

TRADING THE TALENTS

Principles on Investing

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PREVIEW

~~4. Counting the Cost: Saving, Spending, and Budgeting~~

5. Trading the Talents: Principles on Investing

6. Establishing Our Plans: The Financial Planning Pyramid

FINANCIAL FREEDOM SEMINAR

Audio Recordings and Slides:

<https://audiover.se/3Ji3dr6>



INVESTING?
WHY?
WHAT FOR?

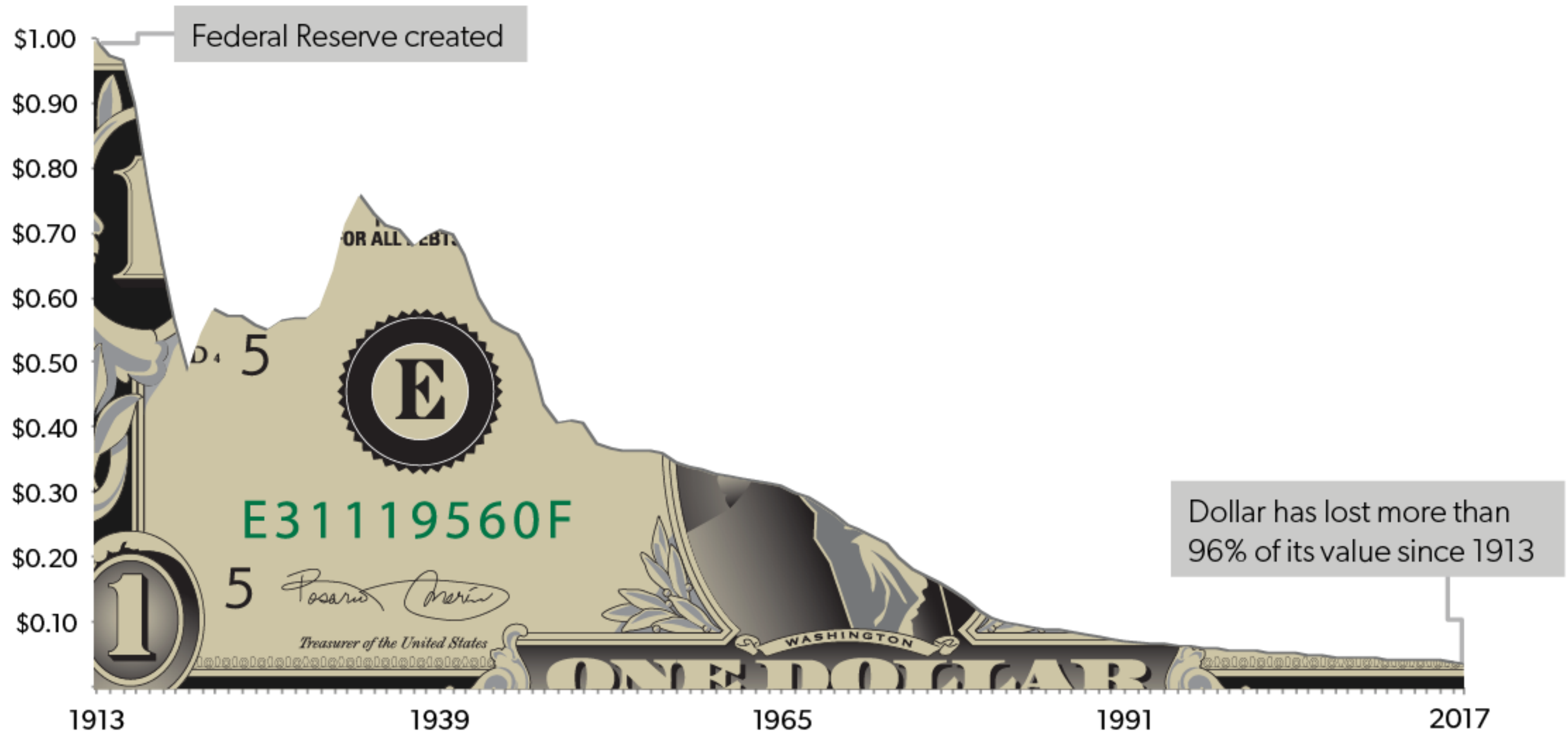
You ought to have **invested my money** with the bankers, and at my coming I should have received what was my own **with interest.**

–Matthew 25:27

But if anyone does not **provide for his own**,
and especially for those of his household, he has
denied the faith and is worse than an unbeliever.

