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Keep Calm and Carry On: Don't Let Market Turmoil Push You Into Short-Sighted Decisions

When markets are volatile, it's easy to allow "fear and greed" to drive your decision-making—most likely to your own detriment. Investment advisor Martin Pring says a better response to market upheavals is to be less impulsive and more analytical. He argues that you have a better chance of coming out ahead by applying the age-old virtues of common sense, patience, and discipline.

by Martin J. Pring

As soon as money is committed to a financial asset, so too is emotion. Any biases present before the money was placed on the table are greatly increased once the investment has been made. If none were present before, they certainly will appear now. However hard we try, certain prejudices are bound to creep in. A successful investor realizes this and knows he must try to maintain psychological balance through self-control.

An investor or trader faces a constant bombardment of emotional stimuli. News, gossip, and sharp changes in prices can set the nerves quivering like the filament in an incandescent lamp unless properly controlled. These outside influences cause the emotions to shift between the two extremes of *fear* and *greed*. Once you lose your mental balance, even for an instant, your will and reasoning will be swept away, and you will find yourself acting as the vast majority of market participants act—on impulse.

To counteract this tendency, you must be as objective as possible. Remember: prices in financial markets are determined by the *attitude of investors* to the emerging economic and financial environment *rather than by the environment itself*. This means price fluctuations will be determined by the hopes, fears, and expectations of the crowd. Your job is to try as much as possible to ignore those around you and form an independent opinion while making a genuine attempt to overcome your own prejudices.

The markets are driven by crowd emotions. Nothing you can do will change that; it is a fact you have to accept. Despite this, becoming a successful investor demands that you overcome your mental deficiencies and rise above the crowd. As a natural result, you will find yourself outside the consensus.

Mastering fear

The target of objectivity or mental balance lies approximately in the middle between the two destructive mental forces of fear and greed. Fear is a complex emotion taking many forms such as worry, fright, alarm, and panic. When fear is given free rein, it typically combines with other negative emotions such as hatred, hostility, anger, and

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

EDITORIAL

What We All Need to Know

"It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so."

That quote, attributed to various humorists (including Mark Twain), seems especially appropriate right now. At a time like this, it's important to discern what is really true. Since one of SMI's goals is to simplify the complex—focusing on what you *need* to know rather than all there *is* to know—let's take a look at what we know for sure that is *certainly* so.

We know that the world, and as a result, the markets, have been in turmoil because of the fast-moving COVID-19 pandemic. After setting a new record on February 19, it took a mere 16 trading sessions for the S&P 500 to enter bear market territory (a decline of at least -20%), making it by far the fastest switch from a bull- to bear-market in history. Previously, such a fall had taken an average of eight months!

We know that people feel the pain of loss more acutely than the pleasure of gain. So, given the speed and magnitude of this sell-off, it wouldn't be surprising if you're feeling some pain right now. *All* investors are.

But here's what *else* we know—reassuring rock-solid truths from God's Word and important lessons from market history.

Timeless truths from God's Word

● **We know we need not fear.** *"For God has not given us a spirit of fear, but of love and of power and of a sound mind."*[1]

● **We know God is always with us, always for us, and always loves us.** *"See what great love the Father has lavished on us, that we should be called children of God!"*[2]

● **We know God is aware of our needs and promises to provide.** *"…your Father knows what you need before you ask him."*[3] *"So do not worry, saying, 'What shall we eat?' or 'What shall we drink?' or 'What shall we wear?' For the pagans run after all these things, and your heavenly Father knows that you need them. But seek first his kingdom and his righteousness, and all these things will be given to you as well."*[4]

● **Come what may in the markets, we know that God's Word teaches us to be patient, to take the long-view.** *"Steady plodding brings prosperity; hasty speculation brings poverty."*[5]

● **And we know God has a purpose for every trial we experience, using it to mold our character and draw us closer to Him.** *"Therefore, in order to keep me from becoming conceited, I was given a thorn in my flesh, a messenger of Satan, to torment me. Three times I pleaded with the Lord to take it away from me. But he said to me, 'My grace is sufficient for you, for my power is made perfect in weakness.'"*[6]

Lessons from market history

Investing is far from a perfect science, but we can learn from the past. Here's what we know from previous bear markets.

● **Every crash has unique causes...** The COVID-19 pandemic-induced sell-off is different from the Great Recession of 2008, which was different from the bear market of 2000-2002.

● ...**but every crash generates similar investor responses.** Investors fear falling markets, and when people panic they make bad decisions. When fear drives people out of the markets, fear will tend to *keep* them out of the markets until long after the inevitable recovery has begun.

● **Every crash reminds us that it is crucial to have a plan.** Such a plan, developed at a time of market calm, should include reliance on rules-based investment strategies and a "market events" statement where you commit to what you will do, or not do, at a time of market stress.[7]

So far, some aspects of the rules-based strategies most SMI investors rely on have worked great. Others haven't worked as well as we might have hoped. Dynamic Asset Allocation has been a lifesaver, moving a portion of many SMI members' portfolios out of harm's way three weeks before this bear market began. Upgrading 2.0 narrowly missed triggering at the end of February.[8] In hindsight, we obviously wish it had.

That said, if your plan calls for following these strategies, don't overcomplicate things with thoughts of going off-script! Follow the strategies as they call for specific action. They were designed to respond to bear markets—at the *beginning* of them, such as we've experienced over the past month, but also the *middle* and eventual *end* of them. As hard as it is to imagine right now, at some point we'll need to transition the other direction toward getting more aggressive again.

One of the great lessons from history, vividly depicted in this month's Level Two article, is that scary, market-moving events happen somewhat frequently—yet through them all, we know the market has continued its "constant jagged climb" higher.

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[1] 2 Timothy 1:7 [2] 1 John 3:1 [3] Matthew 6:8 [4] Matthew 6:31-33 [5] Proverbs 21:5
[6] 2 Corinthians 12:7-9 [7] Nov2019:p167 [8] See more on page 60.

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revenge, thereby attaining even greater destructive power.

In the final analysis, fear among investors shows itself in two forms: *fear of losing* and *fear of missing out*. In his book *How I Helped More Than 10,000 Investors to Profit in Stocks*, George Schaefer, the great Dow theorist, describes several aspects of fear and the varying effects they have on the psyche of investors:

- **A threat to national security triggers fear.** Any threat of war, declared or rumored, dampens stock prices. The *outbreak* of war is usually treated as an excuse for a rally, hence the expression: "Buy on the sound of cannon, sell on the sound of trumpets." This maxim is derived from the fact that the outbreak of war usually can be anticipated. Consequently, the possibility is discounted by the stock market and therefore the market, with a sigh of relief, begins to rally when hostilities begin. As it becomes more and more obvious that victory is assured, the event is factored into the price structure and is fully discounted by the time victory is finally achieved. Only if the war goes badly are prices pushed lower as more fear grips investors.
- **All people fear losing money.** This form of fear affects rich and poor alike. The more you have, the more you can lose, and therefore the greater the potential for fear in any given individual.
- **Worrisome news stimulates fear.** Any news that threatens our economic well-being will bring on fear. The more serious the situation, the more pronounced is the potential for a selling panic.
- **A fearful mass psychology is contagious.** Fear breeds more fear. The more people around us are selling in response to bad news, the more believable the story becomes, and the more realistic the situation appears. As a result, it becomes difficult to distance ourselves from the beliefs and fears of the crowd, so we also are motivated to sell. By contrast, if the same breaking news story received less prominence, we would not be drawn into this mass psychological trap and would be less likely to make the wrong decision.
- **The risk of a never-ending bear market is a persistent myth.** Once a sizable downtrend is underway, the dread that it will never end becomes deeply entrenched in the minds of investors. Almost all equity bull markets are preceded by declining interest rates and an easy-money policy that sow the seeds for the next recovery. This trend would be obvious to any rational person who is able to think independently. However, the sight of sharply declining prices reinforces the fear that "this time it will be different" and that the decline will never end.
- **Individuals retain all their past fears**. Once you have had a bad experience in the market, you will always fear a similar recurrence, whether consciously or subconsciously, or both. If you have made an investment that resulted in devastating losses, you will be much more nervous the next time you venture into the market. As a result, your judgment will be adversely affected by even the slightest, often imagined, hint of trouble. That intimation will encourage you to sell so that you can avoid the psychological pain of losing yet again. This phenomenon also affects the investment community as a whole.
- **The fear of missing out.** Although this is not one of Schaefer's classifications of fear, it is a powerful one nonetheless. This phenomenon often occurs after a sharp price *rise*. Portfolio managers are often measured on a relative basis either against the market itself or against a universe of their peers. If they are under-invested as a sharp rally begins, the perception of missing out on a price move and of the under-performance that would result is so great that the fear of missing the boat forces them to get in.

