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Financial Wisdom for Living Well

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How to Make Rational Investing Decisions

Investing involves setbacks, confusion, frustration, uncertainty, anxiety, and disappointment. How you respond to such things will play a key role in your success—or the lack of it. Your investment plan is more likely to succeed if you can overcome the common psychological challenges of investing. This article by investing veteran Paul Merriman showcases several tools that can help. But only you can apply these tools and keep yourself on the right path.

by Paul Merriman

It's relatively easy to prescribe an investment plan that is likely to work well if it's followed diligently. The hard part is keeping yourself from derailing your own plans. One of the biggest mistakes investors make is underestimating the power of their emotions. If you take the time to understand the psychology of successful investing, you'll make your life more pleasant and you'll probably have more money to spend in retirement and leave to your heirs. But if you ignore this topic, I promise you will pay for doing so.

Many investors get in and out of the stock market from time to time depending on whether they think prices are relatively high or relatively low. Some have mechanical timing systems to guide them, but many people believe they can successfully make their own decisions about when to get in and when to get out. In hindsight, the majority of such moves are counterproductive.

When stock prices are relatively high, financial risk is also high and the opportunity for gains relatively low. Yet high prices, ironically, mean low emotional risk for investors. People find it easy to buy investments that have been going up. On the other hand, when prices are relatively low, financial risk is also low; the opportunity for gains is high. But low prices mean high emotional risk. Again ironically, investors find it hard to buy low-priced investments that have been beaten up in the market and whose near-term prospects seem bleak.

There's no getting around one very basic truth about investing: The way to make money is to buy low and sell high. But our emotions, by trying to bring us comfort, work against us and try to persuade us to do the opposite. In the short run, comfort is very gratifying. But in the long run, comfort always has a cost.

Investors who crave quick, easy answers and peace of mind should expect lower long-term returns. Think about diet and exercise. It's no great mystery how to eat sensibly and exercise regularly. There's little dispute that doing so makes people healthier, happier, and likely to live longer. But knowing the right things to do is not enough. To get results you must somehow get yourself to do the right things, while you avoid doing counterproductive things.

Psychology is the key. If you just do *(continued on page 115)*

IN THIS ISSUE

114 Editorial / "Try not. Do, or do not. There is no try."

118 Level 1 / Making Student-Loan Debt Real—Before College Begins

119 Level 2 / Going Steady: The Advantages of a Systematic Investment Plan

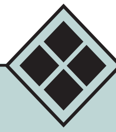
120 Level 3 / Mid-Year Review: Strong First Half Ends With Market Transition

121 Level 4 / The "Earnings Test": How Earned Income Can Affect Social Security

122 Basic Strategies **123 Upgrading: Easy as 1-2-3**

124 New Stock Fund Recommendations **127 Premium Strategies** **128 Performance Data**

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



EDITORIAL

"Try not. Do, or do not. There is no try."

— Yoda

With *Star Wars* back on the front burner of our entertainment culture via *The Mandalorian*, I am reminded of Yoda—not baby Yoda, but Yoda the Jedi master. Though small of stature, he loomed large in wisdom, and he had a way of getting to the heart of the matter. A philosopher, he was.

Let me get to the heart of the matter: The SMI staff and I are excited about the financial content and investing recommendations we bring you regularly. You get beginner-to-intermediate level articles that build your understanding of sound financial practices and principles, and four easy-to-implement investment strategies that range from very conservative to very aggressive for use in various seasons of life. All for under $170 a year (or just $99 for a Basic Membership!). C'mon, you've got to admit that's a pretty great deal.

And yet over the past 10 years, for every 100 new subscribers who "try" SMI, roughly 50 of them leave our ranks after the first year. Admittedly, some of those folks may have good reasons for departing (such as switching to SMI Private Client[1]). But based on reader feedback, we know that many just don't seem to be willing to change from their present way of doing things to a new way of planning, giving, saving, investing, and spending.

For most of us, change is hard. We may know we should change, want to change, and even begin the process of change, but seeing the effort through until new attitudes and habit patterns are established and change is actually accomplished takes time as well as commitment. And who among us has a lot of extra time on their hands?

COMMON FINANCIAL QUADRANTS

	Urgent	Not Urgent
Important	Pay Bills Balance Checkbook Monthly Upgrading 1	Annual Budget LT Investing Strategy Retirement Planning 2
Not Important	3 Monitor Investments Daily Read/Watch Financial News	4 Read Fund Prospectuses and Reports Most Internet Financial Surfing

The Seven Habits of Highly Effective People by Steven Covey has sold over 40 million copies.[2] In it, Covey explains a way of thinking about time management used by top-level business and ministry executives around the world. He divides the way in which we spend our time into four groups, distinguishing between tasks that are important versus those that are not, and tasks that are urgent versus those that are not:

• Quadrant 1 are things of importance happening right now or very soon—dealing with a crisis or problem, or meeting an important deadline. They demand our attention.

• Quadrant 2 items are also important, but they don't have a "must do now" imperative associated with them. Most planning, preparation, and problem prevention activities fall here. Nothing *obviously bad* happens if we don't quite get around to them this week, month, or year.

• Quadrant 3 activities—phone calls, interruptions, much email, some meetings—also take up our time, but they're usually not helpful. We should ignore these more than we do.

• Quadrant 4 items are, by definition, optional. They're neither pressing nor important. We can save valuable time here if we choose to omit them. They include most online activities, TV viewing, and various busywork.

Covey maintains that Quadrant 2 items are the critical ones. They're easy to postpone, but they have important long-term consequences. Investing time here requires discipline, but it offers the greatest returns—in family relationships, career advancement, and financial rewards.

Subscribing to a service like Sound Mind Investing shows an openness to change, possibly even an awareness that change is needed. But when it becomes apparent to the newer reader that a time commitment is required to work one's way through the Four Levels process and get on the road to financial security, many fall by the wayside. "I found I just wasn't reading it each month" and "I don't have the time" are the two most common responses from those who don't renew their subscriptions.

If this describes you, it's not too late to make changes. You've got us coming alongside you regularly with biblically based guidance. You know you've got the time—you can take it from Quadrants 3 and 4. And you've got the encouraging example of others like yourself who have gone before you—the multiple thousands of subscribers who have been with SMI for five years or longer. They've made the effort to become Quadrant 2 people.

Join them, and someday thankful you will be!

AUSTIN PRYOR
FOUNDER/PUBLISHER

NECESSARY CAUTIONS
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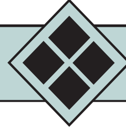


How to Make Rational Investing Decisions

(continued from front page)

what you feel like, you'll most likely eat too much, you'll eat the wrong things, and you won't exercise as you should. What "feels good" at the moment is usually a lousy guide to what's really in your best interest. This is just as true of investing as eating.

Throughout your life as an investor, you will be goaded by the media, which will do its best to keep stimulating you with entertainment that's carefully disguised to look like insight and advice. The aim of the media is not to help you. It's to keep you coming back for more—to deliver your attention to advertisers. Unless you realize this, you will be constantly misled.

You can be sure that the investment profession understands psychology very well. Wall Street doesn't really care how you invest your money. The industry's primary goal is to get you to change whatever you're doing. That's how Wall Street makes money. To that end, investors are barraged night and day with sales pitches, some obvious and some masquerading as objective investment advice or insight. All of it is designed to get people to buy and sell. To be a successful investor, you'll have to figure out how to deal with all that.

Your style in the driver's seat

Investing is in some ways like driving a car. The route you need to take may be pretty straightforward, but your attitude, skills, and psychological makeup will play a major role in shaping your actual experience of the journey. When it's your money at stake, you should be the one in the driver's seat, even if you are taking directions from someone else. The best way to keep your hands on the wheel is to have a plan that will work for you and then stick to it. The best way to do that is to know the difference between your financial needs and your emotional needs.

Ultimately, the solution to many investors' psychological challenges is pretty simple. Because your emotions will never be a reliable guide, your best bet is to put it all on automatic. That means automatic savings, automatic investing, automatic asset allocation, automatic rebalancing, and automatic distributions in retirement.

There's an interesting parallel between the way people drive and the way they invest their money. Good drivers practice defensive driving techniques. If you know what to look out for on the highway, you can greatly improve your chances of getting to your destination safely. I want you to be a good defensive investor. To do that, there are three things you need to watch out for—your own emotions, the manipulations of Wall Street, and the misleading media. On one level, investing is about knowing the right things to do, then doing them.

But in the real world, investors are driven more by emotions than logic. Mark Hulbert, a *New York Times* and MarketWatch columnist whose business has been to study investment newsletters since 1980, said it well during an interview on my Internet radio show: "Our intellect is basically no match for our emotions. As we see over and over, emotions will trump the intellect almost every single time."

