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VOLUME 31 ◆ NUMBER 6

JUNE 2020

Sound Mind Investing®

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SMI's Winning Approach to Owning Gold

The deep global recession is unleashing the type of policy responses from global governments and central banks that have triggered significant moves higher for gold in the past. SMI's approach to investing in gold shifted radically in 2013 with the introduction of the Dynamic Asset Allocation strategy. Here's a recap of this system's impressive track record with gold, as well as a detailed discussion of the best ways to take advantage of what is shaping up to be a potentially profitable run higher for this notoriously volatile asset class.

by Mark Biller

Few financial topics elicit such strong opinions as gold. This is nothing new, as it was nearly 100 years ago that British economist John Maynard Keynes famously called it "a barbarous relic." There has been a long line of proponents and detractors ever since, with the debate over gold's importance and utility only escalating as governments over the last century have gradually freed themselves of the discipline gold imposed.

Whenever the value of "fiat money" (government-backed but without intrinsic worth) is called into question, interest in gold understandably soars. We saw this happen because of double-digit inflation in the 1970s, which deeply eroded the dollar's purchasing power. We've seen it in each of the past two big recessions. In 2008, as again today, the response of the world's central banks to deep economic trouble has been to vastly expand the money supply through liquidity measures. The response of governments the world over has been to add huge volumes of new debt. Against these currency-debasing actions, investors have turned to gold for its long-term track record as a hedge against inflation.

SMI's position on gold has shifted over the years. During the 1990s, we tended to ignore gold because it was largely in decline. That became harder during the 2000s as gold's price began rising sharply. This was part of a broader rise in commodities, which we were content to participate in second-hand through our Fund Upgrading selections. The mutual funds that deftly navigated this commodities trend rose in our momentum rankings, and those holdings helped propel the excellent results our Upgrading strategy produced from 2000-2008.

Following the financial crisis in 2008-09, however, it was no longer possible to ignore gold or handle it second-hand. We wrote a fair amount about gold at that time, primarily because of reader interest, but also because the inflation scenarios evoked by money-supply expansion and massive government stimulus seemed plausible. SMI's counsel was to limit gold to a small portion of your portfolio, and we wrote on how to best purchase and store gold.

Our thinking regarding gold shifted further—dramatically, in fact—with the extensive research that *(continued on page 83)*

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

Don't Let Challenging Times Cause You to Forget What You Have Learned from Experience

The COVID-19 pandemic has introduced a wild card unlike any most investors have ever seen. Unemployment has surged, businesses have closed (perhaps never to reopen), and Washington is debating various new stimulus measures, having already showered trillions of dollars on individuals, businesses, hospitals, and local governments. As for the stock market, after closing at an all-time high on February 19, the S&P 500 closed -34% lower just 16 trading sessions later. Never had it fallen so far, so fast. Despite a dramatic rebound in May, the S&P 500 was still -12.5% below its high.

Investment news headlines swing wildly between *hope* that life will return to some semblance of normal soon and *pessimism* that this could all drag on for many more months—perhaps years. It all seems to hinge on the direction of infection-rate curves, vaccine trials, and the size of the latest emergency measures by global governments and central banks.

Through it all, we've been heartened by the performance of our Dynamic Asset Allocation strategy. Even after the market's recent rebound, as of this writing, the stock market is still down -7.3% for the year, while DAA is *up* +2.2%. Not surprisingly, DAA has also charted a much *smoother* path through the chaos, never dropping below -10% in 2020 (as opposed to the market's much larger losses at the lows). Still, even the most experienced investors could be forgiven if they're checking their performance more often than usual these days. If you're finding the journey especially challenging right now, let me share what encourages me in the midst of all this uncertainty.

• **I know that following God's principles will protect me.** A premise of SMI's philosophy is that it's ultimately impossible to self-destruct financially if one's decision-making is pointed in the direction of God's glory. That means setting financial priorities that are honoring toward God. We don't have as much to fear from economic storms if we've laid a strong financial foundation—being debt-free, having an emergency reserve, and living on a budget that produces a monthly surplus.

• **I know the U.S. economy remains, still, the strongest in the world—and stock prices will eventually rise with it.** Every down market is followed by an up market. It's surprising how easy it is to lose sight of this self-evident truth. We can get caught up in the market's emotional cycle where, in the midst of sudden and severe selloffs, a kind of mental depression sets in. Positives are overlooked. There is a growing feeling the old rules no longer apply and we can't count on the market ever being strong again. But history has repeatedly shown that profit opportunities are greatest when the outlook seems bleakest.

• **I know the strategies I'm using have been tested and proven effective.** My successes in the past have not been based on any ability to anticipate future events. Rather, they have been the result of following mechanical, trend-following guidelines. As long as there are markets, there will be trends. True, sometimes a trend is short-lived, and just as we align ourselves with it, it weakens or even reverses, leaving us with a loss. This is to be expected occasionally. The trick is to not let this short-term setback discourage you from faithfully adjusting matters to follow the new trend. This flexibility has worked well in the past, and I have every confidence it will work well in the future.

• **I know my patience will be rewarded.** This allows me to take up-and-down market cycles in stride. We must take our lead from the Parable of the Talents where the master was away for "a long time" and make our strategy a long-term one that aspires to get-rich-slowly. Legendary investor Sir John Templeton emphasized that time is the enemy of the speculator, but the friend of the investor:

> *It is the passage of time that gives most approaches to the stock market the chance to work. I'm not talking about weeks or months, but years. Most of us, by nature, are results-oriented. Without performance, we lose interest. As such, lack of patience is probably the single greatest impediment to success in the stock market. Remember, success in the market takes time.*

So, what do I do while I'm waiting? I practice "inside-out" thinking[1] where my decisions are guided by my personal goals rather than external events. And most importantly, every day I take advantage of God's grand and loving invitation to "approach the throne of grace with confidence, so that we may receive mercy and find grace to help us in our time of need."[2]

AUSTIN PRYOR
FOUNDER/PUBLISHER

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POSTMASTER
Sound Mind Investing is published monthly by Sound Mind Investing, 9700 Park Plaza Ave Ste 202, Louisville, KY 40241-2287. Periodicals postage paid at Louisville, Kentucky USPS (006344). POSTMASTER: Address changes to: SMI, 9700 Park Plaza Ave, Unit 202, Louisville, KY 40241-2287. This is Issue 360 • Volume 31 Number 6. Mailing date: 6/04/2020.

[1]Jun2017:p87 [2]Hebrews 4:16

FEATURE ARTICLE

SMI's Winning Approach to Owning Gold

(continued from front page)

went into the creation of SMI's Dynamic Asset Allocation (DAA) strategy, which debuted in 2013. Ironically, DAA's origins stem from the work of gold "perma-bull" Harry Browne, who advocated a static 25% position in gold. While a large fixed allocation to gold held no appeal for us, the research process did open our eyes to the value of *tactically allocating to gold during certain portions of the economic/market cycle*. Once we developed the approach of dynamically shifting between asset classes, we finally were able to "settle" the question of how to optimally interact with gold.

It's crucial to understand that gold is highly cyclical and volatile. Though generally thought of as a "conservative" investment, gold is prone to huge spikes and collapses, as well as long periods when the price doesn't move much at all. Indeed, gold can be so volatile that when we researched SMI's Sector Rotation strategy nearly 20 years ago, we had to remove the precious-metals funds from our universe of potential investments because their extreme volatility was messing up the process—of our most volatile strategy!

So we were excited when DAA provided us with a disciplined approach that enabled us to safely interact with gold on more than a "keep a small allocation at all times" basis. Our backtesting revealed that DAA reliably provided signals to buy gold when conditions dictated it was wise to do so. But better yet, DAA's strict selling discipline got us completely out of gold when its performance faltered.

A picture worth 1,000 words

The graph below illustrates how effectively DAA's mechanical signals would have navigated the gold market over the past 40 years. It shows the monthly price action of gold going back to its peak in January 1980, but the prices are adjusted for inflation. That means that the older prices are represented in today's dollars. For example, when gold peaked in 1980, the actual price was $850/oz. After adjusting that amount for the inflation that has occurred since then, our chart shows that price at over $2,000/oz. This is a crucial adjustment, because it makes clear that even after the 11-year bull market in gold from 2000-2011, gold's price never recovered to its previous high! Given that a primary selling point of gold is that it is an excellent long-term store of value, that's a pretty important point to be clear on.