This form of fear can also affect individuals. Often, an investor will judge, quite correctly, that a major bull market in a specific financial asset is about to get underway. Then when the big move develops, he does not participate for some reason. It might be because he was waiting for lower prices, or more likely because he had already gotten in but had then been psyched out due to some unexpected bad news. Regardless of the reason, such "sold out bulls" suddenly feel left out and feel compelled to get back into the market. Ironically, this usually occurs somewhere close to the top. Consequently, the strong belief in the bull market case coupled with the contagion of seeing prices explode results in the feeling of being left out.

When you find yourself in this kind of situation it is almost always wise to stand aside. A client once said to me, "There is always another train." By this, he meant that even if you do miss the current opportunity, however wonderful it may appear, patience and discipline will reward you with another. If you ever find yourself in this predicament, overcome the fear of missing out and look for the next "train." Fear, in effect, causes us to act in a vacuum. It is such an overpowering emotion that we forget about the alternative, temporarily losing the perception that we do have other choices.

Mind games and character weakness

Fear of losing can also take other forms. For instance, occasionally we play mental games by refusing to acknowledge the existence of ominous developments. This could take the form of concentrating on the good news because we want the market to rally, and downplaying the bad news, although the latter may be more significant. Needless to say, this kind of denial can lead to some devastating losses.

Alternately, an investor may get into the market in the belief that prices are headed significantly higher, say by 30%, over the course of the next year. After a couple of weeks, the stock may have already advanced 15%. It then undergoes a minor correction that has absolutely no relevance so far as the long-term potential is concerned. Nevertheless, the investor's fear of losing comes to the surface as he mentally relives experiences of previous setbacks. The reasoning may be, "Why don't I get out now? The short-term correction that is likely to take place may well push the price below my entry point and I will be forced to take another loss. Far better if I liquidate and get back in when it goes lower." One way of solving this dilemma would be to take profits on part of the position. This would relieve some of the pressure but would also leave him free to participate in the next stage of the rally.

A more permanent and viable solution is first to recognize that you have a problem in this area. Next, *establish a plan that* *sets realistic goals ahead of time* and also permits the taking of partial profits under certain predetermined conditions. This approach would stand a far greater chance of being successful than knee-jerk trading or investment decisions caused by character weakness. If this type of planning went into every trading or investment decision it would eventually become a habit. The fear of losing would then be replaced by a far more healthy fear of *not following the plan.*

Dealing with greed

Greed is at the other extreme of our emotional makeup. It results from the combination of overconfidence and a desire to achieve profitable results in the shortest amount of time. The problem is that this quick-grab approach is bound to lead to greater stress and subjectivity.

Let's consider the case of a trader, Rex, who decides that gold is in the early stages of a dynamic rally. He concludes from his research that the bull market is more or less the proverbial "sure thing." There are a number of ways in which to participate. One would be to invest in the metal or in gold shares by paying for either in full. An alternative and far more tempting possibility would be to take a significant portion of available capital and speculate in the futures or options markets. In this way, his capital will be highly leveraged, and if he is right, the gains will be many times those of a simple cash investment.

The problem is that markets rarely move in a straight line. Let's say that Rex has a capital investment of $25,000, and expects the price of gold to advance by $150. Margins vary with volatility in the market, but let's suppose that the current margin (i.e., deposit requirement) is $2,000 per futures contract. This means that Rex could buy 12 contracts. Every $1 movement in the gold price changes the value of each contract by $100, so a dollar movement for an account holding 12 contracts would be $1,200. If the price moves up by $150, his account will profit to the tune of $180,000. If he deducts $10,000 for commissions and carrying charges, that's still very healthy profit on a $24,000 investment!

The problem is that leverage can work both ways. Let's say, for example, that the price of gold does eventually go up by $150, but it goes down $15 first. This means that Rex's account initially loses $18,000. You might think that the $7,000 balance would be sufficient to enable him to ride out the storm. However, his broker will be quite concerned at this point and will issue a margin call. Either he must come up with the $18,000 or he will be forced to liquidate the position. Here is an example where the analysis is absolutely correct but the extreme leveraging of the position, that is, the greed factor, results in disaster. (If Rex had taken a less leveraged position, say purchased just two contracts, he could have avoided the margin call, ridden out the storm, and taken profits when the price rallied to $150.)

The odds are therefore very high that our friend Rex will decide to liquidate his entire position. A devastating loss of this nature is a very worrying experience, but most traders will tell you that once the position has been liquidated, most people feel a sense of relief that the ordeal is over. The last thing Rex wants to do at this point is speculate in the futures markets. However, it is only a matter of time before his psychological wounds heal and he ventures back into the market. Like most people, he will vow that he has learned from his mistake, but it is not until prices go up and his equity grows that he will find out whether or not he has *really* learned his lesson.

This example shows that success, if not properly controlled, can sow the seeds of failure. Anyone who has encountered a long string of profitable trades or investments without any meaningful setbacks is bound to experience a feeling of well-being and a sense of invincibility. This in turn results in more risk-taking and careless decision making. Markets are constantly probing for the vulnerabilities and weaknesses that we all possess, so this reckless activity presents a golden opportunity for them to sow the seeds of destruction. In this respect, remember that no one, however talented, can succeed always. Every trader and investor goes through a cycle that alternates between success and failure. Successful traders and investors are fully aware of their feelings of invincibility and often make a deliberate effort to stay out of the market after they have experienced a profitable campaign. This "vacation" enables them to recharge their emotional batteries and subsequently return to the market in a much more objective state of mind.

Investors who have had a run of success, whether from short-term trading or long-term investment, have a tendency to relax and lower their guard, because they have not recently been tested by the market. When profits have been earned with very little effort, they are not appreciated as much as when you have to sweat out painful corrections and similar market contortions. Part of this phenomenon arises because a successful campaign reinforces our convictions that we are on the right path. Consequently, we are less likely to question our investment or trading position even when new evidence to the contrary comes to the fore. We need to recognize that confidence moves proportionately with prices.

Hope, the most subtle of mind traps

Many other emotions lie between the destructive polar extremes of fear and greed. One such trap, which also has the potential to divert us from maintaining an objective stance, is hope. After prices have experienced a significant advance and then undergo a selling frenzy, the activity often leaves the unwary investor with a substantial loss. It is natural to hope that prices will return to their former levels, thereby presenting him with the opportunity to "get out even." This redeeming concept of hope is one of the greatest obstacles to clear thinking and maintenance of objectivity.

Hope often becomes the primary influence in determining a future investment stance. Unfortunately, it can only warp or obscure sound judgment and will undoubtedly contribute to greater losses. In a sense, the victim of hope is mentally trying to make the market do something he *desires* rather than make an objective projection based on a *solid appraisal of conditions.*

Hope is defined as the "expectation of something desired." Sound investment and trading approaches are based, not on desire, but on a rational assessment of how future conditions will affect prices. Whenever your position is under water, you should step back and ask yourself whether the reason for the original purchase is still valid or not. Ask these questions: If all my money were in cash right now, would this investment or trade still make sense? Are the original reasons for making the purchase still valid? If the answers are positive, then stay with the position; if not, then the only justification is one based on hope.

Whenever you can identify hope as the primary justification for holding a position, close it out immediately. This action will achieve two things. First, it will protect you from a potentially serious loss. If your exposure is being rationalized on hope alone, you will be ignorant of any lurking dangers and will be that much more vulnerable to further price declines. Second, it is vital for you to regain some objectivity and free yourself from as many biases as possible. This can be achieved only by selling your position and making an attempt at a balanced assessment of your situation.

