MARCH 2022

VOLUME 33 ◆ NUMBER 3

Sound Mind Investing®

Financial Wisdom for Living Well

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Investing That Glorifies God Values His Majesty

Jesus Christ is the greatest of all treasures. He is the King of kings, the Lord of Lords, the Only Begotten Son of the Father who laid down His life for us. In the words of Matthew 13:46, He is the "pearl of great price." While no other treasure can *compare* with Jesus, many lesser goods—including money—*compete* with Him for our attention and affections. In this excerpt from *The Sound Mind Investing Handbook*, SMI founder Austin Pryor asks, "Do our dreams and decisions reflect that Christ is our greatest treasure?"

by Austin Pryor

Investing that glorifies God has a requisite first step: first we must invest *ourselves*. We do this by willingly trusting His sovereignty—not only over the physical universe but over our very lives as well.

One night in November 1970, Susie and I asked Christ to take our lives and make us the kind of people He wanted us to be. We gave Him our lives. God says: "If you'll give Me your life, I'll give you My life." It has been called "The Great Exchange." In light of who He is and all that He offers, what could be more reasonable?

The late Bob Benson, one of my favorite writers, had a way of telling humorous stories that revealed great truths. I'm grateful to him for putting things into perspective for us:

> Do you remember when they had old-fashioned Sunday School picnics? I do. It was in the "olden days," as my kids would say, back before they had air conditioning.
>
> They said, "We'll all meet at Sycamore Lodge in Shelby Park at 4:30 on Saturday. You bring your supper and we'll furnish the iced tea."
>
> But if you were like me, you came home at the last minute. When you got ready to pack your picnic, all you could find in the refrigerator was one dried-up piece of baloney and just enough mustard in the bottom of the jar so that you got it all over your knuckles trying to get to it. And just two slices of stale bread to go with it. So you made your baloney sandwich and wrapped it in an old brown bag and went to the picnic.
>
> When it came time to eat, you sat at the end of a table and spread out your sandwich. But the folks who sat next to you brought a feast. The lady was a good cook and she had worked hard all day to get ready for the picnic. And she had fried chicken and baked beans and potato salad and homemade rolls and sliced tomatoes and pickles and olives and celery. And two big homemade chocolate pies to top it off. That's what they spread out there next to you while you sat with your baloney sandwich.
>
> But they said to you, "Why don't we put it all together?"
>
> "No, I couldn't do that. I couldn't even think of it," you murmured in embarrassment, with one eye on the chicken.
>
> "Oh, come on, there's plenty of chicken

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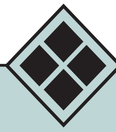
"FOR GOD HAS NOT GIVEN US THE SPIRIT OF FEAR BUT OF POWER, AND OF LOVE, AND OF A SOUND MIND."



EDITORIAL

Which of SMI's Portfolio Strategies Best Fits Your Personal Situation?

An SMI tenet is that investing decisions should flow from—and be consistent with—a specific investment strategy (or strategies) you have chosen. For some people, *selecting* a strategy can be daunting. This overview should help.

SMI offers three "core" strategies designed with the average person in mind. These strategies (two available to Basic-level members, another to Premium members) are easy to understand and relatively simple to implement. But they require different levels of involvement and self-control. Let's compare what each strategy demands—and what you can expect in return.

◆ **Complexity.** *Just-the-Basics:*[1] If you believe "the simpler, the better," select JtB. It's easy to set up, and your only housekeeping chore is the annual rebalancing task every January. ● *Fund Upgrading:*[2] You get specific buy/sell instructions each month. Following those instructions won't take more than 15-20 minutes (once you have done it a time or two). ● *Dynamic Asset Allocation:*[3] DAA requires monthly attention, but there are only three holdings (out of a possible six) at any one time. Occasionally, you'll be told to sell one and invest the proceeds in another.

◆ **Emotional hurdles.** *Just-the-Basics:* It doesn't help to have a great strategy if you don't have the self-discipline to follow the rules. With JtB, since there is never a need to replace any of your funds, you can't go wrong. ● *Upgrading:* You'll have to be ready to replace one or more of your holdings regularly. In practice, it doesn't happen monthly, but it could. When told to sell a fund, people often hesitate to follow through. Maybe it's because they have a loss in that fund, or they discover there's going to be a redemption fee. With Upgrading, procrastination can be tempting—and costly. ● *DAA:* The instructions are easy to understand, but there's room for "operator error" if you decide to do your own thing. Most often, this will be because you are required to sell something at a loss to move on from a trade that didn't work out. Overcoming this tendency to wait for a turnaround is key to minimizing your losses.

◆ **Portability** (i.e., the ability to implement a particular SMI strategy where you already have your accounts). *Just-the-Basics:* Even if you don't have a Vanguard account, this approach is flexible because most brokers, fund organizations, and 401(k) plans offer similar index funds. ● *Upgrading* is also quite portable. It can be implemented anywhere you have access to a large number of actively managed funds, such as in an IRA. On the other hand, not all 401(k)plans will offer such a variety.[4] ● *DAA:* This strategy can be implemented easily in most accounts, but it's not a great option for 401(k) plans unless your plan offers a "brokerage window" that allows you to buy the ETFs of your choice.

THREE SMI STRATEGIES CONTRASTED FOR 20 YEARS (2002-2021)

	Just-the-Basics	Upgrading	DAA*
Complexity	Very easy	Moderate	Easy
Emotional hurdles	Low	High	Highest
Portability	High	Average	High
Profit potential	Equals market	High	Highest
Risk exposure	Highest	Average	Below Avg
Avg 12 Months	9.5%	9.8%	11.1%
Best 12 Months	71.5	62.3%	32.1
Worst 12 Months	-45.4%	-42.8%	-13.7%

*DAA was launched in January 2013. Performance results prior to 2013 are based on backtesting using DAA's mechanical formula.

◆ **Profit potential and risk.** *Just-the-Basics:* This approach will perform much the same as the overall market. If stocks rocket up so will your returns. In a bear market, the only downside protection is your portfolio's bond allocation (as dictated by your optimal asset allocation). ● *Upgrading:* Because it rotates among the top-performing active managers, Upgrading offers a high profit potential and average risk exposure. ● *DAA:* From the nearby table, you can see this strategy has the best profit potential over time, as well as the lowest risk exposure. It accomplishes those excellent long-term results primarily by limiting losses in bad markets rather than turning in huge gains during good ones.

There's no single strategy that's best for everyone. In fact, we generally believe a *combined* strategy approach is best for most investors.[5] But whichever your preference, you are more likely to progress financially if you invest according to a specific, proven plan.

AUSTIN PRYOR
FOUNDER/PUBLISHER

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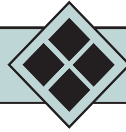
POSTMASTER
Sound Mind Investing is published monthly by Sound Mind Investing, 9700 Park Plaza Ave Ste 202, Louisville, KY 40241-2287. Periodicals postage paid at Louisville, Kentucky USPS (006344). POSTMASTER: Address changes to: SMI, 9700 Park Plaza Ave, Unit 202, Louisville, KY 40241-2287. This is Issue 381 • Volume 33 Number 3. Mailing date: 3/04/2022.

[1]bit.ly/SMI-JtB-Overview [2]bit.ly/3LQ2flB [3]bit.ly/3s7Vrrl [4]Even then, SMI's Personal Portfolio Tracker can help you maximize your options. See Feb2021:p23 [5]April2018:Cover



Investing that Glorifies God Values His Majesty

(continued from front page)

and plenty of pie and plenty of everything. And we just love baloney sandwiches. Let's just put it all together."

And so you did and there you sat, eating like a king when you came like a pauper.

One day, it dawned on me that God had been saying just that sort of thing to me. "Why don't you take what you have and what you are, and I will take what I have and what I am, and we'll share it together." I began to see that when I put what I had and was and am and hope to be with what *he* is, I had stumbled upon the bargain of a lifetime.

