# *Financial Freedom*

*A strategy for Building Personal Wealth*

*From:*

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# Foreword:

Life is about risk and reward. In order to enjoy the rewards, you must be willing to take some reasonable risks. For example, scaling Mount Everest was a risk that Sir Edmund Hillary was willing to take. Had he not taken this risk, would anyone have put him in their record book?

This booklet contains valuable information regarding a time-tested strategy for achieving financial success. This process might even put you on the path to wealth and personal freedom.

Remember: *the most plausible answers to the world's questions are usually the simplest*, but you must not let simplicity fool you. An easy answer does not mean the road to success will be straightforward. On the contrary, the path will very likely be filled with obstacles and challenges that make a journey's end worthwhile and memorable.

In no way should your journey to ***financial freedom*** be filled with life & death risks as it was for Sir Edmund Hillary, but there will be decisions to be made along the way and investment risks to be controlled, or better yet - avoided altogether.

Many people talk about retiring early, enjoying the rest of their lives and fulfilling long delayed dreams, but few ever do because they either had no plan, or failed to follow one.

This booklet outlines a wealth-building strategy which, if followed, may bring you financial freedom. Even if you do not reach your original goal, you are likely to achieve a better financial future than if you attempted nothing. I submit to you that whatever results you achieve, you will feel every bit as satisfied and deserving of the rewards of success as Sir Edmund Hillary did when he walked into Everest base camp with his Sherpa, Tenzing Norgay on that fateful day in 1953. Why? Because achieving success in your financial life may truly set you free!

Enjoy! *...and happy investing.*

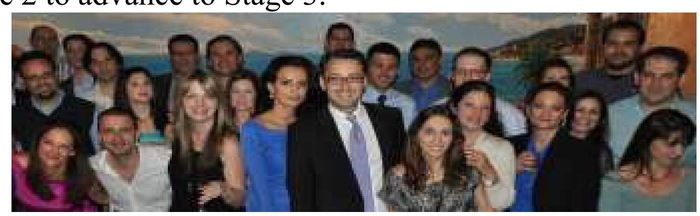
*Alfred L. Angelici, Managing Director*
*Walnut Hill Advisors, LLC*
*October 2012*

## Chapter 1 The Three Stages of a "Financial Life"

**Stage 1: (Time and No Money)** When a you are young there is lots of time but little money. Because you are dependent on your parents for support, shelter and food. Stage 1 normally lasts from birth through at least high school, and for others through college. Entering the "working world" typically marks the transition from Stage 1 to Stage 2.

**Stage 2: (Money and No Time)** Now with full-time work, you find that there is money available to buy and do many things, but you have limited time to enjoy these. Since many big items (ex: car, house, etc) are purchased on credit from a bank, you cannot stop working as you will run out of money and risk losing all that you have.

Sadly, for many people, financial maturity begins and ends in Stage 2. Why? Because people fail to save enough money for retirement during their productive (30-40) working years. And if you fail to save enough money you may remain in Stage 2 for as long as your health allows. If you stop working, you will eventually regress back to Stage 1. This does not have to be! The average person often earns <u>more than enough</u> during Stage 2 to advance to Stage 3.



**Stage 3: (Time and Money!)** The key to successfully reaching Stage 3 is to build up an "**engine**" (portfolio) of wealth during Stage 2 that can provide for you in retirement. A well funded financial engine can then <u>work on place of you</u> to produce the income you need and to free up your TIME to enjoy life. This is <u>***Financial Freedom***</u>!

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# Chapter 2 How to Become a Millionaire?

There are many ways:
- Inherit it!
- Steal it
- Win the Lottery
- Become a corporate executive with stock options
- Become a medical surgeon
- Become a sports or entertainment star
- Start (and sell) a successful business
- Invest in real estate
- Save & Invest

If you will **inherit** $1,000,000 or more, this book is probably not what you need. Instead, you should concern yourself with two questions: (1) “How will you manage your inheritance (*engine*) to make it last you a life-time?” and (2) “What do you want to do the rest of your life?” (Your legacy?)

