

# INVESTING

## A BIBLICAL PERSPECTIVE

Effective investing is not an end in itself; rather, it is a vital part of the total financial planning process. While fear and greed can work against a biblical approach to investing, those who use a strategy based on the wisdom of Scripture will find themselves equipped to make sound decisions that are not dictated by the short-term economic climate.

Daily the media bombards consumers with "get rich quick" schemes that fuel a consumptive mentality. By contrast, the Bible teaches that the most effective way to accumulate wealth is by consistently spending less than you earn and doing it over a long period of time. Next, preserve and grow your capital through a diversified portfolio of investments.

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"In Investing money, the amount of interest you want should depend on whether you want to eat well or sleep well."

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*J. Kenfield Morley*

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*"Divide your portion to seven, or even to eight, for you do not know what misfortune may occur on the earth."*

ECCLESIASTES 11:2

## TEN PRINCIPLES OF SUCCESSFUL INVESTING

- |   |                               |
|---|-------------------------------|
| 1. Establish written financial goals                            | PROVERBS 20:5, PROVERBS 21:5  |
| 2. Seek wise financial and investment counsel                   | PROVERBS 19:20                |
| 3. Cultivate a long-term perspective                            | LUKE 14:28                    |
| 4. Diversify your portfolio                                     | ECCLESIASTES 11:2             |
| 5. Consistency is crucial, don't make haste to "get rich quick" | PROVERBS 28:20-22             |
| 6. Avoid risky investments if you can't afford a loss           | ECCLESIASTES 5:13, 15         |
| 7. Avoid high leverage  | PROVERBS 22:7                 |
| 8. Monitor your anxiety   | PSALM 131:1                   |
| 9. Establish limits on the amount you invest                    | PROVERBS 15:16, PROVERBS 30:8 |
| 10. Share and discuss decisions with your spouse                | GENESIS 2:24                  |

### **REVIEW THESE SPECIFIC QUESTIONS BEFORE YOU MAKE ANY INVESTMENT DECISIONS:**

What are my reasons for making this investment?

- |  |                   |
|--|-------------------|
| •Becoming debt free  | PROVERBS 22:26-27 |
| •Providing for family, meeting future needs, and establishing an inheritance | PROVERBS 30:25    |
| •Allowing increased giving   | PROVERBS 22:9     |

Could I be investing unwisely due to any of the following attitudes?

- |        |                              |
|--------|------------------------------|
| •Greed | I TIMOTHY 6:9, PROVERBS 22:9 |
| •Pride | PROVERBS 16:5                |
| •Fear  | PROVERBS 18:11               |

Am I presuming on the future and creating anxiety for myself or my family?

