# MoneyWise Workshop Module 3: Saving and Investing: Achieving Financial Independence

**Introduction**

This chapter will discuss savings and investment. The purpose is to help you understand the importance of these areas as it relates to accomplishing your personal and family goals and to give you some ideas and suggestions to encourage you to do more and be better in these areas.

**Objectives**

1. Financial Perspectives: Spiritual Matters
2. Investing Basics: Before You Start
3. Investing Steps: The Process

We're going to talk tonight about investing and savings. These are important topics. We will start with financial perspectives, the behavioral part of saving and investing. There is always a behavioral dimension to finance. It has been said that there are no financial problems: there are only behavioral problems that masquerade themselves as financial problems.[i] Next we will discuss investment basics before you start, and then investing steps.

**1. Financial Perspectives – Spiritual Matters**

Money teaches many things, both temporal and spiritual. Money is much more than just a store of value—it also is a tool to teach us principles of sacrifice, discipline, law of the harvest, planning, and work. Money also gives us the opportunity to show ourselves and others by our choices that we have developed specific skills and abilities such as charity, giving, kindness, understanding, etc. Money teaches us a lot of life skills and discipline, particularly as we work together with our spouses in the accomplishment of personal and family goals.

Learning to manage money wisely can do many things beyond increasing the pocketbook. It can increase our freedom, bring peace and happiness into our lives, and teach us eternal gospel principles. Ezra Taft Benson said: "The Lord desires his Saints to be free and independent in the critical days ahead. But no man is truly free who is in financial bondage."[ii]

It is clear that we need to understand the relationship between freedom and financial bondage. Clearly we should work to remain free of financial bondage so we can be truly free. Budgeting, saving and investing are important parts of becoming financially self-reliant.

**2. Investing Basics: Is it the Same as Saving?**

Investing is not the same as saving. Saving is the process of putting money aside for a specific purpose which is generally short-term in nature. It is generally money used for emergencies and for liquidity, being able to pay bills and expenses.

Investing, on the other hand, is putting that money you set aside to work for you. The purpose of investing is to help you attain your longer-term goals--it is long-term in nature. The process is to give up what you have now, your savings, for something better in the future, hopefully more money. Investing and sacrifice are very similar in many ways.

If you are financially independent you have the ability to live within your income to accomplish your personal and family goals. Investing is a function how much you save: as such, it is a function of your budget. The key to investing is first set up a good budget and then follow it. If you are not living on a budget, there is little chance you can save sufficiently so you can begin to invest. Budgeting is really the key to saving and investing because it teaches discipline. Once you are disciplined in your finances, it gets you saving and investing early and allows you to continue to contribute consistently throughout your career. Budgeting is the foundation of all financial successes.

There are rules of thumb or rough guidelines to help you in setting your savings goal. You hear rules of thumb in all walks of life, and we certainly have them in financial planning. An important guideline or rule of thumb is that your savings level depends upon essentially how financially independent you want to become later on in life.

> <u>Saving 4% or less</u>. If you want to set yourself up for high risk of failure and to retire in difficult circumstances, save only 4% or less of your total income over your lifetime. Live beyond your means and you will definitely lose your financial independence. If you have little or no money saved for retirement, you may have to work long into your retirement years to continue your current lifestyle. Problems such as health, transportation or housing could have a significant impact on what you want to do in retirement.
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> <u>Saving 5-9%</u>. If you want a better probability of retiring well, you can save 5-9% of your total income over your lifetime and invest it well. The odds are better that you'll be able to retire reasonably well and become somewhat financially independent. However, there is still risk here as you may be living paycheck to paycheck initially and inflation may reduce your saving over time if you do not invest wisely.
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> <u>Saving 10-20%</u>. If you want to be financially independent and have a very comfortable retirement, I recommend you save 10-20% over your lifetime (with my students I recommend 20%). This zone will typically provide a comfortable lifestyle and where you become financially independent over time. The key is the amount of money you save each month, the age you begin investing, and your rate of return on your investments. Saving earlier beats saving late every time.

