

CROWN BIBLICAL
FINANCIAL
STUDY

PRACTICAL APPLICATION WORKBOOK



CROWN FINANCIAL MINISTRIES™

True Financial Freedom

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PRACTICAL APPLICATIONS

Week	PRACTICAL APPLICATION ASSIGNMENT	PAGE
1	Introduction	• Prior to First Week, Read <i>Your Money Counts</i> 5
		• Life Group Member Enrollment Form 5
		• <i>Crown Money Map</i> TM : Review Definition of True Financial Freedom and Complete “My Life Purpose” 6
2	God’s Part/Our Part	• Personal Financial Statement. 7
		• Income and Spending. 7
		• Quit Claim Deed. 14
		• <i>Crown Money Map</i> TM : Find Your Location on the Map and Review Destination 1 15
3	Debt	• Debt List 21
		• <i>Crown Money Map</i> TM : Review Destination 2. 24
4	Counsel	• Estimated Spending Plan 25
		• Spending Plan Analysis 32
		• <i>Crown Money Map</i> TM : Review Destination 3 36
5	Honesty	• Snowball Strategy. 37
		• Debt Repayment Schedule. 40
		• Adjust Your Spending Plan. 45
		• <i>Crown Money Map</i> TM : Review “Things to Do Sooner Than Later” in the “Prepare for the Journey” Section 51
6	Giving	• Beginning Your Spending Plan. 53
		• <i>Crown Money Map</i> TM : Review What “Prepare for the Journey” Says About Giving. 96
7	Work	• Spending Plan Hints. 97
		• Idea List 100
		• <i>Crown Money Map</i> TM : Review Tools for the Journey 101
8	Investing	• Saving and Investing 103
		• Insurance and Filing System. 105
		• <i>Crown Money Map</i> TM : Review Destinations 4 and 5 109
9	Perspective	• Organizing Your Estate 111
		• Draft a Will. 116
		• <i>Crown Money Map</i> TM : Review Destination 6 118
10	Eternity	• My Life Goals 119
		• Involvement and Suggestions Survey 126
		• <i>Crown Money Map</i> TM : Review Destination 7 and Long-Term Goals 127
		• Memory Verses Perforated Sheet
	<i>Crown Money Map</i> TM Last Page Insert	

- Saving and Investing 103
- Insurance and Filing System 105
- *Crown Money Map™*: Review Destinations 4 and 5 109

SAVING AND INVESTING



INVESTING PRINCIPLES

When deciding where to invest, you need to consider your goals, timeframe, and tolerance to risk. The concept of risk is important because, as the "Time & Risk" diagram shows, investments with the best track record also carry the greatest potential for loss—at least in the short run.

In other words, the more time you have, the more you can afford to invest in stocks, mutual funds or real estate—all investments that can lose value in the short term but historically offer the best opportunity over the long term. If you have five, 10 or 20 years before you need the money, you can probably recover from most market downturns; but if you need it in less than five, alter your approach.

This means using different investments for different goals. An investment that is suitable for a 15-year goal is simply not appropriate for money you will need in two years. If you need the down payment to buy your home in two years as opposed to funding your retirement in 15 years, you will invest the money differently. Move your money into more conservative investments as you get closer to the time you will need to spend it.

With that in mind, here are strategies to consider over the short (less than five years) and long (more than five years) term.



All Cash Equivalents

Less than five years

When you need the money in less than five years, invest in what are known as cash equivalents: money market funds, certificates of deposit (CDs), and Treasury notes. Your five-year investment portfolio would look like the graph at left.

Money market funds can be purchased through brokerage firms and banks. **CDs**, issued by banks, typically mature in lengths from three months to five years. If the bank issuing the CD is federally insured, your money is insured up to \$100,000. **Treasury notes** are backed by the federal government and are free from state taxes. They mature in three months or longer.

Longer than five years

The most common investments of longer than five years are mutual funds, stocks, bonds, and real estate.

Mutual funds. The biggest advantage of investing in mutual funds is that you can apply the biblical principles of diversification and professional investment advice. There are many kinds of mutual funds. Some are composed of stocks; some of bonds; some contain both. Others mutual funds consist of international stocks or are limited in their selection to an investment, such as real estate. There are also many types of bond funds—those invested in government bonds, corporate bonds, or tax-free municipal bonds. A balanced mutual fund invests in cash-equivalents, stocks, and bonds. Choose funds that have solid track records for a minimum of 10 years.