I get to thinking sometimes, thinking of me sharing with God. When I think of how little I bring, and how much he brings and invites me to share, I know that I should be shouting to the housetops, but I am so filled with awe and wonder that I can hardly speak. I know that I don't have enough love or faith or grace or mercy or wisdom, but he does. He has all of those things in abundance and he says, "Let's just put it all together."

Consecration, denial, sacrifice, commitment, crosses were all kind of hard words to me, until I saw them in the light of sharing. It isn't just a case of me kicking in what I have because God is the biggest kid in the neighborhood and he wants it all for himself. He is saying, "Everything that I possess is available to you. Everything that I am and can be to a person, I will be to you."... You have been invited to something better, you know. You have been invited to share in the very being of God.[1]

Trapped in doing work I hated

In addition to acknowledging His sovereignty over our lives, investing that glorifies God has a second indispensable precondition—it never loses sight of the fact that He is the pearl of great price, causing us to gladly set aside all that we have (and all that competes for our time) so that we may experience the priceless treasure of fellowship with God in Christ Jesus.

I can remember only one time during my childhood when I was asked "the" question that all kids face: "What do you want to be when you grow up?" I was probably around 10 years old and was out with my mom doing some routine shopping. We were riding along when suddenly she popped the big question. She was visibly amused when I immediately replied, "A disc jockey!" In my formative radio-listening, rock-and-roll years, being a disc jockey must have seemed like it would be all the fun in the world. Mom's reaction, however, communicated that while being a disc jockey might be fun, it didn't reflect a highly developed sense of ambition. Neither of my parents ever asked me the question again, and to play it safe, I never brought the subject up.

So as I moved through my teen years, an only child and obvious "heir apparent" to the family restaurant business, it became the accepted wisdom that I would someday work there. In many respects, this greatly simplified things. I always knew that I had a summer job and what it would be—learning some new facet of restaurant operations (from the ground up). When I enrolled in college, I didn't agonize over a major—I went to business school and majored in finance. When I graduated, I didn't worry about job interviews—I simply returned home and went to work.

There was only one problem with all of this. I *hated* the restaurant business! I had no interest in food or cooking. I had poor people skills and felt inadequate as a leader. Rare was the morning I didn't dread getting up and going to work.

But get up I must, and that's exactly what I did the morning after Susie and I prayed that prayer of surrender and commitment. I went off to work without giving the events of the night before—the talking with Susie, the soul-searching, the prayer of surrender—much thought at all. We had a special evening, sure, but now it was Monday morning and my life in what I thought of as "the real world" had resumed.

For Susie, it was an entirely different story. The little booklet we had been reading together said that *faith* was the "engine" of the Christian life and that *feelings* were the "caboose." We should not be controlled by our feelings, but as we exercise faith and obedience, feelings would follow. So we had whispered our prayer of surrender on that basis, and gone to sleep not "feeling" any different.

The next morning, however, she awoke with great joy. She now understood—truly "knew"—for the first time that her forgiveness was based on placing her faith in Christ alone. It was not a matter of her trying to be good and holy for God, but rather just giving every area of her life over to Him *so He could be holy through her*. He would supply the strength. She felt totally accepted by God and had peace beyond question that she would be with Him in heaven for eternity. This was the way to relate to God that she had been looking for her whole life! She was so joyous over this that she began calling her friends and family to tell them this incredibly great news.

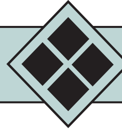
You can imagine my surprise at coming home from another routine day at work to find this exuberant evangelist in our house. I don't recall exactly what was said that evening; I only remember that Susie "took off" in her spiritual growth and that it took a long time for me to catch up.

Through the years, I had put my work and other family-related demands ahead of her needs, yet she remained committed to me and the sacred aspects of our marriage. As I gradually developed a new awareness of God in my life, I began to learn how to love Susie in a deeper, purer, and more protective kind of way. I finally began to see that my wife and children have a higher call on my time and attention than my bread-winning activities. Let me tell you—there's nothing finer that can happen to a man, a husband, a father, than to be able to sit and listen to his wife and children pray to a God whom they know in a personal way.

Free to do work I enjoyed

As we sought to know our God better, our interest in spiritual matters grew. We were introduced to Christian ministries that were devising creative new ways for taking the message of God's love and forgiveness to people in all walks of life. One of them was Campus Crusade for Christ (now called Cru). Through a series of events too lengthy to detail here, we received an invitation from Crusade's president, Dr.

[1]From *The Journey Home: A Walk With Bob Benson* (Beacon Hill Press, 1997).



Bill Bright, to join his staff at the ministry's headquarters. It required a move to southern California, one made possible when the Lord answered our heartfelt prayers to send someone to run the family business in my absence. In the spring of 1973, we loaded up the station wagon, our two boys, Tre and Andrew, the cat and bird, and headed west for a "mission trip" that was to last almost two years.

I can remember what it was like "reporting for work" that first week in California. I was thrilled that for the first time in my life I would be doing work that *I* had picked out, that I would enjoy, and that had a challenge and purpose that I found fulfilling. It was an unforgettable, incredibly stimulating experience.

We formed friendships that are warmly treasured to this day. We joined expository Bible studies that opened up Scripture in new and personally relevant ways. We saw answers to prayers that radically changed our views of God's willingness to meet the needs of His children. We went to give, yet received more back than we could have ever imagined.

In the summer of 1974, Susie and I traveled to Fort Collins, Colorado, for an annual staff event within Cru. The staff had gathered together for a week of vision-building workshops and seminars. We heard many inspirational speakers, but one in particular quickly captured everyone's attention. To say that Ronald Dunn's messages were well received would be to greatly understate his impact. I have talked with Cru staff who, decades later, still recall with great appreciation (as I do) how his words were so encouraging to them that summer.

"What does God want from you more than anything else?"

It was one of those rare times in life when "you just had to be there" to understand why it was special. His messages were really quite basic, just reminders of some of the "old truths" that we might have forgotten along the way, yet they were so meaningful to his audience. I still remember, vividly, the question he posed as he set the stage for one of his primary points: *"What is it, do you believe, that God wants from you more than anything else?"* It was a sobering question.

I knew God wanted my obedience, my service, my thanksgiving, and much more. But what did He want the *most*? I really didn't know how to answer. What would you have said? From my notes, Ron's answer went something like this:

> "I believe it is the testimony of the word of God, in both the Old and New Testaments, that the primary thing, the ultimate thing, that God wants from us is not our service. He wants our searching! That we would seek Him."

In Acts 17, Paul leaves no doubt that the primary purpose behind all of God's creative work is that we would seek Him.

> *The God who made the world and everything in it is the Lord of heaven and earth and does not live in temples built by hands. And he is not served by human hands, as if he needed anything, because he himself gives all men life and breath and everything else. From one man he made every nation of men, that they should inhabit the whole earth; and he determined the times set for them and the exact places where they should live. God did this so that men would seek him and perhaps reach out for him and find him, though he is not far from each one of us.* (Acts 17:24-27)

More than anything else, the Lord wants us to seek Him. He wants to be the object of our affection and the focus of our attention. He wants to draw us to seek Him. If this is the case, then it shouldn't be surprising to think that God will negotiate circumstances or engineer certain events in order to bring us to the place where we come to the end of ourselves and are compelled to seek Him.