Inflation is the rise in the level of prices. Rising inflation leads to being able to purchase less goods and services with the same amount of money, as well as a need to save more money to buy the same amount of goods or services in the future.  Be aware of inflation. $1 million dollars today will only be able to purchase items worth $355,383 in 35 years if we assume inflation is 3% per year—it has averaged 3.1% over the past 85 years.

As you work with finances, there is an important guideline called the "rule of 72."  The rule of 72 states that if you divide the number of years that you've planned to save and invest into 72, that tells you the interest rate you need to invest at in order for that money to double. And the converse is true, if you divide the interest rate into 72, it tells you how many years you need to invest to have the money double. Your goal as a saver and investor is to have that money double as many times as you can before you retire. That's the power of compound interest.

**Investing Basics – Taking Risks Video**[iii]

Take a look at this video which shows something about risk.  While I don't know if it is real, I just can't believe that someone would take a risk like that. There is so much riding on a simple point, the location of the wading pool.  The sad thing is that many people run their lives like this, assuming that everything will work out exactly as they had planned, and they put their little wading pool in one place.  What if things don't turn out as expected? What happens if they are wrong.

Risk is an important factor in investing.  They key is to take on appropriate risk when you invest consistent with your ability to accept risk.  Your appetite for risk is not constant, it changes over time.  You may want to take more moderate to aggressive amounts of risk early on in your life, and then as you get older and closer to needing the money, you want to take less risk. Understand the risk that you're taking when you're making investments, no matter what they are, be it mutual funds or single stocks or bonds (which we do not recommend).  It is really critical to this whole investment process.

**Investing Basics - Characteristics of Millionaires**

The media often portrays millionaires as born that way, that money is given to them and they didn't have to work for what they got.  Research by Stanley & Danko found interesting results about millionaires:[iv]

- 80% of millionaires were first generation millionaires
- 80% were college graduates, 38% had master's degrees
- They achieve cash flow through frugality
- They invested 20% of income into diverse portfolios
- They were completely self-sufficient
- They achieved their goals through deliberate planning
- They wore inexpensive suits and drove used cars

Clearly, their view of millionaires was different from the image portrayed in the media.

**Investing Basics – the Importance of Starting Early**

It is important to start to save early. Let's assume to individuals, Bill and Phil, and both are same age but with different investment histories. Bill started investing at age 25 and he invests $4,500 a year for 10 years in a mutual fund. Assume he gets a 7% return throughout his life. So in 10 years he's got $45,000 of his money invested. Now assume he stops contributing to his investments, so at age 35 he has $62,174 in his account (the difference between the $62,174 and $45,000 is his appreciation on the investments). Now assume he doesn't contribute another dime after 35 but keeps his investments in the market. When he's age 60, he has $337,445 in his account.

Phil was also 25 but he waited 10 years to start investing. He invests the same $4,500 but for 25 years at 7%, and so he's actually invested $112,500 in contributions compared to Bill's $45,000. But at age 60, he has a only $284,621 in investments. Phil has invested $67,500 more than Bill, but at age 60 has $52,825 less. Why?

The key is compound interest. Bill had his investments in the market for a longer period of time—he started earlier and he kept his investments earning money longer. Compound interest, the process of earning interest on interest, is a wonderful concept which promotes investing early. With investing early, you start to earn interest on interest sooner. So start early, as the time value of money is a very important aspect of investing.

**Investing – Investment Plan Vehicles (the Shopping Cart)**

An investment vehicle or account type is a tax-law defined framework that has specific tax advantages in which you can place financial assets or investments. An investment vehicle is much like a shopping cart, and the investment assets, the stocks, bonds, mutual funds, etc. are the groceries you put in those accounts. You can have multiple retirement investment vehicles all holding the same financial asset, say a Total Stock Market Index mutual fund.

An IRA is one of many different types of investment vehicles, the shopping cart that carries your groceries or investments. When you invest, you must make two fundamental decisions. First, you have to decide on the investment vehicle or account type. If you do not choose a tax advantaged vehicle, the default is a fully taxable account or vehicle. Second, you decide on the financial assets to put in the vehicle. It is important that you learn the different vehicles so you can achieve your goals faster as different investment vehicles have different tax advantages. Particularly important is the distinction between traditional vehicles and Roth vehicles.

