100 funds hold roughly 75% of all ETF assets. And, remarkably, just five exchange-traded funds account for nearly 20% of all ETF holdings! (Three of the five are funds that mirror the S&P 500 index.) So while the overall ETF marketplace has grown quite large, the number of "key" funds is still quite small.

What is an ETF?

The simplest way to understand an ETF is to think of it as a mutual fund that trades like a stock (more on that shortly). Like traditional mutual funds, exchange-traded funds offer a convenient way to invest in a pre-assembled basket of stocks.

Most ETFs are "index" funds—i.e., they are similar to traditional mutual funds that track the performance of a particular stock market index or sector of the economy. (Some ETFs are not index funds, but that's a more complicated subject for another day.) The particular index or sector an ETF tracks may be broad and well-known, such as the aforementioned S&P 500, or it may be something extremely narrow that you've never heard of, like the price of goat cheese in Albania (okay, we're exaggerating—but not by much).

But this is where the similarities end and the differences begin. Whether these differences make ETFs more (or less) attractive than traditional funds depends on the circumstances of each investor.

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IN THIS ISSUE

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

EDITORIAL

The Day Thanks Went Missing

Think about one of the greatest gifts you've ever received. I'm not talking about something you found under the tree one Christmas morning. Think bigger, more miraculous.

Maybe a time when you were out of work and a job materialized that couldn't be traced to all the resumes you sent out. Or when you were sick and then got better faster than the doctors thought you would. Or when you were so worried about your son or daughter or someone else and through circumstances you still don't understand everything worked out okay. What was your response? Weren't you so incredibly thankful?

Where are the other nine?

Our pastor recently reminded us of one of the most amazing acts of healing recorded in the Bible. It was followed by an equally amazing response by most who were healed. But what made their response so stunning was that it wasn't at all what anyone would have expected.

> "Now on his way to Jerusalem, Jesus traveled along the border between Samaria and Galilee. As he was going into a village, ten men who had leprosy met him. They stood at a distance and called out in a loud voice, 'Jesus, Master, have pity on us!' When he saw them, he said, 'Go, show yourselves to the priests.' And as they went, they were cleansed. One of them, when he saw he was healed, came back, praising God in a loud voice. He threw himself at Jesus' feet and thanked him—and he was a Samaritan. Jesus asked, 'Were not all ten cleansed? Where are the other nine? Has no one returned to give praise to God except this foreigner?' Then he said to him, 'Rise and go; your faith has made you well.'" – Luke 17:11-19

No thanks

When Jesus used parables to make his points, sometimes people misunderstood what he meant. But there was no misunderstanding his question about the other nine. Where were they? I don't detect anger in the question. There's no indication that he was yelling. And yet that simple question cuts to the core in a way a raised voice or shaken fist never could.

These people were healed. Not of a limp, but of leprosy! Not of the flu, but of a disease that left them disfigured, shunned, and shamed. And from nine of the ten, not a word of gratitude was spoken. It was the day thanks went missing.

Things get in the way

I don't know what was going on in the hearts of the other nine. But I have a decent guess as to what goes on in mine whenever thanks goes missing from my life. Sometimes it's the comparison game. It can be obvious, like the times I'm lumbering down the road in our minivan and I see a car I'd much rather be driving. It can also be more subtle—a nagging sense of discontent from living in the midst of others who have more.

At other times thanks goes missing because of busyness or a lack of urgency. I can think of two thank-you notes I've been meaning to write—for *months*. In both cases, the intended recipients are in a season of life when life looks especially fragile. What am I waiting for? Is an update to my Facebook page really more important?

A simple word can mean so much

Who do you need to thank this week? With Thanksgiving coming soon, it's an especially appropriate time to consider such a question.

Is there a teacher that made a difference in your life? Both of my parents were teachers, so trust me, a heartfelt "thank you" from a former student would mean the world to them. It'll probably move them to tears.

Who else? Who helped you get to where you are—maybe a long, long time ago? Who makes your life better just by being in your life? Have you thanked these people? Have you thanked God for the wonderful gifts they are to you?

Before this day is over, both of the thank-you notes I've been meaning to write will be written and sent. And before this article was published, I sent a note to my pastor. I thanked him for the helpful reminder of the day thanks went missing.

Matt

MATT BELL
MANAGING EDITOR

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What's Not to Like? As Commissions Drop to Zero, Already Low-Cost ETFs Become Even More Attractive

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Here are ETF pluses as a typical investor likely would evaluate them.

Advantages of ETFs relative to traditional mutual funds

• **Advantage #1: ETFs trade like individual stocks.** As already mentioned, ETFs and traditional index funds are similar in how they are constructed but different in how they trade. A traditional mutual fund is priced once per day after the market closes when the prices of all the fund's holdings are known. Therefore, each investor who buys into a particular traditional fund on the same day will pay the same price, which is called the NAV (net asset value).

An ETF, in contrast, is priced and traded *continually throughout the day*, in the same manner an individual stock is. Buying a particular ETF in the morning will likely garner a different price than buying the same ETF in the afternoon (or, for that matter, even buying it a few minutes or seconds later).

This greater flexibility is a key selling point of ETFs. A mutual fund that trades like a stock makes it possible for an investor to purchase a fund that is rising during a particular market session, or (as the case may be) to exit a falling position before the end of the trading day. Exchange-traded funds offer other "stock-like" attributes too: You can buy them on margin, short them, and use limit orders.

While these advantages are no doubt appealing to active traders and professionals, they are of less value to most "average" investors. Being able to get in or out of a fund based on what the market is doing on any given day, or to buy at different prices throughout the day, usually is of little importance to those following a long-term investing plan.

• **Advantage #2: There's an ETF for virtually anything you want to index.** The stock market is like baseball—there's a statistical measurement for everything that happens. As a result, there are many different stock indexes, each measuring a slightly different slice of the market. As ETFs have become popular, the companies that create them have responded by designing ETFs to track almost any index available (and creating new indexes that track things they want to create an ETF for!). Therefore, it's easier to invest in certain market niches with ETFs than via traditional index funds, simply because in some cases there aren't any index funds following the less-prominent market segments.

But, again, for the average investor, the relevant question is how finely do you need to slice the market? For most investors, the huge variety in ETFs is overkill.

• **Advantage #3: ETFs are more tax-efficient than traditional funds.** This isn't a huge distinction relative to traditional *index* funds, which are tax efficient because they rarely sell stocks from their portfolios. However, relative to *actively managed* funds, the tax efficiency of ETFs can yield quite a cost savings. Most traditional funds must distribute capital gains to shareholders as the fund sells holdings at a profit. ETFs, due to structural differences, don't.

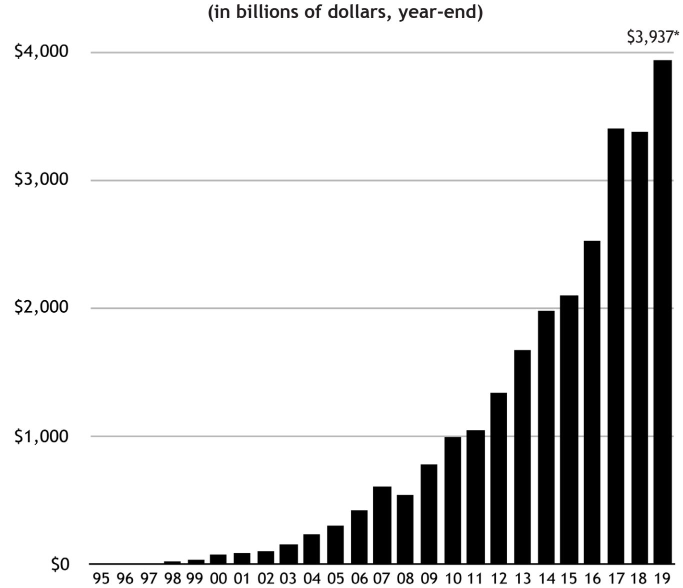
For example, while most traditional funds distributed capital gains to shareholders in 2018 (despite the end-of-year decline), 95% of the roughly 350 iShares-brand ETFs had no distributions. In short, ETF owners generally pay taxes only when they sell the ETF, whereas owners of traditional mutual funds often are taxed on distributions from funds they still own. Again, this is largely an "indexing vs. active-management" issue, but it's one in which ETFs come down on the more advantageous side.

