CELEBRATING 30 YEARS OF OFFERING BIBLICALLY BASED FINANCIAL COUNSEL
30 years

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# Sound Mind Investing®

Financial Wisdom for Living Well
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## Feeling the Father's Pleasure

This month marks a milestone for Sound Mind Investing—the celebration of our 30th anniversary! To God be the glory, great things He has done! Much has changed here at SMI during those 30 years, but one thing remains constant: the motivation for doing what we do. Our reason for being is to encourage and enable our readers to become generous givers. This special anniversary is a great time to revisit this heartbeat of SMI.

**by Austin Pryor**

In Matthew 28, Jesus commissioned his followers to an awesome task. "Go," he told them, "and make disciples of all nations…teaching them to obey all that I have commanded you." You might be surprised to learn that this "Great Commission" (as it has come to be known) is at the heart of what we do at Sound Mind Investing. Fulfilling Jesus' Great Commission is the driving force behind our work.

Does that seem strange? This is, after all, a *financial* publication. We help people understand biblical principles for managing their money, earn good returns on their investments, and secure their financial future. We offer advice on such things as getting out of debt, building an emergency fund, saving for the future, and preparing for retirement. But to truly understand SMI, you need to know that I didn't start this newsletter 30 years ago because I have a passion for helping Christians strengthen their financial foundations. Frankly, stronger financial foundations don't mean much to me if they're not accompanied by greater generosity. We want to help you *have* more so you can *give* more.

My staff and I are motivated by a common desire to see God's message of love and salvation in Christ carried around the world to people he loves, people who are lost without Him. And that task, more often than not, requires money. *That's* why we want our readers to have more—not merely so they can achieve their financial goals, but also so they can give generously to advance God's kingdom. However, here's what I've observed: it's far easier to help people *have* more than it is to motivate them to *give* more. Our SMI staff can teach our readers effective financial techniques, but we can't give them more generous hearts.

Over the decades of publishing this newsletter, I've devoted a great deal of thought to what motivates Christians to give. I believe that the reasons typically fall into three broad areas. First, there are those who say…

**"I'm giving because I want to do my duty."**

Why do we view giving as a duty? Because Scripture teaches that:

• **God owns everything.** "Yours, O LORD, is the greatness and the power and the glory and the majesty *(continued on page 99)*

## IN THIS ISSUE



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

# EDITORIAL

## The Education of an Investor

When I joined Sound Mind Investing in April 2012, I had more than two decades of experience writing and speaking about biblical money management. However, I would have been the first to say that investing was my weakest link. My education as an investor truly began when I joined SMI.

What follows are some of the main lessons I've learned over the past eight years. SMI's goal is to help every member grow in the following areas, improving their financial condition as they simultaneously grow closer to Christ.

### Faith

As my wife and I prayed and talked about joining SMI, it was helpful to read Austin's story in the back of *The Sound Mind Investing Handbook*.[1] (I always recommend that people start with the last section!) It's deeply honest, encouraging, and inspiring. It reminded me of how little we're capable of on our own, and how much we're capable of through faith. It's a story of growing in humility and patience, and of cultivating a deeper relationship with Christ.

While there are numerous biblical principles that apply to how we invest, where SMI has helped me the most in bringing faith into our financial decisions is in checking my motivations. As Austin wrote, "I have become convinced that it is ultimately impossible to self-destruct financially if your decision-making is pointed in the direction of God's glory."

As we make all types of financial decisions, that question has become embedded in the process: Will this bring glory to God?

### Knowledge

SMI does its best to teach what you *need* to know about investing, not all there *is* to know. Still, there's a lot that God's people *need* to know. Here are a few examples.

● **The market moves through cycles.** That sounds so basic, and yet I've gained a greater appreciation for the fact that the market alternates between bull markets and bear markets, and that bull markets have historically lasted longer than bear markets and added more value than bear markets have taken away. I also now know as never before that *each year* can bring serious ups and downs. Knowing that the path will not be smooth helps a lot when the market heads south.

● **Much that passes for investment "news" is really just guessing.** When I started regularly reading sites like *MarketWatch*, I found it disturbing. There was little consistency in the points of view. Oftentimes, an article painting a rosy view of the market's future would be followed by one filled with gloom and doom. What to make of it all? Who to believe?

I've learned that most articles about the market's future are nothing more than one author's opinion.[2] So I've learned to take a lot of what I read with a grain of salt, and out of the many sources I read on a regular basis, I've identified a small handful of writers whose ideas I trust.

● **Our thinking is biased.** I've learned we are subject to many inherent biases. Chief among them is loss aversion, which means we feel the pain of *loss* to a much greater degree than the satisfaction of a similar *gain*. So, when the market falls, it's natural to feel bad, but it doesn't mean you should *do* something.

### Action

Another lesson I've learned is that it's a mistake to move too quickly toward choosing specific investments. We're easily drawn in by headlines about a hot stock or an investment tip from a friend or co-worker. Instead, we should focus on finding and following a trustworthy investment *strategy*. Here's what I've learned makes for such a strategy.

● **Objectivity.** It should not be based on anyone's opinions or predictions. Instead, it should be driven by an unbiased, rules-based process that tells us what to invest in.

● **Clarity.** We should understand the strategy so well that we could explain it to a 12-year-old.

● **A track record.** We should know how it's *designed* to perform in bull markets and bear markets and we should be able to see how it has *actually* performed. That can help us stay with it in good times and bad.

● **Conviction.** We should understand what it takes to follow our strategy of choice *and be willing to do it*. Will we need to make some trades? If so, how often?

So, those are some of the lessons I've learned about investing over the past eight years. And this expresses one of our great hopes for you, that you won't just benefit financially from SMI's strategies, growing in your ability to provide for your family and invest in God's Kingdom work. We hope that by being part of SMI, you will grow in your role as a steward of God's resources and in your relationship with Christ.

Matt

MATT BELL
MANAGING EDITOR

**NECESSARY CAUTIONS**
It should not be assumed that all investment recommendations will necessarily be profitable. The information published in SMI is compiled from sources believed to be correct, but no warranty as to accuracy is made. SMI is not responsible for any errors or omissions. The counsel given herein is not a substitute for personalized legal or financial planning advice.

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[1]To read a portion of that story, see SMI's May 2020 cover article. [2]And the corollary: Most articles about the market's past are thin rationalizations.

## Feeling the Father's Pleasure

*(continued from front page)*

and the splendor, for *everything in heaven and earth is yours*" (1 Chronicles 29:11, emphasis added here as well as in other Scripture passages below). God is the owner, and when we give, we're merely giving back to him what is already His. "Everything comes from you, and we have given you only what comes from your hand" (1 Chronicles 29:14).

• **We're servants who manage what belongs to Him.** We're his money managers. One of the most familiar of Jesus' teachings is the Parable of the Talents. Here's how he begins: "Again, it will be like a man going on a journey, who called his servants and entrusted *his* property to them. To one he gave five talents of money, to another two talents, and to another one talent, each according to his ability. Then he went on his journey" (Matthew 25:14-15). So the master has gone away. He's entrusted his property to us to manage on his behalf. What do servants do?

• **Servants follow orders.** First Corinthians 4:2 says, "Now the *most important thing* about a servant is that he does just what his master tells him to" (The Living Bible). I like what pastor and author Andy Stanley has to say about the servant's role with respect to giving and generosity, based on the instructions Paul gives to Timothy in 1 Timothy 6:17: "Command those who are rich in this present world not to be arrogant nor to put their hope in wealth, which is so uncertain, but to put their hope in God, who richly provides us with everything for our enjoyment. *Command them to do good, to be rich in good deeds, and to be generous and willing to share*."

