Depravity Reduces — Continued from page 3

5. **Confirmation Bias –** We tend to look for and find data that supports our decisions or confirms our impressions.
6. **Hindsight Bias –** This is when we look back and see what took place in the past as more predictable than it really was.
7. **Self-enhancing Bias –** We are prone to take more credit for past successes.
8. **Self-protecting Bias –** We are prone to not take responsibility for our failures.
9. **Herding–** Following what everyone else is doing, which leads to "buy high/sell low."
10. **Recency –** This occurs when we focus too much on current events or data and forget to keep historic trends in mind when making investment decisions.

So what can we do to fight deceiving ourselves? As with every area of our lives, take the long view. Ask yourself these questions:

1. Are we living within our means and being good stewards of what God has entrusted to us?
2. Are we saving sufficiently for the future?
3. Are my retirement investments appropriately diversified for my age and risk tolerance? (This is why we love our Target Date Funds.)

Once you have answered these questions, take a deep breath, believe that God is faithful and stop worrying about what the market does in one day, one week or even one quarter. Look at its performance over a decade or three. You and I may not see ourselves clearly today, but by God's grace, in two or three decades we just might see some growth and change. So to my kids, "Yes, you were flying…and with hard work, perseverance, and time you will be like lightening in the water."

—Ed Dunnington, *Financial Planning Advisor*

Element in Investing… — continued from the cover

two concerns into account. Under a moderate scenario, they concluded that a 35 year old today may need to save 12 – 13.4% as opposed to the current recommended 10% contribution rate. For those starting to save later, the contribution rate is even higher. (Don't know how much you need to contribute? We can help you determine what saving rate is best for you.)

But saving more is hard work. It requires a high level of personal discipline and maturity because it means saying 'no' to consumption today in order to better provide for yourself and your spouse tomorrow. Those who are willing to save more will appreciate the boost in savings that comes from contributing to a tax-advantaged retirement plan like the PCA Retirement Plan. Contributing a dollar won't cost you a full dollar of take-home pay. Because of the taxes saved, it may only reduce your take-home pay by between 65-80 cents! Let me encourage you to look for ways to spend less and save more.

Here are two simple ways of responding to this need for more savings:

1. **Contribute all or part of any cost of living or pay increase to savings.** Putting these dollars into your retirement plan prior to ever receiving them is not only pain free but could increase your contribution rate by 1-3% a year. And by doing this over the course of 3-5 years, you could be back on track to achieve your retirement savings goals!
2. **Plan to postpone retirement.** Delaying retirement by working longer provides the opportunity to increase savings by contributing more. It also postpones income distributions from your account while reducing the length of your retirement years. And postponing retirement affords you the opportunity to delay claiming your Social Security benefits until age 70, which increases your retirement income significantly.

With even more savings needed these days, are you contributing a sufficient amount to accomplish your retirement funding goals? We can help you answer that question. If you are like most of us who serve the Lord in the church or a church-related organization, you are probably not saving enough. Please give us a call and let us help you think creatively about ways to get on track.

— Dave Anderegg, *Financial Planning Advisor*

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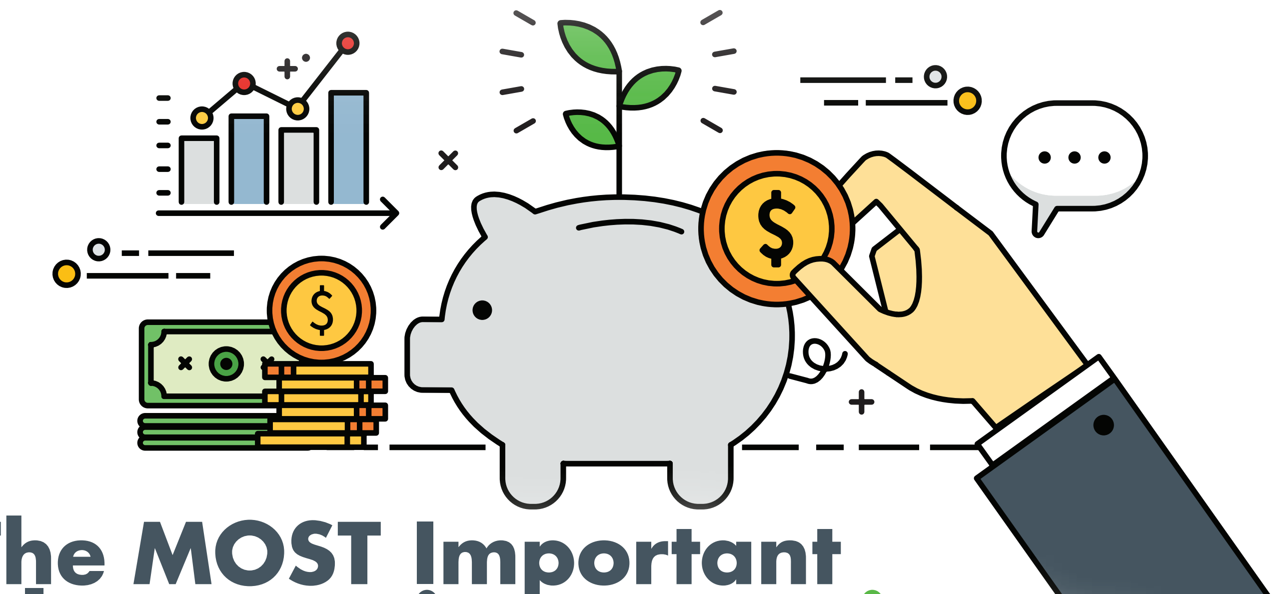

