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How Not to Invest

In tennis, golf, and other individual sports, the most successful players are typically those who commit the fewest unforced errors. The same is true for investing. Successful investors have learned to keep mistakes to a minimum. In his new book, *How Not to Invest*, money manager Barry Ritholtz chronicles many of the most common mistakes investors make. In the following excerpt, he highlights errors to avoid—and explains what to do instead.

by Barry Ritholtz

This book is designed to reduce mistakes—*your mistakes*—with money. Tiny errors, epic fails, and everything in between. If only you could learn how to *avoid the avoidable errors* investors make all the time, your life would be so much richer and less stressful!

That is my charge: To share what I have learned so you can skip the most common mistakes people make with their capital. Avoid these unforced errors and your financial well-being will eclipse 90% of your peers.

Most finance authors don't take this approach. The typical investing book goes the "How-To" route. They want to teach you—in a dozen chapters or so—everything you need to learn to become financially successful. Execute these 100 strategies, and start adding up the dollars!

That approach fails in the real world. Even if you do all the right things, it only takes a few mistakes to undo all your prior efforts.

This truth is counterintuitive: Avoiding errors is more important than scoring wins. This wonderful insight came from investment consultant Charley Ellis in a 1975 *Financial Analysts Journal* paper titled "The Loser's Game." Investing, Ellis observed, is similar to tennis, in that most people lose by making unforced errors. The way to win the "loser's game" is simply to *lose less*: Make fewer errors, and let the other guy beat themselves. A decade later, Ellis expanded this thesis into his classic book *Winning the Loser's Game*.

How Not To Invest will do that too: In the modern context of social media, reddit memes, and 24/7 news, I am going to teach you to avoid the many mistakes that undo most investors. More simply stated: Make fewer errors, make more money.

Berkshire Hathaway's inimitable Charlie Munger phrased it this way: "It's remarkable how much long-term advantage people like us have gotten by trying to be *consistently not stupid*, instead of trying to be very intelligent."

I am going to review the most common errors investors make; I will show you the myths that so many firmly believe to their detriment. I'll include some favorite mistakes, including a few of my own, as well as lessons from the wealthiest and most error-prone investors.

All humans are fallible. That is the very nature of what it means to be human; we have a limited ability to see the future or even understand the past and present. *(continued on page 67)*

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

Would You Like to Buy Low, Sell High? Your First Step Is To Buy Low.

After the old accountant retired and turned in his keys, his co-workers were eager to search his desk for the mysterious piece of paper he kept there. Each work day, like clockwork, he would arrive at his desk, unlock the bottom right drawer, remove a small 3x5 card he kept there, study it for a few moments, and then return it to its safe resting place under lock and key. A small crowd gathered to see what the accountant had written that he studied so faithfully. The card read, "Debits go on the left, credits go on the right."

Sometimes we need to be reminded of the basics. Perhaps it would help you to write down your investment goals and refer to them frequently. One of them would likely be that, generally speaking, your long-term mindset is to "buy low and sell high." You may have noticed by now that this is a devilishly tricky thing to do well. That's why having a plan in place to guide your decision-making is so important. Here is a bit of self-evident logic that your plan should take into account: You can't buy low and sell high if you . . . sell low instead of buy low.

Of course, you say, that would be self-defeating. Yet, many investors have indeed been "selling low" of late. The recent market volatility has raised their fear levels. Here's a small collection of recent headlines:

- "Market uncertainty grows as tariffs shake bonds and investor confidence"
- "Consumer sentiment tumbles as inflation fears spike"
- "11 ways to prepare for a recession"
- "Dollar resumes fall as investors wait on trade talks"
- "People are more worried about their jobs now than during the pandemic when everything closed"

Consider this question: What would you expect the news to be like when the stock market is trending downward? Bad, of course. If the news is good, stocks are up. So, we might paraphrase the old axiom as, "Buy when the news is really bad (because that's when stocks are low), sell when the news is really good (because that's when stocks are high)."

Fear-generating headlines like those in the previous column can cause investors to momentarily forget that when prices are low, they should, if anything, be buying. The idea is to accumulate more and more equity shares over a lifetime of investing, riding the long-term prosperity of the U.S. economy. A plan of dollar-cost averaging—where you invest the same dollar amount at regular intervals (e.g., every payday when you contribute to a 401(k) plan account)—can help you do this. At times like these, when your investment dollar is buying you more shares for your money, you might even consider stepping up your contributions if possible.

Having said this, here are two clarifications. First, continuing to buy low is prudent only in broadly diversified portfolios. When your additional purchases go into an indexing approach such as SMI's Just-the-Basics strategy, or into actively managed portfolios with risk management built in, such as SMI's Fund Upgrading and Dynamic Asset Allocation strategies,[1] the high degree of diversification helps protect you from isolated blow-ups. Continuing to buy into the falling share price of an individual stock can be foolhardy. So, yes, buy low, but in a diversified portfolio where your ultimate success depends on the overall economy, not a single company or industry.

Second, buying low doesn't mean prices can't go lower. How low is low, anyway? You won't know until months after the final bottom. All you can do is determine to be a buyer at prices that appear low relative to their recent highs. In early-April, the market briefly touched a low –21.3% below its February high, before rebounding. It's been an unnerving ride down, and it may not be over. But buying at almost a 20% discount level is a sensible act if you're a long-term investor (say, a 10-year timeframe before you'll need this money). You may soon have the opportunity to buy at 25% or 30% discounts . . . or you may not.

Staying the course in this type of market environment requires patience and fortitude. Long-term investors should embrace the opportunity, not run from it.

Austin

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CONTACTING US
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[1]Don't be confused by our encouragement to buy into strategies that may be currently selling specific positions. By adding capital to these strategies now, when prices are low, you'll benefit when they eventually signal that buying opportunities are at hand.

FEATURE ARTICLE

How Not to Invest

(continued from front page)

We all make mistakes. This book will help you make fewer of them; those you do make will be less expensive.

The goal is the same as Munger's: "Consistently less stupid."

Outcomes versus process

Sports fans and investors tend to make similar errors. Perhaps the biggest is focusing on outcomes rather than process. Sports fanatics are all Monday morning quarterbacks; they can read you chapter and verse—after the fact—what should have been done late in the game on 4th-and-goal from the two-yard line.

It's called "hindsight bias," and it afflicts investors, too. They can tell you what asset classes you should have owned last year, which hedge fund manager you should have invested with 20 years ago, and why you should have bought Netflix, Tesla, and Apple about 5,000% ago. Thanks for nothing!

So, what is process, and how does it differ from outcome? Process is the methodology used to accomplish an undertaking. It could be a simple checklist or a complex systematic approach. Process focuses on the specific actions that must be taken, *regardless of the results*.

Outcome is the result; it could be due to skill, luck, and intelligence, plus numerous other random factors. At the end of the day, outcome is who won or lost the game, how many planes landed safely, what stocks went up or down, and what surgical patients lived or died.

In sports terms, think of process as your playbook and outcome as the final score. In investing, process is your approach, investment style, discipline, and consistency, while outcome is your return or performance.

Imagine you are watching two people in a coin-flipping contest. One of them flips 10 heads in a row; the other's flips are more random—heads, tails, tails, heads, tails, etc. Are you willing to bet a substantial sum that the first flipper's next toss will be heads? If you said yes, you are outcome-focused.

We all tend to be outcome-focused, often to the detriment of choosing a good process.