—1 Timothy 5:8

Purchasing Power of the Consumer Dollar (1913–2017)



Source: BLS

Do not lay up for yourselves treasures on earth, where moth and rust destroy and where thieves break in and steal; but lay up for yourselves treasures in heaven, where neither moth nor rust destroys and where thieves do not break in and steal. For where your treasure is, there your heart will be also.

–Matthew 6:19-21 NKJV

INVESTING FOUNDATION

- As God's servants, we are responsible to increase our talents, which include money.
- Objective is to make provision for future needs, which requires defending against inflation.
- Purpose is to have enough, not to hoard, or to become attached to our earthly treasure.

THERE IS NO PERFECT
INVESTMENT THIS SIDE OF THE
BANK OF HEAVEN

INVESTMENT PRINCIPLES

Developing a Scorecard

I. NEVER INVEST IN
SOMETHING YOU DON'T
UNDERSTAND

Through **wisdom** is an house builded; and by
understanding it is established: And by
knowledge shall the chambers be filled with
all precious and pleasant riches.

–Proverbs 24:3-4

DO YOU UNDERSTAND?

1. How does it make money?
2. How can it lose money? (Risks)
3. What are the costs? (Fees & Taxes!)
4. What are the rules/regulations?

DO YOU UNDERSTAND?

Rules of Thumb:

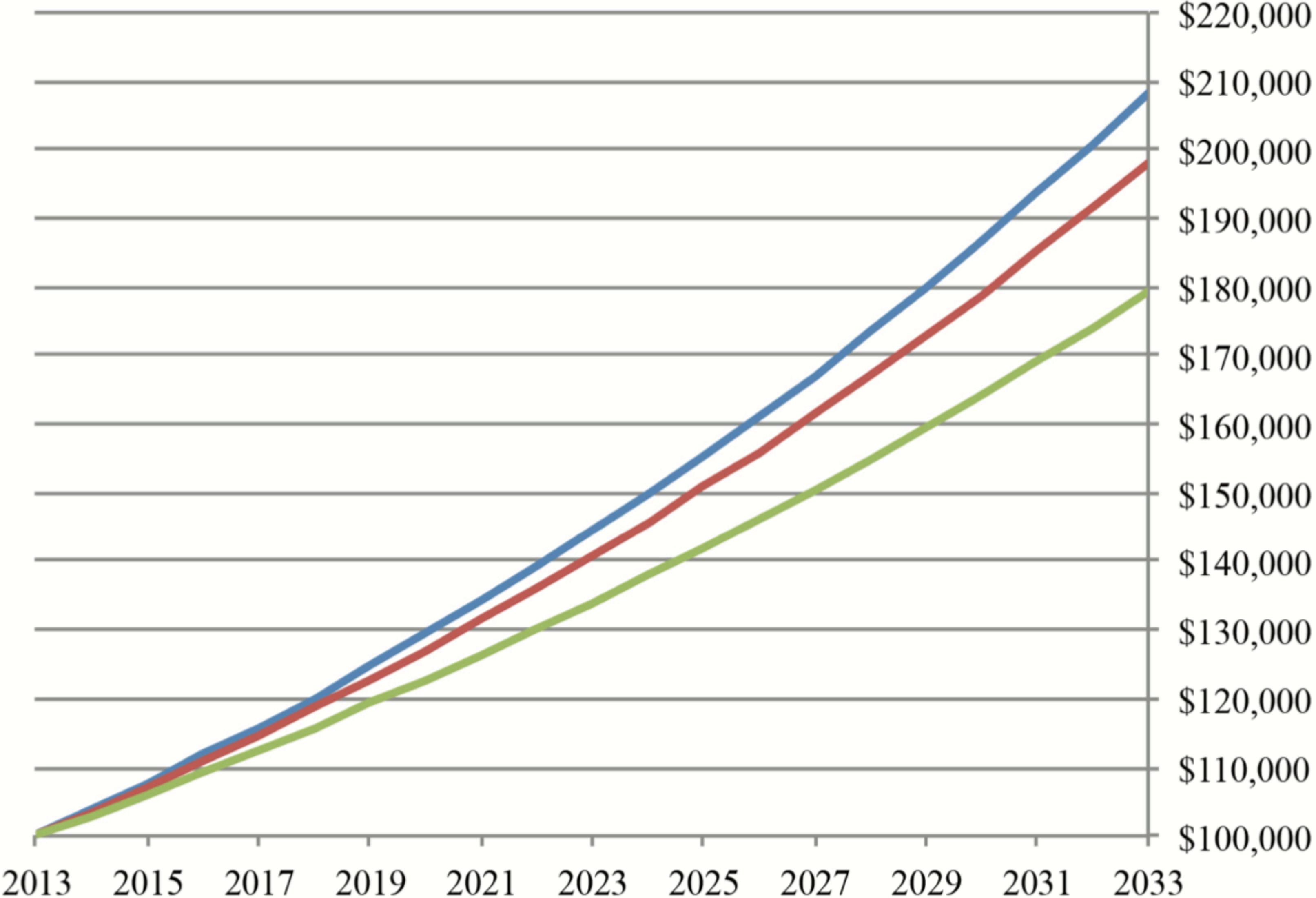
- If it's too good to be true, it probably is.
- Simplicity trumps complexity.
- If you don't understand, walk away.

