A Christian View of Personal Finance

by
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What is Stewardship?

What do you think of when you hear someone mention stewardship? Money, talents, or ownership? For many, money is the first thing on their minds and that often leads to uncomfortable feelings. Many Christians wrestle with the natural conflict between the word and the world–being in it or of it. They never come to feel good about their decisions or practices. Should Christians be concerned with money? Well, I am and I'm very comfortable about it. On these several pages, I'd like to share some scripture about the practical management of money. I think I can use some charts and a little interpretation to put a lot of issues in perspective and maybe put some minds at ease.

There are really only two issues: attitude and ownership.

The Bible does not say "money is the root of all evil"; 1 Timothy 6:10 says "For the *love* of money is a root of all kinds of evil. . . ." This tells us that it is not money that is important, it is your *attitude* about it. Attitude is tremendously important, but you would be surprised how misunderstood this is. Recently I watched a Larry King interview with Jesse Jackson. Rev. Jackson had just co-authored a book, *It's About The Money*. True to form, Larry challenged Jackson, a pastor, for writing a book about money and King misquoted the Bible about money being the root of all evil.

How we feel about money—or any possession, is *very* important to our Christian walk. We all need to reconcile how our hearts and minds deal with money. It is widely misunderstood and an obstacle to many. If we are to be stewards, (Luke 16:1-13), then we should be *good* stewards. (See Luke 16 for the story of the unrighteous steward who was, never the less, shrewd). "Whoever can be trusted with very little can also be trusted with much . . ." (Luke 16:10). "No servant can serve two masters. Either he will hate the one and love the other, or he will be devoted to the one and despise the other. You cannot serve God and Money" (Luke 16:13). Where are we taught the skills of being good stewards?

Let's face it; we don't do much to teach or develop those skills. We don't have weekly stewardship practice like our weekly choir practice. We don't have stewardship school every Sunday morning. We don't have weekly neighborhood stewardship study.

Why not? Why don't we teach this? Why do many pastors give only the obligatory annual sermon and seem embarrassed and concerned that their congregations will feel that protecting "their" money is more important than their salvation (fairly common theme in contemporary church literature). Certainly pastors are not secure in knowing that their congregations understand how God uses money. Why does the Bible talk more about money than any other subject? There is a natural conflict that has to do with our concepts of ownership. Once we get rid of our hang-ups about ownership most of our conflicts go away.

Stewardship is being responsible for the management of someone else's property: It is being a manager or caretaker of assets that do not belong to us, but with

which we have been entrusted. Think in terms of management, not ownership. Austin Pryor (Sound Mind Investing) says, “Wealth comes from management responsibilities, not ownership rights.” *A Biblical Blueprint for Financial Stability and Growth* - C *1996 pg. 2.*

There are really only two issues: ownership and attitude (heart). We have probably all heard a sermon discussing Malachi 3:8-10, the scripture traditionally used to justify giving ten percent to your home church (the “storehouse” of V10a.) Your pastor likely developed one or more of these themes: relationship to God, ownership, or attitude. I’ll assume your relationship to God. That leaves ownership and attitude (heart).

I’m personally not an Old Testament legalist nor am I going to try to convince you about what you are required to do. I have the advantage of having studied the subject and I have “the floor” so I can throw it all at you. I might even get you to walk away saying, “I agree, Ray has it figured out,” but such an approach doesn’t work. Anything I convince you of now, you can reject at any future time. No, you have to decide for yourself. I will present an argument. The victory has to be won in your heart.

First, ownership:

Ownership

Gen 14:20a "And he gave a tenth of all . . ." (Abraham to Priest)
Mal. 3:10a "Bring the whole tithe into the storehouse . . ."
Ps 24:1 "The earth is the Lord's, and all it contains . . ."
Deut. 10:14 "Behold, to the Lord your God belong the heavens . . . the earth and all that is in it."
John 3:27 "John answered and said, A man can receive nothing, unless it has been given him from heaven."

Warnings

Matt. 6:19 "Do not lay up for yourselves treasures upon earth, where moth and rust destroy . . ."
Luke 12:34 "for where your treasure is, there will your heart be also."
Matt. 6:24 "No one can serve two masters; for either he will hate the one and love the other, or he will hold to one and despise the other. You cannot serve God and mammon."
Matt. 19:24 "Truly, I say to you, it is easier for a camel to go through the eye of a needle, than for a rich man to enter the kingdom of God."
1 John 2:15-16 "Do not love the world, nor the things in the world. If anyone loves the world, the love of the Father is not in him."

Balance

Prov. 30:8-9 ". . . give me neither poverty nor riches . . . lest I be full and deny Thee."
Prov. 10:22 "It is the blessing of the Lord that makes rich, and He adds no sorrow to it."
Luke 12:20-21 "You fool! This very night your soul is required of you; and now who will own what you have prepared. So is the man who lays up treasure for himself and is not rich toward God."
Luke 12:48b ". . . And for everyone who has been given much shall much be required."
Heb. 13:5 "Let your character be free from the love of money, being content with what you have; for He Himself has said, 'I will never desert you nor will ever forsake you.'"

Conviction

James 2:15-16 "If a brother or sister is without clothing and in need of daily food and one of you says to them, 'Go in peace, be warmed and be filled,' and you do not give them what is necessary for their body, what use is this? Faith with no works, is dead."
Luke 21:2-4 "And He saw a certain poor widow putting in two small copper coins. And He said, 'Truly, this poor widow put in more than all of them; for they out of their surplus put into the offering; but she out of her poverty put in all that she had to live on.'"
Matt. 25:40 "Truly, I say to you, to the extent that you did it to one of these brothers of Mine, even the least of them, you did it to Me."

The tithe is first mentioned in Genesis 14:20, where Abraham gave a tenth of all of his possessions to the priest. This sets a pattern of recognizing dependence on God by giving ten percent of spoils of battles and crops throughout the Old Testament. The Malachi 3:8-10 verses suggest man is robbing God by not giving ten percent to his church. There is much Old Testament support for the tithe (ten percent) concept, but I don't necessarily accept these legalistic arguments. If it was left up to me, I'd let you off

that hook—at least for the moment. Rather, I want you to look at what both the Old and New Testaments say about ownership: "The earth is the Lord's and everything in it . . ." (Ps. 24:1). "To the Lord your God belong the heavens, even the highest heavens, the earth and everything in it" (Deut. 10:14). ". . . 'A man can receive only what is given him from heaven'" (John 3:27).

The Bible is certainly replete with the idea that God owns everything. He blesses us and entrusts us with a multitude of possessions from the gifts we receive from Him to the talents we use to earn a salary and the "luck" we have in investments. It is all His. Therefore everything we have should be managed not because we're the owners, but because we're the stewards. He owns it all. In my mind, the first stewardship issue, ownership, is settled.

If you aren't sure yet, then try convincing yourself that all your success and blessings are from your own strength. Who gave you the strength and abilities to work as you have and obtain what you have?

Second, heart:

As you can see in figure 1, there are three other categories of thoughts (besides Ownership): *Warnings*, *Balance* and *Conviction*. These all have to do with attitude, or where your heart is. I won't go through each scripture, but I'd like to focus on a few and explain the categories.

The Matthew 19:23 *warning* about how hard it is for a rich man to get to heaven always strikes me, because we are all rich. We are all subject to having material things interfere with our walk. That happens when your treasure spoken about in Luke 12:34 becomes the thing you hold dear in your heart; when it becomes more important than God. And to what end do we succumb to these temptations? Do our treasures have any eternal purchasing power? Matthew 6:19 warns us about treasures on earth as opposed to those in heaven. They become rust and dust and do not buy salvation. Rather, verse 20 says "But store up for yourselves treasures in heaven **. . .**" (Christian author, David Mallonee, says, "I as a Christian have two accounts: earthly and heavenly." In his book *Foolproof Finances* he presents interesting ideas about how we add to each and why only one balance really matters.)

There are good reasons for these warnings, because they address conflicts within our hearts. You may know the right answer in your mind, but the heart remains a battleground.

I am *convicted* and re-convicted by Jesus' discussion (Matt. 25:35-45*)* of how we cared for Him when He was hungry, cold, or sick. When I don't remember to do these things He reminds me of the underfed, ill clothed and sick people of the world and how those "least" among us are important to Him. ". . . 'whatever you did for one of the least of these brothers of mine, you did it for me'" (Matt. 25:40). How often have I helped them and honored Him?

But nothing convicts me more than the story of the widow's mite. In Luke 21:4, Jesus says, ". . . but she out of her poverty put in all she had to live on." I sit on the board of a Christian retreat center where, after prayer, we often dig into our own pockets to solve problems for which we see no other solution. Many of us are once retired with second incomes and kids out of college. I remember the time when our twelve anonymous gifts totaled over $20,000 and a young wife and mother, attending her first meeting, asked cautiously how often we did this. Many of us quickly assured

her that we were in different stages of life, that our blessings were different, and God's expectations of us were different.

I believe He expects us to give as we are convicted and are able. I have seen people give $250 sacrificially, while others of our group easily gave $5,000 from their excess. Whether our gifts are out of our *need* or out of our *excess*, the measuring stick is not our wallets, but our hearts. I'm sure some of those gifts in the hundreds are far more pleasing to our Lord than some $5,000 gifts. I'm also convicted that at times I could have, and should have, given more of my excess.

As with many aspects of life, *balance* is important in our stewardship. God is not anti-money or wealth or success. He is the God of the rich just as He is the God of the poor. He knows our hearts and credits us for good or bad based on the feelings of our hearts. A couple of years ago Bill Gates gave a $5 billion gift to world health. That same day, you may have responded to the appeal of a friend's son or daughter asking for support for a summer mission trip and you may have sent $100 that cost you a special dinner out or something your kids wanted. It is not about dollars, but about your heart (attitude). Which is the greater gift?

Colonel Lou Sturbois, an old Bible-study brother from Leavenworth in the late '80s used to say, "to whom much is given, much is expected." Lou lives a consistent Christian life, and I felt convicted the first time I heard it. I liked it so much I thought it should be scripture. Later in my study of stewardship I found the statement in Luke 12:48 and now claim it often. Thanks, Lou.

So to summarize the strategic issues. Who owns it and where is your heart? I hope you see why I let you off the "legalistic" ten percent hook. How much is between you and God. Tithing and gifting are not requirements of Christianity; they are a product (reflection) of your relationship with God.

Tactical Thoughts

Let me introduce a few tactical thoughts. If we accept the issue of ownership and have a heart for the Lord, then we need to be good stewards of what He has given us. We need to know how to make, save and budget money. We need to know how to invest and minimize taxes and how to buy smart. Much of this is skill, based on knowledge, and much is discipline. I like the story of the person whose spouse's credit card was stolen and who didn't report it because the thief was spending less than the spouse. A cute story, but how much more we respect the virtuous woman (capable wife in some translations) of Proverbs 31:10-31. Now, there is a steward.

There is a natural tension between consumption and sharing. It is the same tension as being "in," but not "of" the world. We need a construct to help us organize our thoughts about money. Larry Burkett, the founder of Christian Financial Concepts, has given us such a way to organize our thinking. Let's look at his chart:

The order of the boxes suggests the priority of obligations and the sizes are rough approximations. He follows the Old Testament view that not just ten percent, but the *first* ten percent (first fruits) are the Lord's. The tithe was not repealed when Jesus came to complete the law. It is a good guide, but if you are living in grace you are obedient to the spirit of the law, not worried so much about the letter of that law. Next, he uses the admonition of Jesus, ". . . 'Give to Caesar what is Caesar's . . .'" (Matt. 22:21) to endorse, that next, we owe taxes.