Perhaps an example from outside of the world of finance might be helpful. Imagine you have a medical condition that requires surgery. It's a bit tricky, but the procedure has a good chance of success. You interview a few doctors, looking at their academic history, published papers, experience, and reputations. You narrow the list to two surgeons and get access to their surgical records, including patient survival rates.

Both surgeons have very good reputations; one works primarily for private patients covered by insurance, the other is at a top medical school.

The private doctor runs a success/survival rate of 86%, while the medical school doc runs at 61%.

Which doctor do you choose?

If you immediately said the 86% doctor, you are outcome-focused. You saw the better results and that was all you needed to know. World Series of Poker Tournament Champion Annie Duke, in her 2018 book *Thinking in Bets*, calls this "resulting." This is the cognitive error of evaluating decisions based solely on their outcomes, rather than on the quality of the decision-making process behind them.

Instead of "resulting," you might have wondered why a cutter with a great reputation at a top-ranked medical school had a much worse survival ratio. You do a little more research into her process. You find that she invented this procedure 30 years ago.

She did all of the early experimental surgeries, including lots of clinical failures (meaning bad surgical outcomes and low survival rates). But over time, she refined the surgery, where through trial and error she developed what is now a life-saving technique. Indeed, her methodology has become the standard, thanks to her research. Every doctor and patient who followed afterward benefited from her groundbreaking clinical work.

> A strong process is a guarantee not of outcome or results, but of a higher probability of obtaining your desired results.

Because of her background in this area, this doc gets all of the "impossible" surgical cases. When other surgeons don't think they can do the operation—or don't want to negatively impact their batting average—they refer it to her medical school. Hopeless and complicated surgeries make up a big part of her practice. People travel from around the world just to have this surgeon do this procedure on them. She has seen every variation of patient, and because of this, she has done more of these operations than anyone in the world.

Based on this new information, which surgeon would you choose? The first doctor was pretty good, but the second doctor is outstanding! If you suddenly are thinking about the medical school doctor with the lower success rate, well, congratulations—you have just become process-focused.

The key to focusing more on process is to understand that good outcomes follow good processes. Without understanding the underlying process, good outcomes could just as likely be due to dumb luck as to skill.

You should be reminded of this every time you read the disclaimer "past performance is no guarantee of future results." What you are actually seeing is an admission of random outcomes. When past performance is the result of luck, then it provides zero insight into what future results might look like.

We rarely know precisely what the sources of good outcomes are; however, we have a high degree of confidence what the probabilities are for a good process. A strong process is a guarantee not of outcome or results, but of a higher probability of obtaining your desired results.

That's why process is so important to investors.

Risk is unavoidable. Panic is optional.

The easiest button to press is the one marked "*Sell*." It's a salve for your emotional distress, especially when facing volatile, disruptive stock markets. Panic selling might ease your upset stomach or help you sleep better, but it wreaks havoc on your portfolio.

The single biggest challenge of panic selling equities: *How do you get back in? When? What determines your repurchase decision? What metrics do you base this* Buy *upon?*

My experience with panic selling was deeply influenced by the investor behavior I observed during the 2000 dotcom implosion, 2008-09 financial crisis, and the 2020 pandemic sell-off. (Other asset managers have had similar experiences.)

It's more than mere anecdotal—we have hard evidence to back up what makes panic selling so bad. A very interesting study examined what happened when freaked-out investors panic-sold. The study was based on "the financial activity of 653,455 anonymous accounts corresponding to 298,556 households from one of the largest brokerage firms in the United States."

An amusing finding: "Investors who are male, or above the age of 45, or married, or have more dependents, or who self-identify as having excellent investment experience or knowledge tend to freak out with greater frequency."

But that buries the lead. The more important issue is what those investors who panic-dumped their equity portfolios did subsequently. The most important takeaway trom this research: "We find that 30.9% of the investors who panic sell never return to reinvest in risky assets."

That is an astonishing data point: Nearly a third of investors who panic sell *never buy equities again*—ever! The rest of the panic-sellers repurchase equities at higher—often MUCH higher—prices than they sold for. These buys tend to be later in the recovery once the news flow improves—markets bottom when the headlines are horrific, leading to this emotional capitulation.[1]

Panic-selling is easy, getting back in at the lows is hard, not ever getting back in is ruinous.

In markets, panic does not make anything better and often makes things worse—and occasionally much worse.

Do's and don'ts of market crashes

Every few quarters, we find ourselves running through the same muster drill. Something happens somewhere in the world, and the markets go a little wild. They sell off a dozen percent or so. The usual suspects panic. Eventually, things stabilize, and everyone wonders what just happened. Post-mortem explanations come along that seem reasonable (after the fact, of course, never before).

Lather, rinse, repeat.

The phones ring with reporters wanting a comment on the volatility. "What's going on in the markets?" they say. My response is always the same: "You won't like my answer: This is what markets do—they go up and down, sometimes violently." "Thank you," they say as they hurriedly hang up.

I can do the drill in my sleep. End of 2015? China down 15%, Europe off the same. Fourth quarter of 2018? S&P 500 off ~20%. Q1 2020? S&P 500 down 34%. 2022, stock markets off 20%, Nasdaq down over 30%, and the bond market off 15%! Summer 2024, Japan falls 9% in two days!

Any given week can have a surprise in store, which then cascades around the world. It's almost as if this is a pattern, a normal part of markets!

My colleague Callie Cox has run the numbers. On a typical day, the market swings ~0.5%. In fact, Callie observes, "the S&P 500 has gained or lost less than 0.5% on 53% of trading days." Plus or minus 1% days occur about 20% of the time. That averages out to once a week, but "it isn't a predictable, once-every-five-days type deal."

Drawdowns of 5-10% happen more than you might realize—there have been 57 sell-offs of that size since 1950 (that's two out of every three years). There have been 23 sell-offs of more than 10% and less than 20% over that time (once every three years). And over the past 75 years, there have been 11 drops in the S&P 500 of 20% or more.

When the usual occurs, my advice is always the same: Turn off the TV, follow your plan, and start flipping over couch cushions to find spare cash, because a wonderful buying opportunity is coming your way.

Let's get more specific as to the "Do's and Don'ts" of market crashes:

● **Do notice how cyclical markets are.** Markets rise and fall with shocking regularity. They may not stick to schedules as tightly as the solar system does—think seasons, sunrise and sunsets, moon phases, even the appearance of comets—but they do move in semi-regular cycles. As do market corrections and crashes.

Between 1950 and 2014, half of all annual periods saw a correction of 10% or more. Bull and bear markets come along on their own timelines, stay for as long as they like, then move on. There is not a whole lot you can do about it, except recognize that it happens.

● **Don't react emotionally.** Do not give in to your gut, which might cause a momentary lapse in reason. That knot in your stomach, sweaty palms, accelerated breathing, and increased heart rate are signs of stress. The discomfort is a feature, not a bug. This agitation is supposed to crank up your body and make it ready to react to danger...but it works against you in the capital markets. Adrenaline, it turns out, is not the basis of sound judgment or portfolio management.

● **Do notice your own state of mind.** Notice the subtle difference between reacting emotionally to external stimuli and that nagging feeling that you forgot something important. At times, your body may be telling you something. Is your portfolio in sync with your own risk tolerance? Are you carrying more exposure to high-risk assets than you are comfortable with? Have your circumstances changed, but your portfolio has not? Try to be perceptive when your subconscious is trying to get you to notice something. It could be important.