• **Our orders are to be unusually generous.** First, Andy makes sure his audience understands that 1 Timothy 6:17 is talking about them. *They* are "those who are rich." (If you're a comfortable middle-class American, congratulations—you're in the top 10% when it comes to measuring the wealth of all the people on planet Earth.) Then Andy says this:

> The verses say, "Command them to *do* good." He doesn't say, "Command them to *be* good"—the rest of the Bible says that. And he's not commanding us to do good in the sense that the average person does good because the average Christian is *supposed* to do good.
>
> He's talking to *rich* people. He says, "Timothy, tell the rich people to do good *as only rich people can do*." This isn't average good. This is rich-people good. So tell those rich people to be generous and willing to share—not as normal people, not as average people. But tell them to be generous as only rich people can be generous.
>
> "And, Timothy, don't assume that just because they have more they're going to give more. You're going to have to tell them: 'Be generous. Be willing to share.' They need to know that *God gave them their wealth not just for their sake, but for what God wants to do in the world*." (Emphasis added throughout.)

It is clear from Scripture that, as servants, we have our orders. We are to do what the master asks. If we are to be found faithful, we must give generously.

Even though this is biblically true, I rarely write to you, our readers, about giving from this perspective. There are two drawbacks in approaching the issue primarily from the point of view of duty. First, I don't believe that telling you what you *ought* to do is particularly motivational. Making you feel guilty because you're not doing as much as you could (and possibly should) isn't an effective way to inspire generosity. But more importantly, I want to encourage you to set big goals when it comes to your giving. People who look at giving merely as a duty may be more likely to settle for giving 10%—i.e., the tithe. I believe many SMI readers can afford to give much more than 10%. So we seek to inspire and enable you to give more than what "duty" would call you to give.

Giving is about more than doing your duty. It's about more than faithfully carrying out a responsibility. Yes, it involves duty, but you know, people can perform their duties reluctantly. And far be it from us to give to our gracious, loving God in a begrudging way.

Let's move on to a second motivation for giving, those who might say…

### "I'm giving because I've been promised rewards!"

Again, this is true. In the 1 Timothy passage mentioned earlier, Paul says that if rich people will be rich in good deeds, if they will be generous and willing to share, they "will be storing up real treasure [for themselves] in heaven—it is the only safe investment for eternity" (1 Timothy 6:19 TLB).

This is great news! Who doesn't want to reap rewards that come from making wise investments? Paul is saying that generosity *now* will be rewarded with treasures in heaven for *all eternity*! He's echoing Jesus' words in the Sermon on the Mount: "For if you give, you will get! Your gift will return to you in full and overflowing measure, pressed down, shaken together to make room for more, and running over. Whatever measure you use to give—large or small—will be used to measure what is given back to you" (Luke 6:38, TLB).

For some of us, this teaching is so familiar that it's lost its wonder. Don't let it. Don't rush past it and fail to appreciate that this is an "investment opportunity" unlike any other. It's a "sure thing." Don't fail to take advantage of it.

An incident a few years ago in Washington, D.C., offers a lesson about missed opportunities. On a Friday morning in 2007, a youngish-looking man in jeans, a long-sleeved T-shirt, and a baseball cap entered a D.C. subway station. He had a small case tucked under his arm. Finding a spot near the entrance, he opened the case and took out a musical instrument—his violin. After positioning the case at his feet and tossing in a few dollars and loose change for seed money, he leaned back against a wall and began to play.

Each passerby had a quick decision to make—a not uncommon one where the occasional street performer is part of the city-life environment: "Do I ignore him—or do I throw in a dollar as I rush by?" Perhaps some even asked themselves, "Do I have time stop and listen?"

But the scene was not as it appeared. What the commuters didn't know is that the "concert" was an experiment arranged by *The Washington Post Magazine*. This wasn't just any young man. This was violin virtuoso Joshua Bell, one of the most acclaimed musical artists in the world. His concerts sell out everywhere he plays. In a subway station filled with hurried commuters, this superb violinist played for 43 minutes, artfully interpreting six masterpieces by Bach—some of the most beautiful music ever composed. His instrument? A $3.5 million Stradivarius, handcrafted by Antonio Stradivari in 1713.

According to the *Post*, during those 43 minutes, 1,097 people walked past. What was their response to having a world-class musician in their midst? To having an opportunity to hear this grand virtuoso play a concert for free? In a Pulitzer Prize-winning feature story about this experiment, reporter Gene Weingarten described what happened:

> [Bell] played with acrobatic enthusiasm, his body leaning into the music and arching on tiptoes at the high notes. The sound was nearly symphonic, carrying to all parts of the homely arcade as the pedestrian traffic filed past.... Three-and-a-half minutes went by before he got his first donation. A woman threw in a buck and scooted off. It was not until six minutes into the performance that someone actually stood against a wall, and listened.
>
> Things never got much better. In the three-quarters of an hour that Joshua Bell played, [only] seven people stopped what they were doing to hang around and take in the performance, at least for a minute....
>
> If we can't take the time out of our lives to stay a moment and listen to one of the best musicians on earth play some of the best music ever written; if the surge of modern life so overpowers us that we are deaf and blind to something like that—then what else are we missing?

A wonderful opportunity was presenting itself, but the people were too preoccupied with matters of everyday life to take advantage of it. I hope that won't be true of us when it comes to Jesus' promise of eternal rewards.

What are we missing if we fail to seize the opportunity to be generous givers? Jesus said we can gain eternal treasures by our faithful stewardship now. What a remarkable promise!

### The most daunting stewardship scripture in the Bible

We should be especially mindful that the last part of Jesus' promise in Luke 8 contains these words: "Whatever measure you use to give—large or small—will be used to measure what is given back to you" (Luke 6:38, TLB). It seems to me this is perhaps the most startling (and perhaps alarming) stewardship scripture in the Bible.

To bring this principle regularly to my mind, I once kept a set of kitchen measuring spoons on my desk as a paperweight. When I considered giving decisions, I wanted this reminder—don't use a small measure! As much as possible, I want to reach for the larger spoons, the ones that promise the largest eternal rewards. I encourage you: Use the largest measure you possibly can!

Jesus promised rewards to his faithful stewards. Randy Alcorn has written with wonderful insight on that, notably in a little book called *The Treasure Principle*, which I highly recommend. So don't misunderstand what I'm about to say; I'm all for the rewards. Even so, when I write in SMI about giving, and what Scripture says about *our role as servants* and about *God's promise of rewards*, I rarely focus on either as a motivation for generosity. Instead, I prefer to approach giving from a third aspect—one that deals with our affections. Giving is an affair of the heart. And in my heart of hearts, what I really want is for God to be pleased with my life. I want to make him happy. I trust that you have similar desires. So my challenge to you and to me is that each of us would say…

### "I want to give generously because I love my Father in heaven and I want to cheer his heart."

Consider how deeply committed our Father is to us! When you placed your faith in Christ, it's as if God said:

> My child, I pledge to love you with an everlasting love. I'll constantly be watching over you, and I'll provide for your needs. I'll guide your steps through life, and give you advice so you can make good decisions. As you depend on me, I'll give you strength to endure difficult times.
>
> I'll always be listening for you, so you can pray to me whenever you want and I'll hear you. I'll answer your prayers like a loving parent, granting what is good and helpful and withholding when I have something better. I'm going to give you spiritually useful abilities so your life will be purposeful and filled with beautiful moments.
>
> You are precious to me—so you can trust that my love for you is genuine and deep and permanent. I'll *never* grow tired of you, *never* abandon you, and *never* be unfaithful to my promises—*never*! In this special relationship of ours, I'll always be true to you, and I want you to always be true to me.

Isn't that reasonable—that we would always be true to him? Paul puts the question to us in Romans 12:1: "When you think of what he has done for you, is this too much to ask?" (TLB). No, it's not too much to ask. And remember, it's not just in this life that our Father is looking after us.

