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SoundMindInvesting®

Financial Wisdom for Living Well

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How Much Is Enough?

The Scriptures encourage prudent financial planning. We are to save for the future, setting aside funds to carry us through unexpected financial difficulties or as part of a long-term retirement savings strategy. Obviously, many people do a poor job of this! However, it's also possible to go to the other extreme and stockpile money beyond any reasonable expectation of need. Where is the balance? Author and teacher Randy Alcorn addresses this question, reminding us that God is our ultimate source of security.

by Randy Alcorn

The purpose of savings is to set money aside for the future. By forgoing expenditures now, we preserve resources for later. "In the house of the wise are stores of choice food and oil, but a foolish man devours all he has" (Proverbs 21:20). The wise anticipate future needs while the foolish consume their resources, not considering the future.

"Go to the ant, you sluggard; consider its ways and be wise! It has no commander, no overseer or ruler, yet it stores its provisions in summer and gathers its food at harvest" (Proverbs 6:6-8). Even ants know there will be no food in winter unless it stores during the summer. Only a shortsighted person would fail to store up provisions (money, food, or supplies) for upcoming times of predictable need.

By God's inspiration, Joseph devised a careful savings plan in light of an upcoming famine in Egypt (Genesis 41:25-57). For seven years the Egyptians stored a large portion of the harvest. When the seven years of famine came, they drew on their stores of grain. The nation was able to care for itself—and provide for others as well.

Although we live in the most affluent society in human history, Federal Reserve data show that more than 30% of Americans reach age 60 without enough contingency savings to tide them over if they had a three-month loss of income. If the reason for this lack of savings was faith in God and a conviction that we shouldn't hang on to resources but give them to meet others' needs, then we'd be in the company of the poor widow of Mark 12 and the Macedonian Christians of 2 Corinthians 8. But the reason typically isn't our trust in God. It's usually self-indulgence, presumption, and lack of foresight and discipline. God doesn't bless a lack of savings for those reasons.

In the event of a lost job or unexpected major expense, the average American family is weeks away from bankruptcy. Yet in other countries with far lower incomes, people have learned to save enough to provide for future needs. To be shortsighted is to invite poverty. To feast now without regard to future famine is to manage our resources poorly and presume upon God or others to bail us out.

We must learn not only to weigh our expenditures in light of their immediate value but their ultimate cost. Money needlessly spent is a double loss. Not only is it *(continued on page 51)*

IN THIS ISSUE

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

EDITORIAL

An Easter Meditation: Do You Find Him Worthy?

"Worthy is the Lamb, who was slain, to receive power and wealth and wisdom and strength and honor and glory and praise!"
Revelation 5:12

Two thousand years ago, there lived a Jew in the Middle East who went about talking as if he were more than a mere man. He claimed to have personally been present with God—who he referred to as his Father—before the creation of the world. He claimed not only to be sinless himself, but as the judge of the world, possessed of the right to forgive sin in others. He claimed to be able to give eternal life, and that he alone was the way to salvation. He invited people everywhere to follow him and give him their complete allegiance. He claimed to be able to satisfy the deepest needs and longings of the human heart. He called himself the "Son of Man" although his name was simply Jesus.

Surely, you might think, these were the ravings of a madman. His claims were outrageous. Many who saw and heard him were astonished at his teachings. His enemies tried several times to kill him for blasphemy, and finally succeeded.

This did not end the matter, however. Jesus had predicted how, when, and why his execution would happen, and promised his followers he would return from the dead. They spread the word that he kept his promise, telling everyone that they had personally seen and spoken with him.

Skeptics may dismiss the biblical account of his life as a fairy tale, suitable for children perhaps but not for thinking adults. Yet we also have testimony from Josephus, a Jewish historian who researched the birth of Christianity for his *Antiquities of the Jews*, written 60 years after the death of Jesus. Although not a Christian himself, Josephus nevertheless reported:

> "At this time there was a wise man who was called Jesus. His conduct was good and [he] was known to be virtuous. And many people from among the Jews and the other nations became his disciples. Pilate condemned him to be crucified and to die. But those who had become his disciples did not abandon his discipleship. They reported that he had appeared to them three days after his crucifixion, and that he was alive; accordingly, he was perhaps the Messiah, concerning whom the prophets have recounted wonders."[1]

One of the strangest aspects of Jesus' story is that even skeptics, when they read his teachings, don't come away with the impression that he was deranged or a megalomaniac. Rather, they will readily admit that he was perhaps the greatest teacher on love and human relationships that the human race has yet produced. And when he said he was "humble and meek," they find it easy to believe him. How can his exclusive claims of divinity be reconciled with the fact that he is held in high regard by non-believers the world over? They can't. The late C.S. Lewis put it well:

> "I am trying here to prevent anyone from saying the really foolish thing that people often say about Him: 'I'm ready to accept Jesus as a great moral teacher, but I don't accept His claim to be God.' That is the one thing we must not say. A man who was merely a man and said the sort of things Jesus said would not be a great moral teacher. He would either be a lunatic—on a level with the man who says he is a poached egg—or else he would be the Devil of Hell.
>
> "You must make your choice. Either this man was, and is, the Son of God: or else a madman or something worse. You can shut Him up for a fool, you can spit at Him and kill Him as a demon; or you can fall at His feet and call him Lord and God. But let us not come with any patronizing nonsense about His being a great human teacher. He has not left that open to us. He did not intend to."[2]

Lewis's argument forces us to deal with the question: How do we square Jesus' historical and worldwide esteem for being a genuinely good and moral man if he wasn't who he said he was? On the other hand, if Jesus *was* who he said he was, we must accept the fact that he's worthy of our total obedience.

If Jesus is worthy of any sacrifice, He's worthy of every sacrifice. If Jesus is worthy of any of our worship, He's worthy of all of our worship. In other words, *if Jesus is worth anything, He's worth everything!* That's why we celebrate Easter.

Austin
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FOUNDER/PUBLISHER

NECESSARY CAUTIONS
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[1] *Antiquities of the Jews*, Book 18, Chapter 3:3, cited by James H. Charlesworth in *Jesus Within Judaism* (Doubleday, 1988), p. 95. [2] *Mere Christianity*, Book II, Chapter 3, "The Shocking Alternative."

How Much Is Enough?

(continued from front page)

gone, but its potential for earnings is also gone. Had we set it aside, it could have been multiplying on earth through savings or in heaven through giving.

It's wise to give first, save second, and spend last. Otherwise, we will spend everything and have nothing to give or save. We'll also set ourselves up to fall into debt when true needs arise.

Saving is a discipline that develops authority over money. Instead of letting money take us wherever our whims incline, we take control.

Reasons for saving

After I give the firstfruits to the Lord, I can take money off the top of my paycheck to save for future purposes. I might save for a family vacation or a remodeling project. I'm not saving without purpose, but for a specific cause.

Long-term savings are a way of using years of plenty to prepare for years of lack, as Joseph did. Anticipating retirement, I might set aside money to supplement an income reduction in the future. Or I might systematically save for my children's college education, which could be 10 years away.

There are also many poor reasons for saving. Some save out of greed. Others save out of fear. They're anxious about the future. By stockpiling money, they insulate themselves from God, no longer depending on his provision and protection.

We can't say, "Saving money is biblical" or "Saving money is unbiblical." It may be either, depending on the reasons and the alternatives.

The dangers of hoarding

Hoarding is saving taken to an extreme. It's accumulating assets for no purpose other than to ward off future disaster, or to provide wealth for many years to come. The classic example of hoarding is the rich fool, who says:

> "I will tear down my barns and build bigger ones, and there I will store all my grain and my goods. And I'll say to myself, 'You have plenty of good things laid up for many years. Take life easy; eat, drink and be merry.'" (Luke 12:18-19)

God then says, "You fool! This very night your life will be demanded from you. Then who will get what you have prepared for yourself?" Jesus promises, "This is how it will be with anyone who stores up things for himself but is not rich toward God" (Luke 12:20-21).

When we read about the rich fool, our first mistake is in thinking we're not really rich. Bill Gates, Ted Turner, and Warren Buffet are rich. We're just lower upper class, or middle class, or lower class. Because we know so many people who are wealthier than we are, we don't think of ourselves as being rich. But we're wrong. Even most lower-class Americans have access to benefits and luxuries—including medical care, indoor bathrooms, running water, food, microwave ovens, radio, television, reading materials, sports equipment, and financial assistance from government, churches, and charities—that the richest people in Bible times never dreamed of. By global standards, even the poorest of all Americans are easily in the upper 20% of the world's wealthy. By historical standards, anyone with a house, indoor plumbing, and enough to eat is certainly rich.

