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Are You Making Any of These Common Investing Mistakes?

Mistakes. All investors have made a few. And many later say the lessons they learned "the hard way" have been among the most beneficial parts of their investor education. Perhaps just as helpful—and certainly far less painful—are lessons learned from *other* people's mistakes. So for this article, we've asked SMI readers to share some of their hard-earned investing lessons.

by Austin Pryor & Matt Bell

It's an uncomfortable fact of life: We tend to learn more from our mistakes than our successes. Owning up to the ways we mess up may be emotionally difficult, but it's an excellent path toward improvement. That's undoubtedly true in investing. Recently we asked SMI members to tell us about their most significant investing mistakes. We're grateful for all who told us their stories. Here are a few of the lessons they learned.

Waiting too long to begin investing

- "My biggest mistake was not starting early enough. I had too little to invest to make any difference, or so I thought. I should have had the discipline to set aside small percentages of my income earlier in life when I wasn't making much. If I had started earlier, it would have helped me get the ball rolling on investments and given me valuable experience."
- "My biggest mistake by far: waiting so long to begin saving/investing for retirement. I was raising six kids on a preacher's income and rationalized that I couldn't afford to put anything away. Now I realize I could have at least done a little, and that little would have become a lot. The worst part of it is that I knew better at the time—I was just undisciplined."
- "My first mistake was waiting 18 months to start contributing to a 401(k), which will cost me more than $300k by the time I retire. I remained uneducated about investing strategies for way too long. Hard to know the cost, but that probably cut the portfolio in half over a lifetime."
- "My biggest mistake was not listening to Larry Burkett when he first recommended SMI back in the early 1990s. If I had started with SMI then, I would probably have twice the retirement savings I have today."

This mistake—not beginning to invest at an earlier age—was one of the most frequently mentioned investment-related regrets. Good intentions often are overcome by dozens of questions that arise when people try to get going. Where do I open my account? What do I invest in? How do I do this exactly? Busy schedules push the answers to the back burner. If this describes you, it's time to stop allowing implementation paralysis to thwart your good intentions. *(continued on page 115)*

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

EDITORIAL

Managing Risk Within SMI's Framework

One of SMI's core investing principles is that it's crucial to trust and follow the system. This month's cover article confirms our own observation that most big mistakes result from operating outside of a clearly-defined investing process. That's why we've designed the SMI strategies to run on clear, mechanical rules, with little discretionary decision-making required after an investor selects an initial strategy mix and gets a portfolio established.

Implemented correctly—meaning that an individual selects an appropriate blend of strategies for his or her age and risk tolerance—the SMI strategies will handle most of the risk-management investors need *automatically*. This automatic approach to managing risk has been on display during this year's bear market. Dynamic Asset Allocation (DAA) was ahead of the curve. It moved a significant portion of our portfolios to safety early on and delivered solid returns in asset classes outside the stock market. Even within Upgrading, an age-appropriate allocation to bonds has significantly diminished risk and boosted returns. (See page 120 for a full second-quarter performance review of the SMI strategies.)

This "just follow the system" method works nearly all the time. However, there is one potential hitch in this risk-management process. Simply put, we know that our trend-following, momentum-based strategies will follow stocks ever higher—even at market extremes. Normally, this isn't a problem because stocks rarely reach such extremes. (In the past half-century, only four obvious examples stand out: the market highs seen in 1973, 2000, 2007, and, now, 2020.)

After studying this for years, we were convinced that trying to defend against market corrections—and even mild bear markets—is counterproductive. So the "2.0" defensive protocols in Upgrading were designed to counter *only the rarer, more extreme bear markets*. However, this year's bear market, while deep, didn't unfold at all like any past example. The unprecedented size and speed of the government and central-bank response sent stocks soaring right back to the valuation extremes that existed back in February, pre-COVID. As a result, it's possible the Upgrading 2.0 protocols may not offer as much protection as we might have hoped should the market turn lower again soon.

Back in the late-1990s, which strongly resembled the current market in terms of its extreme concentration in richly priced tech stocks, SMI didn't offer the breadth of strategy options it does today. Many SMI member portfolios were 100% Upgrading in those days, so we reconciled the growing market risk with the fact that our systems were fully invested in the highest-momentum funds by offering readers two sets of suggested allocations: one for "bold" investors, and another for "wary" investors.

Today, Upgrading makes up a much smaller portion of most SMI member portfolios. The presence of DAA has dramatically lowered the risk exposure for most members. Plus, we still hope that the 2.0 protocols might offer *some* protection against **a** significant future market downside. As a result, we don't think any dramatic changes—such as separate bold/wary allocations—are necessary today.

As a *trend-following* strategy, Upgrading must get re-engaged with this roaring stock market this month. This is happening even though we have significant reservations about what the resolution of the current economic crisis could mean for stock valuations over the coming year.

As you follow Upgrading's instructions to add more stock funds this month, carefully consider 1) how much total exposure your *overall portfolio* will have to stocks and 2) your ability to withstand potential losses. Investors of varying ages (and life situations) likely will assess this differently. Younger members (55 or below) can afford to engage a risky market more aggressively. They have plenty of time to recover should the bear market resume. That isn't necessarily the case for many retirees or near-retirees, who may want to exercise more caution.

Those who wish to reduce risk can do so by either increasing their bond holdings within their Upgrading allocation, or by tilting their overall portfolio mix further toward the greater safety of the DAA strategy, which has weathered this year's market storm quite well.

Hopefully, most SMI members are comfortable with their current portfolio mix. But if you're not, make adjustments as needed, then settle back in to the regular rhythm of simply following the strategies.

MARK BILLER
EXECUTIVE EDITOR

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Are You Making Any of These Common Investing Mistakes?

(continued from front page)

Starting an investing program isn't difficult. By making a few fundamental decisions and taking a few easy steps, you can begin a successful investing program—even if your available cash and knowledge are limited.[1]

Not getting an education on investing basics earlier

- "My biggest mistakes have centered around buying the individual stocks of companies that I did not completely understand. But as I look back at that, I am thankful in a way for that expensive lesson. It made me realize how ignorant I was about investing and money management! Over the next several years, I began to seek financial understanding. Now I have a solid foundation, and I'm able to make educated decisions with confidence."
- "My biggest mistake was not having help when I first invested in the market. I was investing by reading magazines only. I could have had much better returns if I had better knowledge back in those days."
- "If I had begun to follow SMI back in the late 1990s when I first heard of it, I would have potentially avoided the pitfalls of putting too many eggs in one basket, never rebalancing, and investing without a plan."

Many people make the first mistake of not beginning to invest earlier in life because they find investing confusing and intimidating. Unfortunately, investment "experts" create the impression that investing is difficult, and that it might be best if it were not entrusted to amateurs (like you).

SMI is written with your needs in mind, to equip you to have the confidence to take charge of your financial life. If you're relatively new to investing and want help in getting your investing education started, order *The Sound Mind Investing Handbook*.[2] Just as you can flip a switch and enjoy the benefits of electricity without understanding the technical aspects of how it all works, so it is with investing. In the *Handbook*, we cover just enough information to enable you to establish a practical (and relatively easy-to-manage) long-term investment strategy.

Investing apart from a personalized long-term plan

- "My biggest mistake has been investing by my emotions and not by a plan. SMI has helped me get off the emotional roller coaster and trust God for the future."
- "One major mistake was selling my taxable mutual funds at a loss to pay off a house at a time when the market had crashed, only to see it rebound a short time later. I believe this falls under not having an investment strategy."
- "My biggest mistake was not investing my lump sum after retiring according to the plan I came up with for my season of life. I decided on a 50-50 split to start with, but I didn't follow through. This was just past the bottom of the market and even though stocks were going up, I thought that it was a temporary rally. So I invested only 25% in stocks and waited for it to go down again. I watched the market go up and up and up. I finally completed my buying, but at a much higher cost than I would have if I stuck to my original plan. I would now be twice as well off had I just followed my plan."
- "When I started in my career and began to have money to invest, I had no strategy and randomly followed tips from co-workers. I bought stock in a small company that subsequently went bust and I lost everything. Not having a strategy led to poor outcomes. I've been following SMI for years now and have a clearly defined strategy. SMI's encouragement has kept me on track (with great results) and allowed me to be a much better steward of God's blessings."

No matter how good your particular investing choices may be, if they're made outside the framework of a larger plan that sets boundaries and helps you manage risk, you're inviting trouble. We continually emphasize the importance of this.[3]

Not following a selling discipline

- "Years ago, when I first started Upgrading, one of my funds went down. I *knew* it was going to go back up even though it was no longer recommended, so I held on rather than sell at a loss. It never went up. Lesson learned."
- "Prior to going to school for financial services, I purchased one share of Apple stock while it was rising in 2012 only to get cold feet and sell a month and a half later for a $20 loss. It didn't cost me too much money to learn that you should never invest or sell out of fear."

