AUGUST 2022

VOLUME 33 ◆ NUMBER 8

SoundMindInvesting®

Financial Wisdom for Living Well

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Financial Faithfulness in Investing

The Bible has much to say about our finances—including how we invest. Here, financial planner Roger Gum relates the story of an investment gone bad. His tale reveals three poor yet common reasons people save and invest. He contrasts those three reasons with biblical motivations and explores various principles from Scripture that should inform and guide our investment decision-making.

by Roger Gum

In late 1999 we received a family gift to use for the future college educations of our three boys. I was excited and began to research how to invest the cash, eventually settling on several well-diversified mutual funds. They increased in value a little, but nothing happened fast, and I became impatient. I decided to take some of the money and buy an individual stock to see if we could make some real progress.

I stumbled on a small, growing company called PolyMedica, best known for providing diabetes testing supplies. Knowing diabetes was a growing problem projected to only get worse, this company seemed like a good buy. I invested a few thousand dollars into PolyMedica in each of the boy's accounts.

Now this was exciting. Almost every day when I checked the Internet, there was news about the company, and the stock was moving. It was fun to watch the action and try to figure out why the price reacted like it did. Then, after about a week, the stock dropped 15%. I felt sick to my stomach and thought, "*What a stupid investment that was.*"

Not quite yet ready to admit failure, I surmised if it was a good buy last week, it was an even better deal now. So I bought more. The following week, the stock started to climb, and by the third week, it had made up all of the loss and zoomed past my original purchase price. I was thrilled and thought, "*What a great decision it was to buy PolyMedica!*"

As the stock continued to rise, I wanted to own even more PolyMedica. So I started selling my mutual funds to buy additional shares. I began each workday researching PolyMedica. I learned when there was an asterisk by the stock symbol, it meant there was news for the company, and it seemed to always be good. I continued to buy more and more as the stock price rose. Before long, almost the entire portfolio for each boy was invested in PolyMedica. I had not shared any of this with Susan, deciding it was probably best to keep it to myself for now. I would let her know about my brilliance once I had made a lot of money for our boys.

I estimated my average buying price was around $25/share, and PolyMedica was now trading in the $35 range. I loved looking at the total amount in each account and seeing how it was growing. Keep in mind, this was the year 2000, and the rest of the U.S. stock market was in the beginning stages of a significant three-year decline. The Nasdaq market was already in a complete sell-off, yet PolyMedica *(continued on page 115)*

IN THIS ISSUE

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

Financial Faithfulness in Investing

(continued from front page)

(a Nasdaq stock) seemed to do nothing but increase.

I had no more money to buy additional shares, but my days became filled with constant monitoring of ticker symbol PLMD. My days were good when the price was up, and I was in a sour mood when it declined. It was not unusual to see the total balance of the three accounts swing by $5,000 or more in just a day or two. Monitoring PLMD became quite addicting and distracting. I found myself constantly thinking about this small Massachusetts company, which I had never heard of just a few months before.

Then something amazing happened. PolyMedica released its third-quarter earnings report for 2000, a date I had circled on my calendar for weeks. It blew away all the analysts' projections. It was official; PolyMedica was a runaway growth machine. More and more investors started to take notice, and the stock price shot up like never before, surging above $50/share! I could not believe it. In less than a year, I had doubled our gift money in the midst of a horrible stock market. I began to swell with pride. At the same time, I began to fear I would lose what I had gained. The anxiety was exhausting. But it would be ridiculous to sell a stock that did nothing but increase. Right?

As November approached, I decided it was time to share the good news with Susan. Because of her husband's amazing skill, our three boys would indeed be able to go to college. I shared the whole story about PolyMedica with her, emphasizing how well the stock I found had performed. And then I told her how much the accounts were worth. As I was waiting for her adoring response and proclamation of how well she had married, I was met with a completely unanticipated reply.

In a somewhat shaking voice she said, "Sell it." Thinking she had misunderstood, I reiterated how we (I thought this was a good time to include her on this) had made a ton of money.

Again, she said, "I think you should sell it."

"Why in the world should we sell it?" I shot back. She replied, "What if it goes down? It makes me really nervous to have so much in one stock."

Clearly, she did not realize this was PolyMedica we were talking about. It does not go down; it only goes up! Plus, what does she know about this company I had studied inside and out for almost a year.

Our conversation ended, but I could not stop thinking about her response. I vacillated between being angry and wondering if she was right. And I did not like the tension the discussion had created. As I continued to reflect, I started to comprehend how nice it would be to sell and not think about PLMD anymore. We would make a great profit and be done. Of course, I would have to find something else to invest in, but I could do that.