Avoid projecting a market direction you'd like to see instead of the direction indicated by the facts

A principal obstacle to maintaining an objective stance occurs when we inflexibly adopt a preconceived idea of where the market is headed. This is quite different from postulating several scenarios of what might happen in a given set of circumstances because that practice implies a more open and flexible state of mind. The greatest danger occurs when we become quite dogmatic about our interpretation of where things are headed. The result is that *we are more likely to blot out of our minds any evidence that might conflict with these preconceived notions*. It is only after the market has moved against our position and is dealing out some financial pain that we begin to question our original belief. Consequently, anyone who holds a strong inflexible view is coming to the market with a tremendous bias that is inconsistent with the desired state of objectivity.

There is an old saying that the market abhors uncertainty. This adage makes sense, because the market is—as you know—effectively the sum total of the attitudes, hopes, and fears of each participant. As individuals, we do not like uncertainty. The need to have a firm opinion of where prices are headed is therefore a mental trick that many of us use to eliminate this uncertainty. Removing this bias is difficult, because we are all influenced by events and news going on around us.

Let's take an example of an economy coming out of a recession. The news is usually quite bad as unemployment, which is a lagging indicator of economic health, gets prominent play in the media. However, leading indicators of the economy such as money supply and the stock market do not have the same human interest aspects as mass layoffs and similar stories. You don't sell a lot of newspapers or increase your TV ratings if you tell people that overtime hours, which are a reliable leading indicator of the labor market, are rebounding sharply. As a result, we experience a continual bombardment of bad news at the very moment that the economy is emerging from hard times. This media hype is bound to have a detrimental effect on our judgment, causing us to come up with unrealistically pessimistic scenarios. We find ourselves deciding that stocks will decline, and we execute our investment plans accordingly.

When the market rallies, it catches us completely by surprise. We deny the reality, since it does not fit in with our preconceived notions of the direction that it "should" be taking.

One way of overcoming such biases is to study previous periods when the economy was emerging from recession and try to identify economic indicators that might have signaled such a development ahead of time (i.e., leading indicators). Some signs to look for would be a six-month or longer decline in interest rates, including a couple of cuts in the discount rate by the Federal Reserve, a four- to six-month pickup in housing starts, and an improvement in the average amount of overtime worked.

Economic indicators move in trends lasting a year or more. If you base a long-term scenario on one month's data, the chances are that it will give you a misleading portrait of the economy, especially as this interpretation is most likely to be similar to that held by other market participants and the media. In effect, it will be highly believable to the unwary.

An investment approach based on solid indicators that reacts in a *cautious* manner to highly publicized monthly readings of the market beats one that is based on a knee-jerk reaction to economic stories that the media have hyped or exaggerated way beyond the bounds of reality. Careful study of the economic indicators just cited and others that have a good forecasting track record help to establish a set of objective criteria that make it less likely an investor would try to make the market dance to his or her tune. The essential factor is that you have an objective basis for making investments or trading decisions.

Maintaining our balance

As our confidence improves, we should take countermeasures to keep our feet on the ground so that we maintain our sense of equilibrium. At the beginning of an investment campaign, this is not as much a requirement as it is once the campaign progresses. That's because fear and caution help rein in our tendency to make rash decisions. As prices move in our favor, however, the solid anchor of caution gradually disappears. This means that sharp market movements that go against our position hit us by surprise.

It is much better to be continually running scared and looking over our shoulder for developments that are likely to reverse the prevailing trend. Such unexpected shocks will be far less frequent because we will have learned to anticipate them. When events can be anticipated, it is much easier to put them in perspective. Otherwise, their true significance may be exaggerated. The idea is to try to maintain a sense of mental balance so that these psychological disruptions can be more easily deflected when they occur.

Think of how a practitioner of karate maintains the poise that enables him to deflect physical blows. The same should be true for the investor. Try to maintain your mental balance by taking steps to be as objective as possible. Succumbing to the emotional extremes of fear and greed will make you far more vulnerable to unexpected outside forces. Unless you can assess their true importance and then take the appropriate action by using your head, you are more likely to respond emotionally to such stimuli, just like everyone else. ◆

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

SETTING AN EMERGENCY-SAVINGS TARGET

Money—or rather the lack of it—keeps many Americans up at night. Specifically, many people lose sleep over unexpected expenses, according to research by the American Psychological Association. Other research confirms what is intuitive: people who don't have an emergency fund to help meet such expenses are much more stressed than those who do.

Establishing an emergency savings reserve is crucial to maintaining financial stability. Indeed, building a reliable reserve should take precedence over your investing. Otherwise, you may find yourself forced to liquidate investments to meet short-term emergency needs. That will have negative tax implications if the investments must be sold from a tax-advantaged account. Worse yet, you could be forced to sell at an inopportune time—i.e., when prices have fallen.

So having a savings reserve isn't just a stress reducer. It's a critical element of a long-term money-management strategy.

How much should you save?

Financial planners typically suggest maintaining an emergency reserve sufficient to cover three to six months' worth of "essential living expenses." Let's see what it would take to cover expenses for those lengths of time.

According to the U.S. Census Bureau, the median before-tax income for a married couple with children is $93,654.[1] The figure we're interested in, however, is *after-tax* income. Here's why: one of the emergencies a savings reserve helps cover is a temporary loss of income. In such a situation, you won't need to replace *all* of your lost income because a certain percentage went to taxes (which you won't have to pay if you're not working.)

Therefore, from the median gross of $93,654, we'll subtract an estimated 17%[2] for income and payroll (i.e., Social Security/Medicare) taxes. The result is $77,732, which translates to a need of just under $6,500 per month.

In broad-brush terms, you probably could cover your essentials with about 75% of after-tax income because certain expenses could be reduced or put on hold during a loss-of-income situation: entertainment, vacations, retirement-account contributions, etc. So a three-month savings reserve for our median-income family would amount to approximately $14,625 ($6,500 x .75 x 3). A six-month reserve would be double that: $29,250.

The table below shows the target amounts for three- and six-month savings reserves at various income levels. (Ideally, it's better to prepare for longer than three months.) You may want to go *higher* than these targets, but be wary of going much lower.

To some degree, the target size of your savings reserve will depend on how many "breakable" moving parts your life has. A single person who rents an apartment and has a secure job will need to set aside less than a married person who has children, owns a home, and is subject to layoffs.

If Your Gross Income Is:	3-Month Reserve Equals:	6-Month Reserve Equals:
$60,000	$9,350	$18,700
$70,000	$10,900	$21,800
$80,000	$12,450	$24,900
$90,000	$14,000	$28,000
$100,000	$15,550	$31,100
$110,000	$17,100	$34,200

Note: For the table, we rounded some numbers and used a uniform estimate of 17% for the amount of gross earnings paid in income and payroll taxes. Those with lower incomes should use a smaller percentage; those with higher incomes a larger percentage.

Where to find the money

Right about now, you may be feeling like a particular character (played by comedian Steve Martin) in a classic *Saturday Night Live* skit. Sitting at a kitchen table with his wife, listening to an infomercial announcer talk about avoiding debt by having a savings reserve, he inquires, "And where would we get this '*saved* money'?"

One source for "jump-starting" an emergency fund is a tax refund. About 80% of taxpayers get a federal refund each year, and the average amount tops $3,000. If you're getting a refund this year, commit to putting it into a savings account. Also have your withholding adjusted so that less is withheld from your paychecks. Use the added take-home pay to grow your emergency fund month after month. (To estimate how much you should have withheld, use the IRS's online withholding estimator.[3])

Important: Your emergency fund isn't for getting new tires or an annual furnace check-up. Those items should be covered by budgeting each month for vehicle maintenance and home upkeep. An emergency fund is for just that—*emergencies*. As noted earlier, the most significant financial emergency for most people is a loss of income—something that can occur without warning, as the sudden economic impact of the coronavirus has demonstrated all too painfully.

Keep it accessible

It's best to keep your savings reserve where it can earn at least a little interest while remaining easily accessible. You don't want to tie up your emergency savings in a multi-month CD or any other asset you can't turn into cash right away.

One of the best holding places for emergency savings is an online-only bank. Such banks are FDIC-insured and pay higher interest rates than local "brick-and-mortar" banks.