Traditional vehicles (401(k), IRA, SEP IRA's) are called tax-deferred vehicles. You get a tax benefit now as you pay no taxes on contributions to these plans initially, but you must pay taxes on principle and interest when you take the money out at retirement. A tax-deferred vehicle is also called a pre-tax vehicle. Your contribution to the vehicle is deducted before (pre) tax and reduces your current taxes owed.

Roth vehicles (Roth 401(k), Roth IRA) are "after tax" or tax-eliminated vehicles. You get no tax break now, but you do not have to pay taxes on either principle or interest when you take them out at retirement. Your contribution is after-tax. Your contribution to the vehicle does not reduce your taxes now, but does reduce them at retirement when you pay no taxes on your retirement distributions.

A 529 plan vehicle functions similar to Roth vehicles, except they are used for saving for education for your children. You contribute after-tax money to these vehicles, the principle and earning grow tax free, and as long as the proceeds are used for "qualified educational expenses," there is not tax on principle and interest when withdrawn.

Realize that there are contribution limitations to each of these vehicles. For qualified company sponsored retirement vehicles (401(k), Roth 401(k), 403b), the maximum amount you can save each year in these vehicles is set by law, $17,500 in 2013. In addition, if you are over age 50, the government allows you an additional "catch up" contribution of $5,500 for a total opportunity to $23,000 this year.

For individual retirement vehicles (IRA, Roth IRA), the maximum amount you can save each year in these vehicles is set by law, $5,500 in 2013, with an additional "catch up" contribution of $1,000 if you are over 50. In addition, with individual retirement vehicles you must earn less than specific income limits or you do not get the tax deduction benefit. The $5,500 contribution limit is the total of all your Roth IRA and traditional IRA accounts.

**Investing – The Investments (the Groceries)**

The investment vehicles are the shopping cart, and your investments are the groceries. They are how you actually invest in the market. The most common investments for people starting to invest are cash instruments, such as money market mutual funds and certificates of deposit (CDs). These are debt obligations and returns are limited to current interest rates.

Stock or bond mutual funds are the next most common investment. A mutual fund is where investors pool their money and have the assets professionally managed. It is not an account vehicle or type but an actual investment. Mutual funds differ depending on the types of assets the fund invests in, how they are managed, and the fees charged.

After your assets grow, you may later want to add individual bonds, individual stocks, and real estate, preferably real estate investment trusts (REITs). This should only be done after your portfolio asset size is sufficiently large for asset diversification purposes, generally $500,000 or more. Most people never invest in individual securities because they realize they do not know enough about an particular stock or bond and the costs of investing in individual securities are very high.

**Investing – Cash Management Assets**

Cash management is the utilization of cash and other short-term liquid instruments to accomplish your short-term goals. Cash management goals could include investing for things like a down payment on a house, money for a wedding reception in a year, or money for next semester's payment for tuition and books. You want that investment to be low risk so you will not lose principle and liquid so you can access it quickly.

You would be looking at cash management assets like saving accounts, CDs, or money market accounts. These assets are low risk, liquid, and have predictable but low returns, and are ideal for your short-term goals. They should not be considered for long-term investing as they have long-term risk due to inflation. With these assets currently earning about .3% annually and inflation running at 2-3%, you are actually losing purchasing power long-term. While you should not stay in money markets for all your portfolio, there are times and reasons to have those kinds of investments. The key is to understand what fees, maturities, minimums and withdrawal options exist for each of these assets.

**Investing - Mutual Funds**

Mutual funds are financial assets used for intermediate to long-term investing goals. Mutual funds pool your money with other investors to buy differing asset classes of investments, such as money markets, short-term bonds, or large company stocks. Most mutual funds instantly diversify your investments because each fund investment in many different companies or government agencies that issue securities of the same class.