Yes, we should give out of duty. Yes, it's appropriate to give because we want rewards. But these reasons—though they are biblical—don't motivate me nearly as much as this simple truth: *When I give lovingly and generously, it gives my heavenly Father pleasure*.

"God has given each of you some special abilities; be sure to use them to help each other," we read in 1 Peter 4. "Do it with all the strength and energy that God supplies, so that God will be glorified through Jesus Christ" (1 Peter 4:10,11b TLB). This passage tells us that when we use our gifts in obedience, we are doing what we were *made* to do, what we have been *gifted* to do: to glorify God and advance his kingdom!

Nothing in life is as satisfying. When the Holy Spirit *in* you is allowed to live out the life of Christ *through* you, you can accomplish things of eternal consequence that are on God's heart.

### Feeling God's pleasure

The 1981 film *Chariots of Fire* tells the story of Eric Liddell, a gold medalist at the 1924 Olympics and later a missionary to China. The primary drama focuses on his refusal to run on a Sunday, believing Sunday is reserved for the Lord. But my favorite part of the film is a subplot involving Eric and his sister Jennie. She is concerned that Eric's running will take him away from his missionary efforts.

In one scene, Eric tells Jennie the good news that he's been accepted by the mission society to go to China. But then he adds, "But I've got a lot of running to do first." She is taken aback, but Eric says, "Jennie, you've got to understand. I believe that God made me for a purpose—for China. But he also made me *fast*, and when I run, I feel his pleasure.... [T]o win is to honor Him."

It's an emotional moment when, later, we see Eric in the final moments of his Olympic race. He was a 100-meter sprinter who, due to the scheduling, ended up competing in a 400-meter race. He ran against the best runners in the world at that longer distance, two of whom had set new world records in their qualifying heats earlier in the week. With head thrown back and legs pumping, he is exhilarated as he tries to give his very best to what he believed God had called—and equipped—him to do. He won that race, setting yet another new world record. As a result of his victory and his refusal to run on Sunday, God was honored and financial support was gathered for his missionary work in China.

Eric Liddell was given speed for a reason. You and I have been given *wealth* for a reason. We weren't created to celebrate ourselves. We were created to celebrate *Him*. And when we invest our lives in celebrating Him, we feel his pleasure.

In the Parable of the Talents, what is the last thing the master said to the faithful servants? We've gotten past the assignment where he has told them what their duty is…we've gotten past the handing out of the rewards…and the last thing the master says to the faithful servant is, "Come and share your master's happiness." When you and I are faithful servants, we make the master happy.

### Dreaming big dreams

As you can tell, I dream big dreams for you in this area, that you will excel in the grace of giving.[1]

• I want you to give more this year than you gave last year, and more next year than you gave this year, and still more the year after that.[2]

• I want you to reap a generous harvest.[3]

• I want you to bring joy to the Father's heart, because he just loves a cheerful giver.[4]

• I want you to experience what it's like to receive God's abundant provision as you give in good measure.[5]

• I want you to demonstrate your faithfulness as you earnestly seek to prove the sincerity of your love.[6]

• I want others to praise and glorify God because of your obedience in giving.[7]

• I want you to make acceptable sacrifices that are well-pleasing to God.[8]

• I want you to give in full proportion to your ability. For many, the tithe is a good place to start but a poor place to stop.[9]

• I want you to know what it's like to see God supply all your needs out of his glorious riches in Christ Jesus.[10]

• I want you to move on toward greater spiritual usefulness by proving yourself faithful in the small things.[11]

• I want your giving to convincingly testify to your belief that God is the owner of everything.[12]

• I want you to be able to gladly lay aside earthly wealth because you have God as your treasure.[13]

• I want you to be loved and prayed for all the more.[14]

• I want you to be Christ-like in making sacrifices so that others might become spiritually rich.[15]

• I want you to have the satisfaction of being singled out as a good example to others.[16]

• I want you to have a sense of urgency about making the most of your opportunities because you don't know what tomorrow holds.[17]

• I want you to learn and enjoy the secret of contentment.[18]

• I want you to gladly count everything a loss compared to the priceless gain of knowing Christ, our Lord.[19]

• I want you to earn treasures in heaven where you will value them forevermore.[20]

I want all these wonderful things for you. And really, don't you want them, too?

### Life is short

The words of the Casting Crowns' song, *Who Am I?*, serve as a good reminder: "I am a flower quickly fading, here today and gone tomorrow, a wave tossed in the ocean, a vapor in the wind…"

We've talked about duty, and we've talked about rewards, and we've talked about making God happy. I feel I just need to mention one more thing: life is short.

You may be thinking that you'd like to boost your giving, that you'd like to be more generous. But the economy is so uncertain right now. Maybe later this year you could revisit this idea—or if not this year, there's always next year.

No…there's not. There's *not* always next year. There's not always next month. Or next week.

The moment when you will be ushered into God's presence may seem far off, but it will be upon you before you know it. Many in the SMI family might well have that experience before 2020 is over. You could be one of those people. I could be one of those people. We don't know.

This is a sobering fact. It should cause us to think very deeply on the values we hold and the decisions we make. Our purpose for living is to delight in and—by any and all means—reflect the glory of God. What are we doing *now*, in this little while before we vanish like "a vapor in the wind," to make the glory of God known?

There are many ways we are called to serve the Lord. Giving is one of them. Like Eric Liddell, you have a race to run. No one else can run it for you. So run it with passion and purpose. Then, like the Apostle Paul, you can say with great satisfaction, "I have fought the good fight, I have finished the race, I have kept the faith."[21] ◆

[1]2 Corinthians 8:7 [2]2 Corinthians 9:6,8 [3]2 Corinthians 9:6 [4]2 Corinthians 9:7 [5]Luke 6:38 [6]1 Corinthians 4:2, 2 Corinthians 8:7-8 [7]2 Corinthians 8:11-13 [8]Philippians 4:18, Hebrews 13:16 [9]2 Corinthians 8:11 [10]Philippians 4:19 [11]Luke 16:11 [12]Psalm 24:1-2 [13]Psalm 63:1,3,8 [14]2 Corinthians 9:14 [15]2 Corinthians 8:9 [16]2 Corinthians 8:1-3 [17]John 9:4, James 4:14 [18]Hebrews 13:5 [19]Philippians 3:8 [20]Matthew 6:19-20 [21]2 Timothy 4:7

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**

## LIVING FREE FROM THE BONDAGE OF DEBT

In light of SMI's 30th anniversary, we think it's appropriate to highlight the core financial principles we stand behind. We'll roll them out over the next several months, starting this month here in Level One.

### The Bible on debt

The Bible never describes taking on debt as a sin. However, Proverbs 22:7 warns that debt can enslave us: "The rich rule over the poor and the borrower is servant to the lender."

Becoming enslaved to debt is contrary to how Jesus desires for us to live. "The thief comes only to steal and kill and destroy; I have come that they may have life, and have it to the full" (John 10:10).

The Apostle Paul reminds us of the sacrifice Jesus made so we could experience such a life: "You were bought at a price; do not become slaves of human beings" (1 Corinthians 7:23).

Financially, a crucial aspect of experiencing life "to the full" is living free from the bondage of debt. With the above biblical framework in mind, let's consider some practical applications related to debt.

### Types of debt

● **Credit cards.** If you're carrying a balance on a credit card from month to month, we urge you to pay off that debt before beginning to invest.

Here's how. First, build a small emergency fund—enough to cover a month's worth of essential living expenses.

Why focus on emergency savings first? Because if you're trying to pay off debt and don't have any savings to cover unexpected expenses, chances are an expense will crop up that'll drive you further into debt. So, build at least a small base of savings.

Once that's done, redirect the amount you had been putting into savings and use it for accelerated debt payments.