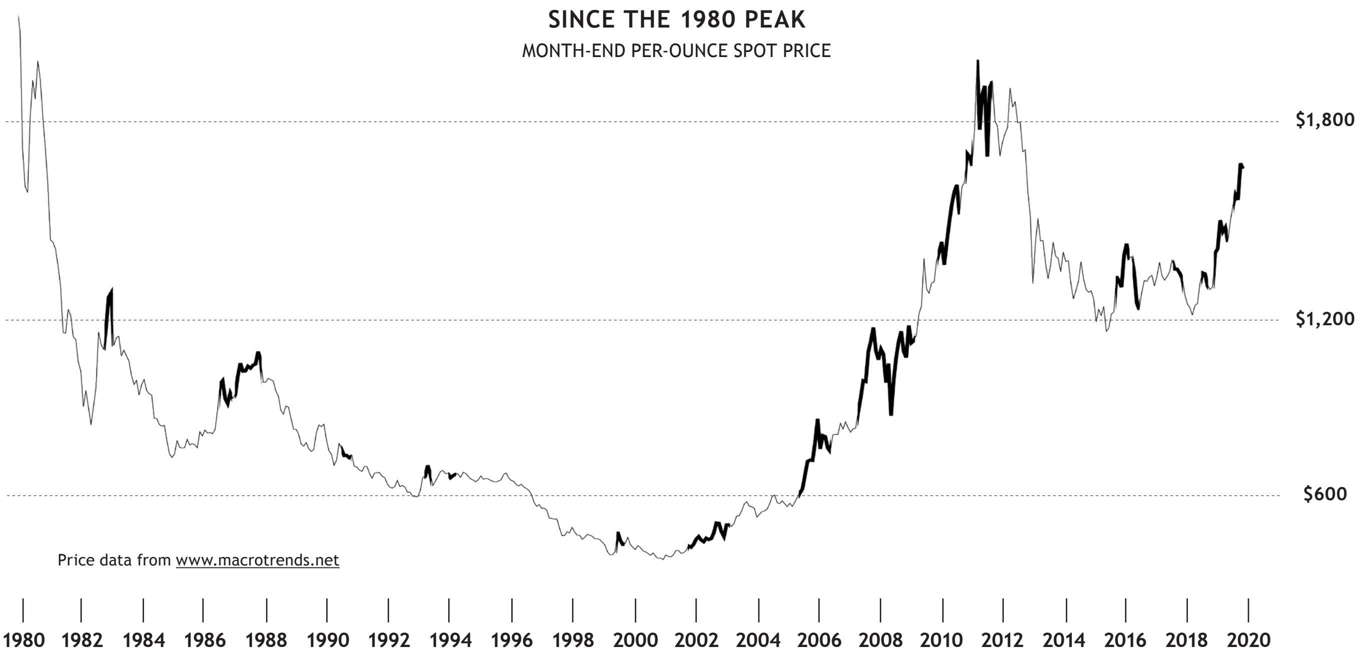
The darker bolding on the up-and-down price-action line denotes the periods when DAA would have been invested in gold for at least three consecutive months. (There were times when DAA called for gold, only to sell it a month or two later. The nature of the chart makes those blips too short to see clearly.)

Observing DAA's interaction with gold is instructive. As you can see, DAA would have steered us clear of nearly *every significant decline* in gold's price over the past 40 years, with the primary exception being the 2008 financial crisis, when other asset classes were falling *even more* than gold. In light of DAA's mantra of "winning by not losing," as well as given the severity of some of gold's declines, this ability to steer around cyclical price declines in gold is crucial.

DAA's interaction with gold when prices have been *rising* has been good as well. The strategy would have helped us capture a significant portion of gold's rising periods while still avoiding most of the declines. That's why we think DAA's tactical approach to gold ownership is superior to a fixed allocation to gold.

INFLATION-ADJUSTED PRICE OF GOLD SINCE THE 1980 PEAK

MONTH-END PER-OUNCE SPOT PRICE



SMI's "keep it simple" recommendation = GLD

Not surprisingly, then, we think SMI members are wise to rely on DAA's signals for the bulk of their precious-metals investing. The amount of that exposure will vary, based on how much of their total portfolio is allocated to DAA, as well as whether DAA is invested in gold at the moment. For a typical SMI member with roughly half their portfolio allocated to DAA, a gold allocation could range from as little as 0% (no gold recommended in DAA) to as much as ~16.7% (one-third of DAA, if DAA is 50% of the total portfolio).

The gold exposure in DAA consists of "paper gold" in the form of the exchange-traded fund, GLD. This is the largest and most liquid of the gold ETFs, with a long track record of closely tracking the price of gold. It enables us to move in and out of gold based on the DAA signals, with minimal hassle (and at zero cost now that ETFs trade commission-free at most brokers). GLD is a reliable vehicle for our primary purpose within DAA, which is gaining easy exposure to changes in the price of gold.

Diversifying beyond GLD

While the GLD ETF is a great, easy way to get exposure to changes in the price of gold, other gold investment options do exist. If the gold price moves significantly hi gher over the next few years, as many expect, there are ways to potentially profit to a greater degree than merely riding along with the price of gold in GLD. In addition, for those investing in gold within a taxable account (i.e., not an IRA or other tax-advantaged retirement account), there may also be ways to reduce your tax bill by using other vehicles.

Before exploring these alternative ways to invest in gold however, we want to be clear: *For most SMI investors, using DAA to direct your gold investments using GLD is easy and effective. There's no need to go beyond that.*

Still, some members may be interested in branching out from GLD, either to invest a bit more aggressively, or to take advantage of a better tax situation. The options that follow are listed from least risky (physical gold) to most risky (mining stocks).

Physical gold

The reason a person might prefer to buy physical gold rather than use an ETF like GLD is to hedge against potential risks presented by the modern financial system. As we saw in 2008 with the collapse of Bear Stearns and Lehman Brothers—two large investment banks that had been around for many decades—it is possible for big banks and financial institutions to get overwhelmed by a crisis. The argument *against* using a vehicle such as GLD for one's gold exposure is that ETFs are part of the same financial system gold is trying to hedge against. If the parties behind a particular gold ETF run into trouble, the owners of that ETF might be let down at precisely the moment their gold holdings are supposed to be providing crisis insurance.

There are strongly held feelings on both sides of how realistic and dangerous a threat this is. But it's hard to argue with the idea that holding a physical piece of gold in your hand *feels* different from having your gold holdings simply represented by an entry in an online portfolio.

For those who desire to take physical possession of some portion of their gold holdings, bullion coins generally are the easiest to buy at a reasonable markup over gold's spot price. Gold coins are reasonably easy to store in small quantities. An individual could easily keep a few dozen in either a home safe or bank safe deposit box. "Junk silver" bags—pre-1965 U.S. coins that are 90% silver—offer some of the lowest markups over the spot price of any precious metal, but they are also bulkier and require more storage space. (For more on the purchase and storage of physical precious metals, including "digital gold" services that store gold for you, see *A Primer on Buying Gold Bullion* on page 92.)

Importantly though, buying physical gold is a better option for long-term accumulation than it is for a trading strategy like DAA. The markups involved in buying/selling physical gold are too steep to make this a practical option for following DAA, which is why that strategy uses GLD instead.

Pursuing higher gold returns

While the first option below is similar in risk to GLD, options 2-4 are higher risk. As such, SMI isn't suggesting they are appropriate for all members. Rather, consider them as options to research further if you desire to boost the risk/reward profile of your gold holdings within DAA.

1. Physical gold surrogates. Straddling the middle ground between the ease-of-use of a gold ETF and the security of holding your own physical gold is the Sprott Physical Gold Trust (PHYS). This fund looks and trades like a regular ETF, but it is a closed-end mutual fund (technically an "exchange-traded vehicle"). That has some regulatory implications, but the most practical impact is that PHYS doesn't track the gold price as closely on a daily basis as the other gold ETFs. Over longer spans of a month or more, however, PHYS has tracked GLD pretty closely.