2. BE MINDFUL OF COSTS AND TAXES

COSTS CAN COMPOUND

- *Rule of Thumb:* Lower cost investments beat higher cost investments.
- Compounding costs (annual expenses and taxes) will negate compound interest and higher returns.
- Beware of high broker fees, commissions, and hidden transaction charges. They come out of your returns.
- Use tax-sheltered accounts.

PORTFOLIO VALUE FROM INVESTING \$100,000 OVER 20 YEARS



In 20 years, 0.50% annual fees reduce portfolio value (red line) by \$10,000 compared to a portfolio with a 0.25% annual fee (blue line).

In 20 years, 1.00% annual fees reduce portfolio value (green line) by nearly \$30,000, compared to a portfolio with a 0.25% annual fee (blue line).

- 4% annual return less 0.25% annual fee
- 4% annual return less 0.50% annual fee
- 4% annual return less 1.00% annual fee

TAX-SHELTERED ACCOUNTS

Retirement	College	Health
401k/403b (Take the match!)	529	HSA (Health Savings Account)
IRA/Roth IRA	ESA (Education Savings Account)	

3. BEAT INFLATION

THE TALENTS

- Wicked servant didn't LOSE the talent, he simply failed to grow it.
- Inflation erodes purchasing power.
- To not beat inflation is burying our talent.



THE TALENTS

- Faithful servants doubled their talents.
- 100% Total Return
- After “a long time” (Matt 25:19)
- What was their annual return?
- Approx. 3% annual inflation



Years to Double Principal

Annualized Rate of Return

10 Years

Approx. 10%

15 Years

Approx. 8%

20 Years

Approx. 6.5%

4. DIVERSIFY

Give a portion to seven, or even to eight,
for you know not what disaster may happen on
earth.