Our second mistake in reading about the rich fool is in assuming we're not fools. We act as if the rich fool was terribly different than we are. In fact, he was living out the American dream, reflected in television commercials, movies, and conversations. He was storing up wealth to rely on in the future while enjoying his favorite recreational pursuits in the present. God calls this man a fool because when his life is suddenly over, his obituary shows that he's been rich toward himself but not toward God.

What will happen to the billions of dollars in the savings accounts, real estate holdings, insurance policies, stock market portfolios, and retirement plans of western Christians? Christ suggests we should be "rich toward God" rather than "store up things" for ourselves. Why? Because by giving freely to God, we store up things in another world where they'll matter and last. Meanwhile, we'll also honor God and help our neighbors. If we fail to do this, we are exactly the same as the rich man—we are *fools*.

Is it inconsistent to say that saving for possible short-term needs can be wise, whereas saving vast sums for decades ahead can be foolish? It may appear to be, but I'm attempting to balance what Scripture says about both. We can't ignore the verses in Proverbs that laud saving, yet we also can't ignore Christ's scathing appraisal of the rich fool. It may not be easy to find a balance—in fact, personally I find it very difficult—but that's the position Scripture puts us in. The solution is not to focus on one group of Scriptures while ignoring others, but to affirm both and seek to honor both, even when we find it difficult.

Hoarders imagine themselves as wise. Jesus says they're anything but wise. They're fools. Hoarding is an attempt to completely cover our material bases so that God becomes unnecessary. Rather than responsibly taking steps for future provision while trusting in God's sovereignty, we assert our own sovereignty by hoarding.

A common goal of hoarders is to achieve "financial independence." But from whom do we wish to be independent? God? Our family? Christian brothers and sisters? I certainly favor independence from the government or parents, in the sense that I earn my own living. There's a kind of dependence that's terribly unhealthy. But isn't there a kind of independence that's equally unhealthy?

"Whoever trusts in his riches will fall, but the righteous will thrive like a green leaf" (Proverbs 11:28). When we stockpile riches for every conceivable scenario, aren't we trusting in our riches rather than in God? The clear teaching of the New Testament is that we are to be *channels* of money and possessions, not *storehouses*. Whatever role that saving has in our lives, it should always be secondary to giving. And it must never be a substitute for trusting God.

Should we save for possible disasters?

Some Christians believe that everyone should store up years of water, food, and even ammunition for our families. One author says that believers should secure passports now in order to be prepared to flee the country during a nuclear holocaust. Certain Christian financial counselors encourage us to invest in diamonds, art, and antiques to hedge against various economic catastrophes that may be ahead. One Christian resource suggests placing assets in offshore tax havens and Swiss bank accounts. Numerous advisers emphasize gold, claiming it's the ultimate answer to future security.

In the late 1990s, when evidence suggested that the Y2K computer-programming bug would likely create weeks of economic turbulence, it seemed reasonable to acquire extra supplies, including food and water. It turned out to be a false alarm. But it also served as a test—where were people's hearts? How much did they store up and for whom? Would we have been willing and eager to share with neighbors and others in need?

I don't mean that it's faithless to lay something aside in the face of a likely shortage. It may just be good planning, especially if the money's not wasted. Someone who had extra food stored could go ahead and eat it afterward and not have wasted money. (It certainly isn't more spiritual to have money in the bank or stock market than canned food on a shelf.)

But there's a difference between conscientious planning for the future and hoarding or survivalism. Does the same Christ who said we should look to the birds and the lilies and trust our heavenly father to provide for our futures, and that we are to lay up treasures in heaven and not on earth, really want us to stockpile gold bullion and store up years of freeze-dried food in a bomb shelter? Does that really sound like what Jesus would call us to do?

My personal retirement accounts—which are quite small by American standards but large by nearly every other measure—contain a combination of mutual funds, precious metals, and other investments. I don't believe these are inherently wrong. But they can become dangerous. When we amass wealth to protect ourselves against imminent doom, where is our faith? Yes, extremely difficult times may be ahead. (With much of the world already experiencing such things, why would we think it couldn't happen to us?) Prudent foresight can be wise. Realism and good planning should characterize God's children. Panic and hoarding should not.

I remember the reactions of people during past shortages of gasoline, sugar, and other supplies. One man, storing drums of gasoline in his garage, said, "I have to get as much as I can before the hoarders get it!"

If economic catastrophe does come, will it be a time that draws Christians together to share every resource we have, or will it drive us apart to hide in our own basements or mountain retreats, guarding at gunpoint our private stores from others? If we faithfully use our assets for his kingdom now, rather than hoarding them, can't we trust our faithful God to provide for us then?

Here's what James says to the wealthy stockpilers in the church of his day:

> Now listen, you rich people, weep and wail because of the misery that is coming upon you. Your wealth has rotted; ...your gold and silver are corroded. Their corrosion will testify against you and eat your flesh like fire. You have hoarded wealth in the last days.... You have lived on earth in luxury and self-indulgence. (James 5:1-5)

James doesn't suggest that these people could avoid future tribulation by hoarding their wealth. On the contrary, it was their hoarding and self-indulgence that assured them of God's coming judgment. Far from being the solution, hoarding is part of the problem!

God will provide for his obedient, responsible, and wise children who seek first his kingdom (Matthew 6:33). Any savings, retirement, insurance, or survival plan that diverts our attention from God also undermines our dependence on him.

Distinguishing saving from hoarding

Saving is a means of not presuming upon God. Hoarding is a means of replacing God. Saving can avoid presuming upon others to assume responsibility for our future needs. Hoarding is a self-absorbed commitment to independence from others who could help us if we're in need, just as we can and should help others.

When I save, I lay something aside for a future need. If I sense God's leading, I will give it away to meet greater needs. When I hoard, I'm unwilling to part with what I've saved to meet others' needs, because my possible future needs outweigh their actual present needs. Hence, I fail to love my neighbor as myself.

The difference between saving and hoarding isn't simply the amount but the attitude. Nonetheless, there's a vast difference between saving five hundred dollars or a few thousand dollars for a "rainy day" and saving a quarter of a million dollars that could last a rainy decade. Some lay up enough to survive a stormy century! In seeking to provide for our future needs, we should not neglect those who are currently needy. Our plenty will supply what they need (2 Corinthians 8:14).

Saving for retirement

Most people must pay Social Security taxes and thereby save for retirement. Many have pensions and retirement plans through their employer. Financial counselors speak of the three-legged stool of retirement—Social Security, employee retirement programs, and individual savings (often through Individual Retirement Accounts and other investments).

We must ask the same question about our retirement savings as all savings. Is this reasonable planning, exercising foresight as Proverbs commends? Or is it an alternative to trusting God, a backup in case God doesn't come through? How is maintaining a generous retirement plan fundamentally different from the rich fool storing up for his later years to live out his life in comfort and security?

We know what Jesus thought of that man's retirement plans (Luke 12:16-21). Why should we assume he thinks differently about ours? We should study this passage and compare our attitudes, behavior (including giving), and plans for the future to that man's, and ask how different we are from him. If there's no difference, obviously we need to change something.

How much is reasonable to save for retirement? At what point does responsible saving cross the line and become greedy hoarding? What would happen if I took part, most, or all of the funds I would otherwise put into retirement and invested them in God's kingdom? Financial counselors would tell me that I would be "jeopardizing my retirement years." Might God say I would be "enhancing my eternal years"? If I waste the money, spend it, or am just a poor planner, that's one thing. But will God really fail me if I invest these funds in his kingdom in an honest effort to obey his words in Matthew 6:19-21 and many other passages?

I agree with the late Larry Burkett's assessment of the saving-for-retirement obsession:

> Retirement planning so dominates the thinking of Christians who have sizable incomes that they overkill in this area enormously. The fear of doing without in the future causes many Christians to rob God's work of the very funds He has provided. These monies are tucked away in retirement accounts for 20 to 40 years.
>
> God's Word does *not* prohibit but rather encourages saving for the future, including retirement (Proverbs 6:6-11; 21:20), but the example of the rich fool, given by the Lord in Luke 12:16-20, should be a clear direction that God's balance is "when in doubt—give; don't hoard."[1]

I realize this is a troubling and threatening topic. Believe me, it bothers me to raise it. Although my retirement savings account may be small by American standards, it's still enough to keep many people alive and reach many people with the gospel. My wife and I decided a while back to take out some retirement funds and give them to God's kingdom. But we still had a significant amount left. Some day more may be given away, or none of it, or all of it. I don't know. But I do know we must ask God, because it belongs to him, not us.