If your aim is to **break the law** in order to become wealthy, this book is definitely not for you. People with an unscrupulous ilk who covet and take their neighbor's wealth, cause far too much sorrow and pain in the world. Simply look at the financial and personal ruins left behind by the con men at Enron, WorldCom, (Bernie) Madoff Funds, and Peregrine Financial Group.

For the majority of us, any of the other options are legitimate, but some are more plausible and possible than others. First, it's probably a good idea to count on winning the big Lotto prize. Second, the odds are also small for most people becoming extraordinarily compensated corporate officers, medical surgeons or sports and entertainment stars. And even if you are so fortunate, you still have to save & invest enough of what you earned to remain wealthy. Far too often the news prints stories of the latest sport or entertainment star who has lost everything after earning tens or hundreds of millions during his/her illustrious career.

The remaining three options are the most accessible to the average person: (1) Start a Business, (2) Invest in Real Estate, or (3) Save & Invest your way to millionaire status.

To be financially successful in any of these three areas could still take decades. (According to book, “The Millionaire Next Door”, the average millionaire became a million in his/her 50's.)

From personal experience, the most accessible way I know for the average person to become a millionaire is to **Save & Invest** their way there.

**Remember:** *It’s not how much you earn, it’s how much you keep and grow!*

# $$ The Millionaire Formula $$

### *How can you Retire with One Million dollars in 30 Years:*

Step 1: Save $150/week or $650/Month for 30 years, and
Step 2: Earn an 8.5% annual return on your investment

...the Future Value of this plan in 30 years will be **$1,072,959**

Financial Engine Growth Milestones:

| | |
|---|---|
| Year 5 | $ 48,387.58 |
| Year 10 | $ 122,289.97 |
| Year 20 | $ 499,720.07 |
| Year 30 | $1,072,958.71 |

*This formula is, beyond a doubt, the most powerful financial concept known to man – namely, the notion of the "compounding interest".*

To give yourself the opportunity to become wealthy and perhaps a millionaire, you just need to "**tithe**" to yourself. Tithing is saving and investing 10 cents (10 percent) of every dollar you earn during Stage 2. Even if you cannot save the amounts shown above, or you are too old to work and save another 30 years, you should not be discouraged! You should still save and invest what you can for whatever time you have left before retirement. Saving anything or increasing saving is likely to provide you with greater benefit in the future than not saving.

### *How Big Does Your Financial Engine Need to be?*

To calculate, simply divide your desired annual retirement income by 5%.

Example: $\frac{\$80{,}000\text{/year in Retirement}}{5.00\%}$ = **$1.6M** (financial engine)

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i. For additional help with savings goals, check America Saves.org at the following URL: http://www.americasaves.org - a campaign organized by the "Consumer Federation of America" and other nonprofits in conjunction with corporations and government agencies to help Americans build their net worth.

ii. Definition: $1M = $1,000,000

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# Chapter 3 What Can a Million Dollars Pay Me?

When you reach your financial goal, you can choose when to start Stage 3. You may start immediately, or postpone retirement and continue working, saving and investing until some future date arrives. There is no requirement to retire immediately. You decide.

Once in Stage 3 you will use your *financial engine* to generate the income for your new life-style. If the engine is large enough and performs well, it could possibly generate a perpetual income for you and your family! No need to estimate a precise mortality date so as not to outlive your savings!

What pre-tax income might $1M generate annually? (Below are a few examples)

| | | | |
|---|---|---|---|
| Ex #1 | $1M financial engine returning | 4% annually will create | **$ 40,000 / year income** |
| Ex #2 | $1M financial engine returning | 5% annually will create | **$ 50,000 / year income** |
| Ex #3 | $1M financial engine returning | 8% annually will create | **$ 80,000 / year income** |
| Ex #4 | $1M financial engine returning | 10% annually will create | **$ 100,000 / year income** |

NOTE: Prudent financial planning suggests that $1.0M should be able to sustain a pay out between 3% - 5% ($30,000 - $50,000) annually in perpetuity.

