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Why Smart People Make Big Money Mistakes — and How to Correct Them

"Behavioral economics" combines elements from economics and psychology to study human behavior related to money. This cover article by journalist Gary Belsky and psychologist Thomas Gilovich examines how investors tend to evaluate potential outcomes, which shapes their attitudes toward risk. The prescriptions offered in this excerpt from *Why Smart People Make Big Money Mistakes* closely align with SMI's philosophy and will lead to better investment and spending decisions.

by Gary Belsky and Thomas Gilovich

Imagine you've just been given $1,000 and are asked to choose between two options:

- **A** — You are guaranteed to win an additional $500.
- **B** — You can flip a coin, and if it comes up heads, you'll get an additional $1,000. If it's tails, you'll receive nothing more.

Which option would you choose?

Now imagine a second scenario. You're given $2,000 and must choose from the following two options:

- **A** — You're guaranteed to lose $500.
- **B** — If your coin flip comes up heads, you lose $1,000. However, if it's tails, you lose nothing and keep the entire $2,000.

For this scenario, which option would you choose?

Prospect theory

Research suggests that, more than likely, you would choose option A in the first scenario (the sure gain of $500) but select option B in the second (the 50/50 chance that you would lose nothing). Notice that in both scenarios, the option A and B potentials are the same. With option A, you would end up with a sure gain $1,500. With option B, in either scenario, you would have an even chance of winding up with $1,000 or $2,000.

However, since most people choose option A in the first scenario and option B in the second, they show they're willing to take more risk if it means *avoiding losses* and to be more conservative when given the *opportunity to lock in sure profits*.

The reason for this difference in outlook is found in a psychological principle known as "Weber's law," named after a 19th-century German psychologist. Although most people are unlikely to know it by name, they nonetheless know the phenomenon itself — the impact of a change in the intensity of a stimulus is proportional to the absolute level of the original stimulus. As an example, the difference between earning $10 vs. $20 for a job well done has a bigger effect on how happy you are than the difference between earning $110 vs. $120.

Weber's law implies that people will be cautious when considering potential gains. The difference *(continued on page 115)*

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

Years of Plenty, Years of Famine Revisited

Nearly 20 years ago, I wrote the original version of this editorial titled *Years of Plenty, Years of Famine*. (Where does the time go?) It explained that Joseph has always been one of my favorite Bible characters. His roller-coaster journey from favorite son, to slave, to master of the house, to prisoner, to Viceroy of Egypt is both amazing and inspiring.

The culmination of the story in Genesis 50:20 holds out hope to every believer going through difficult times: "*You intended to harm me, but God intended it for good*." What an inspiring example of God at work in the affairs of men to accomplish His ultimate purposes!

The turning point of Joseph's experience in Egypt occurs when he interprets a pair of dreams for Pharaoh. He realizes that Egypt will soon experience seven years of abundance, followed by seven years of famine. Joseph is put in charge of the preparations during the years of plenty, so that the people can survive the coming years of famine.

Back in 2006, the original editorial was written with a strong sense that America might be facing a similar "years of plenty, years of famine" scenario ahead. Given that, it stressed that we would be wise to consider the personal implications of Joseph's story and start making appropriate preparations *now,* during the years of plenty, for any difficult years ahead.

That turned out to be a useful warning, as America—and in fact the entire global economy—was soon to suffer through such a frightening economic storm in 2008-2009 that it earned the label "The Global Financial Crisis." At the time, many wondered if the current financial/economic system would even survive. It did, but many believe the core issues that led to the financial crisis and global recession were never truly addressed.

Rather than recognize the dangerous implications of our runaway debt (~$10 trillion in 2008), we've added trillions more (~$36 trillion in 2025). Rather than reform a financial system already overly reliant on "Too Big to Fail" banks, we implemented reforms that ironically led to massive consolidation and the largest banks becoming even bigger. Rather than step back from the type of actively interventionist central-bank policies that helped lay the groundwork for the initial financial crisis, global central bankers doubled down with Quantitative Easing and a decade of near-zero (or even negative!) interest-rate policies. And rather than our political leaders coming together to deal in a substantive way with the most important issues of our time, our politics are more fractured and divided than they've been in our lifetimes.

Unlike 20 years ago, this editorial *isn't* being penned with a sense of specific foreboding. But signs of stress within the system are everywhere. Knowing the Bible's many clear warnings about debt, it doesn't take a prophet to see that eventually the global economy's universal debt addiction is likely to cause problems.

While it's easy to focus on these *national* or *global* problems, God has graciously provided protective principles to help us prepare *individually* for future storms. If we're wise, those of us fortunate to presently be enjoying "years of plenty" should prepare for future strains to the system. We can do that by diligently working to get debt-free, funding an emergency-savings reserve, investing for the future, and diversifying broadly. In the current context, this means protecting against the types of deflationary recessions and bear markets that have been common in the past, as well as preparing for inflationary/debasement scenarios brought on by runaway government spending.[1]

Joseph wisely set aside 20% of the harvested grain and was able to save not only Egypt during the eventual famine, but the surrounding nations as well. That should be our goal—to be faithful stewards when times are good, in preparation for times that aren't. In being faithful this way, we may find ourselves being used, like Joseph, as instruments of God's deliverance in times of distress.

A major theme of Joseph's story is that God is at work even in times of hardship. Like the ancient Israelites, many Americans turn to God during crisis, only to go back to their "old idols" when the threat recedes. Those crises can be widespread, as in 2008. Or they can be individual, as in the case of a neighbor or co-worker falling on hard times. In either case, having our own financial houses in order may enable us to reach out and help, while also offering spiritual food that *truly* satisfies.

MARK BILLER
EXECUTIVE EDITOR

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[1]The SMI strategies utilize a broad range of assets. In addition to traditional stocks and bonds, they include monetary substitutes such as gold and Bitcoin, plus other assets that typically perform well during inflationary conditions, such as commodities.

Why Smart People Make Big Money Mistakes—and How to Correct Them

(continued from front page)

between nothing and $500 is greater psychologically than the difference between $500 and $1,000, so most people want to lock in the sure $500. The same law, however, implies a greater tolerance for risk when considering potential losses. Again, the difference between losing $500 and losing nothing is greater *psychologically* than that between losing $500 and losing $1,000.

"Prospect theory" is an attempt by behavioral economists to make use of Weber's law and a great many other psychological principles to explain *why people choose the way they do*. The theory suggests that the different ways people "code" gains versus losses can lead to poor investing and spending decisions.

For the two scenarios we presented, traditional economics would suggest that a person's inclination to choose "option A" should be no stronger in either case because the final asset position is the same: a gain for $1,5000. The only choice that matters, then, should be whether one prefers the certain $1,500 or the gamble that offers an even chance of having $1,000 or $2,000.

In contrast, prospect theory offers an alternative way to look at things. It suggests that people generally don't assign values to options based on the expected effect on their overall level of wealth. For example, the typical head of an American family with a net worth of $200,000 or so doesn't see a $500 loss or gain as a very small amount in terms of his overall financial position. Instead, he sees it as $500 that he did or didn't have five minutes before he lost or gained it. It is the actual gaining or losing—and our feelings about it—that matter more to us, rather than how those gains or losses leave us in terms of our overall financial position.

According to prospect theory research, *people feel more strongly about the pain that comes with loss than they do about the pleasure that comes with an equal gain*. Indeed, research findings suggest that people feel the misery of losing $100 (or $1,000 or $1 million) about twice as keenly as they feel the pleasure of gaining a like amount. That's why most people choose the sure gain of $500 in the first scenario but reject the sure loss of $500 in the second, even though both yield $1,500. The idea of losing $500—*for certain*—is so painful that people are willing to take a *risk* of winding up with a mere $1,000 to avoid that discomfort! Similarly, in a sort of mirror effect, the idea of letting that $500 gain in the first scenario slip away, for the chance of maybe winding up with a $1,000 gain, is discomfiting enough to cause most people to opt for the sure thing.