● **Do stick with your plan.** You made a long-term plan in the first place for money you do not need access to in the next year (or for years after), but rather, decades from now. In 2050, you will not care what the market did in April 2025. The short term always seems to get in the way of the long term. I've heard countless stories from investors who panicked out of the market at the March 2009 lows and never found

[1]SMI's observation of investor panic selling during the 2000 and 2008 bear markets led to the development of our bear-market selling disciplines. The distinction is that these disciplines are predetermined, *rules-based* processes, not emotional panic selling. Knowing these rules-based processes exist helps SMI members *not* panic sell.

their way back in. They missed out on a huge climb in value. That's not sticking to a plan, and it's not what good financial planning looks like.

● **Don't rely on gurus, shamans, or talking heads.** They haven't the slightest idea about your financial needs, your risk tolerances, your tax bracket, or anything else about you. I have been doing financial TV and radio for more than 20 years and have met many of these people. Very few have the slightest idea what they are talking about, and their general advice is for entertainment purposes only. Their forecasts are nothing more than marketing. Treat them that way.

● **Don't take action while in a state of discomfort.** Decisions made to *stop the pain* are the ones you will regret. The time for action is when you are in a calm state of mind. Any significant financial decision you make should be circumspect, carefully considered, and according to plan. If you are merely reacting to the latest market moves, breaking news, or headlines, then what you have is not a plan—you have an instinctual, fear-driven reaction, and that's the makings of a disaster.

● **Do take notice of the panic around you.** Watch the reactions—and overreactions—of the guests on financial television. How emotional and strident are they? Are their voices up an octave? Can you see them sweating? There is a feedback loop from markets to TV anchors and back—see if you can spot it. Just don't let yourself become affected by it.

● **Don't try to time the markets.** You lack the skill, the discipline, and the ability. Even if you get lucky, it's just that—dumb luck—and that serendipity is likely to encourage you to engage in even more reckless and foolish behavior in the future. The odds of you jumping out on time and getting back in at or near the lows are stacked against you. Add in taxes and other costs, and it becomes a fool's errand.

● **Don't confuse the short term for the long term.** The day-to-day action is noise unless you are an active trader doing this for a living. You will lose money treating investments like trades and vice versa.

Have a plan. Stick to it.

Here is the drill: The debacle du jour occurs; Klaxon horns sound, lights flash, and suddenly, everyone is urging you to take action—do something! *Anything*!—about these important breaking news items. Pandemic! War! Crash! No matter what occurs, someone is urging you to update your portfolio.

My best advice: Always ignore them.

Maybe it was the Flash Crash, the US fiscal cliff, Brexit (Grexit, too), a 20% drawdown in Q4 2018, a continuing resolution funding bill, the 34% pandemic crash, the Russian invasion of Ukraine, or the Israeli/Hamas/ Hezbollah (and Iran?) war. Maybe it was the 18% S&P 500 slide with a 33% crash in the Nasdaq 100 in 2022.

Regardless of the event, you are told to rouse yourself from your slumber and get busy getting busy.

My charge is constantly reminding people that the best time to read the safety card on the seatback in front of them is before their jet takes off. At 30,000 feet, with one engine out and the other on fire, you probably missed the best opportunity to think calmly and clearly about your options.

Planning ahead allows you to make decisions rationally and free from emotional distress. Waiting until trouble hits to decide what to do means you are likely deferring to your limbic system, which is the path to panicky decision-making.

It's the same every time: Something bad happens somewhere, and markets become unhinged. A substantial sell-off ensues, and the usual suspects panic.

The noise subsides, markets settle down, and everyone returns to their originally scheduled programming.

One thing the perma-bears never inform you in their never-ending parade of Armageddon forecasts is that there is *always* a reason to sell stocks. The problem with those reasons is they rarely turn out to be smart, or work in the investor's favor.

We discussed earlier that markets move less than half a percent on 53% of the trading days; really big moves of 5% to 10% occur in two out of every three years; and sell-offs between 10% and 20% happen once every three years. This is what normal looks like.

What should investors think about as these events happen? Here is my shortlist:

● Markets surge and sell-off. This is the ordinary course of events.

● Emotional reactions are bad for your portfolios.

● The world is filled with random outcomes. Even more so when humans are involved.

● Gurus and talking heads will fail you. Their forecasts were wrong. Most didn't see THIS coming, whatever THIS is.

● What sounds sexy and looks good in a brochure or website is not what usually makes you money over the long run.

● You need a plan and the discipline to stick with it.

● "Nobody knows anything" is a truism about the future. It also applies to nearly everything in life. Internalize it.

● Your brain is designed to keep you alive in changing conditions, not to make capital risk/reward decisions.

● Bull and bear markets have their own timelines. They do not care about your retirement, savings for your kid's college, or the new house you want to buy.

● "Uncertainty" is a misnomer. When you hear people using the word "uncertainty," it is because they are scared enough to briefly acknowledge their own ignorance.

● Neither adrenaline nor dopamine is the basis of sound decision-making.

● All predictions are marketing (not advice).

● The future is inherently unknown and unknowable. Those who claim otherwise are selling something.

● Investing is hard.

If you learn nothing else, at least learn this: Never confuse day-to-day noise with an actual reason to make a change in your portfolio. If you are merely reacting to the latest market action, then what you have is not a plan—you have instinctual, fear-driven behavior, and it's the makings of a disaster.

Or, as Blaise Pascal, the French mathematician and philosopher, once observed, "All of humanity's problems stem from man's inability to sit quietly in a room alone." ◆

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

TWO SIMPLE STEPS TOWARD GETTING OUT OF DEBT ASAP

Getting out of debt heads the list of many people's financial priorities. If it's one of *your* top goals, two simple steps will speed up the process.

1. "Fix & roll" your payments. Credit card companies are incredibly generous. Did you know that? For example, if you go no further into debt and make the minimum required payments, the credit card company will ask you for a little bit less each month. Isn't that kind?

Of course, it isn't kindness; it's math. Your minimum payment is based on a percentage of your balance. If your balance goes down a little each month, so will your required payment amount. Don't be fooled into thinking this is a good deal. If you pay the declining minimum amount each month, you will stay in debt for approximately…forever!

Fuzzy math

Let's say you have a $4,000 balance on a credit card that charges 21% interest and requires a minimum monthly payment of 2% of your balance or $15, whichever is higher. This month, your minimum payment will be $80. Assuming you don't add any more debt to your balance, next month your payment will be $79.80, then $79.60, and on and on.

If you take this declining minimum-payment approach, it will take a stunning 789 months to get out of debt. That's more than 65 years! Along the way, you'll pay nearly $24,000 in interest. Wow. Talk about being in bondage to the lender (Proverbs 22:7)!

A better way

Here's a simple step that will get you out of debt much faster and cost you a lot less in interest. Just fix your monthly payments at $80. After all, if you can afford $80 this month, you can probably afford $80 next month.

In our $4,000 balance example, fixing monthly payments at $80 would get you out of debt in 10 years and cost about $5,600 in interest. In other words, just fixing your payment on the amount owed this month will reduce the time it takes to become debt-free by a whopping 55 years, and it'll cut the amount of interest you pay by more than $18,000![1]

If you have multiple debts, fix payments on each one. After one debt is wiped out, roll the full amount you were paying on that debt into another one.