Mutual funds can be either actively managed, index, or exchange traded funds (ETFs). Actively managed mutual funds have professional management that tries to beat the return of the asset class benchmark. Because of the active management, these fund generally charge higher management fees to compensate for the increased work. Index mutual funds charge lower fees as they seek to match the performance of the benchmark instead of beat it. Finally, ETFs are mutual funds that trade on the stock exchange like a stock, but are diversified like a mutual fund.

Mutual funds have specific advantages. Often with the purchase of a single fund, you can have good diversification in that asset class. Index mutual funds can be low cost. Index funds in particular are low cost because they use computers instead of high-priced analysts to choose assets, they can charge lower fees. Index funds are also attractive because they have low turnover. They only buy or sell assets when the benchmark changes, which makes them very tax efficient.

Mutual funds are considered pass-through assets for tax purposes. This means the individual investor is taxed for the decisions of the mutual fund manager. Managers which trade a lot, i.e., buy and sell significant amounts of assets often, will incur significantly more taxes each year than mutual funds that have a buy and hold strategy, such as low turnover index funds.

In working with mutual funds, watch the fees, taxes, loads (or sales commissions), investment strategy (how the assets are managed), liquidity, and performance.

Fees are the costs charged for running the mutual fund. These include management fees (what the manager charges annually to manage the fund); custody fees (fees to hold the assets); 12b-1 fees (to market the fund to other investors); and other fees. The total sum of all these fees is the “expense ratio”, the total annual costs for the mutual fund. This is quoted in terms of percentages and can vary significantly from fund to fund. An expense ratio of .35% means that the mutual fund company deducts .35% of the value of your assets every year as an investment cost. Make sure the costs are low compared to other mutual funds in the same asset class or category.

Sales commissions paid to the salesman for selling you the shares are called “loads.” I recommend no-load funds which come with no sales charges. No load mutual fund companies include Vanguard, Fidelity and T. Rowe Price.

Performance is how well the fund has done compared to an industry benchmark. We recommend you compare performance of the fund over longer periods of time, not just one and three years. Since you are investing long-term, we recommend you look at the 5 and 10 year performance history compared to the asset class benchmark.

Most 401(k) plans offer pre-selected asset allocations consisting of several mutual funds put together in combinations suitable to individuals age and risk tolerance. The aforementioned non-load fund companies offer free help to select these combinations for IRA’s and regular (taxable) accounts.

**Investing – Before You Start**

The purpose of investing is to help you obtain your personal and family goals. As such, it is a means to an end, which is to attain your personal and family goals, not an end in itself. Because of this, it is critical that you are prepared to invest. If you can answer “yes” to each of these four questions, then you are ready to invest.

1. Are your priorities in order and are you square with the Lord? Your highest priority should be your responsibilities to our Heavenly Father. If you’re paying your tithes and offerings, you are showing your faith in God by paying Him first. You will likely be more conscious about where your money is going if you pay the Lord first.

2. Do you have adequate life and health insurance? A lot of people overlook life and health insurance before they start investing. Your second priority is to your family and yourself. We will discuss this topic later in more detail, it is critical for your family’s sake that you have adequate insurance.

3. Are you out of high-interest credit card and consumer debt? This is your third responsibility—personal responsibility. You need to get and stay out of debt. You cannot invest with debt. I am amazed at people who are investing and earning 8% return while they are paying 24% on credit card debt. Get out of consumer and credit card debt first and then begin investing.

4. Are you living on a budget, do you know your personal goals, and do you have an investment plan (on how you will invest)? It is critical that you are living on a budget. Ensure that you have written your personal and family goals so you know what you are working toward. Then write up your investment plan on how you will invest. There are a number of different investment plans on the website at http://personalfinance.byu.edu as examples.

Notice that beginning investing is priorities based, with your first priority to God, second to family, and third to personal responsibility. Since life is priorities-based, our investments should follow as well.

**Investing – Four steps to building your investment portfolio**

There are four steps to a successful investment portfolio.

