INVESTING

SECTION 1

Ten Keys to Successful Investing

> Tom Hunter was a well-known Christian leader who believed God had given him a "revelation" about how to solve America's oil problems. It was 1980, at the height of the Arab oil embargo, and commuters throughout the nation were feeling the pinch of skyrocketing prices at the gasoline pump.
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> Tom claimed that he had been approached by an angel, who revealed to him where hidden oil deposits in America were located.
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> These deposits were in an area where no oil had ever been discovered and where the geology did not conform to any patterns established by the petroleum industry.
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> But despite all the evidence to the contrary, Tom was convinced that his revelation was true. In fact, he was so convinced that he set out to raise the $3 million needed to drill in this spot. He began by raising $50,000 from people in his church to do a prospectus and brochures.
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> He wanted to offer stock in the venture but was unable to obtain the necessary registrations. It was Tom's opinion that Satan's forces within several state governments had blocked those registrations. So, he offered stock anyway. With the help of two associates, Tom was able to raise nearly $600,000 from Christians who heard about the oil drilling venture. Several families borrowed against their homes, and one 80-year-old couple risked their entire savings in the project.
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> The hole was dry and all the funds were lost. Lawsuits flew like snowflakes as disgruntled Christians sued one another, in violation of Paul's teachings in 1 Corinthians 6. The media picked up on the lawsuits because many elderly people had been duped into investing. As a result, the cause of Christ was set back in the communities most affected. Ultimately, the promoters of the venture were prosecuted, convicted, and given prison sentences.

These weren't stupid people—neither the promoters nor the investors. Neither were they particularly greedy; although, without a doubt, the promised returns influenced their decisions. Thus, it should be mentioned here that it's wrong to invest just for the sake of making money.

Making money should be a by-product of doing what God has called you to do. Also remember that peace does not come by accumulating material possessions; if it did, the richest people in the world would be the most at peace. Instead, they're often frustrated and miserable.

True peace comes only from God. *"Peace I leave with you; My peace I give to you; not as the world gives do I give to you. Do not let your heart be troubled, nor let it be fearful"* (John 14:27).

Find the Right Balance

To allow material assets to erode through bad management is not good stewardship. It's a sign of slothfulness and poor stewardship. But if you simply multiply and store assets without purpose, you'll be guilty of hoarding, just as the rich fool did in Luke 12:16-21.

It should be noted that investing itself is not unscriptural. In fact, in the Parable of the Talents (Matthew 25:14-30), God gave to the stewards according to their abilities and directed them to manage their portions well. Each was rewarded or punished according to that one's stewardship.

It is the purpose of investing that makes it good or bad. As you learn to invest money according to God's principles, you'll find that God will increase your opportunity to help other people. That, in reality, is the true purpose of investing: to increase your assets so that you can serve God more fully.

Purposes for Investing

A legitimate purpose for any investment program is to help your family achieve a greater degree of security. This can include investing to provide such things as education for your children, an inheritance for your family, and retirement.

Understand that no single financial plan will fit every family. Unfortunately, there are some financial planners who tend to press everybody into one mold.

I believe in using financial advisers, and I encourage you to use them also. These include professionals in areas such as law, accounting, and financial planning. But the key is to use them as sources of expertise, not as gurus. They can provide alternatives and suggestions but, ultimately, the decisions must be yours.

The Ten Keys

Even though every family's needs in the area of investing are different, there are 10 common principles, or "keys," that can provide a solid foundation for anybody. If you'll apply these 10 keys to your own financial plans, your investment decisions will be clearer.

Key 1: Formulate Clear-Cut Investment Goals

No one should invest without having an ultimate purpose for the money. You may be laying money aside for education or retirement, but you should have an ultimate, clear-cut financial goal. I'd like to briefly discuss some realistic goals.

Retirement Goal

Even if you're going to continue working past 65, you may not be able to do the same work at 65 that you're able to do at 25. If you have to take a job that pays less than you need to live on, you'll need retirement savings to supplement your income. If you have enough in your retirement account to provide all the income you need, you'll be able to work as a volunteer for a nonprofit or Christian organization.

I believe it's beneficial to remain active after 65, especially when it comes to serving the Lord. That takes us back to the purpose of investing. If your purpose for retirement planning is to someday sit down, kick up your heels, and do nothing, you need to reevaluate your motives.

Christian service doesn't end at 65. In fact, the retirement years represent one of our greatest opportunities to work for the Lord.

Furthermore, recent studies have shown that many men and women once thought to suffer from irreversible senility recovered much of their earlier abilities by daily exposure to mental and physical stimulation.

Some studies even indicated that active older people experience a regeneration of brain activity, once thought to be impossible.

Of course, the amount of debt you're still carrying at retirement will play a key role in what you can or cannot do. It is my strong conviction that becoming debt-free, including your home mortgage, should be your first investment goal in preparing for retirement. Once you've achieved that goal, then, and only then, should you invest in other areas.

The exception to this would be a company retirement account that eventually would allow you to earn a maximum of at least 25 percent in matching funds. You may have to settle for a lower matching amount until you've worked at the company for a number of years.

Once your home is paid off, you can start preparing for retirement and/or your children's college education with the money you were paying each month on your mortgage.

It takes discipline to invest this money, but it makes sense. You can't depend on Social Security to be your sole retirement plan. Social Security is intended to be nothing more than a supplement to your retirement income.

Proverbs 6:6 says, *"Go to the ant, O sluggard, observe her ways and be wise, which, having no chief, officer or ruler, prepares her food in the summer and gathers her provision in the harvest."* You may be in the "harvest" years of your life, but remember that the winter years are coming.

Preservation Goal

Let's assume you've inherited $100,000 and you want to preserve that money for a particular purpose at a later date. That purpose may range from education to a charitable donation.

The way you invest this one-time windfall will depend on your age, goals, and current needs. Typically, the investment program for a one-time windfall is very conservative. In other words, the goal is not maximizing growth but minimizing losses and achieving a reasonable return.

Such is also the case for those who can put away large amounts from their incomes. Doctors are a good example. The majority of money that most doctors have accumulated was earned through their primary profession: medicine. Most of what they lose is through speculative investments.

The plan most doctors need should be focused on the preservation of capital with a reasonable degree of growth to keep the value of their money current. They do not need high-risk investments.

Education Goal

Unlike those who are trying to preserve a windfall, a couple planning for their children's education may have to think more in terms of growth. This depends on the amount available to invest and the time in which it can be invested.

Let's assume, for instance, that a couple can put aside $1,000 a year for the education of their children, who will reach college age in about 10 years. At the end of 10 years they will have saved $10,000. But this may not be enough to educate one child, much less two or three. So they're going to have to take some additional risks to achieve the growth they need.

This is the principle of "risk versus return," and we'll be dealing with it again and again. The higher rate of return you need, the greater degree of risk you'll have to assume.

Growth Goal

As we've just noted, some people need a little more growth potential in their investments. But there are others who seek a lot of growth potential because they're hoping to get rich quick. These people are willing to take big risks in an effort to become rich overnight. But Proverbs 28:22 says, *"A man with an evil eye hastens after wealth and does not know that want will come upon him."*

Tax Shelter Goal

This particular goal is very complex. Tax law changes in the past few years have virtually shut down tax shelters, other than depreciation and interest for the average investor.

It is often taught that paying interest is a good tax shelter. That is an old wives' tale. When you pay interest to save income tax, you lose and the lender gains.

On the other hand, depreciation and investment tax credits can be legitimate tax shelters. But an important principle to remember is that when you "defer" income tax through depreciation you eventually must recapture it. Most tax shelters don't really eliminate income tax; they only defer it to a later time.

For instance, if you put money into a retirement plan, such as an IRA, it is an excellent tax shelter. But you'll have to pay income taxes on withdrawals from that IRA when you retire.

When you claim depreciation on rental property, you do not avoid paying income taxes. You defer them until a later period. When the property is sold, all of the depreciation that you claimed can be recaptured in income taxes.

The only exception is if you use the property as a charitable gift; then you can claim a charitable deduction for the fair market value of the property and not have to repay the depreciated portion.

Bear in mind that frequent tax law changes can affect any deductions you might want to claim. Consult your tax adviser for details.

I could tell many horror stories about those I have counseled who thought they could outsmart the IRS. To my knowledge, none succeeded. Most ended up paying the taxes, plus interest and penalties, and losing the investment money as well.

> **Illustration.** Carl was a young real estate salesman who had been investing in apartment buildings with several other Christians from his church.
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> He managed the complexes, for which he received a monthly fee. The investors were allocated the tax write-offs for depreciation, taxes, and interest.
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> As the buildings appreciated in value, Carl would borrow against the equity, sharing money with his limited partners. He would then raise the rents to cover the additional loan payments—a great strategy during good times.
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> But what Carl failed to realize was that he had created a time bomb just waiting for a slump in the economy. Inevitably that slump came and renters who had lost their jobs moved out.

When the break-even point of 90 percent occupancy was passed, Carl quickly got into financial trouble. Within a few months the apartments were hopelessly delinquent and were being foreclosed by the lenders.

After many struggles, with Carl desperately trying to find a way to salvage his investment, the apartments were repossessed. But that wasn't the end of his troubles.

The IRS declared that all of the previously claimed depreciation and interest on equity loans would have to be recaptured. This meant that each of the investors would have to claim $50,000 in "phantom" income.

Many of the partners, including Carl, lost everything they owned and still owed thousands in taxes. Carl learned the hard way that you don't really avoid income taxes; you only delay them.

One final note about tax shelters. You should never get into an investment solely for the tax benefits involved. Any good investment is eventually supposed to make money for you, and that is the true test that the IRS uses.

Remember the caution of Proverbs 28:20: *"A faithful man will abound with blessings, but he who makes haste to be rich will not go unpunished."*

Key 2: Avoid Personal Liability

Most get-rich-quick schemes, as well as most tax shelters, are available only if you accept personal liability for a large debt. God's Word says to avoid "surety," which means making yourself personally liable for indebtedness without a certain way to repay.

For example, let's say that you were going to buy a $10,000 piece of property but had only $2,000 as a down payment. So you put your $2,000 down on the property and then sign a note for $8,000 that says, "If ever I can't pay the note, the lender has the right to recover the property and sue me for any deficiency." That is *surety.*

On the other hand, let's assume that you're buying the same $10,000 piece of property, you put down $2,000, and you sign a note for $8,000. But the condition of the note reads, "If ever I can't pay, the lender has the right to recover the property and keep what I've already paid, but I owe nothing additional."

