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The Retirement Investing Challenge: Keeping Up With Inflation While Limiting Risk

The cartoon shows a man looking over his retirement-account statement. The caption reads: "According to your latest figures, if you were to retire today, you could live comfortably until 2 p.m. tomorrow." Accumulating enough money for retirement doesn't happen by accident! It requires developing and implementing a realistic long-term plan. We hope you'll be challenged and encouraged as we review proven strategies you can use as you move toward—and into—retirement.

by Mark Biller and Joseph Slife

It's safe to say that most people would like to have a financially secure retirement. Reaching that goal, however, requires careful planning and diligent effort in the years *before* retirement. Implementing each of the following can help guarantee financial health and stability during your retirement years.

- **Get completely out of debt by the time you retire**, including your home mortgage and any college-related debt you may have incurred for your children. Debt, especially a mortgage payment, will limit your investment options and lifestyle flexibility in retirement.
- **Maximize your contributions to your company's retirement plan.** Contributing to a personal IRA is a good idea as well, especially if you're already taking full advantage of any employer-provided matching contributions offered within a company plan.
- **Fully fund an emergency-savings fund.** A robust savings fund provides a means of meeting emergency needs without borrowing and incurring related interest costs.

Investing during retirement

Here is a key question: Which is of greater concern to you—potentially losing principal in the short run or losing purchasing power to inflation over your retirement lifetime?

Some retirees are uncomfortable with the idea of ever losing any of their investment money. This mindset limits them to fixed-income investments, such as bonds, CDs, and savings accounts. But with interest rates at historic lows and with people living longer in retirement, most retirees need to continue investing some of their money in stocks to keep up with inflation. (More about that shortly.)

Of course, retirees should have fixed-income investments too. For the non-stock portion of one's portfolio, these strategies can increase income without increasing capital risk:

1. Don't automatically settle for your local bank's savings account. Instead, compare local rates to the higher rates available from online-only banks. The difference may be only 0.50%-0.75%, but since retirees often carry *(continued on page 147)*

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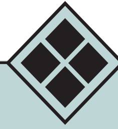
"FOR GOD HAS NOT GIVEN US THE SPIRIT OF FEAR BUT OF POWER, AND OF LOVE, AND OF A SOUND MIND."



EDITORIAL

What If Money Isn't For Our Happiness?

One of the best marriage books I've read is *Sacred Marriage* by Gary Thomas. In it, he asks, "What if God designed marriage to make us holy more than to make us happy?" What a good and challenging question. Even as one who is *happily* married, I can see the wisdom behind the question. (I'm sure my wife can, too!)

As Thomas explains, "This isn't a book that seeks to tell you how to have a happier marriage. This is a book that looks at how we can use the challenges, joys, struggles, and celebrations of marriage to draw closer to God and to grow in Christian character."

Re-reading the book recently, I was struck by the many parallels with money. In fact, wouldn't it be helpful to live with this question in mind: What if God designed *money* to make us holy more than to make us happy?

The intertwined journeys of faith and finances

My own experience of coming to faith was tightly tied to money. It was through my unintentional reenactment of the parable of the prodigal son that God drew me into a relationship with Him and set me on a new career path.

Since then, one of the biggest money-related discipleship lessons he has taught me is similar to this point that Thomas makes about marriage: "If [our relationship with God] is right, we won't make such severe demands on our marriage, asking each other, expecting each other, to compensate for spiritual emptiness.… We need to remind ourselves of the ridiculousness of looking for something from other humans that only God can provide." It's taken time, but I've learned to not expect from money what only God can provide.

Discerning "the thing itself"

Chronic disappointment in our use of money can leave us running on the so-called hedonic treadmill, always seeking more to satisfy an unquenchable thirst. Or it can lead us to God. As C.S. Lewis wrote, "If I find in myself a desire which no experience of this world can satisfy, the most probable explanation is that I was made for another world."

Gary Thomas said something similar about marriage: "If we find that the same kinds of challenges face every marriage, we might assume that God designed a purpose in this challenge that transcends something as illusory as happiness."

The key, it seems, is to see our desires for the healthy pleasures of this world—an especially meaningful conversation with our spouse or a good friend, or a wonderful vacation—ultimately as a desire for God.

Here's C.S. Lewis again: "…it [is] not in them. It only comes through them and what [comes] through them [is] longing.… For they are not the thing itself; they are only the scent of a flower we have not found, the echo of a tune we have not heard, news from a country we have never visited."

Mistaking the pleasures of this world for *the thing itself* is where we go wrong. That's true of our marriage, as Thomas points out: "I was created with a spirit that craves God. Anything less than God, and I'll feel an ache."

And it's true of our stuff. Mistaking money and what it can buy for *the thing itself* can trap us in the cycle of wanting, buying, enjoying, and then all too quickly wanting again.

A glimpse of heaven

My understanding of Romans 8, where Paul talks about having "the firstfruits of the Spirit," is that the Holy Spirit's presence within us provides the ability to experience little glimpses of heaven right now—that the best experiences of this world are wonderful foretastes of our ultimate joy.

Realizing that the things of this world will never satisfy our deepest longings isn't *bad* news; it's *helpful* news. Within that insight lies the power to stop looking to money and what it can provide for things they're incapable of delivering. And that gives us a new freedom to enjoy them even more.

Viewing them as good gifts from God, but not the basis of our identity, security, or ultimate happiness, leads to a healthier, more satisfying relationship with money. It has conditioned me to regularly thank God whenever he gives me one of those little glimpses of heaven, and to remember that my relationship with Him is my greatest joy.

I like how John Eldredge summed up the "patient yearning" Paul spoke of in the same passage where he described the firstfruits of the Spirit: We express our longing for God best when we "enjoy what there is now to enjoy, while waiting with eager anticipation for the feast to come."

Matt

MATT BELL
MANAGING EDITOR

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FEATURE ARTICLE

The Retirement Investing Challenge: Keeping Up With Inflation While Limiting Risk

(continued from front page)

large savings balances, even a small percentage difference is worthwhile. Bankrate.com and depositaccounts.com are helpful places to search for higher yields.

2. Shop nationally for the highest CD rates. Interest rates paid on otherwise comparable certificates of deposit can vary widely. Ignoring this difference is essentially giving up free money. Shop using the websites mentioned above.

3. Build a CD-savings "ladder."[1] Longer-term CDs typically pay higher rates than short-term ones. An excellent way to obtain a higher rate without sacrificing liquidity is to build a portfolio of CDs with staggered maturities—e.g., investing in four CDs that mature in six months, one year, 18 months, and 24 months. If you wish, you can extend out as long as five years to get the highest rate (although given today's low rates, it may be better to keep maturities shorter initially). As each CD matures, use the proceeds to buy the most distant maturity you feel comfortable with.

4. Buy individual bonds or "Bulletshares."[2] Under normal conditions, a five-year corporate bond might pay 1%-2% more than a five-year CD. Unfortunately for retirees, that's not the case right now. The combination of low rates and aggressive intervention by the Fed in the bond market this year means most high-quality corporate debt currently doesn't yield much more than the best CDs. Other than higher yields, which may return eventually, the advantage of buying individual bonds is that while bond values go up and down as interest rates change (as rates rise, bond prices fall, and vice versa), as long as you hold your bond until it matures, you avoid the risk of loss.

5. For diversification, consider no-load bond funds.[3] Bond funds buy multiple issues of different types of bonds. Their portfolios can be short-term, intermediate-term, or long-term, and vary in the quality of their holdings. One drawback of investing through bond funds is they never reach maturity, so you can't avoid a potential loss of principal by merely holding a fund long enough. As a result, you must be emotionally prepared for some fluctuations in principal value.

6. Weigh the tax consequences. Although municipal bonds pay lower rates, the interest earned is exempt from federal income taxes. Also, municipal bonds issued within your state may save you money on state income taxes. You can invest in municipal bonds directly or via tax-free money-market and bond funds.

A "total return" approach

As noted earlier, a retired investor must weigh the relative importance of two competing concerns. Income-oriented strategies, such as those listed above, address one of those concerns: *avoiding losses*. But they don't address the other.

For most retirees, the more pertinent concern is the possibility of *exhausting one's retirement money*. The way to address that concern is by constructing a retirement portfolio that will grow with inflation, thus protecting one's purchasing power and standard of living. In other words, a portfolio that continues to invest in stocks even after retirement.

Aren't stocks risky, especially for older people? The traditional (and oversimplified) answer is "yes." Stocks typically are more *volatile* than bonds. But the uneven performance of the stock market is only one kind of risk. Inflation poses a risk as well—perhaps an even greater one.