How our aversion to losses actually costs us

Loss aversion is not necessarily a bad thing. The tendency to weight losses more heavily than gains is in many respects a net positive. After all, beings who care too much about possible gains and too little about potential losses run too great a risk of experiencing the kinds of losses that threaten their survival. Better to care more about falling too far than climbing so high. Thus, loss aversion can be helpful. But an oversensitivity to loss can also have negative consequences.

One of the most obvious and important areas in which loss aversion skews judgment is in investing. In the short term, being especially sensitive to losses contributes to the panic selling that accompanies stock market crashes. The S&P 500 tumbles (along with stock prices and mutual fund shares in general), and the pain of these losses makes many investors overreact: the injured want to stop the bleeding. The problem, of course, is that pulling your money out of the stock market on such a willy-nilly basis leaves you vulnerable to a different sort of pain—the pangs you'll feel when stock prices rise while you're licking your wounds.

And don't be fooled into thinking you can make amends for your low pain threshold by jumping back into the market once you regain your senses. Although stocks seem to rise steadily over time, they actually do so in major fits and starts—a few big gains on a small number of days sprinkled throughout the year. Indeed, the stock market is much like that common description of war: long periods of boredom interrupted by episodes of pure terror. By pulling your money out in reaction to short-term drops, you run the risk of missing those productive days.

And it's a serious risk. According to one well-publicized study, if you had missed the 40 best-performing days of the stock market from 1963 to 1993, your average annual return would have dropped from almost 12% (assuming you had stayed fully invested) to slightly more than 7%. And there were 7,802 trading days over that period, so we're talking about missing only about one-half of one percent of the action.

In any event, being overly sensitive to the pain of losing money can sometimes make us too quick to abandon investments. What's tricky about this concept, though, is that loss aversion can often lead us in the opposite direction—to *hold on* to losing investments for longer than we should. Ask yourself if you've ever sold a stock not because you thought it was finished rising, but because you wanted to "lock in profits." And ask yourself how many times you've held on to a losing stock or mutual fund because you were sure it would "come back."

We're not psychologically equipped to be good market-timers

Even if these questions don't ring true for you, it's a fact that individual investors tend to sell winning investments too quickly and keep losing ones too long. It was verified in 1997 by finance professor Terrance Odean, who analyzed the trading records of 10,000 accounts at a large national discount brokerage firm over a seven-year period. Among other findings, his gargantuan research effort highlighted a pair of remarkable facts. First, investors were in fact more likely to sell stocks that had risen in price rather than those that had fallen.

Think about this in nautical terms: Your investments are the flotilla that you hope will carry you to the shores of a secure retirement over the choppy seas of life. But rather than sticking with boats that have proven their seaworthiness, you routinely abandon ship in favor of dinghies that have already sprung some leaks. The argument for this sort of reasoning would be that the winners have already had their run, while the losing stocks have yet to make their move. That's like saying: "The seaworthy boats are due to spring some leaks, while it's about time the leaky boats become more secure. So, it's better to sell the good boats now before they sink." Obviously, no sailor in his right mind would behave in this fashion, yet many investors do so routinely.

And Odean's data show the folly of most investors' behavior. According to his research, the stocks that investors *sold* outperformed the stocks that they held on to by 3.4 percentage points over the ensuing 12 months. In other words, investors sold the stocks they should have kept and kept the stocks they should have sold. And remember, this isn't an occasional result; it's a persistent pattern among thousands of investors.

The tendency to hold losers too long and sell winners too soon is, in effect, an extension of prospect theory and loss aversion. Most people are much more willing to lock in the sure gain that comes with selling a winning stock or fund than they are willing to lock in the sure loss of selling a losing investment, even though it generally makes more sense to sell the losers and keep the winners. The prospect of selling that losing investment (and the pain associated with making the loss final) makes them more willing to dig in their heels and take risks—the risk, of course, being that if they hold on to the losers, the investment will continue to drop in price. After all, until you actually sell a losing investment, the drop in price is only a "paper loss"—in your mind, it's not *official*. Once you sell it, though, it's real. This, of course, is creative mental accounting at its worst: The unrealized losses are segregated or compartmentalized in a separate account precisely *because* they're unrealized. Thus you can ignore them (or treat them as a potential future gain) and they don't disprove your investing "prowess."

Losing investments, then, represent a variation of the choice presented in the second scenario at the beginning of this article: option A, sell and guarantee a loss; or option B, hold on and risk losing more for the opportunity to get your money back. Winning investments, on the other hand, represent a variation of the choice presented in the first scenario: option A, sell and guarantee a gain; or option B, hold on and risk losing your profit for the opportunity to earn more. Loss aversion tells us it is less painful—and more common—to sell winners and keep losers. Odean's research says it's a lot smarter to do the opposite.

Good money after bad

A particular form of loss aversion to which we are all prone is what Nobel Prize-winner Richard Thaler described as the "sunk cost fallacy." Consider the lessons learned from research published in the journal *Organizational Behavior and Human Decision Processes* by professors Hal Arkes and Catherine Blumer of Ohio University. They randomly distributed discounts to buyers of subscriptions to Ohio University Theater's upcoming season. One group of buyers paid the normal ticket price of $15; a second group unexpectedly received a $2 discount per ticket; and a third sampling of lucky theater lovers were surprised to receive $7 off each ticket. Members of the last two groups were told that the discount was being given as part of a promotion by the theater department. The result? The people who paid more for their tickets ended up attending the performances more often than those who had received discounts.

Logically, there should not have been any difference in attendance. Not only did all the groups presumably have similar desires to attend when they bought their tickets, they all were prepared to pay the same ticket price and they all had the same tickets in hand as the season progressed. The conclusion is unavoidable: The more people spent on their tickets, the greater their sunk costs, and the more seriously they took attendance at the plays.

Arkes and Blumer labored to explain why sunk costs have such a powerful effect on people, beyond the obvious, though irrational, notion of loss aversion: If people didn't go to a performance, they likely equated the unused ticket with a loss. Therefore, the higher their ticket price, the greater the loss to be averted and the greater the likelihood that they would expend effort to see the performances. No matter that the money was already spent whether they went to the play or stayed home.

Whatever the causes of the sunk cost fallacy, the importance of ignoring money already spent and focusing on future costs and benefits should be obvious. If it's not, ask yourself how many times you've opted to repair a car or furnace, or to spend money on some other endeavor, based largely or entirely on the fact that you've already invested so much.

How to think and what to do

Loss aversion and the sunk cost fallacy have pronounced effects beyond the decision to buy or sell a stock or bond, so here are several suggestions that should help you make wiser decisions no matter what the issue.

● **Test your threshold for loss.** Broadly, the best advice we can give you regarding loss aversion is to assume you're probably more sensitive to losing money—in one way or another—than you think. If you operate under that assumption, you're more likely to avoid making decisions that will get you into trouble when you realize, retrospectively, that you exposed yourself to more risk than you were willing or able to deal with properly. That's why it's important to assess your level of loss aversion, which is another way of saying that you should *evaluate your tolerance for risk*.

As we mentioned earlier, loss aversion can have two very different effects, so you need to ask two very different types of questions. The first aims to let you know if your aversion to loss is so great that you'll panic at the first sign of real trouble. So be honest and ask yourself, "If the stock market drops 25% tomorrow, would I be tempted to pull all or some of my money out?" If the answer is "yes," you're probably unprepared for the ups and downs of the stock market.