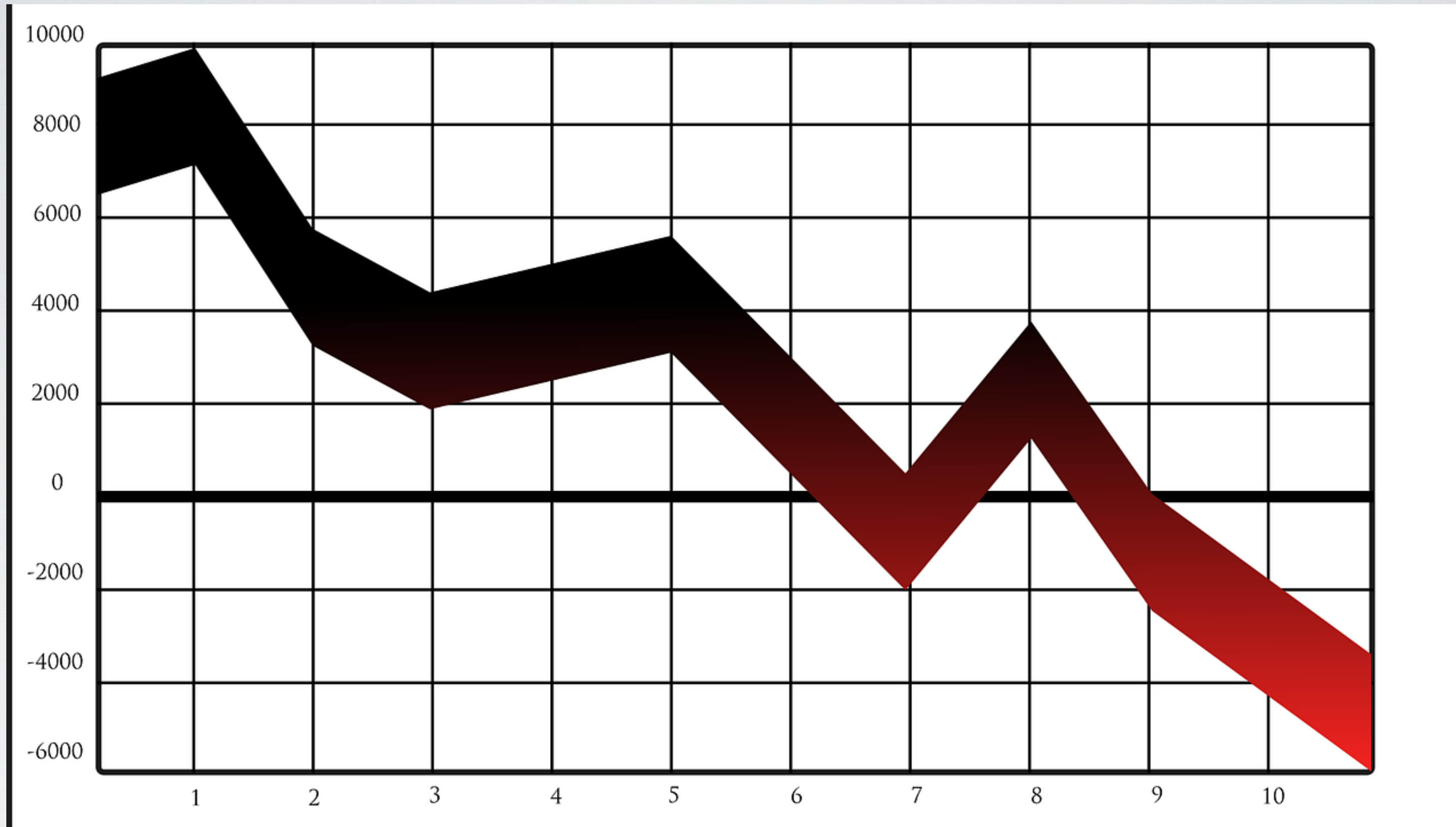
–Ecclesiastes 11:2 ESV

Don't put all your eggs in one basket.

5. KNOW YOUR RISK TOLERANCE



HOW WOULD YOU FEEL?



HOW WOULD YOU FEEL?

TUNING THE RISK METER

1. Investment Time Horizon
2. Knowledge
3. Other Assets/Income Streams
4. Personal Risk Appetite/Aversion

RISK & RETURNS

- All investments have risk.
- Higher returns = Higher risk
- Debt/Leverage magnifies the risk even more.

DIVERSIFY YOUR RISK

Short Term (<5 yrs)

Long Term (>5 yrs)

Low Risk

- Savings Accounts
- Certificates of Deposits
- US Treasury Bonds
- Money Market Funds

- Stock Market
- Real Estate
- Land
- Gold

High Risk

- Stock Market
- Real Estate
- Land
- Gold

- Savings Accounts
- Certificates of Deposits
- US Treasury Bonds
- Money Market Funds

DIVERSIFY YOUR RISK

	Short Term (<5 yrs)	Long Term (>5 yrs)
Low Risk	<ul style="list-style-type: none">• Savings Accounts• Certificates of Deposits• US Treasury Bonds• Money Market Funds	<ul style="list-style-type: none">• Stock Market• Real Estate• Land• Gold

- **Save** for the short-term (5 years or less)
- **Invest** for the long-term (over 5 years).

6. DON'T TRY TO GET RICH
QUICK. DON'T BE GREEDY.
DON'T SPECULATE.

Wealth gained hastily will dwindle,
but whoever gathers little by little will increase it.

–Proverbs 13:11 ESV

A faithful man will abound with blessings,
but **whoever hastens to be rich will not
go unpunished.**

–Proverbs 28:20 ESV



TULIPMANIA!

SPECULATING VS. INVESTING

Speculating

Hoping for quick riches

Motive is to get rich

Based on arbitrary price movement

“What is the price?”

Investing

Patient and steady for the long-term

Motive is to meet needs

Based on expected productivity of
asset

“What is the value?”