By helping protect you during the financial storms of life, a well-funded emergency reserve will go a long way toward guarding your overall financial health. Knowing such a fund is there may even help you get a good night's sleep. ◆

[1]Figure is for married-couple households with children under 18 years old. Source: U.S. Census Bureau, Current Population Survey, 2019 Annual Social and Economic Supplement. [2]Effective tax rates vary depending on income, deductions, employment situation, and state of residence. [3]irs.gov/individuals/tax-withholding-estimator

LEVEL 2 TWO

Developing Your Investing Plan

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

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

THE ENDURING OPTIMISM OF AN INVESTOR

With all the market turmoil in recent weeks, you've probably experienced a wide range of emotions—from surprise to concern, and possibly fear. One emotion you may *not* have experienced is optimism. And yet, while not wanting to paint a smiley face on all that's been happening, there is reason for optimism among investors right now.

Do not worry

After Jesus told his disciples not to worry about various forms of provision—food and clothing and such—He reassured them that He knows their needs and surely will provide for them. His counsel was to put their focus on God above all else: "But seek first his kingdom and his righteousness, and all these things will be given to you as well." And then He encouraged them to take life one day at a time. "Therefore do not worry about tomorrow, for tomorrow will worry about itself. Each day has enough trouble of its own" (Matthew 6:33-34).

Indeed it does. It doesn't take much time sojourning in this strange land to experience all manner of troubles. That's certainly true for investors. And yet, on a very practical level, we can take a lesson in going toe-to-toe with such troubles from one of the greatest investors of all time. Still in the throes of the last brutal bear market, here's what Warren Buffett wrote to Berkshire Hathaway shareholders in February of 2009:

"[N]ever forget that our country has faced far worse travails in the past. In the 20th century alone, we dealt with two great wars (one of which we initially appeared to be losing); a dozen or so panics and recessions; virulent inflation that led to a 21½% prime rate in 1980; and the Great Depression of the 1930s, when unemployment ranged between 15% and 25% for many years. America has had no shortage of challenges. Without fail, however, we've overcome them. In the face of those obstacles—and many others—the real standard of living for Americans improved nearly seven-fold during the 1900s, while the Dow Jones Industrials rose from 66 to 11,497. Compare the record of this period with the dozens of centuries during which humans secured only tiny gains, if any, in how they lived. Though the path has not been smooth, our economic system has worked extraordinarily well over time. It has unleashed human potential as no other system has, and it will continue to do so. America's best days lie ahead."

When he wrote those words he had no way of knowing that the bear market was about to end and that it would be followed by one of the greatest bull markets of all time. But he did know that the world had faced plenty of troubles in the past and each time the market had weathered the storm.

It's always something

In a wonderfully written and illustrated book that came out in 2017, *Wealth by Virtue*, financial advisor Chad Gordon details 89 years of the world's travails—from 1928 to 2016—along with the stock market's "constant jagged climb." The table shows a small example organized by decade, along with a few additions to bring the list up to date.

DECADE	UNSETTLING EVENTS	END-OF-DECADE VALUE OF $100 INVESTED IN S&P 500 AT START OF 1928[1]
1920s	Black Tuesday stock market crash	$132
1930s	The Great Depression, Half of all banks fail, Unemployment reaches 30%	$120
1940s	Pearl Harbor, U.S. entry into WWII	$272
1950s	The Korean War, Asian flu pandemic, Great Chinese Famine	$1,609
1960s	Cuban Missile Crisis, Assassinations of JFK, RFK, MLK Jr., Vietnam War	$3,390
1970s	OPEC oil embargo, Watergate, President Nixon resignation	$6,023
1980s	President Reagan assassination attempt, Falklands War, Black Monday market crash	$29,809
1990s	Persian Gulf War, World Trade Center bombing, Oklahoma City bombing	$156,658
2000s	9/11 terrorist attacks, Iraq War begins, The Great Recession	$142,345
2010s	Flash crash, Boston Marathon bombing, Brexit vote, President Trump elected	$502,417
2020s	Coronavirus pandemic...	?

Here's an excerpt from Gordon's book: "Some people are incurably pessimistic. They are like Eeyore from Winnie the Pooh.... While negativity can be funny, it's also much easier to respect a skeptic. Pessimism somehow feels closer to *realism*.

"Folks on the opposite end of the spectrum are far more rare. They are like Disney's Pollyanna. In our society, optimism is unfashionable. It is perceived as naive, foolish, and unseasoned. Optimism somehow feels *unrealistic*.

"When it comes to the pursuit of wealth, the Pollyannas always end up better than the Eeyores. In the long run, *always*."

Unpredictable, highly irregular, and profitable

To be sure, investing isn't *just* about an optimistic outlook. Making informed asset allocation decisions and using objective, rules-based processes to choose specific investments, such as the momentum rules used in most *(continued on page 61)*

[1]Each decade is reckoned as concluding with the year ending with "9"—e.g 1929, 1939, etc. Results include dividends. Source: pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html.

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

AREN'T BONDS SUPPOSED TO BE SAFE?

Recent weeks have seen investors' first encounter with "crash level" volatility since the financial crisis of 2008. During periods like these, most media and investor attention focuses on the stock market. That's where the largest losses pile up, plus it's the aspect of investing most familiar to individual investors.

Dig deeper though and you'll find these crises typically arise from trouble in the credit (bond) markets. Companies can live with temporarily depressed stock prices, but many can't function without access to the credit markets. Often, actions taken by the Federal Reserve that investors interpret as a reaction to falling stock prices actually are interventions targeted to keeping the credit markets running smoothly. Sadly, the past month has been anything but smooth.

Bond construction

To understand the bond landscape, it's important to grasp the two axes on which bond investments pivot.

The first axis is the *duration* of the bond. This reflects the length of time for which the money is on loan. Simply put, the longer a bond's duration, the more volatile its price. Long-term bonds have greater price movements in reaction to most events than short-term bonds do.[1]

The other axis of bond construction is the *type* of credit a particular bond represents. While there are many sub-categories, the two broad types are Government debt and Corporate debt.

These two axes can be combined in multiple ways. For example, it's possible to have short-term Government debt, long-term Corporate debt, and vice versa.

Normally, when financial market volatility frightens investors, Government debt—specifically Treasury bonds—become the preferred "flight-to-safety" trade. Stocks get sold and U.S. Treasury bonds are in high demand. This pushes their prices up and their yields down, and the longer the duration of the Treasury bond, the more dramatic this effect. This means long-term Treasuries are usually among the very best investments in periods like 2008 and this past March.

This is exactly what happened during the first phase of the recent selloff. At the stock market peak on February 19, the 30-year Treasury bond yield was 2.01%. Just 13 market days later, the yield had fallen all the way to 0.99%, the first time in history it ever traded below 1%. One popular ETF that tracks long-term Treasury bonds soared +17.9% during that span, almost the exact opposite of the -17.5% losses in the S&P 500 index. This was exactly what would be expected.

So imagine the surprise of investors (and the panic of Fed officials) when U.S. Treasury bonds suddenly started seeing their yields *rise* and prices *fall,* even on days of panic selling in stocks over the following two weeks. While some of this was likely just a reaction to yields having fallen so fast, that's not the whole story. In a panic, investors who need cash sell whatever they have, including typical safe havens such as gold and Treasury bonds. This is especially true of leveraged investors facing margin calls, and foreign investors with dollar-denominated debts. Those investors needed dollars *now*, and Treasuries were sold along with everything else.

(Some investors borrow from their broker to buy stocks. This is called buying on margin. When the value of those stocks falls, the investor is asked to put up more money as collateral, otherwise the broker will sell the stock. This request from the broker is called a margin call.)

Worse, the panic selling revealed dysfunction in the credit market system, as the usually liquid Treasury market seized up with relatively few transactions being made. Some of these problems appear to stem from changes instituted after the 2008 financial crisis to restrict bank trading in bonds. The Fed has intervened multiple times with measures to try to get the credit markets flowing better.

Corporate bonds faced these same travails (and then some), as awareness of the business costs of dealing with COVID-19 deepened day by day. On top of panic selling and disorderly credit markets, the real threat of businesses not surviving the coronavirus crisis put corporate debt under heavy selling pressure.

ETFs add unique short-term risk

Another poorly understood aspect of the credit markets is that, unlike stocks which trade moment by moment, most bonds trade infrequently. This isn't true of Treasuries, which are normally very liquid (i.e., easily tradeable with high volume). But most corporate bonds, even in normal times, trade infrequently. This means valuing those bonds (which may not have traded for a week or more) involves a lot of educated guessing.