The largest part is used to meet our obligation to our families. This is a very flexible box and in my view includes savings and investment, college and retirement.

Next is debt, but in reality, debt service may come before some future family needs. The lines between the third and fourth boxes may be somewhat blurred. If you have debt, you should be working on paying it off. If not, the boxes for family needs and gifting may expand. Remember this is a concept, not a model.

I don't find any place in the Bible that forbids debt, but there are lots of warnings about debt and an obligation to be honorable about our debt. The warnings are very severe to the point that many feel that having non-productive debt is forbidden. Productive debt (where the debt is to gain an appreciating holding such as a home mortgage or a loan for seed) is seen in the Bible, but consumer debt is close to the enslavement fear that predominates the Old Testament discussion of the dangers of debt.

Finally, there is surplus where we develop the ability to gift on top of our tithes and to invest in good works. The Bible describes the spirit of sharing in many ways. I use gifts to include all those things beyond the basic tithe: offerings, alms to the poor, humanitarian support and additional support to missions, churches and Christian organizations.

Two quick thoughts here. First, this is where the fruit of the heart is. From here, you can give generously. Here you are free to show the extent of your relationship with the Lord: not in amount, but in proportion to His blessing.

Second, this is why you need personal financial training. We all know that without a budget and discipline, the surplus area never appears. This is the reason why we all need a budget and a financial plan, why we all need to discipline our families. Living in the first three boxes and avoiding the fourth box many seem like enough, but it limits your ability to show your love and trust in the Lord. That would suggest an attitude that says I gave Him His ten percent, now the rest is mine. Not so! It is all His. We are stewards, and will be held accountable for our use of His resources.

You may see that last box as barely more than a thin sliver today, but with planning, in a later season of life, this may be the biggest box and it may be used by God to bless many people. To get there you have to address how much is enough in box three. Many Christians never apply the discipline that would let their lives truly model their beliefs. We will discuss phases (seasons) of life in the fourth article.

It is my experience that the last box only grows to its potential when you are generous. Yielded hearts will recognize the tithe as a starting point and seek to do more. As they do more, they are blessed with the ability to do even more. You have to be a good steward to reach this point. Gifting at this level may be a spiritual gift, but it is one to which we can aspire. I can't prove this, but I have seen many examples, and personally believe it.

Now keep these stewardship references in mind, wrestle with them and add to them as other scripture convicts you.

To get from ownership and heart to stewardship, we need skills. The rest of these articles and the references that follow are about developing and sharpening these skills.

I have long understood the need for practical financial management skills, but didn't fully appreciate the extent of need until I developed and taught an Army War College elective course on personal finance. Where the average elective course had 12 students, this course had 200. It wasn't the highest-rated and most popular course in the college because I'm so charming. No, eighty percent of each War College class recognized the need to understand how to manage money. Mostly they reported that

they had neglected it for 20 years and had serious worries about family security, college funding and retirement.

These were people who made twice the national medium income, and who have one of the best retirement programs in existence. But, they weren't trained or educated in finance, and even those with decent investments were worried about what they didn't know. That course gave them tools and skills. I continue to hear from people who say that course changed their lives.

Well, if it is important to manage your family resources, how important is it to manage the Lord's assets in your trust? When I was first asked to teach personal finance from a Christian perspective, I was somewhat apologetic about all the money-grubbing Wall Street and tax strategy stuff I taught. In fact, I used scripture to open and close each class to make it seem more appropriate. After all, if you are talking to Christians, you need to be scriptural. With the help of many attendees, and lots of thought and prayer, I've changed my views. Paul used a good portion of his second letter to the Corinthians (Chapters 8 and 9) teaching stewardship. It is another Christian skill to be developed.

As Christian stewards we need financial management skills just like we need musical, teaching and business skills in any church. I have led a number of week-long stewardship conferences and weekend "growth" conferences and am now very comfortable with teaching the money-grubbing stuff in any church. More than that I advocate that we are called to many types of service, including the making and gifting of financial means. Some of us may be called to full-time service and some of us are called to financially enable their service. (see 2 Cor. 8:14). Your own planning and management now may allow you to be more receptive for His purposes during your post military life. For many of us, not to multiply our blessings would be to squander His gifts. How we use His gifts is all part of God's plan for His family.

That is what Jesse Jackson was doing in his book. He has long campaigned for financial opportunity and equality. He now sees that part of the solution is helping people understand money, to help themselves. It is a compelling idea for me. The poor and uneducated are the worst spenders and pay the highest prices. They buy maintenance contracts with high profit margins from insurance companies because they're afraid they won't be able to pay to fix the television. They don't take deductible insurance; they pay checking account and ATM fees, and worst of all, they carry balances on credit cards, one of the most grievous of "fiscal sins." The system favors the rich, the smart and the educated.

Come join us in this study so we can grow that "surplus" box and you can have the joy of deciding which ministries to support. Let me ask you now to keep this introduction in mind and ask yourself the hard question of, "where is your treasure?" For there will your heart be also. If you are sure about ownership and heart, then I challenge you to work on the skills necessary to multiply His talents in you. You as a group have been greatly blessed and much is expected of you.

Footnotes:

A Biblical Blueprint for Financial Stability and Growth C 1996 pg. 2 (taken from previous material contained in the monthly newsletter of *Sound Mind Investing* by Austin Pryor, 1996 Moody Press, Chicago 1-877-736-3764).

Foolproof Finances, Financial Survival from the Bible, by David Mallonee C 1995, Concepts in Stewardship Ministry, Kingdom Press, Mansfield PA (Concepts in Stewardship Ministry 1-800-334-1456).

The Financial Planning Workbook by Larry Burkett C 1990 Christian Financial Concepts (Now Crown Financial Ministries 770-534-1000).

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2
The Science & Art of Personal Finance

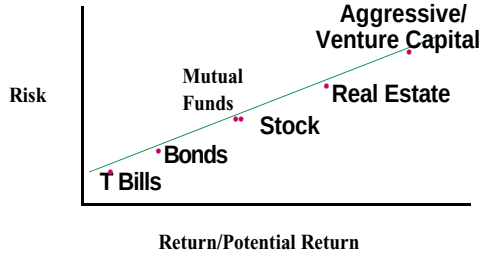
Success in Personal Finance requires doing a number of smart things and avoiding big mistakes. Proverbs tells us "The blessing of the Lord brings wealth . . . " (10:22) and warns ". . . give me neither poverty nor riches . . . otherwise I may have too much and disown you . . ." (30:8). We are not going to talk about getting rich, for it probably contains more dangers than blessings, but we are going to explore the process of good money management, how to do smart things and avoid the big mistakes.

To do your own personal financial planning–successfully–you need goals, knowledge and discipline. In the next article we learn how to establish specific goals. Throughout all the articles we hope to reveal biblical principles and financial factors that will motivate you to exercise the requisite degrees of discipline. We start the knowledge part with an understanding of the dynamics of personal financial planning. What is science and what is art? We will build on this knowledge in each article.

Dynamics of Finance

Risk, Return, and Time are the variables that, when in appropriate balance, give us the level of return we need to accomplish our goals. Let's consider risk and return together. We tend to start with return, but we should start with risk, the most subjective of the three variables. You should consider risk when evaluating various rates of return over specific periods. Institutions compensate you for taking risk with either guaranteed returns (interest on term investments) or the potential for return (ownership of equities such as stock and stock mutual funds). You earn return by taking risk and they should go up together. You can envision the risk / return relationship like this.

Risk and Return



Aggressive/Venture Capital would include dot.com stocks, biotech stock, start-up companies, oil & gas exploration and a host of similar speculative investments.

The 90 day U.S. Treasury Bill is the world's definition of zero risk. The holding period is too short to have a liquidity risk and nothing in the financial world is more secure than a U.S. Treasury Bill. Liquidity is the ability to sell or liquidate a holding so liquidity risk is what you take when you give up that ability for a period of time. The other end of the risk spectrum is more difficult to establish. Suffice it to say, there are many examples of investments that offer huge potential returns and even greater risk. We will eliminate the extremes and consider the type of returns that, over time, can be expected to offer a reasonable return for a risk that lets you sleep and will not threaten your financial security. We will look at these in articles 4 & 5, "*Phases of Planning and Portfolio Theory*" and "*Investing and Markets.*"

For now, let me say that risk exists at three levels. First, you fail to achieve the return you planned on to reach an objective. Usually, you have to save/invest more. Second you lose part of your principal and have to modify several elements of your plan: save more, delay or downsize objectives. Finally, you lose so much that family security is jeopardized. You probably have to change objectives and significantly modify lifestyles. Few, if any, objectives justify risking family security, unless you hear it clearly from our Lord.

Time is the third variable to be balanced with risk and return. With term investments, you lock up money in investments (like certificates of deposit) that either reward you with regular competitive returns or penalize you if interest rates rise and you are stuck with what has become a non-competitive rate of return. We call this liquidity and because you give it up on a five-year CD, institutions pay more to compensate for this risk. Still, you have taken another kind of risk, an opportunity cost that your money invested elsewhere might have returned more. We will look at balancing these factors in the next three articles.

Time can also reduce risk in the case of mutual fund or stock holding. The volatility of the markets can cause losses over relatively short (one to three year) periods, but during none of the thirty-one ten-year periods, 1960-99, has the market (as measured by the S&P 500) had a negative period. Only two of thirty-six five-year periods have shown losses (1960-69 is a ten-year period. 1961-70 is a second and so on).

In fact, time, combined with interest, presents us with both the best and the worst scenarios. It can work for you, producing spectacular results on your investments, or against you, costing you dearly on your debt. First the bad news.

Debt

Three quick points, then three typical scenarios. Borrowing allows us to buy things we may not be able to afford. Paying to use money (i.e. interest) makes those items even more unaffordable. Mismanagement of credit is the number one financial trap hurting the American family. The average American family ended 2000 with seven credit cards in their pocket and $7,500 in consumer (credit card) debt.

The first scenario is the "monthly balance interest method" where a credit card holder pays off part of the balance and lets the remaining balance accrue with interest. Rates are high, making things cost significantly more, but if you don't add charges and work to pay off the balance, it is a minor mistake from which you can escape.

The second is a variation where you pay off part of the balance each month, but keep charging and adding to the balance. If you add $200 a month to a $1000 balance on a typical eighteen percent credit card and make payments of $99.58 per month, you will

pay $195 on the original $1000 and $214.50 a year on the monthly additions. This is a slippery slope, but if you control the additions and make regular payments, you can escape with a moderately expensive, but not disastrous lesson.

The third scenario is where someone already mired in debt makes only the minimum payment on the monthly bill. With a typical card charging eighteen percent and paying the minimum payment, an example balance of $1000 will take you 190 months (15.8 years) to pay off. You will have paid $1,483.41 *in interest* or 1.48 times as much as the debt, and certainly you won't remember what it was you bought for $2,483.41 to start with. Some cards that compute the minimum as less than 2.2 percent and charge over eighteen percent can push the interest payment to over twice the principle.

Three things are very clear. The credit card companies are making huge profits, the card holder is paying them, and the companies count on the debtors lacking the discipline or brains to figure it out.

I can't find any place where the Bible prohibits debt, but it has many warnings (Prov. 22:7, Ps. 37:21, Rom. 13:8, Matt. 18:32-35) about the dangers of debt and the requirement to be honorable with it. The dollar cost is terrible, but worse is the heartache and disruption to families and relationships caused by debt. There is no way to measure this cost, but the waste of money on interest is only part of that cost. Periods spent in debt also prevent you from taking advantage of having interest work *for* you over time. "In the house of the wise are stores of choice food and oil, but a foolish man devours all he has" (Prov. 21:20). Now for the good news (smart things).

