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SoundMindInvesting®

Financial Wisdom for Living Well

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Your 10 Most Important Financial Moves for 2020

The end of one year and the beginning of a new one is a natural time to make plans for the future. So each December we offer a broad list of planning suggestions for the year ahead. As you read this article, use the checkboxes to mark the ideas that most closely relate to your financial situation and season of life. Then narrow your checked items to a list of 10 that will become your "action items" for the new year. Steadily accomplish those 10 tasks and 2020 will be a year in which you make considerable financial progress.

by Joseph Slife

To have 20/20 vision is to be able to see clearly, whether things are near or far away. We want you to have 20/20 *financial* vision in the year 2020—to see clearly how to strengthen your financial life both in the short-term and the longer-term. To that end, we offer this roundup of roughly 75 planning suggestions, mostly based on SMI articles published in 2019.

Let's start, however, with first principles. For the Christian, managing money well isn't primarily about the return generated on investments or about making sure you have enough to provide for your later years, as important as those objectives are. It isn't even mostly about how much you give to support the work of the Kingdom, as important as that is.

Managing money well is about honoring God by becoming a faithful and wise steward of what He has entrusted to you. This involves recognizing and internalizing the following truths:

• **God is the owner of everything in the universe.** "To the LORD your God belongs the heavens...the earth and everything in it" (Deuteronomy 10:14).

• **God's ownership of all things includes me.** "The earth is the LORD's, and everything in it, the world, and all who live in it" (Psalm 24:1).

• **Since I have nothing I was not given, I have no basis for pride, only gratitude.** "What do you have that you did not receive?" (1 Corinthians 4:7). "For we have brought nothing into the world, so we cannot take anything out of it either" (1 Timothy 6:7).

• **I have management responsibilities, not ownership rights.** "So if you have not been trustworthy in handling worldly wealth, who will trust you with true riches?" (Luke 16:11).

• **God evaluates my faithfulness based on what I do with what I have.** "His master replied, 'Well done, good and faithful servant! You have been faithful with a few things; I will put you in charge of many things.'" (Matthew 25:21).

Selecting your top 10

In the context of these biblical truths about God's ownership and our stewardship, it's time to start making your financial "to-do list" for 2020.

Of course, not all of the ideas will be appropriate for your situation. Some tasks you may have accomplished already (that's great!). Other suggestions may be for a season of life you've not yet entered. So look for those that *(continued on page 179)*

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

Building Your Eternity Portfolio

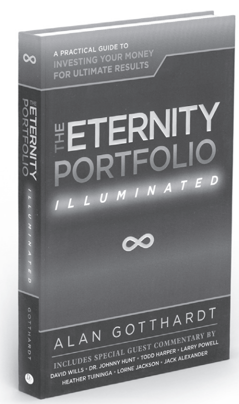
by Alan Gotthardt

The following is adapted from *The Eternity Portfolio Illuminated*, a book I am offering as a Christmas gift to SMI members this year. See the announcement on page 190 for details on how you can receive your copy. — Austin

While there is more in the Bible on money and material possessions than almost any other topic, it can all be boiled down to two priorities: *invest in family* and *invest in others*.

Most of us have a pretty good handle on the first one: "invest in family." For me and for many others, the confusion came into play with the "investing in others" part. Why? Two reasons. First, I did not realize the priority God places on giving. Second, I had never understood the opportunity for rewards. I saw giving as taking away money that could be spent on me or my family. It was hard to get real excited about that.

But the Bible teaches that rewards are in store for those who love God and obey Him. And nowhere in Scripture is the connection between our actions in this life and eternal rewards more clearly described than in the area of giving.



This is not a "prosperity theology." God hasn't promised to give you a Lexus, a beach house, or an easy retirement if you are faithful in giving. Although it is abundantly clear that we *will* be rewarded based on our faithfulness, what is not clear is the *nature* and *timing* of those rewards. And while giving is certainly not the only way of achieving rewards in heaven, it does seem to be the only logical way of *investing money* for the really long term. The "Eternity Portfolio" is a strategy for *being intentional about investing financial resources in those things that generate eternal treasure in heaven*.

Some years ago, one of my clients came to me while she was working for a successful technology company. As one of the company's first employees, her hard work had been rewarded with stock options that at one point were worth millions of dollars. Before coming to see me she had sold some of her stock to achieve a little investment diversification and had paid cash for her new home. But most of her assets were concentrated in the company stock. Then a stock market crash struck with all its fury. Especially hard hit were the technology companies, even those with solid businesses such as the one where my client was employed. Over a period of months, the value of her stock and options fell by more than 75%.

When she came to me, we began to talk about the future and what amount of assets she would need to provide for her family's financial independence. She was dismayed to realize that she had already passed that level *twice*—once on the way up and then again on the way down. I remember what she said: "Alan, if I had only come sooner, if I had only known *how much is enough,* I would have sold more stock and secured my family's financial independence." It wasn't greed that kept this woman from achieving her goals, but a lack of understanding of the finish line.

When it comes to giving, your perspective drives the questions. If you consider giving primarily a duty, the question tends to be "*How much is enough giving* to fulfill my obligation and keep me from feeling guilty?" However, if you believe that giving is really the ultimate investment, the question becomes "*How much is enough for me and my family to keep* so that I can maximize my giving with the rest?"

God has blessed each of us with a certain amount of resources. Those resources, according to Scripture, are for two purposes: family and others. Once we have prayerfully determined how much is needed to provide for family, the balance can be invested in others for the greater long-term reward.

I encourage you to start thinking about your annual investment in the Eternity Portfolio. The point is to have a systematic way of deciding how much to invest, just as you would with any traditional investment. Throughout the process you should focus on *hearing from God* as to the amount and timing. Diligent, intentional planning honors God but should never be a substitute for prayer and seeking His will for your giving. ◆

CONTACTING US
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Your 10 Most Important Financial Moves for 2020

(continued from front page)

seem particularly relevant and beneficial now. Next to each such item, put a checkmark in the box provided.

Each suggestion is accompanied by a footnote (perhaps more than one) indicating where to find additional information. For example, Jul:102 means see our July 2019 issue, page 102. Other resources mentioned in the footnotes include the SMI website (www.soundmindinvesting.com) and *The Sound Mind Investing Handbook* (Handbook:C2 means "See chapter 2 in the Handbook"). ❑ By the way, if you don't have a copy of *The SMI Handbook*, now is a great time to order.[1]

Once you've gone through this entire article, review the items you have checked. (If you're married, you and your spouse probably will find it helpful to go through this process separately first and then compare notes.)

Next, narrow your list(s) to 10 suggestions that seem likely to offer the greatest benefits at this stage of your life. (Some action items may involve new goals; others may help you achieve existing goals.) Finally, assign priorities to your final list by numbering the items 1 through 10, starting with the most important item.

Keep in mind that SMI's "Top 10" approach to planning is intended to be a *spiritual* exercise as well as a practical one. So approach this planning time reverently, thanking the Father for His faithful provision in 2019 and expressing your trust in Him for the New Year.

We pray that in 2020 you will continue to "prove faithful" in wisely managing all that the Lord has entrusted to your care (1 Corinthians 4:2). It is our purpose and privilege to help you do that.[2]

First things first

❑ **Seek first, and above all, God's kingdom and his righteousness.**[3] Only by learning to trust in the Lord's provision and providential timing can you be set free from being molded by the impatience and materialism of the surrounding culture. The voice of God calls us to a different way of living, one characterized by joy, peace, patience, kindness, goodness, faithfulness, gentleness and self-control (see Galatians 5:22).

❑ **Consider your true worth.**[4] Not your financial net worth or your "social" value based on the "likes" you get on Facebook. Instead, learn to value yourself by the eternal price that Jesus Christ, the Lord of all, was willing to pay for you.

❑ **Seize the opportunity to delight your King and Master.**[5] You've been given a season of time in which to sacrifice for the advancement of God's Kingdom. That season won't last long. Life is fleeting, "a mist that appears for a little while and then vanishes" (James 4:14). So while you can, sow generously that you might reap an abundant harvest.

❑ **Give more.**[6] As you strengthen your financial foundation, seek the Lord in discerning the next steps He's prompting you to take on your journey of generosity.