Over time, inflation erodes a dollar's purchasing power. As prices rise, a dollar buys less than before. Consider medical care, a category of particular impact for retirees. In the 30 years from 1990 through 2019, medical care prices rose 206% (increasing about 4% per year on average), according to the U.S. Bureau of Labor Statistics. In dollar terms, a medical-care outlay of $10,000 in 1990 would cost more than $30,000 now!

Given today's longer lifespans, many retirees could have a retirement that lasts 30+ years. As the past three decades illustrate, the income generated by an initially impressive-looking nest egg will buy less and less over the 30 years ahead—unless you take countermeasures.

We understand that many retirees are cool to the idea of investing in stocks. In addition to their worries about risk, they may think stocks don't generate enough income, especially with dividends at low levels. They would prefer to "live off the interest" of a fixed-income portfolio and "never touch the principal." But that isn't realistic, except for the very wealthy.

For that reason, we suggest that most retirees take a "total return" approach to their income needs. Let's unpack that. Would you rather own a bond that yields 3% or a combination stock-and-bond portfolio that yields 2%? The bond at 3% seems like the logical choice: earning 3% on a $100,000 bond would generate $3,000 a year. In contrast, the 2% yield on the $100,000 stock/bond portfolio offers only $2,000 in income.

However, the amount of "current income" obtained from a particular investment isn't the only consideration. Using historical performance as a guide, we can be reasonably confident that the *total return* (yield plus capital gains) from a stock portfolio will exceed the return from an all-bond portfolio in most years.

What if—thanks to gains in stock holdings—your $100,000 stock-and-bond portfolio grew by 5% ($5,000) during the year? Adding the appreciation of $5,000 to the portfolio's income of $2,000 would give you a total return of $7,000—considerably more than the $3,000 return from the bond. (If you needed $3,000 of income to help meet your living expenses, you could withdraw the difference from the stock/bond portfolio, selling stock- or bond-fund shares.)

The table on page 148 presents two 10-year scenarios. In each case, a retiree makes an annual withdrawal for living expenses. Each year, the withdrawal is adjusted upward to keep pace with a 3% rate of inflation. For example, since $3,000 is withdrawn in the first year, $3,090 would be required at the end of Year 1 to maintain the same purchasing power. (A 3% rate is higher than the official overall U.S. inflation rate of recent years. But as we noted earlier, inflation in certain costs of particular importance to retirees have been higher.)

The "fixed income" strategy shown in the top half of the table relies exclusively on bonds and CDs. We're assuming an average rate of return of 3%. That's low compared to historical averages but high compared to today's yields. In other words,

[1]Mar2016:p38 [2]Mar2019:p38 [3]See *Introducing an Upgrading Approach to Bond Investing That Outperforms the Bond Market* at bit.ly/bond-upgrading.

we're choosing something of a "middle ground" figure for our 10-year projection.

Note that this fixed-income strategy falls behind almost immediately. After adjusting for inflation, the first year's withdrawal (Col. E) is more than the amount earned (Col. D). Therefore, our retiree must sell a small dollar amount of securities (Col. F) to fund the full payout. This leaves less in his account to remain invested in Year 2 (Col. A), which leads to a greater shortfall that year. Again, he must sell securities to fund the payout fully.

The cycle continues, slowly eating into his principal. Further, his "ending balance" (Col. G) in Year 10 doesn't tell the full story. After adjusting for 3% annual inflation, his purchasing power (Col. H) has been reduced to an even greater extent.

Now let's look at the "total return" portfolio, consisting of 60% stock funds and 40% bond funds. (We're using a 60/40 portfolio mix in this example because SMI recommends it for investors with five or less years until retirement, assuming one can emotionally accept the risk—see Table 1 on page 155 in this issue). Returns vary from year to year, but we'll assume they average 7% per year over the entire decade. Again, this return assumption is lower than the historical average, but reflects the lower growth expectations many analysts have for the stock market in the decade ahead.

The first year all goes well. The retiree's account goes up in value (Col. G), despite withdrawing $3,090 (Col. E). But stocks take a hit in Year 2 (Col. C), pulling the entire portfolio down. He must sell securities (Col. F) to fund the payout. (The securities sold are selected to maintain the 60%-to-40% balance going into Year 3.) Briefly, the 60/40 portfolio is looking worse than the portfolio using the fixed-income strategy.

But this isn't a short-term game. Over the long haul—i.e., periods of 10 years and longer—stocks have consistently produced positive results. And that's what we see as the table progresses, despite three years of setbacks (Year 2, Year 6, and Year 9).

As shown in Col. G, at the end of the 10 years, the stock/bond portfolio is worth $148,565 compared to $94,074 for the fixed-income strategy. More importantly, the 60/40 portfolio has maintained its purchasing power—it's worth $110,546 in constant dollars. Even after adjusting for inflation, and despite short-term losses, the account had attained a purchasing power 10.5% greater than it had at the beginning of Year 1.

USING STOCKS TO PROTECT AGAINST INFLATION

100% FIXED-INCOME / YIELD OF 3% PER YEAR ASSUMED

Year	(A) Beginning Portfolio Balance	(B) Annual Bond Income	(C) Annual Stock Growth	(D) Total Portfolio Return	(E) Withdrawal Adjusted for Inflation	(F) Annual Gain or Shortfall	(G) Ending Balance	(H) Buying Power
1	$100,000	$3,000	0	$3,000	–$3,090	–$90	$99,910	$97,000
2	99,910	2,997	0	2,997	–3,183	–185	99,725	94,000
3	99,727	2,992	0	2,992	–3,278	–286	99,438	91,000
4	99,449	2,983	0	2,983	–3,377	–393	99,045	88,000
5	99,073	2,971	0	2,971	–3,478	–506	98,538	85,000
6	98,595	2,956	0	2,956	–3,582	–626	97,912	82,000
7	98,013	2,937	0	2,937	–3,690	–752	97,160	79,000
8	97,323	2,915	0	2,915	–3,800	–886	96,275	76,000
9	96,523	2,888	0	2,888	–3,914	–1,026	95,248	73,000
10	95,608	2,857	0	2,857	–4,032	–1,174	94,074	70,000

60% STOCKS + 40% FIXED INCOME / 7% AVG. ANNUAL RETURN ASSUMED

Year	(A) Beginning Portfolio Balance	(B) Annual Bond Income	(C) Annual Stock Growth	(D) Total Portfolio Return	(E) Withdrawal Adjusted for Inflation	(F) Annual Gain or Shortfall	(G) Ending Balance	(H) Buying Power
1	$100,000	$2,000	$5,300	$7,300	–$3,090	$4,210	$104,210	$101,175
2	104,210	2,084	–4,500	–2,416	–3,183	–5,599	98,612	92,951
3	98,612	1,972	6,200	8,172	–3,278	4,894	103,506	94,722
4	103,506	2,070	10,700	12,770	–3,377	9,394	112,899	100,309
5	112,899	2,258	7,400	9,658	–3,478	6,180	119,079	102,719
6	119,079	2,382	–3,800	–1,418	–3,582	–5,001	114,079	95,539
7	114,079	2,282	21,600	23,882	–3,690	20,192	134,271	109,174
8	134,271	2,685	15,200	17,885	–3,800	14,085	148,356	117,113
9	148,356	2,967	–8,000	–5,033	–3,914	–8,947	139,409	106,845
10	139,409	2,788	10,400	13,188	–4,032	9,156	148,565	110,546

Making withdrawals

Using a stock-and-bond portfolio to provide a stream of regular income needn't be complicated. Indeed, it can be as simple as telling your brokerage firm to sell enough shares of a particular stock fund or bond fund each quarter to generate a specific dollar amount. Then, by rebalancing your portfolio once a year, you can ensure that your target stock/ bond allocation stays on track despite the periodic withdrawals.

This approach, which runs on autopilot once set up, is attractive in its simplicity. But we understand that some investors may prefer a process that's more responsive to what's happening in the markets. Of course, the *ideal* situation for a retiree generating income from a mixed stock/bond portfolio would be to sell stocks at peaks in the stock market, thus getting top dollar with every sale. But since identifying the market's absolute high points isn't realistic, another approach is required.

The key to selling into market strength, and avoiding selling during downturns, is to employ a "bucket" approach to retirement-account withdrawals. As we've described before,[1] such a strategy uses a bank money-market account (MMA) in tandem with your stock/bond portfolio. By moving an amount roughly equal to three years worth of quarterly withdrawals into an MMA,[2] you won't need to sell any long-term investments for income until you're ready—i.e., when an attractive market opportunity presents itself.[3] Of course, this idea is workable only if one's overall portfolio is large enough. If setting aside living expenses in cash reduces one's stock holdings too much, the remaining holdings may not grow enough to meet future cash needs.