In other words, there is no personal liability for any deficiency. In legal terms, that's *exculpatory,* meaning you have limited your liability to the collateral at risk.

Thus, you have avoided surety because you always have a definite way to pay: surrender the property. That is the only biblically sound way to borrow.

I would counsel any Christian to avoid personal liability at all costs. Then, if you buy equipment, property, or investments, the most you can lose is the money you have "at risk," not future earnings. Failure to do this can result in the total loss of all your family's assets. Many times when an investment goes bad, it does so during the worst times in the economy. That's usually the time when you are least capable of carrying the loss.

Illustration. Ron and Stan were doctors who invested together in numerous real estate ventures. One of these investments was an apartment complex, which had been offered for about half of its appraised value. The deal had required only a minimal down payment of $50,000 and signing for the mortgage, which was $1 million.

Both men were assured that there was no way the investment could go bad. After all, they could make money with the complex only 50 percent occupied, and it had never been less than 80 percent occupied. The only hitch was that they had to personally endorse the note. In other words, they personally guaranteed the lender against any losses.

About two years later it was discovered that the complex had urea formaldehyde insulation in the ceiling and walls. It was condemned, and health officials required that the entire structure be torn down.

The insurance paid for a portion of the loss, and Ron and Stan were able to sell the land for another portion. But they were still personally liable for nearly half a million dollars. Ron went bankrupt. Stan, who was a Christian, decided that he could not go bankrupt and committed to repayment of the loan.

The investment itself was good. The deal was excellent. The only difficulty was that Ron and Stan had to sign personally, which is surety. Remember the wisdom of Proverbs 22:26, which says, *"Do not be among those who give pledges, among those who become guarantors for debts."* Don't assume surety, no matter how good the deal sounds.

Key 3: Evaluate Risk and Return

An important factor in investing is called the "risk versus return" ratio. The higher the rate of return, the higher the degree of risk. You can lower the risk by education and careful analysis, but you cannot eliminate it.

The reason an investment pays a higher rate of return is because it must do so to attract the needed capital. For example, an insured CD or a government note may pay 7 percent, but an equivalent corporate bond may pay 10 percent to 12 percent.

Why does a corporate bond pay a higher interest rate than a government note? Because the risk in corporate bonds is higher than in government notes. Before investing in anything riskier than an insured savings account, you need to ask yourself this fundamental question: "Can I really afford to take this risk?"

The answer to that question normally depends on two factors: age and purpose. The older you are, the less risk you can afford to take, because it's more difficult to replace the money.

If the purpose of the money is for retirement or education and both are still years away, you can probably afford to take a higher risk.

However, if you need the investment funds to live on right now, then you need the lower risk, regardless of age. If you find an investment that promises a high rate of return with a low degree of risk, watch out; there's no free lunch.

As Proverbs 14:18 says, *"The naive inherit foolishness but the sensible are crowned with knowledge."*

Key 4: Keep Some Assets Debt Free

If you're using leverage (borrowed money) to fund some of your investments, I believe you should keep at least 50 percent of all your investments debt free. This also assumes you are following the guidelines of Key #2 and you accept no surety. In other words, the money you have at risk in the investments is all you can lose. You have no contingent liability.

The basic idea behind this philosophy is to leverage about half of your investments—without surety—in order to hedge against inflation. When you do this, you're expecting that the interest rate charged on the money will be lower than your investment earnings on the money. If at least 50 percent of your investments are debt free, you can never lose everything.

Please note that leveraging is better suited for experienced investors who know what they're doing. Even then, the risk can be high. It's not a good idea for the average investor, who doesn't have a large surplus.

> **Illustration.** Joe was a real estate developer whose business had suffered a large slump due to the economy in his area. He had no surety and had kept at least half of his assets debt free. Thus, he could sell his leveraged investments without losing everything.
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> But due to the influence of his friends, Joe was thinking about selling some of his debt-free investments to help carry some of the other investments. His associates were doing the same thing, and he had tens of thousands of dollars in the other investments that he really hated to lose.
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> In truth, his associates were risking good assets to feed their debts. They had very little choice, since they had personally endorsed every loan and everything was at risk. But in Joe's case there was a choice.
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> He was about to gamble that the economy in his area would turn around before his assets were exhausted. As Joe's counselor, I advised against risking good assets to feed loans. "If they can't pay their way or be sold, let them go," I said.
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> Joe followed this advice and is still in business, but most of his associates have failed. In fact, he was able to develop a new business: managing properties for lenders, such as insurance companies and banks that have foreclosed on heavily indebted properties.

Key 5: Be Patient

It's important to get your money to work for you, but patience will help avoid a great many errors. Most investments look good initially, even the bad ones, and I've never heard of anyone advertising an investment as a really bad deal. Most salespeople think their deal is the best and sincerely believe in their products. It's up to you to sort out the good from the bad.

You must know what your goals and objectives are and only select the investments that help you meet them. Remember that greed and speed often work together, so a key to avoiding greed is patience. Most get-rich-quick schemes rely on greed and quick decisions. In fact, there are three basic elements associated with any get-rich-quick scheme. They do the following.

1. *Attract people who don't know what they're doing.* When you invest in areas that you know nothing about, it's difficult to evaluate a good or bad investment. Christians are often very gullible and prone to follow the recommendations of other Christians who don't know what they're doing either.
2. *Encourage people to risk money they cannot afford to lose.* Most people are more cautious with money they've earned than with money they've borrowed. Borrowed money comes so easily that it's easy to risk.
3. *Attract people who will make investment decisions on the spot.* Many get-rich-quick plans rely on group meetings and a lot of emotional hype. But if you hear of a deal

that sounds so good that you don't want to wait and pray about it, pass it up. Good investments are rare and seldom flashy.

Illustration. In the early years of my ministry, when I was still doing individual counseling, I was approached by a young computer salesman named Chad, who called me about a deal that was "too good to pass up."

He had called only because his wife pressured him into it. "We have to see you right away," he said, "I've got to move quickly." So I scheduled to see them the following day.

When they arrived for counseling, Chad told me about a computer hotshot in Colorado who had developed a program to do stock market trades between the U.S. and European stock exchanges. Profits would be made on the differences between the two markets.

Supposedly, this "specialist" was taking in investors and making over 10 percent per month for them. Chad had already cashed in his retirement plan and was about to borrow against the equity in their home. He calculated that he could make enough to start his own business in only two years.

His wife, Chris, was panic-stricken at the thought of him risking $25,000 with someone he didn't even know. But Chad said he had talked with several other investors who were making lots of money. He said the software developer had paid exactly what he promised every month.

My question was, "Why does he need your money if he's able to make over 100 percent per year? Why doesn't he just borrow the money at 10 percent?"

Chad answered, "He wants Christian investors so that he can get into other ventures in the future." I have found that any investment targeted primarily at Christians is worthy of some suspicion. So I asked Chad if he would mind if I checked out this person.

"No," he replied, but then he asked how long it would take, because he had to make a decision quickly or the opportunity would be closed. I shared the biblical principles of get-rich-quick with Chad, but they fell on deaf ears. His decision was made. I was just a necessary step to pacify his wife.

In my investigations, I could find nothing on this computer trading genius. If he had learned his trade by handling stocks and bonds, nobody knew about it. I called to get a financial statement and was assured several times that one was "on the way." I could never get even the slightest documentation on what he was doing.

In the meantime, Chad invested $25,000 in this venture and received a $3,000 check for the first month's profits. The next month he was offered the option of reinvesting the profits, which he did over my objections. But when the third month rolled around, Chad's distribution never came.

The state securities commissioner impounded all the assets of the "trader," pending an investigation for securities fraud. It seems he had not been trading stocks at all. He'd simply been raising money from gullible people—a lot of them.

The system was pretty simple. He paid dividends by raising more money each month. Once investors had received a month or so of distributions they were "allowed" to reinvest their profits, which most did.

As long as the circle of investors kept expanding, the trader had no problems making the payments—and a huge profit. His only overhead was a computer to keep up with the payments.

The end came when an investor tried to talk his brother-in-law into investing too. Fortunately, his brother-in-law was a security investigator who knew a scam when he saw one.

By the time this "stock trading" operation had been shut down, it had raised more than $20 million and had a list of clients that read like who's who in entertainment, sports, and business.

As the Proverb says, *"A faithful man will abound with blessings, but he who makes haste to be rich will not go unpunished"* (Proverbs 28:20).

Get-rich-quick schemes always look the best initially. If they didn't, nobody would buy them. So be cautious and, above all, be patient. *"Rest in the Lord and wait patiently for Him"* (Psalm 37:7). Before you do anything, talk about it, pray about it, and give God time to give you an answer.

Key 6: Diversify

There's an adage that says, "Don't put all your eggs in one basket." That certainly applies to your investment strategy.

Let's assume, for example, that you have $1,000 to invest and you want to buy some stock with it. If you put your $1,000 into one company's stock, then all of your money rests on how that one company does.

There is an alternative; it's called a *mutual fund.* In a mutual fund, your money is pooled with many other people's money and invested in a variety of different companies. Therefore, you achieve diversification merely by selecting a mutual fund, as opposed to just one company.

I also would suggest splitting your money into different areas of the economy. For example, some might be in real estate, some in gold and silver, some in stocks and bonds, and the remainder in CDs.

The probability is that when one of these areas is down, another will be up. So rather than having to sell the one that's down, you could sell one that's up.

Remember that Bernard Baruch said, "When everybody else is buying, it's time to sell." What you should strive to do is buck the trends, rather than be forced to go with them.

Illustration. Rob had worked for Sears all of his adult life and his entire life savings and retirement funds were in Sears stock.

Sears is a very good company and its stock is sound, but everything Rob and his wife had to live on for the rest of their lives was at risk in one place. If Sears had failed, Rob and his wife would have lost their life savings, with virtually no chance to replace it.

They needed to diversify by selling off some Sears stock and putting some of the proceeds into mutual funds, some into land, some into residential real estate, and so on. By doing so, they would ensure that their savings would not be wiped out if Sears stock fell drastically.

It's important to remember that the principle of diversification is not a one-time decision. In other words, you don't diversify and then forget it. You have to continue managing your money.