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***NOTE***: You can scale the annual income returns in the chart above simply by multiplying the results (and the financial engine) by any factor for your own personal expected "engine" size.
Example: If you double (2x) your financial engine to $2M your expected annual income return at 5% would be 2 x $50,000 = $100,000 per year. If you expect to have one-half (1/2x) the financial engine or $500,000 your expected annual income return at 5% would be 1/2 x $50,000 = $25,000 per year.

# Chapter 4 Why People Do Not Save?

***"Top 10"*** excuses:

10. I plan to start tomorrow (or soon)...
9. Life's too short not to enjoy it now! I may not be here tomorrow.
8. I don't earn enough to save money for the future.
7. I just bought a "big-ticket item" (i.e. house, car, etc) and cannot save now.
6. I have Social Security and a company Pension plan; why should I save?
5. I don't earn enough to save for the future.
4. I am saving for a big-ticket item (house, car, etc) and cannot save right now.
3. My spouse spends all the money, there is nothing left to save.
2. Why save? You cannot take it with you when you die...

...and the number one reason people give is:

1. I've got plenty of "TIME" to begin saving (for my retirement)!

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***What's wrong with these logical excuses?***

Putting gratification today ahead of future financial security and life-style will almost certainly ruin your chances of achieving Stage 3. Proof that you could live a reasonably long life, often only requires a glance back at your family's history!

***What is the primary wealth building factor that people fail to see?***

**TIME!** Time is <u>the most important</u> component in the equation for building wealth and becoming a millionaire. The sooner you start, the less you will have to save and the greater will be the probability for reaching your goal! (*See example on next page*)

Chapter 5 **Why Start Saving When You're Young?**

The example below compares the hypothetical results of two savers over their working life.

| AGE | SAVER #1 | SAVER #2 |
|---|---|---|
| 21 | $5,000 | |
| 22 | $5,000 | |
| 23 | $5,000 | |
| 24 | $5,000 | |
| 25 | $5,000 | |
| 26 | | |
| 27 | | |
| 28 | | |
| 29 | | |
| 30 | | |
| 31 | | $5,000 |
| 32 | | $5,000 |
| 33 | | $5,000 |
| 34 | | $5,000 |
| 35 | | $5,000 |
| 36 | | $5,000 |
| 37 | | $5,000 |
| 38 | | $5,000 |
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| 42 | | $5,000 |
| 43 | | $5,000 |
| 44 | | $5,000 |
| 45 | | $5,000 |
| 46 | | $5,000 |
| 47 | | $5,000 |
| 48 | | $5,000 |
| 49 | | $5,000 |
| 50 | | $5,000 |
| 51 | | $5,000 |
| 52 | | $5,000 |
| 53 | | $5,000 |
| 54 | | $5,000 |
| 55 | | $5,000 |
| 56 | | $5,000 |
| 57 | | $5,000 |
| 58 | | $5,000 |
| 59 | | $5,000 |
| 60 | | $5,000 |
| FV = | $943,624 | $904,717 |

**Saver #1**: Starts putting $5000 a year into her Individual Retirement Account (IRA) at the beginning of the year she graduates from college at age 21 and stops contributing to her IRA at age 26.

Total Contributions = **$25,000**

**Saver #2**: Delays opening and investing in his IRA until January 1$^{st}$ of the year he turns 31. He invests every year through the age of 60.

Total Contributions = **$150,000**

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**Results Compared:**

- Both savers are the same age and retire on January 1$^{st}$ of the year they both turn 61.
- Both savers earn a hypothetical 10% return on their money every year. (10% is the historical, average return on stocks over the past 30 years.)
- At retirement, Saver #2 ends up with **$38,907 LESS** in his account than Saver #1, even though Saver #2 put **$125,000 MORE** into his IRA account over his Stage 2 working life; **5x** more in personal savings than Saver #1!