The second type of question should help you see if your brand of loss aversion is likely to lead you to dig in your heels on bad investments. Consider the following query: Say you have $10,000 worth of stock issued by BigTech Amalgamated Corp. that you purchased for $5,000. You also have $10,000 of Acme Widget stock that (ugh) you bought for $20,000. Your child's first-semester tuition bill of $10,000 is due. Which stock would you sell? If your answer is BigTech Amalgamated, you're mortal like the rest of us—and your aversion to loss is likely to leave you poorer than you need to be. (The best strategy, in a taxable account, might be to sell $5,000 worth of each company's stock, thus offsetting a gain with a loss and avoiding taxes!)

● **Diversify.** The best way to avoid the pain of losing money, of course, is to avoid losing money. We haven't figured that one out yet, but there are ways to minimize investment losses. One of the best is *diversification:* doling out your investment portfolio among stocks (or stock funds), bonds (or bond funds), money market funds, even real estate (if you don't own a house, then ideally through real estate investment trusts). The behavioral-economic idea behind diversification is that a loss in one portion of your nest egg will likely be offset by gains in another. So you'll be less likely to react emotionally and do something drastic if at the same time that you take a hit you are also experiencing gains in another part of your portfolio.

● **Focus on the big picture.** For diversification to work as a salve for the pains of loss, you must avoid looking at losses or gains in isolation. You have to train yourself to view your individual investments as parts of a broader whole and pay attention to their total value rather than the various parts.

It's also important to spend time developing a concrete investment philosophy and strategy. For example, determine the portion of your portfolio that should be invested in stocks, bonds, real estate, and cash. Then write it down, with a notation as to when that allocation should be reexamined (perhaps as you approach your goal). You might also write down the specific investing rationale for each of your investments. That will serve as a reminder to hang tight if the price drops or to sell if need be. Writing things down, we've found, raises the "ante" and increases your commitment. In fact, it's a way of using the sunk cost fallacy to your advantage, because by increasing your investment in taking a broad view of your wealth (by investing time and effort in the task), you'll increase the likelihood that you'll stick to your plans. In any event, if you take such an approach—identifying your goals and justifying all your investments in the context of achieving those goals—you'll be less likely to react impulsively to the inevitable ups and downs of the markets.

● **Forget the past.** Very often, our decisions about the future are weighed down by our actions of the past. People stay in unsatisfying careers because of the time and money they invested in school, not because they enjoy the work; we finish a bad book because we've already gotten so far, not because we're anxious to see how the characters live. The same motivations affect our decisions about money: We spend more money on car repairs because we've already spent so much on the car; we keep spending money on tennis lessons because we've already spent so much. We hold on to bad investments because we can't get over how much we paid for them and can't bear to make that bad investment "final."

If you're debating the sale of an investment (or a home), for example, remember that your goal is to maximize your wealth and your enjoyment. *The goal is not to justify your decision to buy the investment at whatever price you originally paid for it.* Who cares? What counts, in terms of getting where you want to be tomorrow, is what that investment is worth today. That's why you must evaluate all investments (and expenses) based on their *current* potential for future loss and future gain. How does one go about forgetting the past? One helpful device we like is a method of reframing decisions to remove emotional investments. We call it "pressing the rewind button." Assume that you can reverse history and start anew. Here's how this might work.

Imagine that you've got a ten-year-old minivan that needs a new transmission. The sunk cost fallacy tells us that you're more likely to plunk down the money for the new transmission if you've recently sunk hundreds or thousands on repairs into your clunker before that. So ask yourself: If someone gave you the minivan as a gift yesterday, would you spend the money today to get it running? If the answer is "no"—because that large an investment is not worth it on its merit—then it's probably time to think about buying a new car. Similarly, it is relevant only to your ego that your Amalgamated Thingamabobs stock, for which you paid $100 a share, is now selling for $25 a share. If you believe that lower price is a bargain, hold on and maybe even buy more shares. But if it is not—if, given the chance, you would pass on the opportunity to buy the same shares at any price today—then it is time to sell. So ask yourself when evaluating investments: "Would I buy this today, at this price?" If not, you may not want to own it any longer.

● **Segregate gains. Integrate losses.** Use Weber's law to your advantage. To stretch your enjoyment from the good things in life, you should "segregate gains" whenever possible. Spread them out. You would not want to receive both your state and federal tax refunds on the same day, for example, because you would doubtless combine them mentally into one overall windfall and thus diminish your enjoyment. The pleasure you experience from receiving, say, $1,000 on one day would be less than what you would derive from getting $700 one week and $300 the next.

Of course, you cannot determine exactly when your tax refunds will arrive. But you can time many of life's windfalls, and when you can, spread them out. The same logic, of course, implies that you will be better off if you "integrate losses." If you have a number of cavities to be filled, get them all taken care of in one trip to the dentist. Don't subject yourself to multiple traumas by having a few filled on one visit and the rest on another. Weber's law implies that the pain of two moderately bad experiences will typically exceed the pain of experiencing both at one time. If you *owe* the government money, then you should pay your state and federal taxes at the same time.

● **Finally, pay less attention to your investments.** Horrors! How can we think such heresy? Don't worry, we're not advocating turning a totally blind eye to your hard-earned savings, mostly because nobody would listen. A recent study indicates that nearly 75%[1] of American adult investors check their investment returns *once a week!* And that's simply too often. The more frequently you check your investments, the more you'll notice—and feel the urge to react to—the ups and downs that are an inevitable part of the stock and bond markets. ◆

[1]SMI has updated this data point to reflect the findings of a 2024 survey. See www.finder.com/investments/investing-statistics.

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

IMPORTANT PAPERS AND VALUABLE ITEMS: WHAT TO KEEP WHERE

In life, there will be…paperwork! Lots and lots of paperwork—a Social Security card, insurance policies, a will or trust. You probably realize that keeping such documents in a shoe box underneath your bed isn't the best idea. But where *should* you keep them? How do you keep them safe, yet accessible?

There is no single *right* answer to those questions. You will have to weigh cost and convenience factors, and how comfortable you are with the safety and accessibility provided by the storage system you choose. The following suggestions are designed to help you make good decisions based on your needs and circumstances.

A safe deposit box

Does this feel like a relic from your grandparents' day, as quaint and outdated as keeping money in cookie jars to save for certain expenses?

In fact, the popularity of safe deposit boxes has been in slow decline for the past decade. Some banks, such as Chase and Capital One, no longer offer them to new customers. However, safe deposit boxes can still be found at many banks, credit unions, and even private companies, and they can still play an important role in safeguarding your essential documents and valuables.

Ideal items to store in these lock boxes include items you do not need to access quickly or frequently, such as:

- Birth certificates
- Marriage certificate
- Adoption papers
- Death certificates
- Citizenship papers
- The deed to your home or car
- *Copies* of your will or trust (not originals, as there may be a delay in granting your executor access to the box)
- Diplomas and baptism certificates
- Military records, such as discharge papers
- Paper stock certificates or bonds
- Business contracts
- Thumb drives containing pictures or videos of your home inventory (for insurance purposes), although storing them "in the cloud" is probably sufficient
- Gold, silver, or other hard assets
- Valuable jewelry you rarely wear
- Collectibles, such as a stamp or coin collection
- Family heirlooms, originals of family photos, or other irreplaceable items of sentimental value

Safe deposit box considerations

The average rental cost of a safe deposit box ranges from $40 per year to several hundred dollars, depending on the bank and the size of the box.

But sure to maintain an inventory of what's in your deposit box and share that information with loved ones and your executor.

Someone else should have access to the box. You can accomplish this through a "joint rental" in which your spouse is on the agreement, and through a power of attorney document that mentions the safe deposit box and grants your agent access.