Which do you think is more difficult: knowing when to buy an investment or knowing when to sell it? In theory, they're equally difficult. But as a practical matter, you're likely to have more difficulty with the selling side of the equation. When buying, you typically have a stimulus to help you along—an adviser/broker, financial magazine, or (blush) an investing newsletter with a strong track record. When you combine that stimulus with the natural optimism of most investors (we doubt if you invest expecting the outcome to be a disaster), it's not too difficult to take the leap to make a purchase, especially when investing smaller amounts.

But on the sell side, the same forces that got you into the investment now conspire to *keep* you in. Most advisers/brokers are not predisposed to issue sell advice, and as the readers quoted above testify, their own intuition or optimism inclined them to hold on. We've often written that one of the keys to success in investing is having a specific, objective selling discipline. That means you know exactly what must happen to trigger a decision to sell. (Of course, then you must have the self-control to act when that trigger occurs.) The selling discipline built into our Fund Upgrading, Dynamic Asset Allocation, and Sector Rotation strategies is one of the chief reasons for their long-term success.

Overinvesting in a single stock

- "My biggest mistake was taking what little money I had saved to start investing and putting it into one stock based on my father's recommendation. The company went bankrupt and I lost all my initial savings. I learned the hard way to diversify and do my own research."

[1]For a primer, see the February 2020 cover article, *The Core Building Blocks of Successful Investing*. [2]soundmindinvesting.com/handbook [3]The SMI article at bit.ly/smi-one-essential suggests the "best practices" to follow at each phase of life as you construct a financial plan of your own.

● "Around 1998, our son went to work for a new online health food store. It looked like a good, growing business. Like many start-ups, they went public. I could have placed an order to buy on the first day of issue, but I did not, which was good. About eight months later, I bought 100 shares at a slightly lower price. The price held there for a while, and then did a slow slide. Eventually, I received two checks for about a tenth of my original investment."

● "When I was younger, I bought individual stocks and as I matured in age I dumped them all (smartest thing I ever did). If I had it to do over, I wouldn't waste time investing in individual stocks. I still get the itch to buy certain stocks, but I just don't scratch that itch!"

● "I've learned that 'all in/all out' strategies are not usually wise. Less-extreme approaches, with gradual, incremental changes are more likely to succeed, even if we give up some potential higher gains in the process. It's a little like driving in the snow: Sudden hard stops or turns get you in trouble; but slow and easy changes keep you safe and make the ride a lot smoother."

We believe that, ultimately, it's impossible to self-destruct financially if you follow God's time-tested principles for stewardship. One of those principles is that to protect against the uncertainties of the future, your investments should be diversified: "[D]ivide your investments among many places, for you do not know what risks might lie ahead." (Ecclesiastes 11:2 NLT). Since you don't (and can't) know the future, you can never know with certainty which investments will turn out most profitably. That's the rationale for diversifying—spreading out your portfolio into various areas so you won't be overinvested in any hard-hit areas.

At SMI we do this in two ways: diversifying across several risk categories and using mutual funds. We prefer mutual funds, including exchange-traded funds (ETFs), because they allow investors to easily assemble a diversified portfolio of stocks and bonds at a reasonable cost. SMI has used such funds—with great success—as the basis of our strategies for 30 years now.[1]

Overinvesting in an employer's stock

● "Before I knew any better, I owned a lot of stock in the company I work for. It took a dive and has never recovered. To put it in perspective for my wife, I told her, 'You know that minivan we've been thinking of buying? That's how much we just lost' (about $35K)."

● "My biggest mistake was getting too concentrated in my employer's stock in my retirement account. One day on the way to work, I heard the news that my employer had been charged with fraud to the tune of $11 billion. The stock went to $1. Making matters worse, I *knew* they couldn't shut us down due to the impact that would have on the general economy and the national communications network. I actually bought more and advised family to also. The company went bankrupt and the stock became worthless. Thankfully, my family still loves me!"

● "Our biggest mistake was saving for a down payment on a house by investing in the stock of the company my wife worked for. We were in our mid-20s, no kids, and were living off of my salary. She was working for a telecom company and was able to buy their stock at a 15% discount. So we did, putting most of her salary into it, and in a couple of years we had $85,000 'saved' to put toward a house. About a year later, the stock was worth only $15,000! It still hurts to think about that."

This is a common mistake, and one we've written about time and again.[2] Pitfalls arise from being dependent on a single company for one's income, insurance, *and* retirement investments. If something happens to the company, not only could workers lose their jobs and health benefits, they could also watch the value of their retirement assets plummet as the price of their company's stock falls.

How much company stock is too much? There is no hard-and-fast rule because individual situations can vary widely. However, a general guideline is to limit your investment in *any* single stock (your company or otherwise) to 5%-10% of your total investable assets. Given that you already have so many of your financial eggs in your employer's basket, the lower end of that range is probably appropriate when dealing with your company's stock.

Delegating stewardship authority to someone else

● "I invested $16,000 with a financial planner who asked what type of investor I was. I told him I was aggressive. He then 'diversified' into four individual stocks and turned the $16,000 into $4,000. When I had enough, I asked him to sell the stocks. He charged me $500 for his service. That was when I decided to start investing on my own. SMI has played a huge role in this process."

● "My biggest mistakes came from being unwilling to learn to manage my own finances and fear of the unknown. We used a financial planner and trusted him without doing any homework. He offered us an investment that seemed too good to be true. We finally asked another adviser and he said the suggested investment was inappropriate for our small amount of money. We finally pulled our money out (with losses) and paid thousands of dollars in fees. I regret that I had no courage to follow Sound Mind Investing before all this happened."

When we present ourselves to God as "living sacrifices," our material possessions are included. When we make "The Great Exchange" (2 Corinthians 5:21), part of the transaction involves giving up ownership claims and recognizing management responsibilities. As stewards, we are accountable for our management choices.

You have been given a stewardship responsibility that you can't delegate away. Yes, you can delegate *authority* to someone else to make certain investment decisions, but you cannot delegate your *responsibility* for the results that come from those decisions. Once you "own" this fact, you will take your management obligations even more seriously.

Making "hands-on" investments where experience is lacking

● "In 2008, we sold our fully paid for home and built a new one. Our home had doubled in value in the nine

[1]For a primer on the advantages of mutual funds, see chapter 5 of *The SMI Handbook*. For more on ETFs, see Nov2019:Cover. [2]See, for example, *Is Holding Company Stock in Your 401(k) Risky or Advantageous?* at bit.ly/smi-holding-company-stock.

years we had owned it. Instead of using the money to build our new home, we took out a loan—against everything we had learned—and used the money to make down payments on three rentals. We went from being debt-free to buying four homes with four loans at the peak of the market. Seven years later, after paying down on the loans, if we were to sell, we'd still lose all the large down payments. If we had stayed debt-free, we would have all that money we used to pay extra on the loans to invest. One year of bad decisions undid decades of work."

- "Our biggest mistake was thinking we knew how to flip houses. We bought a townhouse as a rental property. When the real estate market tanked, we were underwater. After subscribing to SMI, we devised a plan to get out from under that burden and get our finances in order."

One of the qualities of an appropriate investment is that the risks are well understood. The above-quoted inexperienced real estate investors thought they knew what they were getting into, but sadly they were mistaken. The right portfolio move is one that is prudent under the circumstances. You should consider worst-case scenarios, such as how much of your investing capital you can afford to lose and still have a realistic chance of meeting your financial goals.

The investments that offer higher potential returns also carry correspondingly greater risks of loss—which brings us to the next common mistake.

Investing in exotic areas where promised returns are unusually high relative to conventional alternatives

- "My biggest mistake was getting into a venture capital program without understanding the risk involved. It was at a time when the market was just going up and up. Then the financial crisis started, and everything got affected. You need to understand your risk tolerance/temperament and your investment time frame."
- "My biggest mistake was not listening to the Lord speaking to me about my first investing venture. A group of Christian friends had been investing in a foreign currency exchange system for several years with 'too good to be true' returns. I prayed and watched it for six months as their returns continued to roll in, and ignored the bad feelings the Lord was laying on my heart. Within two months of my investing, it was exposed as a Ponzi scheme (with one friend still in prison for his part in it). I decided to learn as much as I could about investing, which is when I found SMI. I continue to pray, invest, and learn daily."
- "I followed the advice of a financial planner to invest in a 'safe' investment pool (invested in foreign bonds) that was 'guaranteed' to return 7-9% annually. My wife had reservations (nothing she could put her finger on), and yet the investment performed as 'guaranteed' for several years. Then the investment pool manager (a local college finance professor) was exposed as running several pyramid schemes. I learned to invest only in things I could understand, and also to listen to my wife's (unexplainable) radar. Lesson learned, but it would have been nice not to have paid such a painful price."