Which debt should get the rolled over money? Going after your highest-interest debt first will get you out of debt *a little bit* faster than focusing on your lowest-balance debt first, and it will cost *a little bit* less in interest. However, depending on your temperament, it is often best to pay down the lowest-balance debt first. Doing so will enable you to pay off one debt relatively quickly, which can provide the motivation to keep going.[2]

2. Accelerate your payments. To really speed up the process of getting out of debt, add an accelerator amount to your fixed monthly payment.

Table A shows the example of paying a fixed $80 each month on $4,000 of debt and compares it with the impact of adding various accelerator amounts.

Table A

Monthly Payment	Accelerator	Months to Payoff	Interest Paid
$80	$0	120	$5,589
$80	$25	64	$2,649
$80	$50	45	$1,794
$80	$100	29	$1,110
$80	$200	17	$644

For example, if you add $25 per month, fixing your monthly payment at $105, you'll be out of debt in a little over five years and you'll pay about $2,650 in interest. What if you add $200 so that you're paying $280 per month? You'll be out of debt in about a year-and-a-half and will pay $644 in interest.

If you have several debts, fix payments on all of them and then run what-if scenarios to decide which will get the accelerator amount.[3] What if you prioritized your highest-interest-rate debts? What if you went after your lowest-balance debts first? What if you put an extra $50 toward your debts each month? Or an extra $100?

Table B shows an example using four debts — three credit card balances and an auto loan.

Table B

Debts	Balance	Interest Rate	Monthly Payment*
Card 1	$4,000	21%	80
Card 2	$5,500	23%	$110
Card 3	$9,000	22%	$180
Auto Loan	$18,000	5%	$340

Approach	Payoff Time	Interest Paid	1st Debt Paid Off
Low-Balance	67 months	$17,048	29 months
High-Interest	66 months	$16,640	37 months

*Before accelerator

At the bottom of the table is a comparison between applying an accelerator of $100 to the debts from *lowest balance* to highest vs. *highest interest* rate to lowest. It shows that going after the highest interest rate debt first wipes out the debts a little bit faster and with a little less interest paid. However, by prioritizing the lowest-balance debts, the first debt is completely wiped out in just 29 months as opposed to 37 with the high-interest-rate approach.

See for yourself how much faster you could be out of debt and how much less interest you will pay with each approach (low balance or high interest) and various accelerator amounts. That will help you choose the best path and may motivate you to find extra money in your budget to speed up your journey out of debt. ◆

[1]See the impact of fixing payments vs. paying the declining minimum-required payment by using the calculator at bit.ly/4jl5L7G. [2]May2024:p70 [3]You can explore payoff scenarios with the SMI calculator at bit.ly/42Ff8bF. Compare what happens when you order debts by lowest balance vs. highest interest rate.

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

THE 401(K)-TO-IRA TRANSFER—NO JOB CHANGE REQUIRED (ONCE YOU'RE 59½)

Having a company retirement plan that offers few investment choices and no access to exchange-traded funds (ETFs) makes it increasingly difficult to implement SMI's active strategies. We've gravitated toward using more ETFs because the ETF marketplace is where most industry innovation has occurred over the past decade. Yet only a small percentage of 401(k)s and similar workplace plans offer ETFs, preferring instead to stick with traditional mutual funds (and typically offering only a relative handful of those).

Exchange-traded funds haven't made their way into employer-based retirement plans for reasons that range from the "logistical to [the] legal," according to ETF.com.[1] Then, too, some plan custodians are concerned that, since ETFs are more flexible when it comes to buying and selling, employees might start trading willy-nilly, likely to their own detriment.

With most workplace plans unlikely to change their "no ETFs" posture anytime soon, it would seem that 401(k) investors who want access to ETFs, plus a wider range of options among traditional funds, are out of luck. However, that may not be so.

Employees dissatisfied with their workplace plans—and who meet the qualifying requirements—may be able to take advantage of an "in-service rollover," a relatively little-known option that allows the transfer of money from an employer-sponsored retirement plan to an Individual Retirement Account (IRA).

Typically, this type of rollover is done *after* an employee leaves a job. However, a workplace-plan-to-IRA rollover can occur *without* leaving if the employer allows it.

Restrictions apply

Two sets of rules affect workplace retirement plans. There are IRS rules that apply to all such plans. But in addition, a company may have its own set of rules.

From the IRS standpoint, a tax- and penalty-free rollover of money from a traditional (i.e., pre-tax, non-Roth) company plan to a traditional IRA is generally allowable for any employee who has reached the age of 59½. Further, an employee willing to bear the tax consequences can combine an in-service rollover of pre-tax money with a Roth conversion by rolling money from a traditional workplace plan into a Roth IRA.

However, with some company plans, in-house rules trump IRS rules. Only about 60% of company plans permit in-service rollovers. Further, some companies allow in-service rollovers only if the employee has contributed to the company plan for at least five years.

Other strings may be attached, too. For example, a company might allow an employee to withdraw only a certain percentage of his account balance for an in-service rollover. Or a company could ban an employee who withdraws money from the workplace plan from making new plan contributions for a set period. (A suspension could mean the worker wouldn't be able to take full advantage of employer-provided "matching contributions.")

The only way to know what your employer allows is to ask your company's HR department or consult your employer's "Summary Plan Description" (SPD).[2] Many companies post the SPD online, allowing for easy access and searching.

If your plan permits in-service rollovers, it is generally wise to consult a financial advisor or a tax professional before proceeding with a rollover request. Rollovers of retirement money are subject to specific IRS regulations, so you might end up with an unanticipated tax bill if you fail to follow proper procedure.

Moving the money

Obviously, rolling money from an employer-sponsored plan to an Individual Retirement Account requires having an IRA, so you must open such an account if you don't have one. Opening a "rollover IRA"—a traditional IRA specifically for pre-tax funds transferred from an employer-sponsored plan—will enable you to segregate rollover money from any other IRA holdings.

To execute your rollover, you must complete the IRA custodian's rollover form (search the IRA company's website for the proper document[3]). Next, your workplace-plan administrator will need details about the new receiving IRA.

Moving the money from one account to another can be "direct" or "indirect." SMI strongly recommends the direct approach if it is an option.

● **Direct rollover.** This approach transfers money straight from your company plan to your IRA. The money never passes through your hands, so you don't run the risk of inadvertently creating a taxable distribution (more on that shortly).

Depending on what is allowable under your particular plan, it may be possible to transfer your actual investment holdings from the company plan to your IRA. However, in many situations, company-plan investments must be sold first, with the cash proceeds then being transferred to the IRA.

● **Indirect rollover.** With this approach, company-plan holdings are sold and the cash proceeds are sent to the account holder, not to an IRA. In such a case, you would then have 60 days to deposit the funds into your new IRA Rollover account. If you miss the deadline, the IRS will treat the withdrawal from your company plan as a taxable "distribution"—with attendant taxes and, in some cases, penalties.

A complicating factor with indirect rollovers is that the money withdrawn from the company plan will be subject to 20% tax withholding.

Here is an example. *(continued on page 77)*

[1] www.etf.com/sections/news/etfs-seek-breakthrough-401k-plans [2] bit.ly/IRS-summary-plan-description
[3] If you're uncertain about which kind of IRA you need or which form to submit, call your IRA custodian.

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

1ST QUARTER REPORT: INCREMENTAL RISK MANAGEMENT SETS UP TRADE WAR OUTPERFORMANCE

A lot can happen over the course of a calendar quarter. Investors started 2025 largely euphoric, but ended the quarter nervous. It quickly got even worse—President Trump's April 2 tariff announcement sent stocks sharply lower as the second quarter began.