1. Build your emergency fund and food storage. Since this is not a food storage class, realize that this is an important part as well, but will not be discussed in this presentation. A good website on food storage is at www.providentliving.org. First build your emergency fund. We recommend 3-6 months of the larger of income or expenses in your emergency fund. If your job is very volatile or not too certain, I would raise that amount to possibly more. Investments during this step would be in savings accounts, money market mutual funds, checking accounts, CDs, etc.

2. Build your core strategy. This core strategy gives you exposure to the least risky of all the equity asset classes, the large capitalization asset class. For most, this would be in no-load index mutual funds that are broadly diversified and follow the S&P 500 or are total stock market index. Index funds which include many stocks (>500), have low costs, low turnover, are tax-efficient, and low management or expense fees.

3. Broaden and deepen your portfolio. The next third step is to continue to broaden your asset classes into different investment areas, such as international stocks, real estate investment trusts, or emerging market stocks. In addition, you should deepen your asset classes. You are already in US large capitalization stocks. Now deepen your exposure to the US, by perhaps investing in small capitalization or mid-capitalization stocks.

4. Utilize opportunistic investments. Now is the time, if you are interested, that you can buy individual stocks and bonds and sector funds. Before, you were not diversified and now you are in a position to do this if you have interest. Interestingly, most investors bypass this stage entirely because they can have a successful portfolio with only the first three steps.

Notice that before you invest your framework is priorities based. Now, as you build your portfolio your framework is risk based—you start out with the least risky investment first (your emergency fund), and then take on a little more risk as you increase your experience and your asset size.

**Prepare for Emergencies and Build a Reserve: Financial Priority 5**

Grab your copy of the Eight Financial Priorities you used earlier. Think about possible goals in the area of building an emergency fund. Spend two minutes to talk with your spouse about what goal will you have here with preparing for emergencies and building a reserve. Examples are provided on the sheet.

What goal would you have? You could start with a goal to save some amount each week, say $20 to put into your emergency fund. While it seems small, if you are consistent, after a year you would have over $1,040 in that account. Write down your goals and put them on the Priorities Sheet.

**3. Investing Steps – The Process**

There is a six step process to investing. It is:

1. Budget and Save
   - You cannot invest without savings
2. Determine what you need for your goals
   - Determine your time horizon, risk tolerance, and investment vehicles
3. Select good people to work with
   - Invest low-cost with good people
4. Choose your investment assets
   - Choose low cost, low tax, and diversified assets
5. Get the match and automate investing
   - Make investing contributions automatic
6. Monitor your plan

**Investment Step 1 – Budget and Save**

The key to investing is your budget. Through your budget you will understand how much you can save. Our recommendation is, 10% for your tithing and 10-20% for yourself for long-term goals, and so you budget the remaining 70-80%.

Prioritize your goals. Following are a few ideas. Your emergency fund and beginning food storage would be the first things you'd want to establish. Then you may want to pay off your consumer debt. Consumer debt means credit cards, auto loans, store cards, signature loans, and payday loans (avoid payday loans like the plague). Then save perhaps for a house, then retirement savings, then college and mission funds.

529 plans offer tax-free interest but can only be used for qualified educational expenses. Roth IRA's can be used for any reason (college, missions, wedding, etc.) but you can only withdraw your contributions tax-free at any age. Interest can't be withdrawn tax-free until age 59½.

**Investment Step 2: Determine What Investment Characteristics You Need**

Determine the characteristics do you will need for your investment account. There are three things you should determine:

1. Time horizon. This is when will you need the money. These should be long-term goals which will not require the money for a long time.

2. Risk tolerance. This determines how much risk you are willing to take. We recommend you take a risk tolerance test to help you determine your risk level and your asset allocations. Are you a conservative, moderate, or aggressive investor? Take the risk tolerance test (Learning Tool 16 from the website) to determine the type of investor and your asset allocation.

3. Type of investment vehicle. Here you determine which investment vehicle will help you attain your goals the fastest. If you are saving for retirement, there are a number of investment vehicles with specific tax advantages which you should consider (traditional and Roth 401(k) or 403b, traditional or Roth IRA, SEP IRA, etc. If you are saving for education, look into 529 Savings Plans, Roth IRAs, Education IRA's, and EE/I US Savings bonds which are tax-free if used for qualified education expenses.