• **Advantage #4: ETFs require no minimum investment.** This aspect of ETFs is especially attractive for investors who want to diversify across funds but don't have a large amount of money to invest. Of course, many traditional funds can be purchased with a low minimum investment, but this is still an area where ETFs have a clear advantage.

• **Advantage #5: Short-term redemption fees are rare.** With traditional funds, buying a fund and then selling it quickly (within, say, a month or two) can sometimes trigger a short-term redemption fee charged by the fund company. In addition, brokerage firms impose a fee if a traditional fund isn't held for a certain number of days (broker policies vary, ranging from 60 days to 180 days). With ETFs, however, fund companies don't charge early redemption fees, and among our recommended brokers, only E-Trade requires a 30-day holding period for an ETF. Since our strategies never hold a fund for less than 30 days, you'll never encounter a short-term redemption fee for an ETF, even if you're an E-Trade customer.

• **Advantage #6: ETF expenses are slightly lower.** As expense ratios have fallen for traditional funds, this particular advantage has almost disappeared. Today, the expense difference between an ETF and a comparable traditional index fund is negligible in many cases. For example, the expense ratio on Vanguard's S&P 500 ETF (ticker VOO) is 0.03%, as compared with 0.04% for the company's traditional Vanguard 500 fund (ticker VFIAX). On a $10,000 investment, that's a difference of only $1 per year.

ETF NET ASSETS
(in billions of dollars, year-end)



*Through Aug. 2019. Sources: Investment Company Institute and Strategic Insight Simfund

Disadvantages of ETFs relative to regular mutual funds

While there is much to like about ETFs, they aren't without a few remaining disadvantages. Consider:

• **Disadvantage #1: ETFs trade like individual stocks.** That's right, the top advantage of ETFs is their primary disadvantage as well. While the flexibility of being able to buy and sell any time during the trading day *sounds* like a plus, the trade-anytime aspect of ETFs fosters a trading mentality that works against the "slow and steady" long-term approach we think is best for most investors. And now that the major brokers have moved to a commission-free ETF model, the temptation to trade may be even greater. Don't let free ETF trading take you off your long-term game.

• **Disadvantage #2: Buying and selling ETFs is more complicated.** Since ETFs are traded continuously on the open market, buying and selling them isn't as simple as buying and selling traditional funds (see inset box). This diminishes one of the chief virtues of mutual-fund investing: simplicity. Investors in traditional mutual funds know that everyone buying on a particular day gets the same price, calculated based on the value of the underlying stocks at the end of the day. Not so with ETFs, where you pay a fluctuating "market price" rather than one based solely on the value of the portfolio.

• **Disadvantage #3: You can't buy fractional shares in an ETF.** Unlike traditional mutual funds, ETFs must be purchased in "whole share" amounts. With traditional mutual funds, if you want to invest exactly $500 in a particular fund, you can (unless the fund has a higher required minimum). You'll get a certain number of whole shares, and (likely) a fractional share—the total value being $500. But with ETFs, you can't invest *exactly* $500 in a fund unless you encounter a rare situation in which $500 is precisely divisible by the price per share! More likely, you will have to purchase somewhat *less* than $500 worth of shares and have money left that you can't invest immediately. This inability to purchase fractional ETF shares, and thereby invest specific dollar amounts, makes using a dollar-cost averaging approach a little messier with ETFs than is the case with traditional funds. (Dollar-cost averaging involves investing a set amount at a predetermined time interval—e.g, $300 per month.[1])

• **Disadvantage #4: Exchange-traded funds aren't available in most company retirement plans.** If you want to make use of ETFs in your 401(k) or 403(b), you probably can't. Only a small number of employer-based retirement plans offer ETFs. One reason is that company plans are especially suited for dollar-cost averaging, therefore traditional mutual funds, which allow for the purchase of fractional shares, are a better fit.

• **Disadvantage #5: ETFs are vulnerable to pricing glitches.** A final concern is that ETFs seem vulnerable to intraday price anomalies, such as occurred in the May 2010 "flash crash." Granted, the flash crash was an unusual occurrence, but there have been subsequent disturbing episodes, such as the glitch in August 2015 that caused dozens of ETFs to briefly trade at prices far below their NAV.

HOW TO BUY OR SELL AN EXCHANGE-TRADED FUND

1. Go to your broker's website. Open the Stock and ETF trading page, rather than the usual Mutual Funds trading page.

2. Get a price quote. Each broker's process is different, but there's likely a "Quote" or "Symbol" box available somewhere on the screen. Entering the ticker symbol should produce a quote that shows the price at which the last trade took place.

3. Determine how many shares to buy. Let's say you have $5,000 to invest in an ETF and the quoted "Ask" price is $60.46. You would divide $5,000 by $60.46. This results in an answer of 82.7 shares, so you'll round down to 82 shares. Enter that in the "number of shares" field.

4. Choose the type of order. Choices are normally "Market" (the trade will be filled right away at the next available price), "Limit" (the trade will be made at a specified price, or better, within a specified time frame), or some variation of "Stop" (the trade will be made when the security's price surpasses a certain point).

In most cases, a Market order is fine, but when the market is particularly volatile, a Limit order may serve you better. For more, see Oct2015:p152 ("Recent Market Correction Exposes ETF Vulnerabilities").

ETFs and the SMI strategies

In the past, commissions charged when buying and selling ETFs acted as a significant obstacle to SMI investors, especially those making regular contributions and/or investing smaller amounts. Just a decade ago, ETF commissions averaged about $13 per trade! In recent years, that average dropped to about $5 per trade. But now we live in a world in which the "big four" brokers—Fidelity, Schwab, E-Trade, and TD Ameritrade—have eliminated commissions entirely for online ETF trades. For its part, investor-owned Vanguard still charges commissions for a handful of ETFs, but it offers a huge slate of exchange-traded funds (about 1,800) commission-free. All of this is great news because it makes employing ETFs in SMI strategies more cost-efficient than ever.

• **Just-the-Basics.** JtB is SMI's strategy that uses index funds and it is especially suitable for newer investors and those using taxable accounts. Although our "official" recommendations are Vanguard-branded traditional funds, we include Vanguard's equivalent ETFs as well, particularly with newer investors in mind. Using Vanguard's ETFs rather than its traditional funds enables newer investors to set up their investing plans without being hampered by the investment minimums Vanguard requires for its traditional mutual funds.[2]

For JtB investors who are clients of Schwab, Fidelity, E-Trade, or TD Ameritrade, the latest ETF pricing changes mean you now have easy access to all of JtB's recommended Vanguard ETFs without paying a commission.

• **Fund Upgrading.** For several years now, the bond portion of our Upgrading strategy has used Vanguard ETFs exclusively. Schwab, Fidelity, E-Trade, and TDA clients can now get commission-free trades on those bond ETFs (as can Vanguard customers, of course). As for *stock-fund* Upgrading, about 20% of the funds we've recommended over the past four years have been ETFs. With most ETFs now trading commission-free, and with a growing number of stock-based ETFs that meet the diversification criteria for Upgrading, exchange-traded funds are becoming an increasingly attractive choice for this strategy. (We will, of course, keep in mind that many Upgraders can't access ETFs via their retirement plans.)