Now some may ask how the idea of "seeking the Lord" applies to Christians who have already sought Him out and placed their faith in Him. Ron's response was tremendous:

> "When the apostle Paul wrote to the church at Philippi, he recounted his conversion experience, saying: "But whatever was to my profit, I now consider loss for the sake of Christ. What is more, I consider everything a loss compared to the surpassing greatness of knowing Christ."
>
> "If I'd been writing that I might have said "the surpassing greatness of serving Christ." You know, he's had about every experience a fellow could have. There's not been anybody that has been able to serve in the magnificent magnitude that the apostle Paul has. Yet he comes to the end of this life and he says "I am continually giving up everything and counting everything but loss that I may... know Him."
>
> "Well, now Paul, I thought you already knew Him. You met Him on the road to Damascus 30 or 40 years ago. What do you mean you're counting everything but loss that you may know Him?
>
> "Paul would say: "Well, you can know Him, and then you can know Him some more." You can know Him, and you can know Him, and you can know Him, and you can know Him some more. You see, my friends, the Christian life is not starting with Jesus, and then graduating to something better. It is starting with Jesus, staying with Jesus, and ending up with Jesus.
>
> "I tell you, I get excited when I realize that the Bible makes it clear that Jesus Christ is God's "everything." He's the Means to the end, and He's the End. He's the Door, and He's what you find on the other side of the door. He's the Light of the world, and He's what you see when that light shines. He's the Fountain, and He's also the Living Water that comes out of the fountain. He's the Alpha and the Omega. He's all that you need.
>
> "And so to seek the Lord means that we seek for nothing else. We find in Jesus Christ our all in all. And so Paul is saying that the quest of the Christian life is not "How can I trust Him more? or How can I serve Him more?" but "How can I know Him better?"
>
> "The goal of the Christian life is not service. The goal of the Christian life is Jesus. And our service is the overflow of our fellowship with the Lord Jesus Christ. So it means we need seek for nothing else, but it also means that we should settle for nothing less. Don't settle for anything less than Jesus, and the fullness of fellowship with Him day by day."

As I listened to Ron, it was immediately clear to me that I had taken a wrong turn somewhere. My serving God was a well-intentioned "living sacrifice," which I desired would please Him, but it also represented a kind of detour. I so

desired to serve Him, to "invest" my life for Him, that I no longer made time to seek Him. This error can be quite a subtle thing; it seems to happen in the smallest of increments. You are not even aware of it until one day God works through your circumstances to get your undivided attention, and you "awaken" to find yourself miles off course.

Enjoying His presence as we know Him better

If not consciously resisted, the spirit-sustaining pleasure of spending time alone with Him each day is easily lost to the "tyranny of the urgent." And this tendency to get caught up in the physical and visible world around us often surfaces in an even more compelling way in the area of our stewardship. If we don't guard against it, our financial goals, projects, and ambitions inevitably capture an ever-increasing share of our thought life and physical energies.

We should value His majesty and our communion with Him above all earthly ambitions and wealth. There is no greater joy than to walk away from a time of prayer and meditation having met God. As Jonathan Edwards has written: "The enjoyment of God is the only happiness with which our souls can be satisfied. To go to heaven, fully to enjoy God, is infinitely better than the most pleasant accommodations here.... [These] are but shadows; but God is the substance. These are but scattered beams; but God is the sun. These are but streams; but God is the ocean."

To glorify God, we must see Him as our great treasure. Our hearts and lives must be kept centered in Him. Christian service, although done in His name, is no substitute. Obtaining, securing, and increasing our store of wealth, although used for family support and kingdom purposes, is no substitute. To invest more time, thought, research, and emotional energy in these areas than we invest in enjoying His presence is to grieve His Father's heart. There are at least three reasons this must be true.

● **It reveals that our pleasures are misplaced.** To delight more in the companionship of the creation around us than in the Creator who made us is idolatry. Even to delight more in the gifts we offer Him than in the gift His presence offers us is to elevate our glory above His. Our pleasure is to be in Him.

O God, you are my God, earnestly I seek you; my soul thirsts for you, my body longs for you, in a dry and weary land where there is no water. I have seen you in the sanctuary and beheld your power and your glory. Because your love is better than life, my lips will glorify you. I will praise you as long as I live, and in your name I will lift up my hands. (Psalm 63:1-4)

● **It reveals that our confidence is misplaced.** Isn't our security, whether spiritual, physical, emotional, or material, to be found in His loving promises rather than our human efforts and disciplines? Our confidence is to be in Him.

For in the day of trouble he will keep me safe in his dwelling; he will hide me in the shelter of his tabernacle and set me high upon a rock. (Psalm 27:5)

Keep your lives free from the love of money and be content with what you have, because God has said, "Never will I leave you; never will I forsake you." So we say with confidence, "The Lord is my helper; I will not be afraid. What can man do to me?" (Hebrews 13:5-6)

● **It reveals that our gratitude is misplaced.** To whom or what do we owe our successes? The free-enterprise system that rewards hard work? The company we labor for? The government programs that provided needed assistance? Our investment counselor or broker who helped us have a good year? No, God is the source of our blessings and "the giver of every good gift." Our gratitude should be toward Him.

Yours, O LORD, is the greatness and the power and the glory and the majesty and the splendor, for everything in heaven and earth is yours. Yours, O LORD, is the kingdom; you are exalted as head over all. Wealth and honor come from you; you are the ruler of all things. In your hands are strength and power to exalt and give strength to all. Now, our God, we give you thanks, and praise your glorious name." (1 Chronicles 29:11-13)

The kingdom of heaven, and the King who reigns over it, are "like treasure hidden in a field. When a man found it, he hid it again, and then in his joy went and sold all he had and bought that field" (Matthew 13:44).

Do our daily lives—the decisions we make and the dreams we pursue—reflect that Christ is our treasure?

It is my earnest hope and prayer that I would faithfully seek the majesty of His companionship daily. Too often I settle for too little. Perhaps you can identify with me in this. If so, may God grant us that we increasingly glorify Him in our seeking. ◆

This article is adapted from *The Sound Mind Investing Handbook*, now available in a revised-and-updated 7th Edition. For ordering details, see below.

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Many people are mystified by investing jargon, overwhelmed by a myriad of investment choices, and confused about how investing fits in with following Christ.

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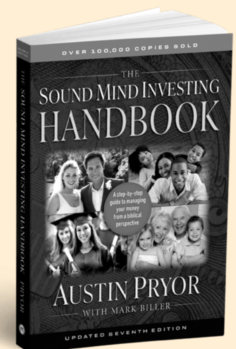


LEVEL 1 ONE

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

IF YOU HATE TO BUDGET, YOU'RE NOT DOING IT RIGHT

You are an unusual person. You saw the word "budget" in the headline and kept reading! As your reward, we present below six ideas for getting the most out of a budget—a much-misunderstood personal-finance tool that can help make the most of what you have.

1. Get your mind right. Surely you've heard someone say, "I'm on a budget." It's the same way people talk about trying to lose weight: "I'm *on* a diet." (No wonder budgets and diets are disliked.)

Let's set the record straight. A budget isn't something you "go on." It's a tool you employ to achieve specific ends.

And contrary to common thinking, a budget isn't about *less* ("I'm going on a budget because I have to spend less"). It's about *more*: *More* information about your finances so you can be *more* intentional about your use of money and end up having *more* for the things that matter most to you.

If you find the word "budget" unpleasant, strike it from your vocabulary! Instead, call it a "cash-flow plan"—because that's what it is: a plan that lays out where your money will go.

2. Choose the best tool for you.[1] There is no single approach to using a cash-flow plan that works for everyone. You can use the envelope system,[2] create an Excel spreadsheet, buy a software program, try an online tool,[3] or just write your plan on plain ol' notebook paper. The best tool for you is the one you'll actually use, so choose what seems simplest and makes the most sense to you.

That said, if you've never used a cash-flow plan before, you may find the envelope system or the pencil-and-paper approach particularly appropriate. Why? Because the learning curve for each is relatively simple, and it's helpful to use a "hands-on" system at first. Six-to-12 months down the road, feel free to move to an electronic system.

3. Keep it current. Many people quit using a cash-flow plan because they fall behind on recording their spending. Unable to remember what they spent or where, they become frustrated.

If you get behind, don't give up. If you don't have receipts or statements to jog your memory, make estimates as to what you've spent recently, then determine to do better recordkeeping in the future. Set a daily reminder on your smartphone to record your spending. Eventually, good recordkeeping will become a habit.

Apps and budgeting websites (when you're ready for one) make recordkeeping much easier. Resources such as YouNeedABudget, the MoneyWise App,[4] Tiller Money, and Mint can record all electronic transactions for you (pulling data from your credit cards and bank accounts).

But even if you use an app or budgeting website, it's wise to log on daily to enter your cash transactions—and to make sure the electronic resource you're using has categorized your other spending correctly.