The MOST Important element in Investing…

Intuitively, we all recognize that the key to successful financial management is spending less than we earn. But what about investments? What is the *primary* determinant of investment success? If investment success is defined as achieving our financial goals, then what is the most important driver of success? Is it having the right portion of our savings allocated to stocks and bonds (asset allocation)? Or, is it identifying and selecting outperforming mutual funds? Or is it the utilization of a knowledgeable financial advisor? Statistically, each of these will positively impact your investing outcomes. But surprisingly, none of these are the most important determinant of financial success.

In a recent article published by *Morningstar* magazine, Hal Ratner noted that "we now have a $71.4 trillion industry dedicated almost solely to investment selection and asset allocation… [and] the irony…is that *savings* substantially trump asset allocation when it comes to building wealth and reaching financial goals." Moreover, from his statistical analysis he concluded that though asset allocation is a "main determinant of time-weighted performance…it will almost always pale in comparison to [the importance of] *contribution levels* in reaching financial goals."

In other words, the surest way to fund retirement is to make adequate contributions. It's important to recognize that a few asset allocation tweaks are not going to make the difference in being able to retire or not. Neither does taking more risk than you can afford to take at your given age. Ratner's analysis once again attests to the fact that you cannot invest your way to retirement; you must save your way to retirement. And this is especially critical today.

Experts today insist that we cannot simply look to the past to project future returns. They say that we are facing a 'double whammy.' First, we are in a 'low-return' environment. After inflation and costs, many bond yields are negative. And stocks are at all-time highs. Paying higher prices for stocks and bonds means that we should *expect lower returns* from our investments than those experienced over the past thirty years. And lower returns mean that we

The surest way to fund retirement is to make adequate contributions. It's important to recognize that a few asset allocation tweaks are not going to make the difference in being able to retire or not.

will *need to save more* to make up the difference. Second, we are living longer. For a 65 year old couple today, there is now a more than 50% probability that one of them will live into their nineties. This is certainly a tremendous blessing! But longer retirement periods are more costly and require more savings as well.

Morningstar recently published a study by David Blanchett, Michael Finke and Wade Pfau taking these

— Continued on the back cover

Buck and Kate's EXCELLENT ADVENTURE AT RBI

When you think about PCA Retirement & Benefits, Inc. (RBI) what comes to mind? Insurance? Sure. Retirement? Well, obviously. Anything else? Maybe not. It can be tempting to look at what RBI does from a distance and see a pretty faceless organization. But let me tell you, there is so much more than that.

I came to work at RBI a little less than three years ago, and I have been quite overwhelmed at the love and care that the staff here has for PCA pastors, teacher, and non-ordained leaders and staff. And that should be expected, right? When I came to work here I became immersed in the culture. I got a first-hand look at the motivations behind what this organization does. And it immediately became very obvious to me that RBI is indeed a ministry of the PCA. I have witnessed RBI members pray with and for our pastors, pastors' widows, and church staff. I have heard stories relayed by our retirement and insurance representatives of the burdens our participants are carrying – be they financial, emotional, or otherwise. And I have seen our financial planning advisors (who are also ordained PCA pastors!) joyfully and diligently work with pastors and church staff who are overwhelmed by their financial circumstances.

At this point, perhaps it seems like I am simply an enthusiastic employee. And, while I do hope to be categorized that way, I should explain a bit more about my story.

A little more than three years ago, I married a wonderful man who also happens to be a PCA pastor. He has been in ministry for quite a bit longer than these past three years and seems to know almost everyone in the PCA. So when I came to work here shortly after we married, I naively expected my husband to already know and be excited about all of the wonderful things that I was learning about RBI and its ministry. And while he was very encouraged by the stories I came home with, he was not aware of RBI's excellent work and genuine commitment to love and serve employees.

But as time has passed, my husband has been the recipient of not only my stories and encouraging bits of financial information; he's also had the opportunity to experience the help that RBI loves to give. I should say we have experienced that help. Because that is one of the reasons I have been and continue to be so moved by the heart of this organization. I get to be part of the group of people to whom RBI ministers so well.

> My husband, Buck has been the recipient of my RBI stories and encouraging bits of financial information. And, as a pastor, he has had the opportunity to experience the help that RBI loves to give.

Specifically, RBI has been an invaluable resource regarding our taxes, estimated payments, and generally frustrating and confusing landscape that is a pastor's tax status. While there are no tax professionals on the RBI staff, Ed Dunnington and Dave Anderegg, RBI's Financial Planning Advisors, are continually willing to help us understand any confusing language and seemingly convoluted percentages and calculations we encounter. They have even acted as a financial translator – for lack of a better term – between us and our accountant. It is indescribably comforting for us to know that we have people who 1) understand the unique structure of a pastor's taxes; 2) are willing to clearly explain anything we do not understand; and 3) are unequivocally for us, seeking to help us be in the best financial situation possible.