• **Dynamic Asset Allocation.** DAA is an *ETF-only* strategy

[1]April2016:p.55 [2]Instead of using ETFs, investors seeking lower minimums could choose comparable traditional funds offered by companies other than Vanguard. See January2019:p7.

available to our Premium-level members. The no-required-holding-period for ETFs (or a very-short period, in some cases) is a key part of what makes this strategy possible. DAA sometimes sells a holding after owning it for only a month or two. With traditional funds, selling quickly would trigger broker-assessed short-term redemption fees (and perhaps fees assessed by fund companies themselves).

Now, all six ETFs used in DAA (the strategy invests in three funds at any given time) can be traded commission-free at Vanguard, Schwab, Fidelity, E-Trade, and TD Ameritrade.

• **Sector Rotation.** Although this strategy (available to SMI Premium-level members) typically employs traditional mutual funds, we occasionally recommend an ETF. In the past, ETF commissions may have been a roadblock to some investors, especially those investing smaller amounts. With that roadblock now cleared, employing ETFs in SR will become more attractive.

Understand "the spread"

While commission-free ETF trades are definitely investor-friendly, it's important to be aware of the less-apparent cost created by ETF "spreads." The spread is the difference between the best available "bid" and "ask" prices for a security. The bid is the highest price a buyer is willing to pay, and the ask is the lowest price a seller is willing to accept.

When you place a "market" order for an ETF (or a stock), you typically will bear the cost of at least part of the spread, and possibly the whole amount. This will be "built in" to the price you pay. Think of this as a "convenience fee" for getting your entire order filled immediately.

Alternatively, you can enter a "limit" order where you specify the price you are willing to pay. As a buyer, you can set your limit price at the current bid price and avoid paying any of the spread—*if* your order gets filled. The danger is that by limiting the price you are willing to pay, the price of the security you're trying to buy may move higher, causing your order to go unfilled. So using a limit order may save you a bit of money, but it comes with the risk of having to spend even more—both in money and in time—to chase the price higher.

Spreads tend to be narrow (typically just a penny) on the biggest, most liquid ETFs that SMI suggests in its strategies. On an ETF with substantially lower trading volume, the spread may be wider and the hidden costs higher.

Here's an example. In SMI's Dynamic Asset Allocation strategy (DAA), one of the occasionally recommended funds is the largest ETF of all—the SPDR S&P 500 ETF (SPY). A recent quote for SPY showed a bid price of $291.09 and an ask price of $291.10. Paying the full spread would result in a trade that "costs" an extra $0.01 per share.

An investor wishing to purchase $30,000 of SPY would divide that dollar amount by the ask price ($291.10) and determine that $30,000 would purchase 103 shares.[1] At a penny per share, the overall cost of the spread on this trade would be $1.03 (103 shares multiplied by $0.01).

Now, suppose the investor wanted to substitute a similar S&P 500 ETF, such as Vanguard's VOO, and it was trading with a *five-cent* spread—a bid price of $267.25 and ask price of $267.30.[2] Dividing the $30,000 investment amount by the ask price would show that 112 shares could be purchased. Because of the five-cent bid-ask spread, the total spead cost on this trade would be $5.60 (112 shares multiplied by $0.05), more than five times greater than the $1.03 cost of buying SPY.

Some market observers think it would be wise for investors to pay even more attention to spreads now that we're in a world of commission-free trading. After all, brokerage firms still want to make money on the ETF part of their businesses and spread costs are one way to do so. As the financial publication *Barron's* recently noted, "To make up for revenue lost from commissions, brokerages could route trades in a way that leads to wider spreads."

We hope that won't be much of a concern for SMI investors. While it is always wise to be aware of the bid/ask spread when investing in an exchange-traded fund, we expect that most of the ETFs SMI recommends will have very narrow spreads.

Conclusion

Exchange-traded funds will continue to play a growing role in SMI's strategies. Not only have ETFs become cheaper to buy, many of them now have extended performance histories to compare against traditional funds.

We remain cautious about smaller ETFs that are thinly traded, but if you stick with larger, higher-volume funds, there's much to like. ETFs offer great flexibility at rock-bottom prices. That's a tough-to-beat combination, making exchange-traded funds an increasingly useful tool in your investing toolbox. ◆

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[1] Brokerage websites typically have dollars-to-shares calculators on their order pages.
[2] This is an actual bid/ask spread for VOO that occurred briefly on Oct. 9, 2019.

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

0% FINANCING (SOME STRINGS ATTACHED)

With Black Friday rapidly approaching, get ready for ads touting "0% financing." From furniture marts to electronics retailers to home-improvement stores, 0% financing is a sales technique that is a proven winner—for sellers. For *buyers?* Well, it depends.

Bank credit cards also offer 0% deals, both for new purchases and balance transfers. In most cases, however, 0% credit cards work in a different manner than 0% in-store promotions. So it's important to understand what kind of 0% deal you're being offered.

The deferred-interest deal

Most 0% plans offered by retail stores are "deferred-interest" deals that involve applying either for a store-branded credit card or some other kind of in-store account. Deferred-interest deals typically involve "big-ticket" items, such as furniture, appliances, and even home-remodeling projects.[1]

The offer is simple: "If you pay for the purchase in full by the end of the promotional period, you'll avoid all interest charges." To be sure, such an offer can result in substantial savings (especially given typical retailer interest rates, which can run as high as 29.99% APR), but pay attention to the word "if": "*If* you pay for the purchase in full by the end of the promotional period…"

In essence, deferred-interest deals are a race against the clock. Failure to pay the *entire* purchase price within the allotted time (typically 6, 12, 18, or 24 months) will result in interest being applied all the way back to the purchase date, regardless of how much you paid during the promotional period. Even if you pay 99% of the bill by the end of the designated period and come up just a few dollars short, the retailer will assess all the back interest.

That's not the only way to have a deferred-interest deal go sour, however. In most cases, deferred-interest plans require the borrower to make at least minimum monthly payments during the promotional period. Miss a payment (or pay late) and the deal is off. The deferred interest will be assessed, just as if you had never signed up for a promotional plan—and the creditor may throw in a late-payment fee to boot.

There's one more thing to watch out for. Because of how payments are applied, if you make *additional* purchases on the store-branded card (i.e., in addition to the special-financing purchase) you'll increase the likelihood of not being able to pay off the promotional balance in time. By law,[2] any payment greater than the minimum required payment will be applied first against higher-interest debt. So even if you make a large payment to pay down the promotional balance, a portion of that payment (perhaps most of it) will be applied against any other purchases you've made on the account. (Exception: During the final two billing cycles of a deferred-interest arrangement, payments above the minimum are applied to the promotional balance.)

The 0%-rate credit card

0% deals offered by bank credit-card issuers come in several permutations. "Balance-transfer" offers typically involve paying an upfront fee to move higher-interest debt to a new account that will assess no interest for a specified period (usually 12 to 18 months). Other 0% credit-card deals are "introductory" specials that charge no interest on *new purchases* for a specified period. (In some cases, card issuers combine a 0% balance-transfer deal with a 0% new purchases deal.)

The major difference between 0% in-store deals and 0% bank credit cards is that in *most* instances (read the fine print carefully!) bank-card offers don't involve the possibility of incurring deferred interest. If an unpaid balance remains when the promotional period ends and the regular interest rate kicks in, the cardholder won't be charged *back* interest.

The nearby table shows a comparison between a 12-month deferred interest deal and a similar 12-month introductory rate on a bank credit card. In both cases, the consumer made a $1,500 initial purchase and failed to pay the full amount by the end of the 12 months. But with the deferred-interest plan, the consumer owes a $274 in back interest at the end of the promotional period.