Time Value of Money (TVM)

One of the most critical "smart things" is one of the most under-appreciated. We all understand basic compounding of interest, but few fully grasp the awesome power of regular compounding over extended periods of time. Lets look at a couple of examples:

A 20 year old puts $50 a month away for a 4-year period. At age 65 he has saved $27,000. If the payments had been drawing eight percent it would then be worth $263,726. That is a nice sum, but if he then withdrew $1,873 per month from that amount it would continue to pay out until age 100 and would have paid out a total of $786,719.

Fifty dollars a month isn't much, but the 45 years sure are. Of course if this worker increased the monthly payment over time, the retirement fund could be well over a million dollars. Unfortunately, a more normal pattern is to do nothing for many years then try to make up for the time with larger contributions.

At age 25 investors A and B consider investing in an IRA. Investor A puts in $1000 a year for 10 years then increases it to $2000. Investor B waits until age 35 when he can put away the entire $2000 per year. At age 65:
A has invested $68000 and at 8% it is worth $370,334.
B has invested $58000 and at 8% it is worth $224,566.

The $10K difference and the ten year head start makes a difference of $145,768 at age 65, and still more in payout and lifestyle over their projected lives.

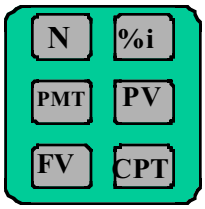
Have you ever seen the popular chart "Cheapest Way to Make a Million"? Look at the dynamic of time at work at ten percent within an IRA. Now consider that any young person smart enough to earn and invest at age fourteen, would probably continue saving and have $3 million at age 65 or have the option for early retirement whenever he pleases. That option is the real value of this example. It doesn't seem fair, but as Proverbs tells us, "Listen to advice and accept instruction, and in the end you will be wise" (Prov. 19:20).

Two People	IRA A	IRA B
Contributions at ages	14-18	26-65
Years of contributions	5	40
Total Contributions	$10,000	$80,000
Value at age 65	$1,174,600	$893,704
Growth of investment	*117 fold*	*11 fold*

TVM Calculations

While the numbers can amaze, the computations can tell us a lot more. A TVM calculator lets you project returns into the future, determine what you have to save at what rate of return to reach a future goal, or to work back from a future goal to determine a present value that will grow to the desired future amount. There are five variables and with any four, you can find the fifth.

Financial Calculator



N number of months
%I annual percentage rate
PMT payment
PV present value
FV future value
CPT compute

If you will need $100,000 in 8 years and can expect to make 8%, You enter 8 %I, zero PV, 96N and $100,000 FV, then compute. It tells you your payment needs to be $747 per month. If you have $8,000 in the fund, your monthly only needs to be $634. This gives you specific data for planning

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These calculators do much more than solve problems; they give you a wide range of specific "what ifs" for planning. TVM is a remarkable dynamic and the calculators give you a window into its workings. Most of you have access to one within programs such as Quicken or Excel. Handheld calculators are available from Hewlett Packard (10B) or Texas Instruments (BAII Plus) for about $28 or in various forms at most financial websites.

Art

Knowledge and tools are great for your head, but you also need a heart to shape experience into judgment and wisdom. Learn to understand the numbers and balance them with what you value in your heart. Learn to respect the money you are earning and understand the real cost of decisions.

You need a financial philosophy that places values on–and puts in balance–the possessions of this world and the actions that make up the paths of our lives. A successful family financial plan involves many trade-offs. There is no better guidepost than your faith played out in a consistent Christian witness and walk. In fact, your feelings about money are almost as important as your budget.

A simple bit of philosophy (used by many financial institutions) is found in the fable of the richest man in an Egyptian village who, when asked how a common man became so rich, explained. “I pay myself first, not the tent maker (mortgage) or camel merchant (GMAC) or other merchants (VISA).” We might modify that as per Malachi 3:10 to “Bring the whole tithe into the storehouse (church).” Pay the Lord first, but then you should pay yourself, then the other claimants. Doing that requires a working budget. “All hard work brings a profit, but mere talk (intentions) leads only to poverty” (Prov. 14:23).

Budgeting is the critical first step. Without a budget, it is almost impossible to save the capital that is the foundation for all you wish to do. But wishing isn’t enough, you need a plan to guide your work or you won’t like the results. You will have a financial status, but it may not reflect you and your values; it may not enable you to do what your heart says is important.

Your philosophy about life will guide you through the many important issues you need to decide about before you can do a family financial plan. The Lord is in charge, but He gave you free will and you need to be proactive to shape a life that reflects your values. You make the decisions which balance a second income against being a full-time parent, selects Christian schooling and private Christian colleges, or saves money for early retirement. Do you capitalize on military retirement to allow you to go into Christian, public or community service or do you continue to seek more lucrative employment? Have you allowed for having options, or are your lifestyle decisions today limiting your future choices?

I know too many Christians in their fifties and sixties who are in conflict over the need to work while their hearts are called to service.

People often ask my advice on many either/or decisions. I try to give them considerations, but habitually end up telling them to "work the numbers." I know most decisions are made in the heart, but you should sit down with pad and calculator to figure the cost. There are no cookie cutters for most decisions; you have to develop alternatives and work the numbers. Like military courses of action, there are quantifiable advantages and disadvantages, but decisions are made based on certain non quantifiables. Do the head work, pray, and then decide.

What are the real costs of financial decisions? Every day doors are closing because of financial decisions. They can be decisions based on your plan, or defaults based on desires and temptations. Every expenditure has a future cost, and if you don't know the cost, why are you committing to it? Remember, $50 a month can return three quarters of a million in value over a lifetime. Often there is no $50 and no return. You should know the best use of your next available dollar: savings, investment, IRA contribution, consumer purchase, a child's education account, or gift. Your plan gives you the data to make the tough decisions, but also you need balance.

How do we find and get into balance? Ron Blue, in his wonderful small book, *Generous Living,* talks about "Generosity as a Lifestyle" and the "Secret to True Contentment." He concludes we should give to acknowledge God's ownership and our trust, not as a reflection of our wealth, but as a reflection of our relationship with God. As I discussed in the "Stewardship For Us" article, it is a matter of your heart. That means two things: First, that you actually deal with the concept of ownership, and second, your action reflects where your heart is. "For where your treasure is, there your heart will be also" (Luke 12:34**).**

To paraphrase an old saying, if your lifestyle was evidence in a trial, would there be enough to convict you of being a Christian? Often we consume and live a life that is not consistent with our values. Larry Burkett, in talking about indulgence says many Christians, ". . . seek fulfillment through the same channels as non-Christians and then wonder why they have a fruitless Christian walk" *(Money Matters, May 1988).*

So now the challenge is to blend science and art into a plan that fits our family and honors God. Then, identify investments which let us fulfill that plan. "But seek first his kingdom and his righteousness, and all these things will be given to you as well. Therefore do not worry about tomorrow . . ." (Matt 6:33-34). Not to worry, but to ". . . open your eyes and look at the fields! They are ripe for harvest" (John 4:35). For we have been equipped by God to be stewards of all he has given so that as Austin Pryor reminds us in the verse which inspired the naming of his ministry, " For God did not give us a spirit of timidity, but a spirit of power, of love, and of self-discipline" (2 Tim. 1:7). Now let us build a family financial plan to care for our families, support a consistent lifestyle, and reflect His love.

Footnotes:

Generous Living by Ron Blue. 1997 Zondervan Publishing House, Grand Rapids, Michigan 49539.

Money Matters Newsletter, May 1988. Larry Burkett.

A Christian View of Personal Finance

by
Col. Ray E. Porter III, USA (Ret.)

3
Creating Your Financial Plan

Financial goals are the basis of personal financial planning. I can almost hear your thoughts. "I have goals: family security, educate the kids, a comfortable retirement, and being faithful along the way." Great, but my first question back to you is how much does each goal cost? Next I could ask how you are planning to meet each goal? Do you have other goals that will require diversion of assets? Do you have a budget to manage your monthly income and generate savings for investment? Congratulations if you are comfortable with each answer. Few people obtain their potential without specific goals, a working budget, and a financial plan. As General Saint used to say, "Hope is not a method" (Butch Saint CINCUSAEUR circa 1990).

A great many people are working hard to save and invest, but do not have a plan, or at least not one sufficiently specific to assess progress. I've counseled a number of people who were on track to meet their goals, but didn't actually know it and had anxiety about it. Some people are spending more than they can afford without compromising their goals, but they don't know it. Both groups are uneasy because there is something in us which says, "I need to be responsible, to save, and to invest." That means having, and following, a plan.

A plan starts with specific goals and clear priorities, then allows you to set savings and rate-of-return requirements. How do you do this? There are a number of options, but only three good ones: learn enough to do it yourself, get help, or use an appropriate combination of both.

What about professional financial planners? I don't have any statistics, but anecdotal data suggest a few problems. Hundreds of people have told me they don't have much confidence in plans prepared by "advisors" who are also sales people, paid commissions by certain investment companies for enlisting investors. However, few people go to independent (fee-only) planners. So most plans are prepared by people who have a bias either because they have an interest in selling a product or they are more informed about the particular products their firms sell. They may be honest and objective, but their solution may not fit your needs, or profit you as much as it profits their firms.

This article is interested only in teaching you "how to fish," so you will be skilled enough to access, accept, modify or reject outside advice. *You* are the steward appointed by our Lord and *you* are responsible for planning for your family. It is my prayer that you add whatever this article can teach you to your investment data base, that you seek Christian counsel and that you *pray*. I'm sure your plan will be pleasing to the Lord.

Your plan should bring your specific goals into balance with risk / return / time. Sounds reasonable enough, but only your goals and time can be easily quantified. There is no actual risk / return ratio, so you will have to make a number of judgments. The last article focused on your priorities and philosophy. In this and the following

articles we will show you how to build on that foundation. “Commit to the Lord whatever you do, and your plans will succeed” (Proverbs 16:3).

Goals

Goals are the “pacing items” of financial plans.

Many financial institutions have work sheets to help lay out goals. USAA uses a simple chart that helps you see the requirements in specific quantities of dollars at specific times. (The USAA Foundation. Starting Out: Positioning Yourself Financially pg. 5) (USAA Educational Foundation has many such excellent pamphlets: 800 531 8722.)

Goals	Target Date	Cost	Current Assets	$ Still Needed	Number of Years to Target	Amount to Save per Year
						Total

You can enter simple dollar amounts or for more accuracy, do Time Value of Money (TVM) calculations as discussed in article two.

Another format (below) could show amounts increasing (highlighted) for each goal as earlier goals are met or as pay raises (2004, 06, 08, 10) are added. (This system is also often used by debt reduction planners. It would then include a column for interest rates to help decide which debts to pay off fastest.) Any way you do it, goals need to be viewed over the continuum of your planning horizons.

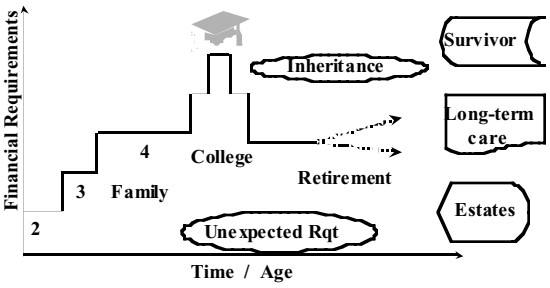
Per month in:	2002	2003	2004	2005	2006	2007	2008	2009	2010
Home down payment	500	500	500						
College	250	250	250	500	500	500	500		
Retirement	300	300	400	400	500	500	650	1550	1650

Goals can be short, intermediate, or long term. They should be based on your financial philosophy or concept (see example family plan below) and need to be measured in specific dollar amounts**.** “. . . will he not first sit down and estimate the cost to see if he has enough money to complete it” (Luke 14:28). For example, you believe in education, so sending the children to good colleges is a high priority, but you have set limits on total college costs so that these expenses do not threaten other priorities such as tithing, support of missions, and a set retirement point. It is very important to do this thinking, and realize that you can modify it as your world view evolves, and as opportunities present themselves.