The amount in your MMA would fluctuate between

[1]Apr2020:p57 [2]In other words, the portion of your living expenses to be funded from investment accounts. [3]Establishing a four- or five-year fund, if you could afford it, would provide greater flexibility, although setting so much aside in cash likely would lower your overall long-term rate of return.

zero and the full three-year amount. During times of poor stock-market performance, you would draw living expenses from your MMA rather than selling any stock holdings. This might last for a year or longer. When the market is doing well, you could sell selected stock holdings and put the proceeds into the MMA, bringing it back to full strength.

Since the stock market tends to have significant peaks and valleys every three-to-four years on average, it would be rare that a retiree would ever need to sell when prices are low. Even if that did become necessary, any such sales would occur once the MMA is exhausted, meaning fewer sales would occur during a downturn than otherwise.

So what exactly constitutes an attractive selling opportunity? Remember, we're not talking about calling market tops. For the sake of example, consider a retired couple in the mid-1990s whose budget required them to supplement their Social Security and pension income with money from their stock/bond portfolio. In December 1996, former Federal Reserve Chairman Alan Greenspan made his "irrational exuberance" speech, suggesting that stock prices had gotten extraordinarily high.

At that point, our retirees sold some of their stock holdings and built their MMA savings to the maximum level. (Withdrawing a substantial amount of one's nest egg to fund a "cash bucket" may be emotionally challenging. But having that living-expense money tucked away can help retirees avoid sabotaging their portfolio through panicked selling during bear markets.)

As the market continued higher from 1997-1999, they continued to sell a little from their stock holdings to keep the MMA full. They sacrificed some return late in that bull market by having money parked in savings, but the upside was their MMA was fully funded when the bear market began in early 2000.

Because they had enough savings to cover their living expenses, our retirees didn't feel any need to sell as prices fell in 2001 and 2002. After two years, their savings account had been reduced substantially, but since they started with three years of reserves, they still had enough to weather another year without selling stocks or bonds. As the market recovered in 2003, they continued to sit tight, further drawing down savings as their stock/bond portfolio regained lost ground.

Our retirees then started to sell a little from their stock/bond portfolio in 2004 as their MMA savings finally were depleted. An SMI Upgrading portfolio would have recovered to its pre-bear market high mid-way through 2004, so for this couple the bear market seemed like a relatively small bump in the road. As the market continued higher in 2006 and 2007, they refilled their MMA savings by selling from their stock holdings at the higher levels.

With replenished savings, they were in good shape to ride out the bear market of 2008-2009. They spent down their savings until 2011 or 2012, at which point they started selling stocks and bonds again to fill it back up.

While this is just a simple example, you can see that without having to be precise about the turns in the market, a retiree can sell into strength and sit tight during weakness *if funds to cover immediate living expenses are available in savings*.

Retirees and IRAs

Taxes may be the last thing on your mind as you approach retirement. After all, your income likely will be lower than while you were working, right? Not necessarily. Suppose you retire with significant assets in Traditional IRAs, or in company retirement plans to be rolled over into IRAs upon retirement. The "required minimum distribution" rules that now kick in at age 72 could push you into a higher tax bracket than you expect. Fortunately, there are ways to prepare for this.

One way is to take advantage of a critical distinction between Traditional IRAs and Roth IRAs: With a Roth, there are no mandatory minimum distributions to be taken at any point. The trick then is to convert any Traditional IRAs you may hold (including rollover IRAs from a company retirement plan) into Roth IRAs.[1]

Here, the idea of using a money-market account to stockpile living expenses again comes in handy. This time, as you *prepare* to retire, you would load the MMA with enough money to cover all living expenses for several years. By not selling any investments the first few years of retirement, and ideally delaying your Social Security retirement benefits,[2] your taxable income should be quite low. You can take advantage of this low income by converting large chunks of your Traditional IRA into a Roth. You'll have to pay income tax on the converted amounts, but you'll pay at lower tax rates. (If you don't convert, you'll pay the taxes later—perhaps at higher rates—when withdrawing funds from the Traditional IRA.)

What you gain from a Roth conversion is substantial. For starters, money moved to a Roth IRA will grow tax-*free* as opposed to merely tax-*deferred*. Further, when required minimum distributions from any remaining Traditional IRAs kick in, they will be smaller, meaning lower taxes and greater flexibility. And finally, if you've delayed receiving Social Security retirement benefits during this process, your eventual monthly benefit will be larger.

Naturally, deciding on the best approach to these kinds of retirement preparations requires careful thought. For many near-retirees, paying a qualified CPA or financial planner for advice is money well spent.

Summary

A financially secure retirement doesn't just happen. Like all worthy goals, it takes planning and managing. If you are not retired yet, a planning weekend with your spouse to discuss what you would like your retirement to look like and what you need to do now to prepare for that kind of retirement lifestyle may be in order. (Many SMI members have found the MoneyGuide software, available to SMI Premium-level members, to be helpful in their retirement planning.[3])

If you're in retirement already, ask yourself, "What worries me most about my retirement situation?" If one of the concerns is losing purchasing power, rethink your investment asset-allocation decisions and consider making equities a greater portion of your portfolio. Careful planning and wise investing are crucial to making your retirement years golden. ◆

[1]Nov2019:p169 [2]Jul2020:p105 [3]See Jan2020:Cover for details about MoneyGuide. Premium-level members can gain access to MoneyGuide for a $50 one-time fee.

LEVEL 1 ONE

Strengthening Your Foundation

Wise money management begins with a strong financial foundation. In this column, we cover topics such as how to manage cash flow, apply strategies for getting debt-free, make wise purchasing decisions, build savings, choose appropriate insurance protection, navigate marital financial issues, and many more.

"By wisdom a house is built, and through understanding it is established." Proverbs 24:3

PAST THEIR PRIME? TOUGH TIMES RETURN FOR MONEY-MARKET FUNDS

Savers seeking a better yield on their "emergency cash" than what's available from a bank have often turned to "prime" money-market funds, offered by mutual-fund companies.

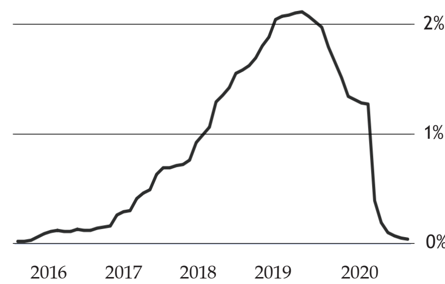
For decades, prime funds—funds that invest mainly in short-term corporate debt securities—were touted as being "almost as safe as cash" while paying better rates than bank savings. But the 2008 financial crisis dealt a blow to prime funds. In mid-September 2008, the then-highly regarded Reserve Primary Fund, which held securities from the financially troubled Lehman Brothers investment bank, couldn't meet overwhelming demands for redemptions. Some investors didn't get all their money back (they lost 1%), and the fund was dissolved a few months later.[1]

Subsequently, government regulators issued new sets of rules for money funds (in 2010 and again in 2014), aimed at heightening safety. The regulations further restricted what prime funds could invest in and (not surprisingly) raised compliance costs for fund providers. In turn, the number of prime funds shrank from nearly 350 in 2007 to fewer than 75 by 2020, according to the Investment Company Institute.

Then came the March/April COVID-19 financial upheaval. Uneasy investors, worried about a possible repeat of 2008, fled prime funds. Some sought refuge in the perceived greater safety of money-market funds that invest solely in *government* debt. Over a six-week period, prime-fund assets (both retail and institutional) declined $150 billion, or about 20%. The Federal Reserve, hoping to *avoid* a repeat of 2008, invoked emergency authority to keep prime funds stable.

Now, in light of the Fed's lower-for-longer interest-rate policy, squeezing value for investors—and profits for companies—out of prime funds has become all but impossible. With Fed rates near zero, prime funds can't offer attractive yields. As of mid-September, the five *highest*-paying retail prime funds had an average yield[2] of only 0.14%, according to Crane Data—a return that is less than one could earn, with virtually no risk, from a savings account at an online bank or credit union.

MONEY-MARKET FUNDS AVERAGE YIELD
2016-2020



Source: Crane Data. Reflects average 7-day net yields for all MMFs, not just retail prime funds.

So long Vanguard Prime

Responding to the latest crisis in the prime-fund business, Vanguard surprised investors by announcing it would retool Vanguard Prime, it's stalwart prime fund launched in 1975. SMI recommended Vanguard Prime for many years as a solid option for savers.