Bear in mind that items stored in a safe deposit box, even though housed at a bank, are not covered by FDIC insurance. Be sure to cover any valuables through your homeowner's policy.

Also, be aware that despite the name, safe deposit boxes are not completely fail-safe. There have been (rare) occurrences where a bank was damaged or destroyed in a flood or other natural disaster and the contents of safe deposit boxes were lost.

Regarding gold or other hard assets, you may be more comfortable keeping such items in a home safe for ease of access, although that probably depends on how much of the asset you own.

A home safe

Ideal items to keep under lock and key in your home include important papers and valuables that you may need or want to access easily, such as:

- Social Security cards
- Passports
- Originals of your will or trust
- Valuable jewelry you wear often
- Receipts for items under warranty

Home safe considerations

Home safes can cost less than $100 to several thousand dollars, depending on the size, strength, and brand.

You may opt for a traditional safe or a lockable grab-and-go box. A safe is more secure, since it's typically heavier and you could bolt it to the floor. However, if your area is prone to wildfires or other natural disasters, being able to easily grab your important items may be more beneficial. You may want to keep some items in a safe and others in a grab-and-go box.

Maintain an inventory of what's in your safe and share that information with loved ones and your executor.

Make sure your spouse and executor have access to the safe. Give them the combination or keys and let your executor know where you keep your safe.

Why not just digitize what you can?

One reason for the decline in the use of safe deposit boxes is the increased use of document digitization.

Electronic record-keeping can be a space saver, and you should be fine maintaining digital-only copies of insurance policies, past tax returns, and medical records. For everything else listed above, you would be wise to keep the originals. ◆

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

INVESTING BY POLICY

Many institutional investors, such as pensions, endowments, and foundations use a tool called an "investment policy statement" (IPS). Because these organizations are accountable to their boards of directors and other stakeholders, it's important that everyone understands the organization's investment goals and how they are working to achieve them.

An IPS is also often used by financial advisors as a way to document the agreed-upon approach they will take in managing client portfolios. It can significantly help prevent misunderstandings.

An IPS, also known simply as an "investment plan," can be beneficial for individual investors too. If you're married, a plan helps you and your spouse work together toward your financial goals. If you're single, it can act as an agreement between your rational self, which is in charge when times are good, and your not-so-rational self that might come out during market stress!

Below are the essential elements to include in this kind of document. We'll use a fictional couple—John and Mary Smart, both 40 years old—as an example.

Objectives

In this opening part of the plan, outline your investment objectives and the time frames you have in mind. For the Smarts, as with many people, retirement is a primary investment goal. While the Bible doesn't point toward the "life of leisure" style of retirement that our culture often promotes, wise stewardship requires preparing for a time when health issues or other factors might cause you to leave the paid workforce. At that point, most people will need a nest egg large enough to support them after accounting for Social Security benefits, possibly a traditional pension, or other guaranteed sources of retirement income.

John and Mary's specific goal is, "To save $1.5 million in a retirement portfolio by the time we're 70 years old"—a figure they arrived at after a thorough analysis.[1]

Their second investment goal is, "To save $75,000 for each of our children by the time they are 18 years old." The Smarts have two children they expect will one day go to college—four-year-old Sam and eight-year-old Claire.

The Smarts determined their target of $75,000 per child by estimating how much an in-state public college is likely to cost by the time their kids are ready for freshman year and deciding what portion of that John and Mary would like to cover.[2]

Current balances

This section of the investment plan lists current investment account and portfolio balances. For multiple accounts designed for the same purpose, such as retirement, list each one, its balance, and then the total. John and Mary's retirement savings consists of three accounts: John's IRA, Mary's IRA, and John's 401(k).

If you have college savings accounts, specify the amount in each and the total balance.

Strategy

This section explains how you are investing for each goal. Fortunately for the Smarts, John's 401(k) account has a brokerage window, which provides access to a wide range of investment options. This enables John and Mary to follow SMI's 50/40/10 approach across all their retirement accounts, with 50% allocated to Dynamic Asset Allocation, 40% to Fund Upgrading, and 10% to Sector Rotation. They appreciate the strategy's growth focus combined with some downside protection, and they are attracted to the idea that a diversified approach can boost returns while reducing volatility.[3]

The Smarts are using their state's 529 Plan accounts to save for college. In each of their two accounts, they have selected age-based portfolios.

Asset allocation

Here, describe the asset allocation chosen for each investment portfolio. (SMI recommends treating multiple *retirement* accounts as parts of a single retirement portfolio.[4])

If you haven't already done so, take the SMI Risk Tolerance Quiz.[5] If you are married, you and your spouse should take the quiz separately. After completing the quiz, you will select your "season of life" and then see how your risk tolerance and season of life combine to suggest your optimal asset allocation.

You'll need this information if using SMI's Fund Upgrading or Just-the-Basics strategies. (It isn't required for Dynamic Asset Allocation since that strategy objectively shifts you into and out of entire asset classes based on their momentum. It also isn't needed for Sector Rotation. SMI generally recommends using that strategy for no more than 10% of your overall portfolio.)

Because the Smarts have decided to follow SMI's 50/40/10 blend of strategies, understanding their asset allocation is crucial for the Fund Upgrading part of their portfolio.

While John's temperament is that of an "Explorer" and Mary is a very conservative "Preserver," they agreed to meet in the middle as "Researchers." With more than 20 years remaining until their planned retirement, their recommended asset allocation is 100% stocks.[6]

If you have multiple college savings accounts, like the Smarts do, each one should be treated as its own portfolio. With an age-based strategy, the best asset allocation is automatically chosen based on how much time a child has before they will start college. These allocations then gradually become more conservative as each child gets older. The current default *(continued on page 125)*

[1]Envestnet MoneyGuide, available to SMI Premium-level members, is designed for such a purpose. See Jan2025:p9. [2]Sep2024:Cover [3]bit.ly/SMI-50-40-10 [4]bit.ly/one-portfolio [5]bit.ly/risk-tolerance-quiz
[6]Use the tools at bit.ly/SMI-calculators to determine the allocations for each strategy and fund.

LEVEL 3 THREE

Broadening Your Portfolio

This column goes beyond the investing essentials taught in Level 2, introducing you to a wider range of investment securities and markets. By further diversifying your holdings, you can create a more efficient, less volatile portfolio. We also comment quarterly on the performance of the various markets, and on how SMI's fund recommendations and strategies have fared.

"Divide your portion to seven, or even to eight, for you do not know what misfortune may occur on the earth." Ecclesiastes 11:2

2ND QUARTER REPORT: ONE FOR THE RECORD BOOKS!

Few investors had ever experienced anything like the second quarter of 2025. And yet, an investor who fell asleep on March 31 and woke up to check their account statement on June 30 could be excused for thinking it was a rather ordinary period!

We're referring, of course, to the tumult caused by the massive tariff announcement on "Liberation Day," April 2. On that same day, OPEC announced a major acceleration in its rate of production, which sent oil prices plunging.

Financial markets reacted violently, with U.S. stocks, bonds, and the dollar falling sharply over the following week. After a broad tariff "pause" was announced on April 9, U.S. stocks and bonds stabilized and began to recover.

The fireworks weren't quite over, however. In June, Israel launched a series of direct attacks on Iran, which ultimately culminated in the U.S. bombing Iran's major nuclear sites.

An investor who knew all this would happen during the second quarter might easily have expected stocks to be down -20%, -30%, or more. And in fact, at the April low, the S&P 500 Index was down -21.3% from its February high. But the market came roaring back over the remainder of the quarter, ultimately ending the quarter at a new all-time high.