I want to introduce you now to an example family and share their investment plan. The Stewards are both twenty-eight years old with children six and four years of age. She is a stay-at-home mom while he is a captain (03) with six years of service (YOS). His base pay (Jan 01) is $43,876.80 plus BAS and BAH. They have $350,000 in life insurance and $56,000 in savings. (The Lincoln Rule of what the average family should

have in savings: decade of age X age X 1000, or 2 X 28 X 1000.) In my seminars, I have to pause while people figure out how they compare.

Visualizing Family Requirements



There are many ways to visualize or chart your needs over time. Requirements grow with the birth of children, peak during their college years and reach an option point based on retirement decisions. Other major financial decisions float in the future along with common major expenses that could be charted to include homes, weddings, vehicles, vacations, or second homes. These "other" major decisions could be included, or they could be left in a pot that ultimately depends on the growth of the regular budget and savings plans.

The Stewards have prayed and decided on their major priorities and where to accept risk. "Many are the plans in a man's heart, but it is the Lord's purpose that prevails" (Proverbs 19:21). A number of firms, including Army and Air Force Mutual Aid Association have systems to determine family security needs. Using such a system, CAPT Steward has determined that he needs $500,000 for family security. Going to the College Board of NY website, he determines the four-year cost of the average public university to be $76,574 and $82,920 for his children (Present Value, the amount he needs today to grow @ 8%, is $68,677). There are many ways to do this–I chose 2015 as a point at which all money is available, used 4% inflation in school cost from 00-01, and 6% rate of return**.**

He does not plan to buy a house during his service, (but he'll have savings to allow it if necessary). He will save for automobiles with dedicated mutual money markets, and wants to have great flexibility at a 30-year retirement point. For planning purposes, he assumes that an 0-6 salary over 26 YOS would give him that flexibility so he establishes an objective of having investments to replace the difference between his final active and initial retirement pay.

NOTE: This is a very reasonable approach, but fewer than 5 out of every 100 of my contemporaries have been able to retire without seeking some type of regular employment.

Captain Steward wants to be able to go into ministry or community work with his wife and not need much, if any, salary. To do this, he figures the difference between active and retired pay to be $82,980 in 2025 or $12,243 in PV (Present Value @ 8% and 24 years). Therefore–now stay with me, the principle needed to generate $12,243 a year is $153,045 @ 8% return.

To summarize, he needs $500K for security on an ongoing basis, $68,677 PV for college, and $153,045 PV for retirement savings. We won't compute the cost of other major expenses, but he realizes the value of buying good cars for 8-12 years, staying in quarters when possible, and maintaining these financial priorities despite the consumerism of our society. He also plans to add all longevity and half of each promotion pay raise to his saving and investment program. Yes, this is a challenging concept. Lets see what it looks like.

	Family Security	College	Retirement
	$500K	$68,677	$153,045
Asset			
SGLI	$250K	n/a	n/a
Insur.	$100K	n/a	n/a
Invest	$ 56K	ok	ok
	($94K)		

Family Security is provided by income, investments and insurance (including survivor programs). If he lives to retirement eligibility he'll have SBP (Survivor Benefits Plan) plus their investments. If they need more security, they will select ten-, fifteen-, or twenty-year-level term life insurance to cheaply cover any risk they do not want to assume. While on duty he carries the max $250K SGLI and has opted for an additional term policy. They could cover the $94K of risk with more term life insurance, but opt to accept that risk and focus on filling it with investments. (This is for illustration: I would actually counsel this young family to carry $100-200K additional term life insurance.)

Many people insure non wage-earning spouses and that may make sense. A basic rule of insurance is to only insure against risk you cannot accept. Her early death would not cause loss of income, but would generate child care costs. A couple of years ago he selected a $100K fifteen-year-level term policy which covers her until the youngest child is seventeen years old. He doesn't think he needs more than about twelve years' coverage, but he can cancel if that holds true. (This is cheap flexibility). If they had planned on her returning to work to help fund college, he might have taken 200K for twenty years. Again, the basic rule, "Only insure against risk you cannot afford."

Insurance and investments can both provide for the family's future financial security, but it is important to note that investments are the more desirable and more flexible option. If our example father lives, then insurance is not an option (not available) to meet college costs or help in retirement. The good news is that as he lives and earns, he continues to invest and those investments grow to meet the family's future financial needs. He sees term insurance as an excellent vehicle to cover short-term risk without the expense of whole life (cash value insurance). He accepts that there is no "investment component" as the cash value insurance sales force always reminds us. He plans on *actual* investments (vice whole life insurance) to give him future return. As a contingency, he could cover future periods of vulnerability (such as under-funded college accounts) when the family would need his full income, with five- to ten-year term policies.

College costs are based on the College Board of NY AY2000-01 national average costs ($11,115 public and $24,801 private) inflated into the future at 4%. Always use the most reasonable cost estimate you can find, such as home state or "family school." You

don't have to be exact, nor do you have to reach your goal. Ask anyone who has partially financed college from family income–the more you have set aside the easier those years will be. Captain Steward used 2015 as the target year and thus needs to invest $604 per month assuming a six-percent return and no tax to reach that goal.

His desire for college tuition is to try to save the entire amount. Since saving $604 a month is too limiting, he's allocated $10K of the existing family savings towards his goal and upped his desired rate of return to 8%. This reduces to $322 the amount he needs to save per month. He could accept coming up short of the total amount desired, since he knows that during the last two years of the second child's college he could pay most costs from the family budget.

In general, financial planners warn middle class Americans to *not* reduce retirement savings during the middle-age years to pay for tuition; if necessary, let kids work or borrow money. Kids learn about overall family responsibilities and more willingly accept responsibility when they carry part of the load! Still, much of the middle class digs into family assets for college and pays a price in retirement options.

Retirement is the most difficult to plan for because most of us have trouble envisioning our situation that far into the future and none of us know what we might be called to do then or between now and then. My experience working with close to a thousand lieutenant colonels at about 20 years of service (at AWC where promotion and 3 or more years of service are almost certain) is that few have any concept of what they will need or how they will provide for those needs. Not surprisingly, several years later many colonels, at their retirement points, are still uncertain. Most need to work fulltime after retirement to support current lifestyles or to make up for past ones. These officers, once trained in personal finance, almost uniformly respond, "Great stuff, why didn't I get this when I was a captain?"

In my view, everyone, and especially Christians, should plan for flexibility. There are retired officers who have a heart for ministry, but aren't making themselves available to heed the call because of financial obligations. I know many real servants who would be wonderful in ministry, but cannot make enough to satisfy their material needs and, like the rich man in Luke (18:22,23) they cannot bear to, ". . . Sell everything you have and give to the poor . . ."; instead they ". . . become very sad . . ." I can't tell you how many people at 30 years take another "PCS" they may not want because of need for a job. "Diligent hands will rule, but laziness ends in slave labor" (Prov. 12:24). I never counsel making money for its own sake, but rather to give you life, employment, and service options. Having flexibility is a very responsible thing and a way to be available to heed His call!

The Steward budget looks like this:

		Remaining:
Monthly Income (Base & BAS)	$3,821	
Expenses:		
Tithe	$382	
Fed Income Tax	$370	
FICA	$278	$2,791
IRA's (2 times $2000 annual max)	$333	
College	$322	$2,136

Groceries	$350	
Household (utilities, clothes, medical, repairs, etc)	$300	
Auto (paid for) (fuel, maintenance, insurance)	$350	
Insurance (PP & Liability, Term life)	$150	$986
Long Term Family Savings	$200	
Gifts (Weddings, births, family, holidays)	$150	
Entertainment (hobbies, eating out, subscriptions…)	$250	
Recreation (travel & vacations)	$250	$136
Short Term Savings (cars, major purchases)		$136

Note: They work hard to live on this budget because they appreciate the long-term value of having options and flexibility. He has some frustrations, realizing that short -term savings won't let them pay for a new car in 5 years, but he plans to put pay raises from the over 8 & 10 years of service points and half of promotion to major into short-term savings. Still he knows he has the flexibility to borrow from long-term savings, or if rates stay at current low levels, finance the car. Captain Steward doesn't completely rule out debt, but takes all the biblical admonitions seriously, and will ensure it never "enslaves" his family. Month-by-month, they occasionally go over their spending limits in several categories, but save in others. They can accept that, knowing that a budget must fit their lifestyle to be workable and help reach long-term priorities. Short-term saving (mutual money market) is listed last as they use this as their flexibility—still, since it is their car savings account, they try to fund it and repay it if they have to borrow.

Budget categories are listed in order of priority. The first optional allocation is $333 per month to fund their Roth IRA's at the current $2000 maximum each. At age 59 they can draw on these tax-free funds to support retirement options. That is a big hunk of their savings, but virtually all financial advisors say the IRA is where the *first* dollars of saving should go. Because they are hard to touch, grow without tax and grow for long periods of time, they often become our greatest financial asset other than military retirement.

After providing for essentials, they allocate $200 per month to long-term savings. This fund provides great flexibility. If they never dip into it and never add more, it could grow to $241K. They expect to have to dip into it and could use it for home down payments, or higher-than-expected college costs, or an auto purchase. They also expect to add more to long-term savings as they move into the higher field grade ranks. So there is no specific goal for long-term savings but they do want it to do well. Last but not least, they can gift (Larry Burkett's chart) from this fund for special ministries they become convicted about.

Finally, Short Term savings is the only investment not funded by allotment or direct deposit from their bank account. As indicated in the budget note, it is envisioned as a true savings account with a new car as the goal, but it also provides the flexibility to cover unexpected real life demands. While they don't have a projected goal, it could well be worth $16,000 in 5 years giving them some options for an auto, gifting, or other purposes.

This chart summarizes their plans and helps them visualize how they reach their goals.

If they earn their fairly conservative rates of return listed, their family financial plan will give them the options they desire. They reach college goals, and even if it costs more, they have long-term savings to help out. They fall just short of retirement goals, but will be close enough to make decisions free of financial pressure.

They recognize that things change and at their age, they do not have a high degree of certainty about the future. For these reasons, they have two savings accounts to provide critical flexibility. They expect to identify other goals and therefore adjust existing goals. They recognize that jobs and promotions are not certain, therefore they try hard to do the best they can now. As mentioned earlier, he wants to put longevity and half of promotion pay raises into short-term savings. That leaves them both annual raises and half of his promotion pay increases to keep up with cost of living or divert to new priorities.

Jan 01		rate	projected	goal		
10,000	322 per mo to 2015	8%	$68,677	$68,677	College	
36,000	333 per mo to 2025	10%	$789,074	$829,800	Retirement	
10,000	200 per mo to 2025	8%		$241,105	Long Term	
0.00	136 + fogies and half of promotion to 2006	6%		$16,812	Short Term	

Is this a good plan? They have a detailed and livable budget. They have prayed about their philosophy and values and then established specific goals. They have allocated funds to each priority based on reasonable projected rates of return. Still, despite all those smart things, they need flexibility. I think their two savings plans and their pay raises plan provide excellent opportunities to adjust when necessary and change and stay on task. Their plan has them on track to achieve financial independence. More important, they are being faithful and their priorities are reflected in their lifestyle. “The plans of the diligent lead to profit as surely as haste leads to poverty” (Prov. 21:5).