The appeal of PHYS is it owns "fully allocated" gold bars in its custodian vaults. Put another way, PHYS owns *specific* gold bars held in particular vaults. In contrast, gold ETFs such as GLD have a *non-specific* claim on a certain dollar amount of the custodian's total gold holdings, a concern among the counterparty-risk crowd. Illustrating the "you own it" aspect, if you own enough shares of PHYS ($600k or more at today's prices), you can arrange to take physical delivery of your own gold bar(s).

While PHYS gets you a half-step closer to owning physical gold, it's still as easy to interact with as any ETF. Ironically, while the main appeal of PHYS is its stronger claim to possess your own gold, it is taxed at the lower 15% *securities* rate if held for more than one year. In contrast, GLD gets the higher *collectibles* rate of 28% on long-term holdings.

2. Gold royalty/streaming companies. This is the first step into the gold-mining stocks. Royalty/streaming companies, however, are significantly less risky than the true miners. Instead of owning and operating mines, these companies provide up-front money to develop mines—in exchange for either a percentage of ongoing profits or some other specific arrangement.

That makes investing in these companies safer than investing in mines, but also with less upside.

There are three main players in this space: Franco-Nevada (FNV), Wheaton Precious Metals (WPM), and Royal Gold (RGLD). As an example of how these stocks can move relative to the gold price, consider that since gold bottomed out in September 2018, GLD is up +45%. In contrast, FNV is up +137%, WPM +163%, and RGLD +75%. But what goes up also goes down: from the market peak in February through the lows in March, GLD lost -8.5%, while these three each fell close to -25%. The tax treatment of these stocks can get a little complicated when owned outside a retirement account, so check with your tax preparer. But it appears that FNV at least typically gets the 15% rate on long-term holdings.

3. Large mining stocks. The precious metals mining stocks are a volatile bunch so *this represents a serious step out on the risk curve*. However, there appears to be significant opportunity here. Mining stocks were tremendously beaten down during the 2011-2018 bear market in gold. Today, a basket of the large miners can be bought for the same price they traded for back in 2006, about half that of their 2011 peak (though they've roughly doubled already from their 2018 lows).

These mining stocks are notably cyclical, so owning them at the right times (i.e., when DAA calls for gold) is crucial. But in an environment such as we're in now, with strong tailwinds for gold prices and a huge decline in energy prices (which make up 20-25% of mining production costs), these stocks could move powerfully higher. Consider that over the past 50 years, the Barron's Gold Mining Index has experienced eight recoveries from similarly "oversold/cheap" conditions. Those eight instances produced gains ranging from 180%-1,200% over the following 12-42 months. So although the miners are already up 100% from their September 2018 lows, their still-reasonable valuations and the potential trajectory of gold over the next few years seems to indicate significant remaining potential.

This is an area where non-professional investors shouldn't try to pick winners and losers. Thankfully, you don't need to. GDX is an ETF of the largest gold miners (which also includes large positions in the three royalty companies mentioned earlier). Limit your exposure, however. GDX briefly fell by nearly *half* during the February-March panic earlier this year, before quickly recovering. We could see another drop if this bear market in stocks deepens. That would be painful for current owners, but might also produce an excellent buying opportunity for those looking to start a position in this ETF.

4. Small mining stocks. Everything just written about the large miners applies double to the junior miners. They're even more volatile, and their current valuations are even more depressed after even worse performance over the past decade! These are high risk, but also tend to provide the biggest returns when gold enters prolonged bull-market stretches. Also, current low valuations in the mining industry make it cheaper for larger firms to expand mining capacity by acquiring smaller miners than by starting new mines. It wouldn't be surprising to see buyouts here, which should be good news for the prices of junior mining companies.

As with the large miners, this is a great place to use a diversified ETF—GDXJ is the main junior mining company version. Both GDX and GDXJ are treated like any other equity investment for tax purposes, meaning they get the lower 15% long-term rate if held longer than one year.

Conclusion

While the setup for gold seems quite bullish, don't lose sight of the fact that gold is a notoriously streaky asset class. That's why we strongly advocate using the DAA signals to keep you on the right side of its longer-term trend.

A decade ago, we saw the combination of massive central bank liquidity and government borrowing send gold soaring in 2009-2011. Today, we're seeing the same playbook again, only the amounts are much larger. The U.S. Treasury is planning to borrow $3 trillion this quarter alone! That's five times as much as any quarter during the 2008 financial crisis.

The lone exception to the strong bullish setup for gold is that, historically, gold has performed better with a weak U.S. dollar. We expect the dollar, which has been strong throughout this crisis so far, may strengthen further relative to other currencies that are in even worse shape than ours (which is basically all of them). But while the dollar may strengthen relative to other currencies, we expect it to lose ground relative to the fixed measure that gold represents. That seems to be taking place already, as the debasing of the dollar inherent in massive central banks liquidity and government borrowing has been propelling gold higher, despite the strong dollar.

Keep in mind that in 2008, as well as in the March selloff this year, we watched the price of gold fall sharply alongside stocks as investors liquidated any profitable investment holdings to raise needed cash. If this bear market persists, that could happen again. The silver lining for gold investors is that further stock market losses will drive more of the very behavior by governments and central bankers that eventually will light a fire under the gold price.

SMI doesn't *recommend* a permanent, physical allocation to gold, but we're also not *against* a person owning a small amount of physical gold if they desire. The markups in physical gold make trading it via the DAA signals impractical, so any physical gold you buy needs to be a long-term allocation. All of the other gold alternatives discussed in this article, however, should be treated like GLD and sold immediately when DAA calls for it. Don't lose sight of the fact that it's DAA's strict selling discipline that protects us from the vicious sell-offs that gold (and all of these gold alternatives) regularly experiences.

We recommend keeping your total gold holdings—how ever they're invested—limited to roughly the portion of your portfolio that DAA says to invest in gold. *Recognize that replacing any portion of your GLD holding with these alternatives, other than physical gold or PHYS, will increase the risk level of your portfolio.* So if you're inclined to branch out, consider replacing GLD with these alternatives in small increments of just 1-2%, rather than swapping your whole DAA gold allocation.

Gold appears poised for strong gains in the months (and likely, years) ahead—though it may come with substantial volatility first. Enjoy the ride, and rely on DAA to stay safe! ◆

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

WHEN A FINANCIAL STORM HITS HOME

The financial side effects of COVID-19, like the disease itself, have ranged from mild to devastating. Most workers who still have jobs have experienced minimal disruptions. But for millions of unemployed people and many thousands of business owners, the effects have been severe—and continue to unfold.

The CARES Act, signed into law in late March, has helped by providing direct cash payments to most Americans[1] and expanded benefits for the unemployed. But assistance from Uncle Sam isn't enough when a financial crisis hits home. You likely will need to take additional actions to weather the storm. These suggestions will help you batten down the hatches.

Cut spending and contact creditors

● **Don't increase your consumer debt.** In response to the coronavirus pandemic, the federal government is spending scads of money it doesn't have. Don't follow suit. You'll only dig a hole that will create more problems in the future. If money is tight, change your spending patterns instead. Stop buying non-essentials. Cut back on optional lifestyle spending. Review all your monthly bills, looking for opportunities to save.[2]

● **Run toward your creditors, not away from them.** If you have bills you can't pay, contact your creditors and explain your situation. They'll probably work with you to set up a payment plan and perhaps waive any late fees. After all, millions of people are in the same boat right now.

● **Find out what your mortgage lender is doing to help.** Visit the company's website to learn how your lender is working with homeowners who can't make their full payments right now. The CARES Act mandates certain relief options for federally backed mortgages.[3] Your lender may have other options as well.

Focus on cash flow

● **If you need ready cash, turn first to your emergency savings.** This is what emergency savings are for—a source of funds that you own outright that you can get to quickly and easily. You should use your savings sparingly, of course, but tap that money first if you need to.

● **Sell household assets.** Items such as bicycles, boats, and automobiles typically sell quickly if in good condition and priced right. You can post most such items at no cost on websites such as NextDoor, Craigslist, and Facebook Marketplace.

● **Sell investments.** If you have investment assets in taxable (i.e., non-retirement) accounts, consider selling any holdings in which you have losses. Investment losses can be used to offset other income and reduce income tax obligations.