The rich fool never had the opportunity to use the money and possessions he stockpiled for himself. Will our own excess funds hoarded for the future one day become as filled with worms as Israel's hoarded manna? We don't know whether Christ will return in our lifetime. But he certainly will return in the lifetime of *some* Christians. We also know this: All money stored in retirement funds, savings, insurance policies, houses, real estate, and personal possessions will become eternally useless the moment Christ returns. If the countless billions of dollars now invested in earthly accounts were freed up and poured into helping the needy and fulfilling the great commission, what eternal impact might result?

Five minutes after we die, we'll know exactly how much we should have given rather than kept. But then it will be too late. Why not spend the rest of our lives closing the gap between what we'll know we should have given then and what we are giving now?

Can any resource remain "untouchable"?

The goal of much retirement planning is to provide a regular monthly interest income sufficient to meet all our needs without ever touching the principal that generates the interest. This way it's impossible to outlive our money.

I met with a man who inherited a million dollars and wanted to invest it in God's kingdom. A Christian financial counselor told him, "Whatever you do, just give away the interest earnings, but never the principal. Remember, the principal is always untouchable."

I told him I couldn't know exactly how God would lead him, but I was certain about one thing: He dare not tell God that the principal was *untouchable*. Who are we to declare any resource off-limits to the One who provided it and owns it? The principal is God's as much as the interest. Furthermore, he knows how to make an eternal impact with the principal as well as the interest. And he also knows how to take care of our needs without a million dollars in the bank!

If we have a large amount of money, God may desire for us to give it away all at once. Or perhaps he will lead us to give more gradually from the principal, so it steadily decreases over the years. But when it comes to money above and beyond our needs—and especially when it's more than we would reasonably need in the future—the assumption should surely be that we ought to give it now rather than later. The window of opportunity to give may close in 10 years, six months, or next week.

How much is enough?

Using that three-legged stool as a symbol of retirement planning, I don't feel right asking God to hold up the stool if I haven't made an effort to put on a leg or two. Yet I also don't feel right taking everything into my own hands, leaving no material needs for God to provide and no need for me to trust him or pray for his provision in the future. How can we meaningfully pray, "Give us this day our daily bread," when we own the bakery?

Many financial counselors would tell me I'm not laying up nearly enough for retirement. But when I read Scripture, I wonder if I'm laying up too much. I live in this tension and I suppose it will never be resolved. But I also know that whatever posture I take with financial planning, I must leave room—a great deal of room—for God. It's him, not a retirement fund, in whom I should trust.

I don't want to be a poor fool by not planning for the future. But I also don't want to be a rich fool by overplanning for it.

How much is too much? I can't answer the question for you. I have a hard enough time trying to figure it out for myself. But I do know that each of us should ask ourselves the question. We should also shut out the distracting noises of the world, tune our ear to God's Word, and quietly listen for his answer. And we should listen to the voices that bring a balance of biblical principles, not to those who blindly follow the lead of popular culture rather than taking a serious look at what the Bible teaches.

Excerpted from *Money, Possessions & Eternity* by Randy Alcorn. Copyright © 2003. All rights reserved. Published by Tyndale House. Used with permission. Randy Alcorn is the founder of Eternal Perspective Ministries (www.epm.org), a nonprofit ministry devoted to "investing in what lasts for eternity, and helping others do the same."

[1]From *Using Your Money Wisely* (Moody Press, 1990), p. 32.

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

WHEN DO YOUR CHILDREN NEED TO FILE A TAX RETURN?

You're not raising lazy or entitled kids. You're raising go-getters who you've taught from an early age to embody the teaching in Colossians 3:23-24: "Whatever you do, work at it with all your heart, as working for the Lord, not for human masters, since you know that you will receive an inheritance from the Lord as a reward. It is the Lord Christ you are serving."

When they're super young, that may mean helping you sort laundry or set the table. As they get older, it may mean mowing your lawn. Eventually, they may start their own business, mowing neighbor's lawns or taking care of their pets. Soon enough, they'll be working at a restaurant or grocery store. As they make more and more money, taxes will become part of the conversation, and that raises some important questions.

When do they need to file a tax return? How are taxes treated on W-2 (employee) income vs. 1099 (independent contractor) income vs. the cash they receive for shoveling snow from neighbors' driveways? What about the interest they earn on a savings account or the dividends or capital gains generated on a custodial investment account? And what about Social Security and Medicare taxes?

Kids and taxes—the essentials

Whether your children need to file tax returns depends on how much and what type of income they earn. Even if you claim them as dependents, they will need to file tax returns (federal and state) in the following situations.

● **Earned income.** If your child works for an organization that sends a W-2 form at the end of the year, a return must be filed if their wages exceed the standard deduction. For a single person, that's $14,600 for tax year 2024 ($15,000 for 2025). Tip income greater than $20 per month, if generated as an employee (i.e., a restaurant server) is considered taxable earned income. (President Trump wants to eliminate tip taxes, but that is just at the proposal stage as of this writing.)

Even if your child earned *less* than the standard deduction amount, it's important to file a return if income taxes were withheld. Otherwise, no refund.

Earned income is also subject to automatic withholding of the employee portion of Social Security and Medicare, which amounts to 7.65%.

Another form of earned income is self-employment income. That could be for work done as an "independent contractor" (income will be shown on a 1099 form) or from lawn mowing or babysitting. Filing is required if such income exceeds $400. (Note: A lower threshold applies for money earned working for a church or other religious organization that's exempt from paying Social Security or Medicare taxes.) In any event, your child will owe self-employment tax—i.e., Social Security and Medicare—both the employee portion *and* the employer portion.

● **Unearned income.** If your child has unearned income—including interest, dividends, and capital gains—the filing threshold is different. If such income exceeds $1,300 ($1,350 for 2025), tax filing is required.

If your child has both earned and unearned income, he or she must file if the combined income is more than the larger of $1,300 or earned income (up to $14,150) plus $450.

Special circumstances

● **The kiddie tax.** As mentioned above, if a child's *unearned* income exceeds $1,300, filing is required. However, be aware that if your dependent child has any such income greater than $2,600, it will be taxed at *your* marginal rate, not the child's rate. This IRS provision is designed to prevent wealthier parents from transferring assets to children to take advantage of their lower tax rates. Use Form 8615[1] to calculate the amount owed.

● **IRA contributions.** A child with earned income can contribute to an IRA up to the amount of that income (not to exceed certain IRS limits). Because a child's income is probably relatively low—and therefore their tax rate is low—a *Roth* IRA would be especially beneficial. Such contributions would have many years to grow and could be withdrawn tax-free in retirement.

Some parents wonder if a tax return should be filed in this situation to document that their child had sufficient income to qualify for making IRA contributions. In and of itself, contributing to an IRA doesn't necessitate filing a return. Only the income criteria mentioned earlier require filing. In the (unlikely) event that income required to make IRA contributions ever needed to be substantiated, W-2s, 1099s, or personal records as to the income generated through babysitting, lawn mowing, or other such types of work should be sufficient.

A learning opportunity

While the requirement to pay taxes may come as an unpleasant surprise to your children, walking them through the filing process can be a helpful part of their education and transition to adulthood.

Some online tax-filing platforms, including TurboTax, H&R Block, and TaxSlayer allow earners with simple tax situations to file federal and state returns at no charge. Alternatively, one could use IRS Free File resources.[2] (Depending on where the taxpayer lives, a no-cost state return may or may not be included with Free File.)

If it's your child's first tax filing, you might consider using a paper return. Doing so is more hands-on, which may help your child better understand how taxes are calculated. ◆

[1] www.irs.gov/pub/irs-pdf/f8615.pdf [2] Free File users can choose between web-based software and "fillable" PDF forms. See www.irs.gov/filing/irs-free-file-do-your-taxes-for-free.

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

PROTECTIONS THAT BACKSTOP YOUR BROKERAGE ACCOUNT

Could your broker face a financial collapse? That's highly unlikely. Multiple regulatory safeguards help ensure brokerage firms remain financially solid and investor assets stay safe.

Still, "unlikely" is not the same as "impossible." So the question naturally arises: What would happen if your broker faced financial distress and possible failure? That's when the Securities Investor Protection Corporation (SIPC) would step in.