I hope you are asking the obvious question: “Why these rates of return and what investments do they have?” The following two articles will look at appropriate investments for the phases of life and at the actual investing process. They’re important articles, but not as critical as having an initial plan and a workable budget. Without these, investors acting randomly and reacting to external economic forces rarely reach the level of resources that a prayerfully considered plan will likely provide.

Footnotes:

Butch Saint: General *Crosbie E. Saint*, CINCUSAEUR circa 1990

The USAA Foundation, “Starting Out: Positioning Yourself Financially”

A Christian View of Personal Finance

by
Col. Ray E. Porter III, USA (Ret.)

4
Phases of Planning and Portfolio Theory

The essence of planning is found in your knowing the return you need and the risk you can accept. This defines the parameters for your selection of individual investments. This understanding lets you put risk to work for you, compensating you with reasonable returns. These parameters, and the type of investments which are appropriate, change, just as your immediate needs change, through the stages of life. We will focus on investments that make sense at different phases of life for most of our membership, and on design of appropriate portfolios.

A high degree of consensus exists in financial writings about the stages of personal financial planning. While they use different numbers of steps and different names, their message is fairly consistent. Each stage seeks to establish a balance between family needs, tolerance for risk, and levels of income.

Starting Out, normally in your twenties, the family has limited income compared to their needs, but a long-time horizon for reaching major goals. These families need security, a high percentage of liquidity and a savings plan to start their investment phase. Their budget is aimed at meeting basic needs, limiting, or paying off debt, funding an emergency fund, funding retirement account (IRA's) and developing an investment base–also called a contingency fund. Along with budgeting, it is essential to learn smart and disciplined consumption.

Heads of families need three to six months of living expenses in a liquid emergency fund account. Mutual money-market funds are perfect, paying over six percent compared to bank savings and money-markets which can be under two percent. Listing of top funds are in monthly money magazines or at **www.Kiplinger.com.** Family security is primarily achieved through job benefits and insurance. If there are debts, the next priority after 3 months of emergency money is debt reduction. Many advisors do not consider it necessary to pay off all debt before funding IRA's. Justification is the desire to get the full benefit (TVM) in the tax-advantaged IRA. Your view should include what the Bible tells you about debt. I do not find prohibitions, but many cautions. Expensive consumer debt fits a caution and needs to be under control. Contingency money has several uses: major purchases, home down payments, vacations, kids' schools or camps, and other intermediate expenses beyond the capability of the family budget.

This is also a good time to broaden investment knowledge as the transition from just saving to investing will evolve between *starting out* and *growth* phases. It will be different for every family as situations and starting points are unique: family wealth, working couples, delayed children, early families, large families, divorces, health, and locations of residence / assignments all make the playing field uneven. Some will generate significant disposable income in mid twenties through earnings or life style management, while others will remain in the start-up phase well into their thirties. Being faithful to the Lord and good stewards is far more important than net worth.

Growth Phase is characterized by being able to tolerate sufficient risk to build a diversified investment portfolio. You are out of consumer debt, though you may have car loans and mortgages which are serviced *within* your budget by monthly cash flow. You have funded your emergency fund between three and six months living expenses, as you are comfortable. You are fully funding your IRA's: which is where you should put your first dollar after the emergency fund. You have a contingency fund, which you add to monthly, preferably by direct deposit. Only when these conditions exist and your budget is keeping expenses plus savings in balance with income, are you ready to accept the risk of investing in equities.

You are about to move from term investments, where you loan money to the institutions for a modest but certain return, to the world of buying bond or mutual funds, where the increased risk offers the potential for greater return. You must recognize the risk in equities: even though they have returned ten to twelve percent since the Great Depression, and upwards of fifteen to eighteen percent during the nineties, during any three- to five-year period you may have losses. Only because you have living expenses, basic security and retirement funds covered is it reasonable to take equity risk. Having said that, there are no firewalls to protect you from market downturns and the potential loss of investment capital like the FDIC protects your savings account.

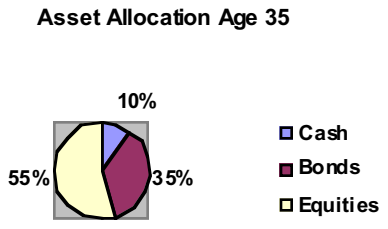
This Growth Phase often covers most of your working life and carries you through the college years of your children, into military retirement and into second careers or Christian service. In fact, how well you manage this phase determines how flexible you are to hear and respond to calls to service. You have the potential of having greater flexibility than is the national norm. In the civilian sector, where many people provide for their own retirements, substantially through IRA's, company 401K's and the like, most people age forty-five have only funded twenty to thirty percent of their retirement needs.

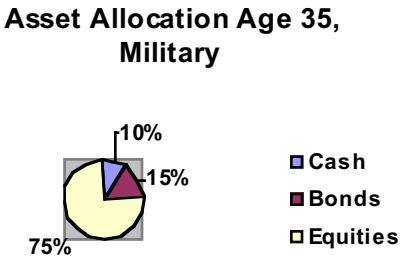
Many financial advisors use a steady timeline to determine how much a family needs to set aside per month. This capitalizes well on TVM, but is not possible for many. As rank/income rises, children finish college and spouses consider returning to work, the percentage of monthly income available for saving and investing often grows many fold. The key word there is "available." I have known hundreds of 05/06's who could have lived well and still saved $1000-1,500 a month who simply failed to budget and restrict their lifestyles. Later they paid the price in anxiety, additional years of work, and in lack of flexibility in making job and location decisions.

As income exceeds needs it is tremendously tempting to stop being careful, to let budget discipline slip and to reward ourselves. The world certainly tells us, "you deserve it," "you have earned it," or "you're worth it." Having goals, planning, and discipline are probably more important here than in the early years. Here the parable of the stewards really plays out. Your goal is to experience Matthew 25:21 ". . . 'Well done, good and faithful servant! You were faithful with a few things; I will put you in charge of many things. Come and share your master's happiness!'" During this phase you develop the portfolio that gives you the financial assets to free you from many of the traps of earthly obligations and their constraints on your ability to hear the Lord's call for your talents.

Investments during this phase should be balanced, diversified and appropriate to your goals and your tolerance for risk. Balance is achieved through asset allocation. Most financial institutions have models for stages of life which allocate slices of the pie between cash, bonds, and equities. Many of these models are uniquely civilian and do

not convert directly to a military professional at a similar age. This is primarily because, with our excellent retirement program, we are less dependent on retirement accounts so we can take greater risk. We also have job security and survivor benefits which allow more aggressive investing.



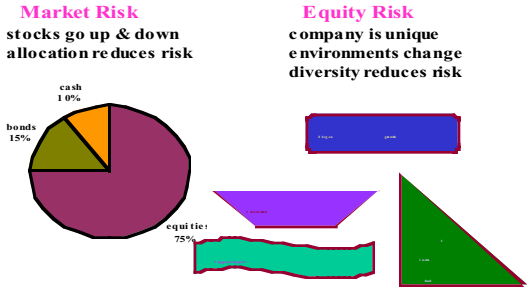


The military example has a higher percentage of equities with their inherently greater risk and greater potential for return. Risk can be reduced by increasing bonds with some degradation of potential return or by holding cash that only carries the risk of under-performing inflation. Having determined the cost of your goals (*Family Financial Plan*), you can now allocate your monthly savings into the mix of bonds and equities, which gives you a good chance of meeting your goals. This is asset allocation or risk management, and long term has as much impact on total return as individual stock or mutual fund selections.

Your other major tool for reducing risk is diversity, where you select a variety of different investments within each part of your allocation. “Give portions to seven, yes to eight, for you do not know what disaster may come upon the land” (Eccles. 11:2). This is your classic “don’t put all your eggs in one basket” situation. This is a very common problem with many military investors and a serious problem with those who have been clients of one of the organizations selling contracts and load funds selected by the salesman. I have seen lieutenant colonels with 225K in investments and over 200k in one high load mutual fund. No matter how good the fund, the officer was taking undue risk. But the fruit of the spirit is . . . peace . . .” (Gal 5:22). (*Sound Mind Investing* links these two scriptures and it makes sense.)

A more balanced allocation within the equities slice is shown under Equity Risk on the chart below. Most sources will tell you that you need three to five different mutual funds from two or three different fund categories. Even if you have three growth funds you probably do not have much diversity because within any category, the different mutual funds have many common holdings which will react similarly to market changes. The Portfolio Theory chart sums up how asset allocation and diversity help manage market and equity risk. We will look at mutual fund categories and performance in the next article, “Investing & Markets.”

Portfolio Theory



Finally, your strategy during this phase should be designed to meet several broad and changing objectives. You should be investing separately to meet (if these are your objectives) college costs, long term family security, retirement, mission work and any other personal priority. Experts consistently tell us to have separate funds and not to draw down retirement funds to pay for college, but the American middle class continues to do just that. Ideally you start early and save for both, but retirement is a much greater expense and "should not" (financially speaking) be sacrificed for an intermediate objective such as college. Money taken from civilian retirement savings at this critical point results in people working longer, retiring at a lower standard of living, or working jobs into their late 60's and 70's. With military retirement/SBP we have more flexibility.

Mutual funds, both equity and bond, are the choice for most of these needs. Stock and individual bonds (treasury, municipal, or corporate) can also be appropriate, but require more study and management, and traditionally are more volatile (read risky). The wide spectrum of mutual funds gives us the opportunity to select type funds appropriate to each goal and their individual holdings give us excellent diversity with reasonable cost and ease of management. They do have some cost and tax disadvantages, but they are ideal for most of us. See "Investing & Markets" for more mutual fund and stock discussion.

Protecting and Transitioning Phase is only a desired phase. Not everyone gets there or gets there with the level of blessings that require special planning and offer fabulous opportunities. Again, you are more likely to transition into this phase than wake up and say, "Dear, we are in phase three." It is characterized by having the option to retire, having family security largely anchored with assets/pensions and having sufficient assets to cover major expenses (aging parents, retirement, long-term health care, etc.) You have a reduced need for growth in lieu of dependable income. During the latter years of this phase you minimize risk-taking while giving your excess to heirs and the Lord's work.

Back before inflation was a big issue the "standard" pie chart for retirees was ninety percent bonds. The whole stereotype of a widow's portfolio comes from the need for dependable income, great security and no need for growth. If you had reached goals and had security, why take any risk? Inflation has modified our perspective. The real value of fixed income drops dramatically during periods of high inflation like the early eighties. Now, nearly everyone needs a portion of their allocation in growth investments which can be expected to keep up with inflation. The percentage depends on monthly needs. Keep enough in income investments to secure your lifestyle. Many advisors suggest thirty to fifty percent.

In each phase, take only the risk you need and know what you need. You only need be about right: even twenty-five percent off an ideal allocation is better than most people do without a plan. This is more art than science, but your decisions improve remarkably if you understand the financial/economic environment. Your part is to study and make ready, then pray for guidance and establish godly priorities for His resources. Then you manage. Like the successful manager said, "The harder I work the luckier I get." "Every prudent man acts out of knowledge, but a fool exposes his folly" (Prov. 13:16).

Financial advisors have different names and divisions for the phases of a financial life and one of the very best is that advocated by Austin Pryor, the Christian founder of *Sound Mind Investing* (The Financial Newsletter for Today's Christian Family) and author of *Sound Mind Investing.* He doesn't just describe four levels, he writes about them every month, including analysis of specific investment for each level. While the subscription is a good investment, much of the general educational information is available on the web site. His levels (phases) are Getting Debt Free, Saving for Future Needs, Investing Your Surplus and Diversifying for Safety. (My system includes diversifying within the earlier stages.)