The reason bond ETFs are a particular problem in this regard is because they *do* trade moment-by-moment just as stocks do. In a crisis environment, with so much uncertainty around the true value of the underlying bond holdings, the "spread" on bond ETFs widens, with buyers offering less and sellers asking for more, each trying to reduce their exposure to losses if the price they are requesting turns out to be wrong.

On March 18, the Vanguard Total Bond Market ETF (BND), one of the largest bond ETFs with assets of $50 billion, traded at a 6% discount to the Net Asset Value of its underlying portfolio. Similar discounts were seen in other bond ETFs on the big panic selling days as well.

The good news is these pricing anomalies are temporary, so unless you sell during these episodes, they don't really affect you. Eventually, the underlying values get sorted out as the market calms down. But this can lead to greater daily price volatility on some of these bond ETFs.[2] *(continued on page 61)*

[1]See Nov2018:p167 for more on duration and its impact on bond risk. [2]If you ever trade in a panic market environment—when bid/ask spreads are wider than usual—using a "limit" order (rather than a "market" order) can reduce risk.

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

WHEN A "BUCKET STRATEGY" SHINES

Market reversals are unnerving for everyone. But for a person in retirement or close to it, a sudden and deep downturn can be terrifying. It's scary to see one's nest egg diminish by tens of thousands of dollars (or even more) in just a short period. And if the investor needs some of that retirement money soon, he or she faces the demoralizing prospect of withdrawing funds at the worst possible time.

We can be thankful that bull markets tend to be long and bear markets tend to be short, but that is scant comfort when a bear begins to prowl. And, unfortunately, many retirees and near-retirees are caught off guard when that happens.

Two years ago, we wrote about an approach to managing retirement savings that helps safeguard older investors from the impact of market reversals: the "bucket strategy."[1] It is in times of sudden market upheaval that a bucket approach shines.

Bucket basics

"Bucket" is a metaphor—a way of describing how to divide one's money among different types of financial instruments, based on when the funds will be needed. Some financial advisors suggest having only two buckets; others recommend more.

The crucial bucket is Bucket One—the place for money needed for living expenses over the next year or two (or perhaps three). Bucket One money should go into a bank savings account[2] or a money-market mutual fund. Any Bucket One dollars that won't be needed the first year could be held in a higher-yielding short-term CD or perhaps a short-term bond fund. (Keep in mind, however, that you can lose money in a short-term bond fund. The main point of Bucket One is to have money immediately available for essential spending, so be careful about reaching for higher yield.)

By having cash on hand, a retiree is insulated from the short-term vagaries of the stock market because living expenses are covered by cash assets, rather than withdrawals from an investing account. In effect, your cash holdings will become the funding source for your monthly "paycheck," along with Social Security income and any guaranteed income you may have from other sources, such as a pension or annuity.

Here's how to calculate the amount needed in Bucket One: Subtract your annual Social Security benefits and any other non-portfolio guaranteed income from your estimated annual cost of living. The result is the "gap" that you'll need to cover from other resources in the year ahead. (If you want a two-year cash bucket, double the one-year gap amount.)

To begin, withdraw from your investments the amount you've determined to put in your cash bucket. Once your cash bucket is in place, you should be able to relax about what the market may be doing. A downturn, a correction (a decline of 10%), or even a full-blown bear market (a drop of 20% or more), won't affect your immediate cash flow because you'll be drawing monthly from safe, liquid holdings while waiting for your investment holdings to recover.[3]

Refilling your cash bucket

Perhaps the biggest challenge of a bucket strategy is knowing how and when to *refill* your cash bucket. The approach some investors use is to rebalance their investment holdings once a year and (assuming there have been gains) redeploy any "excess" to the cash bucket. Other investors refill the bucket by withdrawing a set amount from their investments each year.

There are pros and cons to any approach.[4] Still, it's safe to say that the *ideal* is to replenish your cash bucket when your investment portfolio is on the upswing, selling into market strength, rather than into a decline. During bear markets, it's better to let your cash bucket dwindle, holding off on selling investments while prices are down. As the market recovers, you can begin to refill the cash bucket.

But selling into strength presents its own particular challenge: When your investments are growing, withdrawing large amounts can be emotionally difficult. It's crucial to keep your eye on the goal: protecting yourself from a future market reversal. As the events of recent weeks have shown all too painfully, such setbacks can happen quickly and unexpectedly.

Buckets and SMI strategies

Although we haven't developed a specific approach to using "buckets" in conjunction with SMI strategies, remember that the whole idea of the bucket approach is segregating your financial resources by intended use.

Let's assume you want three buckets. Bucket One is a cash bucket as described above (1-to-3 years of living expenses). Bucket Two is an *intermediate-term* investment bucket that earns a solid return but isn't too volatile (money needed 4-to-9 years out). And Bucket Three is a *longer-term* investment bucket that can be more aggressive because its time horizon stretches out to 10 years and beyond.

SMI's Dynamic Asset Allocation would be a good choice for Bucket Two money. Although DAA is subject to performance ups and downs (unlike a savings account), the DAA strategy likely will produce better returns than cash and yet without the volatility that can characterize a portfolio fully invested in stocks. (DAA is never fully invested in stocks, and when stocks are out of favor, DAA may hold no stock-based funds at all.)

For Bucket Three—money not needed for 10 years or more—Stock Upgrading and perhaps a small allocation to Sector Rotation *(continued on page 61)*

[1]March2018:p41 [2]Online-only banks typically pay higher rates than local banks. [3]Since World War II, *average* recovery time from a bear market has been 17 months, assuming dividend reinvestment. Recovery from the Great Recession bear took three years. [4]Tax considerations come into play if withdrawing from a tax-deferred account.

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 2/29/2020	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	-4.9	-9.8%	-6.7%	-6.0%	1.0%	0.1%	4.3%	0.94	0.11%/0.09%	20%	16%	12%	8%	VTIAX/VXUS
Extended Market Index	Small company stocks	-5.8	-8.5%	-8.0%	-6.5%	0.7%	0.0%	6.2%	1.18	0.07%/0.07%	40%	32%	24%	16%	VEXAX/VXF
S&P 500 Index	Large company stocks	4.6	-8.3%	-8.2%	-5.5%	1.9%	8.2%	9.8%	1.00	0.04%/0.03%	40%	32%	24%	16%	VFIAX/VOO
Total Bond Market Index	Medium-term bonds	18.9	3.9%	1.7%	3.7%	3.3%	11.9%	5.0%	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 2/29/2020[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. ☎ Cash	04/20	See Apr2020:p60														
	2. WisdomTree Intl Hedged ETF	12/19	ETF	ETF	ETF	5.5	-8.1%	-7.0%	-5.7%	2.1%	9.1%	7.7%	0.88	0.58	287	None	IHDG
	3. Fidelity Intl Growth	12/19	Yes	NTF	Yes	13.4	-6.8%	-6.0%	-3.7%	4.3%	12.8%	10.4%	0.92	0.99	85	None	FIGFX
Category 4 Small/Growth	1. ☎ Cash	04/20	See Apr2020:p60														
	2. Needham Sm Cap Growth	01/20	NTF	NTF	NTF	38.3	-4.7%	-4.8%	-0.1%	15.9%	22.5%	16.0%	1.29	1.93	48	None	NESGX
	3. DF Dent Midcap Growth Inv	09/19	NTF	Yes	NTF	18.9	-2.1%	-5.7%	-1.7%	3.0%	17.5%	18.8%	1.06	0.98	33	2%60days	DFDMX
Category 3 Small/Value	1. ☎ Cash	04/20	See Apr2020:p60														
	2. Touchstone Mid Cap Z	05/19	NTF	NTF	NTF	5.9	-7.6%	-8.9%	-6.2%	1.8%	10.3%	11.9%	1.01	1.21	32	None	TMCTX
	3. Weitz Hickory	06/19	NTF	NTF	NTF	8.5	-6.4%	-6.0%	-4.8%	2.5%	10.9%	5.0%	1.05	1.09	37	None	WEHIX
Category 2 Large/Growth	1. ☎ Cash	04/20	See Apr2020:p60														
	2. Invesco QQQ Trust	02/20	ETF	ETF	ETF	30.6	-3.2%	-6.1%	0.6%	10.2%	19.8%	17.6%	1.17	0.2	104	None	QQQ
	3. Polen Growth Investor	10/18	NTF	NTF	NTF	22.4	-3.4%	-5.7%	-0.9%	5.4%	17.8%	18.9%	0.98	1.25	25	2%60days	POLRX
Category 1 Large/Value	1. ☎ Cash	04/20	See Apr2020:p60														
	2. Invesco S&P 500 Top 50 ETF	02/20	ETF	ETF	ETF	11.3	-7.0%	-8.2%	-4.3%	4.2%	11.4%	11.2%	1.01	0.2	53	None	XLG
	3. Vulcan Value Partners	12/19	NTF	NTF	NTF	15.4	-9.5%	-8.1%	-5.8%	6.9%	14.3%	9.5%	1.20	1.08	29	2%90days	VVPLX
Bond Categories	Vanguard I-T Bond[6]	2/19	ETF	ETF	ETF	21.7	4.5%	1.9%	4.4%	3.7%	13.6%	5.7%	1.17	0.07	6.3[7]	None	BIV[8]
	Permanent: Vanguard I-T Bond	Perm	ETF	ETF	ETF	21.7	4.5%	1.9%	4.4%	3.7%	13.6%	5.7%	1.17	0.07	6.3[7]	None	BIV[8]
	Permanent: Vanguard S-T Bond	Perm	ETF	ETF	ETF	10.3	1.9%	1.0%	2.1%	2.1%	6.2%	3.0%	0.47	0.07	2.7[7]	None	BSV[9]