Your investing plan must be realistic about the level of return you can reasonably expect. The reason any investment offers a potentially higher rate of return is that *it has to* in order to reward investors for accepting a higher level of risk. Our goal is to get you to your destination safely while incurring the least risk possible.[1] It's not likely that your situation requires exotic or complicated strategies.

Trying to time the market

- "As I was following SMI during the 2008 bear market, I became uncomfortable with losses in our portfolio. I began following a writer who was a 'naysayer.' Instead of continuing to follow SMI's Upgrading with our entire portfolio, I missed about two-thirds of the market's return. Lesson: Don't deviate from the plan."
- "My biggest mistake has been not heeding SMI's constant advice that the market always comes back after a correction. I sold funds I should have kept, and did not share in the first part of the recovery. In spite of myself and mostly thanks to SMI, I have an 11% average gain since 1990."
- "My biggest mistake has been buying high when the market was going strong and selling low when I was afraid the market would lose too much. I like SMI's Fund Upgrading because it takes the emotion out of the whole process."
- "My biggest mistakes (three times) have been selling my accounts at the bottom while at the same time keeping my wife's account (much smaller) in the market with SMI. As the markets came roaring back, I watched my account stagnate as my wife's account grew quite nicely."

Despite endless research showing the difficulty of market timing, many investors succumb to the temptation to try. We've written about this many times,[2] and will continue to do our best to convince readers of the wisdom of staying the course with one's long-term plan regardless of current events.

Other mistakes

Here are a few other mistakes readers told us about that we can't fully include for lack of space:

- Not involving your spouse in the investing process;
- Following the market's impact on your portfolio daily; and
- Leaving 401(k) accounts with previous employers instead of managing those investments yourself.

Long-time readers know we've written on all the topics mentioned in this article, with counsel that could have prevented the common mistakes shared by these readers. So, for your own financial health, keep reading, keep learning, and keep applying God's protective "sound mind" principles.

Our thanks to everyone who shared their biggest investing mistakes. Their willingness to tell us about lessons learned the hard way is a great example of what we aspire to be: a true *community* of people committed to spurring each other on in love and good deeds (Hebrews 10:24)—and wise investing! ◆

[1]May2020:p71 [2]Oct2019:p151

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

MAXIMIZING NEED-BASED COLLEGE FINANCIAL AID

Making a costly college education even more costly is easy: procrastinate. Putting things off could drive up the cost by thousands of dollars.

This is true for two reasons: 1) Some schools give out need-based aid on a first-come, first-served basis, and 2) you have a limited window of opportunity to reposition your income and assets to trigger more aid.

The key to unlocking need-based aid

The top purveyor of need-based financial aid is the United States Department of Education. Federal assistance provided via *grants* doesn't have to be paid back. Need-based *work-study programs* (administered by colleges) provide paid part-time employment that helps defray school costs.

Need-based aid for students also comes from state governments, typically in the form of grants or subsidies. Colleges themselves provide "institutional aid," sometimes need-based but usually "merit-based"—i.e., in the form of academic or athletic scholarships.[1]

The key to unlocking most need-based aid is the FAFSA—the Free Application for Federal Student Aid. That's a questionnaire developed by the U.S. Department of Education aimed at gauging a family's ability to afford college costs. The federal government, state governments, and many colleges use a calculation derived from the FAFSA as the basis for crafting need-based aid offers. (The Department of Education will forward a copy of a family's FAFSA to appropriate state education agencies and to the schools a student is considering.)

A family must submit a FAFSA each year.[2] The application for the 2021/2022 school year will be available soon—on Oct. 1, 2020. Financial-aid professionals urge filling out the questionnaire as soon as possible because some entities make aid decisions based on the order in which FAFSAs are submitted.

The FAFSA gathers information about family income, assets, and composition. Using a multi-part formula, the Education Department arrives at a dollar amount—called the Expected Family Contribution (EFC)—that reflects a *minimum* of how much the family/student is expected to pay toward the next year of college.

The more affluent your family, the higher your EFC—and the less you'll be offered in need-based aid. But you shouldn't ignore the FAFSA even if your family is well off. For one thing, some schools won't process a student application without a related FAFSA. More to the point, since there is no explicit income-related cutoff for aid and some schools take other factors into account beyond the EFC, you shouldn't assume that you won't get any need-based offers. It's also worth noting that even if you don't qualify for aid that doesn't have to be repaid, the FAFSA opens the door to eligibility for certain government loans.

Actions that may lower your EFC

The financial-need calculation is simple: **Cost of Attendance** (i.e., the college's "sticker price") minus your **Expected Financial Contribution** (derived from your FAFSA data)[3] equals your **Financial Need**. Put another way, "Financial Need" is the gap between your EFC and the Cost of Attendance. If, for example, the one-year sticker price (tuition, fees, housing, etc.) is $45,000 and your EFC is $25,000, that equals a "need" of $20,000.

But that doesn't mean your student will be offered the entire $20,000—at least not in money that won't have to be paid back. Instead, the aid offer may include some combination of grants, work-study funding, and, yes, repayable loans. (Hopefully, your student will get merit-based aid offers as well.)

The likelihood of getting aid that doesn't have to be repaid will increase if you do certain things (discussed below). But because of how the EFC formula works, any action(s) you take will have a relatively modest impact. For example, "every $10,000 difference in parent income may yield about a $3,000 difference in the EFC for middle- and high-income students," according to the college-planning firm Edvisors.

The EFC formula gives the heaviest overall weight to parent income, while also considering parent assets (including savings in 529 Plan and Coverdell accounts). Student income and assets are taken into consideration too. Here is the current four-part EFC formula:

"Expected Family Contribution" Formula (for 2020/2021)

• 22%-47%* of parent income (with certain allowances), plus	• Maximum of 5.64% of reportable parent assets, plus	• 50% of student income above $6,840, plus	• 20% of reportable student assets

*Sliding scale. The percentage applied will vary based on income level.

Because income[4] is weighted more heavily than assets, the most effective means of lowering your EFC is to shield some income from EFC calculations. But doing so requires thinking way ahead. That's because the FAFSA uses income data *based on your federal tax form from the "prior-prior year."* For example, income data used to calculate the Expected Family Contribution for the 2022-2023 school year will be from this tax year: 2020. So making income adjustments in an attempt to lower your EFC requires thinking two years into the future!

(The upside of the "prior-prior year" approach is that any income increases during the final two years of college will not affect your EFC—unless you have another student in college or soon to be in college.)

If you had an income-reduction this year (you could think *(continued on page 125)*

[1]Foundations, churches, and other organizations also offer scholarships and grants, some merit-based, some need-based. [2]Non-dependent students can submit a FAFSA without parental input. [3]Cost of Attendance varies from school to school, but the EFC is a fixed figure. [4]Defined, by formula, as "adjusted available income."

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

WHO NEEDS THE STOCK MARKET?

In celebration of SMI's 30th anniversary, we're highlighting core beliefs and principles that guide our work. The essential service we offer includes stock market investing strategies, so it may seem obvious that we believe in the stock market. However, especially when the market gets bumpy, as it has this year, it's worth reiterating *why* we believe so much in the value of the stock market.

On February 19 this year, the S&P 500 closed at an all-time high, only to plummet 1,149 points over the next 16 trading days in a stunning -34% decline. Never before had the market fallen so far so fast. Three days later, it had regained nearly 400 points. By early June, it had zigged and zagged its way back to within 154 points of its February high. But its path was—and still is—highly volatile, with many days of triple-digit point gains and losses.

While the stock market isn't usually *this* exciting, it isn't for the faint of heart. In fact, to invest in the stock market, it's best to check your heart at the door. But not your brain. If you look at it logically, investing in the stock market makes complete sense.

Nothing grows like stocks

If the stock market were a plant, it wouldn't be a sunflower, reaching ever upward. The market is more like a zucchini plant, growing up, then sideways, with sudden downward swoons thrown in for good measure. Zucchini plants never win beauty contests, but they *are* productive. Similarly, while the stock market can get ugly, history has shown it to be a long-term builder of wealth.

In fact, the stock market offers most investors their best hope of generating returns that will outpace inflation and taxes. That's the main reason to stick with the stock market through all of its thrilling ups, painful downs, and frustrating sideways moves.

