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Financial Wisdom for Living Well

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Your 10 Most Important Financial Moves for 2020

The end of one year and the beginning of a new one is a natural time to make plans for the future. So each December we offer a broad list of planning suggestions for the year ahead. As you read this article, use the checkboxes to mark the ideas that most closely relate to your financial situation and season of life. Then narrow your checked items to a list of 10 that will become your "action items" for the new year. Steadily accomplish those 10 tasks and 2020 will be a year in which you make considerable financial progress.

by Joseph Slife

To have 20/20 vision is to be able to see clearly, whether things are near or far away. We want you to have 20/20 *financial* vision in the year 2020—to see clearly how to strengthen your financial life both in the short-term and the longer-term. To that end, we offer this roundup of roughly 75 planning suggestions, mostly based on SMI articles published in 2019.

Let's start, however, with first principles. For the Christian, managing money well isn't primarily about the return generated on investments or about making sure you have enough to provide for your later years, as important as those objectives are. It isn't even mostly about how much you give to support the work of the Kingdom, as important as that is.

Managing money well is about honoring God by becoming a faithful and wise steward of what He has entrusted to you. This involves recognizing and internalizing the following truths:

• **God is the owner of everything in the universe.** "To the LORD your God belongs the heavens...the earth and everything in it" (Deuteronomy 10:14).

• **God's ownership of all things includes me.** "The earth is the LORD's, and everything in it, the world, and all who live in it" (Psalm 24:1).

• **Since I have nothing I was not given, I have no basis for pride, only gratitude.** "What do you have that you did not receive?" (1 Corinthians 4:7). "For we have brought nothing into the world, so we cannot take anything out of it either" (1 Timothy 6:7).

• **I have management responsibilities, not ownership rights.** "So if you have not been trustworthy in handling worldly wealth, who will trust you with true riches?" (Luke 16:11).

• **God evaluates my faithfulness based on what I do with what I have.** "His master replied, 'Well done, good and faithful servant! You have been faithful with a few things; I will put you in charge of many things.'" (Matthew 25:21).

Selecting your top 10

In the context of these biblical truths about God's ownership and our stewardship, it's time to start making your financial "to-do list" for 2020.

Of course, not all of the ideas will be appropriate for your situation. Some tasks you may have accomplished already (that's great!). Other suggestions may be for a season of life you've not yet entered. So look for those that *(continued on page 179)*

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"FOR GOD HAS NOT GIVEN US THE SPIRIT OF FEAR BUT OF POWER, AND OF LOVE, AND OF A SOUND MIND."

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seem particularly relevant and beneficial now. Next to each such item, put a checkmark in the box provided.

Each suggestion is accompanied by a footnote (perhaps more than one) indicating where to find additional information. For example, Jul:102 means see our July 2019 issue, page 102. Other resources mentioned in the footnotes include the SMI website (www.soundmindinvesting.com) and *The Sound Mind Investing Handbook* (Handbook:C2 means "See chapter 2 in the Handbook"). ❑ By the way, if you don't have a copy of *The SMI Handbook*, now is a great time to order.[1]

Once you've gone through this entire article, review the items you have checked. (If you're married, you and your spouse probably will find it helpful to go through this process separately first and then compare notes.)

Next, narrow your list(s) to 10 suggestions that seem likely to offer the greatest benefits at this stage of your life. (Some action items may involve new goals; others may help you achieve existing goals.) Finally, assign priorities to your final list by numbering the items 1 through 10, starting with the most important item.

Keep in mind that SMI's "Top 10" approach to planning is intended to be a *spiritual* exercise as well as a practical one. So approach this planning time reverently, thanking the Father for His faithful provision in 2019 and expressing your trust in Him for the New Year.

We pray that in 2020 you will continue to "prove faithful" in wisely managing all that the Lord has entrusted to your care (1 Corinthians 4:2). It is our purpose and privilege to help you do that.[2]

First things first

❑ **Seek first, and above all, God's kingdom and his righteousness.**[3] Only by learning to trust in the Lord's provision and providential timing can you be set free from being molded by the impatience and materialism of the surrounding culture. The voice of God calls us to a different way of living, one characterized by joy, peace, patience, kindness, goodness, faithfulness, gentleness and self-control (see Galatians 5:22).

❑ **Consider your true worth.**[4] Not your financial net worth or your "social" value based on the "likes" you get on Facebook. Instead, learn to value yourself by the eternal price that Jesus Christ, the Lord of all, was willing to pay for you.