A telephone symbol (☎) indicates a new recommendation. **Upgrading Footnotes: [1]** The stock-based funds listed in each risk category have been selected and ranked (with either a "2" or a "3") based primarily on their momentum scores in late March, rather than on the end-of-February data shown above. The fund ranked third is the one that currently appears most likely to be replaced next. **[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.

☎ Changes in our fund recommendations are explained in the MoneyTalk column on page 60.

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 Jan2020:p7.

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] Cash currently is recommended in multiple categories. See page 60 for a discussion of holding cash in an Upgrading 2.0 portfolio. 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	Cash* or Wisdom Tree Intl
Stock Cat. 4: Small/Growth	16%	$8,000	Cash* or Needham Sm Cap
Stock Cat. 3: Small/Value	16%	$8,000	Cash* or Touchstone MidCap
Stock Cat. 2: Large/Growth	16%	$8,000	Cash* or Invesco QQQ
Stock Cat. 1: Large/Value	16%	$8,000	Cash* or Invesco 500 Top 50
"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	

*See page 60 for instructions on implementing Upgrading 2.0 cash decisions.

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 Jan2020:p7).

MONEYTALK

STOCK UPGRADING 2.0 INSTRUCTIONS

[We choose our recommended funds with the hope they will be held for at least 12 months and therefore qualify for long-term capital gains tax treatment (applies to taxable accounts only). Nevertheless, we suggest a change when a fund's performance falls below the threshold of our mechanical guidelines. When a fund no longer meets our performance guidelines, we suggest you sell it even if the 12-month tax-related holding period hasn't been met. However, a "$" symbol following the name of the fund being sold lets you know that we still think well of the fund and you might elect to continue holding it for a month or two to achieve a tax benefit (or to save on transaction or redemption fees).]

SMI's Upgrading 2.0 defensive protocols[1] have triggered this month, so the fund recommendations below are different than usual. Implementing the 2.0 defensive protocols involves a gradual shifting of our Upgrading portfolio from stock mutual funds to cash. This month, each risk category is switching *one* of its three slots to cash.

Before getting into the specifics of this month's changes, let's review where things stand today and address the question that surely is on some readers' minds: Does it still make sense to move to cash with such deep losses already in the books?

The trajectory of this bear market has been unique in history, reaching -20% bear-market status in roughly half the time of the previous fastest example (1929), and about eight times faster than the average bear market. What we've seen over the past six *weeks* typically takes 6-8 *months* to unfold. Thus far, the typical "sawtooth" pattern of sharp selloffs interspersed with big countertrend rallies hasn't developed in this bear market.

Upgrading's 2.0 protocols barely missed triggering at the end of February, which is unfortunate in hindsight. While disappointing, it's not surprising, given that only seven trading days remained in February after stocks hit new all-time highs on 2/19. Because past bear markets have always been measured in months, not weeks, there's no accommodation for mid-month changes in the 2.0 system. But *even if there were*, it would have been hard to pull the trigger earlier in March given that countertrend rallies are such a common and powerful bear-market pattern. At every step of the February/March decline, that type of rebound has seemed an imminent possibility. And, importantly, the fact that a sustained countertrend rally hasn't developed *yet* doesn't mean that it won't happen at all.

At any rate, given that stocks are down -28% as this is being written, it's reasonable to wonder if it's worth selling funds at this point. We believe it is—for two reasons. First, no one knows how deep this bear market will go. We've already noted that losses in this bear market have come much more quickly than usual. The 2008 bear market eventually saw losses as deep as -57%. So despite falling as much as -35% already, significant further losses are possible.

The second reason has to do with the role Upgrading 2.0 plays in helping us re-engage with the market at the *end* of bear markets. In 2008, the market didn't hit -35% losses until Oct. 7, 2008. An investor exiting the market at that point would have avoided the final five months of that bear, and more than 20% of additional losses.

Just as importantly, the market didn't *reclaim* that level until the end of August 2009. That means, at least from an index-fund standpoint, that staying invested in 2008 from roughly today's level of loss would have meant 11 additional months of "dead time" before that investment started earning gains again.

In contrast, Upgrading 2.0 would have eliminated further losses from that point (i.e., October 2008), while buying seven funds at the end of March 2009 and eight more at the end of April. The bear market ended in March 2009, which means Upgrading was earning gains again 4-5 months *sooner* than a buy-and-hold investor.

This example is imperfect because we can't know the trajectory of this bear market, plus 2.0 isn't fully in cash yet (as it would have been by October 2008). But it does indicate that if this bear market ends up being prolonged, 2.0 may still prove to be quite beneficial. Unfortunately, the probability of a quick resolution to this bear market seems small, given the depth of the economic damage being done as the world struggles to respond to this global pandemic.

This month's changes

Given all of that, we're recommending the following funds be sold and *the proceeds held in cash*. (This can be a cash option at your broker, although most don't earn much interest at present. We suggest buying SHY—the iShares 1-3 Year Treasury Bond ETF—with the proceeds in hopes of earning a little interest.)

◆ **In the Foreign group, Fidelity International Capital Appreciation (FIVFX, 9/2019) is being replaced.**

◆ **In the Small/Growth group, Janus Henderson Contrarian T (JSVAX, 10/2019) is being replaced.**

◆ **In the Small/Value group, Invesco S&P MidCap Value with Momentum ETF (XMVM, 12/2019) is being replaced.**

◆ **In the Large/Growth group, YCG Enhanced (YCGEX, 1/2020) is being replaced.**

◆ **In the Large/Value group, First Trust Rising Dividend Achievers ETF (RDVY, 12/2019) is being replaced.**

If you own only a single fund in each risk category, you have another decision to make: how rapidly do you want to apply these 2.0 signals? Normally, we would suggest that the *easiest* way to implement is to shift to cash as each specific holding that you own is sold and shifted to cash. However, given the depth and speed of this bear market, it's certainly reasonable to sell and shift to cash in all risk categories right away.

Those wishing to apply these Upgrading 2.0 signals to a Just-the-Basics or other indexed portfolio (such as in a 401(k) account) will find an explanation of how to do so in the January 2019 article *Applying Upgrading 2.0 Signals to JtB or 401(k) Indexed Portfolios*, available on the SMI website.[2]

Upgrading 2.0 provides a simple, safe way to help protect against bear-market losses. It hasn't unfolded exactly the way we would have hoped so far, but this bear market is unlike any investors have ever experienced. Despite that, we encourage you to follow the system as designed. Even starting from today's levels, 2.0 offers the potential to significantly limit losses if this bear market is prolonged. ◆

[1]Jan2018:Cover [2]bit.ly/2-point-0-for-jtb

LEVEL 2 / CONTINUED FROM PAGE 55

THE ENDURING OPTIMISM OF AN INVESTOR

SMI strategies, can—and should—inspire confidence. However, to be an investor is ultimately to believe that businesses will continue to innovate, solve problems, make life easier and more enjoyable, and as a result, grow.