FAILURE TO PAY ACCOUNT IN FULL DURING 12-MONTH PROMO PERIOD

Type of Financing Plan	Deferred Interest	0% Intro Rate
Initial purchase amount	$1,500	$1,500
Paid during 12-month promtional period*	$1,200	$1,200
Interest rate during promo period	25% (deferred)	0%
Principal balance when promo period ends**	$300	$300
Interest applied at end of 12 months	$274	N/A
Total owed at end of promotional period	$574	$300

*Assumes payment of $100/month. **Assumes no additional purchases during promo period.

Let the buyer prepare

0% financing may work to your advantage if you pay close attention to the terms and act accordingly. Be we suggest you consider a 0% deal (especially if it's a deferred-interest arrangement) only when the following are true:

1. You're certain the price offered at 0% financing is the best deal around (the seller may be compensating for lost interest revenue by charging a higher price);
2. You have the full amount of the purchase price in savings already (that way, you're not *presuming* you will have the money to make the payments—you *do* have the money);
3. You set up electronic reminders for when payments are due—especially the final payment!—so that you are sure to pay off your entire purchase amount on time. ◆

[1]Deferred-interest arrangements are also common with "medical" credit accounts offered via doctors' offices and other healthcare providers. [2]The Credit CARD Act of 2009.

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

HOW TO WRITE AN INVESTMENT PLAN

Wise investing is often *simple*, but it isn't always *easy*. In other words, while the principles of smart investing are fairly straightforward, practicing those principles can be difficult at times. That's primarily because of our emotions. When the market falls, fear tempts us to sell. When the market rises, greed tempts us to take more risk.

One of the best ways to minimize the impact of emotion in investing is to develop a written investment plan. (Yes, actually writing it down is important!) If your plan is: (1) based on sound investing principles, (2) written when you are in an objective, level-headed mood, (3) tailored to your specific circumstances and goals, and (4) if you're married, developed with the input and buy-in of your spouse, it will greatly simplify your decision-making, while making your investment journey more profitable—and peaceful.

Below are the essential elements to include in such a plan. We'll use a fictional couple—John and Mary Smart, who are both 40 years old—as an example.

Current accounts and portfolios

At SMI, we recommend viewing multiple *accounts* that are designed for the same purpose as being part of a single *portfolio*.[1]

For example, John and Mary's retirement portfolio consists of three accounts: John's IRA, Mary's IRA, and John's 401(k). This approach of looking at separate accounts as a single portfolio makes the asset-allocation process easier and usually less expensive, since each recommended fund only needs to be purchased once (for the broad portfolio) instead of once in each separate account. So, if you have multiple accounts, list each one, its balance, and the total of all retirement accounts, which is your retirement portfolio balance.

College accounts are different. Each child's account represents a personalized portfolio. Because of the children's different ages, the optimal asset allocation of one account is likely to be different than the other. The Smart's chosen savings vehicles—529 Plan college-savings accounts—have design features that actually *require* them to be treated as individual portfolios, including the fact that the funds in a 529 Plan account must be used for a single beneficiary. If you have college savings accounts, indicate how much you have in each one.

Objectives

In this part of your plan, describe your specific investment goals and timeframes. As with many people, retirement is a primary investment goal for the Smarts. While the Bible doesn't point toward the "life of leisure" type of retirement our culture promotes, wise stewardship requires that you anticipate a time when your health or other factors may lead you out of the paid workforce. At that point, you'll need a nest egg large enough to support you after factoring in whatever you'll receive from Social Security, a traditional pension (if you have one), and other sources of retirement income.

John and Mary's specific goal is, "To have $1.5 million saved in a retirement portfolio by the time we're 70 years old," a figure they arrived at after a thorough analysis.[2]

Another common investment goal is to help children pay for college. The Smarts have two children they expect will one-day be college-bound—four-year-old Sam and eight-year-old Claire.

John and Mary's second goal is: "To save $75,000 for each child by the time they are 18 years old." This figure was determined by estimating how much college is likely to cost by the time their kids are ready to go and deciding what portion of that the parents would like to cover.[3]

Strategy

In this section, detail the investment approach you have chosen for each portfolio. Fortunately for them, John's 401(k) account provides him with a brokerage window, which gives him access to a wide range of investment options. That allows John and Mary to divide their retirement portfolio as follows: 50% to SMI's Dynamic Asset Allocation strategy, 40% to Fund Upgrading, and 10% to Sector Rotation.

In each college-savings account, the Smarts have chosen to use age-based portfolios, which automatically determine the asset allocation based on how much time a child has before he or she will be college-age, with the allocation gradually becoming more conservative as the child gets older.

Asset allocation

Describe the specific asset allocation you have chosen for each portfolio. If you haven't done so already, take the SMI temperament quiz.[4] The combination of your investment temperament and how much time you have until retirement will determine the recommended allocation for use with Fund Upgrading or Just-the-Basics, and it will help you determine how much money to devote to Sector Rotation. (Because Dynamic Asset Allocation moves into and out of entire asset classes, using that strategy is not reliant on knowing your optimal asset allocation.)

While John's temperament is that of an "Explorer" and Mary is a very conservative "Preserver," they agreed to meet in the middle as "Researchers." With more than 15 years until their intended retirement, the recommended asset allocation for the Fund Upgrading portion of their retirement portfolio is 100% stocks.[5]

As for the Smart's college investments, their 529 plan's default setting for four-year-old *(continued on page 172)*

[1]Apr2015:Cover [2]MoneyGuidePro®—available to SMI Premium-level members for a one-time fee—is designed for such a purpose. See Feb2017:Cover. [3]See College Savings Calculator at www.savingforcollege.com. [4]bit.ly/risk-tolerance-quiz [5]See table at bit.ly/optimal-allocation

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

3RD QUARTER REPORT: FED TAKES CENTER STAGE

Despite the S&P 500 Index rallying to a new all-time high in July, the Federal Reserve and the bond market set the third-quarter market narrative.

Anticipating the first cut in interest rates since 2008 at the end of July, the stock market rallied to a new high on July 26. Five days later, the Fed followed through on the market's expectation with a quarter-point rate cut. However, an immediate re-escalation of the U.S.-China trade war sucked any wind out of the stock market's sails. Just six trading sessions after setting an all-time high, the S&P 500 index had fallen roughly -6%.

The large stock indexes would rebound in early September to finish the quarter modestly higher. Smaller stocks didn't fare as well, with the Russell 2000 index down -2.4% during the quarter.

But the real story of the third-quarter was the economy and interest rates. The Fed initially tried to pass off the July 31 rate cut as a "nothing to see here" mid-cycle adjustment. But weaker economic data, both at home and abroad, quickly scuttled that story. Sure enough, in September a second U.S. quarter-point rate cut quickly followed. The European Central Bank also joined in, lowering their already negative base interest rate and re-starting their Quantitative Easing program.

Just-the-Basics (JtB) & Stock Upgrading

The third quarter saw a significant disparity in the performance of large U.S. stocks, as reflected by the S&P 500 index (and the Wilshire 5000 index, which SMI uses as our measure of the market), and smaller stocks. Large stocks finished the quarter modestly higher, while smaller and foreign stocks both lost ground. This caused both JtB (-0.2%) and Stock Upgrading (+0.4%) to trail the Wilshire 5000 (+1.2%) by a small margin.

Within that broader context, the third quarter presented a new market wrinkle. Value stocks, which have consistently trailed growth stocks through most of the current bull market, suddenly asserted themselves and won the quarter handily. This can be seen in the risk category performance chart below.

THIRD QUARTER PERFORMANCE OF STOCK FUNDS BY RISK CATEGORY

Risk Category		SMI Funds[1]	Average Fund[2]
Cat 5:	Foreign Stock Funds	-0.8%	-1.7%
Cat 4:	Small Company/Growth	-2.3%	-4.2%
Cat 3:	Small Company/Value	3.7%	-0.6%
Cat 2:	Large Company/Growth	-2.8%	-0.5%
Cat 1:	Large Company/Value	4.8%	1.5%

FOOTNOTES: [1] Average of the three recommended funds for each risk category (page 170), assuming any suggested changes were made on the last trading day of each month. [2] An average of all the mutual funds in the SMI risk category shown, including both load and no-load funds.