If you have balances on *multiple* credit cards, a common question is: Which should you pay off first—the highest interest-rate debt or the lowest-balance debt? (You can compare the results of each approach by using a free online calculator.[1])

Generally, you'll pay off your overall debt a little faster—and pay a little less interest—if you target your highest-rate debt first. However, by targeting your lowest-*balance* debt first, you'll probably pay off one of your debts quickly. The psychological boost that comes from putting a debt behind you is important. It adds momentum to your journey toward becoming debt-free. That's why we believe most people are better served by targeting their lowest-balance debt first.

Once you've paid off all your credit card debt, redirect the money you had been using for debt repayment toward building a larger emergency fund. A good goal is to accumulate an amount equal to three to six months' worth of essential living expenses. Once that savings reserve is in place, begin investing.

For detailed instructions on how to pay down credit card debt, read *The Essential Steps for Getting Out of Debt.*[2]

● **Vehicle loans.** If you're making payments on a car or truck loan, commit to making this your last financed vehicle. Also commit to keeping your current vehicle as long as possible—at least a total of 10 years, preferably 15.

Once your vehicle is paid for, continue making payments, but send them to a *savings account* instead of to your financing company. That way, when you need another car, you'll be able to pay for it with cash.

For more on this topic, read *Putting the Brakes on Car-Buying Costs.*[3]

● **Student loans.** The default payoff period is 10 years, but you can put a student loan on a faster payoff schedule. Use a calculator to see how much quicker your loan(s) will be paid off if you add extra to the required monthly payment. That may motivate you to find the money to pay more than the minimum.

For more information, read *Should You Consolidate Your Student Loans?*[4]

● **A mortgage.** For most people, buying a house with cash isn't realistic. So if you're going to borrow, here are two guidelines we recommend. First, make sure your monthly payments (including the mortgage, taxes, and insurance) add up to no more than 25% of your monthly gross income, preferably no more than 20%. That's typically the threshold that will enable you to live generously, save and invest adequately, and enjoy some surplus—assuming you have no other debt.

Second, make sure your mortgage is paid off by the time you plan to retire. (Of course, it's fine to pay it off even sooner!) When you transition from living off your work income to living off your investment portfolio, Social Security, and other sources of income (such as a traditional pension or annuity), having no mortgage debt will provide tremendous freedom.

Some people argue that with mortgage rates so low, it doesn't make sense to put extra money toward paying off that debt early. But the peace of mind and security that come from owning a home free and clear are invaluable.

For more on this topic, read *Making Sure Your House Doesn't Own You.*[5]

### Uncommon success

Living with debt is so prevalent in our culture, it can feel normal—even unavoidable. But it isn't the norm to which God's word encourages us to aspire. Becoming free from the bondage of debt is an essential aspect of living "life to the full." Having no debt frees us from stress that can hinder our most valued relationships, and it enables us to more clearly hear and respond to God's call on our lives. ◆



[1]unbury.me [2]Jan2018:p6 [3]Oct2019:p150 [4]Aug2016:p118 [5]Apr2013:p54

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**

## SACRIFICIAL GIVING

**by Larry Burkett[1]**

Decisions Christians make because of their love for Christ don't make sense to the world. We make them out of loving obedience to our Lord. When God places the needs of others on your heart and you help supply those needs, that is obedience.

Often, we share from our *abundance*. To give out of abundance means we have much and want to share with others who need much.

We can learn something of God's will concerning this kind of sacrifice from Luke 3:11, "And [John the Baptist] answered them, 'Whoever has two tunics is to share with him who has none, and whoever has food is to do likewise.'" I would argue that this is the *minimum* type of sharing for those who follow Christ.

But sometimes we must give *more sacrificially*. Sacrificial giving—with the right attitude—is possible *only* for those submitted to God. Sadly, giving sacrificially is rare in America. Worldly attitudes have clouded our thinking and dulled our sensitivity to other people.

We must be willing to make genuine sacrifices to supply the needs of others. Remember, the use of our money is an objective measure of our commitment to Jesus Christ and his work. Christians who aren't willing to endure even a slight financial discomfort for the Kingdom of God have missed the mark.

### Setting aside our wants

Giving sacrificially doesn't necessarily mean not meeting our own *needs*—although we should be willing to make even that kind of sacrifice. Instead, responding to God's call to sacrificial giving is more likely to mean abandoning some of our *wants*. Perhaps it will require giving up playing golf or cutting back on eating out. It may mean forgoing a new car or a larger home. The way to begin is by giving up some small part of your plenty (money you could use to buy something for yourself) for the sake of others who have little.

The first generation church set an example for us. In Acts 2:44-47, we read that they brought their possessions together, pooled them, and even sold some goods to raise money so that no one would be without. (Perhaps a time will come when common ownership among Christians will again be a necessity, a way to survive. We see the pattern in 2 Corinthians 8:15. "As it is written, 'He who gathered much did not have too much, and he who gathered little had no lack.'")

The Lord's *promise* to those making sacrifices is found in Mark 10:29-30. "Jesus said, 'Truly, I say to you, there is no one who has left house or brothers or sisters or mother or father or children or lands, for my sake and for the gospel, who will not receive a hundredfold now in this time, houses and brothers and sisters and mothers and children and lands, with persecutions, and in the age to come eternal life.'"

### An essential attitude

Christ gave us another reference point when standing in the Temple, observing people offering their gifts to the treasury. "Jesus looked up and saw the rich putting their gifts into the offering box, and he saw a poor widow put in two small copper coins. And he said, "Truly, I tell you, this poor widow has put in more than all of them. For they all contributed out of their abundance, but she out of her poverty put in all she had to live on'" (Luke 21:1-4).

It is interesting how sacrifice works. Christ said that she put in *more* than all the rest, and yet it was only two small copper coins. This widow wasn't giving to impress others. Nor did the Temple need her pennies, for it was replete with gold and brass. And she certainly didn't give from her abundance. She gave "all she had" because she loved God and felt a more significant need than that of food. She felt the need to sacrifice for God.

Sacrifice is an essential attitude for every Christian to adopt. Ask God to lay the needs of others on your heart. Begin to sacrifice a small portion from your wants to help them. Strive to reflect a difference outside that is equivalent to the commitment inside.

### Get involved

When Christ returns, he will test the sincerity of our profession by the commitment of our resources—our money and our time. Monetary giving is crucial, but don't use gifts of money to avoid another responsibility. It may be that God desires your *physical* involvement as well. In other words, give more than money. Give of yourself.

I know a Christian who helps care for the poor in a large city. He not only gives financially, but he's also helped to establish thrift shops that make it possible for people of meager means to purchase clothing, furniture, and other necessities at prices they can afford. Although his time is limited, like everyone else's, he acts out of obedience to God and love for others.

### Blessing and reward

In Matthew 10:42, Jesus said, "And whoever gives one of these little ones even a cup of cold water because he is a disciple, truly, I say to you, he will by no means lose his reward." Wait—it doesn't cost much to give water to someone! What is Christ saying? He is saying that *what* you give is not important—not the amount or the value—only the *attitude* with which you give.

Have you ever given to someone resentfully? I have, and almost immediately realized I had given up more than money. Those who share with others willingly and cheerfully receive a blessing that comes only with true love. ◆

[1]Through his guidance and encouragement, financial teacher and author Larry Burkett (1939-2003) was instrumental in the founding of Sound Mind Investing 30 years ago. This article is adapted with permission from his book, *Your Finances in Changing Times* (Moody Publishers, 1982).

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**

## HOW SMI STRATEGIES PUT THE BEST TEAM ON THE FIELD

Balancing the competing goals of growing capital while also defending against losses is perhaps the most challenging aspect of investing. It's easy to assemble a portfolio that will earn big gains in a bull market environment, just as it is easy to build a defensive portfolio to withstand a bear market. But constructing a portfolio that can successfully navigate both environments? That's hard.