As an investor, your emotional adversaries are likely to be fear, greed, impatience, and frustration. How you deal with them will have a huge effect on how much money you are at risk of losing. Impatience can be deadly.

In traffic jams, impatient drivers often pay lots of attention to what lane they are in and how other lanes are doing in relation to theirs. If the other lane seems to be moving faster, they will often swerve over to cut in front of somebody else. Some drivers do this repeatedly, taking every opportunity to gain some small advantage for themselves. Those drivers may gain a few seconds. But in the process, they raise the level of danger and annoyance to themselves and everybody around them. In investment terms, drivers like that take on much more risk in return for uncertain (and often elusive) gains.

Impatient investors often watch the market like hawks. They want results, and they want them now. Impatient investors are easy prey for the investment industry. They can be lured to change lanes, then change lanes again, always seeking a competitive advantage. Unfortunately they often wind up as "road kill," retiring to the shoulder of the road with their capital in money market funds while their more patient counterparts build wealth in the slower lane.

Patient investors may wait for decades before they reap their rewards. But they are more likely to be able to retire comfortably—and more likely to sleep better along the way. So here's a piece of advice that may be worth remembering: Every time you invest some money, remind yourself to invest some patience along with it. You will be rewarded.

When you drive, you have a certain style. You may not notice your style, but I promise you that the people who ride with you do. There's a certain amount of frustration you are willing to tolerate from other drivers who don't behave as you think they should. And there's a way you react when that frustration exceeds your limit. On a clogged freeway, do you weave from lane to lane or rush to the next exit hoping to find a better route that other drivers haven't discovered? Many people change their investments mainly to relieve frustration. The odds of success are not in their favor.

Watch out for your expectations

An important part of dealing with your emotions is managing your expectations. Of course you want to make money from your investments. And if you follow a sound investment plan, you will. But I can guarantee this: You won't make money all the time. Unless your investments are limited to Treasury bills or other cash equivalents, your investments at some point will go down in value. What matters is not whether that happens but how you deal with it.

In fact, you should hope you don't make big gains on your investments right away. The reason is psychological, not financial. If you make a lot of money quickly after you invest in something, it will almost always be a random event. But to your mind, that random event will seem very important if it happens in the first hours, days, or weeks of your investment.

I've observed over the years that investors are much more likely to stick with investments that "reward" them very early

in the game. If a fund shoots up 10 or 20 percent in the first six months you own it, at some level you will develop an emotional bond with it. This bond will cloud your judgment. No longer will this fund be merely a tool that you use to accomplish something. Instead, it will have become an ally or a friend, something you feel you can "trust" to take care of you. On the other hand, even the best investment plan in the world can have very little emotional appeal if it loses money in the first six months that you own it. You will develop an emotional aversion. You'll start to regard this investment not as a tool but as a bad idea, a sort of adversary that gives you bad vibes.

Your goals should be sensible

One of your most important psychological allies will be a set of smart goals. Many people say their objective is to beat the market. But I don't really believe that, and I'll tell you why. If all you want is to beat the market, then in a year when the market (however you define it) is down 40 percent, you should be supremely happy to lose "only" 35 percent of your money. Do you know anybody who would brag to his or her family about losing 35 percent? I don't. In a good year, if the market is up 30 percent, you'd be compelled to complain to your family if your portfolio went up only 25 percent as if you were a failure.

If you aren't clear about your objectives, you can experience anxiety no matter what results you get. To investors, anxiety is a powerful force that can tempt you to switch investments when you shouldn't.

Veteran investors know that the market does not reward all investors at the same time. Older investors should want higher stock prices so they can convert their investments into cash for living expenses. Younger investors should want lower prices so they can buy a piece of the future at a reduced price.

What should your objective be? There's no right answer for everyone. The only wrong answer is to have no answer, or to believe that you can and should achieve every possible financial goal at the same time.

Watch out for Wall Street

Even when you have your own emotions under control, you've still got to deal with Wall Street. Managing risks is at the heart of successful investing, and you should always focus your attention on this when you're considering a new investment. But you'll rarely find an investment adviser who wants you to do that. The investment industry has learned that when people confront the emotions associated with losing money, most folks will flee before a salesperson can make a dime in commissions.

The industry doesn't want to talk about preparing you for the inevitable bad times, even though that is what you need. The industry just wants to make money while there's money to be made. That happens when commissions are generated, and that happens when you do something. Optimism sells, and it's no accident that Wall Street is organized to make you think higher returns are just a transaction away. If you just sit tight, your broker doesn't make any money. Everybody in the business has a better idea for what you should do with your money, and they're all eager to do it for you.

As investors, we can choose every day from thousands of mutual funds, thousands of managers, thousands of individual stocks as well as many other financial products and plans. It's easy to be a frequent trader. If you wake up in the middle of the night with an investment idea or fear, you can find a broker who will execute a trade for you immediately on the Tokyo or London exchanges.

The industry is highly motivated and highly trained (to say nothing of highly compensated) to do whatever it takes to get your money under management. Competition is fierce, and the sales and marketing forces will use every trick they can to lure you to sign on the dotted line.

Watch out for the media

Anxiety, one of an investor's major enemies, is goaded by the media. The job of the media is not to look out for your interests and make you a better investor. Perhaps you think the folks at *Money* and other financial websites have done your homework for you. Unfortunately, that's not how it really works. In real life, the job of the media is to keep your attention for the benefit of advertisers. As if that wasn't bad enough, many of the articles in the financial media were spawned in the public relations departments of mutual fund companies, brokerage houses, or other firms that make and sell financial products.

Media companies learned long ago that it's next to impossible to sell magazines and newspapers, or to build audiences for television shows and websites, unless they have something new, different, exciting, and better. Which would you pick up first—a magazine promising to tell you about a hot new investment or a magazine with a cover story saying a 25-year-old investment plan is still the best one?

Every hour, every day, every week, every month the media have to hawk something new and different. If you are persuaded to buy a fund or a stock this month, you've got to be tempted to do something else next month. Otherwise, you'll be just one less reader (or listener or viewer) who can be delivered to advertisers next month.

The media offer a parade of experts who slice and dice every part of the financial world before your eyes and ears, often 24 hours a day. And how useful are all these experts? Not very. For any financial topic you can think of, I could find at least two highly qualified experts who would take opposite positions on the meaning of any particular situation. The media like to quote these people's views as if they were facts instead of interpretations and guesses.

Some big brokerage houses employ people whose only job is to answer media questions about the pulse of the market. None of these people has any reliable way to know why the market is doing whatever it's doing. But does that stop them? Not a bit!

The restless client

I want to tell you a story about a client who couldn't separate his carefully plotted strategy from what was happening in the broader market.

After extensive discussions with this very smart client, we set up a worldwide balanced account for him with four equally weighted categories of assets: U.S. stocks, U.S. bonds, international stocks, and international bonds. We expected this mix would give him just the right combination of limited risk along with reasonable expected returns that would meet his needs. There was no question that he completely understood what we were doing.

About six months later, he called to say he was quite upset that his account was underperforming the Dow Jones Industrial Average, which had been doing quite well and which had been in the media spotlight. On a rational level, this client's complaint made no sense. Half his portfolio was in bonds, and only 12.5 percent was invested in large-cap U.S. stocks like the 30 that make up the Dow Jones index. There was no way his portfolio could mirror the Dow. What could he have been expecting?

When I reminded him that we purposely set up his account to make sure it did not match the Dow, he assured me he understood that on an intellectual level. But his anxiety was not based on reason. His emotional side told him that he had come to an investment professional for money management, and now he felt as if we were not on top of his account and the market.

His emotional reaction was akin to turning on your car radio when you are stopped cold on a freeway, and then getting angry when you hear that several other freeways are wide open. It's an understandable reaction, but not very rational and not very useful. We worked through this issue with him, and he stuck with his carefully crafted plan.

There are always two lists

Many people think they have to figure out whether the market is too high or too low. But can they do it? Let me describe a mental exercise I do for fun every now and then, one I often present in the workshops I lead. I call it "the two lists."

The folks on Wall Street always have an "A" list of reasons the market is almost certainly going up and a "B" list of reasons it's almost certainly headed downward. Every item on each list is plausible and seems important. I usually believe everything on each one. The problem is that the "A" list is just as solid as the "B" list, and vice versa. All the changing and conflicting items on these lists give you no rational basis for making investment decisions.

For example, here's a 2021 version of the two lists:

A. Reasons the market will go up: The post-pandemic reopening in the U.S., and eventually elsewhere in the world, will continue to release pent-up demand, driving robust economic activity and higher corporate earnings. Concerns about inflation will wane as supply bottlenecks ease and stimulus impacts fade. Interest rates remain near historic lows, which will continue to drive money toward stocks as investors—including millions of younger people who are new to the investing game—seek a decent return on their money.