❑ **Commit to giving even if you don't feel motivated.**[7] Giving can be like a seed planted in the barren soil of indifference. If you plant in faith, love will begin to grow within you. Jesus said, "Where your treasure is, there your heart will be also."

❑ **Cultivate the virtue of patience.**[8] Patience isn't a character trait that you're either born with or not. Patience is a virtue that can be nurtured by setting reasonable expectations, planning wisely, and engaging in self-discipline. Memorizing Scripture passages related to God's faithfulness is helpful as well.

❑ **Reorient your financial life based on what you really want.**[9] Do you really want more striving after things and more busyness? Or do you want spiritual refreshment and more time with family and friends?

❑ **Communicate your gratitude.**[10] There are people who have made a lasting and positive difference in your life. Have you ever said, "Thank you"? (And please accept our thanks to *you*![11] SMI is now in its 30th year of helping our readers "have more so they can give more." We wouldn't be here without loyal members like you!)

❑ **Help others learn about investing by leading a *Multiply* group at your church.**[12] *Multiply* is SMI's video-based small-group study that equips people with the knowledge, confidence, and biblical foundation needed to invest wisely and well.

Strengthening your foundation

Failing to establish a firm foundation in your finances is asking for trouble! If your financial foundation isn't yet firm, concentrate your efforts here, rather than jumping ahead to more advanced topics.

❑ **Let go of the past and focus on what you can do *now*.**[13] We all make financial mistakes. The best way to recover is to concentrate on the task at hand and seek to be a faithful steward.

❑ **Attack your debt.**[14] Understand the biblical warnings about the dangers of debt and make a firm commitment to pay down debt in the year ahead.

❑ **Create a spending plan—i.e., a budget—for the new year (or bring your existing plan up to date).**[15] Many people think having a budget is restrictive. On the contrary, it is liberating. A spending plan can help you gain financial peace of mind.

❑ **Start using an online budgeting system.**[16] Web-based budgeting systems and mobile apps can simplify the process of planning your spending and keeping track of it. Some systems are free, others charge a monthly or yearly fee.

❑ **Use an online system to implement a zero-sum budget.**[17] A zero-sum budget is akin to the tried-and-true "envelope system" in which the user separates his or her cash into series of paper envelopes based on intended use (e.g., a "groceries" envelope, a "gasoline" envelope, and so on). An online zero-sum budget takes that idea into the digital world, enabling the user to not only earmark money for particular categories but also to track transactions within each category.

❑ **Shop around for a "rewards" credit card that suits your situation.**[18] For a rewards program to benefit you (and not

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just the card issuer!) you must become a shrewd user. Find a card with terms and rewards suited to your needs and spending patterns, then be sure to pay your bill in full each month. Also: guard against the "spending creep" associated with credit card use.

❑ **Avoid a "deferred-interest" credit plan unless you have a sure way to pay the bill in full.**[19] Such plans, commonly offered by retail stores and healthcare providers, typically assess no interest in the first few months but tack on back interest if the customer doesn't pay the entire bill by a certain date.

❑ **Get copies of your credit reports.**[20] The particulars in your credit reports can affect everything from your insurability to the interest rate you'll pay on a loan. By law, you can get a free copy of your credit report every 12 months from each of the three major credit-reporting bureaus.

❑ **Refinance your home loan.**[21] Low mortgage rates have made refinancing attractive. Refinancing, however, has tradeoffs, so be sure you understand the pros and cons. Be wary of refinancing to a loan with a longer payoff period, possibly adding years to your payoff date.

❑ **Put the brakes on car-buying costs.**[22] A monthly car payment is one of the biggest roadblocks to financial progress. Steer clear of car debt by shopping for a vehicle you can truly afford.

❑ **Explore new options for your savings,** including ETF offerings known as BulletShares (from Invesco) or iBonds (from iShares).[23] Also investigate the savings rates (often higher than bank CDs) offered by Church Extension Funds.[24]

❑ **Enlist a financial accountability partner.**[25] It can help to have someone, in addition to your spouse, with whom you can share the truth of your financial situation—someone who can offer encouragement, ideas, and, when needed, words of challenge.

Developing your investment plan

❑ **Learn the difference between "active" and "passive" approaches to investing,** and become knowledgeable about the inherent strengths and weaknesses of each approach.[26]

❑ **Study why having time on your side puts you in control of risk.**[27] Time is on the side of the long-term investor. The longer you are willing to keep your money in the market, the greater the likelihood of success.

❑ **Check your portfolio for appropriate asset allocation, which helps balance risk and reward.**[28] Also, be aware of the two common types of asset allocation: strategic and tactical.

❑ **Diversify your investments.**[29] To reduce overall risk, it's important to have a *mix* of investments—i.e., you should have holdings that respond in different ways to economic events. Failing to maintain a diversified portfolio is one of the most common mistakes investors make.

❑ **Be patient when a particular category of stock funds (such as small-company funds) underperforms—even if it occurs for an extended period of time.**[30] The market is cyclical. Many investors abandon a diversified approach at just the point when doing so is the most damaging to their future returns.

❑ **Learn more about momentum, the engine that drives most of SMI's investment strategies.**[31] Momentum refers to the well-documented phenomenon that an investment's recent performance tends to persist into the immediate future. SMI strategies combine momentum indicators with objective rules for buying and selling, thus taking the guesswork out of investing. Momentum-based investing isn't foolproof, but it has an impressive long-term track record.

❑ **Start investing with an SMI approach now—even if your portfolio is small.**[32] Many brokers have lowered minimums and reduced (or eliminated) fees, so it's never been easier to get started with SMI. Today, you can start implementing an SMI strategy for as little as $100 to $500.

❑ **Implement SMI's Just-the-Basics strategy for the simplest approach to stock market investing.**[33] JtB uses index funds—funds designed to match (i.e., not beat) the performance of the market.

❑ **Research the fund options now available for implementing Just-the-Basics at various brokers.**[34] New funds, reduced fees, and lower minimums have created a range of options for JtB investors.

❑ **Implement our Fund Upgrading strategy by following our "Easy as 1-2-3" steps.**[35] Fund Upgrading requires you to open a brokerage account (unless you're Upgrading within a workplace plan). Happily, competitive pressure is continuing to drive down broker fees as well as fund expense ratios.

❑ **Understand the pros and cons of using exchange-traded funds (ETFs) in your portfolio.**[36] ETFs are typically free to trade, have low ongoing expenses, and are widely available. But they have a few disadvantages to be aware of too.

❑ **If you're concerned about minimizing losses during the next bear market, implement SMI's Dynamic Asset Allocation (DAA) strategy (available to Premium-level members).**[37] DAA won't side-step all losses, but our back-tested research suggests the strategy would have notably reduced losses during every period of significant market weakness dating back to 1981.

❑ **Learn more about DAA's investments in real estate.**[38] At times, SMI's Dynamic Asset Allocation strategy calls for holding real estate. This is done via an ETF that invests in shares of Real Estate Investment Trusts (REITs).

❑ **If you're going to implement SMI's Sector Rotation strategy, understand its risks as well as its rewards.**[39] Sector Rotation is SMI's most agressive—and risky—strategy. Long-term returns have been impressive, but short-term pain is inevitable. SR requires patience and courage.

❑ **Stay on course—persist in your plan.**[40] Every investment strategy has both weak periods and strong periods. It takes persistence to stay with a strategy through its weak periods so ultimately it can succeed.

❑ **Write out a personal investment plan** that states your objectives, strategy, asset-allocation model, and how much you will invest monthly.[41] A well-thought-out, long-term plan can help you keep your emotions in check when market events make you uneasy.

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❑ **Use SMI's free online resources,** including our Personal Investment Plan Template and our 401(k)/IRA decision tree.[42]

❑ **If you want to follow SMI's strategies but don't have the time or the inclination to implement them yourself, investigate the professionally managed SMI mutual funds.[43] Another option: the personal investment management services offered by SMI Private Client.[44]** (The SMI mutual funds and SMI Private Client are managed by SMI Advisory Services—an affiliated but separate business from the SMI newsletter.)