Most personal financial models associate the phases of life with appropriate investments. The start point remains with the *goals* of your family financial plan and the *budget*, which segregates assets you have to invest. Next we will look at what is appropriate for various goals. "Commit to the Lord whatever you do, and your plans will succeed" (Prov. 16:3).

A Christian View of Personal Finance
by
Col. Ray E. Porter III, USA (Ret.)

5
Investing & Markets

". . . God is able to make all grace abound to you, so that in all things at all times, having what you need, you will abound in every good work" (2 Cor. 9:8). I am convicted by the thought that the Lord has blessed *me* and that *I* have an obligation to share. Scripture does not tell me to sit and wait, but to use His blessings of intellect, education, energy, opportunity and heart to be that good steward who multiplied the talents (Matt. 25:14-21). Paul is clear and strict in telling the Thessalonians to work and support the ministry (2 Thess. 3:6-12). I know many of you find more good works than your tithe can support, so to get beyond tithing and on to gifting you need to multiply His blessings. This is the purpose of investing, and the better we do it, the more we can give back to His work.

The investment menu is extensive, but your choices are generally made from a short list based on your need for return and your tolerance for risk. The common spectrum runs from low yield, highly safe term instruments such as bank savings, mutual money markets and certificates of deposit (CD) to less predictable, but potentially more lucrative, equities (stocks) and equity mutual funds. Bonds are generally in the middle, offering more potential return than money markets at a greater risk.

Within mutual funds there are wide variations in risk and return and combinations of bonds and stocks. I want to defer discussion of bonds, but tell you there are mutual funds with combinations of bonds and stocks called either *Balanced* with a fixed allocation or *Asset Allocation* where the allocation changes with market, or anticipated market conditions. A simple risk scale would show risk increasing from pure term through different mixes and peaking with all equities. But how about return: What can you expect? There is no direct answer so you need a system to understand the "norms" of recent equity market experience.

The simplest system I've seen for reducing millions of bits of data to twenty columns on a pre-screened list of funds is that offered by *Sound Mind Investing* (SMI). Austin Pryor combines fundamental Christian principles with risk and return performance data to organize funds into four categories. He uses the Morningstar database (discussed below) to present us with a monthly list of hundreds of funds (reduced from 7,000) for our consideration by category for stages of life. Their website offers great educational material, but detailed investment advice requires membership. I recommend everyone visit the home page to see what is available.

The SMI system organizes equity mutual funds into four categories drawn from the Morningstar's nine (discussed later). The criteria are size and investment style. Companies are Small or Large, and are "value or growth." Value mutual funds seek companies currently out of favor which are bought cheap with the expectation (hope) of recovery: Chrysler, when the government had to bail them out, drugs when the Clinton administration attacked them in 1994, recently tobacco, and today, possibly certain areas of information technology (IT). Growth funds pay top dollar for companies with records of strong annual growth and expect it to continue. GE, Exxon,

Intel, Citicorp are among the "blue chips" while AMGEN, Micron, and AOL are examples of growth stocks in developing industries. (Morningstar adds a blended category and a medium size category for its nine.)

SMI then measures performance over a number of periods up to three years and expense of buying/owning and computes risk and return scores based on standard deviations from the performance of the S&P 500 Index (discussed as an investment below). These scores are expressed in relation to 1.0, the performance of the S&P500.

For example, Austin Pryor recently highlighted Weitz Value fund with risk of .8, or eighty percent of the S&P 500, and performance of 1.2, or twenty percent better then the S&P 500.

Average annual returns and risk scores when applied to the four categories give you a relative understanding of each. The following table represents the ten years of the nineties. As expected, the higher risks are associated with the two highest returns.

	Annual Return	Risk Score	Return Score
Large Growth	16.8	1.2	.9
Large Value	13.3	.9	.8
Small Growth	16.2	1.5	.9
Small Value	10.8	1.0	.6

Note that no category has a return score better than it's risk score. In fact no *category* beats the standard. The S&P 500 is the standard for risk at 1.0 and its eighteen percent return for the decade is the return standard of 1.0. Understanding this is a good start point for making selections for your portfolio. You are seeking *individual* funds that have historically (three years) beaten the standard. You start looking for those funds within the category(s) that fits your investment needs. Austin Pryor's Quarterly Review provides data on a couple hundred funds in each category. Monthly, he provides Recommended Funds and guidance for people at his four levels of investing.

There are many other ways of categorizing funds. You will see funds described as Aggressive Growth, Sector, Global, International, Regional, and more. If you were seeking the highest possible return, you might buy high-risk investments such as Aggressive Growth or Sector mutual funds. Last year they took aggressive positions in "dot.coms," internet/telecommunications and biotech/human genome sciences. Many such investments tripled and tripled again early in 2000. Stocks opening at $10 run up into the high $100's only to finish the year in low single digits.

If you do not need high rates of return or cannot tolerate a high rate of volatility and risk, you might focus on insured term investments averaging around six percent, or various bond or blended funds. SMI evaluates Balanced and Asset Allocation funds that generally return .6 of the S&P 500 for about .6 risks. However a recent Quarterly Review highlighted two funds with .6 risk/1.1 return and .8 risk/1.1 return.

The right answer for most families avoids extremes, combining both term and equity investments. To make these judgments you need to have defined goals, and understand what money does over time (TVM) as discussed in articles 2 and 3. Your research should then gain an appreciation for recent norms of equity and market performance, such as reported in SMI or Morningstar.

"Commit to the Lord whatever you do, and your plans will succeed" (Prov. 16:3).

Over the years investment may exceed expectations allowing reduction to risk, or they may under-perform your planning factors requiring adjustment to goals or more aggressive investments. All fund performance data is historic and not necessarily a prediction of the future, but it is a guide. It is not very reliable for any one- to two-year period, but has been fairly consistent for 3 or more years. This chart provides historic data for Morningstar's basic nine categories of mutual funds.

Total Return %	***1995-99***	***1990-99***	***2000***
Large Growth	**28.5**	18.6	**(14.09)**
Large Blend	**23.9**	**15.7**	**(6.97)**
Large Value	**19.3**	**13.9**	**5.47**
Mid-Cap Growth	**25.9**	17.5	**(6.90)**
Mid-Cap Blend	**19.2**	**14.0**	**3.37**
Mid-Cap Value	**16.1**	**12.2**	**16.82**
Small Growth	**22.9**	18.6	**(5.71)**
Small Blend	**16.9**	**12.4**	**12.84**
Small Value	**13.5**	**11.3**	**16.98**
S&P 500	28.5	18.2	(10.1)

These nine, shown as a 3 x 3 matrix in Morningstar publications, are also rated for risk. **The green are least**, blue in the middle and **orange the highest risk**.

For the nineties, the three highest returns (bold) were all Growth stocks: two in high risk and one middle. Notice that larger is less risky than small and Value less risky than Growth.

The year 2000 was the first negative one since 1991, and Growth had the highest losses with value providing the best returns. Overall, you can draw your own conclusions: I see that Large Growth as having best return for middle risk, with Large Blend and Value having good returns for least risk. Small Growth tied for best return, but with much more risk. Note the S&P 500 is added for comparison.

Type	1990's	2000
Bond	7.57	
Income	11.02	
Growth & Income	11.00	
Balanced	11.86	
International	10.22	

There are other categories of funds and many focuses by the various funds. A diversified portfolio may include lower risk bond, types of income and blended funds or more aggressive international funds. There are also funds focused on sectors such as Biotech of Computer Software.

Morningstar is the definitive research source for mutual funds. They list forty-eight categories of funds: twenty-eight equities and twenty bonds including nine domestic funds which are a combination of size: Small (<2B), Medium, and Large (>8B) capitalization, and orientation: Value, Blend and Growth. This 3 x 3 matrix will encompass most pure equity funds of interest to the average investor. Your choices are first, which category (based on risk / return) and then, which fund (based on

performance). Morningstar's spreadsheet lists over 1,700 mutual funds down the page and ninety-six bits of data across the page. Far too much data to manage, but their various tools can be very useful.

"Be sure you know the condition of your flocks, give careful attention to your herds . . ." (Prov. 27:23).

Many libraries carry the Morningstar Reference book (magazine) with a full page of data, analysis, and verbal discussion of each fund. This information is also available in an online subscription (expensive, so check in larger libraries). It is a useful tool where you can enter criteria (your choice of ninety-six columns) and get a data sorting. This can reduce 1,700 funds to eight or eleven that are worth additional research on their individual Morningstar pages. Finally, they offer parts of these capabilities free at Morningstar.com. If you spend fifteen minutes on any of their funds, you will probably know more about that fund than some you own–which should cause you to ask why you bought it and should you keep it.

Less technical is their Star Rating for three-, five- and ten-year periods where the Morningstar Risk score is subtracted from their Return score and grouped (one to five stars) as top ten percent, followed by 22.5%, 35%, 22.5% and bottom ten percent. This system is easily grasped by the military, which also recognizes rank based on number of stars. A five-star fund is one that over the rated years is in the top ten percent on a risk / return basis.

Early in 2000, Barron's carried a summary of Lipper's fund types for the decade of the nineties. While that is a good long-term perspective and may be of value in selecting a type of fund, you would want to look at more recent one- and three-year performance of individual funds and their volatility (equate to risk.) You would expect the high return funds (left) to be more volatile than the bottom funds, consistent with risk / return, and they are. The numbers in parentheses show how several of these rated in volatility from 1995-99 on a list of forty-two type funds (1-42 with 1 being least risk). (Barron's 10 Jan 2000, Lipper Mutual Fund Quarterly.)

Type	10yr ann. %
Large-Cap Growth	19.44 (23)
Multi-Cap Growth	19.17
S&P 500 Index	17.68 (12)
Large Cap Value	14.91 (9)
Balanced	11.86 (3)
Income	11.02
Bond	7.57

Which funds to buy, how long to hold, how many to buy? Thinking about the portfolio theory charts in article 2 helps you develop a strategy. You are seeking appropriate risk / return, *and* diversity. For many, this will mean owning five to seven mutual funds and avoiding having more than twenty to twenty-five in any one fund. These are long-term investments, so you let time work for you. You don't change funds often and you don't need to own funds in the top ten- percent or the ones so heavily advertised as top in their category every year.

A reasonable goal is having all your funds in the top half most years. If one fund significantly under-performs the market for several years, you should consider switching unless it was bought as a "Value" in an-of-favor sector that you expect to recover soon. The sell decision is the hardest for us to make. We don't often sell winners, so the ones you need to sell are the ones where you have to accept a loss or

admit a mistake. Still, in investing, it is smarter to admit an error than compound it by continuing to sub optimize your portfolio.

How often to trade? SMI offers a spectrum from “Just the Basics” strategy with annual changes designed to equal “the market” and an “Upgrade” strategy with monthly advice and above market expectations. If you are doing your own study and making your own decisions, you need to be patient and focus long term. A more aggressive approach is regular weeding of the portfolio. An old Wall Street chestnut answers the question, “When to sell?” with “When you find a better investment.”

Another way to research mutual funds is through the many monthly financial magazines or their web sites. Most publish an annual performance report in February. Barron’s lists annual results on the second Monday in January and the Wall Street Journal during the first couple of publishing days of a new year. First you look up the funds you own and then look for funds recommended by multiple sources. If they fit your style and diversity requirements, a Morningstar or SMI search may be appropriate. I put together a spreadsheet with the funds which several of these magazines have recommended and compare about eight bits of data on each and then go to the Morningstar page. One warning. The covers of these magazines that advertise the “Top 10 Funds for Next Year” are advertisements designed to catch YOU.