MATTHEW 6:25, PHILIPPIANS 4:6-7

# INVESTMENT PERSPECTIVES: WORLDLY VS. BIBLICAL

## WORLDLY PERSPECTIVE

## BIBLICAL PERSPECTIVE

Get rich quick

PROVERBS 28:20

Preservation & steady growth

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Short-term horizon

LUKE 14:28

Long-term horizon

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Spend & consume first

ECCLESIASTES 5:13-15

Save & invest first

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Time is an enemy

PROVERBS 6:6-8

Time is a tool

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Market timing

ECCLESIASTES 11:2

Diversify strategically

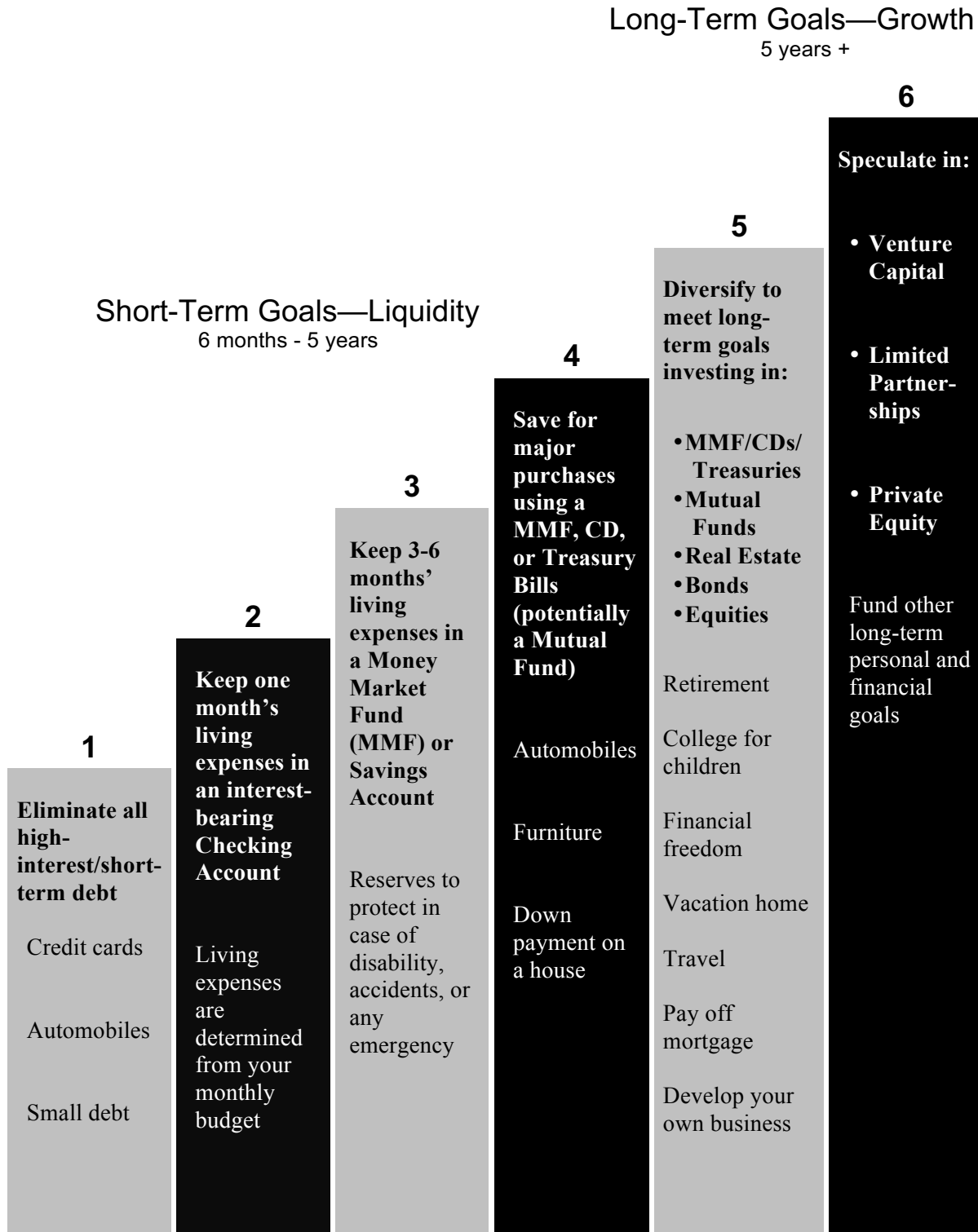
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Past performance