**Investment Step 3 – Select a Reputable Company**

If you are investing in a qualified or company sponsored retirement plan, your firm has already made this decision for you. Your decision then would be which of the available options to invest in.

If you are investing outside a company sponsored retirement plan or in an Individual Retirement Account (IRA), we recommend using no-load mutual fund companies. Three of the larger companies are Vanguard, T. Rowe Price and Fidelity. There are a number of other companies which are also very good. Look for companies are large, have no-load funds, have been around for a long time, charge low fees, have multiple mutual funds that give exposure to different asset classes, and that are investor friendly. Until the size of your overall portfolio exceeds $500,000, we recommend you invest in mutual funds only.

As the size of your assets increases, you may be interested in getting help in your investing. As you do, get good qualified help. Three areas are important:

1. Are they credentialed? There is a difference between credentials and licenses. We recommend you look to Certified Public Accountants (CPAs), Certified Financial Planners (CFPs) or Chartered Financial Analyst (CFA). These designations are not easy to obtain and they build an important base of knowledge. Securities licenses are licenses that people have to sell certain types of securities, they're not considered credentials. This means that they know something about their product but it's not necessarily a broad brush of what investments are all about.

2. What products can and do they sell? There are a lot of good-intentioned people that are selling investments, but only a single type of investment. Abraham Maslow said: "I suppose it is tempting, if the only tool you have is a hammer, to treat everything as if it were a nail."[v] Often those licensed to sell only a single product assume their product is the answer to everyone's financial needs, i.e., life insurance, etc. The fact is that it isn't. Be careful of people who have this very narrow focus. Also, what are the expenses of the investment? This must include front-end loads, deferred loads, expenses, custody costs, etc.

3. Finally, how much experience do they have? Are they part-time or full time? Do they have references and how good are the references? You should get a list of references and call 2 or 3 of the references to see how the advisor has done.

**Investment Step 4: Choose Your Investment Assets**

If you are in a company retirement plan (401(k), 403b, etc.), they will give you a list of available mutual funds you can choose from. We recommend you diversify your holdings and cover many different asset classes including equities (large capitalization, small capitalization, international), bonds (short-term and long-term corporate and government), and others (money market, REITs, etc.) depending on your tolerance for risk and time horizon. Often the plan will offer standard mixtures of these assets classes for a certain time horizon. Key is to invest at a risk level you are comfortable with. Again, we recommend taking the risk tolerance test in the Learning Tools section of the website at http://personalfinance.byu.edu.

As you invest in non-company retirement vehicles (taxable accounts and IRAs), if you will follow the principles of successful investing you will do so much better. They include:

1. Do not borrow to invest. You cannot spend your way into financial security. Before you invest, fulfill your obligations to the Lord, get adequate health and life insurance, get out of credit card and consumer debt, and know your goals, live on a budget, and develop a written investment plan.

2. Invest low cost. Keep your fees as low as you possibly can. Research has shown that those who invest in low-cost investments could have standards of living in retirement of more than 20% higher than that of a comparable investor in high-cost investments.[vi] Using no-load mutual fund companies to invest with supports this principle.

3. Limit trading. As you invest, limit turnover which is how much you buy and sell securities. Turnover adds costs to your portfolio that reduces returns.[vii] Keep turnover to an absolute minimum—implement a buy and hold strategy.

4. Invest tax efficiently. When investing in taxable accounts, choose mutual funds that have low turnover. Mutual funds are pass through vehicles for tax purposes. This means that the mutual funds pay no taxes on their trading but the taxes are passed through to the individual investor. Mutual funds which limit trading, particularly index funds and low turnover funds, are very tax efficient and result in the investor paying fewer taxes each year.

5. Stay diversified. Remember your grandmother’s advice to not put all your eggs (or investments) in one basket. Invest in multiple asset classes.

6. Don’t try to beat the market. Trying to outperform the market leads to higher turnover and transactions costs, which lead to lower returns. Index funds, funds

which track the market are good assets to own because they are low cost, they limit turnover, and they are very tax efficient.