In his most recent shareholder letter, Warren Buffett looked to the future and said he doesn't expect a smooth ride in the market, but he *does* believe it will be profitable. "I expect our equity holdings—as a group—to deliver *major* gains, albeit in an unpredictable and highly irregular manner.,"

That phrase—"in an unpredictable and highly irregular manner"—provides important context for his confidence in a more profitable future.

As investors, we should keep in mind that there will be tough days ahead, just as there have been in the past, but the market has a long history of eventually shrugging off such days. In the long run, optimistic investors—those who stay with their plan come what may—always end up better off than the pessimists who let fear get the best of them. *Always*.

More importantly, as Christ-followers, we should remember, "The grass withers and the flowers fall, but the word of our God endures forever" (Isaiah 40:8). ◆

LEVEL 3 / CONTINUED FROM PAGE 56

AREN'T BONDS SUPPOSED TO BE SAFE?

SMI bond holdings & 2008 flashbacks

Investors often think of bonds as "safe" investments. Under normal circumstances that's fair, but markets weren't normal in March. SMI's Dynamic Asset Allocation strategy uses Vanguard's Long-Term Bond ETF (BLV) as its bond holding. BLV is a roughly 50/50 hybrid of long-term corporate and government bonds. The fact that it owns *long-term* debt means that any bond-market price moves are amplified. In contrast, the bonds owned within Bond Upgrading are short- and intermediate-term, which better fulfill the traditional "safety" function.

With both corporate and Treasury bonds experiencing significant selling pressure as stock market losses deepened, BLV fell steadily. From the stock market peak of Feb 19 through March 18, BLV was down -12.1%. That was dramatically better than the S&P 500's loss of -30%. But it's still a larger loss than we'd normally expect, especially considering it was rising for the first half of that period! Again, the longer the duration of the bonds, the greater the losses when they fall. This means our long-term bond holdings in DAA had steeper losses, while the short- and intermediate-term bonds in Bond Upgrading fell much less.

Watching BLV fall alongside stocks on the most volatile March days was discouraging, but there's an *encouraging* historical precedent. In the worst of the 2008 crisis, the same thing happened: Long-term bonds fell. But as conditions improved, those bonds soared. Despite losing nearly -11% in Sept/Oct 2008, DAA's bonds rebounded to gain +27% by the following September. Thankfully, BLV has already begun a similar rebound, gaining +11% since hitting its low on March 18.

Conclusion

SMI investors own a diversified mix of bonds within their portfolios, with various holdings designed to fill different needs. Within Bond Upgrading, despite losing a little ground during March, the current mix of short- and intermediate bonds has provided much-needed stability. Our long-term DAA bonds have suffered from the unprecedented repricing of business risk, yet the familiar pattern from 2008 leaves us optimistic that holding on will see them not only hold up better than stocks on the downside, as they've done so far, but pay off with significant gains in time.

SMI investors can always choose to adjust their holdings in an effort to further reduce risk if they so desire. This can be done most easily by shortening the duration (for example, moving from long- to intermediate-term bonds). Just be aware that doing so may lock-in losses already experienced, while cutting off most of the opportunity of future gains.

Financial crashes don't happen often, and we see strong similarities between the worst of the 2008 financial crisis and what we experienced in March. Traditional safe havens such as gold and bonds didn't feel very safe on the worst market days. We've seen this before during the initial liquidation phase of market crashes, as investors sell anything they can to meet margin calls and raise cash.

Thankfully, these safe havens already have started to roar back. If the historical pattern holds, and we believe it will, these assets should continue to provide strong returns through the completion of this bear market. ◆

LEVEL 4 / CONTINUED FROM PAGE 57

WHEN A "BUCKET STRATEGY" SHINES

may be good choices.[1] These strategies carry a higher risk than DAA but also have a greater potential for reward. For money you likely won't need for a decade or more, you may find the risk/reward trade-off reasonable.[2]

Again, the "bucket" idea is simply to deploy your financial resources across a range of instruments—from cash savings to stock funds—in an attempt to *safeguard* money needed in the shorter term and *grow* money not required until later.

Thinking about things this way can help retirees and near-retirees stay appropriately diversified across the risk-and-reward spectrum. Given today's long life spans, investors in their 60s and early 70s should continue to keep some money deployed in investments that have growth potential. Completely "de-risking" too soon can undermine the potential to build wealth that may be needed in later years.

Peace of mind

Critics of the bucket strategy point out that maintaining a cash bucket carries an "opportunity cost." They're right. Having a significant portion of your financial resources deployed in low-earning cash investments represents a missed opportunity to capitalize on potential market gains.

[1]Any money in Bond Upgrading can be included in either Bucket Two (intermediate) or Bucket Three (longer-term), depending on the size of the total portfolio and Bucket Two. [2]June 2019:p87

MONEYTALK

However, a bucket strategy isn't about optimizing gains. It's about optimizing *peace of mind*. If you're in or close to retirement, having cash on hand that allows you to take a bear market in stride and calmly wait for your stock-based investments to recover is nothing short of priceless. ◆

SIGHTING: GOLD & STOCKS—A COMPLICATED CORRELATION

The equity market sell-off in the past few weeks has been shocking.... But what may also surprise you is the recent weakness in gold. Shouldn't the safe-haven asset shine most in turbulent times?.... George Milling-Stanley, chief gold strategist for the SPDR ETF business, tells [ETF.com] what's happening in the gold market and what ETF investors can expect going forward.

ETF.com: In this type of market...you'd expect people to flock to safe havens like gold. But gold, too, is under pressure. What gives?

Milling-Stanley: ...[A] lot of investors had bought equities on margin.... [R]ather than selling their equities in order to meet the calls for additional margin, they sell something that has held its value, which at that point is gold. They use the proceeds from sales of gold to meet the cash margin calls on their equities....

ETF.com: Had gold not been a strong asset—it rallied significantly in 2019—would it still be the No. 1-choice asset to be liquidated when investors need to come up with cash?

Milling-Stanley: That last summer we broke out of the top of a trading range that had been in force for six straight years is very important. Gold is a much more valuable asset the higher its price, allowing people the ability to sell less gold to meet those cash margin calls. Another thing worth saying is the fact that gold is a very deep and liquid market....

ETF.com: Asset flows show that redemptions have been happening primarily in the biggest, most liquid gold ETF, GLD. It's not in competing funds such as the SPDR Gold MiniShares Trust (GLDM)...or the iShares Gold Trust (IAU). Does that speak to trading liquidity?

Milling-Stanley: Exactly. GLD is by far the most liquid gold ETF out there. There's no question it's still the 800-pound gorilla. The total amount of gold backing physical gold ETFs around the world currently stands at around $140 billion to $150 billion. GLD alone is more than one-third of that....

ETF.com: Aside from cash flow needs, should we expect gold ETFs to attract more assets from here?

Milling-Stanley: Unless there is renewed pressure from the equity markets—which might postpone a recovery in gold prices and postpone inflows into the ETFs—we're going to see gold prices recover, and money move back into GLD in more force than they had been, if history's any guide.

– From a 3/17/2020 post at ETF.com, a website covering exchange-traded funds. Read more at bit.ly/2JdvOOM.

MARKET NOTES, QUOTES, AND ANECDOTES

Counting the cost

"Economic data in the near future will be not just bad but unrecognizable."– From a Credit Suisse research note, referenced in a 3/21/20 *New York Times* article about the impossibility of accurately forecasting how much damage the COVID-19 pandemic will inflict on the U.S. economy. While the severity may be in question, the article said it's all but certain the U.S. will experience a recession. Read more at nyti.ms/2WCrqks.

Not a recession, not a bailout

"Frame this as a massive investment in U.S. public health."– James Bullard, president of the Federal Reserve Bank of St. Louis, quoted in a 3/22/20 Reuters article. He said the economic toll taken by the COVID-19 pandemic should not be described as a recession. Recessions, he said, are ordinary, predictable contractions that mark the end of a normal business cycle. He expressed confidence that massive injections of money by the Federal government and the Federal Reserve eventually will enable the economy to pick up where it left off before the pandemic. Read more at reut.rs/3blZrtA.

