Lesson 23

When? How? Where?

Now that you have a general knowledge of investment asset types, **the next questions are: When do I invest? How do I invest? Where do I invest?** We'll briefly answer each of those questions in this lesson. However, some additional research and effort will be required on your part to actually implement your investment plan.

First, let's explore the frequency of your investment deposits (also known as contributions, if the deposit is made into a retirement account). There are two benefits for making a monthly investment deposit. The first benefit is that it builds discipline into your investment plan; the second, is a very beneficial strategy called Dollar Cost Averaging (DCA). **Figure 1** will help illustrate DCA. Each month you make a $100 deposit into an account with instructions to the manager of your account to buy XYZ mutual fund. As you learned in the last lesson, the XYZ fund price changes daily. Let's say the $100 deposit is made on the 15th of each month. On January 15th the share price for XYZ was $10.15 and the $100 purchased 9.85 shares. In February the price of the fund dropped to $9.85 per share, so more shares were purchased in February. As you look at **Figure 1,** you can see the cost of the shares each month with the corresponding number of shares purchased. At the end of the year, $1200 had been invested and slightly over 117 shares had been purchased.

Figure 1

Dollar Cost Averaging			
Month	Investment	Share Cost	Shares Purchased
Jan	$ 100	$ 10.15	9.85
Feb	$ 100	$ 9.85	10.15
Mar	$ 100	$ 9.50	10.53
Apr	$ 100	$ 9.35	10.70
May	$ 100	$ 10.00	10.00
Jun	$ 100	$ 10.35	9.66
Jul	$ 100	$ 10.75	9.30
Aug	$ 100	$ 11.00	9.09
Sep	$ 100	$ 10.75	9.30
Oct	$ 100	$ 10.50	9.52
Nov	$ 100	$ 10.35	9.66
Dec	$ 100	$ 10.65	9.39
Total/Avg	$1,200	$ 10.27	117.16

The last entry in the share cost column (circled) is the average price per share for the year. This is where DCA comes into play. Notice the first five months of the year (Jan through May) – the share price each month was less than the average price per share. The remaining 7 months (Jun-Dec), the share price was above the average price per share. Obviously, if you had a crystal ball, the best month to purchase the shares was April ($9.35) – you could have invested the entire $1,200 that month and purchased more shares. But you don't have the crystal ball. What if you had made the $1,200 deposit in August? That would have been the worst month. **So, by purchasing a little each month, you take advantage of the variation of the share price and your purchase price is dollar cost averaged. In the long run, DCA almost always works to your advantage.**

The how and where you invest go hand in hand, so we'll deal with them together. How you invest depends on your risk tolerance and your overall interest in the investing process. You basically have three choices.

First, most prefer to let someone else handle the entire investing process because the investor is either not interested, or thinks they don't know enough to make the decisions. Second, some people like to do their own research and make their own decisions. These few lessons on investing in this study will not train you sufficiently to become a stock broker, but the information will make you a more knowledgeable investor and help you know what questions to ask. The third choice is a combination of the first two – make your own decisions, but use professional advice in the process to help you make the wisest decisions.

Page A-6 provides a means to search for both full-service brokers and discount brokerage firms, as well as organizations and companies that can provide guidance should you want to use the combination approach.

If you have an employer sponsored retirement plan (401k or 403b, for example), much of the how and where will be done for you. You should have options on how the investments are allocated, but the administrator of the account will handle all of the month to month transactions. Also consider whether your employer matches any of your contributions. If your employer contributes (matches) up to a certain percent of your contribution, make every effort to contribute at least that amount – it is an instant return on your investment. If you have available funds in excess of your maximum contribution, you may be eligible to establish an Individual Retirement Account (IRA), as we'll describe now for those who don't have access to an employer sponsored retirement plan.

The IRA is an individual retirement "account". I make this point, because of a pet peeve. I've listened to advisors on radio call-in shows instruct people to open an "IRA" or a "Roth IRA", but they stop there with the advice. They don't advise them on what to put in the account, or how to use it. The IRA is a retirement account that provides tax benefits, but it doesn't do anything for you unless you have investments in the account. I could establish an IRA at my bank and put $5 cash in it, but I should not expect to go on a cruise from the proceeds.

There are two main types of IRAs – traditional and Roth. Which one is right for you depends on several factors, including current and future tax brackets, income levels, time to retirement, etc. The features of each are outlined on page A-7. Reviewing the features of each should provide guidance on which type you choose. The biggest advantage to the Roth IRA is that earnings grow tax free. If you are several years away from needing the retirement funds, tax free growth should be extremely appealing. There are income limits to be eligible for opening a Roth. Annual contribution limits and income limits change periodically, so be sure to check with the IRS or a professional before opening or contributing to an account. Also, contributions into an IRA must be from earned income. For example, contributions cannot come from a pension, gift, interest, etc.