Unlike the Federal Deposit Insurance Corporation (FDIC), which insures U.S. bank deposits, the SIPC isn't a government agency or a regulator. Instead, it is a "non-profit membership organization" created by the brokerage industry following the enactment of the Securities Investor Protection Act of 1970. Today, any broker registered with the Securities and Exchange Commission must be an SIPC member.

What SIPC does

The primary role of the Securities Investor Protection Corporation is to protect investors "against the loss of cash and securities…held at a financially troubled SIPC-member brokerage firm," according to the organization's website.[1]

SIPC coverage does not protect the value of one's investments. It doesn't bail out investors who've followed bad advice or restore losses from market declines. Instead, SIPC guards the "custody function" of brokerage firms. In other words, if your investment assets were missing because of a brokerage failure or fraud, SPIC would act to restore those assets.

How much protection?

Before discussing protection limits, let's clarify what SIPC guidelines mean by "cash and securities." In this instance, "cash" refers solely to uninvested money held in a brokerage account, such as proceeds from the sale of stock or bonds, or money transferred to your brokerage account that hasn't yet been invested.

Although investors typically consider money-market funds (MMFs) to be a "cash" holding, SIPC treats MMFs as "securities," along with stocks, bonds, traditional mutual funds, ETFs, brokered CDs, and several other types of investments.

That's important because while SIPC coverage for uninvested cash is limited to $250,000, its combined limit for cash and securities is $500,000. For example, an investor with $300,000 in uninvested cash would *not* be fully covered. However, an investor who held $300,000 in money-market funds—and up to $200,000 in additional securities—*would* be covered.

SIPC's coverage limit of $500,000 was set in 1980, and is no doubt inadequate today. On average, investors between the ages of 55 and 74 have *more* than $500,000 in retirement account holdings, according to Federal Reserve data.[2]

That said, an investor with *multiple types* of accounts actually has more than $500,000 in SIPC coverage because each type of account is considered separately.

A Roth IRA and a traditional IRA, for example, would each qualify—providing an investor with each type of account total coverage of $1 million ($500,000 per account). Likewise, a joint account held by a husband and wife has a $500,000 coverage limit that is separate from the coverage provided for an individual account held by one of the spouses. Trust accounts and guardianship accounts also qualify separately.

"Excess coverage"

Since investors with significant holdings might consider SIPC coverage insufficient and be tempted to spread their investments among multiple brokerage firms, many brokers carry "excess of SIPC" coverage from various insurers.

For example, Fidelity Investments has $1 billion in additional coverage through Lloyd's of London and other insurance companies. There is no per-customer dollar limit on coverage of securities, and uninvested cash is covered up to $1.9 million. "This is the maximum excess of SIPC protection currently available in the brokerage industry," according to Fidelity.[3]

Schwab also offers extra coverage. "Schwab's Excess SIPC program has a $600 million aggregate," says the Schwab website. "This helps ensure claims will be covered in the event of a brokerage firm failure and funds covered by SIPC protections are exhausted."[4]

E-Trade also offers "excess of SIPC" coverage "with an aggregate limit of $600 million."[5] Firstrade and Vanguard provide additional protection, too.

(Even though all these firms carry robust levels of excess coverage, remember that brokerages hold hundreds of billions of dollars—in some cases, even multiple trillions of dollars—in customer accounts. Therefore, even the highest levels of excess coverage would be insufficient in the face of a catastrophic failure in which investor assets went missing.)

SIPC in action

Suppose the Securities Investor Protection Corporation learns that a brokerage firm is in financial trouble. It first would act as a "matchmaker" rather than an insurer. SIPC would seek out a healthy firm willing to take on the failing broker's clients, in a manner somewhat similar to the FDIC finding a strong bank to assume the customer accounts of a failed bank.

The matchmaker scenario occurred during the 2008 Global Financial Crisis when the financial services firm Lehman Brothers collapsed. Accounts at Lehman's brokerage *(continued on page 61)*

[1]www.sipc.org [2]As of 2022. See bit.ly/fed-retirement-accts-by-age. [3]bit.ly/fidelity-safeguarding (PDF) [4]bit.ly/schwab-acct-protection [5]bit.ly/etrade-acct-info

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

TIME FOR FOREIGN STOCKS TO SHINE?

Imagine going back in time to evaluate a stock portfolio on Dec. 31, 1999. Over the prior five years (1995-1999), foreign stocks have performed well, nearly doubling in value (+95%). But then you look at your U.S. stocks, which have gained 2.5 times as much (+244%)!

That huge performance disparity caused many global investors to pile into U.S. tech stocks during the dot-com bubble. Alas, from the dot-com bubble peak in March 2000, performance for these classes flipped back the other way. Over the next 7½ years, U.S. stocks earned a meager +13.5% (total), while foreign stocks were much better, gaining +69%.

Global investors have recently relived a similar, if even more dramatic, setup. Over the past 14 years, U.S. stocks have gained *four times* more than foreign stocks: +493% vs. +114% (13.6% vs. 5.6% annualized). As during the 1990s' dot-com bubble, the default decision for many global investors has been to increasingly pile into large U.S. growth stocks.

Catalysts are emerging

The effect of 14 years of U.S. outperformance on stock valuations has been profound. The average weighted Price-to-Earnings (P/E) ratio for the MSCI U.S. Index is 26.5. For the MSCI World ex-US index, it's just 16.1.

However, as SMI has written countless times, valuation is not a helpful timing indicator. Foreign stocks have been cheap for years now. The valuation gap tells us that if/when investors favor foreign stocks again, the reversal could pack a powerful punch. But it doesn't tell us anything about *when* that is likely to happen.

What factors should we be watching for signs of a reversal between U.S. and foreign stocks? SMI has covered some of this ground before, specifically in the January 2024 cover article, *Uncomfortable Regime Shifts*. That article explained how the higher inflation environment since COVID has led to rising interest rates. Higher rates make "tangible" businesses more attractive relative to the more "ethereal" tech businesses that thrived during the recent era of ultra-low interest rates. Not coincidentally, the U.S. market is dominated by big tech companies (Magnificent Seven, etc.), while foreign markets are much less heavily weighted toward tech.

That's a solid over-arching thesis to keep watch on. But as we've watched the opening months of the new Trump 2.0 administration with keen interest,[1] other factors have emerged to cause global investors to question their devotion to the "U.S. Exceptionalism" trade that has been the default in recent years.

New administration policies tipping investor preferences?

There's considerable recent evidence that global investors are starting to vote with their feet. February and March have seen significant outflows of U.S. stocks, while foreign stocks are seeing huge inflows. Given the extent and duration of U.S. stock dominance in recent years (see chart below), we're not willing to say this trend has definitively reversed. But given the massive degree of mean reversion possible after such a long one-sided move, it's something we're watching closely.

Here are a few reasons investors may be inclined to favor foreign stocks.

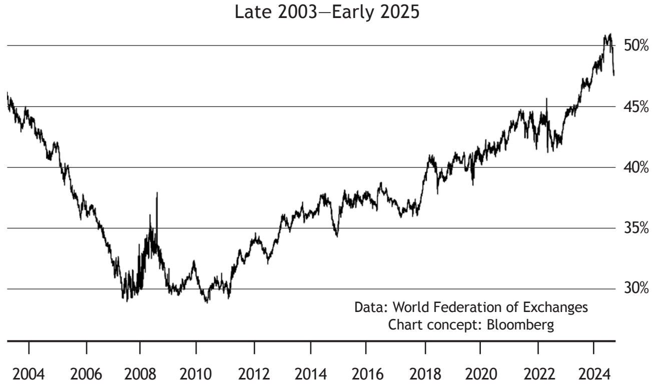
1. Fiscal impulses are reversing. Over the past five years (since COVID), the U.S. has run enormous deficits, allowing the government to spend at a rate unprecedented outside of past wars or recessions. U.S. deficits of roughly 7% of our GDP have dwarfed the spending of other countries (most of whom have run deficits of 2-3% of their much smaller GDP levels). The net effect of this gusher of U.S. government spending has been much stronger U.S. economic growth than other countries.

Suddenly, and somewhat unexpectedly, this is reversing. Much of the attention since President Trump's inauguration has focused on cutting U.S. government spending. At the same time, tariff and treaty uncertainty has triggered numerous foreign nations to significantly boost their own plans for government spending.

Put simply, the U.S. is *reducing* its fiscal spending while the rest of the world is *increasing* theirs. Government spending has a powerful short-term impact on the companies that receive it and their stock prices.