We are required to be stewards: managers of God's property. If you don't have the knowledge, you need to gain it. Spend an hour a day for six months studying any area of investing, and you'll know more than most people who sell it.

To diversify your investments, you need to understand how a multitiered plan works. I use five tiers, which we'll discuss further in Section 2. But for now, let's take a brief look at the subject.

Tier 1 is *secure income investments,* such as government securities (Treasury bills, savings bonds, and Government National Mortgage Association bonds) and bank securities (savings accounts, insured money funds, and certificates of deposit, or CDs).

Tier 2 is *long-term income investments.* These are investments that are higher risks but have higher rates of return, such as municipal bonds, mortgages, corporate bonds, insurance annuities, dividend-paying stocks, and money funds.

Tier 3 is *growth investments,* such as undeveloped land, housing, and balanced mutual funds.

Tier 4 is *speculative investments,* such as common stocks/aggressive growth mutual funds and precious metals.

Tier 5 is *high-risk investments,* such as gold and silver, oil and gas, commodities, collectibles, precious gems, and some limited partnerships.

Depending on your age, income, and temperament, you may want to omit one or more of these tiers in your planning.

For instance, an older person may not want to get into Tier 5, the high-risk area. A younger person may not want to get into Tier 1, the most secure area.

As a general rule, only about 5 percent to 10 percent of your investments should be in cash, or near-cash, investments. These include bonds, certificates of deposit, Treasury bills, and money market funds.

Some of the examples we'll look at should help clarify what levels fit best for differing circumstances.

Key 7: Consider Long-Range Bonds

Your investment program should take into account long-range economic trends, especially inflation. So many times we get trapped into following short-range trends.

When the economy is doing well and inflation and interest rates are down, everything seems to be going great. People want to jump into the market and "make a lot of money."

Some people who get in will make money, but the vast majority are going to panic during a short-term downturn and lose most or all of the money they made.

People who speculate may wind up losing more than they made, especially if they borrow to invest. When the market drops, they can't afford to ride it out, so they sell in a down market.

So, when you're evaluating where to put your money, it's always important to take the long-term approach. Remember that with long-term trends, whatever is going on right now will eventually reverse.

Your investments should not remain stagnant, but don't panic either. Bernard Baruch noted that "most people tend to panic when their assets decline in value, and they will sell simply because they have not taken a long-range view of things."

Perhaps the most significant economic trend affecting investments in the last 10 years has been inflation. During the next 10 years it will be either inflation or the threat of depression—or perhaps both.

Our primary weapon in fighting a depression is the expansion of credit, which leads full circle to inflation again.

So, for the future, prudent investors who would like their resources to be available in the next decade must guard against both possibilities: inflation and depression.

In a noninflationary economy, you can put your money in a CD or Treasury bill (T-bill) and stay even with the economy. But in an inflationary economy, unless you have your money at risk in things that are being inflated with the economy, your buying capacity is eroded.

For example, during the 1970s, the investments that were most vulnerable to inflation were primarily stocks, bonds, savings accounts, T-bills, and most other "near-cash" investments.

Stocks were vulnerable primarily because the inflation growth went to the real estate markets. During the mid-1980s, the stock market recovered some of the earlier inflationary growth but only at the price of great volatility.

The most inflation-proof investments over several decades have been real assets: things that you can use and touch, such as land, metals, apartment buildings, or houses.

During periods when inflation and interest rates are down, many of the paper investments like stocks and bonds do very well. During this time, people tend to forget about inflation.

That can be a costly mistake in a debt-run economy. When inflation turns around and interest rates increase to combat it, years of growth can be wiped out in a few months.

Key 8: Focus on What You Own

In 1975 I was counseling many people who were wiped out during an economic downturn in the Atlanta area. Many were men who had a significant net worth. And if you looked at them on paper, they looked great financially.

Unfortunately, most of their assets were highly leveraged and required regular payments, and when the payments came due but couldn't be met they lost everything.

Almost exactly the same happened in the oil industry during the mid-1980s. Men worth millions of dollars lost everything they owned, including their homes.

> **Illustration.** I recall an oilman I met in the late 1970s. He was a committed believer and a member of the Christian Oilmen's Association. He had gotten into the oil business just before the oil embargo and had seen the price of oil go from about $6 a barrel to over $30.

> It seemed that everything he touched turned to gold, and he was thoroughly hooked on the Christian "prosperity message." He literally believed that his giving guaranteed him immunity from economic problems.
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> As I got to know him, I found that he was worth millions through oil leases and several drilling operations. But everything was leveraged to the limit. He used every increase in oil prices to borrow more against his reserves so that he could expand further.
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> When I challenged him on the principle of surety, he became very defensive and ducked behind the normal Christian escape: "God told me to do it."
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> He said he prayed regularly about every decision. Furthermore, he believed every increase in his assets was evidence that God was confirming his actions.
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> To make matters even worse, he had adopted a good-economy mentality. He believed the economy would continue to inflate and carry oil prices with it. What he didn't realize was that much of the inflation was due to the increasing oil prices.
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> That all changed in the early 1980s, when the oil cartel fell apart and oil prices dropped. At the same time, the new president, Ronald Reagan, used high interest rates to choke off the money supply and bring inflation under control.
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> Also at this time, worldwide conservation began to reduce the demand for oil. This triple blow crippled the oil industry.
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> Established companies like Shell, Texaco, and Gulf did well with their pre-inflation oil leases. But most of the new ventures got wiped out, including this Christian oilman.
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> He could have cashed out in 1979 with perhaps $20 million; yet in 1986, he saw his home and furnishings auctioned off by the court.

You see, assets don't mean anything. What counts is the liability-free amount you own. As I said earlier, make it your goal to have at least half of your assets totally debt free. If you can't do that right now, make it your number one long-range goal.

How can you do it? By saying, "The next time I sell an investment, I'll use that to pay off another investment." As the Lord said, *"For which one of you, when he wants to build a tower, does not first sit down and calculate the cost, to see if he has enough to complete it?"* (Luke 14:28).

Key 9: Know Where to Sell

Before you buy, always know where you can sell the investment. This key is very important when you're dealing with "exotic investments," such as gemstones, silver, gold, or collectibles.

You can do very well buying these items if you know what you're doing. But most people who buy collectibles have no idea of where or how to sell them.

For example, suppose that the precious metals market is doing very well and you want to sell an antique silver plate. Let's arbitrarily assume that silver is being quoted at $7 an ounce.

The first thing you discover is that your plate is probably worth a lot more than its silver content, based on what you paid for it as an antique. So the price quoted on silver has little meaning.

The market for your plate would be to a collector and, normally, through an antique broker. Many novice collectors have discovered, to their dismay, that the price they paid for an object was retail—or more—and the price they're offered is wholesale—or less.

Even if your investment in silver had no collectible value and you tried to resell it for the silver content, you probably would get a shock.

First, you would find that no dealer would give you $7 an ounce. Instead they would offer you only 75 percent to 80 percent of that amount. You might make money, but it would require a gain of more than 20 percent to do so.

Let's assume that you bought gold in bullion form. Unless you have an agreement with the sales company that they will buy it back from you, you may have a difficult time even selling your gold.

If you do sell it, and gold is being quoted for, say, $400 an ounce, you will discover that a broker won't give you $400 an ounce for it.

In fact, he may offer as little as $350 an ounce, even though it's certified bullion. Why? Because he needs to make a commission on it too.

Other collectibles, such as figurines, paintings, stamps, and coins, are very difficult for a novice to sell profitably.

When you invest in these you need to have a clear understanding of how and where you can resell them. I've counseled many people who said, "Well, the salesperson told me that if I ever wanted to resell, he would buy it back."

But later they found that their salesperson was no longer around. You'd better be sure you know an alternate sales source, in the event that the salesperson or the company you buy through is gone.

Even if they've been in business for 50 years, they can still fold, especially in a bad economy. Usually investors are better off staying with less exotic investments that have multiple markets available.

Key 10: Train Family Members

Every family member should be trained in the principles of sound investing. This is critical for children because they'll eventually move away and be responsible for managing their own family's finances.

It's critical for wives because 85 percent of them will outlive their husbands. That's an important statistic to remember when developing an investment portfolio.

I've counseled enough widows, and especially young widows, to know that most of them have no concept of how to manage any kind of investment program. Because they don't understand investments, they often will sell at the wrong time and suffer significant losses.

Thus, a wife needs to be trained in good money management and investment strategy. She needs to know how to buy and sell and where to go for the help she needs. It's poor stewardship for a wife not to understand her family's investment portfolio.

Also, since it is not uncommon for a husband and wife to die together in an accident, the older children should be brought into decisions involving investments.

At a minimum, you need to leave instructions so they'll be able to manage your portfolio without having to dispose of it just to pay estate taxes after your death.

SECTION 2

Developing an Investment Strategy

In order to gain a thorough understanding of the principles of investing, a few definitions are in order.

First, both *income* and *growth* may be included under the general term "return." In other words, you may have cash income from a certificate of deposit (CD), or you may have growth income from a rental house. Both are considered "return" on investment. The first is immediate and the second is long-term.

Income is the average current yearly yield. *Growth* refers to average yearly appreciation. So, if you get a 5 percent cash return from a rental house after all expenses are paid, and the house is also appreciating 5 percent per year, it has a 10 percent per year return on investment.

The term "risk" refers to the potential loss. In other words, what is the probability that you will get your money back on an investment? Risks can be numerous with a particular investment. Let's use fixed-income securities as an example. With this type of investment, the major sources of risk include the following.

1. *Interest rate risk.* Changes in interest rates can affect bond returns and bond prices.
2. *Purchasing power risk.* Over a period of time, inflation eats away at your purchasing power. The more severely inflation rises, the more severely your purchasing power is diminished.
3. *Market risk.* The market (in general) affects the price behavior of your securities.
4. *Marketability risk.* How easily can you sell a particular issue at or near prevailing market prices? That depends on your marketability risk.
5. *Business risk.* If the issuer has large financial and operating risks, the risk of default is increased.
6. *Reinvestment risk.* This is your ability to reinvest your principal and/or coupon/dividend receipts at a desirable rate.
7. *Call risk.* Your security may have a call feature that gives the issuer the right to prematurely retire the obligation. As a result, you may be forced to reinvest the funds in a lower-yielding investment.
8. *Price risk.* This particular risk is based on changes in interest rates. Depending on the maturity of your obligation, price behavior may be affected to a lesser or greater extent. The longer it takes your obligation to mature, the more susceptible you are to this type of risk. Therefore, short-term obligations have less exposure to price risk when interest rates are rising.