So much has transpired since the end of the first quarter that it feels like old news to focus much attention there. We'll quickly review the first quarter as well as how each strategy has responded to April's wild market action.

Stocks rallied through mid-February, with the S&P 500 Index setting a new all-time high on Feb. 19. But storm clouds were already forming on the horizon. China's January "Deepseek" news of a competitive Artificial Intelligence model that could operate at a fraction of the cost of the U.S. big tech models had already rattled the U.S. tech sector. Tariff talk intensity would soon increase as well.

Bonds helped cushion stock market declines initially, with the Bloomberg U.S. Aggregate Bond Index gaining +2.8% during the first quarter. That partially offset the U.S. stock market's -4.8% first quarter loss. However, as April's stock market decline accelerated, the abrupt change of behavior in longer-term U.S. Treasury bonds became a primary storyline. After falling initially (causing bond prices to rise), the 10-year and (especially) 30-year Treasury yields spiked higher, a marked departure from their normal behavior as a flight-to-safety asset during times of market distress.

(The likelihood of this stocks-down/bonds-down scenario, in contrast to the way bonds have cushioned stock market losses for investors in recent decades, was the focus of SMI's March cover article: *Real Asset Allocation: The World Has Changed*.)

Just-the-Basics (JtB) & Stock Upgrading

SMI's JtB allocation tweaks for 2025 have produced mixed results so far. Shifting 10% of JtB's allocation from small stocks to large has worked out well, as year-to-date losses for small stocks were nearly twice that of large stocks (-11.5% vs. -5.7% through April 28). On the other hand, reducing JtB's foreign stock allocation (+8.5% YTD) has offset that advantage.

Stock Upgrading's (SU) incremental risk management efforts during the first quarter paid off during April's steeper market decline. Through April 28, SU led the S&P 500 by a -3.7% to -5.6% margin, while the small-company focused Russell 2000 was down -11.5%.

At the end of January, SU shifted 10% of its allocation out of small-company growth stocks (IWO) and into commodities (SDCI). Through the end of the first quarter, SDCI would gain +4.2% while IWO would lose -13.6%.

Two months later, just before the end of the first quarter (March 26), SU sold three holdings that had been part of the portfolio since mid-2023. One was a swap of small company value funds: the fund sold (HFMDX) has lost -6.3% since then, while its replacement (AVALX) has gained +1.6% over the following weeks (through April 28).

Another of the March 26 changes shifted 10% of the portfolio out of large U.S. growth stocks and into international stocks. This change also turned what would have been a loss (-3.3% in the fund sold) into a gain (+2.6% in the fund purchased).

Stock Upgrading's primary large U.S. company position, FCTE, outperformed the S&P 500 Index during the first quarter (-3.1% vs. -4.3%) and continues to lead by 1.8% as this is being written on April 28. FCTE's limited scope of buying only high-quality companies is an embedded "baseline" of risk management, while its own internal process of "upgrading" its holdings based on recent trend and mean reversion factors (prices retreating to their long-term trend) helps keep it in the most attractive stocks.[1]

Bond Upgrading (BU)

SMI investors may recall that last year we stepped away from the up-and-down roller coaster bonds have experienced recently as interest rates have repeatedly reversed course. Instead, we locked in a more stable path via BU's current Bulletshares recommendation.

When bond yields were declining on economic slowdown concerns during the first quarter, traditional bond funds outperformed. But ironically, as markets unraveled in April, rather than seeing the traditional flight-to-safety response into longer maturity Treasury bonds, longer-term yields spiked higher. Our steady Bulletshares position gained ground quickly as that surprising dynamic unfolded. Through April 28, BU's +2.3% gain year-to-date trails the bond index (+3.0%) slightly, though our return has come with considerably less volatility.

While bond returns haven't been exciting, April's climbing Treasury yields in spite of a falling stock market is an important signal. These yield increases appear to have forced some accommodation from the Trump administration (the first significant tariff "pivot" came the day after the 30-year Treasury yield had punched above 5.0% overnight). This positive stock-bond correlation, with both falling in price together, is the exact scenario discussed in SMI's March cover article and the rationale behind the new Real Asset Allocation ETF recently added to DAA.

Dynamic Asset Allocation (DAA)

Driven largely by gold's remarkable +56% gain since being recommended at the end of February 2024, DAA has generated some of its strongest ever relative performance lately. *(continued on page 77)*

[1] Aug2024:Cover

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

RETIREMENT PREPAREDNESS — WHAT A DIFFERENCE A LITTLE TIME CAN MAKE

It is a common question for those on the cusp of retirement: Do I have enough money saved? Of course, if you're concerned that you might not, you can't go back to the beginning of your career and change your savings rate. But all is not lost. In fact, there may be a *relatively* easy solution: Work a bit longer.

A few years ago, a study on this topic came to a remarkable conclusion: For some people nearing retirement, working even *a little bit* longer than planned could have the same benefit as having saved a higher percentage of income over the last *three decades* of their careers.

In this article, we'll take a closer look at that study and explore the implications for any near-retirees who are not as prepared as they would like to be.

An appealing premise

In 2018, Stanford economist John Shoven and several former students issued a headline-grabbing report titled, *The Power of Working Longer*. The key takeaway from their research was this: "Delaying retirement by three to six months has the same impact on the retirement standard of living as saving an additional one percentage point of labor earnings for 30 years."[1]

For anyone nearing retirement with the fear that they haven't saved enough, this came as a tremendous relief. A few more months of work seemed like a small price to pay to make up for decades of under-saving.

However, as with any research, the output is only as good as the input. To understand the results, it's essential to know what assumptions went into the research. In this case, that takes some of the shine off the study's overarching finding. Still, there are important (and encouraging) implications for those nearing their intended retirement date without adequate savings.

The research world

Shoven and his colleagues designed their study around a "stylized" (theoretical) worker we'll call John, using the following key assumptions:

- John, who is not a particularly high-income earner, began saving for retirement at age 36, contributing 6% of his pay and receiving a 3% employer match for a total of 9%;
- He plans to retire at age 66, which, for Social Security purposes, is his full retirement age;
- John claims Social Security at the beginning of his retirement;
- He uses all of his retirement savings to purchase an inflation-indexed annuity with 100% of the benefit continuing for the surviving spouse after the first spouse's death.

The power of waiting

The study's conclusion — that working just three to six months past John's intended retirement date would equal the benefit of having saved one percentage point more of his income for the past 30 years — resulted primarily from the higher Social Security benefit he would receive by waiting.

The second most important factor is the higher annuity income that would result from waiting. The older you are when purchasing an annuity, the more monthly benefit you can buy with the same amount of money. By delaying retirement, John's retirement savings may be higher as well, which would further increase the monthly annuity benefit he could purchase.

The real world

Of course, the assumptions baked into the study may be quite different than the particulars of your situation. For example:

- You may have a higher or lower income than John;
- You may have started saving for retirement earlier or later;
- The performance of your retirement portfolio may be better or worse than John's;
- You may be planning to retire at a younger or older age;
- You may be planning to claim Social Security benefits at an earlier or later age than John;
- You may not be planning to use all of your retirement savings to purchase an annuity (nor would we recommend that!), and inflation-indexed annuities are no longer available.

Still, if you are nearing retirement, are concerned that you may not have enough money saved, and are planning to claim Social Security benefits before age 70 (the age at which benefits are at their maximum), working longer — even a little bit longer — could meaningfully increase your monthly retirement income.