● **Withdraw contributions from a Roth IRA.** Tapping retirement assets will undermine future growth, so it's best to avoid such options unless absolutely necessary. That being said, a Roth IRA allows an account holder to withdraw contributions (i.e., money put in, *not* earnings) at any time. There will be no penalties or tax because contributions have already been taxed.

● **Take a hardship withdrawal from an IRA or a company retirement plan.** For people directly affected by COVID-19, the CARES Act eliminates the normal 10% early withdrawal penalty. The new law also allows 2020 withdrawal-related taxes to be spread over three years. But again, think carefully about how a withdrawal now will negatively affect your retirement income later.

Borrow if necessary

● **Get a loan from your employer-sponsored retirement plan** (if allowed by plan rules). The CARES Act makes it possible to borrow up to $100,000 from a retirement account (in 2020) and to defer payments for one year. Bear in mind that such borrowing will affect the growth potential of your retirement assets.

● **Consider a home-equity line of credit (HELOC).** A HELOC offers a revolving line of credit—similar to a credit card, but typically at much lower interest rates than credit cards charge. Essentially, you're borrowing against the equity you've built up in your house. Because the house itself acts as collateral, it's crucial to make payments on time so you don't put your home at risk. Also be aware that HELOCs have variable rates, meaning your rate could rise.

● **Borrow against your life insurance.** If you have a policy that builds cash value and you meet certain requirements set by the insurance company, you may be able to borrow against that cash value (although at an interest rate likely higher than you could get elsewhere). You're not obligated to pay back an insurance loan, but take into consideration that the death benefit paid to your beneficiary will be reduced by the loan balance.[4]

Maintain healthcare coverage

● **Don't go without health insurance.** If you've lost your employer-provided coverage, you have several options. If your spouse is still working and has coverage, find out if you can be added to his or her plan. A spouse becoming unemployed typically is considered a "qualifying event" that makes it possible to convert from individual to family coverage under an employer-provided plan.

A job loss also opens the door to enrollment under the Affordable Care Act. You can get details and compare costs at www.healthcare.gov. Depending on which state you live in, if you fail to apply within 60 days of your job loss, you may have to wait until an open-enrollment period begins this fall.

Another option for *(continued on page 94)*

[1]May2020:p73 [2]May2020:70 [3]bit.ly/coronavirus-mortgage-relief [4]March2020:p38

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

TAKING MARKET TURBULENCE IN STRIDE

Stock prices can move suddenly and sharply, as the early months of 2020 have emphatically shown. Your holdings can take a beating, make a remarkable recovery, and then get pummeled again—all in the space of a few weeks (or even just a few days!).

How can you remain calm when the financial world periodically enters such times of temporary insanity? Here are our suggestions.

Look back

● **Remember that downturns are a normal part of investing in stocks.** Since 1974, investors have experienced only six bear markets (i.e., declines of -20% or more). But over that same period, the stock market went through 18 "corrections" (declines of between -10% and -20%). In other words, unsettling declines—even if not full-fledged bear markets—are somewhat common. An investor's progress is sometimes "two steps forward, one step back."

● **Understand that even bear markets aren't insurmountable obstacles for long-term investors.** Given that the last two bear markets (2000-2002 and 2007-2009) were severe by historical standards, it's no surprise that many are concerned that a third bad one could be at hand. But even those two nasty declines represented only temporary setbacks for long-term SMI investors.

An Upgrader who stayed the course through the 2000-2002 bear market would have earned back all losses by August 2003. Recovery from the deeper 2007-2009 bear market took longer, but even then, Upgraders broke even by April 2011.

Even more impressive, the back-tested results of SMI's Dynamic Asset Allocation strategy show that an investor following DAA wouldn't have experienced a bear market in their own portfolio in either period! More recently, during the sharp "coronavirus crash" in February-March, as the S&P 500 plummeted -33.8%, DAA was down only -6.9%.[1]

Look around

● **Imitate the styles of successful long-term investors.** Overly active selling/buying tends to be counterproductive, so don't assume you will improve your results by making trades in response to market volatility. One study of 10,000 accounts at a major discount brokerage house over a seven-year period found that the stocks investors *sold* typically went on to perform better than the ones they *bought*.[2] Long-term investors avoid a "trading mentality." They remain methodical and patient in following a plan.

● **Accept the reality of today's financial environment and expect market turbulence.** We still face many unknowables regarding the economic impact of COVID-19. So it seems likely that sharp volatility will continue as the cycle of virus-related good news and bad news continues to play out in the months ahead. The fact that continued volatility is likely has at least two implications.

First, it's wise to *diversify*. Diversification lessens the impact on your portfolio when setbacks take place. Although concentrating your money in fewer securities holds the tempting potential for great profits, large losses are also possible from following that approach. By avoiding this "all your eggs in one basket" temptation, it's less likely that any single loss will do great harm to your portfolio. Second, *maintain a long-term view*. Keeping your focus many years out enables you to better ignore the news of the moment.

Look ahead

● **Maintain sufficient liquidity to meet your monthly cash-flow needs.** Your month-by-month standard of living—which involves such things as making mortgage payments and meeting routine living expenses—should not be dependent on how well the market does. Having sufficient reserves in a savings account or a money-market fund enables you to leave your stock market commitments untouched.[3] With a faraway horizon, you have time for selloffs to run their course.

● **Don't be preoccupied with avoiding short-term losses—focus instead on where you want to be financially in 5 to 10 years.** The important thing is that your portfolio mix is appropriate in light of your season of life and your long-term goals. SMI's Dynamic Asset Allocation and Upgrading 2.0 strategies utilize different approaches to managing risk during times of acute market danger. If you're within a few years of retirement, you may feel the need to go beyond the measures called for by these strategies. But beware that doing so could leave you flat-footed when the market recovers, potentially reducing your long-term returns. So deviate from the strategies only after careful consideration—and make any such modifications gradually.

Look up

● **Exhibit the fruit of the Spirit—practice patience and self-control.** Take your cue from the Parable of the Talents where the master was away for "a long time." A long-term approach allows you to take up-and-down market cycles in stride. If you invest regularly, say in a company 401(k) plan, continue to do so regardless of market conditions. Dollar-cost-averaging (i.e., making regular investments no matter what's happening in the market) will use temporary setbacks to your advantage.[4]

● **Remember your heavenly Father and trust his promises.** "Look at the birds of the air; they do not sow or reap or stow away in barns, and yet your heavenly Father feeds them. Are you not much more valuable than they?... But seek first his kingdom and his righteousness, and all these things will be given to you as well" (Matthew 6:26, 33). ◆

[1]May2020:p77 [2]See chapter 22 in *Handbook of the Economics of Finance* (Elsevier, 2013).
[3]April2020:p54 [4]May2016:p71.

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

THE CRUCIAL ROLE BONDS CONTINUE TO PLAY ACROSS SMI STRATEGIES

With the pandemic sending the stock market on a wild ride this year, it's no surprise that investment headlines have focused mostly on stock indices such as the S&P 500 and the Dow Industrials. However, the bond market has been equally turbulent. As panic selling took hold in the stock market from February 19 to March 23, investors sold even traditional safe-haven investments, including Treasury bonds, which drove prices down.

SMI's approach to owning bonds

With bonds performing in ways many investors didn't expect, some SMI readers wonder if it still makes sense to hold bonds. The short answer is, "Yes." To understand why, it's important to understand the role bonds play in each of the three SMI strategies that include bonds.

Let's take a closer look at each of those strategies, as well as the 50/40/10 blended-strategy approach that we recommend most SMI members consider.

● **Just-the-Basics.** The overarching benefit of JtB is simplicity. Once you've determined your optimal mix of stocks and bonds and set up your portfolio accordingly,[1] there are no trades to make throughout the year. If your asset allocation calls for the use of bonds within JtB, their primary role is the traditional role bonds have played in portfolios—to lower risk by adding stability. In 2008, for example, when the S&P 500 fell -37%, bonds gained +5%.[2]

● **Fund Upgrading.** Like JtB, Fund Upgrading requires investors to first determine their optimal asset allocation. If that mix calls for the use of bonds, the bonds will provide *two* benefits—the traditional risk-lowering benefit (as with JtB) plus the potential to boost returns.