4. Plan for maintenance and repairs. Unexpected expenses can be cash-flow plan killers. Maybe you've been humming along, staying within your spending targets for groceries, clothing, and entertainment when all of a sudden you have to buy new tires for your car. In an instant, your cash-flow plan turns upside down. It doesn't have to be that way.

You can plan for unexpected automotive expenses by allocating $100 to $125 per month per vehicle for maintenance and repairs, depending on the age and condition of your vehicles. Some months you won't spend anything, but other months you'll spend a lot. By allocating money to maintenance and repairs each month, you'll have enough set aside for the big-expense months that beset all car owners.

If you're a homeowner, do the same for your house. Allocate at least $250 per month for maintenance and repairs.

5. Remember who's in charge. Although a cash-flow plan is a helpful form of financial accountability, it's a tool that's supposed to serve you—not the other way around. You have the discretion to change your plan, and you'd be wise to do so in certain situations.

For example, maybe inflation is causing you to spend more on groceries than you planned month after month. You may have to allocate more than you initially expected. Of course, more money for groceries means less for other categories. But the process of making these kinds of adjustments is a normal part of using and refining a cash-flow plan.

6. Get on the same page as your spouse. With most couples, one spouse typically takes to the mechanics of a cash-flow plan better than the other. That's fine. Put that person's strengths to work by having that spouse be the one to enter transactions.

That doesn't absolve the other person from responsibility, however. Both husband and wife must be supportive of the plan and accountable for staying within spending boundaries. And, far from being a source of strife, many couples find that *working together* to design and implement a cash-flow plan helps strengthen their unity and common purpose. Praying together about your household finances will help too.

Don't expect overnight success

If you're new to the process of using a cash-flow plan, be patient. It takes time to get in a rhythm of keeping track of your spending and figuring out the correct amounts to allocate for each category. Don't get discouraged.

Persevere, and you'll likely discover that a cash-flow plan isn't the ball-and-chain you may have imagined. Instead, you'll find it to be a tool that fosters a great sense of freedom in your finances. ◆

[1]For a free Budget Quick-Start Guide and Recommended Cash Flow Guidelines, go to bit.ly/SMI-budget [2]See www.thebalance.com/what-is-envelope-budgeting-1293682. [3]Jan2019:p6, Feb2019:p22 [4]For more on the MoneyWise App, see Apr2021:p54.

LEVEL 2 TWO

Developing Your Investing Plan

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

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

WHAT EVERY CHRISTIAN NEEDS TO KNOW ABOUT INVESTING

The Bible teaches us to live differently.

> *"Do not conform to the pattern of this world, but be transformed by the renewing of your mind. Then you will be able to test and approve what God's will is—his good, pleasing and perfect will"* (Romans 12:2).

That applies to all aspects of our lives, including how we invest. While Scripture doesn't weigh in on the differences between Roth IRAs and Traditional IRAs, or offer guidance on choosing between a market order and a limit order, it *does* provide numerous principles that can (and *should*) guide Christians in our investing. Here are nine such principles.

1. Know your role. Our culture would have us believe we own our home, our cars, and our investment account. The Bible says otherwise.

> *"The earth is the LORD's, and everything in it, the world, and all who live in it; for he founded it upon the seas and established it upon the waters"* (Psalm 24:1-2).

Acknowledging God's ownership of everything is the essential starting point of biblical money management. Likewise, it is the essential starting point of investing. We are stewards, or managers, of whatever God generously and temporarily entrusts to our care. Investing money in light of this truth means doing so for God's purposes and according to His principles.

2. Pursue multiplication. In the Parable of the Talents (Matthew 25:14-30), Jesus uses the story of a wealthy man entrusting his possessions to three servants to depict God entrusting each of us with some of His resources. Here are three important points gleaned from this parable:

- The amount we're given to manage is based on our current abilities (v. 15);
- The Lord will one day return and He'll want to see what we have done with what He entrusted to us (v. 19);
- If we manage His resources well—in other words, if we make something more of what He entrusts to us—He'll entrust us with more to manage (v. 20-23).

3. Motives matter. The Bible doesn't encourage multiplying money for the sake of multiplying money or so that we can live a life of comfort (see Luke 12:13-21). In God's economy, multiplication is all about impact.

Scripture teaches that our lives are to be about loving God (Matthew 22:36-38), loving people (Matthew 22:39), and making a God-glorifying difference (Ephesians 2:10).

Financially, some important ways we can fulfill those purposes are by giving generously toward Kingdom-building causes (Proverbs 3:9) and providing for our families (1 Timothy 5:8). While we're in the paid workforce, our salary enables us to do both. However, one day most of us will retire from full-time paid work. Investing wisely now can give us the means to continue giving even after our salary days are over—whether that means giving appreciated assets or leaving some of our estate to our church or other ministries. Investing also enables us to build a nest egg to help provide for our family in later life.

4. Expect difficult times. A verse in the Old Testament book of Job says *"man is born to trouble as surely as sparks fly upward"* (Job 5:7). When trouble comes, it shouldn't surprise us! We've been forewarned. Trouble is certainly common in the investing world.

While the stock market's long-term trajectory has been upward, it has not moved up on a straight line. On average since 1950, the market has experienced a "correction" (a decline of 10% or more from its most recent high) every two years, a "bear market" (a decline of 20% or more) every seven years, and a "crash" (a decline of 30% or more) every 12 years.[1]

Knowing some stock market history can help us take the market's ups and downs in stride.

5. Guard your heart. Our God-given emotions enable us to enjoy the richness of life. They can also get us in trouble. That's why the Bible instructs us to "guard" our heart (Proverbs 4:23).

Two emotions that can be especially challenging for investors are fear and greed. Of the many risks investors face, perhaps the greatest is the risk of getting in one's own way by letting such emotions dictate investing decisions. When the market is growing, greed can tempt us to invest more aggressively than we should. When the market is falling, fear can tempt us to run for cover. That's why, in addition to knowing some market history, the next three principles are so important.

6. Think long-term. The Bible teaches us to build wealth slowly.

> *"Steady plodding brings prosperity; hasty speculation brings poverty"* (Proverbs 21:5 TLB).

A biblical approach to investing takes a long-term view of the stock market. History demonstrates that time favors the patient investor. On any given day, the market has a slightly better than 50% chance of rising. As the time horizon expands, the higher that percentage becomes. For example, there has never been a 20-year period when the market has declined.

7. Diversify. Scripture teaches us not to put all of our eggs in one basket.

> *"But divide your investments among many places, for you do not know what risks might lie ahead"* (Ecclesiastes 11:2).

If you invest your entire portfolio in a single stock and that stock has a bad year, that's a problem. But if you invest in 10 to 20 stocks and one of them has a bad year, the performance of the others may balance that out. That's the idea behind diversification.

Investing in mutual *(continued on page 44)*

[1] See bit.ly/3Bho2hb.

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

ENERGY SURGE: UPDATING SMI'S COMMODITIES THINKING IN LIGHT OF A FALLING STOCK MARKET

SMI first made the case for a new commodities bull market in October 2020.[1] That month, inflation (as measured by CPI) was +1.2% over the prior year.

Eighteen months later, CPI has accelerated to +7.5% and our preferred commodities ETF (recommended within SMI's Upgrading strategy) has gained +75% since that initial article. With the market landscape having changed in significant ways since October 2020, it's time to review and update our long-term commodities thesis and see if it still makes sense today.

Historic undervaluation

There were two primary reasons why SMI believed commodities were compelling enough to allocate to within the Stock Upgrading strategy at the beginning of 2021.[2]

First, commodities were trading at historically low valuations—as in: crazy, rarely-seen-before prices. Today, even after rising +75%, there's a compelling case to be made that they still are.

The chart nearby is an updated version of what ran in the January 2021 commodities article. At that time, the line was just crossing upward through the 0% return line. Today, despite commodities rising +75% since October 2020, they are still reasonably priced relative to the past 20 years. In fact, it's easy to make a case that commodities still have considerable room to run.