7. VALUE YOUR TIME

VALUE YOUR TIME

- Your money should be working for you, not you working some more for your money.
- It shouldn't be another job.
- Our time is also a talent to improve for the Lord.

“Money is a very excellent servant but a terrible master.”

–PT Barnum

8. EXERCISE DISCIPLINE IN BUYING AND SELLING

EMOTIONS & INVESTING

- Don't invest based on emotions or fads.
- Ignore the noise. Sometimes less info is better.
- Be regular, be systematic, be in it for the long haul.
- Keep saving! (Automate!)

REMEMBER WHO'S THE MASTER

So when Jesus heard these things, He said to him, “You still lack one thing. Sell all that you have and distribute to the poor, and you will have treasure in heaven; and come, follow Me.” But when he heard this, he became very sorrowful, for he was very rich.

–Luke 18:22-23

HAVE AN EXIT PLAN.

UNDERSTAND PROCESS TO
LIQUIDATE.

9. MORALITY

Whether therefore ye eat, or drink, or
**whatsoever ye do, do all to the glory
of God.**

–I Corinthians 10:31

ETHICAL INVESTING: 2 PERSPECTIVES

1. Avoid investments that are directly involved with unethical products/industries.
2. Avoid any investments (companies, mutual funds, etc.) that contain even an indirect/incidental interest in any product or industry that would be deemed unethical.

I wrote to you in my letter not to associate with sexually immoral people— **not at all meaning the people of this world** who are immoral, or the greedy and swindlers, or idolaters. **In that case you would have to leave this world.**

—1 Corinthians 5:9-10 NIV

...for he [God] maketh his sun to rise **on the evil and on the good**, and sendeth rain **on the just and on the unjust.**

–Matthew 5:43-45

MORAL APPLICATION

1. Recognize what Scripture does and doesn't require of us, and don't create a moral rule beyond what God requires.
2. Make sure all of our direct interactions are morally pure, and that we are following God's clearly revealed will.
3. Do our best with remaining indirect interactions, recognizing that we live in an imperfect and sinful world, and that we shouldn't neglect major duties while quibbling over minor matters—to not “strain at a gnat, and swallow a camel”. (Matt. 23:24)

For the LORD thy God blesseth thee, as he promised thee: and **thou shalt lend unto many nations**, but thou shalt not borrow...