Hedge fund manager Diego Parilla uses a sports analogy to describe this balancing act within a portfolio. Being based in Madrid, naturally his analogy is to soccer, with the picture being a balance between "strikers" who can score goals on offense, and goalies who protect the portfolio on defense.

Putting a more North American spin on this analogy may improve its usefulness for SMI investors. Unlike most other sports, in ice hockey, the penalty system provides huge temporary advantages to one team's offense vs. the other team's defense. When certain penalties are called in hockey, a player has to leave the ice for a period of time. This means that the normal balance of three offensive players and two defenders (plus a goalie) on each team is altered, and a "power play" results where the game effectively becomes five players against four (the advantage/disadvantage can be even more extreme if multiple players are penalized at the same time).

The way hockey teams deal with these potentially advantageous (when the other team is short-handed) or dangerous (when their team is down a player) periods is to have different lineups (called "shifts") that excel in particular aspects of the game. When the other team loses a player and the game balance temporarily shifts to offense for their team—boom, in comes the power-play shift that specializes in offense and scoring goals. On the other hand, when their own team loses a player, they'll put in their penalty-killing shift to emphasize defense and try to keep the other team from scoring.

Of course, the penalty-killing team will go ahead and score if given the opportunity. But success for that shift isn't measured in goals scored. Rather, if the penalty-killing team can just keep the score from changing over the duration of the penalty time, the crowd will cheer like crazy, because they know playing great defense during those specific periods is just as important to winning the game as scoring goals is when the advantage shifts to their team.

### Offense and defense in SMI portfolios

While many investors keep the same lineup on the ice in both bull and bear markets, the SMI strategies approach it more like a hockey team. When the environment is geared toward offense and "scoring goals," the momentum basis of our Upgrading and Dynamic Asset Allocation (DAA) strategies tilts our holdings to favor more aggressive asset classes and funds that can generate big gains. In contrast, when the market environment turns dangerous during a bear market, the strategies tell us it's time to take some goal-scoring potential off the ice in favor of playing better defense. Both are important to our long-term success.[1]

Even during long bull markets, Upgrading and DAA are constantly making gradual, often subtle, shifts between more/less risky holdings. But when bear markets come along, the full "line shifts" come into play.

This has been evident in 2020, as DAA had its full penalty-killing lineup on the ice just eight trading sessions after the February 19 all-time high in stocks. Its lineup at that point consisted of Gold, Bonds, and Cash—perfect for running out the bear market penalty clock. Upgrading was a bit slower to respond, by design, but gradually it too pulled roughly half of its "offense" off the field in favor of the defensive value of cash.

Unlike in hockey, however, there's no penalty clock that signals exactly when bull and bear markets start and stop. The trick then, is developing systems that will reliably shift our lineup from offense to defense and back again, without staying too long with the wrong lineup.

So far in 2020, the SMI lineup has done a pretty good job identifying the shift from bull market to bear and getting more defensive. The shift back toward a more offensive lineup took its first tentative step at the beginning of June, but was looking rather slow to respond until the stock market suddenly fell -6% on June 11. That was a strong reminder of the risk involved with shifting too quickly back to an offensively oriented portfolio.

These transitions can be trying and require patience. But as much as a hockey team might want to score more goals, it's not smart to put an offensive lineup back on the ice until the full penalty period is over. In investing terms, our strategies are designed to try to build in a margin of safety before making these transitions, and even *after* those transitions do begin, to make it fairly easy to switch *back* if market conditions dictate.

We continue to believe that serious risks to the market remain in the second half of 2020. A second coronavirus wave remains a possibility, and the economic recovery could easily fall short of a full rebound to pre-COVID-19 levels. Topping off these risks are the certainty of a heated presidential election and the potential for significant political changes ahead.

Of course, lined up against these risks remains the formidable government and central-bank support to the market. Investors have been *(continued on page 109)*

[1]An argument can be made that good defense is even more important than offense, given the cruel math of investing that requires a larger gain to recover from a loss of a given size (i.e., it takes a +33% gain to recover from a -25% loss).

# 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**

## PROJECTING YOUR SOCIAL SECURITY RETIREMENT BENEFITS

The idea behind Social Security retirement benefits is simple: you pay in during your working years, and in return, you receive a steady stream of income during your retirement years. But that simple idea is remarkably complicated in its implementation. Social Security has more than 2,700 separate rules governing SS benefits.

Figuring out which of those rules apply to you—and how to use them to your best advantage—is a difficult task. That's doubly true if you're married. Couples must contend with rules that *interact*, thus creating many additional variables that can affect future benefits. In some cases, a wife (or a husband) may be eligible for "spousal benefits" based on the other person's earnings.

Since Social Security likely will account for a significant portion of your retirement income,[1] it's wise—and potentially lucrative—to invest time in learning how your benefits are determined and how you can maximize those benefits. Using an online Social Security calculator—or, better yet, multiple calculators—can help.

Such calculators—perhaps "web tools" would be a more apt description—can project, with rough accuracy, what your future monthly benefit will be. The reason calculator projections can't be 100% accurate is that the Social Security Administration doesn't finalize your retirement benefits until you claim them. As your annual earnings continue to accumulate between now and retirement, your projected monthly benefit changes. Your benefit also will be affected by how old you are when you apply.

### The big picture

Before using a Social Security web tool, it's helpful to understand how the Social Security Administration (SSA) arrives at your retirement benefit. SSA starts with earnings data from your 35 highest-earning years and then applies per-year inflation-type adjustments. Next, SSA adds up those years of earnings and uses a formula to arrive at your Average Indexed Monthly Earnings (AIME). From this number, the Social Security Administration then calculates your Primary Insurance Amount (PIA) by assigning a greater weight to lower earnings and lesser weight to higher earnings. Got that?

Your Primary Insurance Amount is SSA's *estimate* of the monthly benefit you would receive *if you claim benefits at your Full Retirement Age* (age 67 for those born after 1959). If you claim earlier (you can claim as early as age 62), you'll get *less* than your PIA per month. If you choose to claim later (as late as age 70), your monthly benefit will be *more* than your PIA.

### Free tools

We suggest running your Social Security data through several of the free calculators that are available. The projections should be similar if you use the same assumptions (there may be rounding differences or other minor variations). But you'll find that some tools provide contextual information that others lack. Also, the data layout is more user-friendly in some calculators than in others.

● **The SSA Retirement Calculator.** The best place to start is at the source: The Social Security Administration itself. That isn't because their calculator is great (it's not ), but because the SSA has the essential information you'll need for every other calculator. By setting up online access at ssa.gov/myaccount, you'll be able to retrieve your multi-year earnings record along with your latest Social Security Statement.

By default, the SSA website will provide three estimates of your monthly benefits: what you'd get if you claim benefits at your Full Retirement Age (as defined by law), at age 62, and at age 70. The SSA Retirement Calculator allows you to generate a more precise estimate if you specify an exact claiming age (say, age 64 and 3 months).

Unfortunately, the SSA calculator does little more than that.[2] It offers no guidance on claiming strategies.

● **Social Security Calculator.**[3] Math teachers like to say, "Show your work!"— i.e., don't show the answer only, but also how you *arrived at* the answer. "Showing your work" is what this free calculator does well.

The Social Security Administration's calculator provides benefit estimates. This third-party tool clarifies *how* SSA came up with those estimates. As illustrated in the table below, this calculator flags the 35 "earning years" SSA is using to determine your benefit, and it lists the "multipliers" employed to make past earnings comparable to present-day wages. (Note: The multipliers shown below are rounded, so the math isn't exact.)

