

Week 7 – Investing / Saving for Retirement

- Proverbs 28:20 - A faithful man will abound in blessings, but he who hastens to be rich will not go unpunished
- Ecclesiastes 11:2 - Give a portion to seven, and also to eight; for thou knowest not what evil shall be upon the earth.

Steps to Financial Freedom

- 1. Emergency Fund- \$1000**
- 2. Eliminate Debt**
- 3. Increase Emergency Fund
(3-6 month's living expenses)**
- 4. Start Investing for your Retirement**
- 5. Start Investing to help pay for College**
- 6. Pay off Mortgage Early**
- 7. Financial Freedom & Giving Opportunities**

Teaching your Children Finances - Review

- Be an Example
- Be Consistent
- Teach them the value of work
- Work in their strengths
- Teach the consequences of their actions
- It's not too late
- ESA – Education Savings Account
- Student Loans / Student Loan Bubble

Investing - “OCTOBER: This is one of the peculiarly dangerous months to speculate in stocks in. The other are July, January, September, April, November, May, March, June, December, August, and February.” – Mark Twain

- **KISS Principle – Keep It _____ SIMPLE _____**
- **Never invest if you don't _UNDERSTAND_ it**
 - “Risk comes from not knowing what you are doing”
– Warren Buffet
- **Never Invest _BORROWED_ money**
- **Never invest simply for ___TAX___ breaks**

Investing - “Don’t put your all your eggs in one basket”

Diversification - in finance is a risk management technique, that mixes a wide variety of investments within a portfolio. It is the spreading out of investments to reduce risks. Because the fluctuations of a single security have less impact on a diverse portfolio, diversification minimizes the risk from any one investment

Ecclesiastes 11:2 - Give a portion to seven, and also to eight; for thou knowest not what evil shall be upon the earth.

High the _____ Risk _____, Higher Reward – Lower the Risk, Lower the _____ Reward _____