B. Reasons the market will go down: Market valuations are too high and a time of reckoning is overdue. Once the post-pandemic pent-up demand is satisfied, economic growth will slow markedly. Higher taxes from Washington will sap profitability and put downward pressure on stock prices. Inflation will persist, aided by a falling dollar and massive government spending. Inept policy moves by both the government and the Fed could spark a return to 1970s-style "stagflation"—an extended period of higher prices but with little economic growth. All of these things will make political and social instability even worse, further spooking investors.

Each of those lists could be expanded by a mile. If you had to choose one of them, how would you do it?

Unfortunately, many investors don't know what they believe and why they believe it. As a result, they adopt a view of the market based on who they heard when they happened to be in a receptive mood. I hate to think how many people make major decisions that affect their financial future based on somebody's personality or charm or the emotional content of a particular point of view. The right way to deal with most broadcast financial journalism is to either change the station or turn off the radio or TV. The wrong way is to make investment moves based on what you see or hear on these programs.

My answer to dealing with your emotions

Here's the straight scoop: From time to time you will know exactly what you ought to do as an investor. And you simply won't want to do it. The solution is to put your investments on automatic pilot. Have money deducted from your paycheck and deposited in a 401(k) account or automatically withdrawn from your bank account and put into a mutual fund's automatic investment plan. Make this decision once, not every time you get paid. Pay yourself first (before you spend any money) and pay yourself automatically.

There will be times when you'll want to follow some interesting idea you hear about. Don't do it. To remove (or at least greatly reduce) temptation, make sure your new investments are automatically being allocated in the right way. There will be times when you won't want to go to the trouble of rebalancing. If you can, make this happen automatically once a year.

Your best defense against your emotions and against the influences of Wall Street and the media is to get things figured out once, then let other people and their computers carry out your wishes. That will make your life a lot more pleasant. And it will certainly make you a better investor. ◆

Adapted from Live It Up Without Outliving Your Money! — 10 Steps to a Perfect Retirement Portfolio by Paul Merriman. Copyright 2005 by Paul Merriman, Inc. Used by permission.

Paul Merriman is the founder of Merriman Wealth Management, a money-management firm in Seattle. Now retired from the firm, he is dedicated to educating investors, young and old, through weekly articles at MarketWatch.com, and via free eBooks, podcasts, articles, recommendations for mutual funds, ETFs, 401(k) plans, and more, available at www.paulmerriman.com.

Mr. Merriman's latest book, written with Richard Buck, is We're Talking Millions! — 12 Simple Ways to Supercharge Your Retirement (2020), available from booksellers in print, eBook, and audio formats. You can download a free PDF version at paulmerriman.com/signup/.

Paul Merriman serves as the president of the Merriman Financial Education Foundation, a foundation he established in 2012.

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

MAKING STUDENT-LOAN DEBT REAL—BEFORE COLLEGE BEGINS

With federal student-loan payments set to resume soon, following a pandemic-inspired moratorium, millions of borrowers will again have to face up to the hard facts about how much they owe.[1]

Many college students (and their parents) take out loans to help pay for college. While it would be ideal to avoid borrowing, that may not be possible. But here's one part of the education loan process that's not only possible, it's essential: *know what you're getting into*. A recent survey shows that many people are taking out student loans without understanding the details. Here are critical points all student loan borrowers need to understand.

Counting the cost

In 2009, Gallup and the private education-loan provider Sallie Mae conducted a survey, asking borrowers if they took the student's expected starting salary into consideration or if it made a difference in deciding whether or how much to borrow. Nearly 60% said no. Since then, it doesn't seem as though much has changed.

From 2004 to 2019, while a slightly lower percentage of students graduating with a bachelor's degree have student-loan debt (65% vs. 62%), the average amount of debt per borrower has increased from $18,550 to $29,950.[2] And before the COVID-19 pandemic, 11% of student loans were delinquent (no payment for at least 90 days) or in default (no payment for at least 270 days).

Especially for a young person with little financial experience, borrowing $10,000 or $20,000 can seem like funny money. But it's real and such loans have long-term consequences. Fortunately, they come with monthly and total costs that are easy to figure out.

If your son or daughter takes out a $10,000 federal subsidized loan (more on this in a minute), its interest rate will be 3.73% and the standard repayment plan will have them paying it off in 10 years.[3] After they leave school (graduate, drop down to less than half-time status, or drop out), and after a six-month grace period, they will be required to make monthly payments of $99.97. By the time the loan is paid off, they will have spent $11,996 for that $10,000 loan.[4]

Before agreeing to a loan, it would be wise to consider this foundational question: Will it be affordable? While this part of the equation is far less certain, it's possible to estimate how much a college student may earn after graduation and use that to create a first-year budget.

The average annual salary for today's new college grads is about $50,000. Of course, that varies a lot, depending on their field and many other factors. Still, you can get an estimate on the website for the U.S. Bureau of Labor Statistics' *Occupational Outlook Handbook*[5] or at Salary.com. According to the government site, a newly-minted graphic designer can expect to earn a starting salary of $40,000 to $60,000. Studying chemical engineering? According to Salary.com, entry-level jobs in that field pay a median salary of close to $80,000. You could then use SMI's recommended cash flow guidelines[6] to put together a first-year post-college budget and better understand the ramifications of a student loan.

Standard advice says student loan payments should take up a *maximum* of 10% of a young person's projected after-tax income in their first year out of school. However, that advice is unlikely to account for giving—or even adequate saving and investing—so be sure to consider those priorities when drafting a budget.

What are the terms?

Here are the four most common types of student loans and how they differ.

- **Federal subsidized loans** are for undergrads with demonstrated financial need. The U.S. Department of Education covers the interest while students are in school at least part-time and during a six-month grace period after they leave school. So, with this type of loan, if you borrow $10,000, that'll be the balance when you start making payments. The interest rate is fixed at 3.73%.
- **Federal unsubsidized loans** are for undergrads and grad students who do not have a demonstrated financial need. "Unsubsidized" means interest begins accruing right away at a fixed rate of 3.73% for undergrads and 5.28% for grad students. According to a 2019 survey from Student Loan Hero, 46% of federal unsubsidized loan borrowers did not realize that interest accrues while in school. In fact, 49% didn't know the interest rate on their loan.[7] One way to keep the loan balance from growing is to start paying at least the interest while still in school.
- **Federal PLUS loans** are for parents of dependent undergrads. These are relatively easy to acquire—and costly. Although a credit check is required, eligibility isn't based on financial need or ability to repay. One can borrow up to the cost required to attend, minus other financial aid received. The interest rate is fixed at 6.28%. Although parents can request deferment until their child leaves school, interest will accrue during deferment. In addition, such loans come with an upfront "origination" fee of 4.228%, which immediately increases the balance.

Easy access to PLUS loans, their high interest rate, and the fact that interest on these loans accrues during deferment help explain why people older than 60 make up the fastest-growing segment of student-loan debtors. (Most older student-loan borrowers either took out a PLUS loan or co-signed for a child's private student loan that they've now become responsible for.) *(continued on page 125)*

[1]A payment moratorium is scheduled to expire in September but could be extended. [2]See bit.ly/2VHKK1c [3]Data from the Dept. of Education at bit.ly/3xB7ZrX [4]Free student-loan calculators are available online, such as at bit.ly/3khusGP [5]www.bls.gov/ooh/ [6]soundmindinvesting.com/resources#downloads [7]bit.ly/2Um7sM1

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

GOING STEADY: THE ADVANTAGES OF A SYSTEMATIC INVESTMENT PLAN

An exclusive dating relationship was once called "going steady." That phrase may not make the cut anymore when it comes to designating one's "relationship status." Still, it's a helpful way of describing another serious and sustained commitment: making regular investments.

The "going steady" approach to investing involves having a predetermined amount of money regularly transferred from your bank account to an investment account. Investing the same amount on a recurring basis is known as dollar-cost averaging.[1]

Here are six advantages of automating your investing in this way:

1. Self-discipline. A systematic plan causes you to factor long-term investing into your budget. You are setting aside regular "installment" payments toward your future financial security.

2. No time like the present. Automated investing eliminates the need to ask the question, "Is this a good time to buy stocks?" That question (unanswerable except in hindsight) tends to act as a barrier to making investing commitments. A "going steady" plan assures you'll invest consistently, even when the market is falling.

3. More for your money. When fund prices are low, your monthly investment will stretch farther and you'll buy a greater number of fund shares. When prices are high, you'll buy fewer shares. While this dollar-cost averaging approach doesn't protect you against losses, it will push down the average cost of your shares.