❑ **Examine the stock/bond mix of any target-date funds you're using.[45]** Target funds, popular in employer-sponsored retirement plans, automatically adjust an investor's stock/bond mix as retirement approaches. Unfortunately, there is no uniform standard regarding what is the most appropriate "glide path." For example, two funds marketed as "2035" funds (for people retiring in 2035) may have quite different stock/bond mixes, potentially leading to quite different results.

❑ **Decide if an Individual Retirement Account (IRA) is right for you, and if so, which type.[46]** In certain cases, it may make sense to open both a traditional IRA account and a Roth IRA. (Be sure to consider which type of IRA is most likely to maximize your retirement income.[47])

❑ **Learn how a Roth IRA differs from a Roth 401(k).[48]** There are key—and somewhat confusing—differences in how Congress has structured these two similarly named retirement accounts.

❑ **Understand the basics of market cycles.[49]** Cycles may not repeat precisely, but they have recurring and recognizable characteristics. Learning about these cycles can help you not be swayed by the overly optimistic or overly pessimistic emotions that regularly take hold in the market. Instead, you can follow your plan.

❑ **Become knowledgeable about interest rates**—including how rate trends affect savers, borrowers, and investors.[50]

❑ **Prepare yourself mentally for a future bear market by learning about the upside of downturns.[51]** If you have many years before retirement, a bear market is likely to be *good* for your portfolio in the long run because it presents an opportunity to invest at lower prices. Bear markets bring the greatest harm to those investors who cash out their stock investments during the downturn.

❑ **Resist the siren-song of market-timing.[52]** The idea of timing the market—getting out before declines and getting back in before run-ups—is attractive. Unfortunately, effective timing is almost impossible to do consistently. That's why SMI uses timing in very limited ways (and only within the DAA and Fund Upgrading strategies).

❑ **Economic uncertainty is certain, so commit to following these guidelines: spend less than you earn, avoid debt, maintain some liquid assets, and set long-term goals.[53]** No matter what happens with the economy at large, you can't go wrong with such a plan.

❑ **Push back against your most dangerous investing enemy: unwarranted fear.[54]** Proven techniques can help you keep your investing cool when the markets seem chaotic. Don't let your emotions rule your investing choices.

Broadening your portfolio

❑ **If you're a high-income earner, consider a "back-door" approach to investing in a Roth IRA.[55]** IRS rules block people who earn above a certain amount (2020 limits are $139,000 for singles and $206,000 for married couples) from making direct contributions to a Roth IRA. Yet the rules allow *alternative* methods for high earners to make such contributions.

❑ **Use a *taxable* investment account if appropriate.[56]** Most investors initially focus on tax-advantaged retirement accounts, such as IRAs and 401(k)s. But there are good reasons to have a taxable account, too—such as investing for non-retirement-related goals.

❑ **Track the performance of your overall portfolio.[57]** Options range from using semi-automated spreadsheets (that automatically fill in prices) to free portfolio-tracking websites. (For tracking fund *momentum*, use SMI's Personal Portfolio Tracker.[58])

❑ **If desired, apply Upgrading 2.0 signals to your Just-the-Basics or 401(k) indexed portfolios.[59]** The 2.0 protocols kick in on those rare occasions when market conditions deteriorate the point where it's prudent to reduce risk exposure. Although these defensive protocols were researched and developed for Fund Upgrading, they can be applied to indexing strategies if an investor chooses to do so.

Looking toward retirement

❑ **Prayerfully reflect on striking the right balance in saving for retirement, consistent with the teachings of Scripture.[60]** Saving for retirement doesn't necessarily mean a person isn't trusting God for the future. Indeed, biblical teaching on stewardship suggests we should prepare for the possibility that someday we may need to retire from the paid workforce. But this otherwise appropriate goal can become unbalanced.

❑ **As retirement nears, take advantage of the "empty nest" years to build up your retirement savings—and have some fun.[61]** When children grow up and move away, household expenses decline and couples typically have "extra" money available. It's wise to set aside a big portion of such funds for retirement, especially if you're behind on your retirement savings. But don't neglect to create memories by using some of the money to enjoy special husband/wife experiences. You'll be glad you did.

❑ **If you're single, understand how your retirement-planning needs differ from those of married couples.[62]** Singles typically have less-complicated financial situations, which makes planning (and execution) easier in some ways. At the same time, a person who is single can't rely on the greater financial sturdiness that comes from two people pooling their retirement-related savings and Social Security benefits.

❑ **Convert money from a traditional IRA to a Roth IRA as you approach retirement (or in the early years of retirement).[63]** Roth conversions can significantly reduce the taxes you'll pay during retirement, while *(continued on page 189)*

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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

GETTING WHAT YOU *REALLY* WANT FOR CHRISTMAS

By Matt Bell

Kids often are asked what they'd like for Christmas. Toys usually top the list when they're young. As they get older, electronic gear, sports equipment, and clothing become more desirable.

Perhaps there's a "toy" or two on your own wish list this year. That's all well and good. However, before you get too busy with the hustle and bustle of the season, it's healthy to pause and think about what you *really* want for Christmas. What most people truly treasure about this time of year can't be gift-wrapped and placed under the tree.

Wishing for a do-over

Several years ago, I teamed up with a market-research company and sent out a survey just *after* Christmas. We asked a nationally representative sample of adults, irrespective of their spiritual perspective or religious affiliation, about their holiday regrets—what they wish they had done more or less of during the just-passed holiday season. Their answers may prove helpful to you as you plan for this year's Christmas celebration.

The top three answers of what they wish they had done *more* of were: "Spend time with family and friends" (54%), "Spend time reflecting on the religious/spiritual significance of the holiday season" (40%), and "Give money to charity during the holiday season" (31%).

The top three answers for what people wish they had done *less* of all had to do with gift-buying: "Spent money on gifts" (30%), "Spent time shopping for gifts in stores" (28%), and "Spent money on myself while holiday shopping" (23%).

As you think back on past Christmases, can you relate to these answers?

Plan now for a regret-free Christmas

The end-of-year holidays are crucially important to all kinds of companies. The makers of toys, electronics, jewelry, and more—along with the retailers that sell such items—count on the year-end holiday season to deliver 20% to 40% of their annual sales! So, it isn't surprising that they pull out all the marketing stops to drive year-end sales. (With this year's shopping season compressed due to Thanksgiving falling late in the month, you can expect an even stronger marketing push.) And every year, we buyers do our part, often leaving us over-spent, over-tired, and disappointed that the holidays didn't live up to our expectations.

To have a regret-free holiday this year, plan ahead. Which of your family members or friends doesn't need yet another new sweater, but would greatly value some quality time with you? How could you build that quality time into your preparations in the weeks *before* Christmas? I know a family that makes pies for their neighbors each Christmas and involves all of their kids in the baking and delivery. It's become a much-anticipated tradition in their family (and among their neighbors!)

Are you planning ways to soak in the spiritual significance of Christmas with the same rigor that you make your Black Friday or Cyber Monday shopping plan of attack? Since Christmas is one of the prime occasions when people who don't go to church regularly are most likely to attend a service, are there friends or neighbors you could invite? What a memorable gift it would be—to them and to you—if this year's Christmas turned into the most important day of their lives.

Have you thought about your year-end giving with the same care that you trim your holiday tree? This year's strong stock market may make it an especially good year to give an appreciated asset to your church or to a donor-advised fund. Remember how the market fell apart at the end of last year? Maybe *now's* the time to make that contribution!

Also remember the three activities people wish they had done *less* of, and make plans to keep them off your list of regrets this year.

What could you do to reduce your overall spending on gifts? If you have kids, the earlier you help them set realistic expectations about the number of gifts they may receive, the better. Are there people on your gift list who might actually welcome the suggestion to stop exchanging gifts each year, perhaps in favor of a low- or no-cost get-together? Could you do more of your shopping for the gifts you *do* plan to buy online, thereby avoiding the headache of trying to find a parking place and navigate the crowds at the mall?

And lastly, there's been a growing marketing effort in recent years to encourage "self-gifting"—treating yourself to something special as you shop for others. Apparently, that push has been effective since self-gifting made the top-three list of post-holiday regrets! Of course, if there's something you've budgeted for and you find a great deal on it, there's nothing wrong with making that purchase. However, for items that *aren't* in your budget, determine before you shop not to let the festive holiday spirit induce overspending that will leave you with post-holiday regret.

