

CHAPTER FIVE: Pursuing Optimal Returns/ Wise Investing

Biblical Roots of Investing

The Parable of the Bags of Gold—Matthew 25 (selected verses)

Again, it will be like a man going on a journey, who called his servants and entrusted his wealth to them (Matthew 25:14).

Two investors doubled their funds

His master replied, "Well done, good and faithful servant! You have been faithful with a few things; I will put you in charge of many things. Come and share your master's happiness (Matthew 25:21)!"

One investor buried his funds—no gain

His master replied, "You wicked, lazy servant! So you knew that I harvest where I have not sown and gather where I have not scattered seed? Well then, you should have put my money on deposit with the bankers, so that when I returned I would have received it back with interest (Matthew 25:26)."

Wise Investing Principles

Principle of returns

Short-term savings—rate not significant/need access and safety

Long-term Investments—rate is critical to success; compounding

Consistent investing (dollar cost averaging)

Good returns

Time

Example: 20-year-old investor invested \$200 per month for 50 years with an average return of 7%.

Total invested: \$120,000

Total value—\$1.1 million

Total gain—\$980,000

Types of Investments: Loaning and Owning

Positive Returns in the Stock Market

One-day periods – 54%

One-month periods – 62%

One-year periods – 79%

10-year periods – 94%

20-year periods – 100%

(Source: Returns 2.0)

Rate of Return is the Key Loaning or Owning?

Growth of a \$10,000 investment in 30 years

S&P 500		
Total Return	10.15%	\$182,261
Bonds	6.33%	\$63,175
30 Day T-Bills	3.22%	\$25,921
U.S. Inflation	2.64%	\$21,855

What kind of return do you need to reach your goals?

How can you invest to reach them?

Types of Investment Accounts

Qualified Accounts...

An account that qualifies for special tax treatment

Usually tax deferral of growth...

IRS limitations apply

A few examples...

Traditional Individual Retirement Accounts (IRA's)

Roth Individual Retirement Accounts (IRA's)

401(k) Plans, 403(b) Plans, 457(b) plans

Pension Plans

Educational Funds, 529s, UTMA

Thrift Savings Plan and other employer sponsored plans

Which IRA works best for your situation?

Traditional IRA, Deductible

Roth IRA, Non-deductible

Traditional IRA, Non-deductible

General description only, each option has limitations, special considerations—check with your financial advisor.

Traditional IRA, Deductible

Benefits

- Tax savings now and tax deferral until retirement.
- Gives you and your spouse the potential to contribute \$6,000 each (if you meet certain requirements) off the top of your gross income, which reduces your taxable income. If over 50 years, can add \$1,000.

To Consider

- Withdrawals prior to 59 ½ are taxed at ordinary income plus 10% penalty.

- Withdrawal once 59½ are taxed as ordinary income.
- Required Mandatory Distribution (RMD) starts at 72 or significant penalty

Roth IRA

Benefits

- Contributions are not tax deductible but your withdrawals including initial investments and earnings are tax-free later.
- Contributions are made with “after-tax” money.
- Gives you and your spouse the potential to contribute \$6,000 each (if you meet certain requirements). If over 50 years, can add \$1,000.
- When you withdraw the money from a Roth IRA, pay no tax (if held 5 years).
- No RMD withdrawals.
- Convertible from Traditional IRA – pay taxes now/no taxes later– timing important–earlier deposit/greater benefit from time!!

To Consider

- Withdrawals prior to 59½ will result in a 10% penalty.
- The money paid in taxes is not available to invest and grow.

Traditional IRA, Non-deductible

Benefits:

- Earnings on your IRA are tax deferred until retirement.
- Traditional IRA contributions may not be deductible from your current tax bill.
- Your non-deductible contributions will grow on a tax-deferred basis. So even though you weren’t able to deduct your contributions, more of your money is allowed to grow and compound than if taxes were taken out of your account each year.
- Postpone payment of taxes on any earnings until they are withdrawn at a date in the future, commonly retirement.