Since 2015, Fund Upgrading has used an upgrading approach not only for the stock portion of investor portfolios, but for the bond portion as well. Half of the bond allocation is a fixed 50/50 split between short- and intermediate-term bond index funds. The other half is allocated to the highest-momentum fund in a universe of bond funds that includes both passively and actively managed funds. That means half of the bond allocation within Upgrading is designed to *add stability and reduce risk*, while the other half is designed to *capitalize on opportunities*. The combination is designed to provide benefits regardless of the current interest-rate environment.

● **Dynamic Asset Allocation.** DAA uses a different approach with regard to bonds than either Just-the-Basics or Fund Upgrading. Here, there *isn't* a permanent allocation to bond investments tied to an investor's optimal asset allocation. Instead, DAA uses bonds *only when market conditions make it particularly advantageous to do so*.

During strong stock bull markets, bonds often aren't included in the DAA portfolio at all. But when stocks falter, DAA tends to shift to more defensive asset classes, including bonds. Unlike in JtB and Upgrading, however, when DAA calls for bonds in the portfolio, it uses much more aggressive *long-term* bonds in an effort to capture stronger returns from what are typically falling rates during those periods.

So, while DAA is reducing risk by shifting from more aggressive asset classes to bonds, it is also pursuing bigger gains from its bond holdings by using a more aggressive vehicle. This means the risk is higher with DAA's bond holdings than with either JtB's or Upgrading's, but the opportunistic nature of DAA means we take on that risk only when the market environment has stacked the deck solidly in favor of long-term bonds.

● **50/40/10.** This approach—50% DAA, 40% Fund Upgrading, and 10% Sector Rotation—is an example of the blended-strategy approach we believe most investors should utilize. Our research indicates that it offers a powerful combination of benefits: Higher returns with less risk. However, especially given this year's market events, it may lead some to wonder if they really need to include bonds in their Fund Upgrading portion since DAA also shifts into bonds as needed. We strongly recommend continuing to use bonds within the Fund Upgrading portion of your portfolio if your optimal asset allocation calls for you to do so.

Especially as you get older, which is when your optimal asset allocation will steer you toward bonds, it's important to keep a fixed portion of your portfolio in bonds for the traditional reason why bonds have always been used—to lower risk. As we have seen this year, the market can turn quickly. Our strategies are trend-*following* strategies, which means they won't always catch the market's change of direction immediately. Having a portion of your money always allocated to bonds provides much-needed downside protection when the market makes a sudden turn for the worse.

Keep in mind that for a 50/40/10 investor who is still 5-10 years from retirement, a 30%-40% allocation to bonds *in the Fund Upgrading portion* of their portfolio won't put much of a damper on performance in a growing market. After all, a 30% bond allocation within the 40% portion of the portfolio that is using Fund Upgrading means that only 12% of the *total portfolio* is allocated to bonds on an ongoing basis (40% x 0.3).

However, that permanent bond allocation can provide important protection in a declining market as you wait for the DAA portion to switch to a more defensive posture. Sticking with our example, as the 50% of the investor's portfolio allocated to DAA shifts to include bonds, that switches another 16.7% of the total *(continued on page 94)*

[1]For both JtB and Fund Upgrading, this is explained in detail as part of SMI's "Getting Started" process. See soundmindinvesting.com/start-here. [2]The bond figure is based on the performance of Vanguard's Total Bond Market index fund.

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

HOW TO SET YOUR HOUSE IN ORDER

By Matt Bell

In those days [King] Hezekiah became sick and was at the point of death. And Isaiah the prophet the son of Amoz came to him and said to him, "Thus says the LORD, 'Set your house in order, for you shall die; you shall not recover.'" – Isaiah 38:1

Imagine you've been making all the right financial moves for a long time. You estimated your future needs, diligently set aside a portion of every paycheck, invested the money according to a trustworthy strategy, bought proper insurance for your family, stocked an emergency fund, made sure your paperwork is in order (wills, trusts, living wills, power-of-attorney documents), and everything else. If you've done all that, congratulations—you're in far better shape than most people!

Now imagine today is your last day alive. You never saw it coming, didn't even have a chance to say goodbye to those you love. Sure, you're in a better place. Your spouse, while grieving, has confidence about that as well. But would your spouse know how to carry on in managing the household finances? Would he or she know how you've been investing, how much insurance you have and what to do with the proceeds, or who to call?

Chances are, a prophet will not appear to let us know when our time is up. But unless the Lord returns first, the odds are approximately 100% that we will all die. So, it would be wise to follow Isaiah's guidance and "set [our] house in order." The sooner the better.

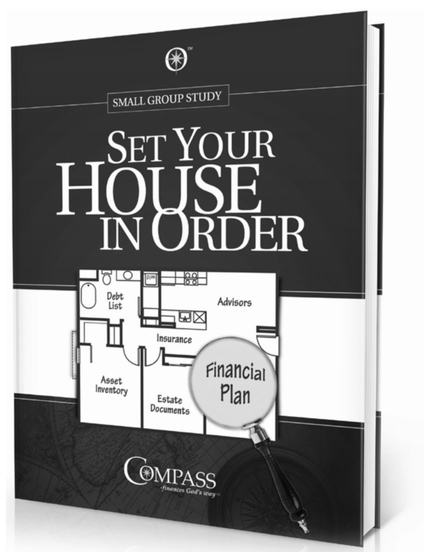
How well prepared are you?

A survey of Sound Mind Investing members really brought home the importance of this. We asked, "If your household's primary investment decision-maker died today, how well equipped would the survivor be to make such decisions? Only 7% said, "Very well-equipped." Another 29% said, "Somewhat well-equipped." But the majority said, "Not very well-equipped" or "Not at all well-equipped."

A helpful resource

The ministry of Compass–Finances God's Way[1] has an important resource that'll help make sure your spouse is well prepared to handle all of your family's finances, not just your investments.

Set Your House in Order is a five-week course that's one-part Bible study



and one-part highly practical organize-your-finances activities. The Bible study, including weekly scripture memory, reminds us of God's ownership over everything, our role as stewards of His resources, the importance of consulting with wise counselors, and more.

The practical activities include putting together a financial statement, taking an asset inventory, developing cash flow plans for now and after the main breadwinner's death, creating a family history to pass down to future generations, making inheritance and other estate planning decisions, expressing your funeral and burial wishes, gathering details for your obituary, and more.

One of the most valuable activities is gathering all of your important financial documents in one place. (Or *two* places, since originals of some of them should be kept in a safe deposit box.) This includes information about investments, insurance, bank accounts, wills or trusts, living wills, power-of-attorney documents, deeds, birth and marriage certificates, and more. That will go a long way toward helping your spouse manage his or her finances after you're gone.

The study prompts you to tackle an exhausting list of tasks, but since it's grounded in scripture, bathed in prayer, and focused on the benefits for your loved ones, it quickly becomes clear that the tasks are actually acts of good stewardship and love. That provides all the needed motivation.

While it could be completed on your own, *Set Your House In Order* is designed for a small-group setting, which provides helpful accountability. The participants do not need to live in the same city. They can connect via free video-conferencing tools such as Skype.

On a personal note

Week one of the study includes a description of a meeting that Compass founder Howard Dayton and his wife had with a woman who was recently widowed. In addition to the grief you'd expect her to be experiencing, the woman was also angry and fearful. Her husband had handled their finances and had never discussed the topic with her. She didn't even know if they had savings or debt, where they had bank accounts, or the names of their tax preparer and insurance agent.

When I participated in the study, I tried to imagine how my wife would feel if I died suddenly. The absolute *last* emotions I'd want her to experience are anger and fear.