Lessons from history

According to Vanguard, a bond-only portfolio would have generated an average annual return of +5.3% from 1926 to 2018, versus +10.1% for a stock-only portfolio.[1] But these average returns look better than they are. That's because *inflation* and *taxes* relentlessly reduce the value of investment dollars. Inflation has averaged roughly 3% per year over many decades. While taxes are variable based on income and other factors, they reduce annual investment returns even further.

If you earn +5.3% from a bond portfolio, but surrender 3% to inflation and another percent or two to taxes, you haven't made nearly as much progress as it first appears. The fact is those bond returns are largely just protecting your buying power, not adding to it.

Only stocks have a long-term track record of significantly outpacing inflation and taxes. Most people need that extra "oomph" to meet their retirement savings needs—very few are able to save so much that merely protecting their buying power is sufficient.

Of course, it's important to recognize that long-term averages are made up of many highs and lows. Since 1945, the stock market has averaged one correction (a decline of 10%-19% from its most recent high) or bear market (a decline of 20% or more) roughly every other year.[2] That makes stock market investing a "two steps forward, one step back" type of dance. And, as the recent past has illustrated, at times the market forces us to take two steps *back* before letting us take any steps forward.

Managing the risk

Because no one knows how the stock market will perform, it's wise to mitigate that risk by making sure your portfolio is built around your risk tolerance and investing time frame. SMI's two main investing strategies take different approaches to this.

Fund Upgrading is a *strategic* asset allocation strategy. In essence, that means you will usually maintain some exposure to the stock market and that your biggest strategic decision is how much of your portfolio to allocate to stocks and how much to bonds. (Since 2018, Fund Upgrading has incorporated protocols that can move us out of stocks when the market is trending significantly lower.) That stock/bond choice is guided partly by the results of a risk tolerance questionnaire[3] but mostly by your investing time frame. The younger you are (i.e., the longer your time frame), the more risk you can afford to take. While a stock-heavy portfolio will be more volatile, its long-term rate of return would be expected to be higher than that of a bond-heavy portfolio.

While many investors might prefer to avoid the volatility of stocks, most can't afford to choose all bond-type investments. If they did, they'd miss out on the gains necessary to outpace inflation and taxes.

Our May 2019 cover article, *The Crucial Role of Diversification in Reducing Risk*,[4] demonstrated how asset allocation affects returns and volatility. It compared seven mutual fund portfolios, starting with a portfolio that invested only in the stocks of small-growth companies. Over a 30-year time period, that portfolio generated impressive +10.2% average annual returns. However, those returns came at a high cost: the volatility of this portfolio was 38% *higher* than the stock market as a whole.

Each subsequent portfolio was increasingly more diversified, with the final one spreading its investments across funds in five stock-based asset classes while also including bonds and some inflation hedges such as gold and real estate. This portfolio generated still-impressive average annual returns of +8.7%, but with volatility 18% *lower* than the stock market. *(continued on page 125)*

[1]vgi.vg/3fxb8jy [2]bit.ly/3frNLI2 [3]bit.ly/risk-tolerance-quiz [4]May2019:Cover

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

2ND QUARTER REPORT: CRISIS RESPONSE PROMPTS MASSIVE REBOUND

Wikipedia defines "recency bias" as a cognitive bias that favors recent events over historic ones. Investors deal with it constantly—there's a strong tendency to overweight in our thinking whatever has happened lately. In other words, investors tend to overestimate the importance of what's just occurred. That being said, investors can be forgiven for thinking the first half of 2020 has been the craziest period they've ever experienced. That's not just recency bias manifesting itself—by most any measure, it actually has been!

The selling panic that took hold across all financial assets in February, and that played out primarily in March with bear-market lows, left the deck primed for a second-quarter rebound. The massive fiscal and monetary responses from governments and central banks the world over not only put a floor under markets, the flood of liquidity and promises of support sent asset prices spiking in the other direction.

The U.S. stock market, in particular, rebounded off the March lows in spectacular fashion. But stocks were hardly the only beneficiaries. Bonds rallied dramatically as well, as did gold.

Initially, the rebound was simply about the support provided to the markets and the calming of liquidity fears. But by late-May, a new wave of optimism over the re-opening of the economy took hold, producing a second surge in stock prices. Unfortunately, by June 8, signs of a COVID resurgence were growing. That put a temporary end to the stock market rally, and stocks traded roughly -7% lower in late-June.

The first half of 2020 has provided a vivid example of the old axiom, "The economy is not the stock market, and the stock market is not the economy." The rebound in asset prices had little correlation with real-world economic conditions, which produced some of the most stunningly awful data ever. Unemployment claims, GDP, and a host of other metrics declined by amounts not seen since the Great Depression, except the declines happened much faster this time. What took a few *years* in the early-1930s was matched in a matter of *weeks* in 2020.

Given the aggressive rebound in stock prices, investors seem to be betting that the government and central-bank response will be sufficient to "paper over" the huge temporary shortfall in economic activity. The hope has been that the recovery will happen soon enough, and the government's economic support will be big enough (and last long enough), to warrant looking beyond the current setback to economic activity and employment

That's a very big bet, and the end of the 2020 economic story remains to be written. But at least during the second quarter, optimism certainly paid off.

Just-the-Basics (JtB) & Stock Upgrading

Both JtB and Stock Upgrading posted huge second-quarter gains.[1] JtB gained +23.9%, slightly more than the U.S. market (Wilshire 5000, +21.9%). JtB holds more small stocks than the large U.S. market indexes. Smaller stocks fell more during the first quarter, but rebounded stronger, from more depressed levels, creating higher second-quarter gains for JtB. (These results assume an investor didn't move any JtB holdings to cash when Upgrading 2.0 sold stock holdings.)

In contrast, as a result of having a significant amount of the portfolio in cash during the second quarter, Stock Upgrading's gain of +14.5%—while still strong—was less than JtB or the market indexes. A quarterly gain of +14.5% is obviously significant, so it's not as if Upgraders completely missed out on the rally, but they did earn less. That Upgrading earned two-thirds of the Wilshire 5000's return while having less than two-thirds of its portfolio invested in stocks during most of the quarter speaks well of Upgrading's risk-adjusted returns. But it was disappointing to have exited stocks, even to a limited degree, just as the market turned and rebounded higher.

Bond Upgrading

Helping ease the potential sting from the stock side of an Upgrading portfolio, Bond Upgrading outperformed significantly during the quarter, earning +4.7% vs. the bond market's gain of +3.0%.

The bond market was actually the focal point of the Federal Reserve's bear-market intervention. Not only did the Fed cut interest rates early in 2020, it acted swiftly and forcefully to stabilize the Treasury market in March. Further actions followed in April, with the unprecedented step of the Fed announcing it would buy high-yield (junk) debt broadly through index ETFs, as well as specific investment-grade debt issued by individual companies.

The impact on the bond market was immediate and dramatic. Prices moved higher, and funds such as our new May Bond Upgrading recommendation (which focuses on buying undervalued debt during crises) saw strong gains.

Before moving on from Upgrading, it's worth noting that a portfolio divided 50-50 between Stock and Bond Upgrading would have ended the first half of 2020 down just -1.1%. In comparison, consider that the Wilshire 5000 index lost -3.3%, while a 50-50 indexed portfolio would have produced a gain of +1.5%.

This comparison shows us two things. First is the value of diversifying a portfolio with bonds! But second, despite Stock Upgrading's defensive protocols triggering and shifting a significant portion of the portfolio into cash, a blended Upgrading portfolio only underperformed slightly (+1.5% vs. -1.1%).

(continued on page 126)

[1] Performance updates of all SMI strategies are available each month on the back cover of the print newsletter, as well as on the Performance tab of the SMI Member homepage at soundmindinvesting.com.

LEVEL 4 FOUR

Looking Toward Retirement

As you move through your 50s, 60s, and beyond, you face a new set of financial decisions related to reducing your investment risk and generating income from your portfolio. In this column, we address such topics, as well as those pertaining to Social Security, long-term health care, advanced giving strategies, estate planning, and other matters of importance to those nearing and in retirement.

"There is precious treasure and oil in the dwelling of the wise." Proverbs 21:20a

HOW MUCH SHOULD YOU WITHDRAW EACH YEAR DURING RETIREMENT?

By Eric J. Reinhold, CFP®, APMA®, MBA[1]

Two questions inevitably arise during planning sessions with my clients: "How much can I spend during my retirement years without depleting all my assets?" and "Which accounts should I withdraw from first—IRAs, annuities, or taxable investments?" I'll address the first question in this issue, and tackle the second one next month.

When retirement finally arrives, most of my clients would like to maintain a reasonable standard of living, continue their giving to charity and to children/grandchildren, and have the freedom to travel. Of course, how much of this can be funded from retirement assets isn't easy to determine: None of us can know *how long we will live* or *what type of investment returns we will earn*. This creates a tension between the fear of running out of money and the guilt that can arise from hoarding.