The fund isn't being dissolved. Instead, the company is morphing the $125 billion behemoth into a *government* money fund. That decision sent "shock waves through the money markets" (to quote the *Money Fund Intelligence* newsletter). The continuing fund, now rechristened as Vanguard Cash Reserves Federal Money Market Fund, will invest "almost exclusively in U.S. government securities, cash, and repurchase agreements that are collateralized solely by U.S. government securities or cash," according to a Vanguard news release.

Historically, government money funds have paid slightly lower yields than prime funds (and yields of prime funds are now scraping bottom). So Vanguard has sweetened the pot slightly by lowering fund expenses for the reconfigured fund. The expense ratio is 0.10%, down from 0.16% previously charged by Vanguard Prime.

Technically, the lower expenses are available to those holding "Admiral" shares in the Cash Reserves fund (the ticker for Admiral Shares is VMRXX). To make such shares more accessible, Vanguard has cut the initial minimum investment for Admiral shares to only $3,000 (down from $5 million!). Existing Vanguard Prime customers with any number of Investor shares (VMMXX) can convert to Admiral shares immediately (at no cost)[3] or wait to be automatically converted over the next few months.[4]

Other fund companies are reducing money-fund fees too. Fidelity, T. Rowe Price, BlackRock, J.P. Morgan, and Federated Hermes, have *waived* prime-fund fees temporarily (as well as fees for other money funds) to keep yields above 0.0%.

Where to park your cash

Prime funds and other money-market funds remain handy temporary holding places for money you plan to invest soon. In other words, it's still wise to move cash from your broker's sweep account to a money fund until you're ready to deploy it (or you could use a "cash" ETF, such as iShares' SHY). But money-market funds are no longer attractive alternatives for your savings—and they likely won't be good options in the foreseeable future.

As noted above, savings accounts from online banks and credit unions pay more than money funds now, plus such accounts are federally insured. For the top rates on savings accounts, go to bankrate.com or depositaccounts.com. ◆

[1]Ultimately, Reserve Primary paid investors $0.991 for each $1 share. [2]This is the "7-day yield," a standardized calculation used to estimate the annualized yield of a money-market fund. [3]bit.ly/convert-to-admiral [4]Be aware that Admiral Shares do not offer check-writing privileges.

LEVEL 2 TWO

Developing Your Investing Plan

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

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

DYNAMIC ASSET ALLOCATION WAS MADE FOR YEARS LIKE THIS

The stock market's long-term average annual return masks a hard reality: Returns can vary widely from one year to the next. Even one year's return can be misleading, with intra-year moves hitting more extreme highs and lows than an unsuspecting investor might imagine.

That's why it's so important to follow a strategy that not only has the potential to deliver the returns you need, but that comes with an expected level of volatility you can live with. Formula One champion Niki Lauda's advice about racing applies just as well to investing: "The secret is to win going as slowly as possible." And that's a good description of what investors following SMI's Dynamic Asset Allocation strategy have experienced this year.

A wild ride, but not for all

When 2020 draws to a close, the stock market's volatile path will be one for the history books. During a shocking 16 trading-day stretch, from February 19 to March 23, the S&P 500 plunged –34%. Never before has it fallen so far so fast.

The market had been inching upward since the start of the year, giving investors the impression that the nearly 11-year bull market would continue. However, as a mysterious virus took hold in China and quickly turned into a global pandemic, rattled investors ran for the exits. Most people with money in the market hardly knew what hit them and no one knew when the worst would be over.

At the same time, investors following SMI's Dynamic Asset Allocation strategy experienced far less turmoil. After beginning the year as aggressively positioned as the strategy can be—in U.S. stocks, foreign stocks, and real estate—DAA's mechanical indicators dialed things back in February, replacing foreign stocks and real estate with gold and bonds. At the beginning of March, it went further, replacing U.S. stocks with cash. As a result, investors following the strategy avoided much of the pain, losing just –11.8% from its peak to trough, a small fraction of the overall market's decline.

And keep in mind, there were no subjective decisions for investors to make—no guessing about how much wider the COVID-19 virus might spread or how much further the market might fall. All that was required was to trust the system and make the trades it called for.

A remarkable rebound

After the market hit bottom on March 23, the S&P 500 came roaring back, gaining +58% through the end of August. Did that leave DAA's 2020 returns behind? No. From January 1 through August 31, the S&P 500 was up +9.7% whereas DAA was up +12.6%—and as the chart below shows, those returns came via a much smoother path.

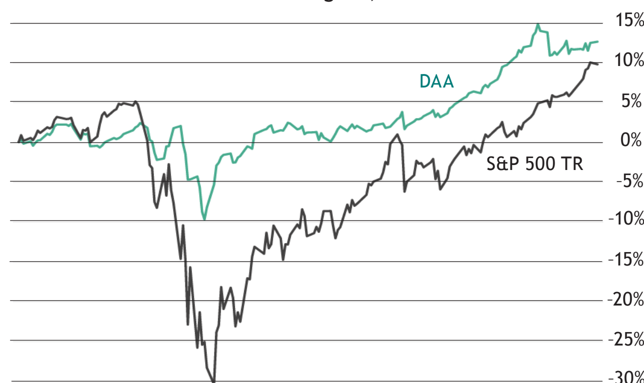
While it's true that DAA's +19% gain since March 23 pales in comparison to the S&P 500's gains, the fact that DAA is still in the lead can be explained by what we refer to as "the brutal math of market downturns." In essence, big losses require even bigger gains just to get back to even. For example, the market's –34% loss earlier this year required a +51.5% gain to get back to its February 19 level. On the other hand, DAA's –11.8% loss required only a +13.4% gain.

In that light, it's easy to see that avoiding catastrophic losses is as important—if not *more* important—as taking full advantage of market gains. That's why we often summarize one of DAA's main benefits as "winning by not losing."

This year has also demonstrated one of DAA's perhaps least understood or appreciated benefits. While DAA is rightly thought of as a defensive strategy, defense doesn't always mean moving to the sidelines at times of market stress. In fact, DAA is never more than one-third positioned in cash. The other two defensive asset classes, gold and bonds, often gain when stocks are in decline or struggling for direction. That's exactly what happened this year.

In March, U.S. stocks fell –11% while DAA's gold position gained +3%. Then in April, as stocks came bounding back, gaining nearly +14%, gold was up another +9%. (For many DAA investors, the peace of mind of continuing to be defensively positioned at a time of so much ongoing fear and uncertainty was worth even more.) Following small gains in May and June, fueled in part by replacing cash with U.S. stocks, DAA took off again in July on the strength of its continued position in gold. In August, when stocks cooled down a bit, gaining *just* +5%, DAA gained even more, once again thanks largely to its one-third position in gold.

DYNAMIC ASSET ALLOCATION VS. S&P 500 TOTAL RETURN
Jan. 1 - Aug. 31, 2020



The priceless value of peace of mind

This year has provided long-term investors with a healthy reminder *(continued on page 156)*

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

BUYING COMMODITIES TO HEDGE AGAINST INFLATION RISK

September's cover article on the U.S. dollar presented two ideas related to commodities. First, the impact of a falling dollar is often initially seen in a rise in commodity prices—specifically at the gas pump and the grocery store. Second, the inflation many expect to (eventually) result from the massive expansion of government borrowing and spending could push commodity prices higher still.

"Real" assets have always been desirable during inflationary periods. Gold and real estate are included as options within Dynamic Asset Allocation largely because of their reputation as inflation fighters. Investing in other real commodities follows a similar idea.

That said, most modern investors don't have much practice with the anti-inflation playbook, as inflation has been mostly declining for the past 35 years. Here's an overview of how an investor can easily add exposure to the commodities asset class, and a look at when adding that exposure might be most advantageous.

Tools of the commodity trade

Commodities typically trade via the futures market, but as Austin relates in *The Sound Mind Investing Handbook*, that's a complicated and risky market for individuals to participate in. Thankfully, it's not necessary. When commodities had their last stretch of superior performance as a result of a steadily declining dollar during the 2000s, SMI investors were able to tag along to some degree via their normal Fund Upgrading holdings, as well as Sector Rotation's trades in Energy stocks. We would hope both of those strategies would again prove helpful should we see a turn toward a more inflationary environment.

That said, investors also have several direct options at their disposal if they want to add commodity exposure to their portfolio. SMI investors are familiar with GLD, the gold ETF (exchange-traded fund). Most other commodities also have one or more ETFs that track their specific performance. But a better way to add exposure to the broad asset class is via a diversified commodities ETF or mutual fund.