For the second quarter in a row, Upgrading outperformed the average fund in four of the five stock risk categories. So while Stock Upgrading's overall result trailed the major stock indexes slightly, that was clearly due to Upgrading's diversification into small and foreign stocks, rather than the Upgrading process not working. Although diversification doesn't always boost returns, it's a time-tested risk-reduction practice.

Bond Upgrading

If the most important story of the third quarter was the Fed initiating a new rate-cutting cycle,[1] the big story of 2019 as a whole has been the incredible performance of the bond market. While the Fed didn't cut rates until July 31, longer-term bond yields have been moving lower all year, producing strong gains for bond investors.

The U.S. Bond Market gained +2.3% in the third quarter, roughly doubling the return of stocks. While stocks have a significant lead over bonds year-to-date, that's mainly a function of the low point from which stocks started the year following their nearly -20% plunge at the end of 2018. Going back a full 12 months, bonds are up a whopping +10.3% over the past year, compared to only +2.9% for stocks.

Bond Upgrading's returns are only slightly lower over both of those periods, which is surprising as we have opted to not own the riskier long-term bonds within our Upgrading portfolios, and they have earned the highest returns. (Most SMI investors already own a healthy allocation of long-term bonds via their DAA exposure, covered in the next section.) Bond Upgrading's returns have still been strong: gains of +2.1% during the third quarter and +9.2% over the past 12 months, despite sticking with significantly safer short- and intermediate-term bonds.

Dynamic Asset Allocation (DAA)

DAA had the best performance among SMI's strategies during the third quarter, gaining +4.3% to beat both the stock and bond market returns and push our model DAA portfolio to a new all-time high in August. As previously discussed, long-term bonds contributed significantly to that strong performance, as did a solid quarter from gold. While DAA didn't own real estate at the beginning of the quarter, adding it for September also provided a boost.

The level of market risk has increased substantially over the past year. This has been partially obscured by the fact that the most popular stock market indexes have notched new all-time highs as recently as July. But smaller-company stocks are currently well below their 2018 highs, and even the large-company indexes are only marginally above their levels of a year ago.

While stock prices are little changed from a year ago, the economic picture is significantly different. A year ago, expectations for economic growth were high—so high, in *(continued on page 172)*

[1]Sep2019:p135

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

ROTH IRA CONVERSIONS CAN BE A KEY RETIREMENT-INCOME PLANNING TOOL

Soon-to-be retirees face decisions that will play a significant role in determining their level of income for years to come. The most obvious of these decisions is when to retire. Along with that, the decision of when to start collecting Social Security benefits has significant ramifications.[1]

Along with these "timing" decisions, two other choices help determine *how* one's nest egg will be spent. First, retirees with a blend of account types (company retirement, Roth IRA, taxable account, etc.), will need to determine when and how much to draw from each account. Second, an opportunity many retirees overlook can play a surprisingly large role in the long-term income picture—namely, the decision as to whether to convert any Traditional IRA money to a Roth IRA.

Roth conversion basics

Roth conversions, like most tax-related matters, are detailed processes with many specific rules. SMI has written a detailed primer on these rules,[2] and we've discussed the "basic" considerations involved in whether to convert traditional IRA assets to a Roth.[3] We suggest reviewing those earlier articles when you've finished reading this one.

In this article, we want to focus more broadly on *why* Roth conversions can be a potent retirement-income planning tool. Simply put, Roth conversions offer the potential to significantly reduce the total tax you'll pay during retirement, as well as provide much more flexibility regarding the timing of your future withdrawals and tax liability. Both are important planning considerations.

Flexibility

Let's deal with the flexibility issue first, since that introduces the important concept of required minimum distributions (RMDs). RMDs must be taken from traditional IRA and 401(k) plans starting in the year a retiree turns 70½. Once RMDs begin, a retiree is largely "locked in" to a mandatory withdrawal path because of the annual requirement to take a defined percentage of the IRA balance and pay taxes on that total distribution (less any Qualified Charitable Distributions[4]).

As the retiree ages, the IRS-defined percentage increases each year. If one's investments are growing, the IRA balance may be increasing as well. This means the RMD amount can grow significantly and, when combined with other income, can force a retiree into higher tax brackets.

Unfortunately, RMDs can't be reinvested in a Roth IRA. The only option to invest an RMD is via a taxable account, where the retiree will continue to pay taxes on any future growth (causing a significant drag on returns).

This leads to the key flexibility benefit of making a Roth conversion: *Roth IRAs do not have RMDs and the growth of assets within a Roth IRA is not subject to taxation*. This means that even if a conversion ends up largely being a wash in terms of initial rates and taxes paid (which isn't always the case), the ongoing flexibility to withdraw funds on your schedule (as opposed to the RMD schedule) combined with the tax-free growth of Roth conversions provides a greater ability to manage your income and lower your taxes throughout retirement.

Lower total tax bill

Small, incremental Roth conversions that strategically "fill up your current tax bracket" each year during early retirement can be surprisingly effective. Consider the example of a couple who retire at age 65 with $150,000 in a taxable savings account plus an $800,000 traditional IRA (perhaps rolled over from a workplace 401(k) plan). They plan to live on $60,000 each year and delay Social Security until age 70.

The "conventional wisdom" for this couple would be to withdraw from their taxable account first, then eventually their IRA, with RMDs kicking in at age 70½. Using reasonable assumptions for annual portfolio growth, if this couple both lived to age 95, they would pay a total of roughly $180,000 in taxes and the total value of their "lifetime portfolio" (lifetime spending + ending balance) would be $3,579,000.

Now, consider the impact of this couple merely filling up the lowest 10% tax bracket with an incremental Roth conversion in any year their income falls below the upper threshold of the 10% tax bracket. This simple step would lower their total taxes paid to $132,000 (27% less) and increase the "total value" of their lifetime portfolio by $76,000.

In any type of example such as this, several assumptions must be made. Real-life is typically more complicated. So don't misunderstand this to suggest that incremental Roth conversions produce compelling benefits in every situation. But it's certainly an idea worth considering and running the numbers.

New Income Solver™ tool

While SMI has long known that partial Roth conversions can be a beneficial planning strategy, we recently had our eyes opened to *just how valuable* they can be in certain situations. The catalyst for this realization was a new tool put into use by the Private Client team at SMI Advisory Services. (SMI Advisory Services is an affiliated, but separate, company from the SMI newsletter.)