The Power of Diversification

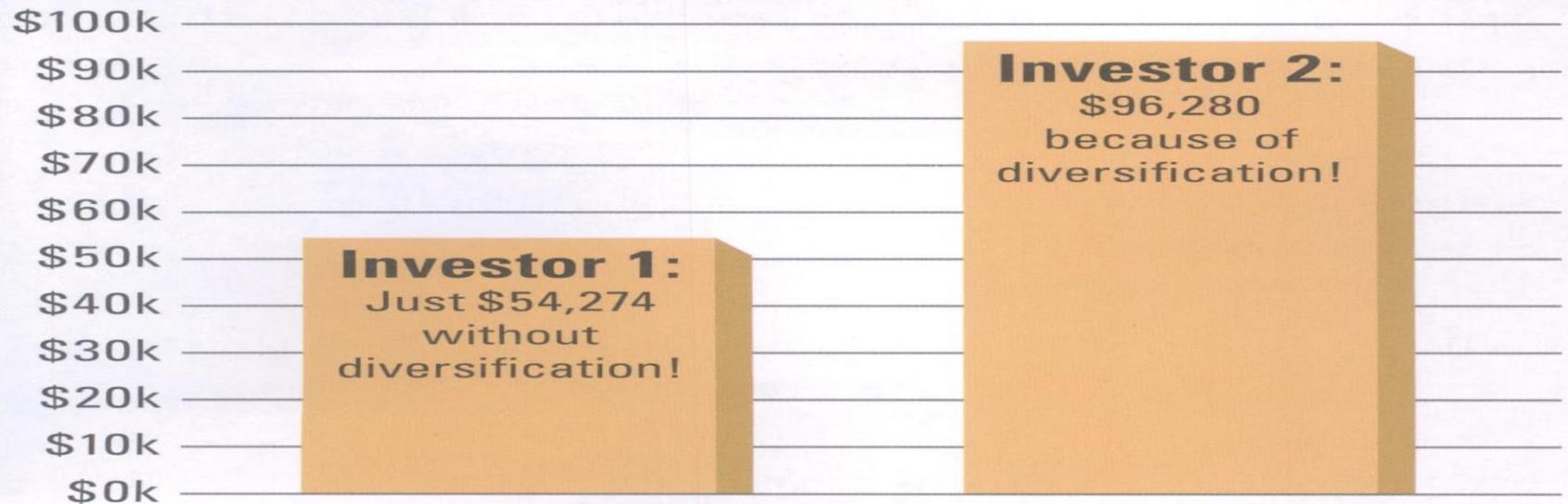
Investor 1

- Invest \$10,000 for 25 years at 7% (compounded annually)

Investor 2

- Invest \$2,000 and lose it all
- Invest \$2,000 under your mattress
- Invest \$2,000 at 5% return
- Invest \$2,000 at 10% return
- Invest \$2,000 at 15% return

Invest \$10,000 and leave it alone for 25 years...



A difference of over \$42,000!

Wise Counsel

- Proverbs 15:22 Without counsel purposes are disappointed: but in the multitude of counsellors they are established.
- Proverbs 12:15 - ¹⁵ The way of a fool is right in his own eyes: but he that hearkeneth unto counsel is wise.
- Proverbs 24:6 - ⁶ For by wise counsel thou shalt make thy war: and in multitude of counsellors there is safety.

Types of Investment

■ Money Market

- CD – Certificate of Deposit – set rate, and you can't withdraw it
- Money Market Mutual Fund – great for emergency funds, low risk, little better return

■ Single Stock

- High Risk
- Part **__OWNER__**
- Gain and loose value based on the companies performance and dividends, outside factors

Types of Investment - “Behold the turtle, he only makes progress when he sticks his neck out”

■ Bonds

- LOAN to company
- Interest rates tend to be the opposite of bond rates

■ Mutual Funds

- POOL money together
- Professionals are managing your money, fee involved
- Good LONG term investments
- During any 5 year period, 97% made money
- During any 10 year period, 100% made money
- Open & Closed & EFT

Types of Investments

■ Real Estate

- Less Liquid
- You need to have enough available cash to **__BUY__** in cash
- At the mercy of the housing market

■ Annuities

- Savings account through **__INSURANCE__** company
- Fixed, low interest rate

Investments - “There are two times in a man's life when he should not speculate: when he can't afford it and when he can.” – Mark Twain

■ **Investment that can be Money Pits**

- Gold
- Commodities & Futures
- **__DAY__** Trading – 88% of the people loose money
- Proverbs 13:11 Wealth gotten by vanity shall be diminished: but he that gathereth by labour shall increase.

Things to Ponder

- **Build wealth slowly over time – think tortoise and the hare**
- **How does debt & start date affect your ability to invest?**

Dow Jones Industrial Avg 10 yr

17,528.27 -23.90 (-0.14%) Dow Jones - As of 4:33PM EST

Get the app

36.78

+ Indicator + Comparison 1d 5d 1m 3m 6m YTD 1y 2y 5y **10y** Max Linear Go To Symbol



Year	S&P 500 Total Return	Annualized Returns (1926-present)	5-year Annualized Returns	10-year Annualized Returns	15-year Annualized Returns	20-year Annualized Returns	25-year Annualized Returns
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<http://financeandinvestments.blogspot.com/>