While there are many options, our ETF choices are the DB Commodity ETF (ticker: DBC) and DB Agriculture ETF (ticker: DBA). The primary difference is DBA focuses solely on the 11 agricultural commodities, whereas DBC expands on those to include significant oil/gas exposure as well as precious metals.[1]

While these ETFs offer perhaps the *easiest* exposure to the broad commodities asset class, they're not necessarily the *best* way to achieve it. There's a strong argument in favor of active management when it comes to commodities—not only due to the way the indexes weight the various commodities (particularly oil, which tends to weigh heavily) but also the technical nature of how futures contracts roll from one period to the next. Active managers can potentially add value in both respects.

So one approach might be to add a half-dozen of the top actively managed diversified commodities funds to an SMI Tracker portfolio, along with DBC and DBA. Then let their recent momentum scores determine which fund to use. Leaders will change over time, but our review indicates the following tickers would comprise an attractive group of potential candidates: EAPCX, BCSAX, SPCAX, PCRAX, JCRAX, CMCAX. (Several of these may carry loads at some brokers. Make sure any funds you purchase are either no-load or load-waived at your particular broker.)

Hold that thought

Adding commodities exposure may seem like a great idea, given they have historically been an excellent portfolio diversifier due to their low correlation to stock and bond returns. Plus, they had been great performers (until September), with most of the previously listed funds having gained +15% or so over the three months ending August 31.

However, if the primary reason for adding commodities exposure is to hedge against inflation, adding it now is likely premature. Yes, commodity prices have risen sharply since the economic reopening in May, but those increases were from deeply depressed levels. Even after their recent surge, both DBA (Agriculture) and DBC (Commodity) still had negative year-to-date performance as of mid-September, before falling sharply late in the month.

While the "reflation trade" boosted commodity prices following the global shutdowns this spring, it's hard to argue that higher inflation is likely until the economy is solidly in recovery mode. Longer-term, as that occurs, a shift toward rising inflation is easy to envision.

But that's not happening at present. With employment statistics trending in the wrong direction lately and banks having dramatically tightened lending standards, it's difficult to see inflation becoming an issue until 2021 at the earliest. And as September reminded us, worries regarding a *slowing* economy can produce sharp declines in commodity prices.

Bottom-line: For those wanting more direct inflation protection than the standard SMI strategies provide, taking a little money out of stocks to put into commodities is an easy way to get it. It's reasonable to set up a Tracker portfolio now and familiarize yourself with the options, but there's no rush to add that exposure until the economic recovery is on steadier ground.

Hopefully, that happens sooner rather than later, but we suspect there's still some tough economic sledding ahead before any inflationary forces begin to be felt. ◆

[1]While these ETFs are cheap and easy to buy and sell, they aren't tax-friendly. It's better to avoid these within a taxable account.

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

YOUR ANNUAL MEDICARE-COVERAGE CHECKUP

If you have coverage under Medicare, the health insurance program for older Americans, a time of decision is at hand: Do you want to choose different—or perhaps additional—Medicare coverage for 2021? Medicare's "Annual Coordinated Election" (open enrollment) period is from October 15 through December 7.

During open enrollment, you can:

- switch from "Original" Medicare to a market-oriented Medicare Advantage plan or vice versa;
- move from one Medicare Advantage plan to another;
- enroll in Part D (prescription coverage) for the first time;
- switch from one Part D plan to another, or drop Part D.

If you like your current arrangement, you don't need to do anything. You'll be automatically re-enrolled for 2021.

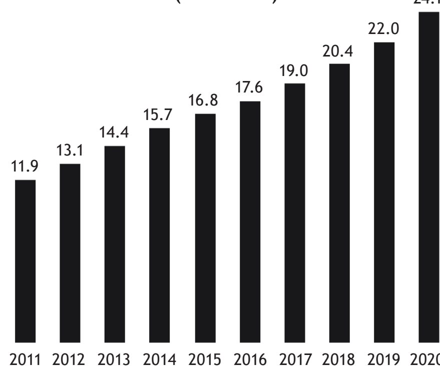
A Medicare refresher

Original Medicare, launched in 1965—and little changed since—consists of hospital insurance (Part A) and medical insurance (Part B). Many users also opt for Medicare-approved prescription coverage (Part D), available via private insurance carriers.

Further, about a third of participants enrolled in Original Medicare supplement the program's hospital and medical coverage via private "Medigap" policies that cover deductibles, co-payments, and certain other expenses not covered by Medicare.[1] If you want to add a Medigap supplement plan, you must contact a company that issues such policies. (Be aware that supplement plans are identified by letters too, such as "Plan A" and "Plan B." Don't confuse them with *Parts* A and B of Medicare.)

Finally, an increasing percentage of Medicare users are moving to Medicare Advantage plans (also known as Part C), created by Congress in 2003 as an alternative to Original Medicare. Such plans, offered by private insurance companies, are all-in-one offerings that mirror the benefits of Parts A and B, while also (in most cases) including prescription coverage. Some Medicare Advantage plans add dental, vision, hearing, and fitness benefits as well. Nearly 40% of Medicare's 62 million participants now choose an Advantage plan.

ENROLLEES IN MEDICARE ADVANTAGE
(in millions)



Source: Kaiser Family Foundation, based on data from the U.S. Centers for Medicare & Medicaid Services.

Satisfied? Shop anyway

Even if you're happy with your current coverage, it may be worth the effort to take a second look. You might save money, and get more benefits to boot, by switching from Original Medicare to a Medicare Advantage plan. Or, if you have an Advantage plan already, you may find out that another plan has "in-network" doctors and facilities that are more convenient to where you live or work.

It's especially important to compare plans if your health has changed. Perhaps you've been diagnosed with a health condition, and your doctor has prescribed a new medication. Ensuring that you have the right prescription-drug coverage (via a Part D policy or an Advantage plan) could save you money.

The Medicare website has a plan-comparison section (www.medicare.gov/plan-compare) that can help you find a prescription-drug plan or a Medicare Advantage plan that meets your needs. You can also use the site to shop for supplemental (Medigap) policies available in your area. A popular privately run site for comparing various Medicare options is www.PlanPrescriber.com. To *talk* with someone about choosing a plan, contact your state's health insurance assistance program (SHIP).

You can make changes to your coverage via www.Medicare.gov or by calling 1-800-633-4227 (1-800-MEDICARE). To contact the Medicare Advantage plan of your choice, use the contact information found on the comparison sites mentioned above.

If you miss the October 15-December 7 open-enrollment season and you're dissatisfied with your Medicare Advantage plan, you'll have another opportunity to make changes early in 2021. The annual Medicare Advantage Open Enrollment Period period runs from January 1 to March 31. During those months, you can switch from one Advantage plan to another (even if you just signed up for an Advantage plan during the October-December enrollment period). You also can switch from an Advantage plan back to original Medicare, while also picking up a Part D prescription-drug plan if desired.

A final word of advice. Be on guard against scam artists. In one common scam, someone claiming to represent Medicare will call stating that they are updating your coverage details and need your Social Security number to finish processing your file. Don't fall for it!

Learn more

For more details about Medicare, including a summary of benefits, coverage options, and answers to the most frequently asked questions about the program, download the 2021 edition of the "Medicare & You" handbook at www.Medicare.gov/publications. ◆

[1]Nov2017:p169

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 8/31/2020	Portfolio Invested in	MOM	Performance YTD	1Mo	3Mo	6Mo	12Mo	3Yr Avg	Rel Risk	Expense Ratio	Stock/Bond Mix 100/0	80/20	60/40	40/60	Ticker Symbol
Total International Stock	Foreign stocks	29.5%	-2.9%	4.3%	13.2%	7.6%	8.7%	2.5%	0.96	0.11%/0.08%	20%	16%	12%	8%	VTIAX/VXUS
Extended Market Index	Small company stocks	52.5%	7.0%	7.2%	17.9%	16.9%	17.7%	10.7%	1.32	0.06%/0.06%	40%	32%	24%	16%	VEXAX/VXF
S&P 500 Index	Large company stocks	57.0%	9.7%	7.2%	15.5%	19.6%	21.9%	14.5%	1.00	0.04%/0.03%	40%	32%	24%	16%	VFIAX/VOO
Total Bond Market Index	Medium-term bonds	10.5%	6.9%	-1.0%	1.2%	2.9%	6.3%	5.1%	1.00	0.05%/0.035%	None	20%	40%	60%	VBTLX/BND

JUST-THE-BASICS: JtB is an *indexing* strategy that requires just minutes a year to assure your returns are in line with those of the overall market. You won't "beat the market," but neither will you fall far behind. Depending on your particular stock/bond mix, your JtB portfolio should be allocated across either three or four traditional mutual funds/ETFs (see ticker symbols in rightmost column—performance data above is for traditional funds). For more on JtB, see Jan2019:p7-8.