In this section, I'd like to present some of the more common investments available and place them on the multitiered system, which I referred to in the previous section. These investments are tiered according to how I rate them for risk and return.

I have assigned a scale from 0 to 10 that can be applied to each type of investment. Zero represents the least return or the least risk, and 10 represents the highest risk or highest return.

Therefore, an investment with an income potential of 0 and a risk factor of 10 would represent the worst possible investment.

An investment with an income potential of 10 and a risk of 0 would be the best possible investment. (You can't find those, by the way.)

I also have added a third factor: *growth.* Growth means the ability of an investment to appreciate (grow in value, such as common stocks).

Investments such as bonds have a potential growth factor also. If a bond pays a yield of 10 percent and interest rates drop to 8 percent, the bond value increases, and vice versa.

Following are the five tiers we'll be covering.

1. *Secure income investments*
2. *Long-term income investments*
3. *Growth investments*
4. *Speculative investments*
5. *High-risk investments*

Remember that the rating you'll see on the following investments is purely my opinion. It should not be accepted as an absolute.

Times and economic conditions constantly change, and the degree of return or risk for most types of investments will change with the economy.

When interest rates and inflation are high, real property, residential housing, apartment complexes, or office buildings generally do well. But when interest rates and inflation are down, stocks and bonds generally do well.

Tier 1: Secure Income Investments

Government Securities

(Income 5)(Growth 0)(Risk 1)

Treasury bills (T-bills), Government National Mortgage Association bonds (Ginnie Maes), and savings bonds all fall into this category.

Bank Securities

(Income 5)(Growth 0)(Risk 3-4)

One advantage of bank investments like savings accounts, certificates of deposit (CDs), and insured money funds is that you can invest with smaller amounts of money.

It generally takes $10,000 to $25,000 to purchase a Treasury bill, but you can purchase a CD for as little as $500. The disadvantages are that they offer little or no growth because the payout is fixed and the income is taxable as it is earned.

Be certain that you invest with a bank or savings and loan protected by the FDIC or a credit union insured up to $100,000. If worse comes to worst, the government will print the money to pay what it owes.

If you elect to tie up your money long-term and have a choice between a government security or bank note, I recommend the government security, because it is a primary obligation of the government.

Tier 2: Long-Term Income Investments

Municipal Bonds

(Income 5)(Growth 0)(Risk 7-8)

These are bonds issued by a local municipality, usually a larger city like Houston or Hartford. The primary selling feature is that most or all of the income from municipal bonds is exempt from federal income tax (and state income tax in the state where they are issued).

The disadvantages of individual municipal bonds are: (1) they have low yields; (2) they normally require a large initial investment; and (3) there may not be a readily available market for them.

With the exception of buying some municipal bonds for diversification, most average investors are better off with government bonds.

Take, for example, an investor in a 15 percent federal and 3 percent state tax bracket. A $10,000 municipal bond paying 5 percent interest yields $500. A CD paying 9 percent would yield $738 after taxes. In this case the yield on the CD is better and the risk is less.

Mortgages

(Income 8)(Growth 0-5)(Risk 3-4)

A mortgage is a contract to lend someone money to buy a home or other real property. The lender (investor) holds the mortgage rights to the property until the loan is totally repaid.

One way to become a mortgage holder is to buy a mortgage through a mortgage repurchase agreement. These agreements are commonly offered by commercial lenders who want to resell loans they have made.

The seller normally discounts the mortgage to yield from 1 percent to 3 percent above the prevailing interest rates. So, if current interest rates on CDs are 7 percent, you can earn 8 percent to 10 percent through repurchased first mortgage loans.

The risk on this type of investment is relatively low because you have real property backing the loan. If a borrower fails to pay, you can foreclose on the property. The key here is the value of the property securing the mortgage. I suggest that any investment in a first mortgage be backed with property valued at two to three times the outstanding loan. The liabilities of this kind of investment are as follows.

1. *It is hard to find.* Usually, you must know a local attorney or banker who will handle the investment for you.
2. *The return on your investment is 100 percent taxable, as ordinary income.*
3. *There is no growth on your principal, unless interest rates drop, in which case your mortgage might be worth more.*
4. *Your money will be tied up for a long time, usually from 15 to 20 years.*

If you're looking for long-term income, a first mortgage is a good way to invest.

Another mortgage option is the second mortgage, which usually yields a higher return, with an equivalent higher risk.

But if you lend money on a second mortgage and the borrower defaults, you must assume the first mortgage (if it is in default too) as well as any outstanding property taxes in order to protect your equity.

Many states do not allow foreclosure for default on second mortgage loans so, in order to collect, you must file a personal judgment suit against the borrower and have a lien attached to the property. If the property is ever sold, your lien must be paid as soon as the first mortgage loan is satisfied.

Corporate Bonds

(Income 6-8)(Growth 0-3)(Risk 5-6)

A corporate bond is a note issued by a corporation to finance its operation. Quality bonds often yield 2 percent to 3 percent higher interest rates than an equivalent CD or T-bill.

The amount of return depends on the rating of the company issuing the bond. Bonds are rated from a low of C to a high of AAA. The higher the grade of the bond, the lower the rate of return, but the risk is lower as well.

Unfortunately, the rating of a company can change quickly. In my opinion, most average investors would be better off using a bond mutual fund to achieve the long-term income they seek. The returns are slightly lower, but the risks are lessened through diversification in many companies' bonds.

Many investors prefer bonds that generate current income through business operations, such as utility company bonds. In the past, public utility company bonds have been very stable and predictable.

However, many utilities have suffered massive debts from nuclear power station construction, making them greater risks. In general, though, most utility bonds are safe investments.

One liability with corporate bonds is that repayment depends on the success of one company. If that company defaults, the assets of the entire company can be lost—including your bond money.

Another negative is that the income is totally taxable. A bond has little chance for growth unless your rate of return is in excess of the current interest rates.

Insurance Annuity

(Income 3-4)(Growth 0)(Risk 5-6)

This investment requires a prescribed amount of money to be paid into the annuity, and then the issuing insurance company promises a monthly income after retirement age.

The advantages of investing in annuities are as follows.

1. *The earnings are allowed to accumulate, tax deferred, until you retire.*
2. *The investment is fairly liquid, so if you have to get your money out, you can, although there is often a penalty.*
3. *Compared to other tax-sheltered investments, the returns are good.*

Be aware that the stated yield of an insurance annuity isn't necessarily what you will receive. Sometimes the percentage given is a gross figure from which sales and administrative costs are deducted.

It's best to ask for a net figure to do your comparisons and get all quotes in writing from the agent offering the annuity.

Dividend-Paying Stocks

(Income 4-5)(Growth 0-10)(Risk 6-7)

Common stocks usually pay dividends based on the earnings of the company. One advantage is that stocks can be purchased for relatively small amounts of money.

It's possible to invest in a stock paying a dividend of 7 percent to 8 percent and invest less than $100. This obviously appeals to the small investor. Since the dividend is totally related to the success of the issuing company, I would look for a company that has paid dividends for many years, particularly during economic hard times. Be aware, though, that just because a corporation has paid dividends for decades doesn't necessarily mean that it can continue to do so.

The auto industry in the early 1980s is a good example. Some companies that had paid high rates of return for three and four decades had to cut their returns drastically.

Most eventually recovered, but the people who depended on the dividends went through some lean times. So, if you plan to invest in stocks for income, you need to assess the degree of risk.

As stated previously, a good quality mutual fund can lessen the risk but achieve the same results. Professional management, together with broad diversification, provide a great advantage.

Money Funds

(Income 4-5)(Growth 0)(Risk 2-8)

Money funds are the pooled funds of many people. The funds are used to purchase short-term securities. These are not true savings accounts but are short-term mutual funds that pay interest.

Shares normally sell for $1 each but can vary, depending on the fund's asset value. Money funds are available through most brokerage firms, savings and loans, and banks; those offered by brokerage firms aren't federally insured against losses. Interest rates usually are adjusted monthly.

It's important to verify the rating of any money fund frequently. If the rating drops below an "A," remove your money and select another fund.

Also, don't maintain more than $25,000 or 10 percent of your assets (whichever is lower) in any one money fund.

Tier 3: Growth Investments

This tier is in the middle and represents the crossover from conservative to speculative investments. During one cycle of the economy these investments may appear to be conservative, but then during the next cycle they could appear to be speculative.

Undeveloped Land

(Income 0-2)(Growth 6-7)(Risk 3-4)

During the highly inflationary ’70s, farmland and other undeveloped properties were good investments. People speculated in land just as they did in income properties. This drove prices up and, unfortunately, tempted even farmers to speculate.

The 1980s saw inflation subside and land prices level out. Consequently, raw land prices also fell. Today, an investment in raw land is considered fairly conservative, although there is a risk if the purchase is highly leveraged. The prospect of the kind of growth seen in the 1970s and 1980s is considered unlikely, but this scenario can and will change again as the economy changes.

Housing

(Income 5-7)(Growth 0-5)(Risk 3-4)

As noted previously, no investment during the last 25 years has been consistently better for the average investor than single-family rental houses. That doesn’t mean that residential properties will appreciate the way they did over the last two decades, but I can see no long-range trends away from rental housing in the next decade.

In fact, with the Tax Reform Act making multifamily housing less attractive to investors, fewer apartments will probably be built during the nineties. That should place more value on rental housing.

Housing costs are out of the price range of most average young couples, and since they have to live somewhere most of them are going to rent, at least temporarily.

One advantage of investing in rental housing is that it can be done with a relatively small initial down payment. When investing in rental properties, the most important principle to remember is to assume no surety. If the house won’t stand as collateral for its own mortgage, pass it by.

Rental housing not only generates income but also shelters much of that income through depreciation, interest, and taxes.

The 1986 Tax Reform Act placed limits on what can be deducted for tax purposes against ordinary income, and it’s entirely possible that future tax changes will affect real property even more.

But I still believe rental housing promises good growth through the end of this century, barring an economic catastrophe.

On the other hand, there are several negatives to consider before investing in rental housing.