The goal is not "less"

As you plan for Christmas this year, keep in mind that these suggestions are not about "less." Sure, you may decide to shop less (especially in stores) and spend less. However, the main point is that by doing less of certain things, you can have more of what truly matters—more meaning and more joy in your celebration of the most amazing gift the world has ever known—God's gift of His Son, Jesus Christ. ◆

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

SMALL-COMPANY STOCKS HAVE BEEN CAUSING PROBLEMS IN SMI STRATEGIES

Small-company stocks have historically earned returns at least equal to, if not better than, those of large-company stocks. This "small-company effect" was first quantified in a 1981 study, and while much research on both sides of the issue has since been done, most investing professionals agree that it makes good sense to invest at least a portion of a portfolio in the stocks of smaller companies.

SMI has normally owned equal (or at least similar) allocations of small- and large-company stocks in our Just-the-Basics (JtB) and Fund Upgrading portfolios. This stands in contrast to the market-weighted stock market indexes, such as the S&P 500 and Wilshire 5000, that place greater weight on the shares of larger companies. The net effect, then, is that smaller-company stocks are overweighted in SMI's portfolios in relation to the market indexes.

While the tendency of small-company stocks to outperform has likely provided a boost to SMI's overall long-term performance, the year-to-year impact can be uneven. The market can swing from favoring one type to the other, often with little explanation. We can see this in our returns over the past couple of decades.

The SMI Handbook's discussion of JtB includes a 2003-2012 table showing the 10-year annualized performance of JtB's smaller-stock component at +10.6%, while the large-stock (S&P 500 fund) performance was just +7.0%.[1] During that period, SMI's small-stock emphasis helped our returns. And during the first five years of the current bull market, smaller stocks had the upper hand in four of those years.

But large-company stocks have performed better than small-company stocks since 2014. This has been a significant issue for the recent returns of JtB and Fund Upgrading, creating a significant drag on returns over the past several years.

Comparing large/small performance

Consider the table below. It shows the annualized returns of the funds used in JtB for large- and small-company stock exposure (VFIAX and VEXAX, respectively), as well as the result of the Russell 2000 index, a prominent measure of pure small-company stock performance.

	S&P 500 (VFIAX)	EXT MKT (VEXAX)	RUSSELL 2000
1-year	14.3%	9.0%	4.9%
3-year	14.9%	12.1%	11.0%
5-year	10.7%	8.1%	7.4%
10-year	13.7%	13.3%	12.3%
15-year	9.0%	9.5%	8.2%

Annualized returns — data through Oct. 31, 2019.

A few things jump out. First, the gap between the S&P 500 fund (large stocks) and the Russell 2000 index (small stocks) over the past 12 months is breathtaking—almost a full 10 percentage points. The Extended Market fund used in JtB helps close that gap a little (14.3% vs 9.0%), but it's still large. (This fund includes mid-sized company stocks as well as small.) The S&P 500 stocks have been totally dominant over the past year.

Second, those gaps remain significant over the past 3- and 5-years. They narrow by the time we get down to the 10-year returns, but still haven't disappeared completely. This indicates that the advantage small stocks had in the opening years of this bull market wasn't as great as the advantage large stocks have had since leadership shifted mid-way through.

The data in the table explain most of the underperformance of JtB and Fund Upgrading relative to the U.S. stock market over the past 10 years. The struggles of these strategies relative to "the market" are largely attributable to small-company (and foreign) stocks lagging the returns of the largest-company stocks, with most of that performance gap occurring since 2014.

This explains why our recent quarterly reviews have reported that Upgrading funds have outperformed *within the individual risk categories*, yet the strategy's returns have still lagged the market as a whole. For example, our Upgrading recommendations outperformed the average fund in four out of five stock risk categories in each of the past two quarters, yet Upgrading trailed the market over those six months +5.25% vs. +4.50%. Recognizing that the Russell 2000 index *lost* -0.4% over those six months, the question shifts from "Why did Upgrading lag?" to "How did Upgrading manage to keep the performance gap so small?"

The true extent of recent small-cap underperformance is seen in how much better are the returns of the center column (Vanguard's Extended Market fund) than the far-right column (the true small-company stock index). Both JtB and Upgrading get around the worst of the small-cap underperformance via their use of mid-sized company stocks.

In JtB, this is overt. As previously mentioned, the Vanguard Extended Market fund includes both small- and medium-company stocks. Upgrading doesn't overtly include mid-caps, but does allow leeway within its risk categories so that it is possible for our small-stock categories to own funds that are on the line between the small and large categories. This helps Upgrading when one type leads the other by a large margin.

Finally, the bottom row of the table shows the gap between the returns of the S&P 500 fund and Russell 2000 index narrowing to just 0.8% over the past 15 years, in spite of the huge advantage large stocks have had over the past six years. And returns for the Extended Market fund are actually better than those of the S&P 500 fund when the period extends to the past 15 years.

This perspective is important for interpreting the recent performance of SMI's strategies. It's natural to react to the recent underperformance of Upgrading by wondering *(continued on page 190)*

[1]*The Sound Mind Investing Handbook*, page 170.

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

SECTOR ROTATION: SHORT-TERM PAIN, BUT LONG-TERM GAINS

If you were to poll SMI members regarding their opinion of our Sector Rotation strategy (SR), you'd likely get two rather distinct answers based on how long the member has been using it. Those who have started using SR within the past 12-15 months would fall into one camp, likely expressing doubts and frustration. Those who have been using SR for several years would likely respond with a different perspective.

Since its debut 16 years ago this month, Sector Rotation has been SMI's most aggressive—and risky—strategy. As Table 1 shows, SR has produced tremendous returns for SMI members over the past 16 years, despite its recent struggles. Total returns from SR have more than doubled those of the broad market over that time. The back-testing we did on SR all those years ago seemed almost too good to be true at the time, but we now have 16 years of live returns with similarly impressive results.

TABLE 1: NOV. 2003 – OCT. 2019

	Market	SR
Annualized Return	9.3%	13.4%
Total Return	313%	648%
Profit on $50K	$156,309	$324,253

We've tried to always keep SR's high-risk/high-reward nature in front of members, because along with those great overall returns, SR investors have experienced more than a few rough patches. But it's natural to brush past those warnings when SR goes on the type of tear it did between 2012-2017. During those six years, SR returned 406% in total, an almost unbelievable +31% annualized rate. A $50,000 investment in SR at the beginning of 2012 was worth $253,000 at the end of 2017!

Unfortunately, the tide turned the other direction during the second half of 2018. The last 18 months have been the worst stretch for SR since the Global Financial Crisis a decade ago. Periods of significant loss in SR aren't without precedent—for example, SR fell a gut-wrenching -21.9% in just two months back in 2015, and finished that year down nearly -10% while the market was up slightly. Unfortunately, there's not always an obvious explanation for these swings either. That miserable 2015 came sandwiched between a pair of excellent years on each side. Eventually these periods of poor performance have always turned around, but staying the course through them is "character enhancing," to say the least.

SR vs. investing in hot sectors

We thought it might be instructive to look more closely at the way SR steers us between various market sectors and produces those incredible long-term returns. The past several years provide an excellent case study for this, as they present us with a period where we can compare SR with a single sector that posted excellent overall returns in its own right—Biotech.

We start our comparison in February 2012 when SR purchased the Fidelity Select Biotech fund (FBIOX). This fund would be SR's official holding for the next 26 months. After selling it at the end of March 2014, SR recommended it again for six months starting in April 2015. This tells us that Biotech must have continued to be a good performer, or it wouldn't have been back at the top of our rankings again in April 2015.

While that was the last time SR owned FBIOX specifically, the strategy did return to the Health & Biotech sector via a different fund for the last four months of 2018, again suggesting that Biotech was a good place to be invested through much of 2018, or else the category wouldn't have been at the top of the rankings when a new fund was selected in September of that year.[1]

As Table 2 shows, the period from February 2012 (when FBIOX was first purchased) through October 2019 saw strong performance from the market overall, even stronger performance for Biotech specifically, and strongest of all was SR—despite the drawdown SR has experienced since the summer of 2018.