Show me the money

For each month you delay claiming SS benefits past full retirement age, your eventual monthly benefit amount increases by two-thirds of 1% — or 8% per year.[2] Therefore, when you eventually file, your monthly inflation-adjusted benefit will be significantly higher than if claimed earlier.

Said differently, waiting beyond your full retirement age to claim SS benefits is essentially "buying" yourself (and potentially your spouse) an increasingly attractive inflation-adjusted annuity. That is an extremely compelling offer.

Working longer could increase your retirement income in other ways too. For example, it will enable you to contribute more to your retirement portfolio. If you plan to annuitize a portion of your retirement account, waiting to do so will either increase the monthly benefit you would receive for the same investment or cost you less for the same benefit.

Of course, waiting will shorten the amount of time you *(continued on page 78)*

[1] bit.ly/NBER-Power-of-Working-Longer (PDF) [2] bit.ly/SSA-Delayed-Retirement-Credits

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 3/31/2025	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	9.6	5.5%	0.3%	5.5%	-2.3%	6.4%	4.7%	0.97	0.09%/0.05%	10%	8%	6%	4%	VTIAX/VXUS
Extended Market Index	Small company stocks	-14.1	-8.9%	-7.9%	-8.9%	-4.7%	-0.5%	2.7%	1.33	0.05%/0.05%	30%	24%	18%	12%	VEXAX/VXF
S&P 500 Index	Large company stocks	1.9	-4.3%	-5.6%	-4.3%	-2.0%	8.2%	9.0%	1.00	0.04%/0.03%	60%	48%	36%	24%	VFIAX/VOO
Total Bond Market Index	Medium-term bonds	7.3	2.8%	0.0%	2.8%	-0.4%	4.9%	0.5%	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 3/31/2025[1]	Ticker Symbol	% Allo-cated	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	☎ First Trust STOXX Eur Sel Div	FDD	10%	05/25	ETF	ETF	ETF	ETF	56.8	21.2%	6.6%	21.2%	12.1%	23.5%	1.18	0.59%	None
Situational	Cambria Global Value	GVAL	10%	04/25	ETF	ETF	ETF	ETF	49.8	18.7%	5.6%	18.7%	10.1%	21.1%	0.99	0.64%	None
Small Company	Aegis Value	AVALX	10%	04/25	Yes	Yes	NTF	NTF	38.3	11.7%	7.7%	11.7%	6.5%	20.2%	1.29	1.46%	None
Small Company	Kinetics Market Oppr No Load	KMKNX	10%	03/25	NTF	NTF	NTF	NTF	116.7	10.0%	-3.7%	10.0%	37.3%	69.4%	1.90	1.40%	2%/30days
Large Company	☎ Cash[6]		10%	05/25													
Large Company	SMI 3Fourteen Full-Cycle Trend	FCTE[7]	50%	08/24	ETF	ETF	ETF	ETF	N/A	-3.1%	-4.9%	-3.1%	-9.2%	N/A	N/A	0.85%	None

Footnotes: [1] Upgrading recommendations are based primarily on unpublished momentum data current through late April, rather than on the end-of-March 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]** For cash, we suggest a money-market fund such as Fidelity's SPRXX, Schawb's SWVXX, or Vanguard's VMFXX. E-Trade has many MMFs from which to choose. Other options include ETFs such as BIL and BUXX. See sminow.com/Cash. **[7]** For more on FCTE, see the August 2024 SMI cover article and Aug2024:p119. Longer-term performance data for this relatively new ETF isn't yet available.

RECOMMENDED FUNDS FOR SMI'S BOND FUND UPGRADING STRATEGY

Data through 3/31/2025[1]	Ticker Symbol	% Allo-cated	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	8.8	1.2%	0.3%	1.2%	2.2%	5.4%	0.3	0.10%	None
Permanent: Vanguard I-T Bond	BIV[10]	25%	Perm	ETF	ETF	ETF	ETF	8.2	3.1%	0.3%	3.1%	-0.4%	5.5%	6.0	0.03%	None
Permanent: Vanguard S-T Bond	BSV[11]	25%	Perm	ETF	ETF	ETF	ETF	8.9	1.9%	0.5%	1.9%	1.3%	5.7%	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 76.

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.

❶ PICK YOUR ALLOCATION

Seasons of Life	Stocks	Bonds
15+ years until retirement	100%	0%
10-15 years until retirement	80%	20%
5-10 years until retirement	70%	30%
5 years or less until retirement	60%	40%
Early retirement years	50%	50%
Later retirement years	30%	70%

Note: These are SMI's Seasons-of-Life recommendations for an investor with an "Explorer" temperament. See Step ❶ in the text for information on our investment temperament quiz. You may want to fine-tune the above percentages to suit your personal approach to risk-taking.

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

For each of the 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.

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%

*Currently allocated to cash. **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 — STOCK UPGRADING

[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.]

Months like April 2025 (fortunately!) don't come along very often. With stocks already down ~8% from their February highs, President Trump's April 2 tariff announcement sent the market into a tailspin. By Monday, April 7, the S&P 500 was flirting with bear market territory, down -21.3% intraday from its February high. A flurry of policy announcements and adjustments quickly followed. While market volatility has continued to be elevated, stocks rebounded from those early-April lows to recapture about half of that total loss. As this is being written the afternoon of April 28, the S&P 500 is roughly -11% below its February high, but down just -2.1% overall in April.

Investors have been conditioned to expect quick resolutions and sharp rebounds following market crises, having experienced quick "V-bottoms" following scary declines in 2018, 2020, and 2022. Those prior episodes recovered quickly following big interventions from the Fed and/or government in the form of interest rate cuts and other creative measures to boost market liquidity. No such interventions have taken place this time around, although many would point to a marked change in rhetoric and approach by the Trump administration as stresses quickly built in the stock and (especially) Treasury bond market during April.

So is the worst over? The emphasis has clearly shifted away from the fiscal restraint that dominated the early days of the Trump administration. DOGE savings projections have shrunk from $2 trillion to $150 billion, Elon Musk has shifted his attention back to Tesla, and lately the administration has been focusing more on tax cuts than spending cuts. That's likely a bad thing for the country's long-term trajectory, as it means a rare opportunity to correct course may have been missed. But it does mean that the same aggressive government deficit-spending dynamic that kept the Biden economy out of recession in 2023-24 could potentially work similar short-term magic for the Trump economy this year.

Our contention since January has been that without a recession, the stock market was unlikely to experience a significant bear market this year. Unfortunately, the tariff disruptions have put the possibility of a 2025 recession squarely on the table. Whether that plays out over the coming quarters will depend largely on how trade negotiations transpire over the next several months—a difficult, if not impossible, thing to predict.

This is a great example of how being a rules-based investor is such an advantage. Rather than having to try to discern the ultimate impact of each daily tweet or news headline, we can let our strategies identify the important trend changes and act accordingly. Stock Upgrading had already taken several incremental steps to de-risk our portfolios before April's trade announcement, and this month it is taking two more steps to further insulate us from future potential downside.

This doesn't mean the market will necessarily turn lower again from here, though that is certainly possible. It simply means that the process is suggesting the risk/reward tradeoff being offered by the market has continued to deteriorate, and we are incrementally positioning the portfolio more defensively in response. Trade deals are notoriously complicated and slow to negotiate, and the most important one—China—is likely to be extremely high-stakes and contentious. So we won't be surprised if April's market action was simply Act One, with Act Two to follow later this summer as the real-world impact of higher tariffs begins to filter into the economic data.