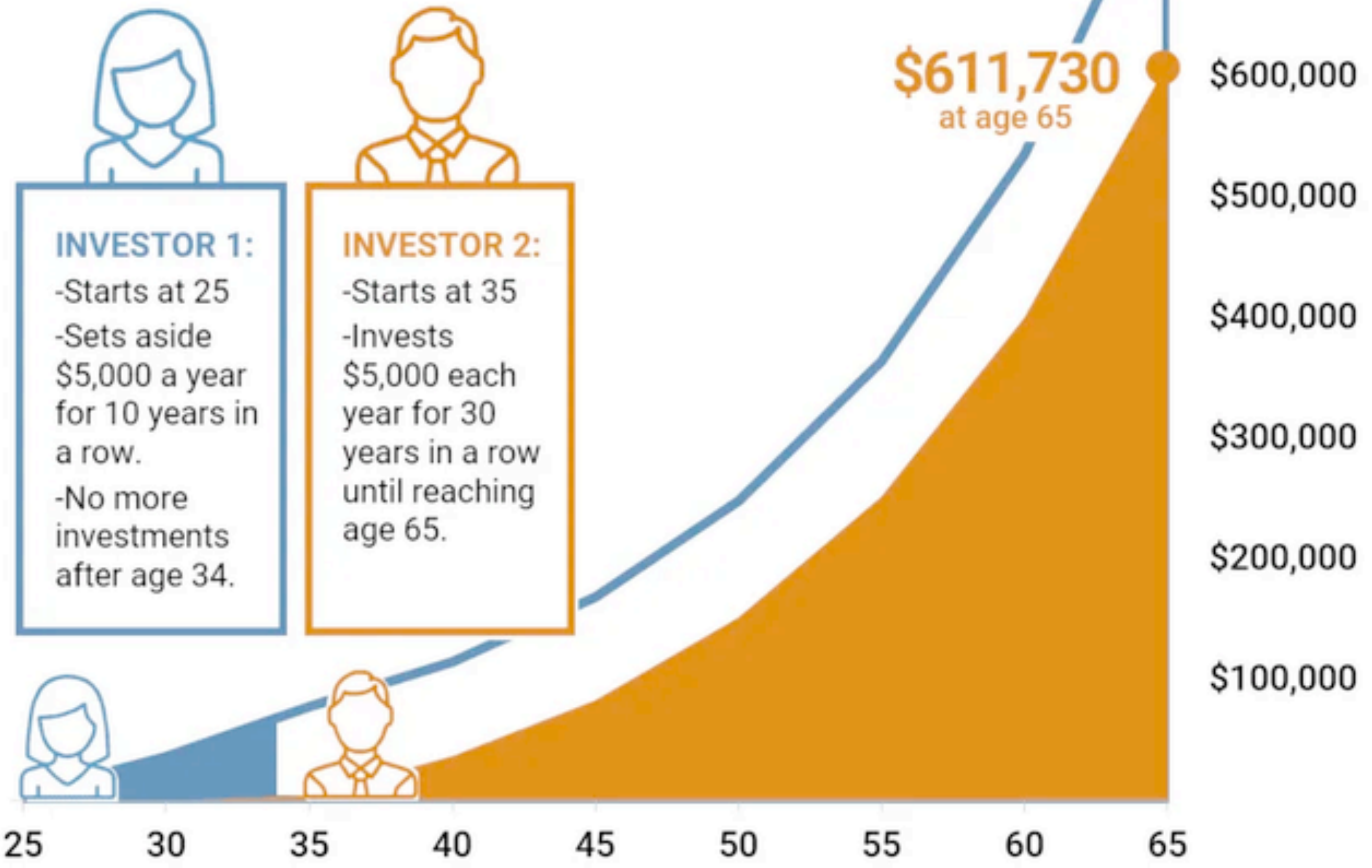
–Deuteronomy 15:66

10. START NOW!



COMPOUND INTEREST: WHO WILL EARN MORE?

This example shows how the earlier a person takes advantage of compound interest, the more time that money has to grow.



INVESTOR 1:
-Starts at 25
-Sets aside \$5,000 a year for 10 years in a row.
-No more investments after age 34.

INVESTOR 2:
-Starts at 35
-Invests \$5,000 each year for 30 years in a row until reaching age 65.

Investor 1: \$50,000 invested
Investor 2: \$150,000 invested

NOTES: Assumes an 8 percent interest rate, compounded annually. Balances shown are approximate.
SOURCE: Author's calculations.

TAKE ADVANTAGE OF THE
POWER OF COMPOUND
INTEREST BY MAKING TIME
YOUR ALLY

“The best time to plant a tree was 20 years ago. The second best time is now.”

–Chinese Proverb

INVESTMENT SCORECARD

- Do I Understand?
- Can It Beat Inflation?
- Is It Low Cost?
- Is It Diversified?
- Is It Non-Speculative?
- How Much Time to Manage?
- Acceptable Risk?
- Liquidity?
- Complete Moral Clarity?

9 POINTS TOTAL

MY REAL ESTATE SCORECARD

- Do I Understand?
- Can It Beat Inflation?
- Is It Low Cost?
- Is It Diversified?
- Is It Non-Speculative?
- How Much Time to Manage?
- Acceptable Risk?
- Liquidity?
- Complete Moral Clarity?

5/9 POINTS

INDIVIDUAL STOCK SCORECARD

- Do I Understand?
- Can It Beat Inflation?
- Is It Low Cost?
- Is It Diversified?
- Is It Non-Speculative?
- How Much Time to Manage?
- Acceptable Risk?
- Liquidity?
- Complete Moral Clarity?

4/9 POINTS

ACTIVE MUTUAL FUND SCORECARD

- Do I Understand?
- Can It Beat Inflation?
- Is It Low Cost?
- Is It Diversified?
- Is It Non-Speculative?
- How Much Time to Manage?
- Acceptable Risk?
- Liquidity?
- Complete Moral Clarity?

6/9 POINTS

MY INDEX FUND/ETF SCORECARD

- Do I Understand?
- Can It Beat Inflation?
- Is It Low Cost?
- Is It Diversified?
- Is It Non-Speculative?
- How Much Time to Manage?
- Acceptable Risk?
- Liquidity?
- Complete Moral Clarity?