(continued on page 94)

[1]www.compass1.org

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 4/30/2020	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	-41.5%	-18.2%	8.0%	-15.4%	-13.8%	-12.3%	-0.7%	0.96	0.11%/0.08%	20%	16%	12%	8%	VTIAX/VXUS
Extended Market Index	Small company stocks	-38.2%	-16.6%	15.8%	-16.1%	-10.9%	-11.2%	2.6%	1.31	0.06%/0.06%	40%	32%	24%	16%	VEXAX/VXF
S&P 500 Index	Large company stocks	-11.6%	-9.3%	12.8%	-9.3%	-3.2%	0.8%	9.0%	1.00	0.04%/0.03%	40%	32%	24%	16%	VFIAX/VOO
Total Bond Market Index	Medium-term bonds	18.5%	5.0%	1.7%	2.9%	4.8%	10.9%	5.2%	1.00	0.05%/0.035%	None	20%	40%	60%	VBTLX/BND

JUST-THE-BASICS: JtB 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 far behind. Depending on your particular stock/bond mix, your JtB portfolio should be allocated across either three or four traditional mutual funds/ETFs (see ticker symbols in rightmost column—performance data above is for traditional funds). For more on JtB, see Jan2019:p7-8.

RECOMMENDED FUNDS FOR SMI’S FUND UPGRADING STRATEGY

Risk	Data through 4/30/2020[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. Cash	05/20	See May2020:p76														
	3. WisdomTree Intl Hedged ETF	12/19	ETF	ETF	ETF	-13.1	-10.2%	7.6%	-9.1%	-4.1%	0.1%	4.6%	0.77	0.58	217	None	IHDG
Category 4 Small/Growth	1. Cash	04/20	See Apr2020:p60														
	2. Needham Sm Cap Growth	01/20	NTF	NTF	NTF	42.3	3.2%	21.4%	3.0%	11.8%	27.5%	18.4%	1.30	1.90	60	None	NESGX
	3. DF Dent Midcap Growth Inv	09/19	NTF	Yes	NTF	1.3	-3.6%	13.2%	-7.1%	1.4%	6.9%	16.8%	1.05	0.98	35	2%60days	DFDMX
Category 3 Small/Value	1. Cash	04/20	See Apr2020:p60														
	2. Cash	05/20	See May2020:p76														
	2. Touchstone Mid Cap Z	05/19	NTF	NTF	NTF	-30.2	-14.1%	10.7%	-15.3%	-11.1%	-3.9%	9.0%	1.05	1.21	31	None	TMCTX
Category 2 Large/Growth	1. Cash	04/20	See Apr2020:p60														
	2. Invesco QQQ Trust	02/20	ETF	ETF	ETF	28.2	3.2%	15.0%	0.1%	11.6%	16.5%	18.2%	1.08	0.20	104	None	QQQ
	3. Polen Growth Investor	10/18	NTF	NTF	NTF	12.9	-1.0%	14.1%	-3.4%	5.8%	10.5%	17.9%	0.97	1.25	23	2%60days	POLRX
Category 1 Large/Value	1. Cash	04/20	See Apr2020:p60														
	2. Cash	05/20	See May2020:p76														
	3. Invesco S&P 500 Top 50 ETF	02/20	ETF	ETF	ETF	3.1	-4.4%	13.5%	-5.6%	2.4%	6.4%	11.6%	0.97	0.20	55	None	XLG
Bond Categories	Carillon Reams Core Plus[6]	5/20	NTF	NTF	NTF	28.6	8.5%	4.9%	6.5%	8.1%	14.0%	6.0%	1.28	0.8	5.1[7]	None	SCPYX[8]
	Permanent: Vanguard I-T Bond	Perm	ETF	ETF	ETF	19.7	5.4%	2.4%	2.8%	5.0%	11.9%	5.6%	1.20	0.07	6.4[7]	None	BIV[9]
	Permanent: Vanguard S-T Bond	Perm	ETF	ETF	ETF	11.7	3.1%	0.8%	2.2%	3.2%	6.3%	3.2%	0.46	0.07	2.7[7]	None	BSV[10]

Upgrading Footnotes: **[1]** The stock-based funds listed in each risk category have been selected (and if applicable, ranked with either a “2” or a “3”) based primarily on their momentum scores in late May, rather than on the end-of-April 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. 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 Intermediate-Term (I-T) and Short-Term (S-T) index recommendations shown below that rotating 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 (in years) of the bonds in the portfolio. Typically, the longer the duration, the greater the risk/reward. To learn more, see Nov2018:p167. **[8]** Or the institutional share class SCPZX. **[9]** Those preferring a traditional mutual-fund option can buy VBILX. **[10]** Those preferring a traditional mutual-fund option can buy VBIRX.

Fund recommendations are explained in the MoneyTalk column on page 92.

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 Apr2020:p60 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	Carillon Reams Core Plus
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 Apr2020:p60 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 FOR JUNE

[Stock Upgrading is a mechanical strategy that typically involves owning recommended funds until they fall out of the top quartile of their peer group, at which point they are replaced by new top-performing funds. However, special defensive protocols are triggered occasionally, which cause the Upgrading portfolio to gradually "de-risk" by temporarily shifting some holdings to cash. See the January 2018 cover article for more details regarding Upgrading 2.0.]

After selling five funds in April and three more in May, there are no Upgrading changes to make for June. The stock market has rallied dramatically from its March lows. If it continues on its upward path, we'll almost certainly be using our cash holdings to add new funds to our Upgrading portfolio next month. But we're not quite there yet, and obviously a lot can change in a month.

While most investors tend to think of the stock market as a single entity, it is actually a compilation of many different types of stocks: large companies, small companies, different sectors, and so on. Looking back over the past year drives this point home in spectacular fashion.

As this is being written in late-May, the Nasdaq 100 (QQQ, one of our remaining Upgrading holdings) is up +30% over the past year. The Nasdaq index is dominated by the largest tech stocks, which fell less in the bear market and have recovered the strongest. It also owns zero financial stocks, which have struggled mightily this year.

The S&P 500 index (SPY, which we use for U.S. stock exposure within Dynamic Asset Allocation) is up +8.5% over the past year. But it's also still -11.0% below it's February highs, despite the recent rally, whereas the Nasdaq 100 is just -4.3% below its high.

Bringing up the rear is the Russell 2000 small-company index, which is down -6.4% over the past year. That's quite a contrast from the Nasdaq, as is the fact that the Russell 2000 is still -18.3% below its February highs. While the largest of the Nasdaq tech stocks are at or close to new highs, many of these Russell 2000 smaller-company stocks are still in bear market territory, down -20% or more.

None of this means the market indexes can't continue to push higher, but it does point out that it's a pretty narrow group of select stocks that have benefitted from this rally. That's not typically how new bull markets form. In fact, as long-time SMI members may recall, it's usually the smallest stocks that perform the best during the early stages of new bull markets. Upgrading overweighted the small-company risk categories in 2003 and 2009 and rode those allocations to market-beating returns both years as small stocks outperformed. So if the recent rally is the beginning of a new, lasting bull market, it has clearly begun in atypical fashion.

In that light, the past two months are more reminiscent of 2000, when an initial sharp spring decline in tech stocks was met with disbelief and a "buy the dip" mentality through summer. That example is one we've discussed previously as a classic bear market "false" rally. Only time will tell if this market follows a similar path, or continues to surprise investors, as it has at every turn so far this year.

Whichever it is, we expect Upgrading will ultimately pick up the longer-term trend. We'll stand ready next month to make adjustments—in either direction—as the unfolding market dynamics dictate. ◆

A PRIMER ON BUYING GOLD BULLION

Gold has a centuries-long history of serving as money because of several key characteristics: it is durable, scarce, divisible into smaller units, easily transported, and readily hidden or stored. As discussed in this month's cover article, we think the best approach for most SMI investors is to invest in gold using the guidance provided by our DAA strategy. But some investors may desire to have a small amount of physical gold in addition to their DAA holdings.

The more concerned a person is about the debasement of the U.S. dollar, the more attractive owning some amount of the actual metal becomes. With that in mind, here are three ways to buy physical gold. (Because owning physical gold is more involved than trading a gold ETF, the options described below are best suited for longer-term holdings.)

Gold coins[1]

For most investors who want a relatively small amount of physical gold, we recommend buying coins over bars or digital gold (discussed later). Investors often wonder which type of coin is best, but the answer is really any of them, because you're paying for the actual gold content with any such coin. That content just happens to vary slightly from type to type.

A South African Krugerrand, for example, contains one "troy ounce" of gold (precious metals usually are measured in troy ounces; a troy ounce weighs about 10% more than a regular ounce). A Krugerrand actually weighs *more* than one troy ounce due to the addition of a small amount of copper to add durability. As a result, the coin is only 91.67% pure gold (22 karats).