4. Efficiency—if purchasing fractional fund shares. If you invest via traditional mutual funds, every cent of your systematic investments will be put to work right away. That's because traditional funds are sold in *fractional* shares. For example, if you invest $100 in a fund selling for $17.42 a share, the fund organization will credit your account with 5.74 shares ($100.00 divided by $17.42 = 5.74).

In contrast, exchange-traded funds (ETFs) typically must be purchased in *full* share amounts. So while your $100 would buy five whole shares (assuming the $17.42 price mentioned above), you'd have $12.90 remaining that couldn't be invested until you added more money. (Fidelity is among a handful of brokers now allowing fractional-share purchases of ETFs and stocks.[2] However, Fidelity doesn't permit ETF or stock purchases via automatic investment.)

5. Peace of mind. Making small monthly commitments is more comfortable emotionally than putting a lot of money at risk all at once. If the market falls after your monthly purchase, you can take it in stride, knowing that if the downturn persists, you'll be able to buy a greater number of shares the following month. If the market rises after your monthly purchase, you'll feel good about having made an immediate profit!

6. Ease of getting started. At most brokerage firms and fund companies, you can open an investment account with a relatively small amount or with no upfront money at all. Further, the minimums for monthly transfers are modest (see table).

Systematic investment and the SMI strategies

The SMI strategy most compatible with the "set it and forget it" nature of systematic investing is Just-the-Basics. Since the JtB recommendations don't change, you can make systematic investments directly into the JtB funds (if using our non-ETF recommendations).

In contrast, Fund Upgrading and Dynamic Asset Allocation recommendations are subject to change as they attempt to stay in *(continued on page 125)*

MINIMUMS NEEDED FOR SYSTEMATIC-INVESTMENT INVESTING

Organization	Minimum to Open Account	Minimum to Open with Auto Deposit	Minimum Monthly Deposit	Phone	Web
SMI Funds	$500	No minimum	$100	877-SMI-FUND	smifund.com
E-Trade	No minimum	No minimum	No minimum	800-387-2331	etrade.com
Fidelity	No minimum	No minimum	$10[3]	800-343-3548	fidelity.com
Schwab	No minimum	No minimum	$100	866-232-9890	schwab.com
TD Ameritrade[1]	No minimum	No minimum	No minimum	800-454-9272	tdameritrade.com
Vanguard	$1,000 or $3,000[2]	$1,000 or $3,000[2]	$100	877-662-7447	vanguard.com

[1]TD Ameritrade is owned by Schwab, but the firms operate separately for now. [2]Vanguard's opening minimum depends on the initial fund chosen. For certain 529 Plan college-savings accounts, opening minimums are as low as $1-$50. [3]The minimum transfer at Fidelity is greater than $10 for some funds and account types.

[1]Mar2021:p39 [2]Fidelity implemented fractional-share trading of ETFs and stocks last year. See Dec2020:p183.

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

MID-YEAR REVIEW: STRONG FIRST HALF ENDS WITH MARKET TRANSITION

Stock market gains of the degree experienced since the end of the COVID bear market last year are exceedingly rare. From the March 2020 lows, the S&P 500 had gained over +90% through June 30, 2021. SMI investors have seen huge increases in their portfolios over the past 12-16 months.

However, it certainly hasn't been a case of everything moving up in unison. There have been distinct shifts in the market along the way. From April-September 2020, the largest tech stocks were the runaway leaders. Then in November, the market pivoted sharply on the news that COVID vaccines would be arriving soon. This "re-opening trade" boosted the prices of stocks that stood to benefit most from the resumption of physical economic activities (value stocks and commodities) while also boosting the general risk appetite of investors, driving small-company stocks rapidly higher.

As 2021 has progressed, we've seen a narrowing proportion of stocks participating in the continuing rally. First, the most speculative stocks ran into trouble starting in February. Then small-company stocks started slowing down during the second quarter of 2021. And since mid-June, that has extended even to large-company stocks, with the average S&P 500 constituent losing ground even as the largest stocks have continued to push the overall index higher.

Bonds have been signaling a transition as well (although, admittedly, it's difficult to decipher signals from the bond market anymore given the massive direct purchases of Treasuries by the Federal Reserve). Interest rates soared from August 2020 through March 2021, reflecting the economic optimism of the re-opening trade. But after peaking in March, the 10-year Treasury yield sank from 1.75% to below 1.20% by mid-July. Normally, this would be a clear signal that bond investors expect lower economic growth in the future.

So while the economy is still growing strongly and the broad stock market arrived near its all-time high at mid-year, it's clearly a market in transition. That's not surprising, as we've expected the market to shift from a "hyper-growth" state immediately following the big recession/bear market into a more normal growth environment. But while expected, it's still something for investors to be aware of and factor into their thinking.

(You can read more about the changes we're making to Stock Upgrading this month in response to these evolving market dynamics on page 124.)

Just-the-Basics (JtB) & Stock Upgrading

Both JtB and Stock Upgrading have posted strong absolute gains this year.[1] Through mid-year, JtB gained +14.25%, slightly less than the U.S. market (Wilshire 5000, +15.45%).

Zooming out six more months to look at returns over the 12-months ended June 30, 2021, is enlightening. Over that longer period, JtB led the broad market by a +48.4% to +44.2% margin. While foreign stocks have been a drag on JtB's performance over both time intervals, the main thing this shows us is the relationship between large and small stocks. Over the past year, JtB's overweighting of small-company stocks (small-caps are evenly weighted with large stocks in JtB, whereas the broader market is heavily tilted toward large company stocks) has been beneficial, thus its stronger 12-month return. But looking just at the more recent six months, larger stocks have performed better relative to smaller stocks.

We see this dynamic even more clearly in Stock Upgrading's returns. Its 12-month performance of +45.9% beat the market (+44.2%) despite Upgrading spending July 2020 still largely in cash. This was largely due to Upgrading's significant allocations to small company stocks. But its gain of +11.4% over the first six months of 2021, while wonderful in absolute terms, trails the large-stock dominated indexes, showing how small stocks have surrendered their market leadership position in 2021.

The other huge story for Stock Upgrading in 2021 has been the incredible performance of commodities, which gained +31% in the first half of 2021! Unlike small-company stocks and value stocks, the broad commodities index didn't decline much as mid-year approached. But we did see more dispersion among various commodities as oil/gas continued to rise while the agriculturals and metals pulled back. Adding commodities to Stock Upgrading at the end of 2020 has been one of SMI's best moves this year.

Bond Upgrading

When interest rates start to rise from super-low levels, it creates a difficult dynamic for bonds. Bonds don't produce much income when yields are so low, and as yields rise, bond prices fall. Not surprisingly, then, the broad U.S. bond index has posted negative returns over both the past 6-months (-1.6%) and 12-months (-0.3%).

Bond Upgrading did a little better than that for most of the past year, but then lost part of its performance edge over the broader market after the so-called "Fed flinch" in June regarding future inflation. Backing away from its prior "let inflation run hot" rhetoric, Fed leaders backed down ("flinched") in the face of higher inflation numbers and admitted they might tighten policy sooner than expected. Short-term rates rose sharply while long-term rates fell further on the sudden pivot.

Over the past 12-months, Bond Upgrading managed a small positive return of +0.5%, which was better than the broad bond *(continued on page 125)*

[1] Performance updates for 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

THE "EARNINGS TEST": HOW EARNED INCOME CAN AFFECT SOCIAL SECURITY

With an increasing number of people planning to work well into their 60s and beyond, it's important to understand how the amount of money you earn in your later years can affect your Social Security (SS) benefits. The interplay between *the age at which you start claiming benefits* and *how much income you earn by working* could lower your benefits—and perhaps increase your taxes.

The impact on your benefits

With Social Security, there are three key ages to be aware of. Age 62 is the earliest a person is eligible to claim retirement benefits, although doing so will permanently lock in the lowest possible monthly payout. Then there's "Full Retirement Age" (FRA)—that's age 66 for people born between 1943 and 1954. The FRA then increases in two-month increments until reaching age 67 for people born in 1960 or later.[1] Full Retirement Age is when a person becomes eligible for what the Social Security Administration describes as "full" benefits. Lastly, there's age 70. Waiting that long to claim benefits will result in a monthly benefit about 25%-30% higher than than the "full" benefit available at one's FRA.

If you wait until at least your Full Retirement Age before claiming Social Security, any money you earn by working won't affect the size of your monthly benefit. However, if you claim *before* your FRA, while also earning income, you will trigger Social Security's "earnings test" that could reduce your benefits.