To understand how this can be, it's important to understand the normal ebb and flow of the commodities markets. "The cure for high prices is high prices," speaks to the vital role of supply and demand in pricing these physical goods. The price of a given commodity rises, which provides an incentive for producers to boost production. As more supply becomes available, the price declines, causing producers to cut production back. Rinse and repeat.

Commodities, being physical goods, are different from many industries that deal in intangible goods. For example, it costs Netflix very little if the number of customers streaming their shows doubles. In contrast, substantially increasing the available supply of a physical commodity is a massive undertaking that requires years of planning and execution.

This is most vividly seen in the energy and metals parts of the commodities market. Even as new production occurs, current reserves are being depleted. This means new exploration and development are constantly needed to replace the supply recently brought to market.

Underinvestment in new capacity

This constant need to replenish old reserves with new discoveries/capacity is the key to the current opportunity in commodities. Simply put, commodity producers have cut way back on exploration and development of new supply over the past decade. Today, demand is booming across the commodities spectrum, but there's little new supply to meet that soaring demand.

There are two primary reasons why suppliers have been reluctant to invest in new supply in recent years.

1. China boom hangover. The commodities boom from 2000-2009 was considered by many to be a once-in-a-lifetime event driven by the "build-out" of China from third-world country to modern superpower. Building modern cities at scale across China sent prices of industrial commodities (and energy) soaring. But as China's growth slowed, commodity producers that had ramped up production during the 2000s were left with supply gluts in the 2010s. Prices tanked, and the incentive to continue investing in new production disappeared.

2. Rapid growth of ESG investing. In addition to the normal cyclical "boom/bust" nature of the commodities market, accentuated by the China boom in the 2000s, a second major factor has dramatically impacted specific portions of the commodities market. That factor has been the rising tide of ESG investing and its hostility toward fossil fuels (and mining).

ESG stands for "Environmental, Social, and Governance" and it has become a major force in institutional investing. Environmental criteria have caused many large investors (pension plans, insurance funds, even ETF providers) to not only avoid *new* investments in conventional energy companies but to *divest* any such investments already in their portfolios.

This pressure from investors, coupled with the very real transition underway to replace fossil fuels with cleaner energy sources, has starved traditional energy companies of the

(continued on page 45)

[1]Oct2020:p152 [2]Jan2021:p8

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

A ROTH IRA CONVERSION AND THE OPPORTUNITY OF A DOWN MARKET

Bear markets are financially painful. But along with the pain, a down market offers an upside—namely, an opportunity for significant tax savings when moving money from a Traditional IRA to a Roth IRA. Of course, we can't say for sure if a bear market is in the offing this year, but if one occurs, it will present an ideal time for a Roth conversion.

Further, with most federal income-tax rates scheduled to increase in 2026, converting money to a Roth before then would seem to be a tax-savvy approach.

Traditional vs. Roth

Attempting to reduce one's future tax burden is at the heart of the Roth-conversion decision. However, as with almost anything related to taxes, the choice is clouded by variables and unknowables.

First, let's look at what is clear: the difference in income-tax treatment afforded to Traditional IRAs and Roth IRAs.

- **Traditional IRAs:** Uncle Sam encourages people to contribute to Traditional IRA by offering an upfront tax deduction. The amount of one's contribution is excluded from taxable income for the year in which the contribution was made. There *will* be a tax bite, but it will come later—when money is taken out of the IRA in retirement (withdrawals can begin as early as age 59½[1]). Funds withdrawn—both contributions and earnings—will be taxed at whatever applicable rates are in effect when a withdrawal occurs.
- **Roth IRAs:** Roth contributions don't yield a tax deduction. However, when qualified withdrawals are made in retirement, the money—not just contributions *but also any investment earnings*—will come out tax-free. (An account holder must meet IRS rules related to a minimum five-year holding period for the withdrawal of earnings to be tax-free.[2])

This potential for building a storehouse of tax-free retirement income is what makes moving money from a Traditional IRA to a Roth attractive.[3] Of course, if you relocate money from an account in which your *contributions* weren't taxed (Traditional) to one from which your *withdrawals* won't be taxed (Roth), the taxman will be watching! *You'll owe regular income tax on the entire amount you convert.*

The tax rate applied to funds moved from a Traditional IRA to a Roth is a taxpayer's marginal (i.e., highest) rate, based on income level. That rate is applied to the value of the converted holdings as of the conversion date. For example, if your marginal federal tax rate is 22% and you were to convert $100,000, the tax cost of the Traditional-to-Roth conversion would be $22,000.

Financial advisors suggest converting *only if you can afford to pay the taxes from resources outside of your IRA*. After all, the goal of a conversion is to keep your retirement money growing tax-free as long as possible. Therefore, using a portion of your retirement funds to pay conversion-related taxes undercuts what you're trying to accomplish.

To be sure, coughing up thousands for taxes is no fun, but keep your eye on the prize: Eventual withdrawals from your Roth account will be tax-free, no matter how strongly your account may grow in the future. Therefore, *the longer you have before retirement, the more it makes sense to convert* because you have a longer time for earnings growth to make up for the tax hit.

As noted above, the IRS assesses the tax as of the conversion date. That's why doing a conversion during a bear market is good timing. Since a bear market temporarily reduces the value of your holdings, you can convert more holdings for your tax dollar. For example, converting 100 shares of XYZ fund will cost less in taxes if the fund's share price has fallen 20%.

It's complicated

Now, to matters that are less clear. No one can be certain about future tax rates and how they will be applied at various income levels (more on this below). If your marginal tax rate in retirement is higher than when you convert, you'll come out ahead by converting at lower rates and avoiding taxes later. But if you end up in a *lower* bracket in retirement—a distinct possibility, given that most retirees don't have working income—a Roth conversion now could cost *more* than taking taxable distributions from a Traditional IRA later.

The Roth-conversion decision is further complicated by the fact that a conversion may affect other aspects of your overall tax picture. Because the IRS will treat the converted amount as income for the year in which you make the conversion, the additional dollars could push you into a higher tax bracket. Also, the extra income might disqualify you from receiving certain tax breaks, such as the child tax credit or education-related credits.

It's also possible that the conversion amount could increase your income enough that you'd have to increase withholding or make quarterly payments to avoid an underpayment penalty on your next tax return. And there's at least one more thing to be concerned about if you're on Medicare (or getting close): the extra income from a Roth conversion could bump up the cost of your Medicare Part B premiums.

Given the many variables, you can see why it's wise to consult a financial planner or tax advisor who can run multiple "what-if" scenarios regarding a Traditional-to-Roth conversion. Of course, if you're a diehard do-it-yourselfer—or if you just want to get a general idea of what you're facing before you talk with an advisor—you can run scenarios on your own using the Roth-conversion *(continued on page 46)*

[1]In most cases, withdrawals before age 59½ will incur taxes plus a penalty. [2]If you don't have a Roth IRA, you'll need to open one during the conversion process. [3]Roths also have no mandatory-distribution age, creating more opportunity for long-time growth. Traditional IRAs require withdrawals starting at age 72.

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 1/31/2022	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	-0.2	-2.8%	-2.8%	-3.4%	-2.5%	5.7%	9.9%	0.98	0.11%/0.08%	20%	16%	12%	8%	VTIAX/VXUS
Extended Market Index	Small company stocks	-27.2	-10.1%	-10.1%	-14.1%	-11.4%	-1.7%	15.3%	1.38	0.06%/0.06%	40%	32%	24%	16%	VEXAX/VXF
S&P 500 Index	Large company stocks	25.0	-5.2%	-5.2%	-1.6%	3.4%	23.3%	20.7%	1.00	0.04%/0.03%	40%	32%	24%	16%	VFIAX/VOO
Total Bond Market Index	Medium-term bonds	-8.6	-2.2%	-2.2%	-2.2%	-3.3%	-3.0%	3.7%	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 fund options, see footnotes and consult SMI’s monthly *Fund Performance Rankings* report at soundmindinvesting.com/FPR.