1. *If you don’t want to be a landlord, don’t buy rental housing.*
2. *If you aren’t able to maintain and manage your own property, many of the benefits decline.*
3. *It’s not always easy to get your money out if you need it.*

An alternative to investing in single-family rental housing is to invest in duplexes and triplexes. If you don’t have the money to get into a duplex or triplex by yourself, there are two alternatives. You can invest in limited partnerships offered by individuals who purchase and manage duplexes and triplexes, or you can invest with another person.

The key factor to keep in mind: The managing partner has total control. The advantage of owning a duplex or triplex is that your income isn't limited to one renter.

With a single-family home, if your renter moves out, you have a 100 percent vacancy. But with a duplex you would still have a 50 percent occupancy.

The liabilities with duplexes and triplexes are that they require a bigger investment and more maintenance, and you really do become a property manager.

Remember the three key factors about buying any rental property, whether it is a single-family house, duplex, or triplex: location, location, and location.

Balanced Mutual Funds

(Income 6-8)(Growth 4-5)(Risk 4-5)

A mutual fund is an investment pool for many small investors. A group of professional advisers invests for them, usually in the stock or bond markets.

There are specialized mutual funds that invest in automobiles, precious metals, utility companies, government securities, and so forth. In fact, you can find a mutual fund for almost any area in which you want to invest.

Mutual funds are valuable for the small investor for several reasons.

1. *You can invest with a relatively small amount of money (many mutual funds require as little as $500).*
2. *Your money is spread over a large area in the economy.*
3. *The return on the best mutual funds has averaged more than twice the prevailing interest rates for any 10-year period.*

I would encourage any potential investor in mutual funds to go to independent sources and check out the fund first. Since we are discussing growth mutual funds, it is important to verify the track record and projected earnings of any fund you might select. A prospectus from the mutual fund company will clearly define the "secure" or low-risk funds and the "growth" or speculative funds.

I prefer to use no-load (noncommission) funds, because they allow my money to grow without the service fees or commissions coming out of the initial investment. But even no-load funds normally will carry some penalties if you decide to withdraw your money during the first five years.

Tier 4: Speculative Investments

Common Stocks/Aggressive Growth Mutual Funds

(Income 2-8)(Growth 0-7)(Risk 7-8)

Again, the advantages of common stocks are that you can invest with a relatively small amount of money and the potential exists for sizable growth. The liabilities of common stocks are obvious.

First, you can suffer a loss as easily as you can make a profit. Second, stocks require buying and selling to maximize their potential and consequently require broker fees.

If you expect to make money in common stocks, you're probably going to have to trade them periodically. If you're not willing to do that, it's better to stick with other kinds of investments.

Precious Metals

(Income 0)(Growth 0-8)(Risk 8-9)

As mentioned before, precious metals such as gold, silver, or platinum can be purchased either for long-term growth or pure speculation. For long-term growth, buy the metal, put it in a safety deposit box, and hope it appreciates over a period of time.

Most people do this primarily as a hedge against a potential calamity in the economy. In an economy as unstable as ours, a small percentage of your assets invested in precious metals can help to balance other assets more vulnerable to inflation.

In an earlier discussion on diversification, I noted that Bernard Baruch said, "When everybody else is buying, it's time to sell." You would do well to remember this advice when it comes to precious metals.

Finally, keep a long-term mentality about precious metals—at least those you invest in as a hedge. And remember that gold and silver fluctuate with the economy. Gold usually cycles faster and further than silver, primarily because more people trade in it. In general, the cycles of gold run opposite the U.S. dollar; so, for clues to the price of gold, watch the dollar's trends.

Other speculative investments include limited partnerships, syndications, penny stocks, and collectibles. It is virtually impossible to assign a rating to these since they vary so greatly, depending on the investor's expertise. Suffice it to say that the risks are great and so are the potential returns.

The reason that many of these investments are shown in both the speculative and high-risk categories is because they fall into either, depending on what the economy is doing at the time.

Tier 5: High-Risk Investments

These investments should play only a relatively small part (5 percent to 10 percent at the most) in any investment plan. Their primary value is the potential appreciation; in other words, speculation. Most generate little or no income and are highly volatile.

Gold and Silver

(Income 0)(Growth 0-10)(Risk 9-10)

Not only can you invest in precious metals for long-term growth, but you also can invest in gold and silver for short-term speculation. This would be most beneficial in a highly volatile economy where major changes were occurring, such as the oil crisis in the mid-1970s or the run-up in silver prices in the late 1970s.

Obviously, such events are difficult to predict and are extremely risky. They are only for the investor with a strong heart and cash. Unless you are a professional investor, this probably is not an area in which you want to risk a lot of money.

Oil and Gas

(Income 0-8)(Growth 0-10)(Risk 10+)

In the late 1970s and early 1980s, when crude oil prices cycled up, oil and gas investments were the hottest things going. But many people who invested money in oil and gas did not understand the risks involved, and the vast majority lost their investments when the prices fell and marginal wells became unprofitable.

A high degree of risk exists, particularly in oil exploration. In an effort to reduce that risk, many people invested in oil and gas limited partnerships, in known gas and oil fields. Not only did they lose their money on these investments, but they also discovered they were liable for environmental damages caused by the wells.

This kind of an investment is not only very risky but usually very expensive. I believe the income potential for oil and gas over the next two decades is excellent, but if you plan to invest in oil and gas, risk only a small portion of your assets, and don't let anybody talk you into risking larger amounts.

Commodities Market

(Income 0)(Growth 0-10)(Risk 10+)

Commodities speculation requires a relatively small dollar investment and can bring huge returns, primarily through the use of leverage.

Commodities are appealing, since a $1,000 investment in the commodities market can control $10,000 worth of contracts—or more—for future delivery. But remember that "A fool and his money are soon parted."

Approximately one out of every 200 people who invest in the commodities market ever gets *any* money back. Investing in commodities is probably the closest thing to gambling that most Christians ever try. Actually, it is gambling. You can lose everything you own and even more. Commodity prices can move quickly above or below your initial investment, possibly triggering a forced sale that could result in losses exceeding your initial investment.

Collectibles

(Income 0)(Growth 2-10)(Risk 10+)

Antiques, old automobiles, paintings, figurines, and so forth are all collectibles that can be used while you hold them to sell.

One of the most important prerequisites to investing in collectibles is knowledge. You need to know value before investing. Second, you need to put some time and labor into locating the best places to buy and sell. Third, you must have the capital to wait for just the right buyer. Often, novice investors get discouraged and sell out at a loss.

Unless you have a high degree of knowledge in this area, the risk is inordinately high. With most items like antiques, automobiles, figurines, and paintings, you can develop the expertise you need by talking with other people and reading key periodicals. The rate of return on collectibles can easily be 10+, but the risk of loss is just as great.

Precious Gems

(Income 0)(Growth 0-4)(Risk 10+)

Diamonds, opals, rubies, sapphires, and other stones can be purchased for relatively small amounts of money. Then they can be mounted into a ring or pendant and worn while you're waiting for them to appreciate. In my opinion, gem investors should consider this their best use.

For every person I know who made money in gems, I know a hundred who lost money. As stated earlier, it's almost impossible for a novice to know the true value of a gem, even with a "certified" appraisal. Worst of all, it's very difficult to sell gems at a fair price unless you have your own market. The rule here is to stay with what you know or with someone you thoroughly trust.

Some Limited Partnerships

(Income 0-7)(Growth 0)(Risk 10+)

Limited partnerships are formed to pool investors' money to purchase assets, usually in real properties. The investment is managed by a general partner who has the decision authority for buying and selling.

Since your investment in a limited partnership is no better than the property and the management, the key is to know the general partner's credibility.

A limited partner's liability normally is limited only to the amount of money at risk. Limited partnerships that require subsequent annual payments or operating loss guarantees or carry contingent tax liabilities should be avoided.

In the past, limited partnerships in properties, such as apartment complexes, office complexes, or shopping centers, were purchased primarily to shelter ordinary income.

But since 1987 most of these benefits have been gradually eliminated, and the tax write-offs can be used only to shelter passive income. For most investors, the risk is too high and the returns too uncertain.

Summary

This basic review of the five major types of investments is by no means an exhaustive review. However, I trust it will provide you with the pointers to get started in an investment strategy after you have your budget under control and have developed a surplus.

There are many good materials that are available to you, including books on investing that you can check out of most public libraries. Always remember that balance is the key, and be careful about whose advice you take, because so many people are dedicated to the leverage principle.

Evaluate the risk involved with any investment. The higher the promised return, the higher the degree of risk, and the only way you can lower the risk is through your own personal expertise. You have to know what you're doing.

SECTION 3

On-the-Job Investing

If I were asked to make a list of the best accumulation strategies, it would certainly include a company-sponsored retirement plan. However, it continually amazes me how many people don't take advantage of these plans.

Perhaps they're scared away by plan names such as "401(k)" and "403(b)." But there's nothing complicated about these names. They simply refer to the sections of the tax code that authorize company-sponsored retirement plans.

The investments available through a company retirement plan may be the same as those you would choose if you were investing on your own. Depending on the plan and how it is administered, your options can include annuities, mutual funds, company stock, CDs, or any combination of these.

The disadvantage of company retirement plans is that the selection of options you have to choose from is determined by the plan administrator(s). As a result, these options may or may not be the best available to meet your personal goals.

One large advantage of a qualified company retirement plan is that the funds you invest are tax deferred. In other words, taxes are not paid on the money until it is withdrawn. Many companies also offer matching funds, based on a percentage of what you choose to invest. Some companies even go so far as to provide 100 percent of the retirement funds. I trust there is no one foolish enough to turn down an offer like that.

There are some potential problems with company retirement plans. You need to be aware of these and take the proper precautions.

1. *The plan administrator may invest the money contrary to your personal objectives.*
2. *The company may reserve the right to borrow from employee retirement plans and substitute an insurance annuity for the cash.* If the insurance company itself fails, the retirement plan may fail too.

Even with these potential problems, company-sponsored retirement plans represent one of the best investments for any average investor. Most companies are run honestly and ethically and have the best interests of their employees at heart.

Just be aware of the potential problems and do the checking necessary to verify the solvency of your plan. Remember, the sooner you start in a retirement plan, the less risk you will have to assume in order to reach your financial goals.