Such massive swings—from a booming market early in 2025, to plummeting in March and April, and back to booming again by June—are unfriendly conditions for trend-following strategies. But with one painful exception, SMI's strategies have navigated 2025's volatile waters reasonably well.

Just-the-Basics (JtB) & Stock Upgrading

SMI's JtB strategy outperformed the U.S. broad market (Wilshire 5000 Index) during the second quarter as well as the first half of 2025. While small-company stocks have been poor performers overall in 2025 (the small-company Russell 2000 index fell -1.8% during the first half of the year), foreign markets have helped make up for that, rising +18.5%. The falling U.S. Dollar has amplified foreign stock returns for U.S. investors, effectively giving them a currency "boost" as the returns of foreign markets are translated into relatively weaker U.S. dollars.

Stock Upgrading gained +7.6% during the second quarter, but was up just +2.2% for the first half of the year overall. Both of those numbers trailed the U.S. broad market.

Indicative of the strain such volatility puts on active trend-following strategies, all five of SU's March holdings (other than FCTE) were replaced by the end of June. FCTE also experienced significant turnover in the individual stocks it "upgrades" within its ETF wrapper. FCTE trailed Upgrading's other fund holdings during the second quarter, but slightly outperformed them overall during the first half of the year (FCTE +2.7%, SU +2.2%).

The broad allocations within Stock Upgrading shifted notably over the course of the second quarter. From a starting point of 70% large companies, 20% small companies, and 10% commodities at the end of the first quarter, SU shifted to 60% large, 10% small, 20% foreign, and 10% commodities by the end of the quarter. This directly reflected the strength of foreign stocks relative to U.S. stocks early this year. These allocation changes were too recent to impact SU's second-quarter performance, but we believe this flexibility to pursue the strongest momentum between categories will pay off in the long run.

Bond Upgrading (BU)

There hasn't been a lot to discuss regarding our bond holdings of late. Since the start of 2023, interest rates have experienced at least seven distinct mini-trend changes (from higher rates to lower, or vice versa). That's a remarkable amount of volatility in the direction of rates, tied directly to repeated shifts in investor concerns about the likelihood of a future recession.

The lack of a sustained trend explains why we pivoted BU's active holding to Bulletshares in May 2024. While not particularly exciting, it's less rate sensitive and avoids the ups and downs caused by these repeated rate cycle reversals. Bond Upgrading beat the Bloomberg U.S. Bond Index slightly in the second quarter when rates were rising, lagged it slightly for the first half as a whole, and is dead even with the index over the past 12 months at +6.1%.

Dynamic Asset Allocation (DAA)

DAA took a slight breather during the second quarter, gaining "only" +6.9%. This was largely due to gold slowing its rapid ascent, though it still gained +5.4% during the second quarter.

Overall, DAA was clearly the star performer of the first half of 2025, gaining +10.9%, and outperforming SMI's other strategies as well as all the relevant indexes. DAA's performance was driven by gold's incredible +25.9% first-half gain (it's up nearly +40% over the past 12 months). Foreign stocks were also up sharply at +20.3% during the year's first half.

DAA's blend of assets during the second quarter is worth reviewing. Gold and Foreign Stocks were each recommended throughout the entire quarter. The strategy's third slot initially appeared to be a brilliant stroke, as it pivoted out of U.S. Stocks and into Cash at the end of March, just days prior to the April 2 swoon!

While that was *initially* great for DAA investor emotions, the market's remarkably fast rebound eventually left that slot flat-footed. At the end of April, DAA transitioned *(continued on page 125)*

LEVEL 4 FOUR

Looking Toward Retirement

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

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

THE NEW "BIG BEAUTIFUL" TAX LAW

By Chris Cagle[1]

The enactment of President Trump's "Big Beautiful Bill"[2] is big news for many reasons—some good, some not-so-good (depending on how concerned you are about the seemingly unstoppable growth of the U.S. federal debt). However, this article focuses on the positive tax news for retirees and those nearing retirement.

Extension of tax rates

The tax-rate brackets that took effect during President Trump's first term—10%, 12%, 22%, 24%, 32%, 35%, and 37%—were scheduled to rise next year, a quirk of the 2017 tax law. Among other things, the top rate would have reverted to 39.6%.

The new law locks in the existing rates with no expiration date. A future Congress would have to vote to change them.

Increased standard deduction

The significantly larger "standard deduction" adopted in the 2017 law was also slated to drop next year, which would have resulted in the deduction being slashed roughly in half. The new law not only made a larger standard deduction permanent (i.e., there's no sunset provision) but increased the deduction beyond the levels originally announced for 2025.

The standard deduction for couples filing jointly is now $31,500—a $1,500 increase over the previously announced $30,000. For a single taxpayer, the deduction is now $15,750, a $750 increase over the original $15,000.

Filers age 65 or older are entitled to an additional $1,600 deduction. (This was already in the tax code and remains.) For a couple who each meet the age requirement, the additional deduction totals $3,200, bringing their standard deduction for 2025 up to $34,700 ($31,500 + $3,200).

A new "bonus" deduction for seniors

Although Congress didn't go along with Trump's campaign pledge to end the tax on Social Security benefits, the new law includes a provision that—for taxpayers who qualify—could offset the tax on SS benefits for years 2025-2028.

Individuals age 65 or older will receive a "bonus" deduction of $6,000 each year, or $12,000 for couples if both spouses have reached the age threshold. (Income restrictions apply, however. More on that shortly.)

This new extra deduction can be "stacked" on the standard deduction. For example, a married couple filing jointly, if both are 65 or older, will have a total deduction for 2025 of $46,700 ($34,700 + $12,000). Put another way, the first couple's first $46,700 of adjusted gross income would be exempt from federal taxation (see table).

The bonus deduction is scaled back for taxpayers with an adjusted gross income exceeding $75,000 ($150,000 if filing jointly). The reduction will be equal to 6% (12% for couples) of the amount that exceeds the income threshold.

For example, a single taxpayer with an adjusted gross income of $85,000 ($10,000 above the threshold) would be eligible for a bonus deduction of only $5,400—i.e., $600 less than the full deduction ($10,000 x 6% = $600).

Again, to be clear, the One Big Beautiful Bill Act did not eliminate taxes on Social Security benefits. Instead, the law provides a temporary deduction that reduces overall taxable income for eligible seniors. Taxpayers age 65 or older qualify, regardless of whether they receive Social Security benefits. By the same token, Social Security recipients whose benefits are subject to taxation but are *under* age 65 are not eligible for the "bonus" deduction.

"No tax" on overtime and tips

The One Big Beautiful Bill Act creates a temporary deduction (years 2025-2028) equal to up to $12,500 in "qualified overtime" pay.[3] The deduction phases out for "highly compensated employees"—i.e., individuals with adjusted gross income of more than $150,000 ($300,000 for joint filers).

The law also establishes a deduction equal to "qualified tips" received during tax years 2025-2028. (The IRS will publish a list of eligible occupations.) As with the overtime provision, "highly compensated employees" face an income-related phase-out.

New giving incentives

The new law has two pro- *(continued on page 126)*

A SIMPLIFIED 2025 TAX SCENARIO
Married Filing Jointly, Both Spouses 65+

	Under Previous Law	Under New Law
Gross income	$70,000 → SS income: $40K → Trad. IRA withdrawals: $30K	$70,000 → SS income: $40K → Trad. IRA withdrawals: $30K
Taxable SS income*	$11,100	$11,100
Adjusted gross income (AGI)	$41,100 ($11,100 SS + 30K IRA)	$41,100 ($11,100 SS + 30K IRA)
Standard deduction (2025)	$30,000	$31,500
65+ deduction	$3,200 ($1,600 x 2)	$3,200 ($1,600 x 2)
"Bonus" 65+ deduction	None	$12,000 ($6,000 x 2)
Total deduction	$33,200	$46,700
Final taxable income (AGI minus total deduction)	$7,900	-$5,600
Total tax owed	$790	$0**

*The amount of Social Security subject to taxation is based on "provisional income," calculated by adding ½ of SS benefits to other specified income and then applying an IRS formula. A simple calculator is at bit.ly/taxable-ss-calc.