**Earnings Record**

| Year | Age | Taxed Earnings | | Multiplier | | Indexed Earnings | A Top-35 Year? |
|---|---|---|---|---|---|---|---|
| 1982 | 23 | $4,832 | x | 3.59 | = | $17,340 | |
| 1983 | 24 | $10,875 | x | 3.42 | = | $37,212 | Yes |
| 1984 | 25 | $8,036 | x | 3.23 | = | $25,971 | Yes |
| 1985 | 26 | $22,603 | x | 3.10 | = | $70,064 | Yes |
| 1986 | 27 | $19,956 | x | 3.01 | = | $60,076 | Yes |
| 1987 | 28 | $5,702 | x | 2.83 | = | $16,136 | |
| 1988 | 29 | $8,784 | x | 2.70 | = | $23,691 | Yes |
| 1989 | 30 | $6,793 | x | 2.59 | = | $17,624 | |
| 1990 | 31 | $12,277 | x | 2.48 | = | $30,445 | Yes |
| 1991 | 32 | $27,952 | x | 2.39 | = | $66,826 | Yes |

This calculator also can run multiple scenarios (including for couples), estimating how benefits would change based on the age(s) at which you claim.

● **Open Social Security.**[4] This tool, developed by financial author and blogger Mike Piper, can project benefits for every possible claiming age (or, if you're married, every possible combination of claiming (continued on page 109)

[1]For the majority of U.S. households, Social Security benefits currently account for 27%-38% of total retirement income. [2]SSA offers additional calculators, most focused on a single task, at www.ssa.gov/planners/calculators. [3]www.ssa.tools (not affiliated with the Social Security Administration) [4]www.opensocialsecurity.com

# 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 5/31/2020 | 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 | -18.3% | -14.3% | 4.8% | -4.9% | -10.6% | -2.7% | -0.1% | 0.96 | 0.11%/0.08% | 20% | 16% | 12% | 8% | VTIAX/VXUS |
| Extended Market Index | Small company stocks | -4.3% | -9.3% | 8.8% | -0.8% | -7.3% | 3.9% | 5.8% | 1.33 | 0.06%/0.06% | 40% | 32% | 24% | 16% | VEXAX/VXF |
| S&P 500 Index | Large company stocks | 14.3% | -5.0% | 4.8% | 3.6% | -2.1% | 12.8% | 10.2% | 1.00 | 0.04%/0.03% | 40% | 32% | 24% | 16% | VFIAX/VOO |
| Total Bond Market Index | Medium-term bonds | 16.6% | 5.6% | 0.5% | 1.7% | 5.5% | 9.5% | 5.1% | 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 5/31/2020[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 | 14.6 | -4.4% | 6.5% | 4.1% | -1.9% | 12.4% | 5.8% | 0.78 | 0.58 | 221 | None | IHDG |
| Category 4 Small/Growth | 1. Needham Sm Cap Growth | 01/20 | NTF | NTF | NTF | 61.9 | 7.5% | 4.2% | 12.8% | 12.7% | 36.4% | 19.5% | 1.29 | 1.90 | 60 | None | NESGX |
| | 2. Cash | 04/20 | See Apr2020:p60 | | | | | | | | | | | | | | |
| | 3. DF Dent Midcap Growth Inv | 09/19 | NTF | Yes | NTF | 38.0 | 6.7% | 10.7% | 9.0% | 7.2% | 21.8% | 19.8% | 1.09 | 0.98 | 35 | 2%60days | DFDMX |
| Category 3 Small/Value | 1. Touchstone Mid Cap Z | 05/19 | NTF | NTF | NTF | 0.3 | -8.8% | 6.2% | -1.4% | -7.5% | 9.2% | 10.9% | 1.05 | 1.21 | 31 | None | TMCTX |
| | 2. Cash | 04/20 | See Apr2020:p60 | | | | | | | | | | | | | | |
| | 3. Cash | 05/20 | See May2020:p76 | | | | | | | | | | | | | | |
| Category 2 Large/Growth | 1. Invesco QQQ Trust | 02/20 | ETF | ETF | ETF | 63.2 | 10.0% | 6.6% | 13.6% | 14.3% | 35.3% | 19.2% | 1.08 | 0.20 | 104 | None | QQQ |
| | 2. Cash | 04/20 | See Apr2020:p60 | | | | | | | | | | | | | | |
| | 3. Polen Growth Investor | 10/18 | NTF | NTF | NTF | 44.7 | 6.6% | 7.7% | 10.3% | 9.4% | 25.0% | 19.7% | 0.98 | 1.25 | 23 | 2%60days | POLRX |
| Category 1 Large/Value | 1. Invesco S&P 500 Top 50 ETF | 02/20 | ETF | ETF | ETF | 27.9 | -0.7% | 3.9% | 6.9% | 2.3% | 18.8% | 12.6% | 0.97 | 0.20 | 55 | None | XLG |
| | 2. Cash | 04/20 | See Apr2020:p60 | | | | | | | | | | | | | | |
| | 3. Cash | 05/20 | See May2020:p76 | | | | | | | | | | | | | | |
| Bond Categories | Carillon Reams Core Plus[6] | 5/20 | NTF | NTF | NTF | 30.6 | 10.4% | 1.8% | 7.1% | 10.1% | 13.5% | 6.4% | 1.29 | 0.80 | 5.1[7] | None | SCPYX[8] |
| | Permanent: Vanguard I-T Bond | Perm | ETF | ETF | ETF | 20.0 | 6.8% | 1.4% | 2.2% | 6.7% | 11.1% | 5.8% | 1.21 | 0.05 | 6.4[7] | None | BIV[9] |
| | Permanent: Vanguard S-T Bond | Perm | ETF | ETF | ETF | 11.6 | 3.7% | 0.6% | 1.8% | 3.9% | 5.9% | 3.3% | 0.47 | 0.05 | 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 "1" or a "3") based primarily on their momentum scores in late June, rather than on the end-of-May- 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.



See MoneyTalk column on page 108 for more on Upgrading recommendations.

# 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 JULY

[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.]

We are holding our Upgrading exposure for July steady. Roughly half the portfolio remains invested in stock funds, with the other half in cash. *There are no changes to make for July.*

As we head into the second half of 2020, the stock market appears to be caught in a cross-current of conflicting momentum.

The second quarter was one of the strongest quarters ever for stocks. Much of that was due to the starting point, as the bear market low in late-March set the market up for a huge rebound. But it's been more than just that initial rebound. After rallying +27% in the first three weeks after the March low, stocks treaded water for a month before catching a second wind on the extreme optimism over coronavirus numbers receding and the economy re-opening. From mid-May through June 8, the S&P 500 added nearly +15% in further gains, taking the index within 5% of February's all-time high.

Given that, why isn't Upgrading adding more stock fund exposure this month? Simply put, we're not adding new stock funds this month because the market's trend shifted downward after that June 8 high. Unfortunately, the trend has been backed up by decidedly worse recent economic and COVID news.

After peaking on June 8, the U.S. stock market quickly ran into trouble. Just three days later, the market suffered its worst single-day loss since early April as stocks sold off -6%. The market would regain some of that ground before falling nearly -3% again the week of June 22. As recently as the morning of June 29, the S&P 500 traded below the 3,000 level, -7.2% below its June 8 high. That's not a sign of a market that's trending higher and breaking out to the upside, which is what Upgrading 2.0 is looking for when giving a new buy signal.

It's possible that June's lower highs and repeated downside tests of key moving-average support levels is only a temporary speed bump, and will give way to the market breaking back above those early-June levels. That would provide us with much more confidence in the market's trend, and would almost certainly result in new buying within Upgrading next month (or whenever it occurs).

But for now, with the market rebound having potentially peaked on June 8 and rolled over, the risk/reward tradeoff favors holding steady with our current allocation rather than adding more stock exposure.

### Economic headwinds

Unfortunately, it's not just the action of the "market tape" that has shifted in recent weeks. The market's upward surge to the June 8 highs was driven by real-world optimism that receding COVID-19 numbers and a rapidly re-opening economy would lead to a relatively quick "V-shaped" economic recovery.