This new Income Solver™ tool takes a client's data and runs a large number of scenarios regarding optimal Social Security claiming strategies and incremental Roth conversions. For instance, our example above simply assumed the couple would always *(continued on page 173)*

[1]Sep2016:Cover [2]Aug2018:p121 [3]Apr2019:Cover [4]Jul2019:p105

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 9/30/2019	Portfolio Invested in	MOM	Performance YTD	1Mo	3Mo	6Mo	12Mo	3Yr Avg	Rel Risk	Expense Ratio	Stock/Bond Mix 100/0	80/20	60/40	40/60	Ticker Symbol
Total International Stock	Foreign stocks	-2.1	11.5%	2.7%	-1.6%	1.1%	-1.6%	6.1%	0.95	0.11%/0.09%	20%	16%	12%	8%	VTIAX/VXUS
Extended Market Index	Small company stocks	-4.0	17.6%	1.0%	-1.6%	1.4%	-3.8%	10.0%	1.26	0.07%/0.07%	40%	32%	24%	16%	VEXAX/VXF
S&P 500 Index	Large company stocks	12.0	20.5%	1.9%	1.7%	6.1%	4.2%	13.4%	1.00	0.04%/0.03%	40%	32%	24%	16%	VFIAX/VOO
Total Bond Market Index	Medium-term bonds	18.4	8.7%	-0.6%	2.4%	5.6%	10.4%	2.9%	1.00	0.05%/0.035%	None	20%	40%	60%	VBTLX/BND

JUST-THE-BASICS FOOTNOTES: Just-the-Basics is an *indexing* strategy that requires just minutes a year to assure your returns are in line with those of the overall market. You won't "beat the market," but neither will you fall badly behind. 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 9/30/2019[1]	Date Added	E-Trade Avail[2]	Fidelity Avail[2]	Schwab Avail[2]	MOM[3]	Performance YTD	1Mo	3Mo	6Mo	12Mo	3Yr Avg	Rel Risk[4]	Exp Ratio	Number Holdings	Redemp Fee?[5]	Ticker Symbol
Category 5 Foreign	1. Lazard Global Infrastructure	11/18	NTF	NTF	NTF	23.1	17.6%	2.3%	2.9%	7.5%	12.7%	11.8%	0.77	1.21	33	None	GLFOX
	2. Fidelity Intl Capital Apprec	09/19	Yes	NTF	Yes	14.3	22.9%	0.0%	-0.2%	6.8%	7.7%	10.1%	1.01	1.06	99	None	FIVFX
	3. Sextant International	06/19	NTF	NTF	NTF	15.6	20.6%	0.1%	-0.4%	5.8%	10.2%	12.1%	0.86	1.05	34	None	SSIFX
Category 4 Small/Growth	1. DF Dent Midcap Grwth Inv	09/19	NTF	Yes	NTF	25.1	32.6%	-0.5%	0.9%	11.3%	13.0%	19.1%	1.12	0.98	33	2%60days	DFDMX
	2. Janus Henderson Contrar T	10/19	NTF	NTF	NTF	21.2	30.1%	1.3%	2.3%	9.9%	8.9%	12.4%	1.28	0.74	42	None	JSVAX
	3. Value Line Mid Cap Focused	12/18	NTF	NTF	NTF	27.7	30.1%	-0.6%	1.8%	10.6%	15.3%	18.3%	0.96	1.18	45	None	VLIFX
Category 3 Small/Value	1. Touchstone Mid Cap Z	05/19	NTF	NTF	NTF	33.9	29.5%	5.0%	6.2%	12.4%	15.3%	16.4%	1.04	1.21	31	None	TMCTX
	2. Weitz Hickory	06/19	NTF	NTF	NTF	18.3	27.7%	2.7%	1.7%	9.4%	7.2%	6.5%	1.12	1.27	38	None	WEHIX
	3. Invesco S&P MidCap Low Vol	12/18	ETF	ETF	ETF	20.9	20.2%	1.9%	3.2%	7.1%	10.7%	12.9%	0.82	0.25	83	None	XMLV
Category 2 Large/Growth	1. Akre Focus Retail	05/19	NTF	NTF	NTF	32.5	30.6%	-0.9%	3.3%	9.5%	19.7%	21.6%	0.88	1.32	23	1%30days	AKREX
	2. Calvert Equity A – LW[10]	10/19	NTF	NTF	NTF	32.7	29.6%	-0.3%	3.3%	10.7%	18.7%	19.2%	0.85	0.99	86	None	CSIEX
	3. Polen Growth Investor	10/18	NTF	NTF	NTF	15.3	24.1%	-1.0%	0.6%	6.4%	8.2%	18.6%	1.01	1.25	23	2%60days	POLRX
Category 1 Large/Value	1. Invesco S&P 500 Low Vol	12/18	ETF	ETF	ETF	36.6	26.2%	2.2%	5.8%	11.2%	19.6%	14.2%	0.74	0.25	103	None	SPLV
	2. Vanguard Div Appreciation	07/19	ETF	ETF	ETF	24.5	23.7%	1.5%	4.3%	10.0%	10.1%	14.8%	0.95	0.06	186	None	VIG
	3. SPDR Large Cap Low Vol	07/19	ETF	ETF	ETF	33.3	26.9%	1.2%	4.0%	12.1%	17.2%	15.2%	0.80	0.12	128	None	LGLV
Bond Categories	Vanguard I-T Bond[6]	2/19	ETF	ETF	ETF	21.3	10.3%	-0.7%	2.4%	6.3%	12.6%	3.1%	1.18	0.07	6.3[7]	None	BIV[8]
	Permanent: Vanguard I-T Bond	Perm	ETF	ETF	ETF	21.3	10.3%	-0.7%	2.4%	6.3%	12.6%	3.1%	1.18	0.07	6.3[7]	None	BIV[8]
	Permanent: Vanguard S-T Bond	Perm	ETF	ETF	ETF	9.5	4.4%	-0.3%	0.9%	2.7%	5.9%	1.9%	0.44	0.07	2.7[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 October, rather than on the end-of-September 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 (no transaction fee) means the fund can be bought and sold without a transaction fee 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 (exchange-traded funds) are available at all brokers and typically trade free if bought/sold online. **[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.

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 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	DF Dent Midcap Growth Inv
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	

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 DF Dent Midcap Growth, and so on. After making decisions for each category, the orders are placed and the stock portion of the Upgrading portfolio is complete!

From then on, it's just a matter of checking the Basic Strategies page each month. When an owned fund is *removed* from this page (not when it merely shifts out of the #1 ranking), you should immediately sell that fund and invest the proceeds in the highest-ranked position in the same risk category that is available at your broker.

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).

LEVEL 2 / CONTINUED FROM PAGE 167

HOW TO WRITE AN INVESTMENT PLAN

Sam's account is 90% stocks and 10% bonds. Eight-year-old Claire's account is 80% stocks, 18% bonds, and 2% cash.

Contributions

Write down how much you will contribute to each portfolio each month. Ideally, these contributions would be set up as automatic investments. After running some numbers with MoneyGuidePro®, John and Mary have decided to automatically contribute 15% of John's salary to his 401(k) plan, which amounts to $1,200 per month. They have also committed to contribute $200 per month to each child's 529 Plan accounts.

Rebalancing

In this section, indicate how often you will rebalance your portfolios and when.[1] John and Mary have committed to rebalancing their retirement portfolio once a year in January. Their college accounts are automatically rebalanced.

Market events

In this final part of the plan, map out your game plan for responding to significant market changes. This was always one of the most challenging aspects of John and Mary's lives as investors—until they created a written investment plan. They often had heated, emotional "discussions" during times of high market volatility. After talking about it at length, and through numerous revisions, they agreed on the following statement.

"We recognize that the stock market moves through cycles of bull markets and bear markets. Along the way, there will be days, months, and years of ups and downs. No one can accurately predict when the market will move in either direction. By being intentional about our asset allocation and diversifying our retirement portfolio across the three strategies of Fund Upgrading, Dynamic Asset Allocation, and Sector Rotation in the manner we have chosen, we believe we have adequately positioned ourselves for growth while also building in prudent protection against loss.

"We are committed to staying the course through the market's ups and downs, tuning out the noise and sticking to this plan."

This is a very important part of the Smarts' plan—as it will be for yours. What to do during times of unusual market volatility is best decided ahead of time when the market is calm. Think, pray, and talk about what you will do—or *not* do—at such times, and then write it down.

Ideally, like John and Mary's investment plan, your plan will be to stay the course. That's a good indication that you've chosen an appropriate strategy. Still, it's helpful to remind yourself as to *why* you can have confidence staying with it.

When the market goes crazy, as it inevitably will, re-read your plan. A well-thought-out, thoroughly discussed, long-term investment plan that was crafted when the market was calm will prove to be a much better guide than your emotions when the market isn't so calm.

