Lesson 8: Investing Basics—Matthew 25:14-27

Introduction: Economists report that the savings rate is at an all time low for American families: -2%. This dangerous trend indicates that rather than save for their futures, Americans are *mortgaging* their futures with excessive debt. With over 700 references to money, the Bible clearly teaches the importance of saving and investing.

I. Is investing the same as gambling?—NO!

A. Investing involves the purchase of real assets. Gambling involves the purchase of something inherently worthless in the hope that chance will make it valuable (lottery tickets). By that definition, some highly speculative "investments" are, in reality, gambling.

B. Both investing and gambling involve risk, but investing is not solely about risk and chance. Everything in life involves risk, but not everything is based solely upon risk and chance. (It is risky to drive a car; it is complete risk and chance to drive without breaks.)

C. The purchase of appreciable assets (assets that could increase in value) and the lending of money at interest are both acceptable, Biblical methods of wealth building.

II. What is the history of investment concepts?

A. For many centuries, civilization viewed money as sterile—unable to multiply itself. Aristotle (400 B.C.) taught that money should be unproductive, and Thomas Aquinas influenced the Catholic Church to adopt the view. (Aquinas sought to harmonize Catholicism with Aristotle's teachings.) Hence, for centuries the Roman Church taught that all interest charges on borrowed money were sinful usury.

B. Led by John Calvin, the Reformers adopted a Biblical view of money. They taught the people that money could produce itself through reasonable interest charges on loans. All such charges should be governed by the Golden Rule. Thus, the Protestant Reformers helped to lay the groundwork for capitalistic investment.

C. Thrift and careful saving and investment, coupled with the Protestant Work Ethic, dramatically increased prosperity in many European countries and the middle class was born.

III. What are some basic principles of investing?

A. Begin by saving.
   1. Former generations of Americans lived by the precept of saving at least 10% of their incomes. They often referred to this practice as “Pay yourself first.”
   2. Initially, savings should be part of the emergency fund. Once that is sufficiently funded ($1,000), additional savings can go to investments.

B. Develop an investment plan.
   1. Retirement—some money should be set aside in long-term investments for retirement. You should use a retirement investment vehicle such as a 401K or Roth IRA. If your employer matches retirement funds, always save the maximum allowable under the plan.
   2. College—speak to a good CPA about various choices for college savings. Many plans come with significant tax advantages.
   3. Savings as investment—invest your savings (over and above the emergency fund) in order to maximize the return on your money over time.

C. Beware of investment brokers, fund managers, and financial planning experts!
   1. Remember, the so-called “experts” are *primarily* salesmen. They are selling financial products from which they draw hefty commissions. They are in the business primarily to make money—not to help you.
   2. Think about this: “The economists arrived at a devastating conclusion: It seemed just as plausible to attribute the success of top traders to sheer luck, rather than skill.” (PBS *Nova* special “The Trillion-Dollar Bet,” Feb. 8, 2000—quoted in *The Smartest Investment Book You’ll Ever Read*, p. 45)
   3. Hyper-active brokers make money whenever they convince you to purchase an investment. If you sell one asset and purchase another at your broker’s recommendation, rest assured that he will make a nice commission *directly from you.*
   4. *No one can predict the market. No one can predict returns on individual investments. The more your broker thinks of his prophetic abilities, the less you should trust him.*
   5. Pastor Monte fired his broker (investment salesman) over a year ago and has managed his own accounts since that time. You may want to consider doing the same.

D. Do it yourself!
   1. Learn the basics of investing. *Investing for Dummies* and *The Smartest Investment Book You’ll Ever Read* are good books for beginners.
   2. Open an account with an online brokerage firm:

Example: Scottrade® (Online Brokerage Company)

1. Go to their website and download applicable forms.
2. Open a trading account with as little as $500.00 by bringing the completed forms and a check to Scottrade®, located on Meridian Street downtown—just off the circle.
3. Purchases of individual stocks may be made online and cost $7.00 per transaction. Mutual funds cost a little more ($17.00).
4. Familiarize yourself with research tools and the trading platform. Become comfortable with it before you purchase investments. Be sure to use their online training tools.
5. Remember, you can open several accounts: IRAs; investment accounts, etc.

E. Build a diversified portfolio—especially for retirement investing.
   1. Diversification means you don't put all your eggs into one basket—either one individual stock (such as Conseco) or one financial sector (only investing in stocks; only investing in bonds, etc.).
   2. Use mutual funds to diversify and secure your investment money. Mutual funds carry less risk than individual stocks.
   3. Consider using index mutual funds. These funds have very low operating expenses, seek market returns, and invest automatically via computer in a wide spectrum of the market. Funds are available in both the stock and bond markets.

Example: Index Mutual Funds You May Want to Consider

VANGUARD: Total Stock Market Index Fund (VTSMX); Total International Stock Index Fund (VGTSX); Total Bond Market Index Fund (VBMFX).

FIDELITY: Fidelity Spartan Total Market Index Fund (FSTMX); International and Bond markets available under similar names.

T. ROWE PRICE: T. Rowe Price Extended Equity Market Index (PEXMX); T.R.P. International Equity Index (PIEQX); T.R.P. US Bond Index (PBDIX)

Good Idea: Consider using a fund that balances its asset allocation according to your target retirement date. That way you won't have to rebalance your portfolio should the asset allocation change. **Vanguard** and **Fidelity** carry such products. (**Vanguard's** funds are called the "Vanguard Target Retirement Funds.")