Let's take the current year as an example. If you claim SS benefits in 2021 but won't reach your FRA until *after* 2021, the law allows you to earn up to $18,960 with no reduction in benefits. (The earnings threshold increases each year.) Above that amount, $1 will be deducted from your benefits for every $2 you earn.

However, if you will reach your Full Retirement Age at any point during this year, you can earn much more—up to $50,520—before seeing a benefit reduction. If your earnings exceed that threshold, the Social Security Administration will reduce your benefit by $1 for every $3 earned. Once you actually arrive at your FRA, there will be no benefit reductions—no matter how much you make.

Social Security's earnings test is applied only to wages and/or net earnings from self-employment. Income that doesn't count includes other government or military benefits, pensions, annuities, investment earnings, interest, and capital gains.[2]

Recouping "lost" benefits

A commonly misunderstood aspect of the earnings test relates to recouping reductions once you reach your Full Retirement Age. Social Security will add those reductions back in, giving you a slightly higher benefit at your FRA than you would have had otherwise. So, the argument goes, the earnings test only *delays* benefits—it doesn't cause you to lose anything. The reality is more complex: How much of the "withheld" benefits you'll get back depends on how long you live.

Here's an example offered by the Social Security Administration. "Let's say you claim retirement benefits upon turning 62 in 2021, and your payment is $920 per month. Then, you return to work and have 12 months of benefits withheld. We would recalculate your benefit at your Full Retirement Age of 66 and 10 months and pay you $985 per month."

Based on that example, you would have to live 14 more years to get back the benefits that were withheld ($11,040 of benefits withheld divided by the $65 monthly increase at your FRA equals 169.8 months, or just over 14 years). Bottom line? If you're between age 62 and your Full Retirement Age and are still generating paid income, the earnings test is one more reason why it's generally better to wait until reaching your FRA before claiming benefits. Waiting even longer, until age 70, will ensure your maximum monthly benefit.

The impact on your taxes

Another way working in your later years can affect your Social Security benefits is by causing those benefits to be taxable. However, in this case, it isn't just "earned income" that can make SS benefits taxable—it's "combined income." That's defined as one-half of your Social Security benefits, plus your adjusted gross income (wages, dividends, capital gains, business income, retirement distributions as well as other income, minus certain adjustments), plus any tax-exempt interest you receive.

If you file as an individual and have combined income of less than $25,000, you won't pay federal income taxes on your Social Security benefits. However, between $25,000 and $34,000, you may have to pay taxes on up to half of your SS benefits. Make more than $34,000 and up to 85% of your benefits may be taxable.

If you are married, file a joint return, and you and your spouse have combined income of less than $32,000, none of your Social Security benefits will be taxable. Between $34,000 and $44,000, you may have to pay income taxes on up to 50% of your SS benefits. Make more than $44,000 and up to 85% of your benefits may be taxable.

As for state income taxes, 37 states and the District of Columbia do not tax Social Security benefits.[3]

Understanding how SS benefits are taxed can be an important determinant in choosing when to claim benefits and when to tap which retirement accounts.

Help is available

None of this is intended to dissuade you from working in your later years. Instead, our purpose *(continued on page 126)*

[1]Find your specific FRA with the calculator at bit.ly/3kjOwrN. [2]To see how your SS retirement benefits would be affected by earned income, use the earnings-test calculator at bit.ly/3khYcmJ. [3]Learn more about state taxation of Social Security benefits at bit.ly/2TpJFKS.

SOUND MIND PORTFOLIOS

Basic Strategies

The fund recommendations shown below 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 considered as well, along with the fund's risk level and portfolio manager's philosophy. Recommendations are made in each of the three risk categories shown. Select the fund(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 6/30/2021	Portfolio Invested in	MOM	Performance YTD	1Mo	3Mo	6Mo	12Mo	3Yr Avg	Relative Risk	Expense Ratio	Stock/Bond Mix 100/0	80/20	60/40	40/60	Ticker Symbol
Total International Stock	Foreign stocks	51.7	9.7%	-0.5%	5.5%	9.7%	36.5%	9.6%	0.97	0.11%/0.08%	20%	16%	12%	8%	VTIAX/VXUS
Extended Market Index	Small company stocks	84.2	15.5%	3.5%	7.1%	15.5%	61.6%	18.6%	1.37	0.06%/0.06%	40%	32%	24%	16%	VEXAX/VXF
S&P 500 Index	Large company stocks	64.7	15.3%	2.4%	8.6%	15.3%	40.8%	18.7%	1.00	0.04%/0.03%	40%	32%	24%	16%	VFIAX/VOO
Total Bond Market Index	Medium-term bonds	-0.1	-1.7%	0.8%	2.0%	-1.7%	-0.4%	5.4%	1.00	0.05%/0.035%	None	20%	40%	60%	VBTLX/BND

JUST-THE-BASICS: JtB is a buy-and-hold *indexing* strategy that helps ensure that 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 funds/ETFs (see ticker symbols in rightmost column—performance data above is for traditional funds). JtB requires only once-a-year maintenance. For more, see Jan2019:p7-8.

RECOMMENDED FUNDS FOR SMI'S STOCK FUND UPGRADING STRATEGY

For alternative options, see footnotes below. You can also consult SMI's monthly *Fund Performance Rankings* report at soundmindinvesting.com/FPR.

Risk	Data through 6/30/2021[1]	Ticker Symbol	Percentage Allocated	Date Added	E-Trade Avail[2]	Fidelity Avail[2]	Schwab Avail[2]	MOM[3]	Performance YTD	1Mo	3Mo	6Mo	12Mo	Relative Risk[4]	Exp Ratio	Redemp Fee?[5]
Situational	Cash (see July 2021:p108)		10%	07/21												
Situational	☎ iShares S&P 500 Growth index	IVW[6]	10%	08/21	ETF	ETF	ETF	67.4	14.3%	5.6%	11.8%	14.3%	41.3%	1.01	0.18	None
Small Company	Aegis Value I	AVALX	10%	06/21	Yes	Yes	Yes	129.1	34.7%	-6.8%	17.1%	34.7%	77.3%	1.85	1.50	None
Small Company	Bridgeway Ultra-Small Co Market	BRSIX[7]	10%	03/21	Yes	Yes	Yes	149.2	39.2%	3.0%	6.2%	39.2%	103.8%	1.74	0.94	2%180 days
Small Company	iShares Russell 2000 Value index	IWN[8]	10%	03/21	ETF	ETF	ETF	103.4	26.4%	-0.8%	4.2%	26.4%	72.8%	1.45	0.24	None
	Note that the target percentages for the Large and Small categories have changed. See page 124 for details.															
Large Company	☎ Polen Growth Investor	POLRX	10%	08/21	NTF	NTF	NTF	65.6	14.5%	5.8%	12.9%	14.5%	38.2%	0.98	1.23	None
Large Company	Invesco S&P 500 High Beta ETF	SPHB	10%	04/21	ETF	ETF	ETF	134.4	33.8%	-1.2%	9.0%	33.8%	91.6%	1.78	0.25	None
Large Company	☎ iShares Russell 1000 Gwth indx	IWF[6]	30%	08/21	ETF	ETF	ETF	67.0	12.9%	6.1%	11.8%	12.9%	42.3%	1.07	0.19	None

Footnotes: [1] Current Upgrading recommendations are based primarily on unpublished momentum data current through late July, rather than on the end-of-June momentum scores shown on this page. A telephone symbol (☎) next to a fund's name signals a new recommendation. **[2] Fund Availability:** NTF (no transaction fee) means the fund can be bought and sold without paying a transaction fee if you stay within the trading limitations imposed by E-Trade (800-387-2331), Fidelity (800-343-3548), or Schwab (800-435-4000). Policies may change so verify accuracy. "Yes" means the fund is available for purchase but carries a transaction fee. ETFs (exchange-traded funds) are available at all brokers and typically carry no transaction fee if bought/sold online. See Dec2020:p184 for details about trading ETFs. **[3] Momentum** is SMI's primary performance-evaluation tool. It is a measure of a fund's performance over the past year. See Jan2019:Cover. **[4]** A 1.00 relative-risk score indicates the fund has had the same volatility as the market in general over the past three years. A score of 1.40 means the fund was 1.4 times (40%) more volatile than the market. See Nov2020:p167. **[5]** Depending on how long you hold this fund, a redemption fee may apply when selling (e.g., a fee of 1% if you sell within 60 days of purchase). Fees sometimes change and may vary from broker to broker. Check with your broker for current information. **[6]** Traditional-fund alternatives to the IVW and IWF ETFs include Vanguard's VIGAX, Fidelity's FFIDX, and Schwab's SWLGX. **[7]** Bridgeway's BRSVX is a better alternative for any new purchases (it has no early-redemption fee). **[8]** Traditional-fund alternatives to the IWN ETF include Vanguard's VSIAX, Fidelity's FISVX, and Schwab's SWSSX.