❑ **Seize the opportunity to delight your King and Master.**[5] You've been given a season of time in which to sacrifice for the advancement of God's Kingdom. That season won't last long. Life is fleeting, "a mist that appears for a little while and then vanishes" (James 4:14). So while you can, sow generously that you might reap an abundant harvest.

❑ **Give more.**[6] As you strengthen your financial foundation, seek the Lord in discerning the next steps He's prompting you to take on your journey of generosity.

❑ **Commit to giving even if you don't feel motivated.**[7] Giving can be like a seed planted in the barren soil of indifference. If you plant in faith, love will begin to grow within you. Jesus said, "Where your treasure is, there your heart will be also."

❑ **Cultivate the virtue of patience.**[8] Patience isn't a character trait that you're either born with or not. Patience is a virtue that can be nurtured by setting reasonable expectations, planning wisely, and engaging in self-discipline. Memorizing Scripture passages related to God's faithfulness is helpful as well.

❑ **Reorient your financial life based on what you really want.**[9] Do you really want more striving after things and more busyness? Or do you want spiritual refreshment and more time with family and friends?

❑ **Communicate your gratitude.**[10] There are people who have made a lasting and positive difference in your life. Have you ever said, "Thank you"? (And please accept our thanks to *you*![11] SMI is now in its 30th year of helping our readers "have more so they can give more." We wouldn't be here without loyal members like you!)

❑ **Help others learn about investing by leading a *Multiply* group at your church.**[12] *Multiply* is SMI's video-based small-group study that equips people with the knowledge, confidence, and biblical foundation needed to invest wisely and well.

Strengthening your foundation

Failing to establish a firm foundation in your finances is asking for trouble! If your financial foundation isn't yet firm, concentrate your efforts here, rather than jumping ahead to more advanced topics.

❑ **Let go of the past and focus on what you can do *now*.**[13] We all make financial mistakes. The best way to recover is to concentrate on the task at hand and seek to be a faithful steward.

❑ **Attack your debt.**[14] Understand the biblical warnings about the dangers of debt and make a firm commitment to pay down debt in the year ahead.

❑ **Create a spending plan—i.e., a budget—for the new year (or bring your existing plan up to date).**[15] Many people think having a budget is restrictive. On the contrary, it is liberating. A spending plan can help you gain financial peace of mind.

❑ **Start using an online budgeting system.**[16] Web-based budgeting systems and mobile apps can simplify the process of planning your spending and keeping track of it. Some systems are free, others charge a monthly or yearly fee.

❑ **Use an online system to implement a zero-sum budget.**[17] A zero-sum budget is akin to the tried-and-true "envelope system" in which the user separates his or her cash into series of paper envelopes based on intended use (e.g., a "groceries" envelope, a "gasoline" envelope, and so on). An online zero-sum budget takes that idea into the digital world, enabling the user to not only earmark money for particular categories but also to track transactions within each category.

❑ **Shop around for a "rewards" credit card that suits your situation.**[18] For a rewards program to benefit you (and not

[1]www.soundmindinvesting.com/handbook [2]Scripture quotations are from the Holy Bible, NEW INTERNATIONAL VERSION®, NIV® Copyright © 1973, 1978, 1984, 2011 by Biblica, Inc.® Used by permission. All rights reserved worldwide. [3]Mar:Cover [4]Oct:Editorial [5]Jul:98 [6]Jul:p102 [7]Jul:Cover [8]Sep:p130 [9]Dec:p182 [10]Nov:Editorial [11]Aug:Editorial [12]Feb:p18 [13]May:Editorial [14]Handbook:C1 [15]Handbook:C2 [16]Jan:p6 [17]Feb:p22 [18]Apr:p54

just the card issuer!) you must become a shrewd user. Find a card with terms and rewards suited to your needs and spending patterns, then be sure to pay your bill in full each month. Also: guard against the "spending creep" associated with credit card use.

❑ **Avoid a "deferred-interest" credit plan unless you have a sure way to pay the bill in full.**[19] Such plans, commonly offered by retail stores and healthcare providers, typically assess no interest in the first few months but tack on back interest if the customer doesn't pay the entire bill by a certain date.

❑ **Get copies of your credit reports.**[20] The particulars in your credit reports can affect everything from your insurability to the interest rate you'll pay on a loan. By law, you can get a free copy of your credit report every 12 months from each of the three major credit-reporting bureaus.

❑ **Refinance your home loan.**[21] Low mortgage rates have made refinancing attractive. Refinancing, however, has tradeoffs, so be sure you understand the pros and cons. Be wary of refinancing to a loan with a longer payoff period, possibly adding years to your payoff date.