RECOMMENDED FUNDS FOR SMI'S FUND UPGRADING STRATEGY

Risk	Data through 8/31/2020[1]	Date Added	E-Trade Avail[2]	Fidelity Avail[2]	Schwab Avail[2]	MOM[3]	Performance YTD	1Mo	3Mo	6Mo	12Mo	3Yr Avg	Rel Risk[4]	Exp Ratio	Number Holdings	Redemp Fee?[5]	Ticker Symbol
Category 5 Foreign	1. Morgan Stnly Intl Opp A - LW[6]	08/20	NTF	NTF	NTF	116.0	31.9%	7.3%	28.7%	41.0%	46.2%	18.7%	1.08	1.30	47	2% 30days	MIOPX
	2. Vanguard Intl Growth Inv	08/20	NTF	Yes	Yes	123.2	32.9%	8.8%	29.5%	40.2%	53.6%	17.6%	1.12	0.43	130	None	VWIGX
	3. PGIM Jennison Intl Opps Z	08/20	NTF	Yes	NTF	114.5	35.3%	7.2%	23.0%	41.2%	50.3%	21.1%	1.06	0.90	53	None	PWJZX
Category 4 Small/Growth	1. Baron Partners Retail	08/20	NTF	NTF	NTF	269.8	87.4%	32.8%	76.4%	75.7%	117.7%	39.7%	1.96	2.22	29	None	BPTRX
	2. Morgan Stnly Discovery A - LW[6]	08/20	NTF	NTF	NTF	200.7	91.0%	6.0%	36.5%	79.8%	84.3%	46.5%	1.63	1.00	46	None	MACGX
	3. Needham Sm Cap Growth	01/20	NTF	NTF	NTF	101.2	25.6%	0.6%	16.8%	31.7%	52.7%	24.3%	1.28	1.90	43	None	NESGX
Category 3 Small/Value	1. ☎ Hennessy Cnrstone Mid Cap 30	10/20	NTF	NTF	NTF	47.9	2.1%	7.1%	21.7%	14.5%	11.8%	1.1%	1.63	1.36	31	None	HFMDX
	2. Janus Henderson Contrarian T	08/20	NTF	NTF	NTF	49.4	6.5%	6.2%	15.3%	15.5%	18.6%	15.2%	1.24	0.81	44	None	JSVAX
	3. Miller Opportunity A – LW[6]	08/20	NTF	Yes	NTF	91.4	8.2%	9.5%	32.8%	25.4%	33.2%	12.6%	1.99	1.49	43	None	LGOAX[7]
Category 2 Large/Growth	1. Morgan Stnly Insight A - LW[6]	08/20	NTF	NTF	NTF	194.5	85.4%	8.3%	34.8%	73.9%	85.8%	44.9%	1.43	1.17	44	None	CPOAX
	2. Touchstone Cap Select Gwth Z	08/20	NTF	NTF	NTF	133.7	47.2%	9.3%	27.8%	48.6%	57.4%	28.3%	1.24	1.19	31	None	PTSGX
	3. Invesco QQQ Trust	02/20	ETF	ETF	ETF	129.0	39.2%	10.9%	26.6%	43.8%	58.6%	27.4%	1.10	0.20	104	None	QQQ
Category 1 Large/Value	1. JPMorgan Lg Cap Core Pl - LW[6]	08/20	NTF	NTF	NTF	70.5	16.6%	7.7%	18.4%	24.0%	28.1%	15.0%	1.05	1.92	287	None	JLCAX
	2. Invesco S&P 500 Top 50 ETF	02/20	ETF	ETF	ETF	83.9	19.9%	9.7%	20.6%	28.9%	34.4%	18.4%	0.99	0.20	53	None	XLG
	3. Centre American Sel Equity Inv	08/20	NTF	NTF	NTF	77.6	23.1%	7.0%	16.0%	29.9%	31.6%	14.2%	0.85	1.45	46	2% 90days	DHAMX
Bond Categories	Carillon Reams Core Plus[8]	05/20	NTF	NTF	NTF	28.2	14.4%	-0.1%	3.6%	11.0%	13.6%	7.3%	1.27	0.80	4.9[9]	None	SCPYX[10]
	Permanent: Vanguard I-T Bond	Perm	ETF	ETF	ETF	14.3	8.9%	-0.4%	2.0%	4.2%	8.1%	5.9%	1.17	0.05	6.5[9]	None	BIV[11]
	Permanent: Vanguard S-T Bond	Perm	ETF	ETF	ETF	7.7	4.4%	0.0%	0.6%	2.5%	4.6%	3.3%	0.44	0.05	2.8[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 September, rather than on the August-ending 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 the 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 apply 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 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, LGOAX isn't load-waived, but you may be able to purchase the no-load share class 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. **[12]** Those preferring a traditional mutual-fund option can buy VBIRX.

☎ See MoneyTalk column on page 156 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 Morgan Stanley Intl Opportunity, the highest-ranked Cat. 4 fund is Baron Partners Retail, 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%

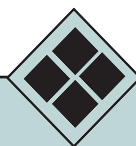
❸ BUY YOUR FUNDS

Example uses an 80/20 mix between stocks and bonds		Dollars	Invest in Funds
Stock Cat. 5: Foreign	16%	$8,000	Morgan Stanley Intl Opp A
Stock Cat. 4: Small/Growth	16%	$8,000	Baron Partners Retail
Stock Cat. 3: Small/Value	16%	$8,000	Hennessy Cnrstone Mid Cap 30
Stock Cat. 2: Large/Growth	16%	$8,000	Morgan Stanley Insight A
Stock Cat. 1: Large/Value	16%	$8,000	JP Morgan Lg Cap Core Plus
"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 — 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, defensive protocols trigger 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 (p. 154) and invest in the highest-ranked fund (in each risk category) that is available through your broker.]

◆ **In the Small/Value group, Touchstone Mid Cap Z (TMCTX, 5/2019) is being replaced.$** This Touchstone fund was recommended 16 months ago—which means it was highly ranked long *before* COVID, performed well enough to be kept when most of Upgrading's fund holdings shifted to cash earlier this year, and rebounded strongly enough to stick around for the first six months of the market rally! That's an impressive feat, and its performance reflects it: Between May 2019-August 2020, TMCTX gained +11.3%. That may not look particularly impressive, until you see that its average Small/Value peer *fell* -6.2% during that span.

We're replacing Touchstone this month primarily because it doesn't take as much risk as many of the funds now at the top of the momentum rankings. The relative-risk score for TMCTX is 1.04, roughly *half* that of Miller Opportunity and significantly lower than the 1.63 of the Hennessy fund we're adding in the Small/Value group. It comes as no surprise that more aggressive funds are likely to perform better in the type of spirited—and extended—rally we've seen over the past six months. But it's also reasonable to keep a wary eye on these relative-risk scores, especially within the value categories where some members may prefer a bit more downside protection even if it costs them some upside potential.

However, since there's no question that the more recently recommended funds—including this month's new recommendation below—have had much stronger recent returns than Touchstone, we're following our process and making the change this month in our official model portfolio. Even so, for those who prefer a less risky, but obviously strong "all weather" performer, we're putting the "$" designation on Touchstone, indicating we think highly of the fund and it's reasonable to retain it a bit longer. Just know that you'll need to monitor the performance of TMCTX via the Fund Performance Rankings each month as SMI will no longer track it with our Upgrading recommendations.

• **Hennessy Cornerstone Mid Cap 30 (HFMDX) is being added.[1]** There's a lot of "swing and miss" in Mid Cap 30's game, as its performance has tended to bounce back and forth between the best and worst of its category. In 2015, 2017, and so far in 2020, this fund performed near the top of its Morningstar risk category. But in 2016 and 2018-19, it was in the bottom 10%. Translation: if the market resumes its upward climb, HFMDX likely will continue its recent superior performance. But if the market trend changes and heads lower, this fund may not hold up particularly well.

This back-and-forth dynamic is largely a result of Mid Cap 30's rather unique structure. This fund is purely mechanical, constructed by running a series of screens to come up with 30 "medium"-sized companies that show both strong value characteristics and recent price momentum. The potential problem is that the portfolio appears to be rebalanced fully only once per year, although the prospectus does say that the screens can be re-run more often and up to three of the 30 stocks replaced at a time. That "safety clause" appears to be new since the last time we owned this fund—likely a nod to the type of criticism this approach has received in the past over its lack of flexibility. At any rate, it's still a significantly more rigid structure than most funds, given the lack of manager discretion to make changes in response to market events.