1995	37.58%	10.55%	16.59%	14.88%	14.81%	14.60%	12.22%
1996	22.96%	10.71%	15.22%	15.29%	16.80%	14.56%	12.55%
1997	33.36%	11.00%	20.27%	18.05%	17.52%	16.65%	13.07%
1998	28.58%	11.22%	24.06%	19.21%	17.90%	17.75%	14.94%
1999	21.04%	11.35%	28.56%	18.21%	18.92%	17.88%	17.25%
2000	-9.11%	11.05%	18.33%	17.46%	16.02%	15.68%	15.33%
2001	-11.89%	10.71%	10.70%	12.93%	13.74%	15.24%	13.77%
2002	-22.10%	10.21%	-0.59%	9.34%	11.48%	12.71%	12.98%
2003	28.68%	10.43%	-0.57%	11.06%	12.21%	12.98%	13.84%
2004	10.88%	10.43%	-2.30%	12.07%	10.93%	13.22%	13.54%
2005	4.91%	10.36%	0.54%	9.07%	11.52%	11.94%	12.48%
2006	15.79%	10.43%	6.19%	8.42%	10.64%	11.80%	13.37%
2007	5.49%	10.36%	12.83%	5.91%	10.49%	11.81%	12.73%
2008	-37.00%	9.62%	-2.19%	-1.39%	6.46%	8.42%	9.77%
2009	26.46%	9.81%	0.41%	-0.95%	8.04%	8.21%	10.54%
2010	15.06%	9.87%	2.29%	1.41%	6.76%	9.14%	9.94%
2011	2.11%	9.77%	-0.25%	2.92%	5.45%	7.81%	9.28%
2012	16.00%	9.84%	1.66%	7.10%	4.47%	8.21%	9.71%
2013	32.39%	10.08%	17.94%	7.40%	4.68%	9.22%	10.26%
2014	13.69%	10.12%	15.45%	7.67%	4.24%	9.85%	9.62%

Retirement Goals - “Most people have the will to win, few have the will to prepare to win” – Bobby Knight

- Finding ways to maximize your return on investment with the least paid in though taxes
- Plan ahead so you can enjoy your retirement
- Start early, but don't put the cart before the horse

Qualified Plans IRA

- IRA – Individual Retirement Arrangement
 - IRA is more flexible than a 401(k) and other retirement plans because you can invest it in almost whatever you want, from stocks and mutual funds to bonds and real estate.
 - You can put up to 15% of income / 5000 (6,000 if over 50 for catch up) in a Roth IRA
 - You must have earned income from a job
 - Roth IRA grows tax free

Qualified Plans IRA

- Single less than 105,000, Married less than 166,000 to be eligible
- Flexible, more **CHOICES**
- Possible to Withdrawl tax free
 - More than 5 years after it is setup, Over 59, Death or Disability, First Home purchase -10,000
- You can take contributions out at any time, tax free, but if you take out earnings early (under 59.5) you'll have to pay taxes on the money and a 10% penalty

Regularly-Taxed Account	Deductible IRA	Roth IRA
<p>You pay income tax, and then make your contribution with post-tax dollars</p>	<p>You get a tax deduction, essentially letting you deposit pre-tax dollars</p>	<p>You pay income tax, and then make your contribution with post-tax dollars</p>
<p>Your principal may be subject to taxes on dividends and capital gains as it grows</p>	<p>Your principal grows tax-free</p>	<p>Your principal grows tax-free</p>
<p>You pay capital gains tax on your gain at withdrawal</p>	<p>You pay income tax on the entire amount of your withdrawal</p>	<p>You pay no further taxes on withdrawal.</p>

One Possibility

- If a 25-year-old puts in \$5,000 each year until he retires and makes an average annual return of 8% on his investment, he'll have \$1.4 million saved by the time he retires at age 65. And the money is all his, he won't have to give the IRS any of it if as long as he waits until retirement to take the earnings out.

Also Possible

- If that same 25-year-old invested that same \$5,000 a year in a taxable account earning the same 8% return, they would only have about \$1 million after 40 years if her earnings were taxed at 15% federal. That's more than one-fourth less money than if they would have gone with the Roth. If they owed state taxes on the money, too, they would be down even more.