But that real-world narrative shifted dramatically as June drew to a close. Fears of a second wave in the fall have been replaced by alarm over a resurgent first wave. Many states and cities, responding to surging case counts, and to a lesser degree, hospitalizations, have re-imposed various restrictions. With these stricter controls being implemented again, there's no question that the hoped-for economic expansion is going to be slower than it would have been otherwise.

As if that wasn't daunting enough, the second half of 2020 presents a gauntlet of risks for the economy and markets—from the expiration of enhanced unemployment benefits in July, to waves of loan/rent forbearance ending, to the growing chance (based on polling data) of Democratic wins across the board in November. (That's not intended as political commentary—it's widely expected that the market would react negatively to increasing odds of a Democratic sweep.) There's a chance some COVID-related provisions, such as the expanded unemployment benefits, could be extended. But with the poisonous political climate and a looming election, it will only get harder for a divided Congress to pass further fiscal support.

Of course, any discussion of the market's prospects has to include the Fed (and other global central banks), who have been the stars of the market's 2020 show. But even there, the signals were mixed in June. On the one hand, the Fed has rescued financial markets with unprecedented action-taking at breathtaking speed. On the other hand, the Fed's balance sheet peaked the same week the market did in early-June. As it declined slightly, the stock market immediately rolled over.

In the past, the Federal Reserve has been hesitant to take significant action in the months leading up to elections, lest their efforts be perceived as politically motivated. So it's difficult to know what to expect in the months ahead from the Fed, which has indicated growing discomfort with the price levels of financial assets. It's hard to imagine Fed policymakers standing by if the market started to fall significantly. Still, it's not automatic they'll continue with the same level of aggressive support that the market has become accustomed to—and perhaps overly reliant on.

None of this is to say the market will fall in July. It's merely to point out that the market is quite risky at current prices, especially given the lack of clarity regarding its trend since the June 8 high.

### Fund 1-3 rankings

On page 106, the order of the holdings this month communicates which funds remain near the top of their risk category peer groups and which rank closer to the quartile cutoff below which they will eventually be replaced.

If you're considering purchasing any stock funds, we suggest limiting new purchases to the funds listed in the number 1 slot (i.e., *above* any open cash slots) within each category. ◆

LEVEL 3 / CONTINUED FROM PAGE 104

## HOW SMI STRATEGIES PUT THE BEST TEAM ON THE FIELD

conditioned over the past dozen years to believe central bank liquidity can offset any and all threats to financial markets. Time will tell if they can pull it off again.

Of course, SMI doesn't determine its portfolio construction based on our predictions for the future. Rather, we let the market tell the story and interpret the actual data through our momentum-based strategies. Keep in mind that this is more of a *process* than an *event.* In other words, this process could result in switching two defenders for offensive players, then switching one back, then adding more offense, then tilting back toward defense again, and so on. There's no guarantee this is going to be a straight-line process. (See page 108 for an explanation of the Stock Upgrading changes happening for July.)

The hockey analogy is helpful in considering that possibility. The market environment in 2020 has been high risk, and we believe that it remains so, despite the significant recovery in stock prices. Until our momentum indicators suggest this bear market "penalty period" is over, we're willing to forgo scoring more goals in favor of playing good defense.

"Risk happens fast" is a market saying that describes the sudden changes that can occur anytime but are especially common during bear markets. SMI's strategies are focused on getting the longer-term trends right, a perspective that makes sense given that bull markets tend to be long and bear periods relatively short in comparison. We don't have to rush to call the end of a bear market—at the risk of being wrong and suffering significant losses—because new bull markets typically last for *years*.

### Conclusion

Week-to-week, and even month-to-month, following the SMI strategies occasionally can be frustrating, as they sometimes feel "out of sync" with whatever is happening in the market. But over the long-term, SMI's approach of *following trends*—rather than trying to predict them—has proven safe and effective. Sometimes following trends means we have to deal with whipsaws as the system distinguishes the important longer-term signals from the market's short-term noise. But SMI's version of an "all-weather portfolio," with mechanisms for lineup changes built right into the fabric of the strategies, can be relied upon to steer investors through whatever storms the markets may generate.

Over the past 30 years, we've demonstrated that our approach to ferreting out lasting trends and riding them to significant gains, while keeping losses firmly in check, is an outstanding combination. Importantly, it's an approach that manages investor *emotions* along with their portfolios, providing a stable basis for long-term success. ◆

LEVEL 4 / CONTINUED FROM PAGE 105

## PROJECTING YOUR SOCIAL SECURITY RETIREMENT BENEFITS

ages). It highlights the claiming strategy expected to provide the most spendable dollars over your retirement years (based on normal life expectancy). An accompanying color-coded graph illustrates a range of other claiming dates—or combinations of dates in the case of a couple—that may be good options in your particular case.

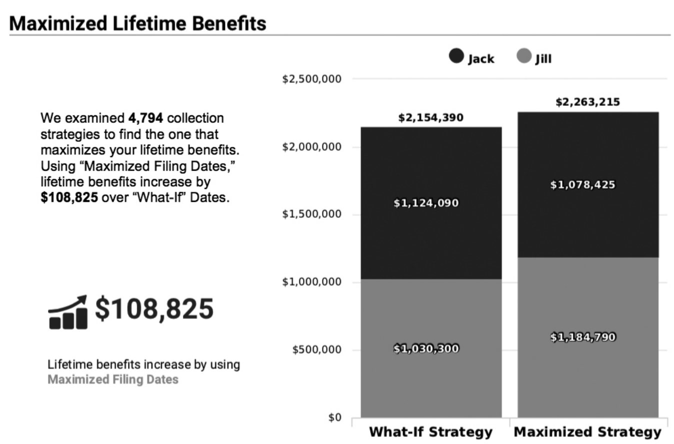
Open Social Security allows you to change several default assumptions, including the projected inflation rate and your anticipated age at death (the calculator's default setting uses Social Security's most-recent "Period Life Table"). Open Social Security also can generate projections that take into account possible future reductions in Social Security benefits.

### Paid calculators

Free Social Security calculators, such as those named above, are helpful for understanding how your benefits are determined and the factors that can alter benefits. However, if you have a more complicated situation—such as spousal benefits from a divorced spouse, or an earnings history that includes a job not subject to Social Security taxation—using a paid Social Security calculator may be worthwhile.

● **Quicken Social Security Optimizer.**[1] This calculator, available by subscription for $49.99 for the first year and $9.99 in subsequent years, is the consumer version of a tool used by financial planners. Like many SS calculators, its key functionality (suggested in the product's name) involves recommending a particular claiming scenario—one that seems likely to get you the highest possible Social Security payout over your retirement years. But this product also can handle calculations involving scenarios such as claiming based on a spouse's earnings record and claiming retirement benefits early under a special provision allowed for survivors.

● **Maximize My Social Security.**[2] This web tool, developed by Boston University economics professor Larry Kotlikoff, is the most fully-featured Social Security planning software on the market. A one-year license costs $40. As with other calculators, Maximize My Social Security can run scenarios for hundreds of possible claiming strategies and recommend the one it deems most beneficial (see graphic below). But in addition to making calculations related to retirement benefits, this tool




[1]www.quickensso.com [2]www.maximizemysocialsecurity.com

can parse other SS benefits, including Social Security disability and surviving children's benefits.

Maximize My Social Security also can take into account arcane rules related to: (1) the "earnings test" that applies to SS beneficiaries who claimed early, are still working, and haven't reached Full Retirement Age, (2) the Windfall Elimination Provision (WEP), which applies to those with SS benefits but also a pension from an employer that didn't participate in Social Security, and (3) the Government Pension Offset, which is similar to the WEP but applies to the calculation of *dependent* benefits.