2. Growth expectations are diverging. This is another angle on the prior point. The U.S. avoided a recession when most expected one in 2022-2024. In contrast, Europe and China suffered through recessions and now appear to be emerging out of them. Declining growth here vs. improving growth elsewhere changes the relative attractiveness of high-priced U.S. stocks vs. *(continued on page 61)*

U.S. SHARE OF WORLD MARKET CAPITALIZATION
Late 2003—Early 2025



[1] Jan2025:Cover

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

BUFFERED ETFS: SIMILAR TO FIXED INDEX ANNUITIES, BUT DIFFERENT

Last month in this space, we looked at fixed index annuities (FIAs).[1] That's a type of deferred annuity that provides market exposure with the promise of no account losses in exchange for limits on growth. This month, we're looking at "buffered" exchange-traded funds (ETFs), a product that offers *similar* promises (and watch-outs) to an FIA, as well as one significant advantage.

The search for stronger protection

Introduced in 2018, buffered ETFs—also known as defined-, target-, or structured-outcome ETFs—are among the fastest-growing types of exchange-traded funds. According to Morningstar, the amount of money invested in such funds ballooned from $5 billion at the end of 2020 to some $50 billion by early 2025. There are now more than 325 buffered ETFs, with two firms—Innovator and First Trust—dominating the market, although Fidelity and BlackRock (iShares) offer such funds too.

Two events have spurred the rapid growth of buffered ETFs. First, a 2019 regulatory change made it easier for companies to start actively managed ETFs. Then, in 2022, bonds shocked investors by falling alongside stocks instead of cushioning the market decline. Vanguard's Total Bond Market Index Fund (BND), for example, fell -13% in 2022. That sent investors searching for better downside protection—a prominent selling feature of buffered ETFs.

How do buffered ETFs work?

As we noted last month, a fixed index annuity promises—in exchange for a cap on growth—that your account won't lose value in a market downturn. Buffered ETFs offer a similar promise, although with a variety of risk-reward combinations. Most buffered ETFs offer a fixed downside cushion—usually 10-20%—in exchange for a limit on gains.

Let's assume you invested in a fund with a 10% buffer and the index to which the fund is tied (typically the S&P 500) falls 15%. In this case, your loss would only be 5% due to the 10% downside cushion. If the fund had a 15% cap and the index gained 25%, your gain would be limited to 15%.

Buffered ETFs limit losses and restrict gains through a complicated process of buying and selling options on their underlying index. Some funds allow you to capture more of the gains while others offer more downside protection—in some cases even 100%. Not surprisingly, the less of a loss you're willing to accept, the lower the potential for gain.

As with fixed index annuities, the benefit of a buffered ETF is further limited by the exclusion of dividends in the underlying index's returns.

A limited-time offer

Buffered ETFs are designed to be bought and sold at the start and end of a certain period. For most funds, the "outcome period" is 12 months, although some are set at six and others at 24.

Some firms offer multiple ETFs for each risk-reward combination, staggering the start dates by one-month or three-month intervals, thus enabling investors to select a buffered fund close to the beginning of its outcome period.

Continuing to hold a buffered ETF after an outcome period ends results in the investment being rolled over into a fund designed for the next outcome period. (Check the new performance parameters before allowing that to happen.)

Pros and cons

Although buffered ETFs are similar to fixed index annuities, they provide a significant advantage: liquidity.[2] Unlike FIAs, buffered ETFs have no surrender fees. There is one liquidity-related watch-out, however. If you sell a buffered ETF before the end of its outcome period, the buffer and the cap no longer apply.

Critics of buffered ETFs point to their lagging performance. With the market's upward bias, they believe the funds' growth is unnecessarily constrained—the harm of their upside caps outweighing the benefits of their downside protection.

A better solution

Buffered ETFs appeal primarily to risk-averse investors—either those saving for a relatively short-term need, such as a house down payment, who want some market exposure but downside protection, or those on the cusp of retirement concerned about "sequence of returns risk." That's the possibility of a significant market downturn occurring just before or soon after retirement, which can threaten the long-term viability of a retirement portfolio.

As for short-term *savers*, SMI generally believes money needed within the next five years should not be invested in the stock market. Regarding near-retirement *investors*, SMI understands the heightened concern about bonds and their ability to cushion the blow of a market downturn. As mentioned earlier, bonds fell alongside stocks in 2022.

SMI has long been concerned about the tightening correlation between stocks and bonds. So, a dozen years ago, we introduced Dynamic Asset Allocation (DAA),[3] a strategy that diversifies beyond those basic asset classes. (Backtesting suggests DAA would have largely shielded investors from loss during the 2008 Global Financial Crisis.) Recently, pursuing diversification led to the creation of the SMI 3Fourteen REAL Asset Allocation ETF.[4] This fund, now an integral part of DAA, further expands the number of asset classes utilized.

SMI believes DAA provides a superior alternative to buffered ETFs and fixed index annuities for most risk-averse investors. It *(continued on page 62)*

[1]Mar2025:p41 [2]Buffered ETFs typically also have lower—and more transparent—fees than FIAs.
[3]soundmindinvesting.com/strategies/dynamic-asset-allocation [4]Mar2025:p40

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 2/28/2025	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	11.8	5.2%	1.8%	2.5%	-0.1%	9.3%	4.4%	0.99	0.09%/0.05%	10%	8%	6%	4%	VTIAX/VXUS
Extended Market Index	Small company stocks	8.8	-1.1%	-5.8%	-8.1%	5.2%	11.7%	5.9%	1.33	0.06%/0.06%	30%	24%	18%	12%	VEXAX/VXF
S&P 500 Index	Large company stocks	23.5	1.4%	-1.3%	-1.0%	6.1%	18.4%	12.5%	1.00	0.04%/0.03%	60%	48%	36%	24%	VFIAX/VOO
Total Bond Market Index	Medium-term bonds	7.6	2.8%	2.1%	1.0%	0.9%	5.7%	-0.4%	1.00	0.04%/0.03%	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 soundmindinvesting.com/strategies/just-the-basics.

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 2/28/2025[1]	Ticker Symbol	% Allocated	Date Added	Fidelity Avail[2]	Schwab Avail[2]	E-Trade Avail[2]	Firstrade Avail[2]	MOM[3]	Performance YTD	1Mo	3Mo	6Mo	12Mo	Relative Risk[4]	Exp Ratio	Redemp Fee?[5]
Situational	USCF SummerHaven Dyn Comdty	SDCI	10%	02/25	ETF	ETF	ETF	ETF	38.9	4.2%	-0.7%	6.0%	12.9%	20.0%	0.80	0.60%	None
Situational	☎ Cambria Global Value	GVAL	10%	04/25	ETF	ETF	ETF	ETF	38.9	12.4%	6.2%	11.3%	8.8%	18.7%	1.00	0.65%	None
Small Company	☎ Aegis Value	AVALX	10%	04/25	Yes	Yes	NTF	NTF	19.8	3.7%	0.9%	-2.4%	0.9%	21.3%	1.34	1.46%	None
Small Company	Kinetics Market Oppr No Load	KMKNX	10%	03/25	NTF	NTF	NTF	NTF	127.6	14.3%	2.2%	-9.1%	46.7%	89.9%	1.93	1.40%	2%/30days
Large Company	☎ iShares Russell 1000 Value	IWD[6]	10%	04/25	ETF	ETF	ETF	ETF	17.8	5.0%	0.4%	-2.2%	4.3%	15.7%	1.00	0.19%	None
Large Company	SMI 3Fourteen Full-Cycle Trend	FCTE[7]	50%	08/24	ETF	ETF	ETF	ETF	N/A	2.0%	-2.4%	-2.5%	-2.1%	N/A	N/A	0.85%	None

Footnotes: [1] Upgrading recommendations are based primarily on unpublished momentum data current through late March, rather than on the end-of-February momentum scores shown on this page. A telephone symbol (☎) signals a change in 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 Fidelity (800-343-3548), Schwab (800-435-4000), E-Trade (800-387-2331), or Firstrade (800-869-8800). Policies may change so verify accuracy. "Yes" means the fund is available for purchase but carries a transaction fee or load. ETFs (exchange-traded funds) are available at all brokers and typically carry no transaction fee if bought/sold online. See bit.ly/ETF-orders 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 bit.ly/SMI-momentum. **[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 a fund, a redemption fee may apply when selling (e.g., a fee of 1% if you sell within 60 days of purchase). Fees may change and can vary by broker. Check with your broker for current information. **[6]** Traditional-fund alternatives to the IWD ETF include Fidelity's FLCOX, Schwab's SWLVX, and Vanguard's VRVIX. **[7]** For more on FCTE, see the August 2024 SMI cover article and Aug2024:p119. Longer-term performance data for this new ETF isn't yet available.