Stocks. When you buy a stock, you are purchasing part of a company. Generally, stocks have one of the greatest opportunities for profit, but you can also lose a lot if the company does not perform well. Some stocks pay a dividend.

Bonds. When you buy a bond, you loan money to a business or the government, and they pay you interest. Investors buy government bonds for safety; municipal bonds for tax-free returns; and corporate bonds for higher yields. It is important to realize that when interest rates rise, the value of bonds decline, and vice versa.

Real estate. People buy property for income or appreciation. There are tax advantages for owning buildings because depreciation is deductible. However, unlike publicly traded stocks or bonds that can be sold quickly, real estate may require a long time to sell.

Investment Road Map

We have developed a mini Road Map with three destinations for investing. The strategy is to start conservatively and raise the percentage of higher risk-higher reward investments as the amount grows. Always maintain a foundation of conservative assets as a stable base upon which to build. If you are a savvy investor or have expertise in an area of investing, you will need to factor that in your personal strategy.

It's smart to keep 25 percent of investments in cash-equivalents. Occasionally, I will become aware of a good opportunity and am able to invest in it because of the cash. Then, I replenish the cash-equivalents as soon as practical.



Investing Destination 1

Amount: Under \$10,000
Mix: Balanced mutual funds and conservative stocks, bonds (75%)
 Cash-equivalents (25%)



Investing Destination 2

Amount: \$10,000 to \$50,000
Mix: Balanced mutual funds and conservative stock, bonds (50%)
 Stocks, bonds (25%)
 Cash-equivalents (25%)



Investing Destination 3

Amount: More than \$50,000
Mix: Balanced mutual fund and conservative stocks, bonds (25%)
 Higher-risk mutual funds and stocks, bonds (25%)
 Cash-equivalents (25%)
 Real estate & other investments (25%)

Remember, the name of the game is to be a *steady plodder*—consistently add to your investments and allow them to compound like crazy.

ORGANIZING YOUR INSURANCE

There are many types of insurance. Some of the most common are homeowner's, automobile, liability, life, health, disability, and business.

The amount and type of insurance you carry will be dictated by your needs and your spending plan. Many cannot afford to purchase all the insurance they may need. If you are in this situation, prayerfully determine what insurance you can afford and which type you should purchase initially.

Because insurance can be complex and difficult to understand, seek experienced counsel when making your insurance decisions.

Health Insurance

Health insurance pays for doctor, hospital, and other related expenses. The cost of health care, particularly if there is a major illness, can be very expensive. It is important to have health insurance if at all possible.

Life Insurance

The purpose of life insurance is to provide for the survivors' living expenses and lump-sum needs if a bread winner dies. A lump-sum need is any debt, educational expense, or other obligation that would not be a normal recurring expense that you would like to fund or pay off. The first step in deciding how much insurance to carry is to determine your total life insurance needs.

THE LIFE INSURANCE WORKSHEET

Complete the Life Insurance Worksheet on page 107 to get a rough approximation of your life insurance needs. This is not intended to be precise. It does not take into consideration the impact inflation may have. Seek the counsel of an expert to determine your needs accurately.

The example on page 107 uses hypothetical figures based on Matt and Jennifer's spending plan needs.

For your specific figures, the "Present Annual Income Needs" figure should represent what your household's current annual balanced spending plan amount that you calculated on page 31.

Then, the "Subtract Deceased Person's Needs" figure should be an estimate of the income that will no longer be needed if a member of your family passes away. It can be a general figure, but it should represent an amount of income that would no longer be needed to support that family member.

Keep in mind that your personal figures can be general in nature as a means of determining a ballpark figure needed for life insurance. Then, the general ballpark figure can be used to start a conversation with a licensed insurance professional. You'll find that this practical application is an eye-opener to most life group members in how much insurance is really needed to cover a family member's lost income.

Present Annual Income Needs

Enter the amount of your yearly balanced spending plan.