Over the last two and a half lessons, we've discussed a host of terms, definitions, and options. **For those of you who don't have an affinity for investing, your head may be swimming. Allow me to wrap up our investment discussions in a way that might bring it all together for you.**

To do so, I will introduce GuideStone Financial Services. GuideStone has helped meet the financial needs of both Southern Baptists and the wider evangelical Christian community for decades. Plus, they provide a family of Christian-screened mutual funds. In other words, your investments in GuideStone funds would insure your investment dollars do not support companies or products which you might find objectionable.

For example, let's say you have $10,000 to invest (we'll use round numbers to keep the math simple). You've determined that you are 20 years away from retirement. You have completed a risk temperament assessment and have determined that you're fairly conservative, but recognize that by not needing to withdraw for 20 years you can take some moderate risk. The time until retirement and the temperament assessment both become factors in determining your stock/bond allocation, and the type of stocks and bonds you would want to own.

You conclude that you want your stock/bond allocation to be 80% stocks and 20% bonds. You then go to GuideStone.org and explore the mutual fund choices that fit your criteria. After reading the description of the funds under their Mutual Fund Listing, you determine to invest your $10,000 as depicted in **Figure 2. I am not recommending this strategy or allocation for you; I am using this example for one main purpose -- to illustrate the concept and process of asset allocation.**

Figure 2

GuideStone Funds Allocation		
Fund	Type	Stock/Bond Mix 80/20
Equity Index	S&P 500 Index	20% ($2,000)
Value Equity	Value Company Stocks	20% ($2,000)
Small Cap Equity	Small Company Stocks	20% ($2,000)
International Equity	Foreign Stocks	20% ($2,000)
Medium-Duration Bond	Fixed Income/Medium-term Bonds	20% ($2,000)

Based on your review of the available mutual funds, you determine that your 80% stock allocation would be further diversified as shown – 20% to an S&P index fund; 20% to value stocks; 20% to small company stocks and 20% to foreign stocks. The final 20% of your $10,000 will be invested in medium-term bonds. Those percentages total 100%.

So, if you enjoy managing your own investments, the next step is to open an IRA account with a company like GuideStone, make the investments and monitor your progress. Hopefully, you would continue to make a monthly investment to take advantage of DCA, as we discussed earlier. A year later, you would revisit the balances in each fund. For example, if the foreign stocks had a banner year and their percentage in your total portfolio increased from 20% to 25%, while the bond allocation dropped from 20% to 15%, you would sell shares of the foreign stock fund and buy more shares of bond fund. This would bring your allocation back in line with your desired allocation of 20% and 20%, respectively for those two funds and 80% stocks/20% bonds overall. That would take about 15 minutes. **Do you think you could find 15 minutes a year to mange your retirement account?**

"But wait a minute," you say. "I admit I've learned some investing terminology reading the lessons this week, but I don't have 15 minutes nor do I have the interest to manage my investments. What are my options?" I'm glad you asked. GuideStone can make it even easier for you. GuideStone provides "Asset Allocation Funds" – from conservative to aggressive. In other words, you can choose a single fund that does the asset allocation for you. The fund invests in the different asset types that match your risk assessment.

GuideStone also provides an investment calculator that will simplify your investment process even more. When your criteria is input, one or more of their mutual funds will be identified which will establish the proper asset allocation to meet your retirement goal. It can't be easier than that.

If you are clergy, or on staff at a church GuideStone Financial Services can potentially provide huge benefits that can't be realized with any other investment firm. GuideStone also provides investment guidance which far exceeds the scope of this lesson. Consequently, links have been provided on page A-9 which will provide both the pastor and the layperson considerably more investment information and advice.

Whether you are the type who wants to do your own research or read a handbook, or the type that wants a firm like GuideStone to do the work for you, once you have the basics in place and understand the language, the management of your investments can be a relatively simple matter. **The key is to reach Milestone 8 just as soon as possible and take advantage of the time in front of you.**

REFLECTION: Did the asset allocation discussion provide any clarity for you as to why and how you should diversify your investments? Do you feel like you have enough information from the last three lessons to ask intelligent questions? What additional information might help you gain confidence in investment planning? **Record your thoughts:**

ACTION STEP: Your action step today is a simple one. First, review any of the subjects discussed in Lessons 21, 22 and 23 that might be confusing to you. Then, prepare a question to discuss with your group. Set a date on your calendar to review the applicable additional information on page A-9.

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