RECOMMENDED FUNDS FOR SMI'S BOND FUND UPGRADING STRATEGY

Data through 2/28/2025[1]	Ticker Symbol	% Allocated	Date Added	Fidelity Avail[2]	Schwab Avail[2]	E-Trade Avail[2]	Firstrade Avail[2]	MOM[3]	Performance YTD	1Mo	3Mo	6Mo	12Mo	Duration[8]	Exp Ratio	Redemp Fee?[5]
Invesco BulletShares 2025[9]	BSCP	50%	05/24	ETF	ETF	ETF	ETF	9.1	0.8%	0.3%	1.2%	2.4%	5.5%	0.4	0.10%	None
Permanent: Vanguard I-T Bond	BIV[10]	25%	Perm	ETF	ETF	ETF	ETF	8.0	2.8%	2.2%	1.1%	0.7%	6.1%	6.0	0.03%	None
Permanent: Vanguard S-T Bond	BSV[11]	25%	Perm	ETF	ETF	ETF	ETF	8.6	1.4%	1.0%	1.4%	1.7%	5.6%	2.6	0.03%	None

Footnotes: [8] Duration: 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 Nov2023: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 allocations and don't change periodically. See bit.ly/bond-upgrading for more information. **[10]** Investors preferring a traditional mutual fund option can invest via Vanguard's VBILX. **[11]** Investors preferring a traditional mutual fund option can use Vanguard's VBIRX.

☎ New fund recommendations are explained in the MoneyTalk column on page 60.

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.

"If you have not been trustworthy in handling worldly wealth, who will trust you with true riches?" Luke 16:11

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 offering 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 (Oct2023:Cover, also available online at bit.ly/smi-broker) 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 recommended stock funds and, if applicable, each of the three recommended bond funds, calculate the dollar amount to invest in each fund.[1] Simply multiply the percentage shown for each fund by the overall number of dollars you have to invest.[2]

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: Large-Company / Index Fund	10%	8%	6%	4%
Stock: Large-Company / FCTE ETF*	50%	40%	30%	20%
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%

*See August 2024 cover article and Aug2024:p119.

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. For more on ETF order types, see Dec2020:p184.

MORE ON BOND UPGRADING

Your bond allocation (if any) is divided among three funds, as seen in Table 2. One-half of 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]During extended periods of market weakness, stock Upgrading may recommend holding cash (via a money-market fund or cash-like bond fund). [2]Use SMI's Fund Upgrading Calculator at bit.ly/fund-upgrading-calc. Rounding to the nearest $100 for each fund is fine.

MONEYTALK

STOCK UPGRADING — NEW FUND RECOMMENDATIONS

[Stock Upgrading is a strategy involving 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.]

Markets have corrected over the past six weeks, delivering the most sustained volatility in the past year and a half. However, the selling has calmed down a bit since mid-March, and in recent days signs have been emerging that investors are summoning the courage to buy the dip.

The recent bounce has taken the edge off the lows of two weeks ago. That said, through March 24 the S&P 500 is still down -6.0% from its February peak. Small company stocks are down a bit more at -7.4%, while tech stocks (Nasdaq index) are down the most at -9.2%.

The SMI strategies have held up better. Stock Upgrading is down -5.1% from the February peak, in large part due to FCTE's modest -3.6% decline. DAA has done even better, down just -2.0%. While DAA has been exposed to the S&P 500's loss, its Foreign Stock and Gold holdings have largely offset it. Sector Rotation is down -15.4%, a painful reminder why we limit our allocations to risky assets and strategies. Even with SR's steep loss, a 100% stock version of a 50/40/10 portfolio is down just -4.6%, while any version including Bond Upgrading has fared even better.

Trend changes in motion

There are two significant trend changes rippling through SMI's momentum rankings. The first is the shift away from growth stocks, which have dominated U.S. markets since the second half of 2023. The other is a clear shift toward greater momentum in foreign stocks.

Regarding the shift away from growth stocks, it's important to note that while the major U.S. indices kept rising until mid-February, the topping process among big tech stocks began much earlier. The "Magnificent Seven" stocks we've written about so often in recent years peaked over three months ago in mid-December. And some of the individual tech leaders, like Microsoft, peaked as long ago as July 2024 and have been gradually declining since.

There's an old market saying that market "tops are a process, bottoms are events." That topping process for U.S. growth stocks is playing out across the momentum rankings this month, with Stock Upgrading changes from growth to value as well as U.S. growth to foreign stocks.

As we discuss in detail on page 56, in recent months investors have been reducing their holdings of U.S. stocks and moving at least some of that money into international stocks. These flows are impacting the momentum scores of funds in the various risk categories, causing us to shift 10% of our Stock Upgrading allocation to foreign stocks this month. We'll continue to monitor this and may shift more money to foreign stocks as conditions warrant. While it hasn't been the case in recent years, Stock Upgrading has often allocated 20% (or more) to foreign stocks in the past.

◆ **In the Small Company Group, sell Hennessy Cornerstone Mid Cap 30 (HFMDX, 8/2023).** Notice that all three of the funds being sold this month were purchased over a year and a half ago in 2023. This one did an exceptional job for us, gaining +30.6% while the Russell 2000 Index was up just +7.9% over the same period.

● **Aegis Value (AVALX) is being added.**[1] Aegis is unique in the small company fund space, as it heavily favors energy and commodity-oriented stocks. That can make it volatile when those stocks are out of favor. But over the past five years, it's been a tremendous winner. Aegis Value has gained +322% vs. the Russell 2000's gain of +105.6% over the past five years. With commodities perking up again after an extended pause, this could be a great addition.

Unfortunately, Aegis has high minimum-investment requirements at most brokers (Schwab is an exception). There is no comparable alternative, but search other options in SMI's Fund Performance Rankings.[2]

◆ **In the Large Company Group, sell iShares Russell 1000 Growth (IWF, 6/2023) and replace it with iShares Russell 1000 Value (IWD).**[1] The growth-over-value trend lasted the better part of two years. At the mid-February peak, IWF led IWD +63% to +36% (since being recommended in June 2023). That gap has narrowed during the correction of the past six weeks, but IWF still exits with a +48% to +33% advantage.

◆ **Also in the Large Company Group, sell Fidelity Blue Chip Growth (FBCG or FBGRX, 8/2023).** Since being recommended in August 2023, FBCG has gained +37.1%. That's a few points better than the Russell 1000 Growth index's (IWF) gain of +34.2% over that same period. Both have outperformed the S&P 500 Index's gain of +28.7%. So we can feel pretty good about this selection as well—both large growth selections beat the index, and active FBCG beat its passive peer (IWF).

● **In the Situational Group, Cambria Global Value ETF (GVAL) is being added.**[1] We haven't recommended a new foreign fund in Stock Upgrading since December 2023, but the trends have clearly been shifting in that direction in recent months. DAA has benefited from strength in foreign stocks since adding them at the end of January. Now, Stock Upgrading is taking an initial step to follow that trend as well.

Cambria Global Value, like most of the Cambria ETFs, is rules-based, quantitative, and actively managed. From the fund's recent fact sheet: "The Cambria Global Value ETF (GVAL) begins with a universe of 45 countries, located in developed and emerging markets. The fund then selects the top 25% cheapest country stock markets as measured by Cambria's proprietary long-term valuation metrics based on relative and absolute valuation. Cambria then uses a valuation composite across traditional metrics such as trailing Price/Earnings, Price/Book, Price/Sales, Price/Free Cash Flow, and Enterprise Value/Earnings Before Interest, Taxes, Depreciation and Amortization to select the 10 most undervalued stocks out of the top 30 largest stocks by market capitalization within each country." ◆

[1]For more on this fund, visit www.morningstar.com. [2]See bit.ly/smi-fpr. Alternatives to Aegis Value include other funds in the Small/Value group, or a second *foreign* holding could be purchased instead. Several of the top foreign funds are ETFs, which may be a good fit for smaller accounts.

