Money: Stewarding our Finances with Eternity in View
Session 4 | Mark Donovan | May 10, 2015

"Now there is great gain in godliness with contentment…" 1 Timothy 6.6

"He is no fool who gives what he cannot keep to gain what he cannot lose." Jim Elliot

INTRODUCTION AND OVERVIEW

Recommended Book: *The Treasure Principle: Discovering the Secret of Joyful Giving by Randy Alcorn (Multnomah, 2001) "You can't take it with you, but you can send it on ahead."*

Week One: **G**enerous Christians: Godliness with Contentment
Week Two: **A**voiding Worldly Pitfalls: Discerning Financial Folly
Week Three: **P**lanning Carefully: Wise Stewardship part 1
Week Four: Saving Strategically: Wise Stewardship part 2

1. We're going to get practical, but it's no less spiritual or Biblical. We're not moving from the spiritual to the secular. Plus, we want to be doers of the word.

"But be doers of the word, and not hearers only, deceiving yourselves" James 1:22

2. On the other hand, we're not emphasizing practices over principles. Principles are more important than practices.

Saving Strategically

3. Biblical basis for saving

Pr 21:20: *"Precious treasure and oil are in a wise man's dwelling, but a foolish man devours it."* – devouring all we have and not setting anything aside is described as foolish.

"The Micawber Principle" from Charles Dickens' David Copperfield:

"Annual income twenty pounds, annual expenditure nineteen pounds nineteen and six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds nought and six, result misery."

Pr 6:6-8 *"Go to the ant, O sluggard; consider her ways, and be wise. Without having any chief, officer, or ruler, she prepares her bread in summer and gathers her food in harvest."*

4. The secret to saving – spend less than you earn and save the difference! George Orwell once stated that *"sometimes the first duty of intelligent men is the restatement of the obvious."*

Priorities are giving, then saving, then spending (assuming taxes and debt are taken care of.) Tip - automatic, out of sight, out of mind savings is best. Use direct deposit or automatic transfers.

Avoid hoarding – excessive saving or accumulating with no goal or purpose. How much is too much?

5. Short Term Savings – a few months to 5 years: non-monthly expenses, emergency reserve, car purchase, house down payment. Keep liquid in a savings account, money market, perhaps a certificate of deposit. Readily accessible.

Holding Account for Non-Monthly Expenses. Tame those budget busters!

Concept of escrowing Real Estate Taxes and Insurance as part of “P.I.T.I.”

P – Principal – the original loan amount borrowed
I – Interest – the cost or the price to borrow the money
T – Taxes – real estate taxes eventually paid to the government – held in escrow by mortgage company
I – Insurance – eventually paid to the property insurance carrier - held in escrow by mortgage company

3 bank account structure – checking, holding, emergency reserve

6. The time value of money – the accumulative effect of compounding gains:

"Wealth gained hastily will dwindle, but whoever gathers little by little will increase it." Pr 13:11

Example: if a person at age 30 makes a $1,000 deposit each year for 35 years and earns an average of 8% each year, they will have saved:

Interest Rate	**After 5 years**	**After 10 years**	**After 15 years**	**After 20 years**	**After 25 years**	**After 30 years**	**After 35 years**	**After 40 years**
4%	5,416	12,006	20,024	29,778	41,646	56,085	73,652	65,026
6%	5,637	13,181	23,276	36,786	54,865	79,058	111,435	154,762
8%	5,867	14,487	27,152	45,762	73,106	113,283	**172,317→**	**259,027**
10%	6,105	15,937	31,772	57,275	98,347	164,494	271,024	442,593
12%	6,353	17,549	37,280	72,052	133,334	241,333	431,663	767,091

7. Long Term Savings – 5 to 40 years – college education, weddings, retirement.

a. College Education – Section 529 Plans – savingforcollege.com

In-state tuition, room, board, and books for the University of Louisville is $20,000 per year for 2015-2016.

- Multiple family members/friends can contribute
- Transferrable to another family member - any relative closer than a first cousin
- Depending on the state, a state income tax deduction if you participate in the plan in the state in which you live – not true in Kentucky
- Funds grow tax free – no Federal or State tax on gains or withdrawals if used for college
- No penalties if a scholarship is received, though perhaps some tax consequences
- Can be used for tuition, room, board, books

b. Retirement – start early! Understand the value and power of compounding interest. Take advantage of any employer matching contribution to the maximum possible.

Roth versus traditional tax basis.

Roth IRA	**Traditional IRA**
Tax free growth Tax free withdrawals No deduction for contributions	Tax deferred growth Taxable withdrawals Tax deductible contributions

8. Investing

a. Investing as a lender– fixed income

- More stable, safer, more conservative, limited return
- Savings account, money market account, certificate of deposit – FDIC Insured up to $250,000 per bank.
- Bonds - a bond is basically an IOU from a company or government. The risk is the ability of the bond issuer to pay back. As interest rates rise, bond values decrease, and vice versa.

b. Investing as an owner – equities (stocks)

- More volatile, riskier, more aggressive, higher potential return
- Owning stocks is mainly what this means (not futures, commodities, etc.)
- A share of stock represents a fraction of ownership in a business also known as equity. The hope that the company grows, the value of the stock increases. Plus dividends are usually earned, which are distributions of some of the profits to the shareholders.
- Mutual Funds. *"For most investors, mutual funds represent the best way to assemble a well-balanced, diversified portfolio of securities."* Sound Mind Investing by Austin Pryor
"The easiest way to understand a mutual fund is to think of it as a big pool of money. My plain-English definition is that it's (1) a big pool of money (2) collected from lots of individual investors (3) that is managed by a full-time professional investment manager (4) who invests it according to specific guidelines. When you put money in a mutual fund, you are pooling your money with other investors in order to gain advantages normally available only to the wealthiest investors." Austin Pryor from soundmindinvesting.com.
- Be aware of the costs associated with buying and owning mutual funds, like commissions, fees and expenses. The higher the costs, the slower the growth. A company like Vanguard or Fidelity Investments will typically have no commissions and low fees.
- Vanguard 500 Index Fund (VFINX) fact sheet example
- Date Target Mutual Funds – GuideStone Financial Resources "One-Choice Approach"

9. The Treasure Principle

"If we give instead of keep, if we invest in the eternal instead of in the temporal, we store up treasures in heaven that will never stop paying dividends. Whatever treasures we store up on earth will be left behind when we leave. Whatever treasures we store up in heaven will be waiting for us when we arrive. Financial planners tell us, 'When it comes to your money, don't think just three months or three years. Think thirty years ahead.' Christ, the ultimate investment counselor, takes it further. He says, 'Don't ask how much your investment will be paying off in just thirty years. Ask how it will be paying in thirty million years.'"

From The Treasure Principle, by Randy Alcorn