❑ **Put the brakes on car-buying costs.**[22] A monthly car payment is one of the biggest roadblocks to financial progress. Steer clear of car debt by shopping for a vehicle you can truly afford.

❑ **Explore new options for your savings,** including ETF offerings known as BulletShares (from Invesco) or iBonds (from iShares).[23] Also investigate the savings rates (often higher than bank CDs) offered by Church Extension Funds.[24]

❑ **Enlist a financial accountability partner.**[25] It can help to have someone, in addition to your spouse, with whom you can share the truth of your financial situation—someone who can offer encouragement, ideas, and, when needed, words of challenge.

Developing your investment plan

❑ **Learn the difference between "active" and "passive" approaches to investing,** and become knowledgeable about the inherent strengths and weaknesses of each approach.[26]

❑ **Study why having time on your side puts you in control of risk.**[27] Time is on the side of the long-term investor. The longer you are willing to keep your money in the market, the greater the likelihood of success.

❑ **Check your portfolio for appropriate asset allocation, which helps balance risk and reward.**[28] Also, be aware of the two common types of asset allocation: strategic and tactical.

❑ **Diversify your investments.**[29] To reduce overall risk, it's important to have a *mix* of investments—i.e., you should have holdings that respond in different ways to economic events. Failing to maintain a diversified portfolio is one of the most common mistakes investors make.

❑ **Be patient when a particular category of stock funds (such as small-company funds) underperforms—even if it occurs for an extended period of time.**[30] The market is cyclical. Many investors abandon a diversified approach at just the point when doing so is the most damaging to their future returns.

❑ **Learn more about momentum, the engine that drives most of SMI's investment strategies.**[31] Momentum refers to the well-documented phenomenon that an investment's recent performance tends to persist into the immediate future. SMI strategies combine momentum indicators with objective rules for buying and selling, thus taking the guesswork out of investing. Momentum-based investing isn't foolproof, but it has an impressive long-term track record.

❑ **Start investing with an SMI approach now—even if your portfolio is small.**[32] Many brokers have lowered minimums and reduced (or eliminated) fees, so it's never been easier to get started with SMI. Today, you can start implementing an SMI strategy for as little as $100 to $500.

❑ **Implement SMI's Just-the-Basics strategy for the simplest approach to stock market investing.**[33] JtB uses index funds—funds designed to match (i.e., not beat) the performance of the market.

❑ **Research the fund options now available for implementing Just-the-Basics at various brokers.**[34] New funds, reduced fees, and lower minimums have created a range of options for JtB investors.

❑ **Implement our Fund Upgrading strategy by following our "Easy as 1-2-3" steps.**[35] Fund Upgrading requires you to open a brokerage account (unless you're Upgrading within a workplace plan). Happily, competitive pressure is continuing to drive down broker fees as well as fund expense ratios.

❑ **Understand the pros and cons of using exchange-traded funds (ETFs) in your portfolio.**[36] ETFs are typically free to trade, have low ongoing expenses, and are widely available. But they have a few disadvantages to be aware of too.

❑ **If you're concerned about minimizing losses during the next bear market, implement SMI's Dynamic Asset Allocation (DAA) strategy (available to Premium-level members).**[37] DAA won't side-step all losses, but our back-tested research suggests the strategy would have notably reduced losses during every period of significant market weakness dating back to 1981.

❑ **Learn more about DAA's investments in real estate.**[38] At times, SMI's Dynamic Asset Allocation strategy calls for holding real estate. This is done via an ETF that invests in shares of Real Estate Investment Trusts (REITs).

❑ **If you're going to implement SMI's Sector Rotation strategy, understand its risks as well as its rewards.**[39] Sector Rotation is SMI's most agressive—and risky—strategy. Long-term returns have been impressive, but short-term pain is inevitable. SR requires patience and courage.

❑ **Stay on course—persist in your plan.**[40] Every investment strategy has both weak periods and strong periods. It takes persistence to stay with a strategy through its weak periods so ultimately it can succeed.

❑ **Write out a personal investment plan** that states your objectives, strategy, asset-allocation model, and how much you will invest monthly.[41] A well-thought-out, long-term plan can help you keep your emotions in check when market events make you uneasy.