Risk	Data through 1/31/2022[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	Invesco Op Yld Commodity No K-1	PDBC	10%	11/21	ETF	ETF	ETF	68.3	7.8%	7.8%	5.5%	14.6%	48.2%	1.15	0.59	None
Situational	Simplify US Eq Pl Dwnsd Convexity	SPD	10%	01/22	ETF	ETF	ETF	21.3	-5.0%	-5.0%	-0.5%	2.6%	19.2%	NA	0.29	None
Small Company	Invesco S&P SmCap Value Mtm	XSVM	10%	09/21	ETF	ETF	ETF	28.4	-3.4%	-3.4%	-0.4%	6.3%	22.5%	1.77	0.39	None
Small Company	Bridgeway Small-Cap Value	BRSVX	10%	09/21	NTF	Yes	Yes	26.9	-7.0%	-7.0%	-6.4%	4.1%	29.2%	1.57	0.92	None
Small Company	iShares Russell 2000 Value index	IWN[6]	10%	03/21	ETF	ETF	ETF	7.9	-5.9%	-5.9%	-5.5%	-1.2%	14.7%	1.43	0.24	None
Large Company	☎ Cash (see page 44)		10%	03/22												
Large Company	Cash		10%	02/22												
Large Company	iShares S&P 500 Value index	IVE[7]	30%	02/22	ETF	ETF	ETF	31.1	-1.7%	-1.7%	1.8%	4.6%	24.6%	1.06	0.18	None

Footnotes: [1] Current Upgrading recommendations are based primarily on unpublished momentum data current through late February, rather than on the end-of-January 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 IWN ETF include Vanguard’s VSIAX, Fidelity’s FISVX, and Schwab’s SWSSX. **[7]** Traditional-fund alternatives to the IVE ETF include Vanguard’s VSPVX, Fidelity’s FLCOX, and Schwab’s SWLVX.

RECOMMENDED FUNDS FOR SMI’S BOND FUND UPGRADING STRATEGY

Data through 1/31/2022[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[8]	Exp Ratio	Redemp Fee?[5]
Vanguard S-T Infln-Protected Sec[9]	VTIP[10]	50%	06/21	ETF	ETF	ETF	4.6	-0.7%	-0.7%	-0.1%	0.5%	4.2%	2.5	0.04	None
Permanent: Vanguard I-T Bond	BIV[11]	25%	Perm	ETF	ETF	ETF	-9.6	-2.1%	-2.1%	-1.9%	-3.9%	-3.8%	6.6	0.05	None
Permanent: Vanguard S-T Bond	BSV[12]	25%	Perm	ETF	ETF	ETF	-5.4	-1.0%	-1.0%	-1.2%	-2.1%	-2.0%	2.7	0.05	None

Footnotes: [8] 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. **[9] 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. **[10]** Those preferring a traditional mutual fund option can buy Vanguard’s VTAPX. **[11]** Those preferring a traditional mutual fund option can buy Vanguard’s VBILX. **[12]** Those preferring a traditional mutual fund option can buy Vanguard’s VBIRX.

☎ Changes in fund recommendations are explained in the MoneyTalk column on page 44.

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.

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 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]

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 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.

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.

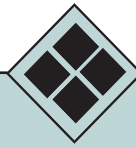
Review your order and complete your purchase. Trades of traditional mutual funds will be filled after the market closes for the day. ETF trades, if using a "market order," typically will execute right away.[2]

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.



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STOCK UPGRADING — UPDATED FUND RECOMMENDATIONS

[Stock Upgrading is a strategy that involves owning traditional mutual funds and ETFs exhibiting strong recent momentum. As momentum fades, holdings are replaced. The simplest method of selecting funds is to buy those recommended on the "Basic Strategies" page. A $ symbol following the name of a fund being replaced indicates we still think well of the fund. You might hold the fund for a while longer if you have reasons for doing so.]

January's stock market correction temporarily bottomed out on Jan. 27, which coincidentally was the online release date of SMI's February issue. We made significant changes to the Upgrading portfolios that day, shifting 30% of the portfolio from large/*growth* to large/*value*, as well as moving 10% of the portfolio to cash.

Initially, it took a bit of faith to believe those moves were the right thing to do, as the stock market bounced strongly to end January and then continued higher through early February. But stocks began falling again on Feb. 10 and have continued sliding through this writing (Feb. 23) with the broad stock market back down near the late-January lows.

Stock Upgrading fared substantially better than the broad market since those changes of a month ago. While the S&P 500 index is -2.2% below its Jan. 27 level, Stock Upgrading is up +1.9%. Our commodities exposure (see page 40) was partially responsible for that, gaining +6.3%. But also important is how well our small/value holdings have performed. Those three holdings make up 30% of Stock Upgrading and have collectively gained +1.1% since Jan. 27.

This performance rotation away from large/growth stocks and toward small/value stocks is reminiscent of the 2000-02 bear market. This year, as then, large tech stocks saw the air let out of their bloated valuations, while many smaller value stocks fared significantly better.

Reiterating the warning we issued last month, remember that bear markets don't move in a straight line. They tend to fall, then rally, over and over again.[1] As we wrote a month ago:

> *"It wouldn't be surprising to see the market fall as it did in January, then rebound, then fall some more, and so on. The duration and scope of those counter-trend rallies is impossible to predict, but bear markets are known for sucking investors into thinking 'the worst is over' again and again.... In other words, if the market rebounds in February, it won't necessarily mean these changes to get incrementally more defensive were wrong — they could just be a bit early. As rapidly as markets move these days, it's a dangerous game to try to time those counter-trend rallies perfectly."*

That same counsel is true as we head toward March. While the Russia/Ukraine situation looks grim, any positive resolution would be a relief to investors, as would the Fed hiking interest rates "only" 0.25% in March, rather than the 0.50% the market was expecting until recently.

Upgrading's current blend of mostly value stocks, cash, and commodities navigated the February market downturn very well. We're expanding that cash cushion slightly this month, but even those who choose to wait on this transition can feel confident in the way Upgrading has been navigating the recent market currents.

◆ **In the Large Companies group, sell Jensen Quality Growth (JENSX, 1/2022)$ and hold the proceeds in Cash.[2]**

We just recommended this fund in January, so it's an unusually quick sell for Upgrading to part ways after only two months. (Note that this fund may need to be held a few days longer to avoid a 60-day short-term trading fee, due to the short February month.) Those who wish to hold it another month to avoid a 90-day short-term trading fee can reasonably do so if they choose. Check your broker's policy and your specific buy/sell dates carefully.

The reason we're moving on so quickly is that this Jensen fund hasn't provided the "safe growth" exposure so far in 2022 that we expected when it was purchased. So far in 2022, the fund is down -12.9% while the S&P 500 index is down -11.2%. Granted, this is a very short comparison period. But as a "blend" fund that has both growth and value characteristics, it has quickly found itself on the wrong side of the growth/value divide.

We didn't expect the market to turn south so rapidly after setting a new all-time high on Jan. 4. But we're now two months into decidedly "bear market-like" volatility and trading behavior, so we can either adapt our positions in light of the new trends or potentially pay the consequences of sticking with what the trends favored two months ago. We'd rather cut the loss short and get repositioned in line with the new market trend. ◆

LEVEL 2 / CONTINUED FROM PAGE 39

WHAT EVERY CHRISTIAN NEEDS TO KNOW ABOUT INVESTING

funds, as opposed to individual stocks, is a simple way to diversify your investments. A mutual fund is a pool of money from many investors that is invested in many stocks (or other types of investment).

A crucial next step is deciding *how* to diversify by determining your optimal asset allocation.[3] That will tell you, based on your age and investing temperament, how to best balance the competing goals of growth and safety with an appropriate mix of stock funds and bond funds.

8. Use wise counselors. The Bible encourages us to seek the input of trusted advisers.

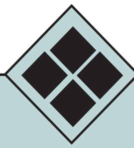
"Plans succeed through good counsel" (Proverbs 20:18). By the same token, *"Plans fail for lack of counsel"* (Proverbs 15:22).

Investing can be challenging to do entirely on one's own. Fortunately, good counsel is readily at hand, whether via an investment newsletter or a financial advisor.