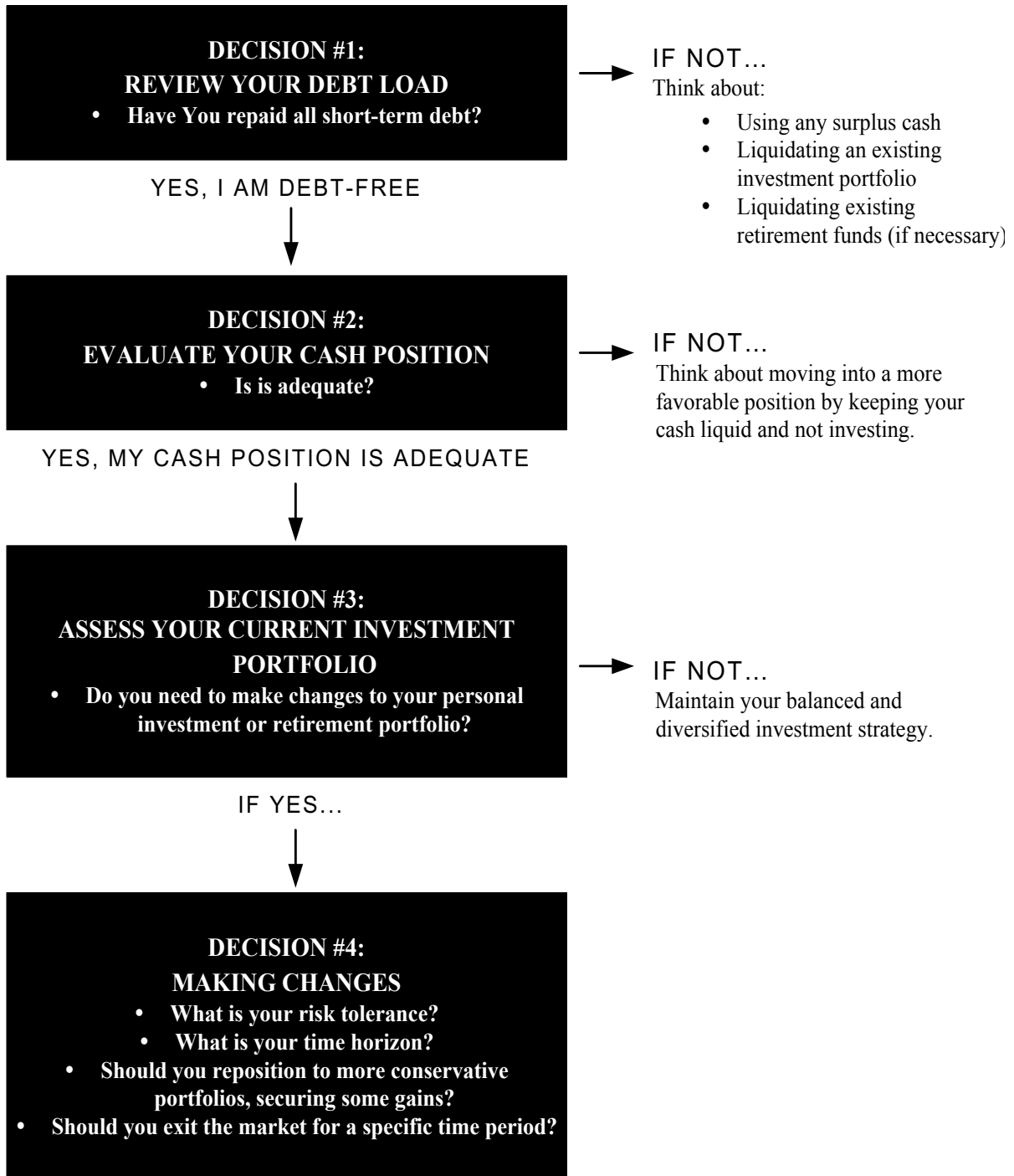
2 PETER 3:4

Cycles are inevitable

# SEQUENTIAL INVESTING



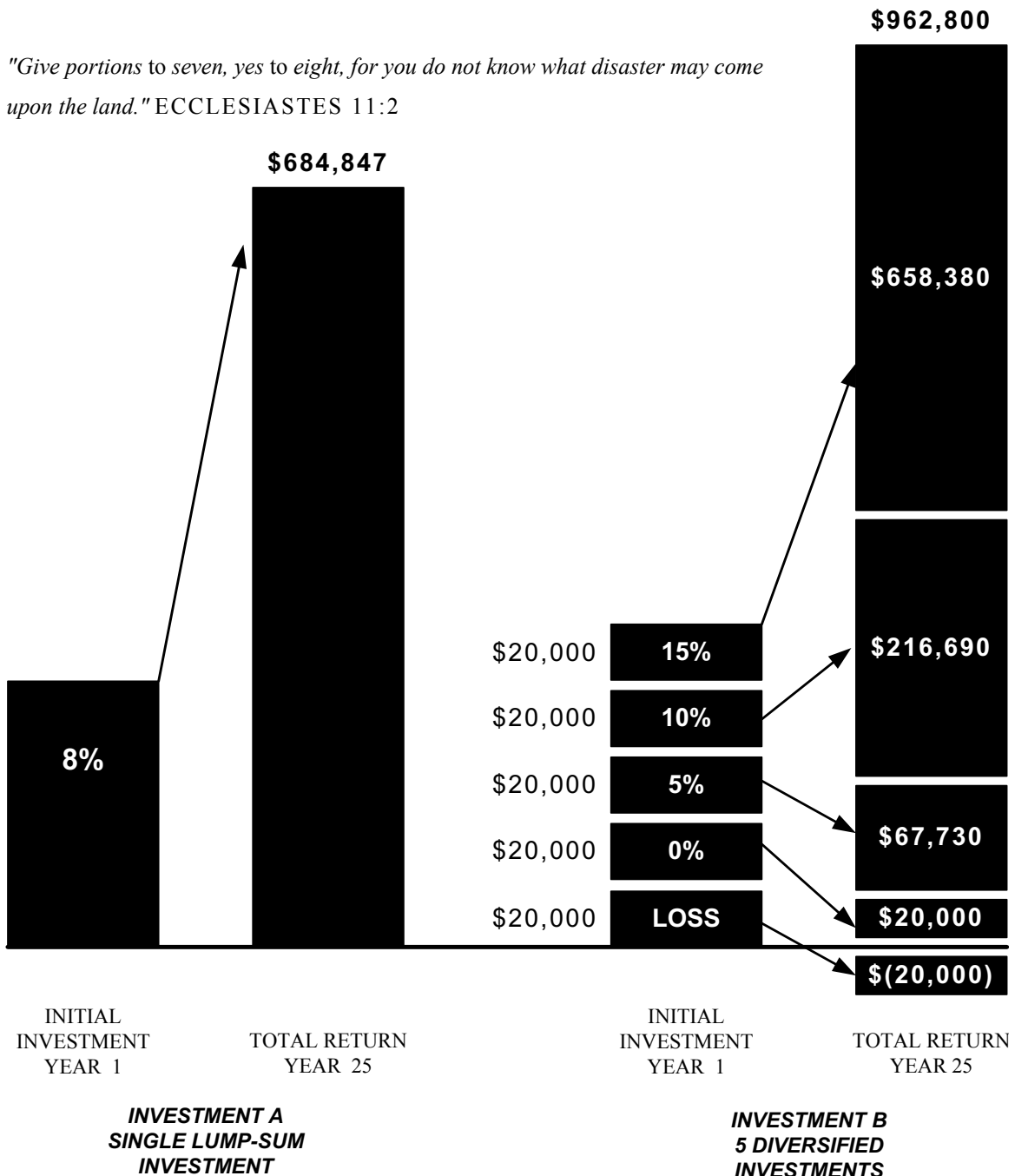
# INVESTMENT DECISION MAKING PROCESS



# HOW DIVERSIFICATION WORKS FOR THE INVESTOR

This chart illustrates the potential difference between lump-sum investing and diversification. Investment A shows what could happen to a \$100,000 lump sum when it is invested in one investment that earns 8% per year. Investment B shows what could happen to that same \$100,000 when it is spread over five different investments, each earning different rates of return. Diversification takes into account inevitable cycles of the market over a long-term time horizon. It could lead to growth in net worth over time, and compensate for periods where values and various asset classes fluctuate.

*"Give portions to seven, yes to eight, for you do not know what disaster may come upon the land." ECCLESIASTES 11:2*



## GLOSSARY OF INVESTMENT TERMS

**ASSET ALLOCATION:** The division of an investment portfolio among asset classes (e.g., stocks, bonds, real estate). The proportions are based on historical performance, risk measurements, and the relationship (correlation) between the asset classes.

**BASIS:** The tax cost which is typically the original price paid by the buyer for an asset plus reinvested dividends in the case of mutual funds.

**BEAR MARKET:** Historically defined as a 20% decline in the stock market.

**BLUE CHIP STOCK:** The stock of a large, financially sound corporation with a strong earnings record.

**BOND:** Legally binding agreement given to you in exchange for a sum of money that a corporation, municipality, church, etc. agrees to repay to you at a specified maturity date with an agreed amount of interest.

**BULL MARKET:** A rising stock market. A bull market typically exists when corporate earnings are strong and rising, and investors are optimistic about future market performance. It can exist during times of speculation.

**CAPITAL GAIN/LOSS:** Difference between total proceeds from the sale of an asset (e.g., real estate, stock, mutual fund, equipment) and its basis.