[19]Nov:p166 [20]Sep:p134 [21]May:p70 [22]Oct:p150 [23]Mar:p38 [24]Jun:p.86 [25]Jun:p82 [26]Jul:p103 [27]Jun:p87 [28]Apr:p55 [29]May:Cover [30]Dec:p183 [31]Jan:Cover [32]May:p71
[33]soundmindinvesting.com/basic-strategies [34]Jan:p7 [35]Dec:p187 [36]Nov:Cover [37]soundmindinvesting.com/premium-strategies [38]Oct:p152 [39]Dec:184 [40]Mar:p34 [41]Nov:p167

❑ **Use SMI's free online resources,** including our Personal Investment Plan Template and our 401(k)/IRA decision tree.[42]

❑ **If you want to follow SMI's strategies but don't have the time or the inclination to implement them yourself, investigate the professionally managed SMI mutual funds.[43] Another option: the personal investment management services offered by SMI Private Client.[44]** (The SMI mutual funds and SMI Private Client are managed by SMI Advisory Services—an affiliated but separate business from the SMI newsletter.)

❑ **Examine the stock/bond mix of any target-date funds you're using.[45]** Target funds, popular in employer-sponsored retirement plans, automatically adjust an investor's stock/bond mix as retirement approaches. Unfortunately, there is no uniform standard regarding what is the most appropriate "glide path." For example, two funds marketed as "2035" funds (for people retiring in 2035) may have quite different stock/bond mixes, potentially leading to quite different results.

❑ **Decide if an Individual Retirement Account (IRA) is right for you, and if so, which type.[46]** In certain cases, it may make sense to open both a traditional IRA account and a Roth IRA. (Be sure to consider which type of IRA is most likely to maximize your retirement income.[47])

❑ **Learn how a Roth IRA differs from a Roth 401(k).[48]** There are key—and somewhat confusing—differences in how Congress has structured these two similarly named retirement accounts.

❑ **Understand the basics of market cycles.[49]** Cycles may not repeat precisely, but they have recurring and recognizable characteristics. Learning about these cycles can help you not be swayed by the overly optimistic or overly pessimistic emotions that regularly take hold in the market. Instead, you can follow your plan.

❑ **Become knowledgeable about interest rates**—including how rate trends affect savers, borrowers, and investors.[50]

❑ **Prepare yourself mentally for a future bear market by learning about the upside of downturns.[51]** If you have many years before retirement, a bear market is likely to be *good* for your portfolio in the long run because it presents an opportunity to invest at lower prices. Bear markets bring the greatest harm to those investors who cash out their stock investments during the downturn.

❑ **Resist the siren-song of market-timing.[52]** The idea of timing the market—getting out before declines and getting back in before run-ups—is attractive. Unfortunately, effective timing is almost impossible to do consistently. That's why SMI uses timing in very limited ways (and only within the DAA and Fund Upgrading strategies).

❑ **Economic uncertainty is certain, so commit to following these guidelines: spend less than you earn, avoid debt, maintain some liquid assets, and set long-term goals.[53]** No matter what happens with the economy at large, you can't go wrong with such a plan.

❑ **Push back against your most dangerous investing enemy: unwarranted fear.[54]** Proven techniques can help you keep your investing cool when the markets seem chaotic. Don't let your emotions rule your investing choices.

Broadening your portfolio

❑ **If you're a high-income earner, consider a "back-door" approach to investing in a Roth IRA.[55]** IRS rules block people who earn above a certain amount (2020 limits are $139,000 for singles and $206,000 for married couples) from making direct contributions to a Roth IRA. Yet the rules allow *alternative* methods for high earners to make such contributions.

❑ **Use a *taxable* investment account if appropriate.[56]** Most investors initially focus on tax-advantaged retirement accounts, such as IRAs and 401(k)s. But there are good reasons to have a taxable account, too—such as investing for non-retirement-related goals.

❑ **Track the performance of your overall portfolio.[57]** Options range from using semi-automated spreadsheets (that automatically fill in prices) to free portfolio-tracking websites. (For tracking fund *momentum*, use SMI's Personal Portfolio Tracker.[58])

❑ **If desired, apply Upgrading 2.0 signals to your Just-the-Basics or 401(k) indexed portfolios.[59]** The 2.0 protocols kick in on those rare occasions when market conditions deteriorate the point where it's prudent to reduce risk exposure. Although these defensive protocols were researched and developed for Fund Upgrading, they can be applied to indexing strategies if an investor chooses to do so.

Looking toward retirement

❑ **Prayerfully reflect on striking the right balance in saving for retirement, consistent with the teachings of Scripture.[60]** Saving for retirement doesn't necessarily mean a person isn't trusting God for the future. Indeed, biblical teaching on stewardship suggests we should prepare for the possibility that someday we may need to retire from the paid workforce. But this otherwise appropriate goal can become unbalanced.