Following are descriptions of four different company-sponsored retirement plans. The plan available to you will depend on the type of company you work for.

401(k) plans

This particular plan is named after Section 401(k) of the Internal Revenue Code, which provided for the creation of 401(k) plans. Both employees and employers can make contributions to these plans, which can be set up in two ways.

1. *You can agree to have money deducted from your salary and placed in a 401(k), which is the most common way of funding these plans.* The amount deducted is not included in your gross income and is tax deferred, except for Social Security and unemployment taxes.

   Some employers will contribute a certain amount, such as 50 cents, for every dollar you contribute. If you choose to fund your 401(k) through salary deductions, you must sign a salary reduction agreement.
2. *Your employer can decide to pay a bonus and give you the following choices:*
   - *Take it as cash*
   - *Have it placed in your 401(k)*
   - *Take part of it and have the remainder placed in your 401(k).*

The Economic Growth and Tax Relief Act of 2001 has significantly expanded the amounts that can be contributed to employee retirement plans.

The total of employer contributions and your salary deductions cannot exceed 100 percent of your salary or $40,000 per year, whichever is less. Furthermore, your contributions to the plan are limited to the following schedule.

Year	Employee contribution limit for 401(k) and 403(b) plans
2002	$11,000
2003	$12,000
2004	$13,000
2005	$14,000
2006	$15,000
after 2006	Indexed for inflation

Additional "catch-up" contributions are allowed for employees age 50 and over according to the following schedule.

Year	"Catch-up" contributions
2002	$1,000
2003	$2,000
2004	$3,000
2005	$4,000
2006	$5,000
after 2006	Indexed for inflation

Money placed in a 401(k) may be invested in equity products, such as mutual funds, stocks, and real estate. It also may be invested in debt instruments, such as Treasury bills, Certificates of Deposit, or insurance products. As a participant in your company's 401(k) plan, you may be allowed to choose which investments your contribution will go into.

You should remember that the 401(k) is a long-term investment, designed to provide income after retirement. Therefore, withdrawing money from your plan at an early age could result in a 10 percent penalty, as well as regular income taxes on the amount withdrawn.

However, there are cases in which you can make early withdrawals and not be penalized. In general, there will be no penalty for withdrawals in the following situations:

- Your employment is terminated during or after age 55 (certain restrictions apply)
- You die or become disabled
- You are at least age 59½
- Distributions to the extent that you pay deductible medical expenses exceeding 7.5 percent of adjusted gross income
- Distributions that you receive after termination that are part of a series of substantially equal payments over your life expectancy or the joint life expectancy of you and your beneficiary
- Distributions that are incurred by IRS levy on your plan account
- Distributions that are paid to an alternate payee pursuant to a qualified domestic relations order (QDRD)

At retirement or death, you or your beneficiary may begin receiving payments (also called “distributions”) from your 401(k).

Upon retirement or separation from service you can elect a nontaxable lump sum (distribution) to be “rolled over” into an IRA. In other words, when you retire or terminate employment you can elect a tax-free transfer of the funds in your 401(k) to an IRA rollover account in your name. If you do not elect a transfer to an IRA rollover account, you can still receive all your 401(k) money in a lump sum. If that sum is a large amount, such as $100,000, it can result in a huge tax bill for the year in which the lump sum distribution was made.

If you are considering a lump sum distribution, you may want to contact your tax advisor.

SIMPLE plan

A new type of employer-sponsored retirement plan is the Savings Incentive Match Plan for Employees or SIMPLE for short. A SIMPLE plan can come in two different varieties: the SIMPLE-IRA and the SIMPLE-401(k) However, the SIMPLE-IRA is by far the most popular option, so we will discuss the merits of it.

The SIMPLE was created especially for employees of small businesses so that they could enjoy the benefits of a retirement plan similar to a 401(k). A 401(k) is often very difficult to administer by an employer and the cost can be prohibitive. The SIMPLE strives to reduce these costs and cut down on most of the red tape associated with a 401(k). A SIMPLE plan has the following key characteristics.

- *Pretax contributions*—There are no income taxes withheld from employee contributions to a SIMPLE. Social Security is still paid on the contributions.
- *Tax-deferral*—The investment gains within each employee’s account grows without taxes due until the funds are withdrawn.
- *Generous limits on contributions*—Every participant, including the owner of the company, is allowed to invest within his or her account on a yearly basis according to the following schedule.

Year	Employee contribution limits for SIMPLE plans
2002	$7,000
2003	$8,000
2004	$9,000
2005	$10,000
after 2005	Indexed for inflation

Employees age 50 and over are allowed “catch-up” contributions in SIMPLE plans according to the following schedule.

Year	“Catch-up” contributions for age 50 and over participants in SIMPLE plans
2002	$500
2003	$1,000
2004	$1,500
2005	$2,000
2006	$2,500
after 2006	Indexed for inflation

There is no percentage limit, which theoretically means that someone could invest 100 percent of his or her income if that person made $7,000 or less in 2002.

- *Match*—By establishing a SIMPLE, the employer is required to submit a dollar-for-dollar match—up to 3 percent of the employee's gross income. This can be explained by the following example. An employee who wishes to save within the SIMPLE earns $500 per week and chooses to invest 3 percent of his or her income. This would mean that the employee would save $15 and the company would also invest $15 in the employee's retirement account. If the employee decided to invest more, the company would still only invest $15 for the employee. The employer also can choose a flat 2 percent contribution for all employees whether or not they participate.
- *Cost to employer*—A SIMPLE-IRA has no administrative cost and takes virtually no time to administer. The only cost to the employer is the match.
- *Eligibility and vesting*—All employees who have earned at least $5,000 in any prior two years and are expected to earn $5,000 in the current year are eligible to participate in the plan. An employee is not required to work a certain amount of years to become vested within his or her account.
- *Investment choices*—A SIMPLE can be invested in bank products, stocks, and bonds but is best suited for mutual funds. Under most circumstances, as a participant in a SIMPLE plan, you will be allowed to choose the investments that you trust with your money.
- *Penalties*—Money invested within a SIMPLE can be withdrawn at anytime; withdrawals, however, are subject to immediate taxation and a 25 percent penalty within the first two years of establishing the account. This penalty is reduced to 10 percent after two years. There are no penalties for withdrawal in the following situations.

  1. You have reached age 59½
  2. You die
  3. You become disabled.

- *Planning opportunity*—An employer can establish a SIMPLE and is required only to offer the plan to the employees, but the employees are not required to participate. In fact, if there are no employees who save within the SIMPLE, the employer is still allowed to save for his or her own retirement. Also, the company must match the owners income as well as the employees, making the total amount that an owner can save in a SIMPLE as much as $14,000 in 2002 if his or her income is $233,333. The spouse of the owner is also allowed to invest within the SIMPLE, if he or she has earned income from the business.

A SIMPLE plan is best suited for companies with 25 or fewer employees but can be established for companies with up to 100 employees. If your company offers a SIMPLE plan, you should take advantage of it, because the matching formula can mean up to a guaranteed 100 percent instant gain on your account.

403(b) plans

Also known as Tax Sheltered Annuities, or TSAs, these plans are available to employees of public school systems and religious, charitable, educational, scientific, and literary organizations.

Like 401(k) plans, TSAs allow both you and your employer to make pretax contributions. However, when you retire and begin to make withdrawals from your TSA, you must pay taxes on those withdrawals.

Employee contribution limits to 403(b) plans are the same as those discussed earlier for 401(k) plans. You can contribute up to $11,000 for the year 2002. Each year the limit is increased by $1,000 to a limit of $15,000 for the year 2006 and then indexed for inflation thereafter. Employees age 50 and over are allowed the same "catch-up" contributions discussed earlier for 401(k) plans. Thus, for the year 2002 employees age 50 and over are allowed a $1,000 "catch-up" contribution. This amount is increased by $1,000 per year up to a maximum "catch-up" contribution of $5,000 in 2006, and then indexed for inflation thereafter.

There are other rules that may allow you to contribute additional amounts if you have more than 15 years of service with your employer. Under these conditions you may be able to contribute an additional $3,000 per year up to a maximum lifetime limit of $15,000, subject to certain other restrictions.

Your TSA may offer several investment choices, including annuities, mutual funds, and a combination of annuities and whole life insurance.

Generally, people begin to withdraw from their TSAs at retirement. However, you may choose to wait a number of years. In general, in order for you to avoid penalties, you must begin withdrawing no later than April 1 of the year following the calendar year in which you became 70½.

You can borrow funds from your TSA and later restore those funds without having to pay tax. But you do have to make your payments with after-tax dollars. Certain conditions for borrowing must be met, including a limited loan amount and a limited time period for repayment, unless you are still working full time.

Even though loans from TSAs are permitted, withdrawals are not permitted before age 59½ without a 10 percent penalty. Withdrawals are not penalized if you die, become totally disabled, or separate from service after age 55.

In addition, no penalties are required if funds in the TSAs are directly transferred to an IRA or another TSA. These direct transfers allow you to avoid a mandatory 20 percent tax withholding.

To illustrate TSA-to-IRA and TSA-to-TSA transfers, let's use the example of a secretary employed by a charitable organization. She has been participating in the organization's TSA for a number of years.

After receiving a good job offer from another employer, she decides to leave her present job. In conjunction with that decision, she can make a direct transfer of her TSA money to an IRA. Thus, she is able to make a tax-free transfer of her TSA to an IRA.

Now, let's assume the secretary is not leaving the company. In this case, she is interested in another TSA offered by her employer. So, she simply makes a direct transfer of the money in her present TSA to the other TSA.

Keogh Plans

The Keogh plan was named after the congressman who introduced it in 1964. If you own an unincorporated business, it allows you to establish a retirement plan for yourself and any eligible employees.

Keogh plans are well suited for self-employed people, such as the sole owners of a business, partners who own more than 10 percent of a partnership, and employees of either.

However, even if you're already participating in a pension plan at work, you can still participate in a Keogh plan if you have earned income from outside work, such as consulting.

Contributions to the plan are tax deductible, and with most Keogh plans the amount contributed is left up to the employer.

If the company is making profits, the employer is expected to make "substantial and recurring" contributions to the plan. This doesn't necessarily mean every year.

As a rule of thumb, contributions during three out of five years or five out of 10 years usually will be approved by the IRS.