I went back to Susan with a plan. "Babe, I think you may be right, and we should sell PolyMedica. But let's wait until it hits $60/ share. It is at $57/share right now, and the way this stock performs, it will probably hit $60 in the next few days." She seemed relieved and said, "I will just feel a lot better when it is sold."

With that as my plan, I entered limit orders to sell all of PLMD at $60/share. What a run it had been! I never dreamed I could make so much money in such a short period of time, especially during such a difficult stock market.

I continued to watch PolyMedica like a hawk. It always jumped around a good bit, so I was not too concerned when it dropped a few points. All the news continued to be positive. It got as high as $59/share in the next couple of weeks. On Friday, Nov. 17, PolyMedica closed at $54/share. I remember thinking it would not be long before it hit $60.

As was my custom every trading day, my first order of business at eight o'clock on the next Monday morning was to pull up PLMD and see if there was any news from the weekend. On seeing the asterisk, I thought, *"This is it. There is going to be some great news about PolyMedica that will send the stock to $60."*

As I clicked on the link next to the asterisk, I learned *Barron's* had published an article over the weekend about PolyMedica. To this day, I can remember my exact feeling as I read the headline, "FBI Investigates PolyMedica."

How could this be happening? I had already decided to sell. The order had been placed. It was supposed to hit $60, be sold, and we would live happily ever after. As I read the article, it only got worse. Apparently, there were some serious questions about the company's marketing tactics and inappropriate Medicare charges, all of which PolyMedica would strongly deny later in the day. This was not good. Not good at all!

What would happen to the stock price when the markets opened in 90 minutes? I watched every minute of the clock, anxiously waiting for 9:30 a.m.

Finally, the markets opened. To my dismay, PLMD opened at $25.75/share on the morning of Nov. 20, 2000. I was in shock. All my profits had been wiped out as the result of one magazine article. I called Susan to report the stunning and humiliating news. We decided to go ahead and sell it right away; the stress was all-consuming. I sold PolyMedica at $25, exactly what my average buying price was.

I have thought a lot about PolyMedica in the years since. It is not often one investment serves as an example of violating almost every biblical principle that applies to investing. But my handling of PLMD did just that. Let's take a look.

Poor reasons to save and invest

● **Greed.** I admit it. I was greedy. I wanted to get rich fast. I bought an individual stock because my mutual funds were not making enough money.

The character Gordon Gekko is famous for these words in the 1987 motion picture *Wall Street*:

"Greed, for lack of a better word, is good. Greed is right. Greed works. Greed clarifies, cuts through, and captures, the essence of the evolutionary spirit. Greed, in all of its forms; greed for life, for money, for love, knowledge, has marked the upward surge of mankind and greed, you mark my words, will…[save] that…malfunctioning corporation called the U.S.A."

Gekko reflects our craving to chase after more. But Scripture's description of greed is not at all glamorous.

Then [Jesus] said to them, "Beware, and be on your guard against every form of greed; for not even when one has an abundance does his life consist of his possessions" (Luke 12:15 NASB).

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* (1 Tim. 6:9 NASB).

The desire to be rich is insatiable and leads to ruin. Greed clouds our judgment and must be avoided as a primary investment motivator.

● **Pride.** When I told Susan how much money I made due to my careful research and skill to uncover the perfect stock, I was proud, really proud! But Scripture warns against this danger.

Everyone who is proud in heart is an abomination to the LORD; Assuredly, he will not be unpunished (Prov. 16:5 NASB).

Instruct those who are rich in this present world not to be conceited… (1 Tim. 6:17a NASB).

When our net worth increases due to our growing investments, we tend to look to our wealth instead of the Lord as our security and problem solver. King Solomon spoke of the self-sufficiency of the rich this way: "*The wealth of the rich is their fortified city; they imagine it an unscalable wall*" (Prov. 18:11).

● **Fear.** My fear of losing what I had gained was consuming.

Make sure that your character is free from love of money, being content with what you have; for [God] himself has said, "I will never desert you, nor will I ever forsake you," so that we can confidently say, "The Lord is my helper; I will not be afraid. What will man do to me?" (Heb. 13:5–6 NASB).

When it comes to money, we have many fears. Those who lack financial resources worry about not having enough. "What if we cannot afford college, lose our jobs, encounter a medical crisis, or don't have enough to retire?"

The fear is different but often stronger (as I found out with PLMD) for those with plenty of wealth. They agonize over losing what they have. "How would life change if our income decreases, if we suffer a large loss with our investments, or can no longer afford the privileges and possibilities that come with having an abundance of money?"

