Lesson 21

Looking Farther Down the Road

As we begin the last four lessons of our study, I recommend we become even more farsighted. Regardless of our age (under 25, over 50, or anywhere in between) there will be a time when our earning power is reduced, and we will begin to use the resources we have saved over the years. After all, a major reason the Lord encourages us to save today is to provide funds for needs He knows we will have in the future – both emergency needs and "retirement" needs. I placed the word "retirement" in quotes because when I search the Scriptures, the only retirement reference I can find is the one regarding the Levites. (Numbers 8:25). I've checked my family tree, and search as I might, I'm not a Levite. We may be disappointed, but the American view of retirement – playing golf seven days a week, or sitting on the beach all day long, or any other full-time leisure activity isn't promoted in scripture.

The Lord probably has work for you and me to do until the day we leave this earth, but it may not pay as well as it does now. So, we need to plan for the days when we are still living, but not earning.

For those of you under 30, indulge me for a moment. The subject of retirement planning or anything related to it is far from your mind. I get it – I've been there. Planning for next year is a stretch, let alone planning for decades from now. However, I'm asking you to do two things: First, recognize the huge advantage you have due to your young age. Second, stick with me through these last four lessons. If you do, and if you apply what you learn, you will be light years ahead of most of your peers when it's your time to teach your grandchildren these principles.

Milestone 8 is the milestone achieved when you've purchased a house (if you chose), paid off all consumer debt, and have begun to prepay the mortgage. Also, adequate short term savings is in the bank for emergencies. It is time to begin investing for retirement and educational needs. **This milestone should be a relatively short term goal for everyone.** You saw in previous lessons how an accelerated payoff plan can eliminate all consumer debt in less than four years with a systematic, focused effort. It should go without saying that when you reach Milestone 8, you are continuing to satisfactorily operate on a monthly budget, and you are making spending decisions based on that budget.

In Lesson 7, we made a distinction between saving and investing. According to Austin Pryor, the founder of Sound Mind Investing (SMI) and the author of the Sound Mind Investing Handbook, "Investing occurs when you put your money to work in a commercial undertaking, subject to modest levels of risk, and expect a reasonable return over a long period of time. What's reasonable? About 3%-5% more than the rate of inflation." I will use the Sound Mind Investing Handbook as a resource to help us better understand investment terminology, beginning with the purpose for it.

There are two basic reasons you and I want to begin to invest once we have reached Milestone 8:

1. **To provide financially for our household.**
2. **To increase our assets to serve God more fully.**

We can accomplish both of the above more efficiently by starting sooner, rather than later. We discussed the devastating impact of compounding interest working against us in Lesson 13, let's now see the huge benefit when we put it to work for us.

Figure 1 illustrates the age necessary to begin investing the designated amount per month to accumulate $1,000,000 by age 65. This assumes that the money is invested in an account that would average what the US stock market has averaged since its inception. The data points out the incredible difference in starting age.

A 25 year old can contribute only $121 per month and accumulate $1M by the time she is 65. If she waits until age 50 to start, she has to contribute nearly 20 times that amount ($2,225) each month!

Figure 1

To save $1,000,000 by age 65	
Starting Age	Monthly Payment
15	$ 41
20	$ 70
25	$ 121
30	$ 210
35	$ 367
40	$ 649
45	$ 1,175
50	$ 2,225
55	$ 4,650
60	$ 12,650

Figure 2 displays the same principle in a different way. $100 each month is deposited into the same type of account as was described in Figure 1. Look at the amazing difference that time makes. The 20 year old has almost $1.5 million at age 65! The 60 year old doesn't have enough to buy a good used car.

Figure 2

Save $100 per month until age 65	
Starting Age	Total Amount Saved
15	$2,469,066
20	$1,432,005
25	$ 828,595
30	$ 477,503
35	$ 273,222
40	$ 154,361
45	$ 85,202
50	$ 44,963
55	$ 21,549
60	$ 7,926

Compounding interest is the way a small amount of money and a large amount of time can do amazing things.

Please start today; don't wait until tomorrow. Set your sights aggressively toward Milestone 8, so you can preserve as many years in front of you as possible.

Both Proverbs 21:20 (wise and foolish), and Proverbs 6:6-8 (observe the ant) have been discussed as scriptural principles for saving. We will now add a third scripture to provide more of a foundation for longer term saving or investing:

Ecclesiastes 11:2 - Divide your portions to seven, or even to eight, for you do not know what misfortune may occur on the earth.

This scriptural guidance illustrates the need to be diversified in our investing.

While I can't say with certainty that the old saying, "don't put all your eggs in one basket" was inspired by the Ecclesiastes scripture, it most definitely could have been. The point is clear: we will have a much better opportunity for investment success if we are invested in many different types of assets. **The goal is to have enough assets whose good performance can offset the possible poor performance of others.**

We will discuss various asset classes and the importance of spreading our investments across several asset types in the next two lessons, but before we get too far down that path, let's stop and ask ourselves some basic questions. Before we begin investing, let's determine our overall purpose and identify the information we need to know to accomplish our purpose.

The following list of questions and the associated answers should help give you an insight into what you need to know:

- What will the investments support: education, retirement, business, etc.?
- When will I need to begin withdrawing?
- How much money will I have saved when I begin investing (amount above emergency fund)?
- How much will I need to withdraw per month?
- Where will I live (location, own, rent)?
- What will I do (part-time income, if any)?
- What will I need to buy?
- Whom will I support (anyone outside of my immediate household)?
- What is my risk tolerance (high risk, low risk)?
- How much will my spouse need if I leave earth first?
- How much will I leave behind to heirs?

Perhaps the most telling question is this one: "How many of the questions listed previously can I not answer"?

This emphasizes our study-long theme of needing a plan. Our lives are busy; it is so easy to procrastinate and deal with future issues in the future. **The problem is the future becomes today much sooner than any of us anticipates.** If you will determine an overall plan for what you want to do, financial planning calculators (links provided on Page A-6) will do all of the calculations for you. The calculators require some assumptions on your part.

Take the time to think through the previous questions and answer any additional questions the financial calculators will pose. If you do, you will have a much better understanding of how much you need to invest on a regular basis to meet your investment goals.

One of the questions you may not be able to answer is "what is my risk tolerance"? I recommend that you take a risk tolerance questionnaire (sometimes called risk temperament) to help you assess your particular approach to investing. **Such a questionnaire can be found in the Sound Mind Investing Handbook or at various locations on the web.** Knowing your risk tolerance will aid you in determining the distribution of your investments over the various asset types.

Asset types will be discussed in the next lesson, which, by the way, will be somewhat lengthier than the other lessons. Consequently, this one is a little shorter. 😊

REFLECTION: Refer to the compounding interest illustrations. Are you more or less motivated to arrive at Milestone 8? Why? How many of the investment questions can you not answer? What do you need to do to be able to answer them? **Record yours thoughts:**

ACTION STEP: Spend a few minutes completing a risk tolerance questionnaire as discussed in this lesson. If married, both husband and wife should complete their own questionnaire. Also, set a date on your calendar in the next 2 months to spend at least a couple of hours answering the questions in this Lesson and inputting your answers into one or more of the financial calculators. (The links are provided on page A-6). If you are married, this activity should definitely be accomplished as a couple.

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