RECOMMENDED FUNDS FOR SMI'S BOND FUND UPGRADING STRATEGY

Data through 6/30/2021[1]	Ticker Symbol	Percentage Allocated	Date Added	E-Trade Avail[2]	Fidelity Avail[2]	Schwab Avail[2]	MOM[3]	Performance YTD	1Mo	3Mo	6Mo	12Mo	Duration[9]	Exp Ratio	Redemp Fee?[5]
Vanguard S-T Infln-Protected Sec[10]	VTIP[11]	50%	06/21	ETF	ETF	ETF	10.4	2.8%	0.0%	1.7%	2.8%	5.9%	2.7	0.05	None
Permanent: Vanguard I-T Bond	BIV[12]	25%	Perm	ETF	ETF	ETF	-0.2	-2.0%	0.7%	2.3%	-2.0%	-0.4%	6.6	0.05	None
Permanent: Vanguard S-T Bond	BSV[13]	25%	Perm	ETF	ETF	ETF	0.2	-0.4%	-0.2%	0.3%	-0.4%	0.3%	2.8	0.05	None

Footnotes: [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] 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 the rotating fund) are fixed and don't change from month to month. See Jan2015:p7 for more information. **[11]** Those preferring a traditional mutual fund option can buy Vanguard's VTAPX. **[12]** Those preferring a traditional mutual fund option can buy Vanguard's VBILX. **[13]** Those preferring a traditional mutual fund option can buy Vanguard's VBIRX.

☎ Changes in fund recommendations are explained in the MoneyTalk column on page 124.

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 subscribers with a Basic-level membership have access to two investing strategies. These strategies differ in philosophy and the amount of attention required.

Our preferred strategy is **Fund Upgrading.** It's based on the idea that if you are willing to monitor your mutual-fund holdings regularly and replace laggards periodically, you can improve your returns. While Upgrading is relatively low-maintenance, it does require checking your holdings each month and replacing funds occasionally. (If you don't wish to do this yourself, a professionally managed version of Upgrading is available—learn more at bit.ly/smifx.)

As an alternative to Upgrading, we offer **Just-the-Basics** (JtB), a strategy based on investing via index funds. JtB requires attention only once a year. The JtB strategy is helpful to SMI members whose workplace retirement plans lack a sufficient number of fund options to make successful Upgrading possible. On the Basic Strategies page at left, see the top section for the funds and percentage allocations we recommend for JtB.

Past returns for both Upgrading and Just-the-Basics are shown on the back page of this issue.

A BROKERAGE ACCOUNT

Opening an account with a discount broker that offers a large selection of no-load funds simplifies the Upgrading process. Having such an account allows you to easily buy/sell no-load mutual fund shares without having to open separate accounts at various fund organizations. We recommend reading our latest Broker Review (March 2018:Cover article, also available online at bit.ly/smibroker) for the pros and cons of each broker. Your specific investing needs will dictate which broker is best suited to your situation.

401(K) INVESTORS

For an explanation of how to Upgrade within a 401(k) plan, see bit.ly/smi401ktracker. That article also contains ideas on Upgrading in any account in which available fund choices are limited.

HOW TO BEGIN UPGRADING

❶ Determine your stock/bond target allocation by working through the investment temperament quiz online in the "Start Here" section of the SMI website at soundmindinvesting.com. (Look for the "Start Here" link on the main navigation bar near the top of the page). Table 1 in the center column at left provides guidelines for those with an "Explorer" temperament.

❷ Using Table 2, find the column that matches your suggested stock/bond allocation. For example, an investor whose stock/bond allocation is 80% stocks/20% bonds would use the percentages shown in the second column. (If your allocation target falls between two listed columns, split the difference.)

For each of the seven recommended stock funds and, if applicable, each of the three recommended bond funds, calculate the dollar amount to invest in each fund. Simply multiply the percentage shown for each fund by the overall number of dollars you have to invest.[1]

❸ Now it's time to buy your funds. Look at the fund recommendations on the opposite page. For each category—Situational, Small Company, Large Company, and (if applicable) Bonds—invest in the funds shown. If a recommended fund isn't available via your broker, find an alternative fund from the same category by using SMI's monthly *Fund Performance Rankings* report (bit.ly/smi-fpr).

Once you've made your fund investments and your portfolio is in place, check the Basic Strategies page each month for any new recommendations. When an owned fund is dropped as a recommendation, sell it and invest in a newly recommended fund.

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 Seasons-of-Life recommendations for an investor 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 YOUR PORTFOLIO MIX

Portion of Portfolio Allocated to Stocks:	100%	80%	60%	40%
Portion of Portfolio Allocated to Bonds:	**None**	**20%**	**40%**	**60%**
Stock: Situational Fund	10%	8%	6%	4%
Stock: Situational Fund	10%	8%	6%	4%
Stock: Small-Company / Active Fund	10%	8%	6%	4%
Stock: Small-Company / Active Fund	10%	8%	6%	4%
Stock: Small-Company / Index Fund	10%	8%	6%	4%
Stock: Large-Company / Active Fund	10%	8%	6%	4%
Stock: Large-Company / Active Fund	10%	8%	6%	4%
Stock: Large-Company / Index Fund	30%	24%	18%	12%
Bond: "Rotating" Bond Fund	None	10%	20%	30%
Bond: Intermediate-Term Bond Fund	None	5%	10%	15%
Bond: Short-Term Bond Fund	None	5%	10%	15%

❸ BUY YOUR FUNDS

Using the dollar amounts calculated for each row in Table 2, invest in the corresponding funds listed in the Fund Upgrading section of the Basic Strategies page.

To purchase a fund, log in to your brokerage account. Click the word "Trade" or "Invest" (account interfaces vary by broker), then choose the type of fund you wish to buy. Some SMI recommendations are traditional mutual funds while others are exchange-traded funds (ETFs).

Enter the fund's ticker symbol along with the dollar amount of your investment. If purchasing an ETF, you may have to convert the dollar amount to "number of shares" using your broker's online calculator.

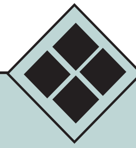
Review your order and complete your purchase. Trades of traditional mutual funds will be filled after the market closes for the day. ETF trades, if using a "market order," typically will execute right away.[2]

MORE ON BOND UPGRADING

Your bond allocation (if any) is divided among three funds, as seen in Table 2. One-half the bond allocation is invested in a "rotating" Upgrading selection, which is reviewed monthly and changes from time to time. The other half is divided evenly between two permanent holdings: a short-term bond fund and an intermediate-term bond fund (both are index funds).

For more on why SMI approaches bond investing this way, see "Introducing an Upgrading Approach to Bond Investing that Outperforms the Bond Market" (bit.ly/smibondupgrading). ◆

[1]Rounding off to the nearest $100 for each fund is fine. To make the calculation process easier, use SMI's online Fund Upgrading Calculator at bit.ly/upgrading-calc. [2]For more on ETF order types, see Dec2020:p184.



MONEYTALK

STOCK UPGRADING — UPDATED FUND RECOMMENDATION

[Stock Upgrading is a mechanical strategy that involves owning mutual funds and ETFs that are exhibiting strong recent momentum. As that momentum fades, holdings are replaced by new selections. The simplest method of selecting funds is to purchase the recommended holdings listed on the "Basic Strategies" page.]

Market leadership recently has shifted away from small-company and value stocks. Larger, growth stocks have retaken the reins.[1] This transition accelerated in June (see the discussion of the "Fed Flinch" on page 120) and reached a pace in July that makes it clearly time to act.

Thankfully, we designed the new Upgrading framework to be able to respond to rapid changes in market trend without causing huge disruptions to members trying to follow along. In the past, we normally only changed allocations once a year, at year-end. Now, we have the ability to do so more easily and we're taking advantage of that this month to reduce the risk level of the portfolio by moving 10% from Small Company to Large Company. (*Note that these allocation changes are unusual and are likely to be rare*, but we believe it's not worth the additional risk to wait until year-end to reverse our early-bull market overweighting of small company stocks, given the recent changes in market trend.)

The Stock Upgrading changes being made this month fall into two groups. In the first two points below, you'll see we're pivoting from Value ETFs to Growth ETFs in the Situational and Large Company categories.

The other two points combine to make a change to our portfolio allocations. In the Small Company section of page 122 (and noted below), we're reducing the allocations of our two active funds from 15% each to 10% each. Notably, you'll also see that we've *added a third recommendation in the Large Company section*. That third recommendation is where we'll invest the 10% we're pulling out of the Small Company allocation.