• **MoneyGuide**. If you're a MoneyGuide[1] user, we encourage you to take advantage of the software's Social Security planning tool. MoneyGuide is aimed at creating and tracking an *overall* financial plan, not just projecting Social Security benefits, but its SS tool is robust. The tool can run virtually unlimited scenarios as you alter variables related to longevity, inflation, and the age(s) at which benefits are claimed. Further, MoneyGuide makes it possible to see how your projected SS benefits will mesh with projected retirement income from other sources, such as IRA and 401(k) accounts.

### The limits of calculators

Social Security planning tools employ various assumptions about the future, and some (or all) of those assumptions may turn out to be wrong. No one knows how long you will live, for example, or which spouse will die first, or how strong or muted inflation will be. Further, no one can be sure about the long-term soundness of the Social Security system itself!

Still, Social Security calculators, though imperfect, are useful resources. The data you glean from these tools can inform your decision-making regarding this critical aspect of planning your retirement income. ◆

## MARKET NOTES, QUOTES, AND ANECDOTES

### A new normal

"I think the Federal Reserve will keep flooding the market with liquidity [whenever the economy] declines. When former chairman Ben Bernanke did it in 2008 it looked reckless. When it worked, it became the baseline assumption of what current chairman Jay Powell could do this year. Now that we know it's possible, any future Fed leader who doesn't do it will look reckless." – Morgan Housel, writing in the Collaborative Fund blog on 6/23/20. Read more at bit.ly/2CHiv9B.

### Reopening is not the same as restarting

"The fundamental reason people seem to be spending less is not because of state-imposed restrictions. It's because high-income folks are able to work remotely, are choosing to self-isolate, and are being cautious given health concerns. And unless you fundamentally address that concern, I think there's limited capacity to restart the economy." – Harvard economics professor Raj Chetty, quoted by NPR on 6/23/20. He and several other economists recently published a study about the unique nature of this recession and some of the unique solutions they believe will be needed for a recovery. Read more at n.pr/3fWFED9.

### "Fascinating"

"Most investors do not know they don't know: Most explanations of recent market behavior reflect hindsight bias detailing what everyone now knows. It is rare to hear someone asked a question about a market move and not give a detailed after-the-fact explanation. Few are willing to admit that they really don't know or that many market moves are simply random." – *The Big Picture* blogger Barry Ritholtz, writing about the "Spock market" on 6/25/20. He said if more people had the temperament of *Star Trek*'s Mr. Spock, who was half human and half hyper-rational Vulcan, they could better cope with the recent extreme disconnect between the economy and the stock market. Read more at bit.ly/380p4zp.

### The market is never average

"…what most characterizes the stock market is unpredictability. It is perfectly 'normal' for the stock market to move in ways that haven't been seen before and are largely unexpected." – Financial journalist Patrick Cairns, writing in *The Evidence-Based Investor* blog on 6/24/20, about the danger of expecting the market to deliver its long-term average annual return in any given year. Read more at bit.ly/2Yvyn7m.

### Generosity wins

72%: The percentage of churches reporting that giving was the same or higher in April as it was in January, according to a survey of 684 churches by the Evangelical Council for Financial Accountability. While there were earlier concerns that the COVID-19 pandemic would lead to less giving, the report paints a picture of people's resilient generosity. Read more in the Council's June 2020 report, "Optimism Outweighs Uncertainty," at bit.ly/3eB4BUB.

### Opening wide

"Despite the economic environment, all the uncertainty at a personal level, people looked outside of themselves and gave to charity." – Pamela Norley, president of Fidelity Charitable, as quoted in a 6/26/20 *New York Times* article. Some analytsts had speculated that tax code changes would lead people to give more to donor-advised funds to get a tax deduction but then not actually release that money to charity. The reality has been far different. Read more at nyti.ms/2CJGO6O.



[1]Available to SMI Premium-level members for a one-time $50 fee. See www.soundmindinvesting.com/moneyguidepro.

# 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

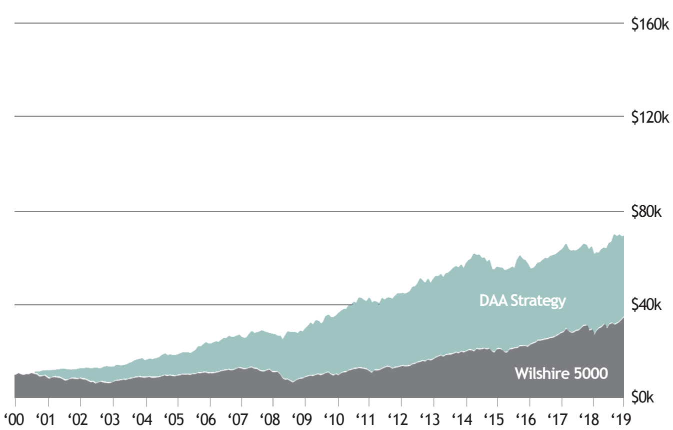
### Overview

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

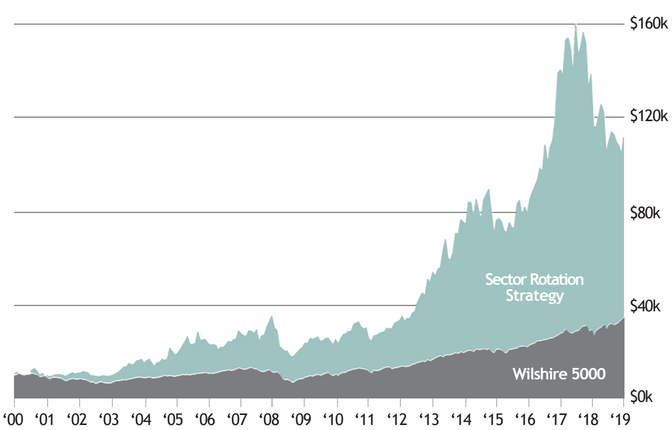
### Overview

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**
PAID AT LOUISVILLE, KENTUCKY

*Dated Investment Material*
*Please Do Not Delay!*

# PERFORMANCE DATA

## SOUND MIND INVESTING MODEL PORTFOLIOS • DATA THROUGH MAY 31, 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] | -5.5% | 5.2% | 2.9% | 11.6% | 9.6% | 9.4% | 12.8% | 8.8% |
| Just-the-Basics[2] | -8.6% | 6.4% | -0.1% | 6.0% | 6.4% | 6.4% | 10.7% | 7.9% |
| Stock Upgrading[3] | -11.3% | 3.4% | -3.9% | -0.4% | 3.5% | 4.4% | 8.9% | 7.4% |
| U.S. Bond Market[4] | 5.6% | 0.5% | 1.6% | 9.3% | 5.0% | 3.9% | 3.8% | 4.3% |
| Bond Upgrading[5] | 6.2% | 1.4% | 2.3% | 10.0% | 4.9% | 3.7% | 4.9% | 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] | 2.1% | 1.1% | 4.4% | 11.2% | 5.9% | 3.4% | 7.7% | 9.6% |
| Sector Rotation | -11.0% | 5.5% | -1.1% | -2.9% | -2.3% | 3.7% | 15.6% | 12.0% |
| 50-40-10 Blend[7] | -4.6% | 2.3% | 0.6% | 5.3% | 4.4% | 4.1% | 9.2% | 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 5/31/2020 | Year to Date | 1 Month | 3 Months | 12 Months | 3 Year Annual | 5 Year Annual | 10 Year Annual |
|---|---|---|---|---|---|---|---|
| SMIFX | -11.48% | 3.86% | -4.83% | -1.52% | 2.42% | 2.66% | 7.37% |
| Wilshire 5000 | -5.51% | 5.21% | 2.92% | 11.60% | 9.60% | 9.37% | 12.83% |
| S&P 500 | -4.97% | 4.76% | 3.59% | 12.84% | 10.23% | 9.86% | 13.15% |

| 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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