◆ **In the Situational Group, sell USCF SummerHaven Dynamic Commodity ETF (SDCI, 2/2025).** On Jan. 29, Stock Upgrading exited our small-growth index position (IWO) and moved into this commodity ETF. That was an outstanding move, as IWO proceeded to *lose* -14.7%, while SDCI *gained* +3.2% (through the April 25 close). However, our commodities signal turned negative this month, so we are exiting this position with a small gain. Once again, commodities acted as a great diversifier during a sharp stock market correction.

● **First Trust STOXX European Select Dividend (FDD) is being added.**[1] Rather than pivot into cash here, we're adding a second foreign stock fund this month. Foreign stocks haven't been completely immune to the recent volatility in U.S. stocks, but many foreign funds have maintained a positive trend. This European dividend ETF has gained +5.1% so far in April and +21.2% over the past three months (through 4/25). That's a powerful intact uptrend, which explains why we are continuing to add foreign stock exposure even as we're decreasing our exposure to U.S. stocks.[2]

◆ **In the Large Company Group, sell iShares Russell 1000 Value ETF (IWD).** Just last month, we pivoted from the large *growth* index into this large *value* index. This month we're exiting this position and shifting the proceeds to cash.

Stock Upgrading has been getting the incremental moves right so far this year. As evidence, consider its three most recent changes (outside of this large/value index that is being sold). So far in April, despite the broad market's decline, GVAL is +3.2%, AVALX is +2.7%, and KMKNX is +1.6%. FCTE, our U.S. large company position, is down half as much as the S&P 500 Index during April, at just -0.8% (and is also beating the index year-to-date as well as since FCTE's inception last July, exactly what we hoped for from this U.S. large company exposure).

Moving this large value index position to cash isn't a pronouncement that a deep bear market lies ahead. Rather, it's another small, incremental risk-management move similar to what we've been doing all year. We don't know what the future holds. Precisely for that reason, we have rules built into the system to tilt the portfolio more conservatively as risk increases, and specifically when certain risk conditions trigger. If the worst of this decline is over, we'll likely pivot back into another stock fund quickly, perhaps as soon as next month. But if the rally of the past few weeks is just a typical bear market rally, we'll be

[1]For more on this fund, visit www.morningstar.com. [2]See Apr2025:p.56 for more on why we think the uptrend in foreign stocks may have more room to run even if U.S. stocks remain weak.

glad to have shifted a little more of the portfolio to safety.

Our rules-based system doesn't know anything about the current trade negotiations and it has no opinion on how the Trump administration is handling the trade war. It will, however, keep us on the right side of the broad market trend if we have the discipline to follow its signals.

With money market funds yielding 4% or more, don't simply leave this cash in your brokerage account (unless you know your broker is sweeping it into a higher-yielding fund automatically). Schwab (SWVXX) and Fidelity (SPRXX) have multiple good MMF options, and anyone able to buy ETFs can park their cash in options such as BIL or BUXX. See sminow.com/Cash for more details and options. ◆

LEVEL 2 / CONTINUED FROM PAGE 71

THE 401(K)-TO-IRA TRANSFER—NO JOB CHANGE REQUIRED (ONCE YOU'RE 59½)

Suppose you withdrew $50,000 from your company plan to make an indirect rollover. Your proceeds would be only $40,000. The remaining $10,000—i.e., 20%—would be withheld for taxes.

It gets worse. Under IRS rules, as mentioned above, failing to deposit the full $50,000 in your rollover IRA within 60 days will create a taxable event. To avoid that, you must come up with $10,000 from somewhere else to deposit in the IRA along with the $40,000 from your company plan. (Fortunately, if you meet the IRS rollover requirements, you'll eventually receive a refund of the $10,000 that was withheld.)

Additional considerations

Although federal law restricts how often one can transfer money from one IRA to another (only once a year), there is no such restriction on transferring money from a workplace account to an IRA. You can move money as often as you like if your company allows it.

A word of caution. If you hold highly appreciated company stock in your employer-sponsored plan, bear in mind that rolling that stock over to an IRA will cause you to forfeit the preferential tax treatment available for "net unrealized appreciation."[1]

Do your homework

If you're not happy with the options in your company retirement plan, an in-service rollover could be just the thing to enable you to take more control over your retirement money.

But bear in mind the old saying (from woodworking), "Measure twice, cut once." Double-check your plan before taking action. You don't want tax-related surprises. ◆

LEVEL 3 / CONTINUED FROM PAGE 72

1ST QUARTER REPORT: INCREMENTAL RISK MANAGEMENT SETS UP TRADE WAR OUTPERFORMANCE

This continued during the first quarter, as it gained +3.8% while most markets fell. Foreign stocks, added at the end of January, also contributed significantly to DAA's success while providing another excellent example of incremental risk management ahead of the decline in U.S. stocks.

Speaking of U.S. stocks, DAA adeptly exited its U.S. Stock position on March 31, days ahead of President Trump's tariff announcement that sent U.S. stocks plunging. That move to cash paid off immediately as markets dropped in early April.

DAA underwent a significant change during the first quarter with the addition of the new RAA ETF.[2] This addition hasn't boosted performance yet, as DAA's "legacy" holdings have been performing so strongly. This isn't unexpected, as legacy DAA has normally done a great job at the start of past bear markets.

1ST QUARTER 2025 DAA ETF UNIVERSE

Ticker &	Category	1Q Result
SPY	U.S. Stocks	+4.3%
EFA	Foreign Stocks	+8.1%
VNQ	Real Estate	+2.7%
BLV	Long-Term Bonds	+3.7%
SWVXX	Money Market	+0.9%
PHYS	Gold	+19.5%

But DAA hasn't always done as well pivoting quickly back into higher risk assets once these market downturns end. We expect RAA to help with that and add considerable value to our process over time.

That's not to say RAA won't be a good performer if the current market correction continues. RAA's internal trend-following process will cause it to de-risk further if the market's negative trend is prolonged. This would trigger the specific risk-management features discussed in SMI's March 2025 cover article. So far, relatively little of that adjustment process has occurred, given the swiftness and relatively short duration of the market's decline.

Sector Rotation (SR)

It's getting old reporting that SR lagged again, but not surprisingly, the market's swift decline has been especially tough on this strategy. A poor first quarter got even worse when SR pivoted into energy stocks at the end of March. On April 2, not only did Trump's tariff announcement deal a harsh blow to economic growth projections (negatively impacting projected future energy *demand*), but Saudi Arabia simultaneously announced it will boost *supply* much faster than had been previously communicated. Lower energy prices are great for U.S. consumers, but have pushed energy stock prices much lower.

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—discussed in our 2018 article, *Higher Returns With Less Risk, Re-Examined*.[3] In 2024, we began 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 a great example of the type of diversified portfolio we encourage most SMI readers to consider.[4]

This version of a 50/40/10 portfolio declined just -0.9% during the first quarter, which compares favorably with just about any blended portfolio metric. This strong performance was driven by DAA's solid returns and is a good illustration

[1]For a detailed explanation, see bit.ly/Fidelity-company-stock-NUA. [2]Mar2025:p40 [3]Available at bit.ly/50-40-10. [4]Blending strategies adds complexity. Some members may prefer an automated approach. See bit.ly/SMIPrivateClient.

that with solid diversification and appropriate position sizing, an overall portfolio can still excel even if one portfolio component performs poorly (as SR did this quarter).