The year-by-year returns illustrate important points about sector investing and SR as well. Notice that the worst loss in the chart was for FBIOX in 2016. SR's selling discipline helped us avoid that plunge, as we exited FBIOX in late 2015, prior to the worst of biotech's declines.

However, SR's high-risk/high-return nature is still clearly seen in Table 2. If SR finishes 2019 with a loss, it will be its third in the past eight years. Contrast that to the broad market, which has experienced just one mild calendar-year loss in the past eight years. SR's volatility has been significantly higher than the market's, but so has its return. The difference in profit between SR and the market on an initial investment of $50,000 is greater than the original amount invested!

TABLE 2: FEB. 2012 – OCT. 2019

	Market	FBIOX	SR
2012	16.1%	21.3%	21.3%
2013	33.1%	65.7%	65.7%
2014	12.7%	35.1%	49.9%
2015	0.7%	13.7%	-9.7%
2016	13.4%	-23.7%	16.9%
2017	21.0%	27.9%	56.7%
2018	-5.3%	-10.7%	-15.8%
2019	22.7%	15.4%	-7.2%
Total Gain	179%	210%	289%
Profit on $50K	$89,739	$105,083	$144,749

It takes patience and courage to stick with SR through periods like we've experienced recently, but those who have done so have eventually been richly rewarded. ◆

[1] A full record of SR's historical trades and results (1990-2018) can be downloaded from the Sector Rotation Recommendations page of the SMI website.

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

GIVING GIFTS TO YOUR GRANDKIDS THAT WILL BE LONG REMEMBERED

by Matt Bell

Many grandparents revel in their unique role. They get all the enjoyment young children bring (trips to the zoo, birthday parties) without any of the messy responsibilities (changing diapers, staying up all night). No problem there. Anyone who has achieved the rank of grandparent has earned their privileged status.

However, free from the financial responsibilities of raising their own kids and prompted by the joy of giving, some grandparents can overdo it in this "all-the-fun, little-of-the-work" phase of life, especially when it comes to giving gifts. That point was brought home in a recent discussion with other parents of young kids. When talking about the importance of putting limits on what we buy for our kids, one couple lamented that despite their best efforts, they're having a difficult time reining in the grandparents, who delight in spoiling their grandkids. According to the parents, their kids want for nothing, except perhaps a bit more gratitude and the discipline to save for things they want to buy.

With Christmas fast approaching, what's a well-meaning grandparent to do? If you're considering more than a small gift that fits under the tree this year, here are two suggestions.

Give the gift of experiences

Many studies have examined the link between money and happiness, and one consistent finding is that *experiences* make people happier than *things*.

For many years, until my in-laws passed away, our family had a tradition of taking a one-week summer vacation with extended family. We typically rented a lake house together. Knowing that we had countless financial commitments in this expensive child-rearing phase of life, my in-laws generously subsidized those vacations.

During the week, we might take some nearby excursions, but our time was spent mostly just hanging out, swimming, or playing games. We made most meals together. It was a much-anticipated, very simple, and deeply satisfying week.

These trips continue to provide countless good memories for our kids, and for us. They will always be associated with enjoyable time spent with Grandpa Ken and Grandma Barb.

You don't necessarily need to subsidize a family vacation in order to give the gift of experiences. There are many less expensive activities your grandkids would likely enjoy. Depending on their age and interests, consider buying tickets for a sporting event, concert, play, or some other activity you could do together. It'll give them something to look forward to, and something to long remember.

Give the gift of education

Anyone with college-bound kids or grandkids is likely familiar with the high cost of college. What a gift it would be for your grandkids to go to school without having to take on debt. Here are a couple of ways to help pay for their education.

• **Contribute to a 529 plan.** Every state offers a 529 college-savings plan. Earnings generated within such a plan are tax-free as long as they are used for qualifying college costs. (529 plan money can also be used to pay for private K-12 education expenses in many states.) You can open an account in any state, and your grandchild can use the funds to go to college in any state.

You will want to be careful, though, in deciding whether to open an account yourself or contribute to an account that was opened by your adult children. One point in favor of opening an account yourself is that you may be eligible for a state tax deduction or credit. Not all states offer such benefits, but some do, which makes checking your own state's plan first a good idea.[1] If you live in a state that provides tax benefits to 529 plan contributors, also make sure that the benefits extend to grandparents.

Something that used to deter grandparents from opening 529 plan accounts themselves has to do with their grandchildren's financial aid eligibility. Whereas distributions from a *parent-owned* plan do not impact such eligibility, distributions from *grandparent-owned* plans do. That's still true, but the rules have loosened up a bit so that it is not as big a concern.[2]

If your grandchild lives in a state that offers a deduction or credit but you don't, you may want to give the cash to your grandchildren's parents, who could open or contribute to an existing account and receive the benefit.

• **Contribute to a Coverdell Education Savings Account.** As with a 529 plan, Coverdell earnings are tax-free if used to pay qualifying education expenses. One significant advantage of Coverdell accounts is you have much more control over the investment choices, much as you would with an IRA. The major downsides are that annual contributions are capped at $2,000 per child per year, and there are no tax deductions or credits for the contributions.

As for a Coverdell's impact on financial aid, the story is the same as with a 529 plan. Distributions from a grandparent's account are considered student income and may have a negative impact on the student's financial aid. For that reason, it may be best to contribute to an account already established by your grandkids' parents.

Of course, there's nothing wrong with also buying a gift for your grandchild to put under the tree this Christmas. It will certainly create at least some short-term happiness. However, it's a virtual certainty that while store-bought gifts will be soon forgotten, the gifts of experiences or education will be long remembered and deeply appreciated. ◆

[1]www.savingforcollege.com has comparative information on all state 529 plans. [2]Nov2016:p169

SOUND MIND PORTFOLIOS

Basic Strategies

The fund recommendations shown for Upgrading account holders are based primarily on "momentum" scores calculated just before this issue was published (not the earlier end-of-month scores shown on this page). Consistency of performance is also considered, along with the portfolio manager's philosophy and number of years at the helm. Three recommendations are made in each risk category. Select the one(s) most in accord with your preferences and broker availability.

"Plans fail for lack of counsel, but with many advisers they succeed." Proverbs 15:22