LEVEL 2 / CONTINUED FROM PAGE 55

PROTECTIONS THAT BACKSTOP YOUR BROKERAGE ACCOUNT

unit were largely unaffected and SIPC quickly facilitated the transfer of those accounts to London-based Barclays.[1]

Brokerage failures involving *missing* investor assets are different. In 2011, when commodities broker MF Global failed, investigators discovered the company had illegally tapped into customer funds to shore up its weakening financial position. In this case, SIPC initiated court proceedings that enabled clients to recover misused money (from MF Global's parent company and subsidiaries).

A high level of protection

In summary, your account is guarded first by regulations that require your brokerage firm to segregate its internal financial operations from investor holdings. Next, your holdings are protected by SIPC coverage and other SIPC functions, including the "matchmaker" role that likely would move your account intact to a healthy firm if your brokerage ran into financial difficulty. Finally, client assets are covered by brokerage-purchased supplemental insurance running into the hundreds of millions of dollars.

So, is your brokerage account safe? Yes, in all but the most dire financial circumstances. Theoretically, it is possible for each of the protections and backstops described above to prove insufficient. The risk, however, is extremely remote. ◆

LEVEL 3 / CONTINUED FROM PAGE 56

TIME FOR FOREIGN STOCKS TO SHINE?

the relative bargains available overseas.

3. Re-writing the global economic agreement. For many years, the global economy ran on the following rough equation: the U.S. bought everyone else's stuff (exports), and then the rest of the world recycled many of the dollars used to buy those goods back into U.S. financial assets (stocks and bonds). That's arguably been a bad deal for U.S. workers, but it's been great for U.S. asset prices which have boomed.

Now, President Trump has clearly stated his intent to rewrite this equation by increasing U.S. manufacturing. This means less U.S. buying of everyone else's exports...and by logical extension, less foreign buying of U.S. financial assets.

4. Interest rate differentials are closing. Interest rates are impacted by many factors, but one of the biggest is growth expectations. So it's not surprising that after several years of very low growth expectations in major economies like Europe and Japan (plus China fighting through their own 2008-type financial crisis the past several years), improving foreign growth prospects are causing foreign interest rates to finally rise from the extreme lows of the past decade.

More competitive rates at home make foreign investors incrementally more inclined to bring their capital home, rather than seeking higher yields in U.S. assets, including U.S. Treasuries. These global capital flows matter to national economies (money flowing *in* to a country creates a virtuous cycle for business, money flowing *out* tends to create challenges). And these flows matter a lot to financial markets.

5. National pride. It's easy to forget that while U.S. financial markets are disproportionately large relative to U.S. population or the U.S. share of global economic activity, the rest of the world combined isn't far behind. International money managers control vast amounts of capital, assets that could potentially be on the move as the U.S. appears to become a less reliably friendly place for global capital.

Opinions vary widely on some of the international decisions being taken by the Trump Administration. But even if they are necessary and appropriate, they clearly are triggering other nations to perceive them along a sliding scale ranging from pulling back from long-time friendships (Europe) to outright economic warfare and threats (Canadians are mad!). In addition to the purely logical points listed here, it wouldn't be shocking to see emotions play a role in some foreign investors choosing to bring their savings back home

6. Currency revaluation. Currency fluctuations are complicated, but here's a high-level overview. When the dollar is *rising* in value relative to foreign currencies, foreign investors get a secondary benefit by owning U.S. stocks, as dollar profits are more valuable when converted back into their native currencies. Meanwhile, U.S. investors see the opposite effect from their own holdings of foreign stocks—foreign profits are less valuable because it takes more of them when being converted into stronger dollars.

This dynamic flips when the dollar is *falling* relative to foreign currencies—foreign investors become relatively less enthused by U.S. returns, while U.S. investors get a boost from foreign stock returns.

Many factors impact the value of currencies, so we don't want to oversimplify here. But generally speaking, lower U.S. growth should lead to lower interest rates. Higher foreign economic growth should lead to higher foreign interest rates. These trends appear to be contributing to the dollar's roughly -6% decline in value relative to foreign currencies since peaking in early January. The dollar decline has provided a recent tailwind to U.S. investors owning foreign stocks while potentially incentivizing foreign investors to reduce their holdings of U.S. stocks.

Broader options are a good thing for SMI strategies

The factors we've reviewed here help explain why President Trump and Treasury Secretary Bessent keep repeating the idea that an adjustment period is required for the U.S. economy and that some pain may be ahead for U.S. asset prices. Starting points matter a lot in investing, and the reality is U.S. markets began 2025 with some of the highest valuations ever. In contrast, many foreign markets have very attractive valuations after being largely ignored for years.

Even if a rebalancing between U.S. and foreign markets is underway, it's difficult to know whether this will be a rapid repricing vs. a trend that unfolds gradually. Either way, the

[1] Ownership of some assets related to derivatives trading remained in dispute. Eventually, a court decided the case in Barclays favor.

MONEYTALK

SMI strategies will monitor this via our trend and momentum processes. Those processes led DAA into foreign stocks at the end of January, which has helped blunt the recent correction in U.S. stocks. (DAA's foreign stock holding was up +11.2% year-to-date through March 25, while the S&P 500 was down -1.5%.) This month, Stock Upgrading is buying a new foreign stock fund for the first time since December 2023 (see page 60).

Importantly, this isn't the first time SMI has navigated a potentially significant trend shift away from large U.S. stocks and into foreign stocks. The years following the dot-com bubble saw huge outflows from large U.S. growth stocks that went into other parts of the market, including foreign stocks. Those years were some of SMI's *strongest relative performance years ever*.

The simple fact is that it's difficult for active management to outperform when the biggest U.S. growth stocks are beating every other investment type by a wide margin. In contrast, active management tends to thrive when market activity broadens out to include foreign, small company, and value-oriented stocks. It's too early to say definitively the trends have shifted in this direction, but the recent pickup in foreign stock returns has certainly grabbed our attention. ◆

LEVEL 4 / CONTINUED FROM PAGE 57

BUFFERED ETFS: SIMILAR TO FIXED INDEX ANNUITIES, BUT DIFFERENT

strikes a better balance between upside potential and downside protection without liquidity restrictions.

That's not to say buffered ETFs are a bad option. They're not, and as this young product category continues to grow and expand, there may be intriguing applications that arise from this space. SMI has highlighted them before as a viable option at very specific points in the market cycle. But buffered ETFs can be complicated to understand and apply correctly. Fortunately, most SMI members don't need to include them in their investing plans. ◆

SIGHTING: TREASURY CHIEF ON "HEALTHY" CORRECTIONS

"I've been in the investment business for 35 years, and I can tell you that corrections are healthy. They're normal. What's not healthy is straight up, that you get these euphoric markets. That's how you get a financial crisis. It would have been much healthier if someone had put the brakes on in '06, '07. We wouldn't have had the problems in '08. So, I'm not worried about the markets. Over the long term, if we put good tax policy in place, deregulation, and energy security, the markets will do great."– U.S. Treasury Secretary Scott Bessent in a 3/16/25 appearance on NBC's *Meet the Press*.

In an early March appearance on *Fox & Friends*, Bessent stressed that the administration's primary concern now is "Main Street," not Wall Street. "[O]ver the medium term—which is what we're focused on—it's a focus on Main Street.... Wall Street can continue to do fine. But we have a focus on small business and the consumers. We are going to rebalance the economy [and] bring manufacturing jobs home. We are going to continue the surge in small business confidence.... We're going to get bank lending going again." ◆

MARKET NOTES, QUOTES, AND ANECDOTES

Do one thing well

"As the manager of your portfolio, you should do one thing really well, and it's to be a methodical implementer of a predesigned plan."– *Fortunes & Frictions* blogger Rubin Miller, in a well-worth-reading post from 2022. He linked to that earlier post in a 3/6/25 piece about market downturns. Read the recent piece, and find the link to the earlier article, at bit.ly/4i9Yszw.

Generally, don't fear a downturn…

"At times such as these it is important not to lose sight of the fact that the returns from owning equities over the long run are as high as they are because they are volatile and suffer from intermittent drawdowns. We cannot have one without the other."– British investment writer Joe Wiggins, in a 3/18/25 post on his *Behavioral Investment* blog at bit.ly/4kYloTU.