Contributions to Keogh plans may be invested in the following:

1. *Equity products, such as mutual funds, stocks, and real estate*
2. *Debt instruments, such as T-bills and CDs or*
3. *Insurance products, such as life insurance and annuity policies.*

There is more than one type of Keogh plan, including money-purchase plans, which are usually based on the income of the plan participant. In general, annual contributions to money-purchase plans are limited to 25 percent of earned income (20 percent for a self-employed person).

A Keogh plan also may come in the form of a profit-sharing plan, which is based on the company's profits. Annual contributions to this type of plan are limited to 25 percent of earned income (20 percent for a self-employed person adjusted for net earnings).

Both money-purchase plans and profit-sharing plans fall into the category of "defined contribution plans." A Keogh plan also may take the form of a "defined benefit plan."

All pension plans fall into the category of defined contribution or defined benefit. Those two concepts are explained below.

- *Defined contribution*—Under this plan, your employer makes an annual contribution to your fund. When you retire, your pension payment will be determined by the amount of money that has accumulated in your fund.
- *Defined benefit*—Under this plan, your retirement benefits are determined in advance. As a result, your employer is responsible for making sure there will be enough money in the fund to provide this predetermined amount.

For Keogh plans in the defined benefit category, contributions are determined by a plan actuary. (Actuaries are professionals who specialize in determining insurance risks and premiums.)

Like other types of retirement plans, the Keogh has penalties for early withdrawal. There is a 10 percent penalty in addition to regular income taxes for distributions before age 59½ unless you die or become permanently disabled.

Earlier withdrawals without penalties are allowed if you terminate employment on or after age 55 or receive a payout based on your life expectancy (or joint life expectancy with a spouse or beneficiary).

Payments from a Keogh plan must begin no later than April 1 of the year following the year you turn 70½. Those payments can be made in the following ways:

- *In a lump sum*
- *Over your lifetime and, if desired, your spouse's lifetime as well or*
- *Over a fixed period of years.* This fixed period may not exceed your life expectancy or the joint life expectancies of yourself and a spouse or designated beneficiary.

If a lump sum distribution is made from a Keogh, it may be rolled over into an IRA.

Simplified Employee Pension

An SEP provides your employer with a simplified way to make contributions to your Individual Retirement Account or Individual Retirement Annuity.

These contributions are made directly to a special SEP-IRA set up for you with a bank, insurance company, or another qualified institution. No federal income tax or state income tax is required on these contributions.

Your employer is not required to make annual contributions. But if a contribution is made, in general, it must be the same percentage for each eligible employee.

Contributions are limited to 25 percent (with certain adjustments for self-employed individuals) of your salary or $40,000, whichever is less.

You are eligible to participate in an SEP if you've performed service to your employer in at least three of the past five calendar years. In addition, you may have to be at least 21 years old.

SEP money can be invested in most equity products or debt instruments. It cannot be invested in life insurance, "hard" assets, or collectibles (except for U.S. gold and silver coins).

You may withdraw money from your SEP anytime. However, withdrawals are subject to immediate taxation. Prior to age 59½, there is generally an additional 10 percent excise tax unless:

1. *Distributions are made over your life expectancy or the joint life expectancy of yourself and a designated beneficiary*
2. *You die*
3. *You become disabled.*

Where employers are concerned, SEPs have a number of advantages other than tax-deductible contributions. For example, reporting is very minimal, plan adoption is very simple, and there is little or no administrative expense. On the down side, employees can withdraw the funds as fast as they are put into the account, and contributions must be made for part-time and seasonal employees, as well as for full-time employees.

Employees benefit from SEPs because they have the right to direct their investments and contributions are not taxed. At the same time, there are no guarantees regarding the frequency and amount of employer contributions.

Individual Retirement Accounts

The Economic Growth and Tax Relief Act of 2001 has significantly increased the amounts that may be conributed to both traditional IRAs and Roth IRAs according to the following schedule.

Year	IRA and Roth IRA Contribution Limit
2002 thru 2004	$3,000
2005 thru 2007	$4,000
2008	$5,000
after 2008	Indexed for inflation

Beginning in the year 2002, taxpayers age 50 or over who have earned income can contribute an additional $500 over and above the regular contribution limit. In the year 2006 this amount will increase to $1,000.

1. *Regular IRA*—Currently, if an individual or spouse is an active participant in a qualified employer-sponsored retirement plan, the $3,000 IRA deduction is phased out over certain adjusted gross income levels. These phase-out limits have now been increased and will continue to increase over time for 2002. Joint filers with AGI of less than $54,000 will be able to deduct their contributions fully with a phase-out as AGI rises to $64,000. Single taxpayers have their deductions phased out between $34,000 and $44,000, for the year 2002.

   Further annual increases in the phase-out limits are planned through 2007 for couples and 2005 for singles. When complete, the phase-outs will be from $80,000 to $100,000 for joint filers and from $50,000 to $60,000 for singles.

   In general, if only one spouse is covered by an employer retirement plan, then the other spouse's IRA deduction is fully deductible if AGI is below $150,000 and is subject to phase out if AGI is between $150,000 and $160,000. No deduction is allowed for AGI of $160,000 or more.

2. *Roth IRA*—In 2002, individuals may make nondeductible contributions of up to $3,000 to a Roth IRA, named for its sponsor.

   Qualified distributions from Roth IRAs are not includable in income:

   - if such distributions are made at least five years after the contribution was made and are taken after age 59½
   - in the event of death
   - in the event of disability
   - when used for buying a first home
   - when used to pay higher education expenses.

   Roth IRAs are phased out for individual tax filers with modified adjusted gross income (AGI) between $95,000 and $110,000 and for married joint tax filers with modified AGI between $150,000 and $160,000. For the years 2002-2004, an individual may contribute a maximum of $3,000 annually to all IRAs owned.

   With traditional IRAs, individuals are generally required to start making withdrawals (and paying the resulting taxes) at age 70½. However, with Roth IRAs, there is no such requirement and, in fact, contributions can continue to be made after that age subject to the $3,000 limit for 2002 and the requirement to have earned income.

3. *Education IRAs*—Parents can establish education IRAs for each child and make annual nondeductible contributions of up to $2,000 to each. This privilege is above and beyond your ability to make contributions to traditional and Roth IRAs. Earnings on education IRA funds will be allowed to accumulate tax-free, and tax-free withdrawals can be made to pay for elementary school, secondary school, undergraduate or graduate education expenses. This includes expenses for tuition, books, room and board, and purchase of a computer system, educational software, and Internet access.

   The ability to make contributions is phased out between AGI of $190,000 and $220,000 for joint filers and between $95,000 and $110,000 for single taxpayers. Subject to the preceding limitations, grandparents and others can establish education IRAs to benefit grandchildren and other designated individuals.

SECTION 4

Investment Counseling

One of the most common questions I am asked is, "Where can I go to get good investment advice?" The answer to that can range all the way from an inexpensive magazine or newsletter to very expensive professional counsel. There is no "right" answer to the question. In large part, it depends on your age, income, and temperament.

Before seeking investment advice, you first need to make sure you are prepared to invest. Earlier in this section I talked about living within your means. That is the first level, or foundation, of investing.

You must be able to manage the money you earn in order to create a surplus to invest. In the simplest of terms this is called budgeting.

Everyone needs a budget, even those with higher incomes. It is impossible to be a good steward of what God has entrusted to you if you don't manage it well. Obviously, those with less income also need budgets or they will never develop a surplus that can be multiplied.

Counseling for Novice Investors

Once you have a workable budget and develop a surplus to invest, learn as much as you can before taking any risks.

Usually, the counselors or advisers available to low-budget investors are commissioned salespeople who make their livings by selling products like insurance, mutual funds, and annuities. The entry level investor simply doesn't have enough money to buy the services of a professional investment adviser.

Therefore, novice investors have three basic options:

1. *Do their own investing and pay the price of learning as they go*
2. *Take the advice of the product salesperson and hope that he or she sells a good quality product*
3. *Seek inexpensive written materials they can rely on for guidance.*

A variety of good materials is available to help and advise nonprofessional investors.

Usually, first-time investors subscribe to too many resources. This often results in confusion and frustration, because often one publication will contradict another. The key is to select resources that don't push a particular agenda, such as precious metals, insurance, mutual funds, and the like.

Newsletters are generally a good source of basic advice. I recommend that low-budget or first-time investors subscribe to newsletters written specifically for them. It's crucial to verify the track record of the managing editor, since usually that person is the primary advice giver.

Look for a newsletter that takes the first-time investor through each phase of learning, including specific advice about what investments to use at each level of income.

In summary, potential investors should keep one important point in mind: "Let the buyer beware." Be prudent when selecting investments and always seek wise counsel. Above all, pray about every investment decision you make.

Commissioned Salespeople

The next step up in investment advice concerns using someone who sells a product (or products) and generates a commission (as opposed to charging a fee).

I have to be honest and say that my observations of this type of investment counselor have been mixed. There are many men and women who are very qualified to give good, objective counsel and also earn commissions in the process.

But there are some commissioned salespeople who are novices or incompetents. They sell only what they've been taught to sell and offer little or no balance in their advice.

One way to find a good adviser is to require several references from others with whom he or she has worked. I recommend checking with at least five of the adviser's clients to verify his or her track record.

It is important that these clients have been dealing with the adviser for at least three years. If the adviser won't provide such references, I suggest that you look elsewhere for advice.

Some commissioned salespeople try to talk you into buying from them because they're Christians (or church members). And they try to make you feel guilty if you don't.

These people should be avoided with all diligence. If an agent's products and track record will not stand by themselves, stay away. Otherwise, you'll probably lose your money, as well as a friend.

Also avoid the "doom-and-gloomers," who talk about coming economic disasters and then try to sell you "collapse proof" investments, such as gold and silver.

Fee-Plus-Commission Advisers

In addition to advisers who make their incomes exclusively from commission sales, there are a growing number of investment advisers who will work either way—fees or commission sales, or both.

Usually, these advisers will initially provide counsel for a fixed fee per hour. Then, if you elect to buy products from them, they'll reduce the fee by the commissions they receive.

A prudent investor would do well to remember that a counselor or adviser usually exercises an undue influence over his or her clients. In many instances, this means investors end up buying what the advisers recommend, which are usually the products they sell.

The question then becomes whether the fee-plus-commission is really a ploy to get clients to buy from them while thinking they are receiving objective advice. That totally depends on the character of the adviser—something you will need to discern for yourself.