We prefer making fewer changes each month. But sometimes when the market trends change, we have to move quickly to stay in alignment.

◆ **In the Situational group, sell Vanguard Russell 2000 Value (VTWV) and buy iShares S&P 500 Growth (IVW).** This is a straightforward change to shift 10% of our portfolio allocation from small/value to large/growth stocks. There are many fine large/growth ETFs that are suitable here. If you're unable to buy ETFs in your account, Vanguard's VIGAX, Fidelity's FFIDX, and Schwab's SWLGX are good traditional fund alternatives.

◆ **In the Large Company Group, sell iShares Russell 1000 Value (IWD) and buy iShares Russell 1000 Growth (IWF).** As with the Situational group change above, this is a simple ETF to ETF switch to shift our money from large/*value* to large/*growth*. (The same traditional fund alternatives listed in the paragraph above are also suitable for IWF here.) These first two changes are pretty straightforward.

◆ **In the Small Company group, we're reducing the allocations of our two active funds (Bridgeway and Aegis) from 15% each to 10% each.** The general idea here is simple enough, but the specifics require some explanation.

We want to *reduce our holdings in Aegis Value and the Bridgeway funds by selling one-third of each* (which reduces each holding from 15% to 10% of the portfolio).

Selling one-third of your Aegis Value shares is simple enough. It is a transaction-fee fund, which means at most brokers you should be able to sell it right away with no penalty, despite the short holding period.

Selling one-third of your Bridgeway holdings may be more complicated, depending on which Bridgeway fund(s) you own.

If you own only Bridgeway Ultra-Small Co Market (BRSIX), you may want to wait one more month to sell it, given that it carries a 2% redemption fee on shares sold within 180 days. There's no need to sell this immediately; we're simply making a risk management move to shift to safer large-company stocks. So hopefully waiting a month to sell this fund won't make a huge difference.

If you bought Bridgeway Small Cap Value (BRSVX) with part or all of this allocation, you should be able to sell it right away without penalty, as it is also a transaction-fee fund (like Aegis Value). If that is the case, go ahead and sell one-third of your total holdings now.

If you are restricted from making either of these sales this month, that's okay. We're already making a significant shift from smaller, value-oriented stocks into larger, growth-oriented ones via the other fund changes this month. Wait a month to avoid any penalty and finish making these trades next month.

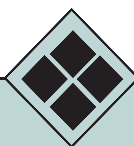
◆ **In the Large Company group, Polen Growth (POLRX) is being added as a new 10% allocation, funded by the proceeds of this month's two Small Company sales.[2]**

We're adding a second active fund in the Large Company group this month to absorb the proceeds of our small/value selling above. Taking 5% from each of the active small company allocations (Bridgeway and Aegis) creates a new 10% allocation we can direct to this new large company holding.

SMI has recommended Polen Growth multiple times with good success in the past. We're choosing it from among a pack of funds with similar overall MOM scores because its *recent* momentum is the strongest of the group. Lots of funds have excellent six-month and 12-month momentum right now, given the year the market has had. Fewer also have outstanding recent MOM over the past one and three months. Polen has the best combination of shorter and longer-term momentum.

This month's changes give us significantly more balance between large/small and growth/value within the Stock Upgrading portfolio. We're not eliminating our Small Company exposure, but we recognize that it carries higher risk. So we're incrementally reducing that risk while repositioning in the larger growth stocks that have been leading the market recently. In addition to aligning our portfolio with the better recent performers, these moves also reduce risk that should help limit the potential damage if we do see a correction sometime in the upcoming months. ◆

[1]See bit.ly/PhaseTransition for more detail regarding the economic and market factors leading to this month's fund changes [2]For more on this fund, visit www.morningstar.com.



MONEYTALK

LEVEL 1 / CONTINUED FROM PAGE 118

MAKING STUDENT LOAN DEBT REAL—BEFORE COLLEGE BEGINS

● **Private loans.** The interest rate on such loans ranges from 2.5% to 9%, depending on a wide range of factors. Fixed- and variable-rate loans are available. Private loans also require a good credit score, which is why 93% had a co-signer in the 2018-2019 school year, according to data analytics company MeasureOne. (Keep in mind the biblical warnings against co-signing found in Proverbs 22:26-27.)

Common points of confusion

According to the Student Loan Hero survey, 62% of current education loan borrowers are either "not at all confident" or just "somewhat confident" in their knowledge of student loans and how they work. Below are some of the most common points of confusion.

● 65% of borrowers are "somewhat" or "very confident" their loans will one day be forgiven. However, as of April 2021, just 2% of the nearly 400,000 applications for loan forgiveness had been approved.

● 53% mistakenly believe their payments will be automatically based on their post-graduation income. In fact, federal loans come with a fixed rate for 10 years. You might qualify for an income-driven repayment plan, but you will need to apply. A related misunderstanding is that 40% of borrowers didn't realize they would lose access to income-based repayment plans if they refinanced into a private loan.

● Almost 46% of students incorrectly believe that you must borrow the full amount of a loan they qualify for. On a related note, keep in mind that just because the government will give you 10 years to pay off the loan, there are no penalties for paying it off earlier.

What can you do?

Of course, the easiest way to avoid all of this confusion over student loans is to avoid borrowing, but for many families, that's far easier said than done. At the very least, fill out the FAFSA, which will let you know if your student qualifies for grants, scholarships, or a work-study program.[1] And if you have to borrow, be sure you understand the terms of the loan. ◆

LEVEL 2 / CONTINUED FROM PAGE 119

GOING STEADY: THE ADVANTAGES OF A SYSTEMATIC INVESTMENT PLAN

tune with market trends. So systematically investing into these two core strategies is slightly more challenging.

Fortunately, there's a simple solution. SMI Advisory Services, a company affiliated with the SMI newsletter but operated separately, offers mutual funds ("funds of funds") that implement the SMI strategies. By making systematic transfers to the SMI Funds,[2] you can dollar-cost average into the strategy (or strategies) of your choice—no matter what changes may occur in underlying recommendations. (The SMI mutual funds are available via brokers, but investing directly with the Sound Mind Investing Funds will avoid transaction fees.)

For a do-it-yourself approach to systematic investing with DAA and Upgrading, it's best to use a two-step process. Step 1 is the recurring transfer from your bank account to your investment account. However, rather than being deployed directly into DAA or Upgrading funds, the money would simply be deposited as cash. Then, in Step 2, you would invest the cash into SMI's recommendations each month when the new strategy recommendations are released.

Yes, it is possible to automate these subsequent fund purchases by providing your broker with instructions ("On the third day of each month, take x amount from my cash account and buy these particular funds"), but that approach is problematic. Since SMI's Upgrading and DAA recommendations are subject to change, it is likely that, at some point, you'll inadvertently invest in a fund we're no longer recommending. Further, if the fund carries an early-redemption fee (such as "2% if held less than 60 days"), your money could be stuck in an investment that is lagging in performance.

So while automating money transfers to your investment account is a great idea, it's better not to automate the actual Upgrading or DAA fund purchases within your account.

Nuts and bolts

Setting up recurring transfers from your bank will require filling out a broker-supplied authorization form. If you're starting from scratch—i.e., both opening an account and setting up an auto-transfer—you may have to complete a printed form and mail it in (call the brokerage firm for details). If you already have an investment account, you'll likely be able to set up your recurring transfers online.

Whatever options you choose for implementing systematic investing, get started as soon as you can so that you can put the power of compounding to work for as long as possible. One day, you're sure to look back and smile, remembering when you decided to start going steady. ◆

LEVEL 3 / CONTINUED FROM PAGE 120

MID-YEAR REVIEW: STRONG FIRST HALF ENDS WITH MARKET TRANSITION

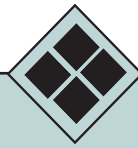
market's loss. But June tipped Bond Upgrading's 6-month performance down to roughly equal the broad market at -1.65%.

Dynamic Asset Allocation (DAA)

While JtB and Stock Upgrading lagged the broader stock market during the second quarter of 2021 due to leadership rotations from smaller stocks to larger ones and from value stocks to growth stocks, DAA largely side-stepped those issues, gaining +8.4% during April-June. That was the best performance of SMI's strategies and equaled the broad stock market's gain. DAA's real estate allocation has been outstanding, gaining +17.4% since being added at the end of February.

As we reported last quarter, the only significant misstep

[1] Nearly 40% of 2018 high school graduates did not complete the form. [2] smifund.com



for DAA in 2021 was owning gold while it fell -9.3% in January and February. Other than that, the strategy's 2021 gain of +10.4% through mid-year was great, considering that DAA isn't allowed to allocate more than two-thirds of its portfolio directly to stocks (and thus will almost always lag the stock market when stocks are going straight up).