Looking for good news

"Deciphering such clues is like forecasting the weather before radar or telegraphs: Noticing how the wind ruffles the leaves, watching how the animals are acting."– CNBC senior markets commentator Michael Santoli, in a 3/22/20 article in which he said there are "tenuous signs" that the market is beginning to find its footing—fewer individual stocks making new lows, better market breadth, and lower trading volume—but you have to squint to see them. Read more at cnb.cx/2xln0DQ.

The winner's game

"You make most of your money in a bear market; you just don't realize it at the time."– Value investor Shelby Davis, quoted in a 3/21/20 *MarketWatch* article about the opportunity bear markets represent for long-term investors. Read more at on.mktw.net/3ahvUBc.

The race is not to the swift

"The advantage of being able to invest for the long-term is at its greatest when it is the hardest thing to do. The only way to benefit from this is to have a sensible investment plan that is clear about objectives and the decision making process. Sticking with this through tough times can provide a major behavioural edge."– Fund manager Joe Wiggins, in a 3/16/20 post on his *Behavioural Investment* blog, in which he said that having a plan is the best way for investors to overcome the many cognitive biases that get so many investors in trouble. Read more at bit.ly/2y11PY9.

SOUND MIND PORTFOLIOS

PREMIUM STRATEGIES

The strategies described below are available to SMI Premium-level members. They have 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

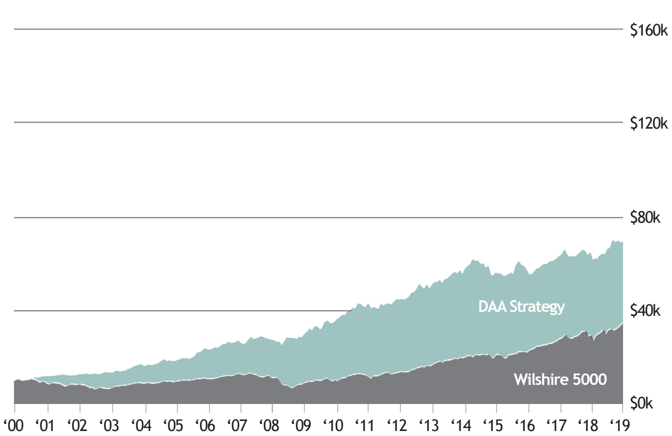
Overview

An investor can use Dynamic Asset Allocation (DAA) in combination with or in place of SMI's Basic Strategies. DAA is designed to help investors 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—by using exchange-traded funds (ETFs). Only three ETFs are held at any one time.

Who Should Consider This Strategy

Anyone—but especially those more concerned with avoiding major losses during bear markets than with capital growth during bull markets. **Pros:** Excellent downside protection during bear markets, as reflected in both a comparatively small worst-case result and a low relative-risk score (see performance table below). Great long-term track record. **Cons:** Subject to short-term whipsaws. Lags the market in "up" years. Making trades promptly and concentrating one's entire portfolio in only three asset classes can be emotionally challenging.

Dynamic Asset Allocation vs Wilshire 5000
Growth of $10,000 January 2001-December 2019



Strategy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Avg[1]	Worst12[1]	Rel Risk[1]
DAA	7.1%	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%	13.7%	10.1%	-13.7%	0.62
Wilshire 5000	-10.9%	-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%	31.0%	6.4%	-43.3%	1.00

SECTOR ROTATION

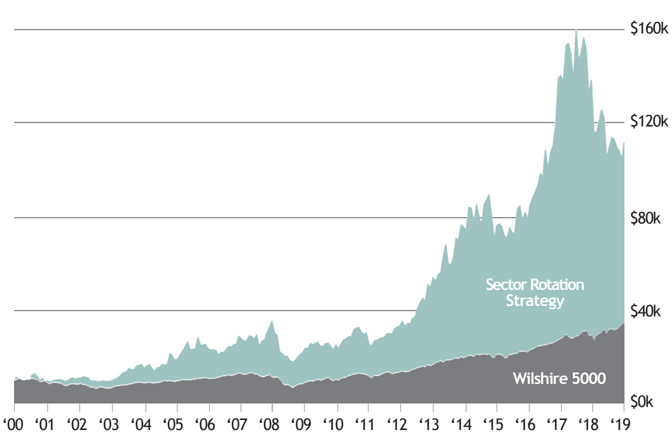
Overview

Sector Rotation (SR) is intended to be used in combination with Just-the-Basics, Fund Upgrading, or DAA (or a mix of these). SR is a high-risk strategy that invests in a single special-purpose stock fund focused on a specific sector (such as biotech, energy, or financial services). Such funds carry a higher degree of risk because they invest in a narrow slice of the economy. In making our fund recommendation, we choose a fund demonstrating especially strong momentum relative to other sector options. Sector Rotation has generated especially impressive long-term returns but with the performance peaks and valleys higher and lower than SMI's other strategies. We suggest that an SR investment account for no more than 20% of one's *total stock allocation*—or, if using SR in combination with DAA, no more than 20% of one's *overall* portfolio.

Who Should Consider This Strategy

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

Sector Rotation vs Wilshire 5000
Growth of $10,000 January 2001-December 2019



Strategy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Avg[1]	Worst12[1]	Rel Risk[1]
SR	0.7%	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%	16.9%	56.7%	-15.8%	-1.6%	13.0%	-38.6%	1.90
Wilshire 5000	-10.9%	-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%	31.0%	6.4%	-43.3%	1.00

[1]The three data points at the far right in each performance table cover the full 20 years from Jan2000-Dec2019. "Avg" shows the average annualized return over those 20 years. "Worst12" represents the worst investor experience over 217 rolling 12-month periods during those 20 years.

PERIODICALS POSTAGE
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Dated Investment Material
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PERFORMANCE DATA

SOUND MIND INVESTING MODEL PORTFOLIOS • DATA THROUGH FEBRUARY 29, 2020

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]	-8.2%	-8.2%	-5.5%	7.0%	9.3%	8.9%	12.5%	8.5%
Just-the-Basics[2]	-8.5%	-7.7%	-5.9%	3.4%	7.4%	6.8%	10.8%	7.8%
Stock Upgrading[3]	-7.7%	-6.9%	-5.5%	3.7%	5.6%	5.5%	9.4%	7.5%
U.S. Bond Market[4]	3.9%	1.7%	3.7%	11.7%	4.9%	3.4%	3.8%	4.3%
Bond Upgrading[5]	3.8%	1.7%	3.8%	11.7%	4.4%	2.8%	5.0%	6.0%

PREMIUM STRATEGIES

	Year to Date	1 Month	3 Months	12 Months	3 Yrs Annual	5 Yrs Annual	10 Yrs Annual	15 Yrs Annual
DAA[6]	-2.2%	-1.7%	-1.4%	9.6%	5.6%	2.2%	7.8%	9.3%
Sector Rotation	-10.0%	-7.9%	-1.3%	-14.9%	3.3%	3.9%	15.6%	11.2%
50-40-10 Blend[7]	-5.2%	-4.4%	-3.1%	4.7%	5.6%	3.9%	9.5%	9.2%

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 2/29/2020	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	-6.99%	-6.89%	-4.93%	2.68%	5.01%	3.81%	7.97%
Wilshire 5000	-8.19%	-8.20%	-5.50%	7.00%	9.31%	8.89%	12.50%
S&P 500	-8.27%	-8.23%	-5.50%	8.19%	9.87%	9.23%	12.65%

Quarterly Returns as of 12/31/2019	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	19.29%	2.21%	5.98%	19.29%	8.56%	5.99%	8.65%
Wilshire 5000	31.02%	2.93%	9.08%	31.02%	14.52%	11.38%	13.44%
S&P 500	31.49%	3.02%	9.07%	31.49%	15.27%	11.70%	13.56%

Total/Gross expense ratio: 1.94% as of 2/28/20 (includes expenses of underlying funds)
Adjusted expense ratio: 1.18% as of 2/28/20 (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 Ultimus Fund Distributors, LLC (member FINRA).

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