**CORRECTION:** A drop of 10% or more in the stock market.

**DIVIDEND:** The payment designated by a corporation to be distributed to its shareholders. Corporations usually declare dividends based on the amount of profit.

**DOLLAR COST AVERAGING:** A method of purchasing investments at regular intervals with a fixed amount of dollars, regardless of the prevailing prices of the investments. Periodic payments buy more shares when the price is low and fewer shares when it rises. Because of market fluctuations, this method enables investors, who consistently buy in both good and bad times, to be able to decrease volatility.

**FEDERAL FUNDS RATE:** The rate commercial banks charge each other for overnight loans. A key determinant of borrowing costs throughout the economy.

**INDEX FUND:** A passively managed mutual fund that mimics a specified market index, such as the S&P 500.

**INDEXES:** Widely used as benchmarks measuring historical rates of return across several securities. For example, the Dow *Jones* Industrial Average is a stock index that consists of 30 blue-chip stocks. The S&P 500 is a well known index of stock prices computed by Standard & Poor's Corporation and determined by the price action of a carefully selected list of 425 leading industrial issues, 25 railroads, and 50 utilities.

# GLOSSARY OF INVESTMENT TERMS

*Continued*

**LARGE CAP STOCK:** A stock of a company with market capitalization (number of shares outstanding multiplied by per share price) over one billion dollars.

**LIQUID ASSETS:** Assets that can easily be converted to cash at their current fair market value.

**MONEY MARKET FUND:** A mutual fund that invests in short-term debt instruments such as Treasury Bills, U.S. Government agency issues, commercial bank certificates of deposit, and commercial paper. The interest rate on a money market fund fluctuates with the prime interest rate. This type of money market fund is not insured by the Federal Deposit Insurance Corporation (FDIC).