Subtract Deceased Person's Needs

Expenses should drop as a result of the death of the breadwinner. For example, a second car may no longer be required, income taxes may be reduced, and less food will be consumed.

Subtract Other Income Available

Enter the amount of income the survivors will receive from all sources, such as Social Security, investments, retirement benefits, and the surviving spouse's earnings.

Net Annual Income Needed

Present income, less the spending no longer required, and less the income available, determines the income needs for the survivors to sustain their current standard of living.

Insurance Required to Provide Needed Income

To estimate the required amount of insurance, multiply the income required by 12.5. This assumes the survivors will earn an 8 percent return, after taxes, on the insurance proceeds.

Example: \$10,000 additional annual income is needed to support the survivors.

$\$10,000 \times 12.5 = \$125,000$ in insurance invested at 8 percent would provide the needed income.

Lump Sum Requirements

In addition to insurance required to produce income, lump sums may be required for specific purposes or debt repayment. Those needs should be determined and added to the total amount of the insurance.

CROWN MONEY MAP REVIEW: WEEK 8



Review Destinations 4 and 5.

Reaching Destination 4 is a major accomplishment. A great sense of relief usually accompanies the completion of Destinations 2 and 3. Now there is positive anticipation, which may need to be restrained by deliberate patience—particularly when tempted to make a large purchase that will require too much debt. The Destination 4 memory verse states it well: “Steady plodding brings prosperity” (Proverbs 21:5, TLB).

One of your first steps is to prioritize your saving objectives. This excerpt from *Your Money Map* gives good guidance:

To establish the order in which you will save for future needs, review your life purpose and goals. They will help guide how you choose to allocate your savings.

Since Matt and Jennifer already owned their home, they didn't need to save for a down payment. They did, however, choose to continue making the car payment on their paid-off car, writing the check to their own savings account for their next car purchase.

Their top priority was funding the start of Matt's business. They decided to allocate their savings this way: 20 percent for retirement, 20 percent for their children's education, and 60 percent to start Matt's new auto business.

As you can see, Matt and Jennifer's allocation would be inappropriate for many people. But the process they used to create their allocation is appropriate for everyone. You might create a very different plan and allocation because you have different goals. You may not own a house yet or have any interest in owning a business or have any children to educate. Thoughtfully create your own plan, remembering that wishes do not become goals until they are clearly defined.

Two suggestions for Destination 4 saving:

1. Take the amount you were using to pay down debt in the Snowball Strategy and apply it each month to your savings goals.
2. Set up some form of automatic deduction each month to help you enforce your saving objectives.



Destination 5 is a logical continuation of Destination 4. **Buying an “affordable” home means one for which you have:**

1. At least a 20 percent down payment.
2. A mortgage not subject to rate increases that could cripple your spending plan.
3. A mortgage payment that is low enough to be combined with all other housing expenses (taxes, utilities, insurance, maintenance, telephone, cable, Internet account, etc.) and not exceed 40 percent of your net spendable income.



Using some of your monthly surplus to prepay your mortgage is a great idea. Review pages 37-39 of your *Life Group Manual* to see the saving power of small mortgage prepayments.

Investing Decisions

Seek unbiased counsel in making investment decisions. Two excellent sources to help you build a personal investing strategy are—

- Sound Mind Investing - This organization effectively teaches ways that you can invest wisely in mutual funds. For more information, go to SoundMindInvesting.com.
- Kingdom Advisors - This organization, led by Ron Blue and founded by Larry Burkett, is devoted to equipping Christian financial advisors to apply biblical wisdom to their advice and counsel. To learn more about the organization and its Qualified Kingdom Advisor™ designation, please visit KingdomAdvisors.org.

ROADSIDE ASSISTANCE—ONLINE!



When you log in as a life group member in the “My Crown” section of Crown.org, you will have a wealth of online resources to help you during and after your 10-week experience.

- **Mortgage Calculator.** Want to print your own home mortgage payment schedule? Want to find out how much you can shorten your mortgage and save by making extra payments? Want to compare mortgages and interest rates? Go to the “Financial and Career Tools” section of Crown.org.
- **Insurance Information.** Do you need extended personal care insurance? Is having health insurance supported biblically? How can you save money on insurance? Learn more! Go to the “Articles” section of Crown.org.