The withdrawal rate

The advice provided by many financial services companies and advisors is that you can safely withdraw an amount *equal to 4%* of your total retirement assets in the first year. The premise is that you probably can earn a rate *higher than 4%* using a mixed portfolio of stocks and bonds, and the difference will help you keep up with inflation. This approach is designed to avoid dipping into the principal. I find few clients immediately willing to spend down the nest egg principal they accumulated prior to retirement! There is a psychological aspect to seeing that high-water mark begin to dwindle. However, if you are willing to dip into principal eventually, the natural question becomes, "How far can I go above a 4% withdrawal and stay safe?"

The nearby table attempts to answer the question, "What is the maximum amount that can be *withdrawn* each year from the assets you've accumulated?" The table shows a certain percentage of your portfolio's value to withdraw in the *first year* of retirement—depending on your stock/bond mix and how long you want the money to last (i.e., how long you expect to live). After the first year, you would *increase* your annual withdrawals by 2% to keep pace with inflation.

For example, if you retire with a portfolio valued at $600,000, made up of 60% stocks and 40% bonds, and you expect to live another 25 years, the table indicates that you can withdraw 6.0% (or $36,000) in the first year of retirement. In the second year, you can withdraw 2% more (or $36,720). This would continue, increasing your withdrawal by 2% each year. With this formula, *your savings would be depleted in 25 years.*

Key qualifiers

When using this table, be aware of these qualifiers: (1) It does not take into account income you'll receive from Social Security or pensions; (2) Annual withdrawals include any dividends or interest received by your portfolio; (3) You may have to pay taxes out of these proceeds; and (4) Withdrawal rates are based upon an assumed average annual return of +8.0% from stocks, +2.5% from bonds and an inflation rate of 2.0%.

STOCKS VS BONDS IN YOUR PORTFOLIO:

	80% Stks 20% Bnds	70% Stks 30% Bnds	60% Stks 40% Bnds	50% Stks 50% Bnds	40% Stks 60% Bnds	30% Stks 70% Bnds	20% Stks 80% Bnds
Avg Return	6.9%	6.4%	5.8%	5.3%	4.7%	4.2%	3.6%
10 Years	12.2%	11.9%	11.7%	11.4%	11.2%	10.9%	10.7%
15 Years	9.0%	8.7%	8.5%	8.2%	7.9%	7.6%	7.4%
20 Years	7.5%	7.2%	6.9%	6.6%	6.3%	6.0%	5.7%
25 Years	6.6%	6.3%	6.0%	5.7%	5.3%	5.1%	4.7%
30 Years	6.0%	5.7%	5.4%	5.0%	4.7%	4.4%	4.1%
35 Years	5.7%	5.3%	4.9%	4.6%	4.3%	4.0%	3.6%

Assumptions: (1) Average annual return from stocks of 8%, (2) average annual return from medium-term bonds of 2.5%, and (3) an average inflation rate of 2%.

As with all forecasting tables, you must be careful in how you apply the data to your situation. Four variables will affect how closely the table will reflect your situation: (1) the returns you get, (2) the *sequence* in which your returns come, (3) how long you live, and (4) the rate of inflation. Here's why.

- First, for the table to work correctly, your returns would need to approximate the projected returns shown for stocks and bonds—but it's unlikely that your experience will be precisely "average."
- Second, depending upon *when* you retire, your funds could be reduced substantially in the first few years (the market crash in 2008 is a stark reminder).
- Third, your plans could be derailed if you live longer than you anticipate! If you retire at 65, the mortality tables suggest you will live until age 85. But that's an average—half of all 65-year olds will live longer.
- And, fourth, the actual inflation rate will change over time and likely will vary from the assumption in the table. Inflation has been low in recent years, but current Fed policy suggests inflation may begin rising in the not-too-distant future. With an assumed inflation rate higher than 2%, the "safe" withdrawal rate declines rapidly. Just as importantly, regardless of any changes to the official inflation rate in the years ahead, if your personal withdrawal rate has to rise by more than 2% per year, the results from the table won't hold.

A conservative approach

To err on the safe side in making withdrawals, use a more conservative withdrawal rate. For instance, if you have a portfolio mix of 60% *(continued on page 127)*

[1]Eric Reinhold is a financial advisor at Ameriprise Financial in Orlando, Fla., specializing in maximizing returns while minimizing risk. He is the author of *THE ONE THING to Achieve Life-Long Financial Success* (Academy Institute Press, 2016).

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 fund's risk level and portfolio manager's philosophy. 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 6/30/2020	Portfolio Invested in	MOM	Performance YTD	1Mo	3Mo	6Mo	12Mo	3Yr Avg	Rel Risk	Expense Ratio	Stock/Bond Mix 100/0	80/20	60/40	40/60	Ticker Symbol
Total International Stock	Foreign stocks	3.4	-10.6%	4.3%	18.1%	-10.6%	-4.1%	1.1%	0.97	0.11%/0.08%	20%	16%	12%	8%	VTIAX/VXUS
Extended Market Index	Small company stocks	26.8	-5.6%	4.1%	31.2%	-5.6%	1.2%	6.4%	1.33	0.06%/0.06%	40%	32%	24%	16%	VEXAX/VXF
S&P 500 Index	Large company stocks	24.9	-3.1%	2.0%	20.5%	-3.1%	7.5%	10.7%	1.00	0.04%/0.03%	40%	32%	24%	16%	VFIAX/VOO
Total Bond Market Index	Medium-term bonds	18.3	6.4%	0.7%	3.0%	6.4%	9.0%	5.3%	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 6/30/2020[1]	Date Added	E-Trade Avail[2]	Fidelity Avail[2]	Schwab Avail[2]	MOM[3]	Performance YTD	1Mo	3Mo	6Mo	12Mo	3Yr Avg	Rel Risk[4]	Exp Ratio	Number Holdings	Redemp Fee?[5]	Ticker Symbol
Category 5 Foreign	1. ☎ Vanguard Intl Growth Inv	08/20	NTF	Yes	Yes	69.7	12.3%	9.4%	33.0%	12.3%	24.4%	14.0%	1.11	0.43	130	None	VWIGX
	2. ☎ Morgan Stnly Intl Opp A - LW[6]	08/20	NTF	NTF	NTF	70.5	13.8%	11.0%	33.9%	13.8%	22.8%	16.6%	1.09	1.30	52	2% 30days	MIOPX
	3. ☎ PGIM Jennison Intl Opps Z	08/20	NTF	Yes	NTF	77.8	17.2%	6.5%	33.3%	17.2%	27.4%	19.1%	1.07	0.90	54	None	PWJZX
Category 4 Small/Growth	1. ☎ Morgan Stnly Discovery A - LW[6]	08/20	NTF	NTF	NTF	184.5	59.1%	13.7%	69.7%	59.1%	55.7%	39.4%	1.65	1.00	42	None	MACGX
	2. ☎ Baron Partners Retail	08/20	NTF	NTF	NTF	104.6	18.4%	11.4%	49.4%	18.4%	36.8%	19.9%	1.64	2.22	29	None	BPTRX
	3. Needham Sm Cap Growth	01/20	NTF	NTF	NTF	86.3	14.5%	6.5%	34.7%	14.5%	37.1%	20.6%	1.30	1.90	60	None	NESGX
Category 3 Small/Value	1. ☎ Miller Opportunity A – LW[6]	08/20	NTF	Yes	NTF	42.3	-10.0%	10.5%	47.5%	-10.0%	4.8%	4.5%	2.02	1.49	41	None	LGOAX[7]
	2. ☎ Janus Henderson Contrarian T	08/20	NTF	NTF	NTF	27.7	-5.1%	2.8%	25.9%	-5.1%	6.8%	10.1%	1.26	0.81	39	None	JSVAX
	3. Touchstone Mid Cap Z	05/19	NTF	NTF	NTF	10.6	-8.7%	0.1%	17.6%	-8.7%	1.7%	10.7%	1.05	1.21	31	None	TMCTX
Category 2 Large/Growth	1. ☎ Morgan Stnly Insight A - LW[6]	08/20	NTF	NTF	NTF	160.4	52.5%	10.8%	59.3%	52.5%	48.6%	38.0%	1.44	1.17	44	None	CPOAX
	2. ☎ Touchstone Cap Select Gwth Z	08/20	NTF	NTF	NTF	92.0	24.4%	7.9%	37.6%	24.4%	30.0%	24.1%	1.24	1.19	31	None	PTSGX
	3. Invesco QQQ Trust	02/20	ETF	ETF	ETF	80.8	16.9%	6.3%	30.3%	16.9%	33.7%	22.6%	1.08	0.20	104	None	QQQ
Category 1 Large/Value	1. ☎ Centre American Sel Equity Inv	08/20	NTF	NTF	NTF	46.1	9.6%	3.3%	21.7%	9.6%	14.8%	11.2%	0.84	1.45	42	2% 90days	DHAMX
	2. Invesco S&P 500 Top 50 ETF	02/20	ETF	ETF	ETF	40.3	2.9%	3.5%	22.1%	2.9%	15.4%	13.7%	0.97	0.20	53	None	XLG
	3. ☎ JPMorgan Lg Cap Core Pl - LW[6]	08/20	NTF	NTF	NTF	36.2	1.3%	2.8%	23.2%	1.3%	11.7%	10.5%	1.05	1.92	281	None	JLCAX
Bond Categories	Carillon Reams Core Plus[8]	5/20	NTF	NTF	NTF	35.7	12.4%	1.9%	8.7%	12.4%	14.5%	7.1%	1.31	0.80	5.1[9]	None	SCPYX[10]
	Permanent: Vanguard I-T Bond	Perm	ETF	ETF	ETF	23.6	8.0%	1.1%	5.0%	8.0%	10.6%	6.2%	1.21	0.05	6.4[9]	None	BIV[11]
	Permanent: Vanguard S-T Bond	Perm	ETF	ETF	ETF	11.1	4.0%	0.3%	1.7%	4.0%	5.5%	3.4%	0.46	0.05	2.7[9]	None	BSV[12]