401(k) & 403(b)...

- A defined contribution plan offered by a corporation
- Employees set aside tax-deferred retirement income
- Many match a portion of employee's contributions
- Involve penalties, restrictions and tax impacts
- Recommend to participate and roll to IRA when leave
- 403(b) similar to 401(k) but mostly for non-profits
- Contributions up to \$19,500 annually (if over 50—\$26,000)

Non-Qualified Accounts...

- Do *not* qualify for special tax treatment
- Saving for specific goals and plans
- Funded with money left over after ...

Charitable giving

Taxes paid

Funding Qualified Accounts (IRA, 401(k), etc.)

- Can be rolled into a Roth IRA - limitations apply
- Back Door Roth—taxes to be paid, limitations apply

Investment Hierarchy

- Match from your employer
- Roth IRA/401k/etc.
- Traditional IRA
- Fully funded 401k or 403b

Other Investment Options to Investigate...

Annuities

- Generally an insurance product
- Options may provide guaranteed future income for life
- Fixed or variable returns
- Can be complex to understand
- May not benefit your estate at death

Life Insurance

- Term vs. Whole Life/Universal Life
- HSA—"Shadow Investing"

Three Investment Pathways (DIY, DIY with Help, Advisor Managed)

Do It Yourself

- Build a portfolio of Index Funds
- Use a Target Date Fund

Do It Yourself with Help

- Subscribe to an Investing Newsletter
Invest according to their recommendations
- Use Robo advisor services

Provide your basic financial information and goals—receive automated, customized advice for your situation

Advisor Managed Investing

- An agreement with a Financial Advisor/Planner to handle your investing decisions*

*Your money is still (always) *your* responsibility!! Understand the decisions; ask the right questions.

Where Do I Go and Who Do I Use...?

- Most important aspect is the *relationship*
- Find a person with the *heart of a teacher*
- Use someone you *trust!* Use referrals
- Should have Fiduciary Duty
- Avoid financial advisors who ...
 - *Want to sell you something TODAY!*
 - *Do not disclose how they make their money*
 - *Don't tell you how much they will make from you*
 - *Has no interest in teaching you*

Putting It All Together

Creating a written investment plan that describes your long-term financial goals and investment strategy will help you make better investment decisions. It will also give you a steady reference point during market storms.

Data Needed

Current situation

- Age
- Annual Income
- Financial Goals—short and long term
- Current contribution to retirement accounts—monthly/each paycheck/etc.
- Run some numbers, online retirement calculators
 - Adjustments
 - Choose appropriate investments

Planning Example: Mike & Mary Brown

- Age—both 32, two children ages 4 & 2
- Annual Income—\$82,000 (Mike full time \$72k; Mary PT - \$10k)
- Current Retirement Savings—\$120,000
- Current Monthly Retirement Contributions_ \$800
- Mike—9% of his salary deducted automatically (\$540)—
Company matches 50 cents per dollar up to 6% (\$180)
- Mary—\$80 per month to a Roth IRA
- Browns also contribute \$100 per month to college savings for each child (\$200)
- Retirement by age 67 with financial freedom

Run some numbers

Retirement Calculators online—BankRate.com, Fidelity, Schwab, etc.

Make Adjustments

Closing Thoughts...

The Bible says a foolish person has “empty shelves.”

“In the house of the wise are stores of choice food and oil, but a foolish person devours all he has” (Proverbs 21:20).

Jesus called the man who hoarded too much stuff a “fool.”

“But God said to him, ‘You fool! ... who will get what you have prepared for yourself?’ This is how it will be with anyone who stores up things for himself but is not rich toward God” (Luke 12:20-21).

Matthew 25 Investors: “Well done!!” or “You wicked lazy servant!”

Maintain a Biblical Balance in Saving and Kingdom Investing!