**Chapter 6 ** IMPORTANT NOTE****
**The example on this page is not intended to suggest any potential results for the reader. It is here ONLY for the purpose of demonstrating the power that TIME plays in any sound investment strategy!**

**"FV" = Future Value**

Chapter 7 **Chart: A Detailed Annual View of the Plan**

***Assumptions:***

<> Saver starts with an initial balance of $0.00 (Zero)
<> Regular monthly savings is invested in full at the first day of each month
<> The strategy assumes an annual return on investment of 8.5%
<> All other rates of return in this chart represent other comparison results only

**Notice how a small change in return rate results in a significant difference in final results!

| | Compounding Annual Interest Rate | | | | | | Monthly |
|---|---|---|---|---|---|---|---|
| **Year** | **3.0%** | **5.0%** | **8.5%** | **10.0%** | **12.0%** | **15.0%** | **Savings** |
| 1 | $7,908 | $7,981 | $8,111 | $8,168 | $8,244 | $8,359 | **$650** |
| 5 | $42,020 | $44,204 | $48,388 | $50,334 | $53,085 | $57,573 | |
| 10 | $90,832 | $100,933 | $122,290 | $133,149 | $149,525 | $178,891 | |
| 15 | $147,532 | $173,738 | $235,161 | $269,406 | $324,727 | $434,529 | |
| 20 | $213,396 | $267,172 | $407,549 | $493,590 | $643,016 | $973,206 | |
| 25 | $289,905 | $387,081 | $670,838 | $862,442 | $1,221,250 | $2,108,294 | |
| **30** | $378,779 | $540,968 | **$1,072,959** | $1,469,317 | $2,029,464 | $4,500,132 | |

**** IMPORTANT NOTE****
**The examples on this page are not intended to suggest any guarantee in the result that the reader may achieve. They are ONLY here for the purpose of demonstrating how differences in the "rate of return" obtained would impact a sound wealth building strategy!**

# Chapter 8 Investing 101 – The Defensive Investor

Become a "**Defensive Investor**". A Defensive Investor is a person who always invests with "safety of principal" first in mind. According to Benjamin Graham, the father of modern value investing and the mentor of Warren Buffett, the average person should expect to achieve a fair return on their investments while maintaining safety of principal. Ben Graham goes on to say, "*...to attempt to gain above average returns in the general securities marketplace requires a great deal of effort, special insight, and constant oversight of one's investments and changes in the marketplace*."

Since Ben Graham wrote his famous book, "***Securities Analysis***" (in 1934), history continues to prove the validity of defensive investing. The ability of investors to consistently "beat" the market (i.e. S&P 500 index annual return rate) is rarely achieved. Statistical analysis demonstrates that **75%** of all professional mutual fund managers cannot beat the market over time. Therefore, I assert that *beating the market* is not reproducible by the average investor, and should be avoided. Best of all, beating the market is not required to reach *financial freedom*!

***Investing Guidelines for the Defensive Investor:***

1. Rule #1: Just don't lose the money
2. Rule #2: Never forget Rule #1
3. Expect to achieve a reasonable return on your investments
4. Accept that there will be dips in the road; investments **do not** always go **UP**

## Chapter 9 And You're On Your Way...

Take these first three steps towards your own ***Financial Freedom***:

#1. Make TODAY the perfect time to start your Stage 2 savings program.

#2. Establish your financial GOALS.

*If you do not feel comfortable doing this yourself, we at Walnut Hill Advisors, LLC would be honored and privileged to discuss your specific situation during a **FREE** initial consultation meeting. Give us a call.*

#3. Develop a comprehensive financial PLAN.

*Financial Planning is the keystone of our business. We employ a 10 Point program and questionnaire to help you gather the critical information needed to structure a customized plan for you , your family, your business and your heirs.*

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***Walnut Hill Advisors, LLC** has experience with several wealth building, wealth preservation and retirement income strategies. We are a fee-based Massachusetts Registered Investment Adviser located in Medford, MA.*

*For a FREE copy of our most current ADV business disclosure form, please visit our website at* www.walnuthilladvisorsllc.com *or call us at 781.393.0021 and we will mail one to you.*