RECOMMENDED FUNDS FOR SMI'S JUST-THE-BASICS STRATEGY

Data through 10/31/2019	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	16.6	15.3%	3.4%	3.8%	1.8%	11.1%	7.9%	0.96	0.11%/0.09%	20%	16%	12%	8%	VTIAX/VXUS
Extended Market Index	Small company stocks	7.4	19.8%	1.9%	-1.3%	-0.3%	9.0%	12.1%	1.25	0.07%/0.07%	40%	32%	24%	16%	VEXAX/VXF
S&P 500 Index	Large company stocks	20.9	23.1%	2.2%	2.4%	4.1%	14.3%	14.9%	1.00	0.04%/0.03%	40%	32%	24%	16%	VFIAX/VOO
Total Bond Market Index	Medium-term bonds	19.6	8.9%	0.2%	2.4%	5.8%	11.5%	3.3%	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 10/31/2019[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. ☎ Fidelity Intl Growth	12/19	Yes	NTF	Yes	33.5	26.2%	4.3%	4.9%	6.9%	21.7%	12.4%	0.96	0.95	91	None	FIGFX
	2. ☎ WisdomTree Intl Hdgd ETF	12/19	ETF	ETF	ETF	23.8	25.0%	1.8%	3.5%	4.4%	15.9%	11.3%	0.87	0.58	274	None	IHDG
	3. Fidelity Intl Capital Apprec	09/19	Yes	NTF	Yes	30.3	25.7%	2.3%	2.4%	5.4%	22.5%	12.6%	0.99	1.06	102	None	FIVFX
Category 4 Small/Growth	1. Janus Henderson Contrar T	10/19	NTF	NTF	NTF	28.5	31.7%	1.3%	1.0%	4.6%	22.9%	13.2%	1.29	0.74	43	None	JSVAX
	2. DF Dent Midcap Grwth Inv	09/19	NTF	Yes	NTF	30.8	33.2%	0.5%	0.5%	5.4%	24.9%	21.1%	1.10	0.98	33	2%60days	DFDMX
	3. Value Line Mid Cap Focused	12/18	NTF	NTF	NTF	32.4	30.1%	0.0%	0.9%	6.7%	24.8%	19.1%	0.96	1.18	45	None	VLIFX
Category 3 Small/Value	1. Touchstone Mid Cap Z	05/19	NTF	NTF	NTF	37.9	31.3%	1.4%	4.5%	8.1%	25.3%	18.1%	1.03	1.21	32	None	TMCTX
	2. Weitz Hickory	06/19	NTF	NTF	NTF	30.7	32.0%	3.4%	5.1%	6.1%	19.5%	8.6%	1.13	1.27	37	None	WEHIX
	3. ☎ Invesco S&P MidCap Mtm ETF	12/19	ETF	ETF	ETF	20.8	23.0%	3.2%	2.2%	4.5%	14.1%	8.6%	1.17	0.39	81	None	XMVM
Category 2 Large/Growth	1. ☎ Invesco S&P 500 GARP ETF	12/19	ETF	ETF	ETF	31.3	29.2%	4.1%	2.8%	7.2%	21.3%	22.0%	1.19	0.35	78	None	SPGP
	2. Polen Growth Investor	10/18	NTF	NTF	NTF	28.6	28.0%	3.1%	2.5%	4.5%	21.7%	20.6%	1.01	1.25	24	2%60days	POLRX
	3. Calvert Equity A – LW[10]	10/19	NTF	NTF	NTF	32.5	29.4%	-0.2%	1.7%	6.7%	24.1%	20.1%	0.84	0.99	86	None	CSIEX
Category 1 Large/Value	1. ☎ Vulcan Value Partners	12/19	NTF	NTF	NTF	29.2	30.2%	5.1%	3.2%	7.8%	18.2%	14.4%	1.22	1.08	29	2%90days	VVPLX
	2. ☎ Invesco Dyn Lg Cap Val ETF	12/19	ETF	ETF	ETF	26.6	22.6%	2.5%	5.3%	8.2%	13.1%	10.5%	1.07	0.55	52	None	PWV
	3. ☎ First Trust Dvd Achiev ETF	12/19	ETF	ETF	ETF	24.8	26.8%	4.3%	3.7%	5.6%	15.6%	15.8%	1.33	0.50	50	None	RDVY
Bond Categories	Vanguard I-T Bond[6]	2/19	ETF	ETF	ETF	22.8	10.7%	0.4%	2.7%	6.6%	13.5%	3.5%	1.19	0.07	6.3[7]	None	BIV[8]
	Permanent: Vanguard I-T Bond	Perm	ETF	ETF	ETF	22.8	10.7%	0.4%	2.7%	6.6%	13.5%	3.5%	1.19	0.07	6.3[7]	None	BIV[8]
	Permanent: Vanguard S-T Bond	Perm	ETF	ETF	ETF	10.5	4.9%	0.4%	1.3%	3.0%	6.3%	2.1%	0.45	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 November, rather than on the end-of-October 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.

☎ Changes in our fund recommendations are explained in the MoneyTalk column.

SOUND MIND PORTFOLIOS

Upgrading: Easy as 1-2-3

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

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

WHY UPGRADE?

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

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

WHERE TO OPEN YOUR ACCOUNT

Opening an account with a discount broker that offers a large selection of no-load funds greatly simplifies the Upgrading process. This allows you to quickly and easily buy/sell no-load mutual fund shares without having to open separate accounts at all the various fund organizations. There are several good brokerage choices available. We recommend reading our latest Broker Review (March 2018:Cover article, also available online at bit.ly/smibroker) for details regarding the pros and cons of each broker, as your specific investing needs will largely dictate which broker is best suited to your situation.

401(K) INVESTORS

For a detailed explanation of how to Upgrade within your 401(k) plan, see bit.ly/smi401ktracker. That article also contains ideas on Upgrading in any type of account where your available fund choices are limited.

HOW TO BEGIN STOCK UPGRADING

❶ First determine your stock/bond target allocation by working through the investment temperament quiz online in the "Start Here" section (see the link near the top of the home page on the main navigation bar). For example, Table 1 below provides guidelines for those with an "Explorer" temperament. For more on asset allocations, see Jan2018:p8.

❶ PICK YOUR ALLOCATION

Seasons of Life	Stocks	Bonds
15+ years until retirement	100%	0%
10-15 years until retirement	80%	20%
5-10 years until retirement	70%	30%
5 years or less until retirement	60%	40%
Early retirement years	50%	50%
Later retirement years	30%	70%

Note: These are SMI's recommendations for those with an "Explorer" temperament. See Step ❶ in the text for information on our investment temperament quiz. You may want to fine-tune the above percentages to suit your personal approach to risk-taking.

❷ Find the column that matches your stock/bond allocation in Table 2. (If your target falls between two listed columns, split the difference.) Multiply each percentage by the value of your total portfolio amount to calculate the dollar amount to invest in each risk category.

❸ Buying your funds is easy. Look at the recommended funds on the opposite page. In each category, start with the #1 listed recommendation. If it's available at your brokerage (indicated by Yes, NTF, or ETF), buy it. If it's not, continue down the list to the next available fund. Then contact your broker—online or via phone—to buy the fund you've picked.

Let's see how a new subscriber 12 years from retirement with $50,000 to invest and an account at Fidelity would proceed. First, the investor selects the stock/bond mix for his or her situation (let's assume 80/20). Then, from Table 2, finds the percentages for each risk category. Multiplying $50,000 by each percentage yields the dollar amount for each category as shown in Table 3.[1] Looking at the Fidelity column on the Basic Strategies page, the highest-ranked Cat. 5 fund is Fidelity International Growth, the highest-ranked Cat. 4 fund is Janus Henderson Contrarian, 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	Fidelity International Growth
Stock Cat. 4: Small/Growth	16%	$8,000	Janus Henderson Contrarian
Stock Cat. 3: Small/Value	16%	$8,000	Touchstone Mid Cap Z
Stock Cat. 2: Large/Growth	16%	$8,000	Invesco S&P 500 GARP ETF
Stock Cat. 1: Large/Value	16%	$8,000	Vulcan Value Partners
"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.]

SMI recently wrote about how the Federal Reserve's interventions have shifted the market's trend notably higher since early October.[1] This has caused a rapid reordering of the Stock Upgrading momentum rankings during November. Not surprisingly, SMI's rather conservative recommendations, well-suited to the choppy market of the past year, have slid down the rankings and are being replaced by more aggressive funds this month. While none of these new recommendations is what we'd consider "high octane" in an absolute sense, there's no question the Upgrading portfolio is taking a step in the direction of higher-risk, higher-reward funds this month.

◆ **In the Foreign group, Lazard Global Infrastructure (GLFOX, 11/2018) and Sextant International (SSIFX, 6/2019) are being replaced.** The Lazard fund was a strong performer for us, gaining +15.1% from Nov2018-Oct2019. Unfortunately, it has lost a small amount this November while many other Foreign funds continued to rise, causing it to fall below the category quartile. Note to taxable account investors: be sure to check your buy/sell dates to qualify for long-term capital gain treatment by holding over 365 days.

Sextant International navigated the July/August downturn in Foreign funds much better than the average fund in its peer group. But it has struggled to keep pace as international returns picked up in September and October. While the fund gained +5.25% in the first five months it was recommended (through 10/31), that lagged its average peer, so we're moving on.

● **Fidelity International Growth (FIGFX) is being added.**[2] Unlike several of the passively managed ETFs being recommended this month, this fund is a true "old school" actively managed fund. Run by Jed Weiss, who also manages Fidelity's Small Cap Opportunities fund (familiar to long-term Upgraders), this fund has lost less than its benchmark during downturns while posting solid returns in rising markets. That's a good combination when stock valuations appear to be stretched, yet the market is rallying higher.

● **WisdomTree International Hedged Quality Dividend Growth ETF (IHDG) is being added.**[2] This is one of a growing number of "multi-factor" ETFs that have come to market in recent years. What that means in this case is the fund starts with stocks from developed markets outside of North America and screens those stocks using a variety of growth factors. The resulting growth-oriented list of companies is then weighted in the portfolio based on the dividends they pay. The final wrinkle is the fund hedges its currency exposure, which has helped the fund stand out among Foreign funds as the dollar has risen relative to other currencies over the past year.