7. Do not invest in individual assets and sector funds until your asset size is greater than $500,000, if at all!

**Investment Step 5: Get the Match and Automate Your Investment Program**

First, get the match. If you are working for a company with a company retirement plan, check to see if they have a company match for any retirement savings. A company match is where the company matches your retirement investment—it is free money. For example, some companies will match 2% if you will save 4% of your income for retirement. So if you save 4% they will match it with 2%, which is an immediate 50% return on your retirement savings. The company's goal is to encourage you to save so take advantage of it--always get the match!

Some states, such as Utah, give a tax credit on contributions to the state's 529 education savings plan. If you contribute a certain amount, they will allow you to deduct a percentage against your state's income taxes. This also is free money so look to these vehicles as you save for your children's education.

Second, automate your savings. Often your company will allow payroll deduction of a percentage of your salary to put in the company retirement plan (401(k), 403b). This makes saving easier. If you are comfortable with your company retirement plan contribution and want to contribute to a taxable account, you can also go to your bank and get a automated clearing house transfer into a savings account. You can do that so it comes out of your bank account automatically every month. You can also set up an automatic investment program (AIP) with your favorite mutual fund company where they take out a certain amount each month and invest in a specific fund or funds. Automating the investment decision forces the discipline on you so you'll save a certain amount per month.

Third, diversify. As you first start out, you can invest in mutual funds that include both bonds and equities. These diversified types of funds include asset allocation funds and life cycle funds. The key is to stay diversified.

Fourth, know what you own and why. This is particularly true if you own individual stocks and bonds (which we don't recommend).

Fifth, manage advice. There are lots of ideas out there, but be wise and stay true to the principles. Joseph Smith said: "I teach them correct principles and they govern themselves."[viii] We believe this relates to investing just as it does to other areas of our lives.

Finally, stay in the market. Markets are volatile. What you want to do is stay in the market, buy and hold on to your investments and stick to this strategy. Don't try to time the market by switching to very conservative investments when you think the market may go down, and to very aggressive investments when you think it might go up. If you have thirty years to invest there are going to be lots of downs and ups. Just stay in that particular asset allocation until you get closer to retirement.

**Investment Step 6: Monitor Your Plan**

A final principle is to monitor your performance versus benchmarks. A benefit of investing in index funds is that their performance should be close to the returns for the overall asset class. Review your investments on a regular basis, at least annually.

Watch your portfolio allocations, the weights of your asset classes. Ensure your investments still match your goals, timeframe, and risk tolerance.

Make changes for the right reasons, not just because someone said to sell. When selling, realize there are some tax strategies that may be helpful that has to do with capital gains tax on long term investments.

Rebalance at least annually. This means buying and selling small amounts within your portfolio to return to your target asset allocation.

**Save for Long-term Goals: Financial Priority 6**

Get your copy of the Eight Financial Priorities you used earlier. Think about possible goals in the area of saving for long-term goals. Goals could include saving for retirement and saving children's missions and education. Talk with your spouse about what goals you could set to help accomplish your long-term priorities. Examples are provided on the sheet.

What goals would you have? You could start with a goal to save some amount each month, say $20 per child to put into your children's education account. While it seems small, if you are consistent, after 17 years at 7% you would have over $7,803 in your child's education account. You should set a similar goal to save for retirement. Now think about and write down your goals and put them on the Financial Priorities Sheet.

**Case Scenario**

While it may seem complicated, investing is doable and it can help you to achieve your goals. Let's do a case study to reinforce that point. The key is how much you save, how long you keep it invested and your returns on your investments. You can control only how much you save and how long you keep it invested.

John is 25 years old, married with one child, and he has a new job just out of school making $36,000 a year. He gets $30,000 net or about $2,500 a month. He has a 401(k) with a 3% match. A 3% match means the company will contribute 3% of his salary or $1,080 per year or $90 per month to his retirement account. He is contributing 10% or $3,600 per year or $300 per month.

He has four main long-term savings priorities, an emergency fund, down payment on a house, retirement, then children's education. Let's see how his short-term savings goal affects his ability to accomplish his long-term priorities.