As the markets move up and down, investors battle with two opposite fears: the fear of loss if we stay invested and the fear of missing out on gain if we try to time the movements of stocks and bonds. These conflicting emotions make it extremely difficult to make wise and rational investment decisions. As our fears are manifested, the anguish they bring distract us from our relationship with the Lord and others. Regardless of how well or how poorly our investments perform, being distracted from what matters most is the more significant consequence.

A biblical philosophy of investing

Remember, all we have is the Lord's. We are called to be faithful stewards of what He has given us. Scripture teaches investments are a tool we can use to advance God's kingdom. The investment result is not all that matters. The process is of extreme importance. What are the biblical principles regarding wise and faithful investment decisions?

● **Have a greater purpose.** My purpose for investing the kids' accounts was to make as much money as I could. On the surface, this seems like a legitimate and noble reason to invest. However, without a greater rationale for investing, we lose perspective and are easily influenced and distracted by our emotions. Developing a biblical purpose for saving and investing is the first step in making wise decisions. At Ronald Blue Trust, we believe investing helps people provide for their families, do good works, and be generous.

Instruct those who are rich in this present world…to do good, to be rich in good deeds, and to be generous and ready to share, storing up for themselves the treasure of a good foundation for the future, so that they may take hold of that which is life indeed (1 Tim. 6:17–19 NASB).

● **Find the right balance.** This biblical investment rationale promotes balance. There are only three ways to save: not enough (presumptuous), too much (hoarding), or somewhere between these two amounts (prudent).

If we don't save enough, we are guilty of presuming on the future. *Suppose one of you wants to build a tower. Won't you first sit down and estimate the cost to see if you have enough money to complete it?* (Luke 14:28 NIV)

We are warned against hoarding in the parable of the rich farmer. Having more crops than he could store, he built bigger storehouses for his grain and goods. Feeling content and satisfied by having more than he needed for many years, the rich man told himself to relax, eat, drink, and be merry. But in Luke 12:20-21 Jesus said to the self-absorbed farmer, "*Fool! Tonight your soul is required of you. And the things you have prepared, whose will they be? This is how it will be with anyone who stores up things for himself but is not rich toward God.*"

Our objective should be to strive for the middle ground. Let's call this prudent savings. To figure out where we fall in these three areas of savings requires planning and soul-searching. Our culture is obsessed with creating wealth. But as believers, we must consider the greater purpose for investing and the biblical principles that guide how we should invest.

How to invest

● **Be humble.** If I had been willing to seek wise counsel rather than arrogantly thinking I could amass great wealth in the one perfect stock, I would have quickly seen the error of my ways with PolyMedica.

Wise investing requires humbly understanding we cannot know the future with certainty. Humility leads to better outcomes when we focus on the process of investing (why we invest and how we invest), rather than just short-term performance. Humility encourages us to seek wise counsel and to keep our hope in God, trusting Him for the outcomes He controls.

● **Understand risk.** Until my PolyMedica stock crashed, I never considered the possibility of losing so much so fast. I was concerned about losing 10% or 15%in a bad month. But I never thought I might lose over 50% in one day.

Greater opportunities for growth always come with higher levels of risk, so we must view these together. Consistent with the parable of the talents in Matthew 25, taking risk in an attempt to realize a return is reasonable. But what is risk?

Most investors define risk as the expected range prices can shift up or down as defined by historical movements. My company prefers to define investment risk as "the possibility of failing to achieve the returns needed to meet financial goals." As investors, we continuously face a number of specific risks that threaten our goals, including:

1. Longevity risk—outliving our money

FEATURE ARTICLE

2. Inflation risk—losing purchasing power as prices increase
3. Volatility risk—having to sell assets when values are low
4. Behavioral risk—making decisions based on fear or greed

We must understand the risks involved with various investments and then decide the appropriate amount of risk to take. *There is a grievous evil which I have seen under the sun: riches being hoarded by their owner to his hurt. When those riches were lost through a bad investment and he had fathered a son, then there was nothing to support him* (Ecc. 5:13–14 NASB).

Risk must be proportionate to our needs. As the verses in Ecclesiastes 5 teach, taking excessive risk with assets needed for critical short-term needs is foolish. Less risk should be taken for resources needed in the short term, while more risk can be assumed for longer-term needs.