**In this couple's case, the standard deduction, augmented by the age 65+ additions, would wipe out their entire federal income tax liability, including any tax that would have been owed on Social Security benefits.

[1]C.J. Cagle is the author of *Reimagine Retirement: Planning and Living for the Glory of God* (B&H Books). He blogs at www.retirementstewardship.com. [2]www.congress.gov/bill/119th-congress/house-bill/1/text
[3]"Qualified overtime" is defined under Sec. 7 of the Fair Labor Standards Act of 1938.

Basic Strategies

The fund recommendations shown below for Upgrading account holders are based primarily on "momentum" scores calculated just before this issue was published (not the earlier end-of-month scores shown on this page). Consistency of performance is considered as well, along with the fund's risk level and portfolio manager's philosophy. Recommendations are made in each of the three risk categories shown. Select the fund(s) most in accord with your preferences and broker availability.

"Plans fail for lack of counsel, but with many advisers they succeed." Proverbs 15:22

RECOMMENDED FUNDS FOR SMI'S JUST-THE-BASICS STRATEGY

Data through 6/30/2025	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	48.6	18.3%	3.9%	12.1%	18.3%	18.3%	13.8%	0.99	0.09%/0.05%	10%	8%	6%	4%	VTIAX/VXUS
Extended Market Index	Small company stocks	29.9	2.2%	5.4%	12.2%	2.2%	15.6%	15.3%	1.37	0.05%/0.05%	30%	24%	18%	12%	VEXAX/VXF
S&P 500 Index	Large company stocks	32.2	6.2%	5.1%	10.9%	6.2%	15.1%	19.7%	1.00	0.04%/0.03%	60%	48%	36%	24%	VFIAX/VOO
Total Bond Market Index	Medium-term bonds	11.4	4.1%	1.6%	1.3%	4.1%	6.0%	2.6%	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 6/30/2025[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 Cmdty	SDCI	10%	07/25	ETF	ETF	ETF	ETF	32.1	11.5%	5.5%	2.0%	11.5%	18.6%	0.71	0.60%	None
Situational	First Trust STOXX Eur Sel Div	FDD	10%	05/25	ETF	ETF	ETF	ETF	98.0	41.1%	4.0%	16.5%	41.1%	40.4%	1.16	0.59%	None
Situational	Cambria Global Value	GVAL	10%	04/25	ETF	ETF	ETF	ETF	77.1	32.8%	5.4%	12.0%	32.8%	32.3%	0.97	0.64%	None
Small Company	Aegis Value	AVALX	10%	04/25	Yes	Yes	NTF	NTF	77.4	27.6%	2.5%	14.3%	27.6%	35.5%	1.33	1.45%	None
Large Company	Morgan Stanley Inst Growth A[6]	MSEGX	10%	06/25	NTF	NTF	NTF	NTF	125.1	18.7%	6.9%	32.9%	18.7%	73.5%	2.06	0.87%	None
Large Company	SMI 3Fourteen Full-Cycle Trend	FCTE[7]	50%	08/24	ETF	ETF	ETF	ETF	N/A	2.7%	1.1%	5.9%	2.7%	N/A	N/A	0.85%	None

Footnotes: [1] Upgrading recommendations are based primarily on unpublished momentum data current through late July, rather than on the end-of-June momentum scores shown on this page. **[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]** This is normally a "load" fund (i.e., it charges a sales commission). *Purchase only if available load-waived at your broker.* **[7]** For more on FCTE, see the August 2024 SMI cover article and Aug2024:p119. Momentum and Relative-Risk data for this relatively new ETF will be available starting with the September 2025 issue.

RECOMMENDED FUNDS FOR SMI'S BOND FUND UPGRADING STRATEGY

Data through 6/30/2025[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	8.7	2.2%	0.4%	1.1%	2.2%	5.4%	0.2	0.10%	None
Permanent: Vanguard I-T Bond	BIV[10]	25%	Perm	ETF	ETF	ETF	ETF	14.6	5.2%	1.6%	2.0%	5.2%	7.4%	6.1	0.03%	None
Permanent: Vanguard S-T Bond	BSV[11]	25%	Perm	ETF	ETF	ETF	ETF	11.3	3.5%	0.8%	1.5%	3.5%	6.4%	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.

SMI's Upgrading recommendations remain unchanged this month.
For a strategy update, see the MoneyTalk column on page 124.

Upgrading: Easy as 1-2-3

Fund Upgrading has long been SMI's most popular Basic Strategy. Whether used in isolation or in combination with SMI's Premium Strategies, Upgrading forms a solid foundation for an investing plan. Upgrading has proven itself over time and is easy to implement. This page explains how to set up your own Upgrading portfolio.

"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: Situational Fund	10%	8%	6%	4%
Stock: Small-Company / Active Fund	10%	8%	6%	4%
Stock: Large-Company / Active 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

FUND UPGRADING UPDATE — NO CHANGES FOR AUGUST

2025 has taken investors on a dizzying ride. Post-election euphoria peaked in February, a mild March pullback turned to panic on April's "Liberation Day," but just a week later the market pivoted higher on news of tariff pauses and hasn't looked back. In less than four months, stocks have rocketed +30% to new all-time highs.

As often happens during periods of such rapid gains, investor sentiment has rapidly improved—to such a degree that it may be excessively optimistic at this point. Indeed, the idea that markets may be approaching (if not already in) a market "melt-up" is becoming a popular topic.

With no Fund Upgrading changes required this month (for the first time since January), it's a good opportunity to explore this idea. There's a "big picture" aspect to this that we've been wrestling with for some time already. But recent events of the past month or two have kicked this into overdrive, making it worth our attention here.

Big picture: Dollar debasement pushing asset prices higher

A significant mystery during 2022-2024 was how the U.S. economy managed to avoid recession despite a broad array of historically reliable indicators consistently signaling that one was highly likely. Today, it's broadly accepted that the incredible rate of government spending that began during COVID *but was sustained in the years that followed* kept economic growth from dipping to recessionary levels. Much the same way that aggressive *monetary policy* by the Fed after the 2008-2009 Global Financial Crisis kept the economy afloat and powered markets higher, aggressive *fiscal spending* by the government played a similar role post-COVID.

That torrent of government spending also had another effect: shifting the upward trajectory of certain assets significantly higher.[1] U.S. home prices, gold, Bitcoin, and equities have all exploded higher over the past few years. Some of this year's gains have been attributable to the U.S. dollar declining in relation to other fiat currencies (money created by a government not tied to any physical commodity such as gold). But most of the move has been due to the decline of all fiat currencies relative to these "real" assets increasing in price as the purchasing power of the currency they are measured in declines. Look no further than the gold price *doubling* in dollar terms over the past three years (since September 2022).

SMI has been connecting massive government deficit spending to runaway asset prices for a while now. Our August 2023 cover article on gold pointed to further currency debasement (the decline in a currency's value caused by an excessive increase in its supply) as a likely catalyst for gold to surge in the years ahead. More recently, we discussed a similar dynamic at work in Bitcoin.[2] In SMI's March 2025 cover article, we introduced the Real Asset Allocation model created by our friends at 3Fourteen Research. This strategy was designed specifically to utilize an expanded asset class menu that includes assets that benefit from debasement (gold, Bitcoin, commodities, etc.), in an effort to navigate the transition of financial markets "from deflation to debasement."

