Investment Guide—Part 2:
"I'm Willing To Dig A Little Deeper"

You're picking up steam! Either you've already demolished the "Quick & Easy" guide, or you decided to jump right in and dig deeper, either way I'm proud of you for taking the time to learn this subject further.

Starting Line

You're ready to start investing! Or wait, are you?

There are **seven major steps** on your financial journey and investing isn't till number 4, let's make sure you've got the first three in place.

Step 1

- **Tithe**—Putting God first in your finances is the only way to blessing.
  - Malachi 3:10-12
- **Set Up A Budget**—If you're going to manage God's money, you better **have a plan**.
  - 1 Corinthians 3:13-15
- **$1,000 Emergency Fund**—Scrape together emergency savings asap!
  - Proverbs 21:20

Step 2

- **Pray For Ways To Be Generous**—We are blessed to be a blessing.
  - 2 Corinthians 8:1-7
- **Create A Debt Snowball**—See Resource entitled "Debt Snowball Intro."
  - Proverbs 22:7
- **Pay Off All Debt**—Find ways to aggressively cut lifestyle!

Step 3

- **3–6 Months Of Emergency Expense**—Time to increase savings.
  - Genesis 41:34-36
- **Save 20% Down Payment For A House**—If you want a house, save for it!
  - Proverbs 24:3-6

Step 4

- **Invest 15% Of Gross Income—**Only invest in things you understand.
  - Ecclesiastes 11:2
- **List Everything God Has Put Under Your Management** – Give Generously.
  - Deuteronomy 8:18
- **Create A Strategic Giving Plan** – Ask God for a big vision to fulfill.
  - Proverbs 11:24-25

So, before you invest, have a budget, knock out those high interest debts, and build a 3-6 month emergency fund, you want the emergency fund in place before you invest so that you don't fall back into debt and have to take money from your retirement accounts (there are tax penalties for taking retirement money out before age 59½).

STEWARDSHIP
MINSITRIES

Investment Types

Stocks

- Owning a piece of a company.
- Company grows, your stock grows, and you can sell it for more than you bought it for.
- Company crashes, your ownership of the company is worth less than you bought it for.
- Stocks are great, but it's important to "diversify" by owning lots of different stocks (like more than 100), so that when some stocks go down, there are others going up, and you don't lose all your money at one time.
- Over the past 100 years or so the stock market has averaged 9-11%.

Bonds

- Instead of owning a piece of a company, you lend money to the company.
- Bonds is a fancy way of saying "I Owe You", you are giving money to a corporation, government, or project, and they are now in "bondage" to you, they owe you money back.
- Bonds pay a "fixed" interest rate, meaning the interest rate doesn't change.
- If a company goes bankrupt, they have to pay the bondholders first, then the stockholders, so sometimes bonds are considered a safer investment.
- Over the past 100 years or so the bond market has averaged 5–6.

Mutual Funds

- Thousands of investors mutually put their money into a fund, there is a professional fund manager who takes millions of dollars and buys several types of investments.
- The fund typically buys 100+ different stocks or bonds so that when one stock is down it doesn't hurt the whole investment because other stocks will hopefully be up.

Index Funds

- Similar to the mutual fund, but instead of being managed by a person, typically run by a computer just pulling from a list "index".
- These are cheap, great places to invest.
- Most popular is the S&P 500, which own tiny pieces of the 500 Largest Companies in America.
    - Owning the largest companies in America is a suitable place to have your money, over the years they go up in value, and your investment goes up in value.
- Sample Index Funds:
    - Vanguard Total Stock Market
    - Schwab Total Stock Market
    - Fidelity S&P 500 Index Fund

Time Matters

In this guide the investment philosophy is for long-term investors, typically planning for retirement, who will invest and not touch the money for more than 10 years.

Why ten years?

In any one year period the general stock market goes up and down, sometimes way up, and sometimes way down. In a ten-year period the ups and downs smooth out to where the stock market is up ≈95% of the time. When you get to 20 years of investing the stock market has 100% been up, when investing in the general market (index funds like S&P 500 or Dow Jones)

Recap

Invest for 1 year in stocks = too risky
Invest for 5 years in stocks = small risk

STEWARDSHIP
MINSITRIES

Invest for 10 years in stocks = very low risk
Invest for 20 years in stocks = Historically an average 9–11% rate of return

Once you have this perspective that you'll be in this for the long haul, you can feel very comfortable being in the stock market over long periods of time.

Time Matters - Part 2

I'm going to share a timeless investment chart, this has been shared for over 30 years by thousands of investment professionals in different forms, but I'm going to use Dave Ramsey's chart and example of twin brothers Ben & Arthur because it is very clean to look at.

Ben starts investing $2,000 a year at age 19, then stops at age 27.
Arthur starts investing $2,000 a year at age 27, but never stops.
Who did better? Assuming they both average 12% returns?