Priority number 1 is a $7,500 emergency fund in 5 years.  He starts with a $1,000 initial investment and then saves $100 a month and earns 3% interest. He has this investment in a money market account.

Priority number 2 is to save for a $10,000 down payment on his house in seven years. He saves $100 a month at 4% interest and is just a little shy of his goal in seven years. If he saves 10% of his income, he will be able to accomplish priorities number 1 and 2.

Priority number 3 is to have $1,000,000 in retirement savings in 40 years. Assume he contributes $196 to his 401(k) plan and he gets a $90 match or $286 a month that gets invested.  He's investing in a 70% stock and 30% bond allocation over a 40 year time horizon earning 8%.  The way you get to a savings of $1 million is not to win the lottery but by slowly, systematically, methodically, and carefully setting aside money each month and taking an appropriate amount of investment risk.  Saving 15% of his income, he can achieve this goal as well.

Finally, priority number 4 is saving $65,000 for his child's education.  He needs $65,000 in savings in 18 years, and you can see how he gets there. The key to each of these goals is the amount he saves and how long he keeps it in the market.

**Summary**

In summary, we talked about financial perspectives.  Money is a tool to teach gospel principles, including sacrifice, discipline, law of the harvest and work.  Learning to manage money wisely can increase our freedom, bring peace and happiness into our lives, and teach us eternal gospel principles.  Financial matters are truly spiritual matters.

With investment basics, we discussed how saving is not investing.  Investing is putting your savings to work.  Investing is a function of how much you save—you should try to be saving more.  You must carefully choose your investment vehicles (your shopping cart) as these can help you attain your goals faster.  You must carefully choose your financial assets (the groceries) so you are not taking on more risk than is appropriate for each of your priorities.

You must know the four questions to ask before you start investing. Since life is priorities based, investing should be priorities based as well.  You should know how to build your investment portfolio.  Since risk is a key concern for investing, you should build our portfolio based on risk. You should start with the least risky assets first and then take on more risk as your age, experience, and comfort level allow.

Finally, with investing steps: the process, we discussed the six steps of investing.  First, budget and save.  You cannot invest without saving.  Second, determine what you need for each priority. What is your time horizon for the investments, what is your risk tolerance, and which investment vehicles will you choose to use?  Third, select good people and institutions to work with.  Use a firm which is low cost, has low fees, offers no-load funds, has been around for a long time and will likely be around for the future. Choose well and choose wisely. Fourth, pick your investments. We recommend you follow the principles of successful investing, which includes using low-cost, tax-efficient, and low turnover index and mutual funds. Fifth, get the match and automate investing—make spending hard and saving and investing easy. Finally, monitor your plan and make sure you are following the principles.

Investing should not be a scary activity but something you can and must understand if you are to attain your personal and financial goals. It is a means to your goals, not a goal in itself. As such, it is critical that you understand the basics, what you should do before you invest, the principles of successful investing, and the process. If you do these things, investing can be a wonderful tool to help you accomplish your person and family goals.

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[i] Anonymous
[ii] Ezra Taft Benson, "Prepare Ye," Ensign, Jan. 1974, p. 69.
[iii] See the video at http://www.youtube.com/watch?v=OV9mo_TuG9g.
[iv] Thomas Stanley and William Danko, *The Millionaire Next Door*, Pocket Books, New York, 1996.
[v] Abraham H. Maslow (1966). The Psychology of Science, p. 15.
[vi] William F. Sharpe, "The Arithmetic of Investment Expenses," Financial Analysts Journal, Vol. 69:2, March/April 2013, p. 34-41.
[vii] Roger Edelen, Richard Evans, and Gregory Kadlec, "Shedding Light on "Invisible" Costs: Trading Cost and mutual Fund Performance," Financial Analyst Journal, Vol. 69:1, January/February 2013, pp. 33-43.
[viii] *Messages of the First Presidency*, comp. James R. Clark, 6 vols., Salt Lake City: Bookcraft, 1965–75, 3:54.