Upgrading Footnotes: [1] The funds in each risk category have been selected and ranked (1 through 3) based primarily on their momentum scores in late July, rather than on the end-of-June data shown above. The fund ranked third is the one that currently appears most likely to be replaced next. A telephone symbol (☎) next to a fund's name means that fund is a new recommendation. **[2] Fund Availability:** NTF (no transaction fee) means the fund can be bought and sold without a transaction fee as long as you stay within the trading limitations imposed by E-Trade (800-387-2331), Fidelity (800-343-3548), and Schwab (800-435-4000). Policies may change, so verify 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 SMI's 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]** Normally is a load fund but is available load-waived (LW) through some brokers. Purchase only if available at your broker without paying a load. **[7]** At some brokers, the load-waived share class for this fund is LMNOX. **[8] 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. **[9] 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. **[10]** Or buy the institutional share class SCPZX. **[11]** Those preferring a traditional mutual-fund option can buy VBILX. **[11]** Those preferring a traditional mutual-fund option can buy VBIRX.

See MoneyTalk column on page 124 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 and is easy to implement. This page explains 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] Looking at the Fidelity column on the Basic Strategies page, the highest-ranked Cat. 5 fund is Vanguard International Growth, the highest-ranked Cat. 4 fund is Morgan Stanley Discovery, and so on. After making decisions for each category, the orders are placed and the stock portion of the Upgrading portfolio is complete!

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

❷ FIND YOUR PORTFOLIO MIX

Portion of Portfolio Allocated to Stocks:	100%	80%	60%	40%
Portion of Portfolio Allocated to Bonds:	**None**	**20%**	**40%**	**60%**
Stock Cat. 5: Foreign Stocks	20%	16%	12%	8%
Stock Cat. 4: Small Companies/Growth	20%	16%	12%	8%
Stock Cat. 3: Small Companies/Value Strategy	20%	16%	12%	8%
Stock Cat. 2: Large Companies/Growth	20%	16%	12%	8%
Stock Cat. 1: Large Companies/Value Strategy	20%	16%	12%	8%
Bond Cat. 3: "Rotating" Bond Fund	None	10%	20%	30%
Bond Cat. 2: Intermediate-Term Bond Fund	None	5%	10%	15%
Bond Cat. 1: Short-Term Bond Fund	None	5%	10%	15%

❸ BUY YOUR FUNDS

Example uses an 80/20 mix between stocks and bonds		Dollars	Invest in Funds
Stock Cat. 5: Foreign	16%	\$8,000	Vanguard Intl Growth
Stock Cat. 4: Small/Growth	16%	\$8,000	Morgan Stanley Discovery A
Stock Cat. 3: Small/Value	16%	\$8,000	Miller Opportunity A
Stock Cat. 2: Large/Growth	16%	\$8,000	Morgan Stanley Insight A
Stock Cat. 1: Large/Value	16%	\$8,000	Centre American Sel Eq Inv
"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	

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 — NEW FUND RECOMMENDATIONS

[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 new top-performing funds replace them. 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.) The simplest method for picking new funds is to refer to our 1-3 rankings on the "Basic Strategies" page and invest in the highest-ranked fund in each risk category that is available through your broker.]

The immediate and forceful response of the U.S. Federal Reserve and Treasury to the market crisis in March set up a collision course between two powerful forces. On one side, the "fundamentals"—the state of the economy, company earnings, and in our context here, stock valuations. On the other side, the money "flows"—the incredible liquidity pumped into the economy, and more specifically the financial markets, by all of the government intervention.

One of SMI's early themes was that it was impossible to forecast which of these forces ultimately would have greater impact. It's too early to declare a final winner, given current conditions still suggest there could be more trouble before this COVID story ends. The fundamental factors still look horrible, making this month's move back into stocks difficult emotionally. But while those fundamental factors may yet cause trouble at some point down the road, the clear winner *to this point* has been the money flows. And with the EU recently agreeing on a new $2 trillion support package, and the U.S. Congress working toward another massive stimulus bill, there's no sign of that liquidity train stopping.

Fund Upgrading is a trend-following strategy, and the 2.0 defensive protocols have specific mechanical guidelines that force us back into stocks as the market rises from a bear-market bottom. The market has advanced strongly enough that the system now calls for us to get fully reinvested.

To be clear, the instruction to buy new stock funds this month is for everyone, whether you own the specific funds being sold this month or have had your account sitting in cash.

The four fund recommendations that are holdovers from before the bear market continue to be solid, lower-risk options, safer than many of the new funds we're adding this month. It's fine to retain a holdover even if there are new, higher-ranked recommendations in that category.

All Upgraders should be adding at least one new fund this month (in the Foreign category), and most will add a new fund in multiple categories. (Most SMI members own just one fund per category, but some prefer to hold multiple funds in a category for greater diversification.)

As this month's Editorial discusses (see page 114), this is an excellent time to evaluate your overall portfolio risk level and make adjustments to your strategy mix if necessary. But to whatever degree you allocate your portfolio to Stock Upgrading, that allocation should be moved back into stock funds this month.

◆ **In the Foreign group, WisdomTree Intl Hedged ETF (IHDG, 12/2019) is being replaced.** Unlike in our domestic stock categories, none of the new recommendations in the international category has a particularly high relative risk score (see page 122). The following funds are recommended:

● **Vanguard International Growth (VWIGX).**[1] This actively managed foreign fund (a staple of our Just-the-Basics strategy prior to 2012) is one of Vanguard's best.

● **Morgan Stanley International Opp (MIOPX).**[1] This is a load-waived fund that we've recommended before.

● **PGIM Jennison International Opps (PWJZX).**[1]

◆ **In the Small/Growth group, DF Dent Midcap Growth (DFDMX, 9/2019) is being replaced.**[$] Note that DF Dent is one month away from long-term capital gains treatment. If you own it in a *taxable account*, check your acquisition date and consider holding it an extra month.

The following new funds are recommended:

● **Morgan Stanley Inst Discovery A (MACGX).**[1] Another load-waived fund with a great recent track record.

● **Baron Partners (BPTRX).**[1] Both this fund and MACGX (above) are high-risk, high-reward funds that have been roughly 65% more volatile than the S&P 500 in recent years. The market has been soaring on the big tech names and these funds are loaded with these holdings.

◆ **In the Small/Value group, no funds are being replaced.** The following new funds are recommended:

● **Miller Opportunity (LGOAX).**[1] This is a high-flying, load-waived fund that we've owned with success in the past. *Fidelity investors will need to use the alternate share class LMNOX to purchase without a load.*

● **Janus Henderson Contrarian T (JSVAX).**[1] We exited this fund at the end of March, although at that point it was in the small/growth category. As a mid-*blend* fund, this is as close to the growth camp as we can get while still qualifying within this value category.

◆ **In the Large/Growth group, Polen Growth (POLRX, 10/2018) is being replaced.** This was a great holding we owned for the better part of two years.

The following new funds are recommended:

● **Morgan Stanley Insight A (CPOAX).**[1] As in the small/growth category, this MS load-waived fund has been hot lately.

● **Touchstone Sands Capital Select Growth Z (PTSGX).**[1] While Morgan Stanley Insight sports a relative risk 44% more volatile than the S&P 500 index, this Touchstone fund comes in only 24% higher. Both are higher than existing recommendation QQQ (just 8% higher), so choose your desired risk accordingly!