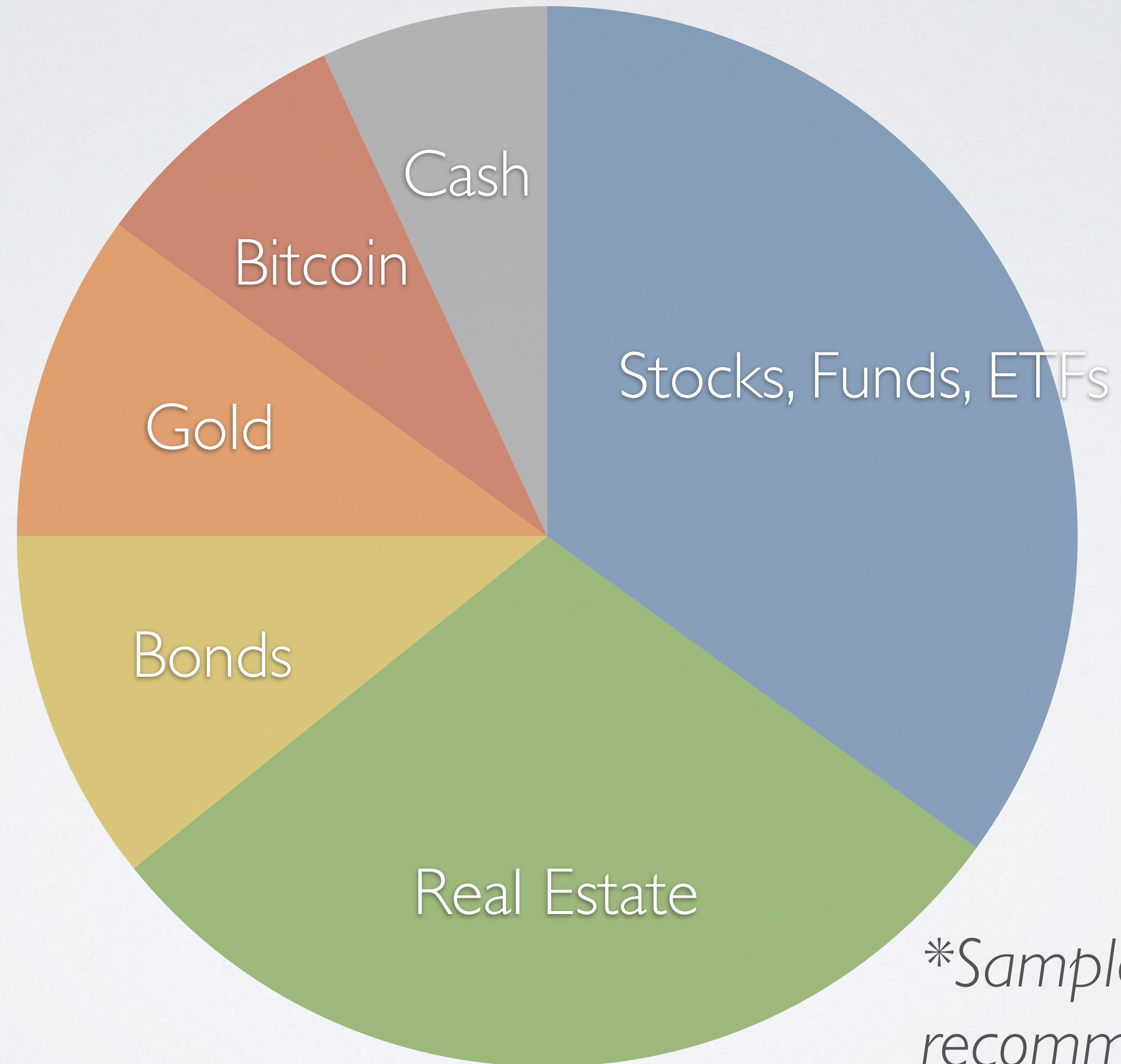
8/9 POINTS

BITCOIN SCORECARD

- Do I Understand?
- Can It Beat Inflation?
- Is It Low Cost?
- Is It Diversified?
- Is It Non-Speculative?
- How Much Time to Manage?
- Acceptable Risk?
- Liquidity?
- Complete Moral Clarity?

5/9 POINTS

DIVERSIFICATION IN ACTION



**Sample representation, not a recommendation for anyone.*

MY PORTFOLIO SCORECARD

- Do I Understand?
- Can It Beat Inflation?
- Is It Low Cost?
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- Is It Non-Speculative?
- How Much Time to Manage?
- Acceptable Risk?
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9/9 POINTS

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