SMI last recommended this Hennessy Cornerstone fund in August 2015, which happened to come immediately prior to the first significant correction the market had experienced in a few years. Over the next few months, the broader market fell sharply but bounced back quickly, completing a -10% drop and recovery in roughly four months. Mid Cap 30, in contrast, lost less than the market initially but failed to rebound. Not surprisingly, the Upgrading process cut it loose after four months with a loss of -8.5%. (It's worth noting that the broader market would go on to experience *another* -10% correction just a couple of months later in early 2016, but the Upgrading process had us out of HFMDX well before that.)

The bottom line is Mid Cap 30's recent returns—including during the September market correction—have been significantly better than most other funds in the Small/Value group. That's why it's being added this month. Just realize that our track record with the fund indicates it can switch from in-favor to out-of-favor quickly due to its inflexible construction. It's unlikely, for example, that should market conditions swing wildly over the next several months we would see the type of nimble performance from this fund that we experienced over the last year with Touchstone. In the event that the market falls significantly, it's likely that this fund will underperform and be replaced quickly. ◆

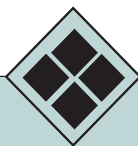
LEVEL 2 / CONTINUED FROM PAGE 151

DYNAMIC ASSET ALLOCATION WAS MADE FOR YEARS LIKE THIS

that "the race is not to the swift" (Ecclesiastes 9:11). While we'd all love to see our entire portfolios generating Sector Rotation-like average annual returns, few of us would be comfortable with the volatility required to achieve them. Far better to build a plan based on a realistic rate-of-return assumption, and importantly, a plan likely to maintain a level of volatility you can live with.

That's why, for those who are new to SMI, especially older and more risk-averse investors, starting out with DAA as your only strategy may be appropriate. However, over time, we

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



encourage most SMI members to transition to a blended portfolio, such as our 50/40/10 approach (50% DAA, 40% Fund Upgrading, and 10% Sector Rotation).[1]

One of history's lessons is that good times don't last forever and neither do bad times. By offering improved returns vs. Upgrading-only or DAA-only, while being less risky than the overall stock market, we believe blended portfolios like 50/40/10 offer the best combination of profit and peace of mind, no matter what's happening in the economy. ◆

SIGHTING: PEOPLE, GET READY

Retirement can sometimes feel like this amorphous concept, but just because we can't touch it or see it, doesn't mean we can pretend it's not real. We should have a sense of urgency about retirement because it's coming, and there are no do-overs.

The best time to start saving was as soon as you got your first paycheck. The second best time is now. – Michael Batnick writing at his *Irrelevant Investor* blog on 9/19/20. Read more at bit.ly/3iZuFe5.

SIGHTING: NEGATIVITY IS NOT AN INVESTMENT STRATEGY

I understand why people are negative about, well, everything. 2020 hasn't exactly been a walk in the park. There's plenty to worry about these days.

You could argue that the investing landscape has *never* been harder than it is today considering the level of interest rates around the globe.

But you still have to invest. You can't bury your money in your backyard or keep it all in cash when there is no such thing as a risk-free rate of return.

Complaining about the Fed is not going to help fund your retirement. Making fun of Robinhood speculators does not in fact create alpha. Being mad at the stock market for not dropping further during a pandemic doesn't help fund your child's 529 plan.

Any position you take in regards to your portfolio involves risk. Investing in stocks is risky. Bonds are also risky. Crypto, private equity, hedge funds, real estate and every other financial asset involve risk-taking to make (or lose) money.

But guess what else involves risk—doing nothing! In fact, doing nothing with your money is the biggest risk of all.

There are no guarantees when investing your money in risk assets. Maybe you'll lose a boatload of money investing in risk assets. In fact, you almost certainly will at times. There is no way to completely hedge risk out of the equation when trying to grow your capital.

There is a way to guarantee awful outcomes with your savings—complain about the markets and don't do anything with your money. If you never take any risk, you will never have enough saved for retirement. Being pessimistic and sitting on the sidelines at all times guarantees you will lose money to inflation over the long-term.

Complaining can be cathartic at times but it's not an investment strategy. You still have to invest in something if you wish to grow your capital.

– From a 9/20/20 post by Ben Carlson on his *A Wealth of Common Sense* blog. Read more at bit.ly/3kGwk8P.

SIGHTING: HOW TO THINK LONG TERM WITH NEAR-ZERO INTEREST RATES

A long-term environment with superlow interest rates can mean different things to different people—sometimes multiple things to the same person.

With the Federal Reserve signaling that benchmark, short-term interest rates would likely be held near zero until 2023, many may be reminded of the period following the last recession, when superlow rates lasted for seven years.

Now America's savers and borrowers face new, possibly more difficult choices. Over the previous decade, for example, the yield on safe 10-year U.S. government debt averaged about 2.4%, according to FactSet; today it is hovering around 0.7%.

Low rates may encourage some people to buy homes or refinance them, even as others consider delaying retirement or postponing other money milestones. Whether superlow rates present opportunity or peril depends on where you fall on the borrowing-saving spectrum. Here's how to think about near-zero rates for the next few years.

Mortgage rates are likely to stay low. The average rate on a 30-year fixed mortgage is 2.87%, near its lowest level in about half a century.

That is likely to spur more home buying, though caution is warranted. "I would never encourage someone to rush out and buy a home just because rates are low," said Mike Fratantoni, chief economist and senior vice president of research at the Mortgage Bankers Association....

Borrowers with good credit scores will benefit most from superlow rates. Meanwhile, those who save, invest or lend may suffer in this rate environment.

This is especially true when it comes to cash. Those with so-called high-yield savings accounts already saw rates drop when the Fed started cutting.

Another group that gets hit: those who are approaching a life event that requires holdings that produce a steady income stream. Examples are people with target-date savings vehicles, such as retirement or 529 education savings accounts. These typically shift more money into bonds and cash as retirement or college approaches. But those assets are now likely to yield far less and so will produce less income.

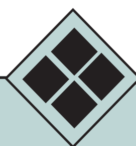
Diminished income streams may lead some people to delay retirement, or college....

While low rates may tempt some people to take on more risk, don't forget: We're still in a pandemic....

"Don't chase yield without being mindful of the risk," [certified financial planner Malik] Lee said. "We're still not out of the water with Covid. I'd caution people: Don't get greedy."

– From a 9/19/20 article in *The Wall Street Journal*. Read more at on.wsj.com/3mFfIjA.

[1] Apr2018:Cover. Since blending multiple strategies adds complexity, some SMI members may prefer an automated approach. See bit.ly/SMIPrivateClient.



MONEYTALK

SIGHTING: TOO MUCH STUFF

As a kid, I used to collect stuff—Lego, vacation souvenirs, stamps. That urge to collect has never completely left me. Over the years, I've amassed limited-edition prints, old economics books, presidential campaign posters and more. At one time, I even had a copy of every article I'd ever written, as well as a binder filled with all the student newspapers I edited while at Cambridge.

When I die, my children aren't going to want this stuff. In fact, much of it I don't want. Whenever I can unload some of these things without triggering too many regrets over the time and money wasted, I grab it.

All this is a reminder of why money spent on experiences, rather than possessions, is so much better for happiness. Possessions may deliver an initial thrill when they're first acquired, but all too quickly they can become a burden.

– Jonathan Clements, former personal finance columnist for *The Wall Street Journal*, reflecting on his biggest financial regrets in a 9/19/20 post at HumbleDollar.com. Read more at bit.ly/3coIPD6.

MARKET NOTES, QUOTES, AND ANECDOTES

The Fed calls for reinforcements

"Although Powell said the initial monetary and fiscal response was rapid and 'effective,' his 'sense is that more fiscal support is likely to be needed.' Without that support, 'there's certainly a risk…that will start to show up in economic activity.' It was a clear message to Congress." – Schwab chief investment strategist Liz Ann Sonders, highlighting Fed Chairman Jerome Powell's latest comments about the economic recovery. Read more at bit.ly/2ZWgMGi.

Managing expectations

"Needless to say, investors were not very optimistic about the future in 2010, and valuations were reflective of that. No one was expecting anywhere near 20% returns per year going forward. After what they went through, they probably would've been happy with a few percent per year. Today we have the opposite situation, where recessions are deemed to be a good thing (because it means more government stimulus and an easier Fed), IPOs [Initial Public Offerings] are doubling on their opening day, and SPACs [Special Purpose Acquisition Companies] are all the rage. It's hard to envision a scenario in which the future looks any different." – Charlie Bilello in a 9/17/20 post on his Compound Advisors blog in which he cautioned investors about unrealistic expectations. Read more at bit.ly/2H5FMnE.