9. Trust in God. The Bible says, *"Some trust in chariots and some in horses, but we trust in the name of the LORD our God"* (Psalm 20:7). Perhaps nothing sets the Christian investor apart from others more than this: in good times and bad, our trust is in the Lord.

In the aftermath of the pandemic-fueled market crash of early 2020, it was encouraging to survey SMI's members and see so many crediting their faith, prayer, and meditating on the truth of God's Word for helping them get through that

[1] bit.ly/SMIBear [2] For more on this fund, visit www.morningstar.com. [3] bit.ly/SMI-Risk-Tolerance-Quiz



MONEYTALK

troubling time. Over 500 members sent us more than 70 verses of Scripture that they turned to for comfort and reassurance.[1]

Principles into practice

Imagine the good that would come about if all Christ-followers used these nine principles to guide their investing. Imagine how much more portfolios—and more importantly, impact—could be multiplied. Imagine how much more money could flow toward Kingdom purposes and how much better families would be provided for.

Imagine how much more peace of mind would be experienced by Christian investors—so much so that others might notice, ask questions, and be introduced not just to good investment counsel but to the Good News. Imagine how much more God would be glorified. ◆

LEVEL 3 / CONTINUED FROM PAGE 40

ENERGY SURGE: UPDATING SMI'S COMMODITIES THINKING IN LIGHT OF A FALLING STOCK MARKET

capital and incentive to continue exploring and developing new supply.

Energy impact flows through

The unique thing about energy commodities is that they are inputs to many other commodities. For example, natural gas is a key input in many crop fertilizers. So as natural gas prices have spiked higher in Europe and Asia this winter, so too have fertilizer prices. Less fertilizer available this spring means a likely reduction in crop yields this summer, leading to higher agricultural commodity prices in the future. The same is true of oil as an input into the costs of many other goods and services, not to mention the direct role of energy costs in the exploration and production of many other commodities.

One key difference between the energy commodities and, say, the agriculturals (corn, soybeans, wheat, etc.) is the long lead time required to bring on additional supply. If this year's corn crop is small, it's a relatively easy adjustment for farmers to plant more corn next year. However, with energy production (and the mining of many industrial metals), it's not so simple. Finding new reserves is hard enough. Getting the required permitting can take years, and there's considerable cost and time involved in drilling new wells, mines, etc.

As a result, there can be a significant gap between rising prices signaling a need for additional supply and the ability of producers to actually make more supply available. Granted, there are many variables we could discuss here, such as the excess capacity the OPEC+ oil cartel may (or may not) have available, the ability for U.S. shale producers to re-open recently closed wells, and so on.

The point is simply that the world can't simply snap its fingers and have ready access to more oil, natural gas, copper, and so on. The events of recent months have provided powerful evidence of this, as European natural gas prices soared, averaging *7-10 times the price* Americans paid this winter. This is a direct result of years of policy choices to make increasing production of fossil fuels more difficult in pursuit of aggressive climate and de-carbonization goals.

Lest any U.S. readers be tempted to feel superior in this regard, consider a trio of recent decisions here at home. On Jan. 25, the U.S. Fourth Circuit Court of Appeals vacated federal permits necessary to complete a 3.5-mile stretch of natural gas pipeline along the West Virginia-Virginia border. Work had begun in 2018 based on these approvals and was already 94% complete. This pipeline is critical to making available the production of the huge Appalachian natural gas fields.[2]

Not to be outdone, on Jan. 27 a federal judge canceled oil and gas leases of more than 80 million acres in the Gulf of Mexico. Per *The New York Times,* the judge ruled that "the Biden administration did not sufficiently take climate change into account when it auctioned the leases late last year.... It had been the largest lease sale in United States history."[3]

Then, in late February, the Biden administration paused oil and gas leases in a half-dozen states after a court blocked the way officials were calculating the "social cost of carbon."[4]

Secular vs. cyclical

After 18 months of rising commodity prices, one might be nervous the easy gains are already behind us. But consider what Bloomberg reported in early February: "Jeff Currie, the closely-followed head of commodities research at Goldman Sachs..., says he's never seen commodity markets pricing in the shortages they are right now. 'I've been doing this 30 years and I've never seen markets like this.... This is a molecule crisis. We're out of everything. I don't care if it's oil, gas, coal, copper, aluminum—you name it, we're out of it.'"

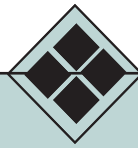
Comparing current supply with the global demand trajectory creates a potent argument that commodities could be in the early stages of a secular (long-term) bull market. While energy experts model this stuff granularly, the simple version is this: Globalization has lifted a couple of billion people out of poverty over the past 20-30 years. All of them aspire to the type of "middle-class lifestyle" that people in developed nations have enjoyed for decades. This massive movement upward on the quality-of-life scale involves a huge increase in energy usage as home heating/cooling, refrigeration, transportation, and so on become economically viable.

While the secular story is compelling, it's important to recognize that commodities are also subject to cyclical (short-term) forces. Specifically, this means that recessions can dig deeply into commodity prices as demand temporarily plummets, as we saw in 2020.

We expect the potential of a 2023 recession to be a topic of growing concern as the Federal Reserve tightens monetary policy (by raising interest rates and other steps) this year. This could cause SMI's commodities process[5] to tell us to step aside again at some point as prices correct.

To be clear, while the primary trend in commodities seems likely to be higher, prices are unlikely to rise in a straight line.

[1]bit.ly/SMI-Encouragement [2]bit.ly/AppNatGas [3]bit.ly/SMIDoomberg [4]bit.ly/3t3QpMi
[5]See Jan2021:p8 for more on this process.



MONEYTALK

Periods of rising prices likely will be punctuated by declines, either of a longer nature due to forces such as recessions, or simply the shorter-term nature of prices occasionally getting ahead of themselves and needing to correct and cool off.

Commodities are a potent portfolio diversifier

Having discussed the case for a continued commodities bull market, let's turn to the second reason SMI considered commodities a compelling addition to the Stock Upgrading strategy: diversification.

Commodities have historically been a good diversifier within a stock/bond portfolio. We've written about this before regarding past periods of inflation.[1] But we don't have to dig through the historical archives on this point when we can just look at what has transpired so far in 2022 (see table above).

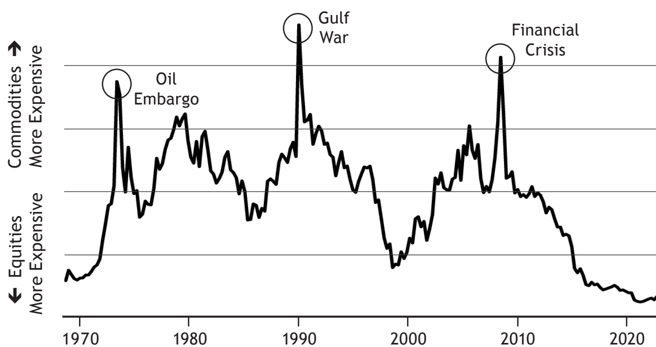
2022 YTD (THRU FEB. 23)

S&P 500	–11.2%
Russell 2000	–13.3%
Nasdaq	–16.7%
PDBC Commodity ETF	+14.2%

Conclusion

The graph on page 40 showed that commodities are still reasonably priced relative to their own past performance. The one below compares the performance of commodities to that of stocks. With commodities sporting historically low valuations and stocks at historically high extremes, the chart demonstrates that commodities have rarely been as attractive relative to stocks as they are today. This valuation gap can close in two ways: commodities can increase in value or stocks can decrease in value. We expect to see both of these occur in the months ahead.

COMMODITIES TO EQUITIES RATIO
GSCI Index Divided by S&P 500 Index



Commodities are unlikely to dodge all the pain of a full-blown bear market in stocks. They are a volatile asset class, prone to swift and significant moves. Nevertheless, commodities can provide a powerful diversifier within SMI portfolios.