No matter what the market does, review your plan at least once a year. A good time to do so is early January before you rebalance your portfolio. Discuss any changes that may be appropriate because of your advancing age, different circumstances, or new goals. Then commit to following your plan for the year ahead, keeping in mind (and heart) the words of Proverbs 21:5: "The plans of the diligent lead to profit as surely as haste leads to poverty." ◆

LEVEL 3 / CONTINUED FROM PAGE 168

3RD QUARTER REPORT: FED TAKES CENTER STAGE

fact, that the Fed had already hiked interest rates nine times by the end of 2018 and anticipated 3-4 more rate hikes in 2019. But the facts on the ground have changed dramatically over the past year. Economic discussion has shifted from strong growth to whether the U.S. will be able to avoid recession over the coming quarters, while plans to hike rates have given way to a new cycle of rate *cuts* designed to prop up economic growth and keep the next recession at bay.

3RD QUARTER 2019 DAA ETF UNIVERSE

Ticker & Category		3Q Result
SPY	U.S. Stocks	1.8%
EFA	Foreign Stocks	-0.8%
VNQ	Real Estate	7.6%
BLV	Long-Term Bonds	6.7%
SHY	Money Market	0.6%
GLD	Gold	4.3%

High stock valuations combined with stalling growth expectations create a potentially dangerous environment for the stock market. In light of these market dynamics, it's reassuring to have DAA providing significant diversification to the stock-heavy portfolios most investors have today.

Sector Rotation (SR)

Sector Rotation was nearly unchanged during the third quarter, gaining +3.75% in July, only to give it all back in August and September to finish the quarter down -0.1%. That led to a new SR recommendation at the beginning of October, which hopefully will reignite the hot streak SR had been on over most of the past decade. The last year hasn't been kind to SR, but its long-term track record remains excellent.

50/40/10

This portfolio refers to the specific blend of SMI strategies—50% DAA, 40% Upgrading, 10% Sector Rotation—discussed in our April 2018 cover article, *Higher Returns With Less Risk, Re-Examined*. It's a great example of the type of diversified portfolio we encourage most SMI readers to consider.[2] As we've seen repeatedly in recent years—and witnessed again during the third quarter—the markets can shift suddenly between rewarding risk-taking and punishing it, so a blend of higher-risk and lower-risk strategies can help smooth your long-term path and promote the type of emotional stability that is so important to sustained investing success. A 50/40/10 portfolio would have gained +2.3% during the third quarter, propelled mainly by DAA's strong performance. That's considerably better than the Wilshire 5000 index's gain of +1.2%.

As we've discussed already, downside market risk is a real

[1]For guidance, see Jan2018:p8. [2]Blending multiple strategies adds complexity. Some members may prefer an automated approach. See bit.ly/SMIPrivateClient.

threat today. But with the Fed and other central banks once again actively pulling the levers that have consistently boosted stock prices over the past decade, running for the safety of the sidelines doesn't seem like a smart option either. 50-40-10 investors can continue to participate in the market knowing they have the lion's share of their portfolio protected via a combination of defensive protocols.

Like any type of insurance, we occasionally pay premiums for this protection—usually in the form of lower returns when markets rise. But over the *full market cycle* (bull *and* bear market), we remain confident that the performance of a 50-40-10 portfolio will be strong and the emotional toll of the journey will be significantly reduced. Whether you're using this specific 50/40/10 blend or a different combination, we think most SMI readers would benefit from blending these strategies in some fashion. ◆

LEVEL 4 / CONTINUED FROM PAGE 169

ROTH IRA CONVERSIONS CAN BE A KEY RETIREMENT-INCOME PLANNING TOOL

fill up the 10% tax bracket when that opportunity presented itself, but the Income Solver™ tool runs many additional scenarios that include conversions extending into the higher tax brackets as well.

The Income Solver™ generates a report showing the various options and illustrates the paths that lead to the greatest tax savings and highest lifetime portfolio total values. It's a great tool for retirees and near-retirees because it focuses on the retirement phase of life, helping one's money last longer through optimized income streams. (This is somewhat different than MoneyGuidePro®, which focuses primarily on *building* a nest egg during a person's working years).[1]

As you might expect, the larger one's account values, the more striking the final results typically are. In one actual Private Client scenario in which the account values were roughly double those of our earlier example, the Income Solver™ tool identified a simple path that will reduce the client's total taxes paid from roughly $1 million to $600,000, while boosting the total lifetime value of their portfolio from $5.4 million to $5.9 million. The effort required to achieve these benefits? Merely doing five years of partial Roth conversions, based on the Income Solver™ report, after the client retires.

This example highlights an important point: *time is a key component of this strategy*. By age 70½, when RMDs start, the die is already cast in most cases. The ideal time to do this type of planning is in the final years *leading up to retirement*, as the most significant benefits often accrue from decisions implemented during the early retirement years.

Because this is a new tool at SMI Advisory and requires a considerable amount of time for a Stewardship Advisor to run the report and explain it, the Income Solver™ currently is available only to Private Client *Premier* customers (those with total assets > $1 million). If you fit that description, the Income Solver™ is worth checking into (visit smiprivateclient.com for more information or to connect with an SMI advisor). As the previous example shows, the benefits of this analysis can be substantial.

Why now is a great time for Roth conversions

Whether you're a potential Income Solver™ candidate or not, it's worth considering whether partial Roth conversions may be worthwhile. Roth conversions are taxed based on the value converted at the time of the conversion, at the prevailing tax rates then in effect. Given that tax rates are low now and could be higher again soon, that makes now an unusually good time to consider this approach**.** (Recent tax-rate reductions are scheduled to expire in 2025 and could be rolled back as soon as 2021 depending on the results of next year's elections. So the next few years may present the best opportunity for Roth conversions at today's relatively low tax rates.)

Importantly, remember that there are rules and regulations to take into account when considering a Roth conversion. So if you're considering a Roth conversion, review the "how-to" articles mentioned earlier to make sure this strategy will work for your specific situation. Ideally, if you work with a tax professional or investment advisor, that person can run the numbers and review your options with you. ◆

ATTENTION HUSBANDS: YOU SHOULD KNOW ABOUT SMI'S MINISTRY TO WIDOWS

by Austin Pryor

In the mid-1990s, I was in talks with Moody Publishers about the possibility of writing a second book. They asked what topics interested me, and among the ideas we discussed was a book tailored to the financial needs of widows. Due to writing fatigue after my first book, coupled with the time demands of the SMI newsletter, that follow-up book never got written.

I know from the correspondence we receive that the SMI newsletter has been helpful to many widows, and for that I'm grateful. These dear women often turn to friends and relatives for advice, who refer them to financial professionals they know. But far too many times that results in widows being sold high-commission investments inappropriate for their situation. It grieves me to read of the ways they are taken advantage of, and their needs have remained on my heart.

I want to see widows get the kind of personalized, objective financial advice they need. However, due to legal/regulatory restrictions, we at the SMI newsletter are not allowed to offer individualized counsel. A widow needs a trusted and competent advisor who will listen to her story, review her financial situation, and suggest a prudent course of action.

There are many such advisors/planners among our readership, but since I don't know each one personally, I don't feel comfortable trying to establish a referral network. I do, however, know our friends at SMI Advisory Services and will be happy to set up an appointment with them. There will be no charge.

If the needs of the widow go beyond what the advisors at SMIAS can help with, we then turn to my financial planning friends at Ronald Blue Trust. (In fact, their Indianapolis office

[1]Feb2017:Cover

MONEYTALK

helps me with my own financial-planning needs.) If their services are needed, we will pay the cost for one two-hour counseling session.

To be considered, a widow would need to (1) be an active SMI member, and (2) write to us explaining her situation and why she has a need for financial counseling.