◆ **In the Small/Value group, Invesco S&P MidCap Low Volatility ETF (XMLV, 12/2018) is being replaced.** SMI's value risk categories have included multiple "low volatility" funds for most of the past year. But that's changing this month with XMLV being replaced here in Small/Value, while SPLV and LGLV are also being replaced in Large/Value. This fund did a great job for us, gaining +12.4% from Dec2018-Oct2019, an interval during which the average Small/Value fund in our universe gained just +4.1%. However, there's been a strong rotation out of these conservative low-volatility stocks in recent weeks. This has caused XMLV to lag during November and pushed the fund below the cutoff.

● **Invesco S&P MidCap Value with Momentum ETF (XMVM) is being added.**[2] We're replacing one Invesco S&P MidCap ETF with another, as the rankings are steering us out of the low-volatility version of this mid-cap index to a different type of value-orientation. XMVM starts with the S&P 400 MidCap Index, selects the 160 stocks that fare the best based on a number of classic valuation screens, then reduces that list by half based on a further screen of their recent momentum. There's quite a bit of research supporting the idea of *value* and *momentum* working together in a complementary fashion. That approach appears to be working well for this ETF.

◆ **In the Large/Growth group, Akre Focus Retail (AKREX, 5/2019) is being replaced.** This is an example of our selling discipline forcing us to replace a fund we otherwise wouldn't want to replace. Over the first six months we owned Akre (May-October), it gained +6.1%, significantly better than the +2.7% of its average Large/Growth peer. But the fund is up just +0.5% in the first 3.5 weeks of November, while the S&P 500 (a reasonable proxy for Large/Growth funds) is up +2.5%. That has caused Akre to slide slightly below the quartile. So despite this being a great "all weather" fund historically, the recent trend change is forcing us into a more aggressive option now.

● **Invesco S&P 500 GARP ETF (SPGP) is being added.**[2] This is an S&P 500 index ETF with a twist. The index components are screened using "growth at a reasonable price"(GARP) criteria to obtain a more valuation-oriented version of the S&P 500. Given the market's pricey valuations and potential vulnerability, we're happy to include that conservative tilt.

◆ **In the Large/Value group, Invesco S&P 500 Low Volatility (SPLV, 12/2018), SPDR Large Cap Low Volatility (LGLV, 7/2019) and Vanguard Dividend Appreciation (VIG, 7/2019) are being replaced.** Like the low volatility ETF being replaced in Small/Value this month, SPLV did a great job for us over the past year, gaining +17.2% from last December through the end of October. That's far better than the +8.0% gain of its average Large/Value peer. But since the Fed started pumping liquidity into the market in October, the tables have turned. SPLV is down slightly in November while other Large/Value funds have continued to rise. It's a similar story (over a shorter time frame) for LGLV and VIG as well—solid performance from July through October, but unable to keep up in November as the market accelerated.

● **Vulcan Value Partners (VVPLX) is being added.**[2] Manager C.T. Fitzpatrick describes Vulcan as a value fund

[1] soundmindinvesting.com/articles/view/not-qe-has-changed-the-markets-trend
[2] For more on this fund, visit www.morningstar.com.

that doesn't look for cheap stocks. Instead, they compile lists of companies they would like to own and the valuations they believe would make those stocks a compelling value. Then they patiently wait for those companies to become discounted. This approach helps explain why Vulcan's returns haven't been exceptional the past several years—until last year's deep correction allowed the fund to go shopping. That set the table for the fund's +30% year-to-date gain. Note: Those using a taxable account may want to wait to purchase until after the fund pays a ~4% distribution on December 5.

● **Invesco Dynamic Large Cap Value ETF (PWV) is being added.**[1] There are several ETFs that track the Large/Value universe. This one does too, but with a twist: screening the Large/Value pool of stocks to find those with a particularly appealing blend of valuation, momentum, and quality characteristics. As we've seen over the years, these various "factors" run in and out of favor. But this mix has been working this year, as PWV is up slightly more than +27% so far in 2019, outpacing the S&P 500 index—quite an accomplishment for a value fund.

● **First Trust Rising Dividend Achievers (RDVY) is being added.**[1] There are many dividend funds and ETFs available, so how did this one manage to climb to the top of the rankings in what has recently become a "hot" market? Think of this ETF as a fund of "up and coming" dividend payers. Drawn from the Nasdaq 1000 index and screened for liquidity and earnings growth, this list tilts toward maturing tech companies that are reaching the "escalating free cash flow" phase. This means a higher-than-usual allocation to tech companies. That's been great this year, but it also accounts for the ETF's 1.33 relative risk score—meaning it has been roughly 33% more volatile than the S&P 500 index over the past three years. (Note that the previous recommendation, PWV, has a relative risk score of just 1.07, denoting significantly lower risk.) ◆

COVER ARTICLE / CONTINUED FROM PAGE 181

YOUR 10 MOST IMPORTANT FINANCIAL MOVES FOR 2020

providing more flexibility regarding the timing of future withdrawals and tax liability. (If you have a large portfolio, the Income Solver™ tool available[64] via SMI Advisory Services can help you develop an effective Roth-conversion strategy.)

❑ **Make a Qualified Charitable Distribution (QCD) directly from your IRA.**[65] A QCD can help you reduce (or avoid) taxation on government-mandated minimum withdrawals from your Individual Retirement Account. At the same time, money that would otherwise go to pay taxes goes instead to the qualified charity of your choice.

❑ **Study the pros and cons of "dividend investing"—an approach popular with many retirees.**[66] With dividend investing, you don't have to sell holdings to generate cash flow. But dividend investors run certain risks, including the possibility that a company may reduce (or eliminate) its dividend. Another risk: Rising inflation may diminish the buying power of dividend payments.

❑ **If you're considering hiring a financial advisor, know which qualities to look for.**[67] Does the advisor share your worldview? Is he or she a fiduciary (i.e., legally obligated to act in your best interest)? Will the advisor furnish you with a detailed breakdown of all fees associated with your account?

❑ **Don't buy an annuity without understanding the downsides.**[68] An annuity—a type of insurance contract—can provide guaranteed income payments for the rest of your life. But the downsides often include giving up control of your retirement savings.

❑ **If you have significant wealth, develop a plan for passing on your wealth to the next stewards.**[69] Inherited wealth can be a blessing or a curse, so this is a task that should be undertaken prayerfully and wisely.

❑ **Prepare a "letter of instruction" for your family and heirs to read in the event of your death.**[70] While wills and trusts cover necessary legal matters, a letter of instruction can help your family and heirs know your wishes regarding more personal matters. A letter also can provide important logistical details regarding where to find documents, insurance policies, tax returns, and other important papers.

❑ **Guard your health by taking advantage of free medical services.**[71] Once you turn 65, you're eligible for a range of free preventive services offered by Medicare, from cancer screenings to flu shots to lab services.

Engaging with other financial matters

❑ **Give your children an allowance.**[72] An allowance enables a child to experience the "real world" of money management. It's up to you, of course, whether to tie an allowance to chores or not, but keep the main goal in mind: Providing your children parent-guided experiences of giving, saving, and spending.

❑ **Help your older children make wise decisions about their education.**[73] A typical college education requires an investment of time and money—lots of it. Will that investment pay off? Probably—if parents and their children think carefully about where to attend and why. On the other hand, some young people may be better served by earning a technical degree or by pursuing some other type of alternative education.

❑ **If you have grandchildren, give them gifts that will be long remembered.**[74] Such gifts include the gift of experiences—perhaps a multi-generational vacation that will give them fond memories of their grandparents. Another great gift: helping to pay for a college education.

❑ **Protect your aging parents from financial fraud and exploitation.**[75] The effects of aging make older people particularly vulnerable to financial deception. Common scams range from tax frauds involving fake IRS agents to recurring fees charged to an older person's credit card. Also be on guard for "caregiver abuse" perpetrated by friends, advisors, paid helpers, or even other family members.