◆ **In the Large/Value group, no funds are being replaced.** The following new funds are recommended:

● **Centre American Select Equity (DHAMX).**[1] This is a new fund for SMI with little information available. But it is at the top of the momentum rankings, so we're buying.

● **JP Morgan US Large Cap Core Plus (JLCAX).**[1] One final load-waived fund. Like XLG (our holdover recommendation in large/value), this is a "blend" fund that owns both value and

[1]For more on this fund, visit www.morningstar.com.

growth stocks. Growth stocks have had much stronger performance in this year's rebound, so many of these blend options currently rank high within the value categories. ◆

LEVEL 1 / CONTINUED FROM PAGE 118

MAXIMIZING NEED-BASED COLLEGE FINANCIAL AID

of this as a COVID-19 silver lining!), that reduction will put you in a better EFC position for the 2022-2023 school year. Or if you were thinking about selling an asset or doing a Roth conversion in 2021, thus adding to your income next year, moving those transactions up to *this* year will improve your '23-'24 EFC picture.

Making adjustments to your *assets* (as opposed to your income) requires much less advance planning because the FAFSA questionnaire asks you to list assets *as of the date you fill out the form*. That means you could make asset adjustments right up to when you submit the Free Application for Federal Student Aid.

Keep in mind that assets carry significantly less weight in the EFC calculation than income. Also, some of your most significant assets—such as your home and your retirement accounts—aren't even taken into account (see table above).

REPORTABLE AND NON-REPORTABLE ASSETS FOR EFC PURPOSES

Reportable for parents	Non-reportable for parents	Reportable for student	Non-reportable for student
- Cash on hand - Savings accts, CDs - Taxable investment accts - Stocks & bonds - Precious metals - 529 savings plans (whether parent- or student-owned)* - Coverdell accts - Equity in rental property - Collectibles	- Principal residence - Qualified retirement accts - Annuities and insurance policies - Personal possessions (cars, computers, jewelry) - Family farm - Family business (if fewer than 100 employees)	- Cash on hand - Savings accts, CDs - Savings bonds (in student's name) - Taxable investment accts - UGMA/UTMA accounts not held in a 529 plan - Minor trusts not held in a 529 plan	- Qualified retirement accts

*A 529 account owned by a *grandparent* has no effect on aid eligibility *until the money is distributed*. Delaying distribution until at least the student's junior year in college will keep the distribution from affecting the EFC.

One thing that does count is cash on hand—whether in a savings account, a taxable money fund, or even in your wallet. So an easy way to reduce your reportable assets is to use available cash to contribute to an IRA. Or you could pay down debt, such as making a prepayment on your mortgage. You also could use cash to purchase something your student will need for college, such as a computer or perhaps an automobile. (Actually, because student assets are weighted more heavily than parent assets, having the student use his or her own cash to buy a computer or car will be more effective in lowering the EFC figure!)

It's wise to get a rough estimate of your EFC well before filling out the FAFSA. You can do so by using a College Board calculator[1] or the Department of Education's EFC calculator.[2] Once you run the numbers, you can alter the income and asset figures to see how it affects your potential EFC. Then you can make decisions accordingly about how to adjust your financial situation to arrive at the lowest-possible EFC.

A different approach

More than 200 schools[3] (including some Christian colleges) go beyond the FAFSA and gather additional data using a more-detailed questionnaire called the CSS (College Scholarship Service) Profile. These colleges then apply a standardized "Institutional Methodology" to assess student eligibility for scholarships and other aid.

The CSS Profile takes into account some things ignored by the FAFSA, including home equity and the value of a family business. This means schools using the CSS will arrive at a different EFC calculation than the one determined by the U.S. Department of Education.

The College Board EFC calculator mentioned above can take into account the additional data and the different methodology these schools use. So if your child is considering a college that requires the CSS Profile, the calculator can provide an estimate of how your Expected Family Contribution at that institution will differ from those colleges that employ only the FAFSA data.

Get going

If you have children in high school, now is the time to start planning—especially if your child is a sophomore or junior. What you do now may reduce the price you pay later. ◆

LEVEL 2 / CONTINUED FROM PAGE 119

WHO NEEDS THE STOCK MARKET?

SMI's other main investment strategy, Dynamic Asset Allocation (DAA), is a *tactical* asset allocation strategy. Instead of maintaining a stock/bond allocation as Fund Upgrading does, DAA monitors the momentum of six asset classes (U.S. stocks, foreign stocks, real estate, bonds, gold, and cash), keeping you invested in the three showing the highest momentum. It is a more defensive strategy than Fund Upgrading, with the ability to more quickly move out of harm's way in a downturn. In a rising market, it would be expected to underperform Fund Upgrading, as it never is invested more than two-thirds in stocks.

However, depending on how the overall market performs, DAA's defensive capabilities can help it generate impressive gains—even outpacing Fund Upgrading at times. From 2000 to 2019, the U.S. stock market generated an average annual return of +6.4%, while DAA would have generated an average annual return of +10.1%.[4] That's largely because there were two big bear markets over those 20 years. When the market was generating double-digit losses, DAA was generating small gains.

Because of the unpredictability of the market and the very

[1] bit.ly/EFC-calculator [2] studentaid.gov/understand-aid/estimate [3] bit.ly/css-institutions
[4] bit.ly/SMI-DAA

different designs of Fund Upgrading and Dynamic Asset Allocation, SMI believes most investors would benefit by taking a blended strategy approach, such as what we simply refer to as "50/40/10." This portfolio consists of 50% DAA, 40% Fund Upgrading, and 10% Sector Rotation (our highest risk/highest potential reward strategy). Our research indicates that 50/40/10 offers an unusually attractive combination of superior returns and relatively low volatility.[1]

Sticking with the stock market

So, who needs the stock market? Most investors. Typically only the oldest and most conservative investors should consider a 100% bond portfolio. If your financial situation allows you to eliminate the volatility of stocks and invest only in bonds, great! There's no point in taking more risk than necessary. But for everyone else, including most retirees, SMI recommends at least some exposure to the stock market.

Assuming you've implemented an investment strategy based on a careful consideration of your risk tolerance and investing time frame, and assuming you're willing to stick with your strategy even when the market gets ugly, maintaining some exposure to the stock market remains your best hope of generating the investment returns you'll need to achieve your finnacial goals. ◆

LEVEL 3 / CONTINUED FROM PAGE 120

2ND QUARTER REPORT: CRISIS RESPONSE PROMPTS MASSIVE REBOUND

We've mentioned the insurance analogy before, but it's worth repeating. I don't consider paying my second quarter home insurance premiums a bad decision simply because my house didn't burn down. That would be especially true if all the other houses on the street had been on fire at the start of the quarter, a rough analogy to what the stock market looked like in late March!

Ultimately, we paid a small opportunity cost in the second quarter to add significant portfolio protection. In this case, it didn't end up being helpful. But imagine at the start of the year if you had been told the worst economic and market shock in 90 years was about to unfold. The best-case scenario would be a violent, but short, bear market with a strong recovery. The worst-case was hard to imagine.

Would you have volunteered, in advance, to accept a slightly lower total return (in this example, +1.5% vs. -1.1% = 2.6%) to gain substantial protection against the worst-case scenario? I suspect many, if not most, investors would have considered that a compelling deal. That's essentially what a blended Upgrading provided SMI members in the first half of 2020.

Dynamic Asset Allocation (DAA)

DAA had a great second quarter, gaining +6.9%. Of course, DAA didn't own any stocks at the beginning of April, so its gains were muted relative to the stock market's massive rebound. But having posted a first-quarter *gain* rather than a huge *loss*, it didn't need a huge rebound to recover.

For the first half of 2020 as a whole, DAA's gain of +4.2% compares very favorably to the stock market's loss of -3.3%. In fact, despite the strong rebound in stocks, it's worth noting that both DAA (+9.2%) and Bond Upgrading (+10.0%) outperformed the stock market over the 12 months ended June 30. SMI frequently mentions the "cruel math of investing" that requires larger percentage gains to make up for a smaller percentage loss (for example, it takes a +33% gain to recover from a -25% loss). The returns of the past year illustrate this principle quite well, a strong reminder why we allocate to bonds and other asset classes besides stocks.

2ND QUARTER 2020 DAA ETF UNIVERSE

Ticker &	Category	2Q Result
SPY	U.S. Stocks	+20.2%
EFA	Foreign Stocks	+15.5%
VNQ	Real Estate	+13.5%
BLV	Long-Term Bonds	+5.7%
SHY	Cash	+0.2%
GLD	Gold	+13.1%

Long-term Bonds and Gold were outstanding holdings for DAA during the first half of 2020. While the small table shows that Foreign Stocks and Real Estate posted solid gains during the 2nd quarter, those gains were rebounds from losses of -23-24% in the first quarter. In contrast, the smaller but still impressive second-quarter gains for gold and bonds built upon first-quarter gains in those asset classes, making them the strongest performers of the first half by a wide margin.