Sector Rotation (SR)

Long-time SMI members know that SR has been our strongest performing strategy for many years, but they also are aware of its struggles over the past few years. Both sides of that coin have been on full display over the past year, as SR rode 2020's market rebound to tremendous gains through February 2021, then frustratingly gave much of those gains back in the months that followed. SR's 12-month gain of +26% through mid-year isn't terrible (though it's less than the market's +44.2%), but its 6-month return of -21.9% shows what a struggle 2021 has been.

These swings in recent performance have prompted the most extensive internal review and testing of SR since the strategy was introduced 18 years ago. We hope to have information to share with you regarding our conclusions next month.

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.[1]

When the stock market goes straight up, as it has for the past 16 months, it's easy to lose sight of why a blended portfolio—or frankly diversification of *any* type—is helpful or necessary. But long-term investors know that one of the biggest threats to your success is getting blown up when risk suddenly reappears in the market and turns against you. Surviving bear markets and downturns relies heavily on being able to weather those storms, and few portfolios (or investors) can handle those negative periods without significant portfolio diversification.

So while the recent returns of a 50-40-10 don't look impressive compared to the broad stock market, it's important to take them in context. This portfolio's gain of +30.6% over the 12-months ended June 30 was lower than the broad market's gain of +44.2%. But with the market's risk environment turning less positive, the real question is what type of portfolio is likely to best handle the path *ahead*?

Nobody expected the 2020 bear market to end as quickly as it did and few could have imagined the epic rally stocks have experienced since then. Yet despite both of those factors, if we measure from the beginning of the bear market slide in February 2020 through mid-year 2021, the S&P 500 only leads a 50-40-10 portfolio +29.9% to +21.8%.

So don't be discouraged if your blended portfolio has felt overly cautious as stocks have rapidly advanced over the past year. That's how risk-focused investors *always* feel during huge bull market runs! But as surely as day follows night, bear markets follow bull markets, and so forth. A sustainable, repeatable process such as this blended portfolio provides can keep you in the game through all types of market environments, and that's the first requirement for long-term success. Whether you use the 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

THE "EARNINGS TEST": HOW EARNED INCOME CAN AFFECT SOCIAL SECURITY

is to emphasize the importance of making informed decisions about when to begin claiming Social Security benefits and how to plan for taxes.

Because of the complexities involved, it may be beneficial to use MoneyGuide[2] to determine the claiming strategy best suited to your situation. Alternatively, a stand-alone Social Security calculator (there are free and paid calculators online) can help you run the numbers for various scenarios.[3] ◆

MARKET NOTES, QUOTES, AND ANECDOTES

Great expectations

"…investors expect to revel in a long run almost three times what financial professionals say are realistic." – From a recent global survey of investors by Natixis, an asset management company. Investors said they expect long-term average annual investment returns of 14.5% above inflation—far more than the 5.3% returns financial professionals say are realistic. Read more at bit.ly/3BBMZUt.

The cost of playing it too safe

"Safety from risk can be exceedingly costly. As a cure, it is often worse than the disease." – Mark Spitznagel, founder of hedge fund Universa Investments, in a 7/20/21 opinion piece in the UK's *Financial Times*. He said investors often give up too much performance in their quest to avoid downturns. Read more at on.ft.com/3y67EgZ.

Enduring optimism

"Success stories abound throughout America. Since our country's birth, individuals with an idea, ambition and often just a pittance of capital have succeeded beyond their dreams by creating something new or by improving the customer's experience with something old." – Warren Buffett, from his most recent shareholder letter, quoted in a recent post on *The Retirement Field Guide*. Read more at bit.ly/3eXyKQd.

[1]Blending multiple strategies adds complexity. Some SMI members may prefer an automated approach. See bit.ly/SMIPrivateClient. [2]MoneyGuide is a web-based financial-planning tool available to SMI Premium-level members for a one-time fee of $50. Learn more at soundmindinvesting.com/MoneyGuidePro [3]Jul2020:p105

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

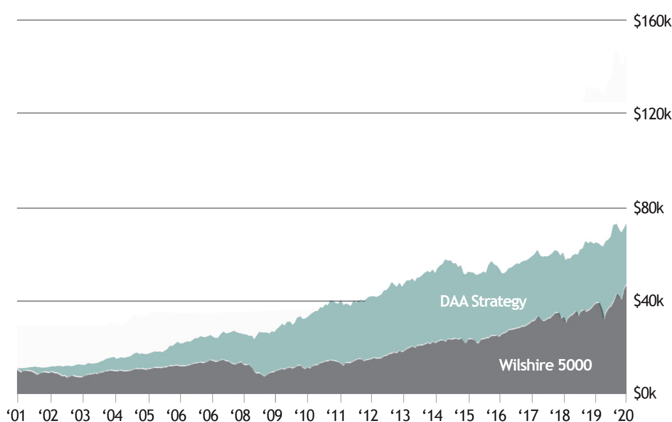
Overview

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 2020



Strategy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Avg[1]	Worst12[1]	Rel Risk[1]
DAA	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%	12.4%	10.4%	-13.7%	0.60
Wilshire 5000	-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%	20.8%	8.0%	-43.3%	1.00

SECTOR ROTATION

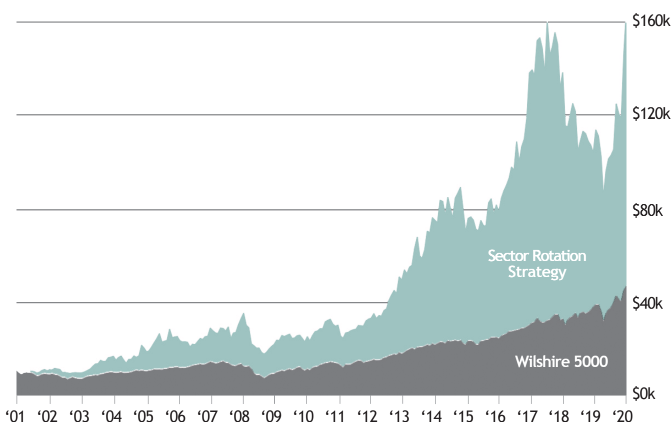
Overview

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 2020



Strategy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Avg[1]	Worst12[1]	Rel Risk[1]
SR	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%	45.8%	15.1%	-38.6%	1.69
Wilshire 5000	-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%	20.8%	8.0%	-43.3%	1.00

[1]The three data points at the far right in each performance table cover the full 20 years from Jan2001-Dec2020. "Avg" shows the average annualized return over those 20 years. "Worst12" represents the worst investor experience over 217 rolling 12-month periods during those 20 years.

PERIODICALS POSTAGE
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Dated Investment Material
Please Do Not Delay!

PERFORMANCE DATA

SOUND MIND INVESTING MODEL PORTFOLIOS • DATA THROUGH JUNE 30, 2021

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]	15.5%	2.5%	8.4%	44.2%	18.9%	18.0%	14.8%	10.9%
Just-the-Basics[2]	14.3%	2.2%	7.2%	48.4%	16.9%	16.9%	12.7%	9.9%
Stock Upgrading[3]	11.4%	-0.7%	4.9%	45.9%	12.0%	13.7%	10.8%	8.8%
U.S. Bond Market[4]	-1.6%	0.7%	1.8%	-0.3%	5.3%	3.0%	3.3%	4.3%
Bond Upgrading[5]	-1.7%	0.2%	0.8%	0.5%	5.7%	3.3%	3.7%	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]	10.4%	1.2%	8.4%	19.1%	10.7%	7.9%	7.6%	9.4%
Sector Rotation	-21.9%	-8.3%	-18.9%	26.0%	-3.9%	9.5%	16.1%	12.5%
50-40-10 Blend[7]	7.6%	-0.3%	4.4%	30.6%	10.0%	10.7%	10.1%	9.9%

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 6/30/2021	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	10.00%	-0.75%	4.97%	45.94%	10.38%	12.69%	9.41%
Wilshire 5000	15.45%	2.51%	8.42%	44.24%	18.88%	17.96%	14.76%
S&P 500	15.25%	2.33%	8.55%	40.79%	18.67%	17.65%	14.84%

Quarterly Returns as of 6/30/2021	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	10.00%	-0.75%	4.97%	45.94%	10.38%	12.69%	9.41%
Wilshire 5000	15.45%	2.51%	8.42%	44.24%	18.88%	17.96%	14.76%
S&P 500	15.25%	2.33%	8.55%	40.79%	18.67%	17.65%	14.84%

Total/Gross expense ratio: 1.98% as of 1/29/21 (includes expenses of underlying funds)
Adjusted expense ratio: 1.20% as of 1/29/21 (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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