[64]Available to Premier-level customers of SMI Private Client. [65]Jul:p105 [66]Sep:p137 [67]Jun:p89 [68]Aug:Cover [69]May:p73 [70]Oct:p153 [71]Feb:p25 [72]Aug:p118 [73]Jun:Cover [74]Dec:185 [75]Mar:p41

MONEYTALK

Conclusion: 20/20 vision for 2020

Wouldn't it be great to have 20/20 *fore*sight about what the new year will bring? Perhaps—or perhaps not! Of course, no one has that kind of foresight. But what you *can* have is 20/20 *in*sight about what to do to ensure your financial progress.

So pick your personal "Top 10" from the ideas above. Then, pursue those 10 goals diligently and prayerfully in the year ahead, asking the Lord to help you be a faithful and wise steward of all He has entrusted to your care. ◆

LEVEL 2 / CONTINUED FROM PAGE 183

SMALL-COMPANY STOCKS HAVE BEEN CAUSING PROBLEMS IN SMI STRATEGIES

if the strategy is broken. Yet the performance gap between large- and small-company stocks highlighted in table on page 183 provides an explanation of why Upgrading's returns were so much better than "the market" in the years leading up to the last bear market: small stocks outperformed large stocks during that period. Upgrading's primary problem since then has been the lagging performance of small stocks starting in 2014. When smaller stocks were at least holding their own, Upgrading did too, outperforming the market in three of the first five years of this bull market.

What's next?

Naturally, the pressing question is why have large stocks outperformed by such a large margin lately, and what are the prospects for the future? If this is a condition that is likely to continue, we wouldn't want to persist in overweighting small stocks within these portfolios.

There are numerous factors that could be contributing to the recent performance gap. Some speculate that the rise of 401(k) plans has created a dynamic in which more and more money gets funneled into the largest stocks due to the market-weighted construction of the most popular indexes.

Another plausible piece of the puzzle has to do with the massive corporate stock buybacks over the past several years. Incredibly low interest rates have made it cheap for companies to borrow and use those funds to repurchase shares, putting upward pressure on their stock price. This tactic has been more prevalent among large companies than smaller ones, providing a link to the unique interest-rate environment of recent years.

But sometimes the easiest explanation is the most likely. The market is cyclical[1] and, as we've demonstrated, the superiority of large-caps didn't kick off until 2014. While it's felt like a long time to us as we've suffered from performance envy, that's not terribly long in terms of market cycles. In yet another parallel of the current market to that of the late-1990s, consider that from 1995-1999 the annualized return of the S&P 500 was +28.5% while the Russell 2000 was +16.7%. That gap is considerably more dramatic than 2014-2019, or even the past 12 months. Importantly, that performance gap reversed over the following five years (2000-2004) with the S&P 500 suffering annualized losses of -2.3% while the Russell 2000 gained +6.6. Upgrading posted some of its best relative performance ever during those years, as the prior imbalances swung back the other way.

As is often the case, the point at which investors grow most eager to quit on an investing idea is often exactly when doing so would be the most damaging to their future returns. This is obvious in hindsight: abandoning small stocks at the end of the 1990s would have been a terrible idea. But at the time that wasn't obvious—just as it isn't today—because it always feels like the current trend might continue indefinitely.

For those who want to make their portfolios less reliant on small stocks, it's easy enough to do so by simply shifting a portion of the small-stock allocation in either JtB or Fund Upgrading to the large-stock categories. But having recently endured the underperformance side of the cycle, we're not inclined to "officially" make that recommendation at this point. Over the past 30 years, SMI has witnessed a lot of twists and turns in performance leadership and has found that most attempts to shift ahead of those changes aren't productive. So we'll stick with what has worked over the long haul, while continually exploring ways to improve our processes. There's every reason to believe another performance shift back in our favor is approaching that will help balance out the recent record. ◆

CHRISTMAS GIFT BOOK ANNOUNCEMENT
by Austin Pryor

In 1995, I began what has become an annual Christmas tradition: offering, as a gift, a book that has been meaningful to me in my Christian life. I do this to express appreciation for your support. Without loyal readers, we could not have served the body of Christ these past (almost) 30 years.

This year, for the second time, I've selected *The Eternity Portfolio* by Alan Gotthardt. The Lord has used the principles in this book to grow my wife Susie's and my capacity for generosity far beyond anything we would have imagined. I believe it can do the same for any open-hearted seeker of God's will. See the editorial on page 178 for an excerpt in which Gotthardt explains what he hopes to accomplish in the lives of his readers through the book.

To receive your gift copy, send your request (no phone calls or emails, please) to: Christmas Gift Book, SMI, Unit 202, 9700 Park Plaza Ave, Louisville, KY 40241-2287. Please note: This offer is for currently active SMI members only. Your letter must be postmarked no later than December 20. You should receive your book by the end of January. (Please don't request this gift copy unless you are committed to reading it—the cost of sending out hundreds of books is substantial.)

Susie and I trust this book will remind you that "God is able to bless you abundantly, so that in all things at all times, having all that you need, you will abound in every good work."

May you and your family have a spiritually fulfilling celebration of Christ's first coming as you rejoice in our Savior. From the SMI staff and all the Pryor family, Merry Christmas! ◆

[1] Sep2019:Cover

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

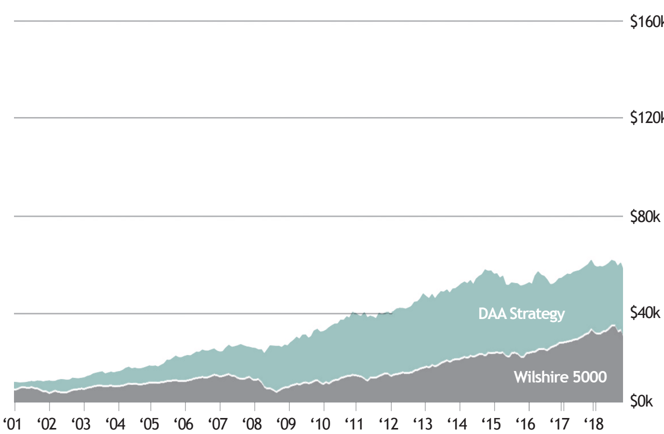
Overview

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

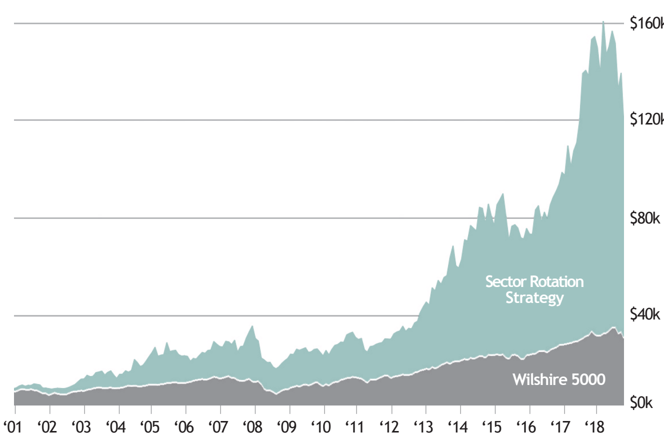
Overview

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 OCTOBER 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]	22.7%	2.2%	1.9%	13.5%	14.5%	10.5%	13.6%	9.2%
Just-the-Basics[2]	20.3%	2.3%	1.2%	11.6%	12.4%	8.4%	12.0%	8.7%
Stock Upgrading[3]	16.2%	1.1%	0.3%	7.3%	10.5%	7.3%	10.7%	8.6%
U.S. Bond Market[4]	8.8%	0.2%	2.4%	11.4%	3.1%	3.1%	3.6%	4.0%
Bond Upgrading[5]	8.7%	0.4%	2.4%	10.5%	3.0%	2.9%	5.1%	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]	14.3%	1.1%	4.7%	10.6%	6.9%	4.0%	8.6%	9.9%
Sector Rotation	-7.2%	-1.6%	-5.2%	-18.3%	11.1%	7.8%	15.9%	14.1%
50-40-10 Blend[7]	12.9%	0.9%	2.0%	6.3%	9.0%	5.9%	10.4%	10.3%

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 10/31/2019	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	14.22%	1.47%	-0.31%	4.28%	9.07%	5.50%	9.17%
Wilshire 5000	22.74%	2.19%	1.92%	13.48%	14.50%	10.46%	13.62%
S&P 500	19.51%	2.62%	1.43%	9.85%	12.10%	8.14%	11.58%

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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