Don't let that confuse you—a Krugerrand (named for a 19th-century South African leader) still contains a full troy ounce of gold. As the table shows, while *fineness* of the Krugerrand is lower than the prettier (due to its purity) Canadian Maple Leaf, the gold content in the two coins is nearly identical.[2]

Pure gold coins, such as the Maple Leaf, the American Gold Buffalo, and others from various countries, normally sell at higher premiums due to their popularity. So be aware of this as you evaluate the options. (The premium is the difference between the spot price and the price dealers charge—in other words, their markup.) American Gold Eagles, although not pure, also tend to be popular enough to command high premiums. Krugerrands usually are the best deal in terms of actual gold per dollar spent, sometimes dramatically so.

As a general rule, the smaller the coin, the higher the markup over the spot price. (The "spot" price, which can change minute-by-minute, is the current market price of gold where it is being sold for cash and delivered immediately. The terms "spot price" and "cash price" are used interchange-

[1]We're excluding from this discussion numismatic (i.e., collectible) coins. Their value depends on their rarity and condition rather than their gold content. These are best left to those with specialized knowledge and experience. [2]Both Krugerrands and Maple Leafs are available in silver versions as well.

ably.) A 1 oz. coin typically will have a lower markup than a ½ oz. coin, which will be lower than a ¼ oz., and so forth. The smallest generally is a one-tenth ounce coin, which will normally carry the highest markup over gold's spot price. This is because smaller coins aren't as profitable for dealers, so they charge a larger premium to compensate.

The most popular gold-bullion coins are shown in the table below. Under normal conditions, premiums for 1 oz. gold-bullion coins are in the 2%-4% range, but lately some markups have topped 6% as the demand for coins has increased and supplies have dwindled. At times, demand may be so heavy that certain coins are unavailable.

As you begin your price research, you need to know at least three important things about the market for gold-bullion coins:

• **Gold coins can be sold by anyone**. Dealers are not regulated, and there are no licensing requirements. So it's "buyer beware" all the way.

• **Gold coin prices aren't standardized.** This means it's not uncommon for inexperienced investors to overpay. Make sure the price you pay is competitive (i.e., shop around!).

• **Gold coin prices fluctuate throughout the day along with the spot price of gold.** On a volatile day, this can make it challenging to compare dealer prices for the same coin. It's better to focus instead on a dealer's premium, which doesn't change as frequently.

Importantly, you don't necessarily want to use a dealer offering a significantly lower price than everyone else! Focus on reputable dealers offering reasonable prices instead. Monex and Fidelitrade are two good places to start your search.

Gold bars

Gold bars tend to be more complicated to buy and harder to resell than gold coins, so we don't consider them as attractive as coins. An exception would be if you intend to make a substantial purchase.

The standard industry unit for gold bars is 10 troy ounces. At current price levels, that would be about $18,000 per bar. Bars sell at a smaller premium (i.e., markup) than coins do, so there's an opportunity for some savings when making a sizable investment.

Digital gold

"Digital" describes the method of making transactions. You take direct ownership of actual physical gold by making purchases online via a brokerage-type account set up with a digital-gold company. The company stores your gold holdings in secure vaults. Your online account shows how many grams or ounces you own, along with any cash balance available to make additional purchases (you can add cash to your account via a bank transfer at any time).

Buying gold in this way is as convenient as using an online brokerage account to invest in stocks or mutual funds. However, making sense of the account statements can be tricky and the monthly storage fees add up.

There are several players in the digital gold market, but the leaders are GoldMoney (which SMI has reviewed before),[1] SmartMetals, OneGold, and the United Precious Metals Association (UPMA).

Here are the main features of GoldMoney's service—details may vary at other firms:

• **Ownership rights.** The gold in your account is legally your gold held in your name.

• **No counterparty risk.** Your direct ownership rights mean you are not dependent on GoldMoney's financial solvency for protection. If for any reason the company failed, your gold would be delivered to you.

• **No minimum purchases.** You can buy and store in amounts that fit your particular strategy (whether little or much). This ability to make "fractional" purchases frees you from the standard denominations found with gold coins/bars, and makes the accounts ideal for dollar-cost-averaging.

• **Low commissions.** The fee for each purchase or sale is 0.5% of the transaction amount (or 1% if you use a limit order).

• **Storage fees.** The gold is stored in your choice of high-security vaults (located in North America, Europe, and Asia). The fee for this is as low as 0.12% of the value of your gold holdings per year, but the minimum is $10/month (includes cost of insurance).

• **Fully insured.** All metals holdings are insured against theft through a policy with the well-established Brink's Company (Brink's also handles vault security).

• **Regular, mandated audits.** Quarterly reports from the vault operators and database auditor (companies independent from GoldMoney) verify that the amount of gold shown on your statement is, indeed, in the vaults. Further, a "Big Four" accounting firm (KPMG) provides an annual audit and report.

UNDERSTANDING THE DIFFERENCES

The Three Most **Popular Gold Coins** >	American **Gold Eagle**	Canadian **Maple Leaf**	South African **Krugerrand**
Face Value	$50 U.S.	$50 Canada	None
Total Weight (in grams)	33.93	31.11	33.93
Fineness (% pure gold)	91.67%	99.99%	91.67%
Gold content (in grams)	31.1035	31.103	31.1035
◆ Gold content (in troy oz.)	**1 oz.**	**1 oz.**	**1 oz.**
Premium Over Spot Price*	**5% - 6%**	**4% - 5%**	**3% - 5%**
Face Value	$25 U.S.	$20 Canada	None
Total Weight (in grams)	16.965	15.554	16.965
Fineness (% pure gold)	91.67%	99.99%	91.67%
Gold content (in grams)	15.552	15.5515	15.552
◆ Gold content (in troy oz.)	**½ oz.**	**½ oz.**	**½ oz.**
Premium Over Spot Price*	**5.25% - 6.25%**	**4.5% - 6.5%**	**4.0% - 5.5%**
Face Value	$10 U.S.	$10 Canada	None
Total Weight (in grams)	8.483	7.777	8.482
Fineness (% pure gold)	91.67%	99.99%	91.67%
Gold content (in grams)	7.776	7.7758	7.776
◆ Gold content (in troy oz.)	**¼ oz.**	**¼ oz.**	**¼ oz.**
Premium Over Spot Price*	**9% - 10%**	**8% - 10%**	**6% - 10%**

* Range of best prices found via a Web survey in mid-May 2020.

[1]The online precious metals marketplace is constantly evolving. See bit.ly/SMI-Goldmoney

• **Option of taking physical possession.** At any time, you have the option to pick up your gold from a vault or have it delivered to you (fees may apply).

These services have a lot of appeal. However, be sure to carry out your own careful investigation of GoldMoney[1] (or any of the other digital gold companies) to gain a satisfactory comfort level. ◆

LEVEL 1 / CONTINUED FROM PAGE 86

WHEN A FINANCIAL STORM HITS HOME

health coverage is through COBRA[2] (the 1985 Consolidated Omnibus Budget Reconciliation Act). The law allows you to continue the insurance you had through your employer for up to 18 months, but you'll have to pay the full premium, which can be pricey.

Crisis consolations

● **Don't face a personal financial crisis alone.** If you're married, pray with your spouse about which actions to take. Seek counsel from a wise parent or a trusted friend. And trust the faithful God who has said, "I will never leave you nor forsake you" (Hebrews 13:5).◆

LEVEL 3 / CONTINUED FROM PAGE 88

THE CRUCIAL ROLE BONDS CONTINUE TO PLAY ACROSS SMI STRATEGIES

portfolio to bonds (50% x .333), bringing the investor's total bond holdings to 28.7%.

That 28.7% overall bond allocation is very close to the 30% fixed bond allocation the investor would have had if they had used Upgrading exclusively, or JtB. The difference is that by including DAA in a 50/40/10 approach, the investor's portfolio would ramp up to that higher level of bond exposure only when the market environment dictates the need for more bonds. Plus, considering that much of it would be in *long-term* bonds at that point, which pack more "bang for the buck" than most other bonds, the 50/40/10 bond holdings would be expected to outperform during a period of heightened market volatility.