That said, recognize that commodities already have a fairly prominent allocation within many blended SMI portfolios. These allocations have been an important diversifier so far in 2022. A 50/40/10 portfolio, for example, has a roughly 14% allocation to commodities by virtue of Sector Rotation and the Stock Upgrading holding. So most SMI members likely don't need to add more exposure at this time. ◆

LEVEL 4 / CONTINUED FROM PAGE 41

A ROTH IRA CONVERSION AND THE OPPORTUNITY OF A DOWN MARKET

calculator in MoneyGuide[2] (or use an online conversion calculator, such as the one available from Fidelity[3]).

One way to manage the tax consequences is to convert money from a Traditional account bit by bit over several years, keeping the tax on each transaction—and the follow-on effects—at a level you can handle.

Projecting retirement income

Although no one can predict what a future Congress may do about rates and brackets, we do know that unless Congress acts, most of the tax changes that took effect in 2018— including lower rates—will expire in 2026. Rates and tax brackets (adjusted for inflation) that were in effect in 2017 will return.

Right now, a married couple (filing jointly) pays federal income tax of 10% on their first $20,550 of taxable income, 12% on income from $20,551 to $83,500, 22% on income from $83,551 to $178,150, and 24% on income from $178,151 to $340,100. (Rates continue to rise for higher-income earners, eventually hitting 37% for income above $647,000.)

In 2026, the 12%, 22%, and 24% rates will go away. The rates will revert to: 10%, 15%, 25%, 28%, 33% 35%, and 39.6%. Although the income brackets for each rate aren't known yet, it seems likely that a level of income that's taxed today at 12% will be taxed at 15% in 2026. Likewise, income now taxed at 22% likely will be taxed at 25%, and so on. Clearly, the coming higher rates provide additional impetus for making Roth conversions.

However, keep in mind that U.S. income-tax rates are progressive. That means the first portion of your retirement income will be taxed at the lowest federal rate. The next portion will be taxed at the next-lowest rate, and so on. In other words, a significant amount of your retirement income will fill in the lower brackets before reaching the higher brackets.

A Roth conversion, in contrast, will be taxed at your highest (marginal) current rate. So it wouldn't be wise to pay, say, a 24% tax rate on a conversion today for income that might be taxed at only 15% if withdrawn from a Traditional IRA in retirement. (Again, no one can be sure what future tax rates and brackets may be. We can only know what they are now and extrapolate into the future.)

It's up to you

Even if you decide a Traditional-to-Roth conversion doesn't make financial sense in your case, you still can open a Roth IRA and start making contributions—providing you have earned income that doesn't exceed certain thresholds.[4]

If you decide that converting to a Roth *does* make sense, then a market decline could present an attractive opportunity for tax savings. By working through the decision process now with a tax professional, you'll be ready to act when the bear begins to prowl, whether that's sooner or later. ◆

[1]May2021:Cover [2]The MoneyGuide software is available to SMI Premium-level members for a one-time $50 fee. See soundmindinvesting.com/MoneyGuidePro. [3]bit.ly/3HYzaSB [4]The 2022 cutoff threshold for contributing to a Roth IRA is modified adjusted gross income of $144,000 for singles and $214,000 for married couples filing jointly.

SOUND MIND PORTFOLIOS

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

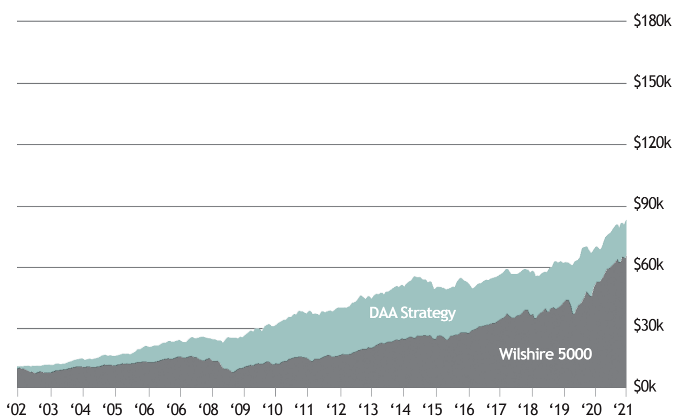
Overview

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 2002-December 2021
(DAA performance data for 2002-2012 is backtested)



Strategy	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Avg[1]	Worst12[1]	Rel Risk[1]
DAA	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%	19.2%	11.1%	-13.7%	0.64
Wilshire 5000	-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%	26.7%	9.9%	-43.3%	1.00

SECTOR ROTATION

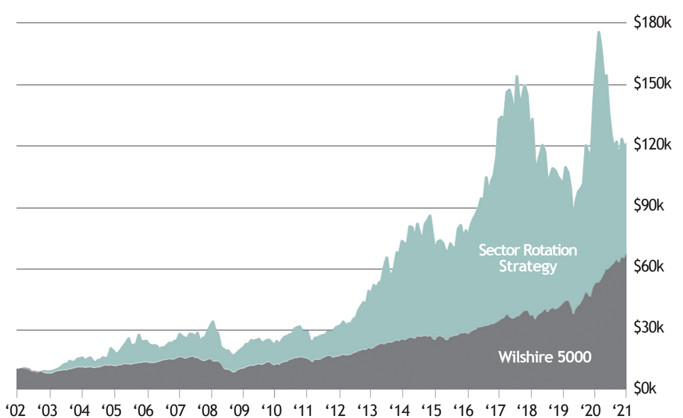
Overview

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:** 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 2002-December 2021
(SR performance data for 2002 is backtested)



Strategy	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Avg[1]	Worst12[1]	Rel Risk[1]
SR	-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%	-24.1%	13.3%	-38.6%	1.78
Wilshire 5000	-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%	26.7%	9.9%	-43.3%	1.00

[1]The three data points at the far right in each performance table cover the full 20 years from Jan2002-Dec2021. "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 JANUARY 31, 2022

BASIC STRATEGIES

	Year to Date	1 Month	3 Months	12 Months	3 Yrs Annual	5 Yrs Annual	10 Yrs Annual	15 Yrs Annual
U.S. Stock Market[1]	-5.7%	-5.7%	-3.2%	19.8%	20.3%	16.3%	15.2%	10.1%
Just-the-Basics[2]	-6.7%	-6.7%	-7.1%	9.5%	16.5%	13.4%	12.7%	8.7%
Stock Upgrading[3]	-5.2%	-5.2%	-5.6%	5.1%	13.8%	10.6%	11.3%	7.8%
U.S. Bond Market[4]	-2.2%	-2.2%	-2.1%	-3.0%	3.7%	3.1%	2.5%	3.8%
Bond Upgrading[5]	-1.1%	-1.1%	-0.8%	-1.2%	5.1%	3.5%	3.3%	5.6%

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]	-5.8%	-5.8%	-3.9%	14.2%	12.2%	9.4%	7.6%	8.5%
Sector Rotation	-14.1%	-14.1%	-15.7%	-40.9%	-2.1%	3.7%	14.7%	10.6%
50-40-10 Blend[7]	-6.4%	-6.4%	-5.7%	4.2%	11.8%	9.7%	10.1%	8.9%

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 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 1/31/2022	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	-6.97%	-6.97%	-8.25%	0.83%	12.35%	9.54%	9.61%
Wilshire 5000	-5.73%	-5.73%	-3.21%	19.84%	20.28%	16.32%	15.16%
S&P 500	-5.17%	-5.17%	-1.61%	23.29%	20.71%	16.78%	15.43%

Quarterly Returns as of 12/31/2021	Year to Date	1 Month	3 Months	12 Months	3 Year Annual	5 Year Annual	10 Year Annual
SMIFX	11.34%	1.75%	3.79%	11.34%	17.05%	11.46%	10.84%
Wilshire 5000	26.70%	3.89%	9.58%	26.70%	26.11%	18.11%	16.40%
S&P 500	28.71%	4.48%	11.03%	28.71%	26.07%	18.47%	16.55%

Total/Gross expense ratio: 1.98% as of 6/08/21 (includes expenses of underlying funds)
Adjusted expense ratio: 1.20% as of 6/08/21 (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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