Pension

- Paid a certain sum of money each month when you retire
- Very few still in existence and requirements and payouts are continually changing.
- PA still has one for government and schools, ect
- May require vesting
- Guaranteed money

401K

- 401k is a defined contribution plan offered by a corporation to its employees, which allows employees to set aside tax-deferred income for retirement purposes, and in some cases employers will match their contribution dollar-for-dollar. Taking a distribution of the funds before a certain specified age will trigger a penalty tax. The name 401(k) comes from the IRS section describing the program.

403B

- The 403(b) plan is a type of qualified retirement plan offered to employees of non-profits, educational institutions, and some self-employed ministers. The 403(b) plan is often compared to a 401(k) plan because it shares many of the same characteristics, withdrawals, contribution limits, tax rules, and investment choices.

457B

- 457(b) plan is a non-qualified tax-deferred compensation plan that works very much like other retirement plans such as the 403(b) and 401(k). Created in 1978 the name refers to the relevant section [457] in the Internal Revenue Code that governs the plan. Two main types of 457 plans exist: governmental and tax-exempt 457(b) plans.

Retirement

- **Roll retirement into IRA when you leave a company**
 - Direct Transfer
- **401, 403, 457**
 - Fund even if they don't **___MATCH___**, pre tax
- **Never Borrow against your retirement funds**

Recommendations - “Dishonest money dwindles away, but he who gathers money little by little makes it grow”

■ **How to Fund your retirement – Fund 15%**

- Fund 401K up to Match
- Roth fully
- Back to 401K

Monthly debt robs your retirement

Monthly Payments	5 yrs	10 yrs	15 years	25 yrs	40 yrs
\$100	8,167	23,004	49,958	187,885	1,176,477
\$200	16,334	46,008	99,916	375,769	2,352,954
\$300	24,500	69,012	149,874	563,654	3,529,431
\$400	32,668	92,015	199,832	751,538	4,705,909
\$500	40,835	115,019	249,790	939,423	5,882,386
\$600	49,002	138,023	299,748	1,127,308	7,058,863
\$700	57,168	161,027	349,706	1,315,193	8,235,341
\$800	65,336	184,031	399,664	1,503,077	9,411,818
\$900	73,503	207,034	449,622	1,690,962	10,588,295
\$1,000	81,669	230,039	499,580	1,878,847	11,764,772
\$1,200	98,004	276,046	599,496	2,254,616	14,117,727
\$1,500	122,504	345,058	749,370	2,818,270	17,647,159
\$2,000	163,339	460,077	999,160	3,757,693	23,529,545

Dr. Israelsen had decided to study various asset allocations, such as a one-asset portfolio (all cash), two-asset portfolios (cash and bonds), three-asset portfolios (cash, bonds and large U.S. stocks), etc., up to seven-asset class portfolios. He also studied traditional portfolio mixes, such as 60 percent stocks and 40 percent bonds, or 40 percent stocks and 60 percent bonds. He studied a total of ten possible portfolio combinations. He then compiled statistical data on each portfolio for the last thirty-seven years to see which would produce the highest return on your investments with the lowest amount of risk. The absolute best portfolio allocation, providing an average yield of 11.25% over thirty-seven years with the lowest standard deviations for risk, was the portfolio that included all seven assets. In fact, with this portfolio, the chance of losing 10 percent or more of the value of your portfolio in any one year was zero.

Some Asset Classes

- Large-cap U.S. stocks
- Small-cap U.S. stocks
- Non-U.S. stocks
- Commodities
- Real Estate Investment Trusts (REITs)
- Intermediate bonds
- Cash

Some Asset Classes

- Growth Mid Cap – medium sized companies
- Growth Income – large sized companies
- Small Cap Aggressive Growth – high risk, smaller companies
- International – companies overseas
- Bonds
- Cash

Warrior Quotes

- "When one door closes another door opens; but we so often look so long and so regretfully upon the closed door, that we do not see the ones which open for us." Alexander Graham Bell
- "If you have made mistakes, there is always another chance for you. You may have a fresh start any moment you choose, for this thing we call 'failure' is not the falling down, but the staying down. " ~ Mary Pickford