A game that can't be won

"It is impossible to feel wealthy if your expectations grow faster than your income." – Morgan Housel, in a 9/16/20 Collaborative Fund post. Come for the insights into "obvious things that are easy to ignore"—about investing and more—and stay for the Sherlock Holmes quotes at bit.ly/35UkV1f.

"Steady plodding brings prosperity"

"For most investors, the ability to exploit near-term opportunities or react rapidly to changing market dynamics is a danger not an advantage." – Joe Wiggins, in a 9/2/20 post on his *Behavioral Investment* blog, in which he highlighted the benefits of adding some "friction" to investment decision-making. Read more at bit.ly/3mEWgUb.

Permabear perils

"You should not invest as if anything is guaranteed, including higher stock prices. But if you're consumed by negativity and always worried about what could go wrong, you're going to have a really hard time growing your portfolio." – Michael Batnick, in a 9/21 post on his blog, *The Irrelevant Investor*, pointing out that it's easy to be a pessimist, but it's not very profitable. Read more at bit.ly/345rvPZ.

They don't only go up

"If you want to earn big returns in the stock market, expect to live with big losses to get there." – Ben Carlson, in a 9/7/20 post on his blog, *A Wealth of Common Sense*. He pointed out that most of today's highest-flying stocks have suffered some breathtaking plunges as well. Read more at bit.ly/32NjIXw.

What could go wrong?

"This is not about civil liberties or voting rights; rather, these are expensive, opaque, and often underperforming assets that are difficult to understand and even more difficult to select. Equal access sounds good in theory but in actual practice it is a disaster." – Barry Ritholtz, weighing in on his blog, *The Big Picture*, on 9/18/20 in a debate about whether it's a good idea to allow retirement savers to invest in private equity. For other opinions on the topic, read the whole post at bit.ly/2ZKAtkb.

A long obedience in the same direction

"I will do what I've encouraged all of you to do. I'm going to obey God, and leave all the consequences to him." – The Rev. Charles Stanley, telling his congregation about his future plans in announcing his transition from pastor to pastor emeritus. The 87-year-old has pastored Atlanta's First Baptist Church for more than 50 years. Read more in this 9/13/20 *Christianity Today* article: bit.ly/3mxAeTe.

PREMIUM STRATEGIES

The strategies described below are available to SMI Premium-level members. They have characteristics that could make them desirable depending upon your individual goals, risk tolerance, and tax bracket. You can learn more about each strategy in the Premium section of the SMI website.

DYNAMIC ASSET ALLOCATION

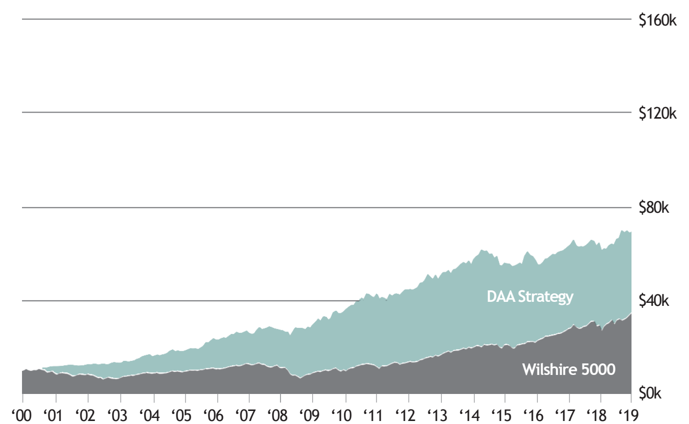
Overview

An investor can use Dynamic Asset Allocation (DAA) in combination with or in place of SMI's Basic Strategies. DAA is designed to help investors share in some of a bull market's gains while minimizing or even preventing losses during bear markets. It's a low-volatility strategy that nonetheless has generated impressive back-tested results over the long term. DAA involves rotating among six assets classes—U.S. Stocks, Foreign Stocks, Gold, Real Estate, Bonds, and Cash—by using exchange-traded funds (ETFs). Only three ETFs are held at any one time.

Who Should Consider This Strategy

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

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



Strategy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Avg[1]	Worst12[1]	Rel Risk[1]
DAA	7.1%	4.0%	10.4%	22.4%	19.3%	8.6%	25.7%	10.1%	1.3%	17.6%	20.3%	1.4%	13.9%	16.2%	13.0%	-6.8%	-0.5%	16.0%	-4.5%	13.7%	10.1%	-13.7%	0.62
Wilshire 5000	-10.9%	-11.0%	-20.9%	31.6%	12.5%	6.4%	15.8%	5.6%	-37.2%	28.3%	17.2%	1.0%	16.1%	33.1%	12.7%	0.7%	13.4%	21.0%	-5.3%	31.0%	6.4%	-43.3%	1.00

SECTOR ROTATION

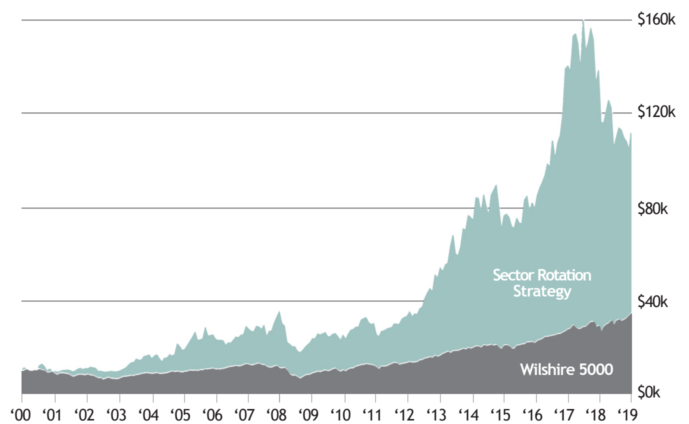
Overview

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

Who Should Consider This Strategy

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

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



Strategy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Avg[1]	Worst12[1]	Rel Risk[1]
SR	0.7%	3.7%	-13.1%	54.4%	12.6%	46.1%	-1.9%	28.1%	-31.5%	30.5%	9.1%	-3.2%	23.3%	65.7%	49.9%	-9.7%	16.9%	56.7%	-15.8%	-1.6%	13.0%	-38.6%	1.90
Wilshire 5000	-10.9%	-11.0%	-20.9%	31.6%	12.5%	6.4%	15.8%	5.6%	-37.2%	28.3%	17.2%	1.0%	16.1%	33.1%	12.7%	0.7%	13.4%	21.0%	-5.3%	31.0%	6.4%	-43.3%	1.00

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

PERIODICALS POSTAGE
PAID AT LOUISVILLE, KENTUCKY

Dated Investment Material
Please Do Not Delay!

PERFORMANCE DATA

SOUND MIND INVESTING MODEL PORTFOLIOS • DATA THROUGH AUGUST 31, 2020

BASIC STRATEGIES

	Year to Date	1 Month	3 Months	12 Months	3 Yrs Annual	5 Yrs Annual	10 Yrs Annual	15 Yrs Annual
U.S. Stock Market[1]	9.7%	7.3%	16.0%	21.8%	14.0%	14.1%	15.0%	9.5%
Just-the-Basics[2]	6.0%	6.5%	16.0%	17.5%	10.5%	11.3%	12.7%	8.5%
Stock Upgrading[3]	0.8%	8.6%	13.6%	6.7%	6.8%	8.4%	10.7%	7.7%
U.S. Bond Market[4]	6.8%	-1.0%	1.2%	6.2%	5.0%	4.2%	3.5%	4.3%
Bond Upgrading[5]	8.9%	-0.2%	2.5%	8.3%	5.2%	4.4%	4.6%	6.2%

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]	12.5%	0.6%	10.2%	11.7%	8.6%	7.3%	8.1%	10.0%
Sector Rotation	9.9%	18.6%	23.4%	11.4%	4.4%	9.5%	18.6%	11.7%
50-40-10 Blend[7]	7.6%	5.1%	12.7%	9.8%	7.7%	8.2%	10.4%	9.7%

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 8/31/2020	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	3.79%	8.90%	17.25%	9.53%	6.75%	7.49%	9.47%
Wilshire 5000	9.65%	7.31%	16.04%	21.79%	14.04%	14.07%	14.95%
S&P 500	9.74%	7.19%	15.48%	21.94%	14.52%	14.46%	15.16%

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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