❑ **As retirement nears, take advantage of the "empty nest" years to build up your retirement savings—and have some fun.[61]** When children grow up and move away, household expenses decline and couples typically have "extra" money available. It's wise to set aside a big portion of such funds for retirement, especially if you're behind on your retirement savings. But don't neglect to create memories by using some of the money to enjoy special husband/wife experiences. You'll be glad you did.

❑ **If you're single, understand how your retirement-planning needs differ from those of married couples.[62]** Singles typically have less-complicated financial situations, which makes planning (and execution) easier in some ways. At the same time, a person who is single can't rely on the greater financial sturdiness that comes from two people pooling their retirement-related savings and Social Security benefits.

❑ **Convert money from a traditional IRA to a Roth IRA as you approach retirement (or in the early years of retirement).[63]** Roth conversions can significantly reduce the taxes you'll pay during retirement, while *(continued on page 189)*

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providing more flexibility regarding the timing of future withdrawals and tax liability. (If you have a large portfolio, the Income Solver™ tool available[64] via SMI Advisory Services can help you develop an effective Roth-conversion strategy.)

❑ **Make a Qualified Charitable Distribution (QCD) directly from your IRA.[65]** A QCD can help you reduce (or avoid) taxation on government-mandated minimum withdrawals from your Individual Retirement Account. At the same time, money that would otherwise go to pay taxes goes instead to the qualified charity of your choice.

❑ **Study the pros and cons of "dividend investing"—an approach popular with many retirees.[66]** With dividend investing, you don't have to sell holdings to generate cash flow. But dividend investors run certain risks, including the possibility that a company may reduce (or eliminate) its dividend. Another risk: Rising inflation may diminish the buying power of dividend payments.

❑ **If you're considering hiring a financial advisor, know which qualities to look for.[67]** Does the advisor share your worldview? Is he or she a fiduciary (i.e., legally obligated to act in your best interest)? Will the advisor furnish you with a detailed breakdown of all fees associated with your account?

❑ **Don't buy an annuity without understanding the downsides.[68]** An annuity—a type of insurance contract—can provide guaranteed income payments for the rest of your life. But the downsides often include giving up control of your retirement savings.

❑ **If you have significant wealth, develop a plan for passing on your wealth to the next stewards.[69]** Inherited wealth can be a blessing or a curse, so this is a task that should be undertaken prayerfully and wisely.

❑ **Prepare a "letter of instruction" for your family and heirs to read in the event of your death.[70]** While wills and trusts cover necessary legal matters, a letter of instruction can help your family and heirs know your wishes regarding more personal matters. A letter also can provide important logistical details regarding where to find documents, insurance policies, tax returns, and other important papers.

❑ **Guard your health by taking advantage of free medical services.[71]** Once you turn 65, you're eligible for a range of free preventive services offered by Medicare, from cancer screenings to flu shots to lab services.

Engaging with other financial matters

❑ **Give your children an allowance.[72]** An allowance enables a child to experience the "real world" of money management. It's up to you, of course, whether to tie an allowance to chores or not, but keep the main goal in mind: Providing your children parent-guided experiences of giving, saving, and spending.

❑ **Help your older children make wise decisions about their education.[73]** A typical college education requires an investment of time and money—lots of it. Will that investment pay off? Probably—if parents and their children think carefully about where to attend and why. On the other hand, some young people may be better served by earning a technical degree or by pursuing some other type of alternative education.

❑ **If you have grandchildren, give them gifts that will be long remembered.[74]** Such gifts include the gift of experiences—perhaps a multi-generational vacation that will give them fond memories of their grandparents. Another great gift: helping to pay for a college education.

❑ **Protect your aging parents from financial fraud and exploitation.[75]** The effects of aging make older people particularly vulnerable to financial deception. Common scams range from tax frauds involving fake IRS agents to recurring fees charged to an older person's credit card. Also be on guard for "caregiver abuse" perpetrated by friends, advisors, paid helpers, or even other family members.

Conclusion: 20/20 vision for 2020

Wouldn't it be great to have 20/20 *fore*sight about what the new year will bring? Perhaps—or perhaps not! Of course, no one has that kind of foresight. But what you *can* have is 20/20 *in*sight about what to do to ensure your financial progress.

So pick your personal "Top 10" from the ideas above. Then, pursue those 10 goals diligently and prayerfully in the year ahead, asking the Lord to help you be a faithful and wise steward of all He has entrusted to your care. ◆

[64]Available to Premier-level customers of SMI Private Client. [65]Jul:p105 [66]Sep:p137 [67]Jun:p89 [68]Aug:Cover [69]May:p73 [70]Oct:p153 [71]Feb:p25 [72]Aug:p118 [73]Jun:Cover [74]Dec:185 [75]Mar:p41