Conclusion

The aggressiveness of President Trump's tariff plans has sent shockwaves through financial markets. The administration has clearly articulated that reshaping America's trade policy is vital to the interests of regular workers, and they are willing to endure pain in financial markets to achieve their broader societal goals. This is quite a reversal from the past 15 years, when most bouts of market distress have been quickly resolved by strong policy responses from the Federal Reserve, the federal government, or both.

SMI has strong incremental risk-management processes built into its active strategies. These processes are rules-based and designed to keep us on the right side of the broad market trends. This means that if the market trend deteriorates sufficiently, our holdings will grow incrementally more conservative, including the potential of shifting assets to cash (as DAA did with a portion of its portfolio at the end of March).

While there's always the risk that falling markets will snap back quickly—and investors have grown to expect that over the past 15 years—SMI's approach will significantly reduce our risk should a deeper, prolonged bear market unfold. Given the ambitious nature of this administration's goals to reorder the global economic system, we can't rule anything out. ◆

LEVEL 4 / CONTINUED FROM PAGE 73

RETIREMENT PREPAREDNESS—WHAT A DIFFERENCE A LITTLE TIME CAN MAKE

spend in retirement as well, meaning your savings won't have to stretch as far.

Your mileage will vary

Will delaying your retirement by three to six months give you as much benefit as having saved another one percentage point of your income all these years? It's a difficult calculation to make, but it doesn't really matter. What matters is that you are where you are. If you wish you had more in savings in order to have more retirement income, see how much your monthly Social Security income will increase by putting off retirement for 3, 6, 12, or more months.[1] If an annuity factors into your plans, get some quotes to find out how that income would change by waiting as well.[2]

If your health and employment prospects allow, working longer is an effective option for increasing retirement income. ◆

MARKET NOTES, QUOTES, AND ANECDOTES

Talking a mean game

"*Before* investing, many will tell you that they can stomach a 20% decline—they can 'tolerate' such a risk. But when it actually happens, and real dollars are at stake, the true test begins.."– Market strategist Charlie Bilello, in a 3/17/25 blog post. Read more at bit.ly/3YOm98B.

The power of inaction

"It's natural to respond to market volatility in an adverse way—we were wired that way for good reason (self-preservation). Therefore, for many successful investors, and perhaps for you—if you already have a well-diversified portfolio designed to accommodate your willingness, need, and ability to take risk—the best action to take may be inaction. As the late...Charlie Munger said, 'The big money is not in the buying and the selling, but in the waiting.'"– Financial advisor Tim Maurer in a 4/20/25 post on his *Financial LIFE Planning* blog. Read more at bit.ly/4cM6xbw.

Prone to wander

"Everyone has a lesser version of themselves you need to watch out for when volatility strikes. This is why an investment plan is so important during times like these."– Investment writer Ben Carlson, in a 4/13/25 post on his *A Wealth of Common Sense* blog. Read more at bit.ly/42NnVIi.

Past performance

"There is one important exception about the perils of making decisions based on past performance: The success of trend-following strategies, which are explicitly past performance focused. If there is evidence of this working, why is performance chasing such a problem?

"There is a critical distinction. The success of systematic trend-following strategies is about the consistent application of discipline and rules. Conversely, most investors engage in erratic trend-based investing (we invest in things because they have 'gone up') and rationalize the decision based on some post-hoc fundamental analysis."– Joe Wiggins in a post on his *Behavioral Investment* blog. Read more at bit.ly/42Teybk.

Tune out

"The more you engage with...speculative or sensational [media content], the more likely you are to act impulsively.... Studies have shown that consuming excessive financial news and checking your portfolio too often are linked to lower investment performance. When you engage in this behavior, it becomes harder to separate signal from noise, and the pressure to 'do something' increases."– Retirement researcher Wade Pfau, in a recent blog post. Read more at bit.ly/434lUc6.

[1] bit.ly/SSA-Get-Benefits-Estimate [2] Several brokers have annuity income estimators on their websites, including Fidelity (at bit.ly/3K54hzY) and Schwab (at bit.ly/4iix4P2).

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

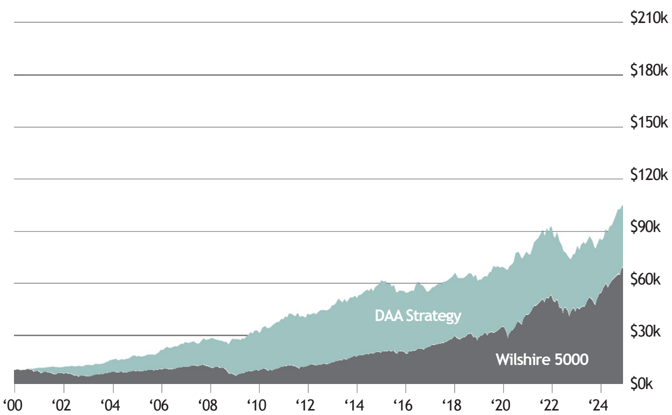
Overview

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

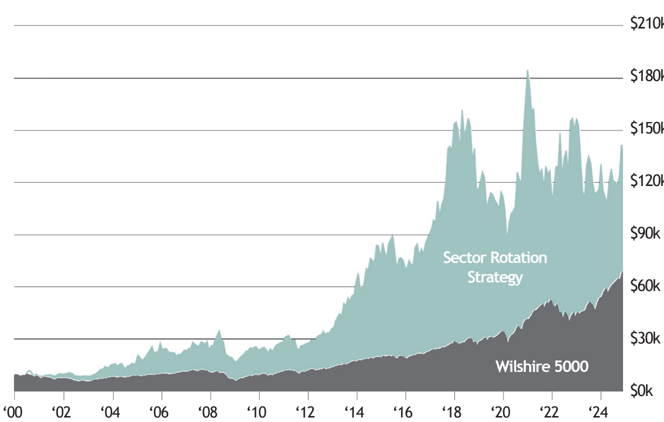
Overview

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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Dated Investment Material
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PERFORMANCE DATA

SOUND MIND INVESTING MODEL PORTFOLIOS • DATA THROUGH MARCH 31, 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]	-4.8%	-5.9%	-4.8%	7.1%	8.1%	18.3%	12.0%	7.5%
Just-the-Basics[2]	-4.2%	-5.3%	-4.2%	4.7%	5.8%	16.0%	9.3%	6.6%
Stock Upgrading[3]	-5.0%	-4.9%	-5.0%	2.3%	4.1%	13.5%	7.8%	7.8%

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]	2.8%	0.0%	2.8%	4.9%	0.5%	-0.4%	1.4%	3.8%
Bond Upgrading[5]	1.9%	0.4%	1.9%	4.3%	1.3%	1.5%	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]	3.8%	-1.1%	3.8%	14.9%	5.5%	9.1%	5.5%	9.8%
Sector Rotation[7]	-18.4%	-15.1%	-18.4%	-7.1%	-7.0%	4.1%	2.6%	9.8%

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]	-1.4%	-3.1%	-1.4%	5.0%	3.9%	9.3%	6.3%	6.0%
60/40 Upgrading[9]	-2.3%	-2.8%	-2.3%	2.8%	2.9%	8.4%	5.5%	7.3%
50/40/10[10]	-0.9%	-3.1%	-0.9%	7.8%	3.6%	8.8%	5.5%	9.1%

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.