Unless you're about to retire

"It's clear the initial years of retirement are critical to ensuring retirement savings can go the distance. Our research finds that if a retiree emerges from the first five years of retirement unscathed by losses, it substantially reduces the likelihood that he'll prematurely exhaust his savings. Given this, retirees are well advised to diversify their portfolios to mitigate the risk of early-in-retirement losses that can threaten their savings' ability to sustain spending over an assumed 30-year horizon."– Jeffrey Ptak, managing director for Morningstar Research Services, in a 3/5/25 piece on the Morningstar site. People on the cusp of retirement, he said, should be very intentional about structuring their portfolio to avoid sequence of returns risk. Read more at bit.ly/4iq0kEm.

Words matter

"I actually have completely stopped using the term 'probability of failure' in my client meetings.' Failure in a Monte Carlo simulation[1] does not mean what many people think it does, and it also ignores the fact that people in the real world can and do make adjustments along the way."– Financial advisor Michael Kitces, quoted in a 3/7/25 *Think Advisor* article. He said common financial planning language can do more harm than good. Read more at bit.ly/4huikfA.

[1] May2024:p71

PREMIUM STRATEGIES

The strategies described below are available to SMI Premium-level members. They have characteristics that may 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

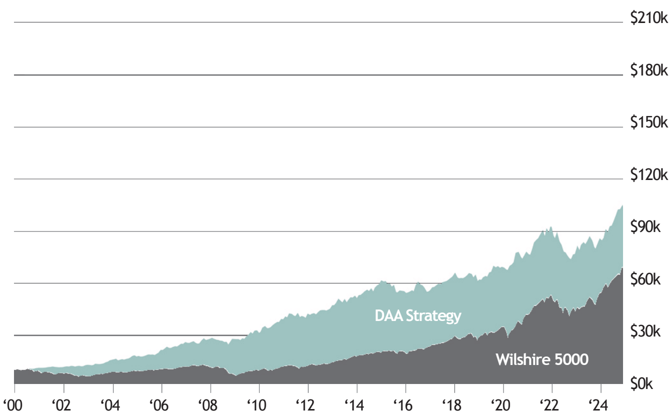
Overview

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 2000–December 2024
(DAA performance data before January 2013 is backtested)



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Avg[1]	Worst12[1]	Rel Risk[1]
DAA	7.1	4.0	10.4	22.4	19.3	8.6	25.7	10.1	1.3	17.6	20.3	1.4	13.9	16.2	13.0	-6.8	-0.5	16.0	-4.5	13.7	12.4	19.2	-17.1	11.3	17.3	9.6%	-19.0%	0.60
Wilshire	-10.9	-11.0	-20.9	31.6	12.5	6.4	15.8	5.6	-37.2	28.3	17.2	1.0	16.1	33.1	12.7	0.7	13.4	21.0	-5.3	31.0	20.8	26.7	-19.0	26.1	23.8	7.9%	-43.3%	1.00

SECTOR ROTATION

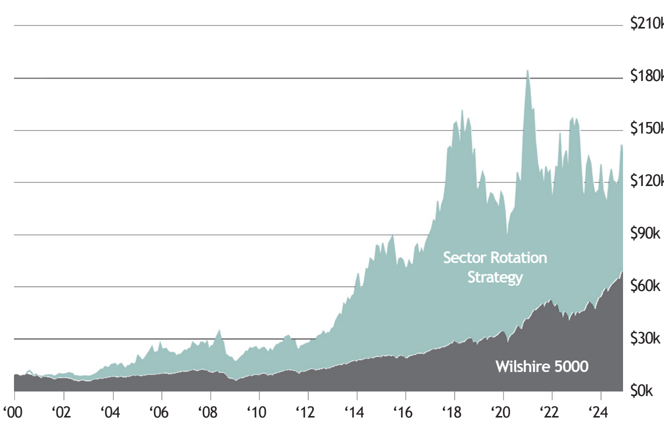
Overview

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 2000-December 2024
(SR performance data before November 2003 is backtested)



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Avg[1]	Worst12[1]	Rel Risk[1]
SR	0.7	3.7	-13.1	54.4	12.6	46.1	-1.9	28.1	-31.5	30.5	9.1	-3.2	23.3	65.7	49.9	-9.7	16.9	56.7	-15.8	-1.6	45.8	-24.1	18.5	-22.8	9.6	10.7%	-40.9%	1.85
Wilshire	-10.9	-11.0	-20.9	31.6	12.5	6.4	15.8	5.6	-37.2	28.3	17.2	1.0	16.1	33.1	12.7	0.7	13.4	21.0	-5.3	31.0	20.8	26.7	-19.0	26.1	23.8	7.9%	-43.3%	1.00

[1]The three data points at the far right in each table reflect the 25-year period from Jan2000–Dec2024. "Avg" shows the average annualized return over those years. "Worst12" represents the worst investor experience over the 289 rolling 12-month periods during those years.

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PERFORMANCE DATA

SOUND MIND INVESTING MODEL PORTFOLIOS • DATA THROUGH FEBRUARY 28, 2025

BASIC STRATEGIES - STOCKS

	Year to Date	1 Month	3 Months	12 Months	3 Yrs Annual	5 Yrs Annual	10 Yrs Annual	25 Yrs Annual
U.S. Stock Market[1]	1.1%	-1.9%	-1.9%	17.5%	11.6%	16.3%	12.6%	8.0%
Just-the-Basics[2]	1.2%	-2.5%	-3.3%	14.2%	8.3%	13.0%	9.8%	6.9%
Stock Upgrading[3]	-0.1%	-3.7%	-4.6%	10.9%	6.9%	11.1%	8.3%	8.1%

BASIC STRATEGY - BONDS

	Year to Date	1 Month	3 Months	12 Months	3 Yrs Annual	5 Yrs Annual	10 Yrs Annual	25 Yrs Annual
U.S. Bond Market[4]	2.7%	2.2%	1.1%	5.8%	-0.4%	-0.5%	1.5%	3.8%
Bond Upgrading[5]	1.5%	1.0%	1.2%	4.6%	0.6%	1.2%	2.0%	5.6%

PREMIUM STRATEGIES

	Year to Date	1 Month	3 Months	12 Months	3 Yrs Annual	5 Yrs Annual	10 Yrs Annual	25 Yrs Annual
DAA[6]	4.9%	1.3%	0.7%	22.3%	7.2%	9.2%	5.6%	10.0%
Sector Rotation[7]	-3.9%	-9.6%	-13.8%	5.5%	1.2%	3.4%	3.7%	10.3%

BLENDED PORTFOLIOS

	Year to Date	1 Month	3 Months	12 Months	3 Yrs Annual	5 Yrs Annual	10 Yrs Annual	25 Yrs Annual
60/40 JtB indexed[8]	1.8%	-0.6%	-1.7%	11.0%	5.0%	7.6%	6.6%	6.2%
60/40 Upgrading[9]	0.5%	-1.9%	-3.0%	8.0%	4.2%	7.0%	5.8%	7.4%
50/40/10[10]	2.3%	-1.1%	-2.3%	14.7%	5.8%	8.2%	5.8%	9.3%

Notes: Transaction costs and redemption fees—which vary by broker and fund—are not accounted for in the performance calculations. • [1]Based on the float-adjusted Wilshire 5000 Total Return index, the broadest measure of the U.S. stock market. • [2]Assuming 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 allocation for each risk category was divided evenly among all recommended funds. • [4]Based on the 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's I-T Bond Fund (BIV), 25% in Vanguard's S-T Bond Fund (BSV), and 50% in the rotating recommended bond fund. Bond Upgrading results before January 2015 were calculated by backtesting the strategy using a mechanical rules-based system. • [6]DAA results before January 2013 were calculated by backtesting the strategy using a mechanical rules-based system. • [7]Sector Rotation results before November 2003 were calculated by backtesting the strategy using a mechanical rules-based system. • [8]Performance data is for a Just-the-Basics 60% stocks/40% bonds portfolio (see 60/40 column in the JtB section on the Basic Strategies page). • [9]Data is for an Upgrading portfolio using a mix of 60% stocks/40% bonds. • [10]For a blended portfolio allocated 50% to SMI's Dynamic Asset Allocation strategy, 40% to Fund Upgrading (split 60% stocks/40% bonds), and 10% to Sector Rotation. See bit.ly/SMI-50-40-10 for details. 50/40/10 results before January 2013 were calculated from backtesting the strategy using a mechanical rules-based system.

SMI Private Client: Although the SMI newsletter encourages blending multiple strategies, such an approach increases complexity and can be challenging to implement. Readers desiring a simpler alternative may want to consider professional management from SMI Private Client. Private Client is managed by SMI Advisory Services, a separate (but affiliated) company from the SMI newsletter. More information is available at www.smiprivateclient.com.

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