AGE	BEN INVESTS:		ARTHUR INVESTS:	
19	2,000	2,240	0	0
20	2,000	4,749	0	0
21	2,000	7,558	0	0
22	2,000	10,706	0	0
23	2,000	14,230	0	0
24	2,000	18,178	0	0
25	2,000	22,599	0	0
26	2,000	27,551	0	0
27	0	30,857	2,000	2,240
28	0	34,560	2,000	4,749
29	0	38,708	2,000	7,558
30	0	43,352	2,000	10,706
31	0	48,554	2,000	14,230
32	0	54,381	2,000	18,178
33	0	60,907	2,000	22,599
34	0	68,216	2,000	27,551
35	0	76,802	2,000	33,097
36	0	85,570	2,000	39,309
37	0	95,383	2,000	46,266
38	0	107,339	2,000	54,058
39	0	120,220	2,000	62,785
40	0	134,646	2,000	72,559
41	0	150,804	2,000	83,506
42	0	168,900	2,000	95,767
43	0	189,168	2,000	109,499
44	0	211,869	2,000	124,879
45	0	237,293	2,000	142,104
46	0	265,768	2,000	161,396
47	0	297,660	2,000	183,004
48	0	333,379	2,000	207,204
49	0	373,385	2,000	234,308
50	0	418,191	2,000	264,665
51	0	468,374	2,000	298,665
52	0	524,579	2,000	336,745
53	0	587,528	2,000	379,394
54	0	658,032	2,000	427,161
55	0	736,995	2,000	480,660
56	0	825,435	2,000	540,579
57	0	924,487	2,000	607,688
58	0	1,035,425	2,000	682,851
59	0	1,159,676	2,000	767,033
60	0	1,298,837	2,000	861,317
61	0	1,454,698	2,000	966,915
62	0	1,629,261	2,000	1,085,185
63	0	1,824,773	2,000	1,217,647
64	0	2,043,746	2,000	1,366,005
65	0	$2,288,996	2,000	$1,532,166

Starting earlier matters, Ben only put in $16,000 total, while Arthur put in $78,000, but Arthur never catches up to his brother. Make sure you understand this chart before you move on!!!

What Should I Choose?

The Case For Mutual Funds

- Run by a professional manager and team of analysts.
- Have the cheapest access to stocks and bonds because they buy in bulk.
- Typically made up of over 100 stocks, they have built in diversity.
- There are many well established mutual funds with great track records for investing.

STEWARDSHIP
MINSITRIES

The Simple Mix

25% Large Cap Growth
25% Large Cap Value
25% Small Cap
25% International

Terminology

Large Cap = Companies worth over $10 Billion
-Growth = Companies focused on growing
-Value = Companies believed to be undervalued
Mid--Cap = Companies worth $2Billion–$10Billion
Small Cap = Companies worth $300Million–$2Billion

Criteria For Choosing A Mutual Fund

- 10 year track record (check the "inception date")
  - Has the fund proven high returns for more than a decade?
- 9-11% average rate of return
- Competitive Fees
  - Inside an employer plan you might not have options, but if you have an IRA outside your employer, you can role your IRA to a less expensive provider.
  - 1% Gross Fee is typical for mutual funds.
    - 1.5% is high.
    - 1.0% is typical, but if you search can find lower.
    - 0.5% or less is low.
- Fund holds more than 90+ different stocks.
  - Some mutual funds hold hundreds of stocks (diverse).
  - Be careful with mutual funds that are all based on similar types of companies, some funds invest in all energy companies, or all medical companies, but if government changes regulations in those industries, it could affect all those companies, so look for funds that have a wide variety of companies.

How Do I Find This?

Start by opening an investment account, you can do this in two places:

1) Your employer (if they offer it)
   a. Types
      i. Corporations = 401k
      ii. Nonprofits = 403b
      iii. Government Entities = 457 or Thrift Savings Plan
   b. Benefits of employer plans
      i. Many employers match your savings.
      ii. You can easily set up automatic deductions.
      iii. Instant tax benefits to setting up these plans.

2) Independent Brokerages
   a. Places to look first.
      i. Vanguard.com (known for lowest fees)
      ii. Schwab.com (huge selection of investments)
      iii. Fidelity.com (huge selection of investments)
      iv. TRowePrice.com (large selection of investments)

Opening an account can be done by rolling over retirement savings from a previous employer, rolling money over from another brokerage, or opening a brand new **"Individual Retirement Arrangement"** (IRA), and funding it with new money that you are saving each month.

Which Account Should I Open?

When you open a new account, you can choose from:

1) Traditional IRA
    a. Money you put can be deducted from your taxes.
    b. Money grows in the investment "tax free."
    c. Pay taxes on the money when you take it out.
2) Roth IRA
    a. Pay taxes on money before you put it in.
    b. Money grows in the investment "tax free."
    c. Money can be taken out in retirement without paying taxes!
3) Brokerage Account
    a. Money doesn't have the tax benefits of retirement accounts.
    b. This would only be done if you were maxing out your retirement options.

This chart further breaks down the differences of Traditional IRA vs Roth IRA (https://www.investopedia.com/retirement/roth-vs-traditional-ira-which-is-right-for-you/).

Where Do I See The Mutual Fund Options?

Before opening an account with a certain company, you can see which mutual funds they offer, by "Google searching" their name and the word Mutual Funds.

Example
Vanguard Mutual Funds

Fidelity Mutual Funds

Schwab Mutual Funds

You can also play around on these companies' websites to see what other types of funds they offer, but since you're still in the intermediate stage, readying the "Dig Deeper" guide, I recommend you stick to professionally managed, low fee, long-term mutual funds with a 9-11% rate of return since their inception.

Learn More!!

So far, you've invested time reading about Target Date Funds in the "Quick & Easy" guide, you've "Dug Deeper" into Mutual Funds and how to find them online, now it's time for you to maximize your potential by saying this phrase out loud, "I Must Know More!" and reading the final guide in this investing study.

STEWARDSHIP
MINSITRIES