A simple comparison of the value and prices of the products suggested will tell you whether the adviser is totally objective. If the investment products that he or she offers are as good as those offered through other agents, then why not buy from your adviser? But if what he or she offers is inferior or higher priced, avoid the advice as well as the product.

Fee-Only Investment Advisers

A fee-only adviser is exactly what the name implies. He or she charges a fee but does not sell any products or accept commissions—usually. I say "usually" because I have found some advisers who advertised themselves as fee-only planners but accepted commissions, known as "finder's fees," from product companies.

Because they generate their income from fees, you can expect fee-only advisers to be expensive. Most cater to the upper-income investor and often require a minimum level of net worth for the clients they advise. The fees can range from several hundred dollars for a one-time evaluation to several thousand a year for continuing clients.

In general, I have not found fee-only advisers to be any more accurate in their advice than a well-seasoned fee-plus-commission adviser, although there are exceptions. The one area in which fee-only planners usually excel is in designing long-term investment strategies for their clients.

Since follow-up is so essential, they also usually do a good job of getting their clients to implement their plans. After all, if you're paying someone $10,000 a year to advise you, usually you'll do what they say.

Fee Only Versus Commission

No matter which type of adviser you're considering, check out his or her track record carefully. It doesn't matter whether you pay your adviser by way of a fee or a commission. What matters is, will your adviser make more money for you than he or she will cost you?

A commissioned salesperson who makes 12 percent for clients after all commissions, administrative charges, and market fluctuations are taken into account is still better than a fee-only planner who makes 6 percent for clients after all costs.

Remember to ask for at least five local people you can talk to about your adviser's track record. If you can't get these references, look for another adviser.

Christian or Non-Christian Advisers?

Psalm 1:1-2 says, *"How blessed is the man who does not walk in the counsel of the wicked, nor stand in the path of sinners, nor sit in the seat of scoffers! But his delight is in the law of the Lord, and in His law he meditates day and night."*

There's a clear implication here that our primary source of counsel should be from those who know the Lord. Does this imply that we should never take counsel from an unbeliever? I don't think so. I believe the implication is not to rely on secular counsel as our daily source of wisdom. All counsel should be weighed against God's wisdom and discarded if it fails the test. That includes Christian and non-Christian counsel.

Where Do You Find a Good Investment Adviser?

There is no perfect formula for finding a good investment adviser, but you can make your search easier.

1. *Ask in your church and Bible studies for references.* Ask people who give you references if they have made money with the advisers they are recommending. Look for an adviser with at least five years of experience (10 if possible). Anyone can guess right one time, but that doesn't establish a track record. If an adviser hasn't ridden out at least one major recession in his or her field, in my opinion that adviser is still a novice.
2. *Check an adviser's credentials with the National Association of Securities Dealers, if he or she is a registered broker.* If this adviser has ever had his or her license suspended or revoked, be very cautious.
3. *Check with several local accountants who do tax returns for people you know.* Often they see the bad, as well as the good, side of an adviser. Although most accountants will hesitate to give a bad report on a bad adviser, most will not hesitate to give a good report on a good adviser.
4. *Check to see if an adviser has earned professional designations such as CFP (Certified Financial Planner), CLU (Chartered Life Underwriter) and ChFC (Chartered Financial Consultant).* These designations won't guarantee that a particular adviser is best for you, but at the very least they do show that the adviser has completed a disciplined course of study.

Discount Brokers

During the last decade or so, many discount brokerage firms have been started. These firms will place investment orders for very low commissions.

This trend is certain to grow as banks expand further into the investment area.

Once you have a level of expertise that allows you the freedom to make your own investment decisions, the use of a discount broker can save you money when trading in individual stocks, bonds, and so forth.

SECTION 5

Important Goals for Investors

Establish a "Safety Net" of Cash and Insurance

One of the most important goals to consider when you invest money is the creation of a "safety net" to provide for your family in the event of a catastrophe.

This includes a cash reserve large enough to cover two to six months of living expenses. Of course, this reserve should be in a highly liquid account. In other words, you should be able to withdraw this money easily when you need it.

Another part of your safety net should be life insurance, which will provide for your family in the event of your death. Notice that when talking about both the cash reserve and insurance I used the word "provide," not protect. There is a difference.

Satan wants us to believe we can protect our families against everything that comes along. Christians who fall for this lie spend far too much on insurance—to the point that they rob their families of money needed for other things. They also rob God, who gave us all we have and calls us to be good stewards of the money He has entrusted to us.

Again, there's nothing wrong with providing for our families. God expects us to do that. *"If anyone does not provide for his own, and especially for those of his household, he has denied the faith and is worse than an unbeliever"* (1 Timothy 5:8).

Being sure your family would be provided for if you died is like storing food for the winter, which might be likened to hard times. *"Go to the ant, O sluggard, observe her ways and be wise, which, having no chief, officer or ruler, prepares her food in the summer and gathers her provision in the harvest"* (Proverbs 6:6-8).

Having insurance and a cash reserve reduces the likelihood that you'll be forced to sell a long-term investment prematurely or at an inopportune time.

Get Started Early

When you start investing early in life, you spread the task of accumulating funds over a longer period of time. For example, suppose you want to accumulate $300,000 by age 65. Assuming a 10 percent compounded rate of return, you'll need to put away $47 per month if you begin investing at age 25.

If you begin at 35, you'll need to put away $133 per month. At age 45, the monthly amount is $395. And at 55, it jumps to $1,464.

Investing early in life depends on how much money a young couple or single person has to spare, and the amount of money left to spare depends on lifestyle.

Unfortunately, too many young people jump head over heels into debt by purchasing homes that are far too expensive for their budgets. Then, they add to their debt load by purchasing "adult toys" like luxury cars, boats, swimming pools, and other high-priced items.

As a consequence, they can't pay off their mortgage early and they have little or no money to set aside in a company retirement account.

I noted in Section 1 that early repayment of your house mortgage should be your first investment priority. I also noted that until your house is paid for the only investment you might want to consider is a company retirement account with matching funds of at least 25 percent. But if you try to live beyond your means, early repayment of your house mortgage will be impossible.

If you choose a less elaborate house that you can pay off early, there will be plenty of money available for investing when your mortgage is retired.

How quickly can you retire a mortgage? Let's use the example of a $100,000 mortgage at 10 percent for 30 years. By paying only $100 extra per month toward the principal you can retire that mortgage about 11 years early and save $113,000 in interest. It's a possibility that's definitely worth considering!

Give Your Money the Freedom to Grow

The more constraints you place on your investment program, the more likely it is that your investment results will fail to meet your expectations. Earning too little on your investments is one of the greatest obstacles to investment success, along with starting too late. It is important that you keep pace with inflation.

It's not enough just to preserve what you have now. You need to make your money grow, just to stay even with the rising cost of living. In the past 30 years, inflation has eroded the buying power of the U.S. dollar by 75 percent. One 1960 dollar is worth 25 cents today.

I'm not suggesting that you pour all your money into a high-risk investment with a high rate of return. But on the other hand, you wouldn't want to invest all your money in T-bills. The "Rule of 72" is a useful tool in demonstrating the importance of your investment return. Simply divide 72 by the rate of return, and the quotient will tell you how many years it will take for your investment value to double.

Let's assume your rate of return is 6 percent. If you divide 72 by 6, the quotient is 12. So, it will take 12 years for your investment value to double with a 6 percent rate of return. Now, let's assume your rate of return is 12 percent. If you divide 72 by 12, the quotient is 6. By doubling your rate of return, you cut in half the years required to double your investment.

It should be obvious at this point that, over the long haul, bank savings accounts and CDs are not the best place for all of your investment dollars. And the portion of your money that you do invest at the bank doesn't necessarily have to go into a CD or savings account.

You might want to look into a money market account, which generally pays 1 percent to 2 percent more interest with the same terms and safety.

Use Strategies That Provide Safety and Return

In the preceding paragraphs I talked about using some higher-risk investments to help counter the effects of inflation. These investments may scare some people to the point that they avoid them altogether.

But the risks associated with these investments can be reduced enough to satisfy most investors. The solution is to use risk-minimizing strategies. A number of these strategies are listed below.

Diversification

Discussed in Section 1 (Key #6).

Professional Management

One way to avoid investment errors is to have your investment portfolio managed by a qualified professional, which can be a costly proposition. But even if you have just a small amount of money to invest, there's still a way to get the benefits of professional management.

You can pool your money in a mutual fund of other small investors. This creates a large sum that's used to purchase a broad range of stocks and other securities. These purchases are directed by professionals.

Investing for the Long Term

Discussed in Section 1 (Key #7).

Asset Allocation

This means dividing your investment dollars into percentages, which you then put into different groups of investments. You might want to use the five tiers described in Section 2.

For example, you might put 20 percent of your money into Tier I, which is Secure Income. You might put 40 percent into Tier II (Long-Term Income), 30 percent into Tier III (Growth Investments), 10 percent into Tier IV (Speculative Growth Investments), and nothing into Tier V (Pure Speculation).

The percentage you put into each tier will depend on your individual goals, needs, philosophy, and risk tolerance.

Dollar Cost Averaging

Consistency is important if you want the best return on your investment dollar. Dollar cost averaging means that you determine a minimum amount that you will put into a particular investment on a regular basis.

For example, you might want to set aside $50 per month to invest in a mutual fund or buy shares of stock in a particular company. Each investment you made in the mutual fund would buy a certain number of shares in the fund, depending on what the share price was at that particular time. Both the share prices for stocks and mutual funds would fluctuate.

The following example shows the benefits of dollar cost averaging in a market in which share prices are declining. In this example, the regular investment is $200, which is made once per quarter.

Quarter	Quarterly Amount	Share Price	Shares Purchased
1st Qtr.	$200	$25.00	8
2nd Qtr.	$200	$20.00	10
3rd Qtr.	$200	$12.50	16
4th Qtr.	$200	$10.00	20
Total:	$800	$67.50	54

Average quarterly price per share ($67.50 ÷ 4) = $16.88
Price per share with dollar cost averaging ($800 ÷ 54) = $14.81

Build from Quality

Investing is like building a reserve for the future. Be sure the products you select are quality products.

Visit Crown Financial Ministries online at www.crown.org or contact us by telephone at 1-800-722-1976.