**MUNICIPAL SECURITIES:** Bonds issued by state and local government units. The income from these securities is exempt from federal income taxes (also state income taxes in some states).

**MUTUAL FUND:** A fund or pool of funds made up of various securities and managed by a fund manager. Individual investors buy shares of the fund rather than owning the individual securities.

**NO-LOAD FUND:** A mutual fund that does not have any direct sales commission.

**NON-LIQUID ASSETS:** Assets that cannot easily be converted to cash without a substantial forfeiture or loss.

**PRIME RATE:** Interest rate benchmark used by commercial banks in establishing lending rates.

**PROSPECTUS:** A publication describing securities or investments offered for sale to the public.

**RISK:** The possibility of not obtaining the expected return from an investment, measured by the difference between actual results and expected results over a period of time. Also refers to the volatility of a particular investment.

**RISK-FREE RATE OF RETURN:** The rate of return on an asset that theoretically carries no risk. U.S. Treasury bills are often used to represent this measure.

**SMALL CAP STOCK:** The stock of a company with market capitalization (number of shares outstanding multiplied by per share price) generally under five hundred million dollars.

**STOCK:** Represents an ownership interest in a corporation.

**YIELD:** Dividends or interest paid by a security expressed as a percentage of current selling price (or face value).



## SCRIPTURAL INSIGHTS ON INVESTING

"The purposes of a man's heart are deep waters, but a man of understanding draws them out."  
PROVERBS 20:5

"The plans of the diligent lead surely to advantage, but everyone who is hasty comes surely to poverty."  
PROVERBS 21:5

"Listen to counsel and accept discipline, that you may be wise the rest of your days."  
PROVERBS 19:20

"Suppose one of you wants to build a tower. Will he not first sit down and estimate the cost to see if he has enough money to complete it?"  
LUKE 14:28

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

"A faithful man will abound with blessings, but he who makes haste to be rich will not go unpunished...a man with an evil eye hastens after wealth, and does not know that want will come upon him."  
PROVERBS 28:20-22

"I have seen a grievous evil under the sun: wealth hoarded to the harm of its owner, or wealth lost to misfortune, so that when he has a son there is nothing left for him. Naked a man comes from his mother's womb, and as he comes, so he departs. He takes nothing from his labor that he can carry in his hand."  
ECCLESIASTES 5:13-15

"The rich rule over the poor, and the borrower is servant to the lender."  
PROVERBS 22:7

"Oh Lord, my heart is not proud or my eyes haughty; nor do I involve myself in great matters, or in things too difficult for me."  
PSALM 131:1

"Better is a little with fear of the Lord, than great wealth with turmoil."  
PROVERBS 15:16

"Keep deception and lies far from me, give me neither poverty nor riches; feed me with the food that is my portion."  
PROVERBS 30:8

# SCRIPTURAL INSIGHTS ON INVESTING

*Continued*

"For this reason a man will leave his father and mother and be united to his wife, and they will become one flesh."

GENESIS 2:24

"Do not be a man who strikes hands in pledge or puts up security for debts; if you lack the means to pay, your very bed will be snatched from under you."

PROVERBS 22:26-27

"Ants are creatures of little strength, yet they store up food in the summer."

PROVERBS 30:25

"A generous man will himself be blessed, for he shares his food with the poor."

PROVERBS 22:9

"But those who want to get rich fall into temptation and a snare and many foolish and harmful desires which plunge men into ruin and destruction."

I TIMOTHY 6:9

"Everyone who is proud is an abomination to the Lord; assuredly, he will not be unpunished."

PROVERBS 16:5

"The wealth of the rich is their fortified city, they imagine it an unscalable wall."

PROVERBS 18:11

"Therefore I tell you, do not worry about your life, what you will eat or drink; or about your body, what you will wear. Is not life more important than food, and the body more important than clothes?"

MATTHEW 6:25

"Do not be anxious about anything, but in everything by prayer and petition, with thanksgiving, present your requests to God. And the peace of God, which transcends all understanding, will guard your hearts and your minds in Christ Jesus."

PHILIPPIANS 4:6-7

"Go to the ant, you sluggard; consider its ways and be wise! It has no commander, no overseer or ruler, yet it stores its provisions in summer and gathers its food at harvest."

PROVERBS 6:6-8

"They will say, 'Where is this coming He promised? Ever since our fathers died, everything goes on as it has since the beginning of creation.'"

2 PETER 3:4