Your research is very important and should be viewed within a larger frame of reference. Your goals are long term and so should your investment be. The market will always fluctuate and you want to be positioned to weather periods of downturn. Fidelity’s great fund manager, Peter Lynch, points out that many people have the head for investing, but not the stomach. We look back at the 1990s as a great up market, yet from July to October 1998, the NASDAQ fell twenty-nine percent while the S&P 500 and Dow dropped nineteen and seventeen percent respectfully. The year 2000 saw the NASDAQ fall fifty percent from an historic high in March to a point in early December. You don’t want all the eggs on that roller coaster basket.

Another risk is in believing advertising. There are hundreds of ways of classifying mutual funds and an infinite number of time periods. When a fund advertises it is number one, for a period, it mostly means within their parameters, they are number one. When a fund claims seventy-five percent one-year return, and 28.3% three-year return, it means one year in which their style or top holdings were in vogue and two years of five percent returns before that. Want to guess on performance for next year? Want to bet on it? I look at year to date, twelve-month and thirty-six-month periods for performance and consistency.

Is there a place for individual stocks? We have discussed mutual funds because that is the right place for most people. With stocks you are taking greater risk, you need more research and more constant supervision of the company, the industry and the economy. You *do* have more control and can minimize your tax liability since you control selling for capital gains. (Most mutual funds generate high turnover–average eighty percent a year–and by law must distribute gains to you–usually in December).

Diversity is harder to achieve with stocks, as you need sufficient assets to buy stock in eight to ten companies. Individual stocks are more volatile than mutual funds and with less diversity, any one stock slide can noticeably hurt your entire portfolio. You may not quickly pick up on the fall of one stock and you will probably hesitate selling until it is a loss, then you hate to admit it and sell. Mutual fund managers are supposed to do all this for you and may be able to anticipate changes in sectors of the market.

Still, a serious investor may find it advantageous to invest primarily in stocks. More common is a situation where an individual investing primarily in mutual funds, buys a few individual stocks. They may be of particular interest or in an area of personal expertise. If these stocks would constitute only a small percentage of one's total equity allocation, then you wouldn't worry so much about diversity. Either way, each investor should consider which type of investment best fits their level of expertise and time available for management.

One type mutual fund compensates for several common fund disadvantages. Index funds are not "managed" like other funds, where highly paid managers are backed by economists and hundreds of people doing company research. They simply buy a published index: no analysis and no stock picking. The Standard & Poor's 500 Index is the best known, containing the 500 largest American corporations accounting for eighty-five percent of the value of U.S. stocks. Index funds have low turnover, only exchanging stocks when the index changes, and thus are very tax efficient, average .19% in fund expenses vice 1.38% for the average fund, and require little research.

However, because they are not managed, they may underperform in a down economy, but the largest Index S&P 500 fund returned 17.68% (Barron's 10 Jan 2000) during the 1990s (18.21% with dividends reinvested) and 17.28% for the last three years (98-00). Many people consider a major index fund as a core holding around which other funds are selected for diversity and risk management. They are ideal for inclusion in long-term education and retirement accounts.

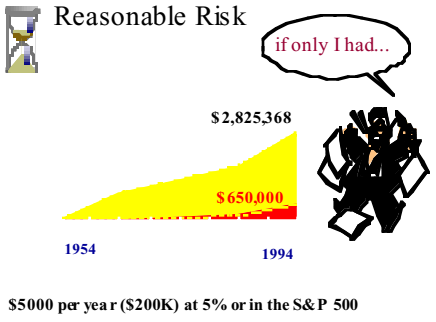
A balanced portfolio traditionally also includes bonds or similar term holdings. It is common for investment firms to publish recommended allocations based on expected market conditions. For example, sixty-percent equities, thirty-five percent bonds and five-percent cash. While bonds normally under perform equities, their greater predictability, guaranteed income and safety are considered an important balance to the risk and uncertainly of equities. During the last five years of the 90s, the Lehman Brothers Aggregate Bond index gained 6.5% annually vice the S&P 500's twenty-two percent return. The year 2000, however, is the exception which proves a point as the LBAB index returned 9.14% while the S&P 500 lost 10.1%.

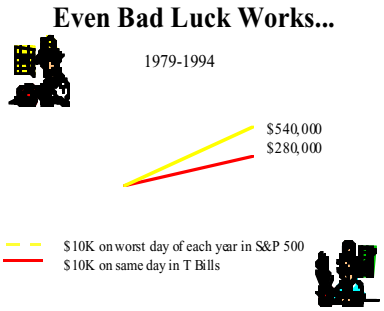
Investors can also choose from a large variety of risk and rates of returns from within the term investment community. Bonds carry risk and it is easy to identify. For any given term length, the higher the rate, the higher the risk. They range from hyper-safe U.S. Treasuries returning about six percent to High Yield bond funds (marketing term for junk bonds) paying up to thirteen percent.

Most bondholders should buy them within a bond fund for diversity and ease of management. Municipal bonds, with their tax-exempt status, may have a place in high-income portfolios. U.S. Savings Bonds have some college savings and tax deferral advantages, but generally weak rates of return. Most people I know with military type pensions (with annual COLA's) do not feel the need for allocating more than ten to fifteen percent to bonds, but it is a sound strategy for some. Remember; do not take more risk than you need.

Investing is a long-term proposition. The risks of trying to move in and out of the market are too high for the average investor. Quality balanced investment over time has long been the key to reasonable return at acceptable risk. Historic returns since 1926 are: Treasuries 3.7%, Bonds 6% and equities 11%. Time reduces the effects of

volatility so that any strategy other than long term, involves more risk.





The left chart shows the real risk over 40 years was in *not* being invested. The "safe" five percent returns on $5,000 per year returned only twenty-three percent of the S&P 500. Many people worry about when to invest, but *it is time not timing* that counts. The right chart shows that even if you picked the worst day to invest every year for twenty-five years, the S&P 500 returned forty-eight percent more. More recently, the difference between investing every year on the best or worst day was 22.1% vice 20.0% in the S&P 500 during 1989-1998.

A dated, but relevant, study showed that during 816 months between 1926-93, one dollar grew to $683, but if you missed the single best month, return dropped to $461. Take out the best forty-eight months (six percent of the time), return dropped to $6.83 *(Ibbotson & Associates)*. The only losers were on the sidelines. Long-term investors win over the long term, no redundancy intended.

Let's revisit our case study family and see what they consider appropriate for their goals. First, Captain Steward wants three months' pay available in easy access (liquid) money. But not wanting to sacrifice return, he checks the money market mutual funds (MMMF) listed regularly in financial newspapers or magazines and finds a major company fund with $1000 minimum investment that is paying 6.51% *(Dec 00 Kiplinger's Personal Finance)* vice a national average of six percent. He puts the $10,000 in *long-term* savings and will seek a higher return on the $200 per month he is adding to that fund.

Jan 01		Rate	Projected	Goal	Objective	
$10,000	322 per mo to 2015	8%	$68,677	$68,677	College	
$36,000	333 per mo to 2025	10%	$789,074	$829,800	Retirement	
$10,000	200 per mo to 2025	8%		$241,105	Long Term	
$0.00	136 + fogies and half of promotion to 2006	6%		$16,812	Short Term	

During the 90s, Growth mutual funds returned twenty to twenty-two percent, but since the Great Depression, the long-term average has been in the ten- to twelve-percent range. As his monthly deposits accrue he plans to invest in one Growth & Income fund and one Large Capitalization Growth fund. He may well exceed the eight-percent return so that at some point the average of these investments with the $10,000

at 6.5% will give him the desired eight percent, possibly more. He knows he can adjust as he goes: this is just a plan.

For his **Short-term** account he does not have the luxury of time to ease the risk, so he starts with another top-rated MMMF. As the account grows, he reviews different rates of return and selects among two- to three-year Certificates of Deposit yielding around seven percent. He stays away from equities because of the risk over any short period. If the fund outgrows his short-term needs, he starts adding new money to his long-term account for better returns.

College is his next concern. His plan calls for earning more than term investments are paying and given his time frame of fourteen years he decides to accept the risk and volatility of mutual funds. He will use a "One Source" *(Charles Schwab (C))* type account where he has a money market mutual fund and can buy a variety of no load mutual funds from different fund families. The money fund pays six percent while he decides on a couple of no-load–maybe Large Blend–Mutual funds that for the past ten years have returned an average of 13.4%. If he fell behind or expected cost went up, he would shift to more aggressive Growth funds.

His **Retirement** account will become his largest asset during the next thirty-two years; the length allowing him to let the dynamic of time reduce the risk of equity holdings. He starts with one S&P 500 index fund, one Large Cap Growth fund and one Mid Cap Growth fund. As assets grow he will consider adding to diversity with ten percent slices of an International fund or an aggressive growth or sector fund. There is no limit on this objective, so he can continue to add aggressive funds as he meets other objectives. But he never wants to risk goals already obtained so he can also adjust risk down as he nears the objective.

Nothing in this example is a rule. They are reasonable judgments for their situations. You can take more or less risk, you can spend 'too much" on college to the determent of all other areas. You can consume more today and sacrifice security and flexibility in the future. To the extent you have a disciplined savings habit and the more you understand the options, you will be able to shift investments and new cash flows to adjust to what your accounts have experienced, and changed needs. You decide to deviate, but it should be a decision, not a default, and it should be from a plan.

Finally, a brief comment on accounts and brokers. The evolution of the One Source type account by Charles Schwab in the early 80s practically solved the problem of having multiple accounts with different fund companies. If you buy mostly mutual funds, do your own research and want ease of management, one of these (different names from various companies) is ideal and also offers the advantage of allowing individual stock trades at discounts over full service brokers.

The full service broker offers investment advice and a number of valuable services, which might make sense in accounts over $300-400K. The biggest challenge is finding an individual account executive you are comfortable with and who will meet your needs. Personal referral is a good way to find one. Do you need full service? You either need to develop the expertise requisite for individual stock investment and spend the time on personal management, or pay someone to do it. With funds, most of us do not need brokers.

There are other options in the form of advisor/investment/insurance firms. Many people have benefited from early involvement with these sales representatives since they started investing earlier than they might otherwise have: they were doing something rather than nothing. With discipline and a little study you can avoid the high

charges and loads, and be the ones deciding what is the best investment for your family (a popular high-load contract fund pushed by one of these firms is Fidelity Destiny I which for a three-year period ending 9/30/2000 returned fifty percent of the S&P 500 for ninety percent of it's risk). Still, if you are comfortable with their cost/performance ratio and do not want to spend personal time on management, they may be the answer for you.

This has been the briefest introduction to only a few of the hundreds of type investments. I refer you to more study at almost every investment firm website and then more research–starting with what you now own. Also determine what your asset allocation is and decide if it is what is right for your situation and plan. If you are out of balance, gradual change is usually prudent, carefully assessing tax liability (add new money to under-funded areas). Once you are prepared, implement your plan. Today is the best day to invest that you will ever see. It is better than tomorrow, but not as good as yesterday.

"For we are God's workmanship, created in Christ Jesus to do good works, which God prepared in advance for us to do" (Eph. 2:10). We honor him with our investments if our motives are His work. "Dishonest money dwindles away, but he who gathers money little by little makes it grow" (Prov. 13:11). Scripture often counsels patience and it is true in investments. Merrill Lynch reminds us it is difficult to grow rich quickly, so plan to grow rich slowly. Proverbs 10:22 tells us it is the blessings of the Lord that makes rich...and 1 Timothy 6:7 tells us we can take nothing from this world. Success in investing may be measured in dollars, but we will be judged as stewards, by how we share and use His assets. The final article addresses how to live as good stewards.

Footnotes:

Sound Mind Investing (SMI). Austin Pryor Error! Bookmark not defined.
or 877-736-3764.