Despite this ongoing offer, and announcing it periodically in this section of the newsletter, we receive only two or three requests a year. It may be that's the extent of the need among our membership. But it also may be that eligible women don't know about it because, in some cases, SMI is read primarily by the husband, and in his absence the widow doesn't read the newsletter and/or cancels the membership.

So I'm targeting this reminder to the husbands out there. Let your wives know of this offer and our desire to help them work through the many financial decisions they face. Tear this page out and let her know where to find it should the need arise. Don't assume that only "older" men should attend to this, for "no one knows when their hour will come" (Ecclesiastes 9:12).

A widow who applies should include her phone number (and email address if applicable) when she writes to us. The letter should be addressed to:

Sound Mind Investing
9700 Park Plaza Ave, Suite 202
Louisville, KY 40241-2287

If selected, we will connect her with our friends at SMIAS and, if needed, a financial planner at Ronald Blue Trust. Your wife will be well cared for. ◆

MARKET NOTES, QUOTES, AND ANECDOTES

What "free" really costs

"Investors need to be on their toes. They need to be asking more pointed questions and they never should accept the word 'free' at face value because nothing is free." – Ben Johnson, Morningstar global director of ETF research, in a 10/2/19 Morningstar article about the costs investors will continue to incur in an era of free trading. Read more at bit.ly/2MF8kU7.

Fear of spending

"People saved all of their lives to make sure they will enjoy retirement. So why are they so reluctant to spend the money for the purpose it was intended?" – Kim Blanton, in a 9/26/19 post on her *Squared Away* blog about the uneasiness many retirees feel when seeing their portfolio balances decline. Read more at bit.ly/2Mgdgjx.

The Superman syndrome

"When someone gets an inheritance, 'there can be a feeling of invincibility, and when people feel invincible, they don't make good decisions.'" – Susan Bradley, founder of the Sudden Money Institute, which trains financial advisors to help clients handle windfalls. Quoted in a 9/20/19 *New York Times* article, Bradley was describing a common mindset among people who inherit money and then go on to squander it. Read more at nyti.ms/35CfiSv.

No quick fixes

"The field of anti-poverty policy is littered with the detritus of instant miracles that proved less than miraculous." – From the book *Poor Economics* by MIT economists Abhijit Banerjee and Esther Duflo, the latest winners of the Nobel Prize in Economics (along with Harvard economist Michael Kremer), for their "experimental approach to alleviating global poverty." Quoted in a 10/15/19 BBC article, Banerjee and Duflo said there's no magic bullet for reducing poverty. Instead, they have found that a series of small, informed changes can make a difference. Read more at bbc.in/31doU2F.

Start now

"When asked, 'If you knew then what you know now, what would you have done differently?' the No. 1 answer for all respondents: 'I would have started saving earlier.'"– From a Fidelity Investments survey of recent college graduates, current college students, and their parents. The study also found that about 20% of recent grads wish they had chosen a less expensive school. Read more at bit.ly/33zreCO.

Mind games

"It is well recognised that successful people often fall foul of the narrative fallacy, overplaying the role that skill had in their success and underplaying the role of luck." – Richard Hughes Jones, in a thought-provoking post on his self-titled blog about the dangers of "survivorship bias." Read more at bit.ly/2qoiWzj.

Happy days

"Our national happiness is like an adjustable spanner that we open and close to calibrate our experiences against our recent past, with little lasting memory for the triumphs and tragedies of our age." – Thomas Hills, lead author of a massive new study about the happiness of people in four countries over a span of nearly 200 years. Quoted in a 10/15/19 *Vox* article, he said "subjective well-being" is remarkably resilient in the face of life's ups and downs—that when people become less happy during difficult times, they tend to bounce back soon enough. Read more at bit.ly/32pDLZs.

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

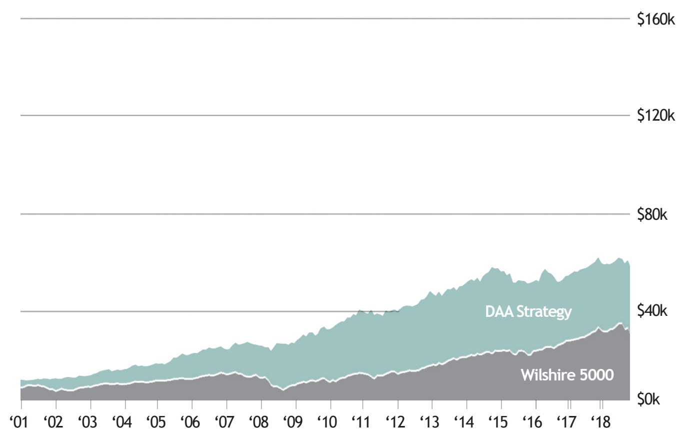
Overview

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

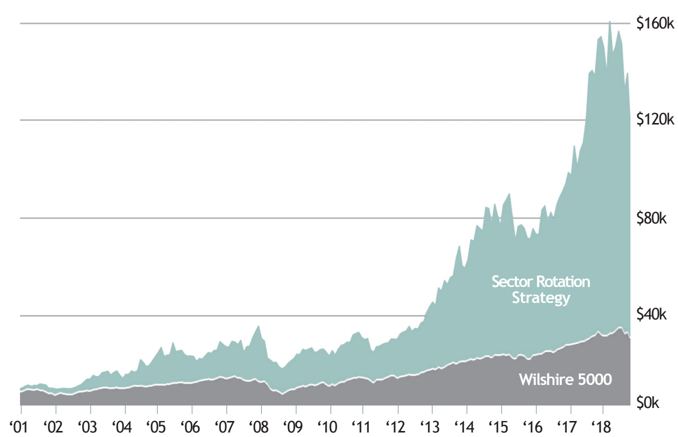
Overview

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 SEPTEMBER 30, 2019

BASIC STRATEGIES

	Year to Date	1 Month	3 Months	12 Months	3 Yrs Annual	5 Yrs Annual	10 Yrs Annual	15 Yrs Annual
U.S. Stock Market[1]	20.1%	1.8%	1.2%	2.9%	12.9%	10.6%	13.1%	9.2%
Just-the-Basics[2]	17.5%	1.8%	-0.2%	-0.2%	10.6%	8.4%	11.3%	8.6%
Stock Upgrading[3]	14.9%	-0.1%	0.4%	-3.8%	9.2%	7.4%	10.1%	8.6%
U.S. Bond Market[4]	8.6%	-0.6%	2.4%	10.3%	2.8%	3.2%	3.6%	4.1%
Bond Upgrading[5]	8.3%	-0.6%	2.1%	9.2%	2.8%	3.1%	5.3%	5.9%

PREMIUM STRATEGIES

	Year to Date	1 Month	3 Months	12 Months	3 Yrs Annual	5 Yrs Annual	10 Yrs Annual	15 Yrs Annual
DAA[6]	13.1%	-1.2%	4.3%	5.7%	5.6%	4.7%	8.2%	10.1%
Sector Rotation	-5.7%	-2.9%	-0.1%	-27.8%	10.2%	7.8%	15.8%	14.3%
50-40-10 Blend[7]	11.9%	-0.9%	2.3%	-1.9%	7.7%	6.3%	9.9%	10.4%

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 9/30/2019	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	12.56%	-0.42%	-0.21%	-8.47%	7.50%	5.45%	8.50%
Wilshire 5000	20.11%	1.82%	1.22%	2.95%	12.91%	10.58%	13.09%
S&P 500	20.55%	1.87%	1.70%	4.25%	13.39%	10.84%	13.24%

Quarterly Returns as of 9/30/2019	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	12.56%	-0.42%	-0.21%	-8.47%	7.50%	5.45%	8.50%
Wilshire 5000	20.11%	1.82%	1.22%	2.95%	12.91%	10.58%	13.09%
S&P 500	20.55%	1.87%	1.70%	4.25%	13.39%	10.84%	13.24%

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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