Sector Rotation (SR)

After posting a phenomenal run of returns for most of the past decade, SR has been a bit off its game the past couple of years. Thankfully, SR got back on track during the second quarter of 2020, earning +22.1%. That was slightly better than the broad stock market, about what we'd expect given SR didn't own a particularly aggressive fund. With a substantial portion of Upgrading in cash and no stocks in DAA to begin the second quarter, it was important that SR pull its weight as a primary equity holding, and thankfully it did just that.

50/40/10

This portfolio refers to the specific blend of SMI strategies—50% DAA, 40% Upgrading, 10% Sector Rotation—discussed in our April 2018 cover article, *Higher Returns With Less Risk, Re-Examined*. It's a great example of the type of diversified portfolio we encourage most SMI readers to consider.[2]

Over the past year, we've seen the rationale for this type of blended portfolio play out. For several months leading up to this year's bear market, stocks surged while defensive strategies like DAA lagged. Then the tables quickly turned, and as we've discussed, bonds and DAA now have the enviable recent performance records.

Part of long-term success as an investor is recognizing that changes in performance leadership are a normal part of the process. The markets regularly shift between rewarding risk-taking and punishing it, so a blend of higher-risk and

[1] bit.ly/50-40-10 [2] Since blending multiple strategies adds complexity, some SMI members may prefer an automated approach. See bit.ly/SMIPrivateClient.

MONEYTALK

lower-risk strategies helps smooth the long-term path and promotes the type of emotional stability that breeds sustained investing success.

A 50/40/10 portfolio gained +10.9% during the second quarter, but like DAA, it didn't have to dig out of as large a hole from the first quarter. For the first *half* of 2020, a 50/40/10 portfolio posted a small loss, but was still ahead of the broad stock market. (And that's without including any bonds in the Upgrading portion.) That's not surprising, as we believe that over *full market cycles* (bull *and* bear market), the performance of a 50/40/10 portfolio stands a good chance of beating the broad market—while also protecting investors during bear markets when they are most prone to making costly mistakes. Whether you use this specific 50/40/10 strategy mix or a different combination, most SMI readers can benefit from blending these strategies in some fashion. ◆

LEVEL 4 / CONTINUED FROM PAGE 121

HOW MUCH SHOULD YOU WITHDRAW EACH YEAR DURING RETIREMENT?

stocks and 40% bonds and estimate you will live another 25 years, the table suggests a 6.0% withdrawal rate the first year. You may want to assume a lower rate of return by using the 5.7% suggested for someone with a more conservative 50% stock/50% bond portfolio. Or, you could use the 5.4% rate for someone assuming a longer, 30-year life expectancy instead.

Naturally, your income needs will change as you move through your retirement years. You should recalculate your investment mix and withdrawal rates every few years based on your needs and the actual investment performance of your retirement portfolio.[1]

Next month, I'll discuss which assets—IRAs, annuities or taxable investments—to draw from first. ◆

MARKET NOTES, QUOTES, AND ANECDOTES

Democratizing gambling

"They make it so easy for people that don't know anything about stocks. Then you go there and you start to lose money." – Navy medic Richard Dobatse, who made—and then lost—nearly $1 million trading stocks through the online broker, Robinhood. His story was told in a 7/8/20 *New York Times* article, which described the trading platform's unique customer base: "More than at any other retail brokerage firm, Robinhood's users trade the riskiest products and at the fastest pace…. The average age is 31…and half of its customers had never invested before." Read more at nyti.ms/2CTd3AA.

The year of the day trader

"…the only people who sell at the top and buy at the bottom are liars and people who are eventually going to make a big mistake at the worst possible time." – *A Wealth of Common Sense* blogger Ben Carlson, in a 7/16/20 post about the rise of speculative activity this year and how easily a day-trader's mindset can seep into the thinking of a traditional investor. Read more at bit.ly/2CYACHW.

Where investment truths go to die

"The market doesn't *have to* do anything, least of all what you think it *should* do. The market does what it wants, when it wants to do it. It is the real-time personification of collective human psychology, with fear and greed on full display." – Charlie Bilello, founder and CEO of Compound Capital Advisors, writing on his company's blog on 7/7/20. In his post, Bilello included numerous charts that illustrate the folly of blindly trusting conventional wisdom as to what the market will or won't do. The charts have to be seen to be believed. See for yourself and read more at bit.ly/3fOhbAn.

The numbers behind the numbers

"This recovery is sending all kind of false signals. Be careful of false narratives built on confusing data." – Portfolio manager Michael Lebowitz in a 6/17/20 tweet. He noted that strong retail sales need to be viewed within the context that more than four million homeowners are in forbearance and that if they had to make mortgage payments, the retail numbers would look quite different. Read more at bit.ly/2WJDUpy.

Top-heavy

"Never, to paraphrase Winston Churchill, have so many stocks owed so much to so few." – Morningstar vice president of research John Rekenthaler, in a 7/20/20 article about the S&P 500 being overly concentrated in its top 10 holdings. Those 10 stocks—primarily stocks of tech companies—now account for a record 26% of the index's assets. The S&P 500, which is weighted by market capitalization, was almost as concentrated in 2000, just before the start of what would be a two-year bear market. Read more at bit.ly/2CJyWSZ.

The risk in the mirror

"The first half of 2020 should remind us that investing isn't about conquering markets; it's about mastering ourselves. To be an intelligent investor is to recognize that you're in a lifelong struggle for self-control—an unending effort to keep yourself from yielding to fear or greed, believing that you know what the future holds or letting short-term news knock your long-term plans off track. Self-control means not becoming your own worst enemy." – *The Wall Street Journal*'s Jason Zweig, in a recent column about the risk all investors face of getting in their own way. Read more at bit.ly/30z0iDb.

[1]The general guidelines offered in this article are quite useful. However, if you desire a more personalized retirement-withdrawal strategy, consider using the online planning tool MoneyGuide. For more information, see Jan2020:Cover.

PERIODICALS POSTAGE
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Dated Investment Material
Please Do Not Delay!

PERFORMANCE DATA

SOUND MIND INVESTING MODEL PORTFOLIOS • DATA THROUGH JUNE 30, 2020

BASIC STRATEGIES

	Year to Date	1 Month	3 Months	12 Months	3 Yrs Annual	5 Yrs Annual	10 Yrs Annual	15 Yrs Annual
U.S. Stock Market[1]	-3.3%	2.3%	21.9%	6.8%	10.1%	10.3%	13.7%	8.9%
Just-the-Basics[2]	-5.7%	3.2%	23.9%	2.5%	7.0%	7.5%	11.7%	8.0%
Stock Upgrading[3]	-9.7%	1.8%	14.5%	-4.0%	3.5%	5.1%	9.8%	7.3%
U.S. Bond Market[4]	6.3%	0.7%	3.0%	8.9%	5.2%	4.2%	3.7%	4.3%
Bond Upgrading[5]	7.6%	1.3%	4.7%	10.0%	5.3%	4.2%	4.8%	6.1%

PREMIUM STRATEGIES

	Year to Date	1 Month	3 Months	12 Months	3 Yrs Annual	5 Yrs Annual	10 Yrs Annual	15 Yrs Annual
DAA[6]	4.2%	2.1%	6.9%	9.2%	6.7%	4.6%	7.8%	9.6%
Sector Rotation	-9.6%	1.6%	22.1%	-5.7%	1.1%	3.5%	16.5%	11.5%
50-40-10 Blend[7]	-2.7%	1.9%	10.9%	2.5%	5.2%	4.9%	9.7%	9.3%

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

THE SOUND MIND INVESTING MUTUAL FUND (SMIFX)

Current Returns as of 6/30/2020	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	-8.98%	2.82%	16.77%	-3.75%	3.13%	3.58%	8.34%
Wilshire 5000	-3.30%	2.34%	21.94%	6.78%	10.13%	10.27%	13.74%
S&P 500	-3.08%	1.99%	20.54%	7.51%	10.73%	10.73%	13.99%

Quarterly Returns as of 6/30/2020	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	-8.98%	2.82%	16.77%	-3.75%	3.13%	3.58%	8.34%
Wilshire 5000	-3.30%	2.34%	21.94%	6.78%	10.13%	10.27%	13.74%
S&P 500	-3.08%	1.99%	20.54%	7.51%	10.73%	10.73%	13.99%

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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