"Melt-up" idea kicks into overdrive

While the monetary debasement theme has been at work for a few years now, two specific events kicked off the monster summer rally and started potential melt-up talk.

1. The pivot from DOGE to the "One Big Beautiful Bill." By March, it appeared that massive fiscal deficits were going to be consigned to the Biden years, as President Trump and Treasury Secretary Bessent repeatedly spoke of their goal to get the deficit down from 7% of GDP toward a more normal historical rate of 3%. That idea disappeared amidst April's market turmoil. Talk of an economic detox period and potential pain from budget cuts morphed rapidly into a new plan to grow our way out of the debt. The OBBB seemingly entrenched 7% deficits as far as the eye can see.

2. President Trump's continuing pressure on the Fed to cut interest rates. Whether this comes soon via pressure on current Fed Chair Powell, or is delayed until Trump names Powell's successor next May, markets are already factoring in future rate cuts next year. And this is where the melt-up idea finds its legs.

Cutting interest rates when the economy is otherwise healthy is often a bullish catalyst for stocks. (It's a different story when the Fed cuts rates as a result of an already declining economy—those are times to strap on your helmet and hide in the closet.) There are still some concerns about what the economy will look like when the full brunt of the tariff impact is known. But for the most part, the economy appears to be weathering the tariff transition. With recently passed tax cuts kicking in, a continuing emphasis on deregulation, *plus* the prospect for interest rate cuts to further stimulate the economy, investor imaginations are flicking back to past boom times like the 1999 blow-off top that resulted from the Fed cutting rates despite a healthy economy in preparation for the Y2k scare.

Not so fast...

While it's a compelling narrative, there are a few potential flies in the proverbial ointment. First is the possibility that markets have *already* discounted much of this in the +30% move experienced over the past few months. As noted earlier, investor sentiment has flipped from exceptionally bearish in April to quite bullish today. 3Fourteen Research's sentiment index is signaling extreme optimism, which historically has signaled well below normal future returns.[3]

All of which is to say, even if a melt-up does come to pass, it may require investor sentiment to cool off first. That would be perfectly normal—markets rarely move up or down in a straight line for very long. More importantly, as long-term systematic investors, the market path over the next few months is never our primary focus. Our suggestion, as always, is to stick with the long-term *investor* playbook, rather than trying to play the short-term *trading* game. ◆

[1] bit.ly/4f7MwNG [2] Jun2025:p88 [3] bit.ly/3IKtqRQ

MONEYTALK

LEVEL 2 / CONTINUED FROM PAGE 119

INVESTING BY POLICY

setting for four-year-old Sam's account is 90% stocks and 10% bonds. Eight-year-old Claire's account is 80% stocks, 18% bonds, and 2% cash.

Returns and contributions

In this section of the plan, record the expected average annual return of your portfolios, how much you need to contribute to each portfolio every month to reach your goals, and how much you are currently contributing each month. When estimating returns, be conservative. If you have a 20-year time horizon before retirement and your chosen strategy has earned an average of 9% annually over the past 20 years, consider using 8%. It's better for your portfolio to outperform your expectations than to fall short.

After running some numbers with the MoneyGuide software, John and Mary decide to contribute 15% of John's salary to his 401(k) plan, which amounts to $1,250 per month. An online 529 College Savings Calculator[1] helped the Smarts decide to contribute $200 per month to each of their children's 529 plan accounts.

Rebalancing

The Smarts plan to rebalance their retirement portfolio once a year in early January. Their college savings accounts are rebalanced automatically.

Market events

In this final section of the plan, outline how you will handle major market shifts. This had always been one of the most difficult parts of being investors for John and Mary—*until* they put together a written investment plan. They often disagreed on what steps to take during times of high volatility and sharp market drops. After discussing it extensively and making many revisions, they reached a consensus on the following statement.

> *We understand that the stock market moves through cycles of bull and bear markets. Along the way, there will be many ups and downs. No one can accurately predict when the market will turn in either direction. By being intentional about our asset allocation and diversifying our retirement portfolio across the three strategies of Fund Upgrading, Dynamic Asset Allocation, and Sector Rotation as we have chosen, we believe we have positioned ourselves for growth while also incorporating prudent protection against loss.*
>
> *We are committed to staying the course through the market's ups and downs, ignoring the noise and sticking with this plan.*

This is a crucial part of the Smart's plan—just as it will be for yours. Deciding in advance what to do during times of unusual market volatility is best. Think, pray, and discuss what you will do—or not do—in such times, and then write it down.

Ideally, like John and Mary's investment plan, your goal should be to stay the course. That's a strong sign that you've chosen the right strategy. Still, it's helpful to remind yourself why you can feel confident in sticking with it.

When the market goes crazy, as it inevitably will, re-read your plan together. A well-thought-out, thoroughly discussed, long-term plan crafted when the market was calm will be a better guide than your emotions when the market isn't so calm.

Reviewing

In this section, specify how often you will review your investments and when. John and Mary plan to have a brief review of their investments at the end of each quarter. This will mainly be an *update* meeting where they will look at their balances and the performance of their investments together. Usually, one spouse takes more responsibility for *managing* their investment accounts. Since most SMI strategies are updated monthly, this person will need to stay informed about any changes in the recommended funds for each strategy.

The Smarts plan to conduct a thorough review once a year, during which they will update all the numbers in their plan—current balances, how much they need to contribute each month to meet their goals, and so on.

A good time to review your portfolio is early January, before you rebalance it. Discuss any changes that might be suitable due to aging, different circumstances, or new goals. Then, follow your plan for the upcoming year, keeping in mind (and heart) the words of Proverbs 21:5: "The plans of the diligent lead to profit as surely as haste leads to poverty."

Committing all of the above to a document will help you make good decisions regarding your investments. If you are married, crafting and using a plan will also foster open communication. For these reasons and more, managing your investments according to a plan is simply good policy. ◆

LEVEL 3 / CONTINUED FROM PAGE 120

2ND QUARTER REPORT: ONE FOR THE RECORD BOOKS!

from cash to bonds, then at the end of May from bonds back to U.S. Stocks.

March's new addition to DAA—the SMI 3Fourteen REAL Asset Allocation ETF (RAA)—is off to a good start. Its second-quarter gain of +6.8% roughly held pace with DAA's stock-heavy portfolio (+6.9%), which was no small feat given the twists and turns of the quarter and the fact that RAA shifted its allocations pretty defensively initially in response to the market tumult.

2ND QUARTER 2025 DAA ETF UNIVERSE

Ticker &	Category	2Q Result
SPY	U.S. Stocks	+10.8%
EFA	Foreign Stocks	+11.3%
VNQ	Real Estate	-0.7%
BLV	Long-Term Bonds	-0.1%
SWVXX	Money Market	+1.0%
PHYS	Gold	+5.4%
RAA	REAL Asset Allocation ETF	+6.8%

One of RAA's smallest holdings—Bitcoin, which comprised just ~3% of the ETF during the quarter—made a significant contribution to its performance. Bitcoin gained +30% during

[1]The website Saving For College has a free 529 calculator at bit.ly/529-calc.

the second quarter, meaning RAA's 3% allocation contributed almost +1.0% of the ETF's overall quarterly gain of +6.8%.

Sector Rotation (SR)

As noted earlier, SR got off to a miserable start for the quarter as a result of the April 2 news that OPEC was accelerating its plans to boost oil *supply* much faster than had been previously communicated. This push to expand OPEC's market share lowered energy prices—great for U.S. consumers, but terrible for the leveraged energy stock fund SR had purchased just days prior based on its recent strength.