● **Practice diversification.** My lack of diversification in the kids' accounts was obvious; one stock does not equal variety. Since we don't know the future, we need to diversify our investments. Solomon understood this need to mitigate risk. *Divide your portion to seven, or even to eight, for you do not know what misfortune may occur on the earth* (Ecc. 11:2 NASB).

Living in Charlotte, North Carolina, a banking center, I have worked with a number of executives over the years from Bank of America and Wells Fargo (formerly Wachovia). Inevitably, most of their wealth was concentrated in their institutions. When I shared the principle of diversification with them, they would say, "But Roger, you don't understand. The only reason I have enough money to be a client is because of my employer. My wealth has come from my bank salary, my ownership of bank stock, and my bank stock options."

I would remind them that Scripture says, "Diversify, because you do not know what misfortune may occur on the earth." These were some of the strongest banks in the country, so I had no reason to suspect anything but continued financial success for them in the future. However, I knew the wisdom from the Bible regarding diversification. I certainly had no idea that in March of 2009, Bank of America stock would hit a low price of $3.09, after reaching a high of $55.08 just 28 months earlier. Or that Wachovia would drop below $2/share in September of 2008, after being worth as much as $60.04 in April 2006. My banker-clients were thrilled with the diversification they implemented before these misfortunes occurred!

● **Plod patiently.** I was not patient, and I did not plod with my PolyMedica adventure. The reality was I had 12 years before my first child would go to college, so I had plenty of time to be patient. Patient investing understands it takes time to achieve higher returns. The opposite of patient plodding is the desire to get rich quick.

A faithful man will abound with blessings, but he who makes haste to be rich will not go unpunished (Prov. 28:20 NASB).

The level of our patience and our ability to make careful, wise decisions will affect our stamina to weather short-term market fluctuations. Be diligent by focusing on the more predictable factors that determine long-term results. Do not be swayed by the unpredictable short-term movements of markets.

Whoever is patient has great understanding, but one who is quick-tempered displays folly (Prov. 14:29 NIV).

● **Invest according to time frames.** When we invest according to our time frames, we are more patient, and that helps us to handle risk prudently. Consider the biggest market decline since the Great Depression, from late 2007 until early 2009. During this time, assume your investments are divided into three buckets—one for money needed in the next two years, one for funds needed in the next three to nine years, and one for assets not needed for 10 or more years.

The first bucket (two-year money) is invested very conservatively (money-market accounts and short-term bond accounts) and maintains most of its value during the downturn. You are easily able to access these funds when needed without suffering any significant loss.

The cash flow needed from your investments in years three through nine are invested in various bond funds. While these suffer declines during this bear market, the losses are much less severe than stock losses. Less than two years after the downturn began, these investments have fully recovered, and when you begin to make any needed withdrawals, the values are higher than they were in 2007.

The assets needed in 10 or more years are invested aggressively in various stock funds, and they did experience large declines during the tumultuous 18 months. While it is not easy to view the losses on your statements, you realize you can be patient, because you do not need these assets for at least 10 years. You stay calm and are very thankful to have other provisions for your shorter-term needs. The stock markets begin to slowly recover, and by early 2013 (fewer than six years from when the decline began), you have recovered your losses from these longer-term investments. And after 10 years these more aggressive equities have significant gains.

The ones who suffered the most during the down market of 2007–2009 invested funds needed in the near term too aggressively and were forced to withdraw them before the markets recovered. Or they panicked and sold everything to cash during the downturn. You can afford to be patient when you invest according to your time frames.

● **Pursue peace.** Watch out for anxiety, because as Proverbs 12:25 says, "*An anxious heart weighs a man down.*" Paul commands us in Philippians 4:6, "*Be anxious for nothing,*" which includes our investments.

Even when PolyMedica was at its height and the profits were substantial, I did not experience peace. The fact I excluded Susan from my PolyMedica decisions definitely multiplied my uneasiness. Prosperity is never a worthy substitute for peace.

● **Be faithful.** *Moreover, it is required of stewards that they be found trustworthy* (1 Cor. 4:2 ESV). I am thankful for my PolyMedica experience. It will forever be a powerful reminder that faithful stewardship is about the process, not the result. While we often judge our decisions based on outcomes that are impossible to predict, God asks us to be faithful stewards, following a biblical process for making decisions. Then, free from anxiety and full of peace, we can leave the outcome in His competent hands. ◆

Excerpted from *Financial Faithfulness: Unlocking Scripture to Avoid the Distraction of Money* by Roger Gum with Missy Schrader. Copyright 2014 by Roger Gum. WestBow Press revision, 2022. Used with permission. Roger is the managing director of the Charlotte office of Ronald Blue Trust.