So, given all that's happened in the market this year, does it still make sense to hold bonds in your portfolio? We hope you have seen from all of the above that the answer remains definitively, "Yes!" ◆

LEVEL 4 / CONTINUED FROM PAGE 89

HOW TO SET YOUR HOUSE IN ORDER

The *Set Your House in Order* study prompted me to take several steps, such as increasing our life insurance and putting all of our financial documents in one place. It has also led to more conversations about our finances. Overall, participating in the study has left me feeling much better about how organized our finances are.

If you need some help in this area, I highly recommend the *Set Your House in Order* small-group study. You can get the study in hardcopy[3] or an interactive digital version,[4] and you could either organize and facilitate a study yourself or sign up to participate in an online study[5] led by a Compass facilitator. ◆

MARKET NOTES, QUOTES, AND ANECDOTES

An unknowable future becomes more so

"In the best of times, predicting the path of the economy... is difficult. We are now experiencing a whole new level of uncertainty, as questions only the virus can answer complicate the outlook." – Federal Reserve Chairman Jerome Powell, quoted in a *NY Times* article on 5/21/20. He and several Fed colleagues said the timeline for an economic recovery is far from obvious. Read more at nyti.ms/2yA01WR.

A second chance

"A number of investors...have discovered during this crisis they don't have a plan or strategy, just a portfolio of holdings. There's a huge difference between a smattering of individual securities or mutual funds and an investment plan. The market's recovery has given every investor who has been holding on for dear life a reprieve to figure out an asset allocation that fits their willingness, ability and need to take risk. If you don't know what you own and why you own it, a bear market is a bad place to find out." – Ben Carlson, in a 5/10/20 post on his *A Wealth of Common Sense* blog. Read more at bit.ly/2Xdfx38.

Black Friday comes early

"It's tough to generate inflation if people don't believe in it. After all, why would anyone 'chase' goods if prices stay the same or fall? Delaying consumption could mean getting a discount later." – Kathy Jones, Schwab's chief fixed-income strategist, in a 5/13/20 article on the company's website. She said there is reason to be concerned about *deflation* in the short-term. Read more at bit.ly/2THmnwL.

Understandable doubts

"Long-term thinking looks easy in a spreadsheet. You can look at a long stretch of history and say, 'If you just put up with a few lousy years you went on to capture excellent returns.' That's good thinking.... But the real world doesn't play out in spreadsheets…. It plays out at the dinner table, where you have to convince a spouse that your net worth has plunged but, don't worry, it's all part of the plan. It plays out in your own head, when you start to wonder whether your poor performance means you missed something."
– Morgan Housel, in a 5/14/20 post on the Collaborative Fund blog. Read more at bit.ly/36icwTn.

[1]www.goldmoney.com [2]bit.ly/COBRA-insurance [3]bit.ly/3chJvcq [4]bit.ly/3chVs1T [5]bit.ly/2YMvrE2

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

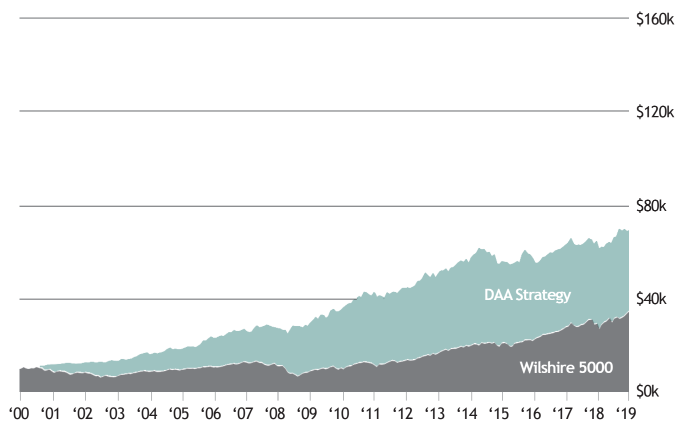
Overview

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

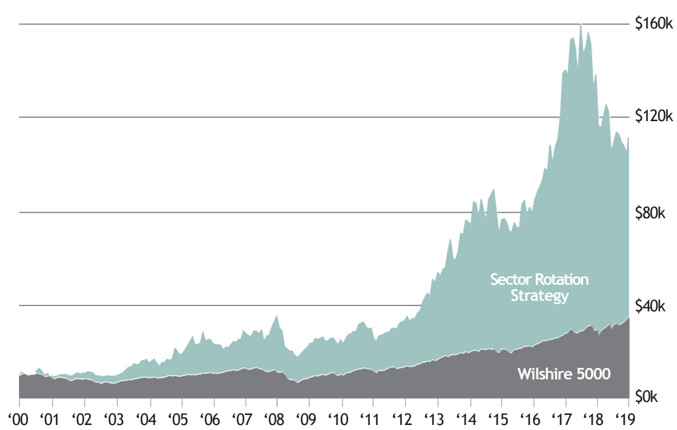
Overview

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.

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PERFORMANCE DATA

SOUND MIND INVESTING MODEL PORTFOLIOS • DATA THROUGH APRIL 30, 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]	-10.2%	13.3%	-10.2%	-0.8%	8.1%	8.5%	11.3%	8.7%
Just-the-Basics[2]	-14.1%	12.9%	-13.3%	-6.8%	4.5%	5.3%	9.1%	7.7%
Stock Upgrading[3]	-14.2%	8.8%	-13.5%	-7.8%	2.6%	4.1%	7.6%	7.4%
U.S. Bond Market[4]	5.0%	1.7%	2.8%	10.7%	5.0%	3.7%	3.8%	4.3%
Bond Upgrading[5]	4.8%	2.0%	2.6%	10.5%	4.5%	3.2%	4.8%	6.1%

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]	1.0%	3.7%	1.5%	9.3%	6.0%	3.3%	7.2%	9.7%
Sector Rotation	-15.6%	13.9%	-13.6%	-21.1%	-0.1%	4.9%	14.3%	11.8%
50-40-10 Blend[7]	-6.7%	6.4%	-6.0%	-0.7%	4.3%	4.0%	8.3%	9.4%

Notes: Transaction costs and redemption fees—which vary by broker and fund—are not included. • [1] Based on the float-adjusted Wilshire 5000 Total Return index, the broadest measure of the U.S. stock market. • [2] Calculated assuming account rebalancing at the beginning of each year with 40% of the stock allocation invested in the Vanguard S&P 500 (VOO), 40% in Extended Market (VXF), and 20% in Total International Stock (VXUS). • [3] For a 100% stock portfolio, assuming the portfolio allocation for each risk category was divided evenly among all recommended funds. • [4] Based on Bloomberg Barclay's U.S. Aggregate Bond Index, the broadest measure of the U.S. bond market. • [5] For a 100% bond portfolio, assuming 25% of the portfolio was invested in Vanguard I-T Bond Index (BIV), 25% in Vanguard S-T Bond Index (BSV), and 50% in the rotating recommended bond fund. The results prior to January 2015 are hypothetical, calculated from backtesting the strategy following a mechanical rules-based system. • [6] The results prior to January 2013 are hypothetical, calculated from backtesting the strategy following a mechanical rules-based system. • [7] For a portfolio allocated 50% to DAA, 40% to Stock Upgrading, and 10% to Sector Rotation. See the April 2018 cover article for details. Results prior to January 2013 are hypothetical, calculated from backtesting the strategy following a mechanical rules-based system.

THE SOUND MIND INVESTING MUTUAL FUND (SMIFX)

Current Returns as of 4/30/2020	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	-14.77%	9.35%	-14.69%	-9.96%	1.40%	2.28%	5.97%
Wilshire 5000	-10.19%	13.25%	-10.20%	-0.85%	8.12%	8.54%	11.34%
S&P 500	-9.29%	12.82%	-9.26%	0.86%	9.04%	9.12%	11.69%

Quarterly Returns as of 3/31/2020	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	-22.06%	-16.20%	-22.06%	-15.26%	-1.11%	0.32%	5.29%
Wilshire 5000	-20.70%	-13.62%	-20.70%	-8.95%	4.09%	5.99%	10.19%
S&P 500	-19.60%	-12.35%	-19.60%	-6.98%	5.10%	6.73%	10.53%

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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