I am certain there will be many more situations through which RBI will be a blessing to my husband and me. We are so very grateful to know we have caring and knowledgeable financial advocates who understand our unique situation. And my hope is that you would have an experience similar to ours. If you need help, please give the staff at RBI a call. You won't regret it!

— Katelyn Rogers, *Ministry Partner Services Assistant*

Our Depravity Reduces Our Retirement Savings

The Dalbar study shows that the greatest threat to our investment performance is not poor earnings, a slow growth economy, or even growing political tensions internationally. Our biggest problem is us.

"Dad, did you see that swim, I was flying!" So the conversation goes each summer with at least one of my children during the summer swim season. Now, I love my children and I think they are amazing. I would go so far as to say I believe they are better swimmers than most. And yet, when one of my children begins to wax eloquently about their physical abilities I find I have to remind myself, "Ed, don't say anything negative, they can't see yet." They can't see that they are not as strong a butterflier as they think. They can't see that they aren't that quick off the blocks. My children's comments remind me that all of us, including myself, can't see ourselves with clarity. This truth affects everything in my life, including the way I manage finances.

There is a study of investor behavior that is published each year called the Dalbar study. I think of it as the Calvinist's investment study because it shows quantitatively that investors are worse at investing than they believe. Total depravity even negatively impacts our investment returns. The Dalbar study shows that the greatest threat to our investment performance is not poor earnings, a slow growth economy, or even growing political tensions internationally. Our biggest problem is us. The reason? We don't see ourselves with clarity. We are masters of deception, deceiving ourselves most of all. In the financial industry all of these issues fall into what is often called behavioral finance. The College for Financial Planning defines behavior finance as taking "into account that we are all human and prone to our emotions, and that we do not necessarily always act in our own best interests."[1] What are some of the most common reasons for an individual investor's poor performance? Let me submit to you ten explanations:

1. **Loss Aversion –** The fear of loss leads to a withdrawal of capital at the worst possible time, like when the markets are at their bottom. Also known as "panic selling."
2. **Fear of Regret –** The fear of missing out (FOMO) has led many to buy the "hot stock" when it is priced at a premium.
3. **Anchoring –** The process of remaining focused on what happened previously and not adapting to a changing market.
4. **Overconfidence (Optimism Bias) –** Ask anyone if they are an above-average or below-average preacher and most will say they are above-average. Overconfidence leads to illusions of control and investing too much in investments that we know very little about. "There is no correlation between confidence and better performance."[2]

— Continued on page 4

[1] Module 3, Modern Portfolio Theory & Behavioral Finance, 2002-2016, p. 75

[2] Module 3, Modern Portfolio Theory & Behavioral Finance, 2002-2016, p. 65.

INVESTMENT PERFORMANCE: Average Annual Return Through 9/31/17

CORE FUNDS

	3RD QTR 17	1 YR.	3 YR.	5 YR.	10 YR.
PCA Large Cap Growth	5.60%	19.10%	9.70%	12.92%	6.35%
PCA Large Cap Value	4.02%	16.49%	7.62%	13.21%	N/A
S & P 500 Stock Index	4.35%	17.99%	10.25%	13.65%	6.82%
PCA Mid Cap Growth	4.46%	15.67%	9.17%	13.29%	8.05%
PCA Mid Cap Value	4.71%	15.29%	8.57%	14.12%	7.07%
PCA Small Cap	4.96%	21.32%	10.76%	11.83%	N/A
International Stock	4.48%	17.59%	5.32%	5.92%	0.50%
PCA Diversified Bond	0.81%	-0.18%	2.35%	1.81%	3.83%
Conservative Bond	0.46%	1.93%	1.43%	1.10%	1.84%
Stable Value Fnd Q*	0.31%	N/A	N/A	N/A	N/A

TARGET FUNDS

	3RD QTR 17	1YR.	3YR.	5YR.
PCA TR2060	4.48%	16.81%	N/A	N/A
PCA TR2055	4.48%	16.80%	6.94%	10.31%
PCA TR2050	4.48%	16.80%	6.94%	10.31%
PCA TR2045	4.48%	16.70%	6.81%	10.09%
PCA TR2040	4.33%	15.77%	6.45%	9.60%
PCA TR2035	3.96%	14.32%	5.81%	8.82%
PCA TR2030	3.51%	12.28%	4.96%	7.83%
PCA TR2025	2.87%	9.50%	3.88%	6.59%
PCA TR2020	2.33%	7.54%	3.23%	5.55%
PCA TR2015	1.94%	5.86%	2.64%	4.57%
PCA TR2010	1.59%	4.60%	2.43%	3.76%
PCA Harvester	1.56%	4.59%	2.69%	3.19%

*Wells Fargo Stable Value Fnd Q (inception 05/01/17)

Note: *Investment returns shown are net of investment manager, custodial and administrative fees. The above returns are unaudited.*