After taking that nasty punch, SR responded well. At the end of April, SR pivoted into defense stocks, which have been strong performers, gaining +12.7% in May and another +6.0% in June.

As a side note, our partners at SMI Advisory Services[1] have spent considerable time recently building infrastructure to allow for more efficient testing of various trend-following scenarios. This type of testing has always been an incredibly time-consuming and laborious process, limiting our ability to explore various strategy tweaks and alternatives.

The initial focus of this testing has been on SR, given its weak recent performance. After looking at SR many different ways—faster and slower momentum formulas, higher and lower levels of diversification, various selling disciplines, etc.—two things are clear.

First, the current version of SMI newsletter SR (one holding, 1mo+3mo+6mo MOM score, using the top quartile selling discipline), has been generating solid signals. Second, as reported in recent SR write-ups, efforts to reduce the strategy's volatility and occasional rough outcomes by selecting less aggressive/volatile funds have hampered SR's realized performance significantly in recent years.

The takeaways from this extensive recent research are clear. Nothing in our testing indicates SR should perform any less robustly going forward than it did during its first 15 years when it ran circles around the indexes and all of SMI's other strategies. However, a word of caution is warranted. We're reiterating the "old SR rules" which dictated that *SR risk management has to come from limiting your personal allocation to the strategy*, because we're no longer going to try to mitigate SR risk by shying away from the most aggressive funds in SR, even at times when market risk appears acute. That may mean an allocation of less than 10% may be appropriate for less aggressive investors (see next section).

50/40/10 (with 60/40 stock-bond Upgrading)

This portfolio refers to the specific blend of SMI strategies—50% DAA, 40% Upgrading, 10% Sector Rotation—that SMI has often discussed as a general guideline, or starting point, for member strategy allocations. In 2024, we started reporting this portfolio using a 60/40 split between Stock and Bond Upgrading within the 40% Upgrading allocation. This is a reasonable reflection of how most SMI investors utilize such a "whole portfolio" blend and is an example of the type of diversified portfolio we encourage SMI readers to consider.[2]

This version of a 50/40/10 portfolio was dragged down considerably by SR's poor 2025 returns. That said, it still gained +5.1% during the second quarter, and +4.2% year-to-date through the end of June. Those returns are lower than we'd prefer, but not disastrous.

Conclusion

Hopefully, markets will have the chance to build the type of sustainable trends that SMI's strategies can capitalize on during the second half of the year. The past year or so has been an extremely trying period for most trend-following approaches, with many experiencing some of the worst performance of their history. We're grateful that DAA has been such a strong performer (+19.4% over the past year), helping to take that edge off within our diversified portfolios.

We continue to dig deep into our existing strategies, looking for ways to improve and strengthen them. As evidenced by the additions of FCTE and DAA this past year, we're not averse to making significant changes if we think they will prove beneficial to SMI investors.

When markets start turning vertical and are hitting new all-time highs seemingly daily, it's easy to forget the very real risks investors are constantly exposed to. Some of the threats lurking in the years ahead are potentially of the "generational" variety— the uncertainty surrounding the rise of AI, runaway national debts, a shift away from free trade, the dollar and U.S. Treasuries serving as the backbone of the global financial system, etc. Our endeavor is to create robust portfolios that can withstand those challenges and help SMI members reach their long-term financial goals. ◆

LEVEL 4 / CONTINUED FROM PAGE 121

THE NEW "BIG BEAUTIFUL" TAX LAW

visions of particular interest to donors. Beginning in 2026, non-itemizers will be eligible for a charitable-giving deduction of up to $1,000 ($2,000 for joint filers). However, contributions to donor-advised funds won't qualify.

Additionally, the new law creates a dollar-for-dollar tax *credit* (starting in 2027) for contributions to nonprofit organizations that give scholarships to students attending elementary and secondary schools.[3] The up to $1,700 credit may not be available everywhere, however. States must opt in, and it is unclear how many will do so.

Now comes the implementation

Although the information provided here offers a general idea of how the One Big Beautiful Bill Act will affect your federal income tax situation, it's wise to consult a tax advisor for specific counsel.

Bear in mind, too, that tax changes sometimes remain "fuzzy" for a while. The IRS may need to issue guidance on how various provisions of the new law will be applied. Stay tuned! ◆

[1]SMI Advisory Services and the SMI newsletter are separate but affiliated companies. [2]Blending strategies adds complexity. Some members may prefer an automated approach. See bit.ly/SMIPrivateClient. [3]To learn more, see bit.ly/sgo-tax-credit.

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.

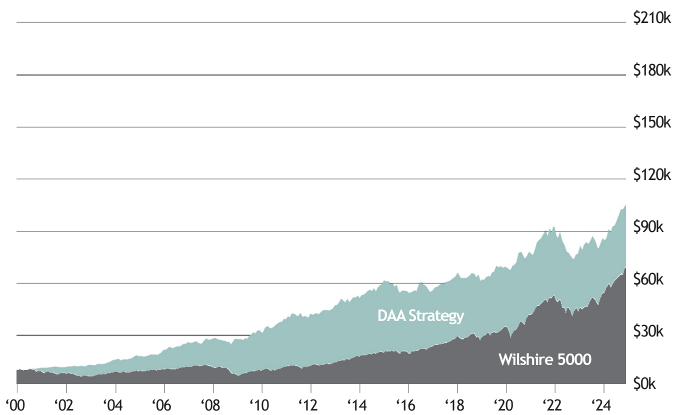
Who Should Consider This Strategy

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.

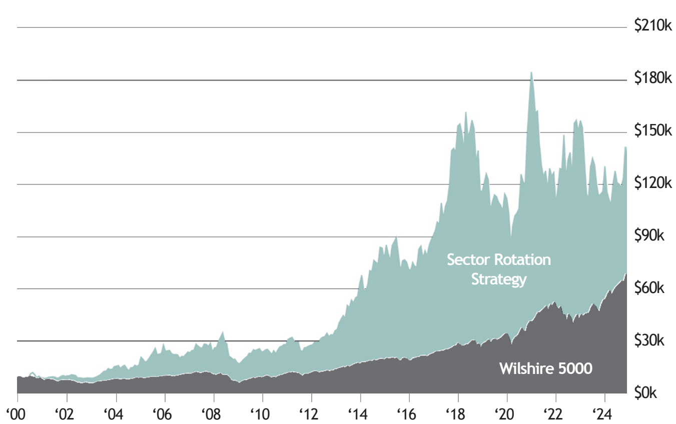
Who Should Consider This Strategy

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 JUNE 30, 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]	5.7%	5.1%	11.1%	15.2%	19.1%	16.2%	13.2%	8.1%
Just-the-Basics[2]	7.0%	5.0%	11.6%	16.1%	16.8%	13.6%	10.5%	7.3%
Stock Upgrading[3]	2.2%	2.3%	7.6%	4.8%	9.7%	12.2%	8.6%	8.4%

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]	4.0%	1.5%	1.2%	6.1%	2.5%	-0.7%	1.7%	3.8%
Bond Upgrading[5]	3.3%	0.8%	1.4%	6.1%	2.5%	0.8%	2.5%	5.5%

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]	10.9%	3.0%	6.9%	19.4%	12.5%	9.1%	6.8%	10.0%
Sector Rotation[7]	-23.0%	6.0%	-5.7%	-23.4%	-7.4%	-1.1%	1.2%	9.7%

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]	5.8%	3.6%	7.3%	12.2%	11.1%	7.9%	7.1%	6.4%
60/40 Upgrading[9]	2.7%	1.7%	5.0%	4.8%	6.7%	7.4%	6.2%	7.6%
50/40/10[10]	4.2%	2.7%	5.1%	9.0%	8.5%	7.9%	6.3%	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.