Morningstar: Error! Bookmark not defined. 312-696-6100 (no direct quotations or copied charts, but I refer to them a lot.)

Barron's Dow Jones & Company Inc. Error! Bookmark not defined. 212-416-2700.

(Ibbotson & Associates)

Kiplinger's Personal Finance. The Kiplinger Washington Editors Inc. 202-887-6400

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A Christian View of Personal Finance

by

Col. Ray E. Porter III, USA (Ret.)

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Smart Christian Giving

"At the present time your plenty will supply what they need, so that in turn their plenty will supply what you need. Then there will be equality . . ." (2 Cor. 8:14). If you add to that idea the attitude of early Christians as Paul tells us in Acts 2:45 "Selling their possessions and goods, they gave to anyone as he had need. . . ." it is fairly clear that not only were they filled with the spirit and love, but that they knew the impact of their giving.

Romans 12:6 tells us "We have different gifts, according to the grace given us. . . ." and then identifies giving as a spiritual gift challenging us in verse 8, ". . . if it is contributing to the needs of others, let him give generously . . ." In many familiar verses we are told of our duty to the poor, brothers and sisters without clothes, those in need and are warned in 1 John 3:17, "If anyone has material possessions and sees his brother in need but has no pity on him, how can the love of God be in him?"

Being a good steward starts with multiplying His blessings, but the fruit is in how we then use these blessings. In my own mind I keep going back to thinking management, not ownership. It is all His. Are we to give a certain amount and consider the rest as ours? I think not. He expects us to use what we need then multiply and return the rest. The blessings of stewardship are in the giving. Knowing when and how to do it is our responsibility.

Having served on a number of Christian boards and being involved in fund raising, I am struck by several things. I have seen sacrificial giving and I have seen large donations, I have seen faith in His provision confirmed and I have seen a few people prime the pump and multiply the impact of their gifts to do great things. I recall what Jesus did in Matthew 17:27 when he told Peter, ". . . go to the lake and throw out your line. Take the first fish you catch . . ." We are to be proactive; to work. It is through his gifts of abilities that he provides for the body. Of course the fish contained a "starter" with which to pay a tax.

I also see situations where churches and organizations with relatively affluent members are struggling, where the people do not have the vision or heart for giving. Ron Blue explains in *Generous Living* that Christians don't give because they don't plan, don't know how, have a limited relationship, have limited vision, or financial or spiritual problems. He goes on in this great little book about "finding contentment through giving" to explain we should give to acknowledge God's ownership and our trust, not as a reflection of our wealth, but of our relationship with God.

From Ron Blue's list, the "didn't know how" phrase really struck me, but as I have studied giving I have come to see the need to help the faithful better understand the dynamic of giving. This article will mostly address the "how to's," but along with technique, many of us have to deal with how dependent on material things our lives have become and how much of His goods we consume. We need to answer, "How much is enough?" to be free to give the rest away.

How do we give?

- We give regularly through tithes and periodically through gifts.
- We give to churches, missions, Christian organizations, public charity / institutions, and directly to those in need.
- We are prompted to give by obligation (weekly collection plate), by conviction (for a friend in missions or to para church organizations in which we believe) and by heart (when we see those in greater need than ourselves).

What are the techniques of giving?

- Giving, like savings, needs to be regular and it belongs in the budget. Your church and other Christian organizations need to "pay the light bill" with dependable monthly income. This is a good use of the tithe and consistent with 1 Corinthians 16:2 which tells us "On the first day of every week, each one of you should set aside a sum of money in keeping with his income . . ."
- Gifts above the tithe can also go to general funds, but gifts can also be directed to projects for which you have a heart or where you can make a difference. Large gifts are best used for large projects which might never happen with many small gifts.

We should never limit anyone's heart for giving. I was once asked for suggestions by a friend who wanted to tithe from an inheritance. I provided a list of $5,000 and $10,000 projects and at the last moment felt led to add a major $40,000 project. The friend in turn was led to fund the project for $40,000, and another for $10,000. Wow! I could have limited their vision, but the Lord knew their heart and blessed that situation.

Knowing how is not just a matter of signing a check or opening a wallet. Beyond that, it is a matter of giving so we can maximize both our ability to give and the size of our gifts. There are smart techniques for regular giving and for special estate or "planned" giving.

Regular giving is best accomplished by allotment or bank transfers. It happens and you know it will happen next month and that may help keep the discipline of your budget. Those regular amounts mean a great deal to every ministry I know and when you have extra, you can still make special gifts.

All gifts of cash or equities to IRS approved charities are tax deductible for those who itemize deductions. These deductible gifts can include your travel and expenses of your volunteer work, on boards and council duties, at places like White Sulphur Springs and Spring Canyon. Deductions are smart for they make better use of His gifts and let us give more.

If your tithe and gifts do not meet the threshold for taking the standard deduction (usually means you don't have another large deduction like mortgage interest and real estate taxes), you could seek techniques to qualify yourself. If you shift gifts from two years into one, justifying an itemized deduction larger than the standard one year and take the standard on the alternate year, you have been a good steward. You might be able to use this technique if you have partial year ownership of a house that gives you a head start on itemizing.

Giving appreciated property such as stock or mutual funds is a smart gift which the government will subsidize. You paid $4000 for a stock now worth $7000. You give

the stock to OCF, which sells it and gives you credit for $7000. You avoid long term capital gains tax of $600, you get a bigger deduction than selling the stock and gifting the remaining $6400. Since OCF is exempt from capital gains, it is never paid. This technique becomes increasingly valuable as tax brackets rise. Always capitalize on "government subsidies."

Giving as part of estate planning is an area of huge potential, but most of us do not see the opportunity or need. Many people in Austin Pryor's "Protecting and Transitioning Phase" have assets well beyond their needs or beyond what is smart to leave to heirs (Dr. James Dobson has spoken with keen understanding on this subject.) These people may also face estate taxes of between thirty-seven and fifty-five percent and may become involved in many complex trust and distribution plans to avoid these taxes.

Something many of us will be able to do is to tithe and gift from inheritance we receive. The WW II generation is in the processing of passing on the largest shift in generational wealth in history. They grew up in the depression, learning frugality and hard work and they are being faithful to the pattern of their lives: they are still taking care of succeeding generations. The Boomer and following generations will receive far more than they need and a tremendous opportunity to gift large sums to special projects. Can you think of any? Pray for guidance on where "your" inheritance should go.

Planning ahead gives them many options. You may gift to charity paid-up insurance you no longer need. You can make large gifts every year, and you can set up trust to transfer assets at times that make sense and garner for you the most in tax deductions and savings. You can contribute to Caesar or the church.

OCF is named the beneficiary of a Charitable Remainder Trust (CRT) named the Joshua Trust. A retired military officer realized that he no longer made good use of a vacation property that had appreciated to $460,000. He placed it in a CRT which sold the property and invested the money. A brokerage trust department will manage it for ten years and then pay the "remainder" to OCF. This family will receive five percent payments ($23,000) (about fifty percent tax free) for ten years and reap just under $300K in tax deductions spread over five years. With reasonable management by the broker, the "remainder" could be a million dollars–all from an after tax "cost" to the donor of about $37K–depending on tax bracket and state. That is good stewardship!!

How many people could do this? Probably enough that the "remainders" paid over random years would provide OCF with annual supplements to allow it to do strategic things. Is this a good use of His blessings? Do we need a new hotel at White Sulphur Springs or to build Veterans Memorial Lodge at Spring Canyon? Will such gifts further His work more than our possession of property we do not *need*? Many people do not realize that they can "afford" to do such things. The question I am asked most often by people in this phase is, "How much is enough?"

While the answer is individual, many people have much more than enough, especially if they believe He said, ". . . Never will I leave you; never will I forsake you" (Heb. 13:5). Interestingly, the start of verse 5 says, "Keep your lives free from the love of money . . ." Our security rests with the Lord. The answer has something to do with how much we need.

The financial security we want to assure our families is largely dependent on a steady flow of income and insurance for health and to replace lost income. Our retired pay is continued by SBP and SS supplemented with insurance. Most of us do not rely on large assets such as second homes, land holdings or large stock portfolios. We may

have them, but they do not and cannot provide our ultimate security. How much is enough is a matter of heart, but the real question is how much of His property do you need vice what would be better used in His service.

We also give through what is euphemistically called planned giving. Or, "We want your money when you are gone." You have probably heard from your university and maybe your civilian church with such opportunities. We chuckle or sneer, but it is a very sound concept. Many of us in the latter phase want to educate grandchildren and help the next generation with major purchases or expenses, but many Christians, myself included, believe we shouldn't leave them large sums of money. There are simply better uses of His blessings.

The many complexities of estate planning are solved if we keep our estate below limits by gifting or by giving to charity through the wills of the "second to die" among couples. At the death of the first to die, there is no estate tax to a spouse, but if you have not established a family trust or gifts to charity, the tax when the second partner dies can be huge. You can give it to the government or determine what works would benefit from your excess blessings. Remember, Jesus said to render to Caesar that which is Caesar's, but he didn't suggest that we give more than is demanded.

Dr. Charles Ryrie, writing the feature article in *Sound Mind Investing,* July 2000, uses 1 Timothy, chapter 6, verse 6 to share his views on money and the love of God. ". . . godliness with contentment is great gain." It is the basic necessity of Christian life. No matter what else we have it is without foundation without godliness. "I know what it is to be in need, and I know what it is to have plenty. I have learned the secret of being content in any and every situation . . ." (Phil. 4:12). "Content means learning to love the will of God" says Dr. Ryrie, then, he adds, the first great principle for guiding the believer "through the maze of the abundant life" is "In want, content, and in plenty, content." Dr. Ryrie continues to point out that attitude not money can be evil. God gives us all things to enjoy, but, "the world's system leaves God out." He interprets that worldly logic saying, "it is a good deal or it is on sale" does not mean that a purchase is in God's will. "When prosperity comes...the spiritual Christian will use it to give more (proportionally) not necessarily to buy more."

Paul continues in 1 Timothy, chapter 6, verses 17-19 with, "Command those who are rich in this present world not to be arrogant nor to put their hope in wealth, which is so uncertain, but to put their hope in God, who richly provides us with everything for our enjoyment. Command them to do good, to be rich in good deeds, to be generous and willing to share. In this way they will lay up treasure for themselves as a firm foundation for the coming age, so that they may take hold of the life that is truly life.

What more can I say?

Footnotes:

Generous Living, Ron Blue

"Money and the Love of God," Dr. Charles Ryrie, feature article in *Sound Mind Investing,* July 2000

References & Links

For detailed information written by Colonel Ray Porter, on personal and family finance with a Christian perspective, please see the following:

Stewardship for Us (Chapter 1)
The Science and Art of Personal Finance (Chapter 2)
Family Financial Plan (Chapter 3)
Phases of Planning and Portfolio Theory (Chapter 4)
Investing and Markets (Chapter 5)
Smart Christian Giving (Chapter 6)

Quick Links

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Budgeting: www.soundmindinvesting.com subscription—articles and hints
www.cfcministry.org simple tools with norms for expenses
www.crosswalk.com comprehensive planning tools (join free)
www.kiplinger.com detailed planner under its "Tool" tab.

Financial Planning (insurance, college, retirement, home purchase...)
www.crosswalk.com or www.kiplinger.com for easy tools: you answer questions or plug in numbers.

Mutual Funds:
www.morningstar.com most comprehensive (free and subscription)
www.soundmindinvesting.com focuses your fund selection process, recommends funds for phases of life. Subscription. Excellent Christian source.

Education: www.usaaedfoundation.org has excellent pamphlets free to members..