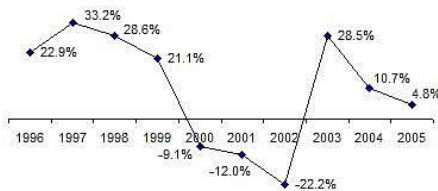


Don't Just Do Something, Stand There!

That seems to be the motto of many investors. For some reason, taking action and losing even a little bit is more painful than not taking action and missing out on even a big gain. So we sit and study and plan and tell ourselves we really need to get on with investing...tomorrow. We keep hoping someone will come along and tell us exactly what to do...without any risk, of course, and with no cost or obligation.

A recent study found that while stock mutual funds earned a little more than 12% a year during the study period, the investors in those funds only earned a little over 2%! Other studies have had similar results. What would an extra 10% a year on your investments mean in your life? How much more could you give back to God? After all, we're just living the Parable of the Talents with the financial assets God has given us.

But where to begin? Why is the average investor throwing away money each year? Let's take a look at the stocks in the S&P 500 over the last 10 years as represented by the Vanguard 500 Index Fund (symbol VFINX). The fund returned the equivalent of 9% per year over that period. Sounds pretty good, but take a look at the year-by-year returns in the graph below and you will see why few investors actually saw that 9.0% (data from Morningstar).

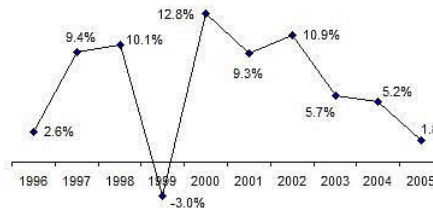


While technology stocks were the darlings of the last half of the 1990s, companies in the S&P 500 also saw their stock prices rising dramatically. Over the course of this run-up, investors poured more than \$95 billion into VFINX - \$30 billion of that in 1999, the year before the bear market began. During the next three years, they pulled more than \$48 billion right back out again, including \$17 billion in 2002 (the year right before the market turned around again). That's right - they put off making decisions and ended

up buying high and selling low and never came close to that 9.0% annual return.

No one likes losses, of course. It's pretty hard to sit tight when you're losing nearly 40% of your money over three years. You wonder how much worse it can get. What if the stock market doesn't recover? It always has before, but maybe this time will be different... Worry, worry, worry...sell!

So what's an investor to do? One option, of course, is to invest in something that's less volatile, like bonds. The graph below shows how the Vanguard Intermediate-Term Bond Index Fund (VBIX) performed over the same time period.

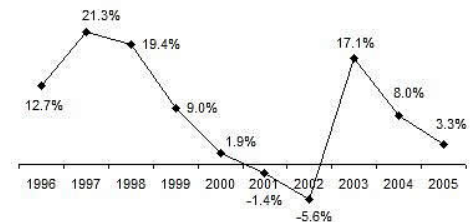


That's much more comfortable

and, in fact, this fund had net contributions from investors throughout the 10 years. But by choosing less volatility, they only earned the equivalent of 6.2% per year on their money - not the 9.0% of VFINX.

But guess what? There is a way to have your cake and eat it, too. Or most of it, anyway. It's called "asset allocation" and it works like this. Suppose our investors had put half of their money into VFINX and half into VBIX at the beginning of 1996. They would have earned the equivalent of 8.2% per year over the 10 years, and their annual returns would have looked like the graph on the right.

How's that for cool - almost all of the return of VFINX with only a little more volatility than VBIX! When one fund was zigging, the other was zagging - bad times in one fund were offset by good times in the other.



So is this the answer to an investor's prayer? Simply split your investments 50/50 between VFINX and VBIIX? Will that give you fame, fortune and children that are all above average and never talk back? No, of course not! There's a little more to it than that, as you will learn next month.

But what this illustrates is that you can reduce volatility (and, therefore, the risk that you will get scared and sell at the wrong time) without giving up all that much return (which you never would have gotten anyway because you would have sold at the wrong time...or maybe never have bought in the first place). Seems like a classic "win-win" to me! And the key is how you allocate your assets - to what types of investments and in what proportions. Numerous studies have shown that this is the single most important investing decision you will make - more than 90% of your return will depend on it. (Yes, I use asset allocation with my own investments.)

And asset allocation isn't difficult to do - you don't have to be an MBA or Wall Street whiz. I'm out of space for this month, though, so we'll have to continue this conversation in July. In the meantime, I highly recommend *The Sound Mind Investing Handbook* by Austin Pryor. You'll find a link to it on under "The Budget Guy Recommends" on the church website (look for "The Budget Guy" under "Special Items and Helps" in the Adult Ministry section).

Remember, it's not just a question of getting better returns on our investments, it's also about becoming better stewards of all that God has entrusted to us.

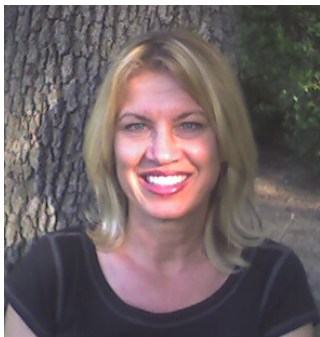
Part of my job at SHPC is helping people get out of debt and manage their finances better. It's free and it's confidential. Just call the Budget Guy, Allen Gunter, at 292-4035 or send an email to BudgetGuy@shpc.org. And check out the Crown Financial Ministries Small Study Groups - call Margaret Fetty at 288-9034 for more info.

Dear Friends,

I have loved being here with you these past nine months and have so many fond memories from my time with all of you.

My heart has grown to experience the love of God in greater ways from being with you and from watching Pastor Larry. You are a loving and generous church and Pastor Larry has modeled a godly pastor's love for you all that has had an impact of grace on my life.

I have learned that my best gift is my authentic self, limitations and all. This has meant release



from anxiety and release from a tension to perform. There is freedom in living this way, clarity in truth and self-acceptance, entrusting all I am to the love of God.

A special thank you not only to Pastor Larry for his patience, wisdom, and guidance in mentoring, but also to Faries McDaniel who loved me like a Father in the faith and whose gifts of counseling and insights made my time here all the more helpful and transforming.

Thank you for encouraging me in God's calling! And now with your love and prayers, and by the grace of God, I will finish my last year of seminary at Fuller in California.

I will always remember you with thankfulness and joy.

In Christ's love,

Darenda

P.S. You may write me or come see me at:

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Pasadena CA 91101 or
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I would enjoy hearing from you!