CENTER FOR ECONOMIC FREEDOM
A PROJECT OF FREEDOMWORKS FOUNDATION

FINANCIAL FREEDOM TOOLKIT

FreedomWorks Foundation

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Sharing time tested ideas to help you reach your own heights—not the government's plan for defining your future.

Our population has seen more wealth creation and technological innovation than ever before in the history of mankind. Even with the COVID-19 pandemic, more prosperity has been generated at astonishing rates for more people than ever in history. Combined U.S. household wealth rose to a record $141.7 trillion in 2021. This reflects the power of our Free Markets. Still, a liberal narrative, which contends that achieving financial security is hopeless for the average American, is embraced by our nation's youth, D.C. elites, and the Media. Liberals think that a vast government safety net is the only way to establish financial security for all Americans.

Yet, the opposite is true. There are opportunities within our grasp despite the misconception that free market potential skews only to the rich. A major path toward wealth creation is ownership—and one of the easiest pathways to ownership is through stocks. But whether or not a person participates in the stock market is strongly correlated with household income, formal education, age, and race. In 2021, a Gallup poll showed that 89% of adults in households earning over $100,000 owned stocks versus 63% of those in the $40k to $99k income bracket. More than 60% of men but only 53% of women hold equities. 65% of white adults, 45% of black adults, and only 29% of Hispanics own stocks. Clearly, we need to change this disparity now.

Our mission is to address these imbalances by breaking through the confusion and patronizing narratives and shining a light on the many resources available today to grow and maintain your financial independence. Financial literacy is absolutely essential for every American.

This toolkit summary will also clarify the role of bad government policies: such as unchecked multi-trillion dollar spending packages, harmful taxation, misguided regulation, and the role this plays in negatively impacting your long-term savings. The skyrocketing costs of food, housing, education, and healthcare are one example directly related to these bad monetary and fiscal policies.

Unfortunately, too many people remain apprehensive about investing. Retirement readiness, let alone closing the "wealth gap" or reducing inequality, is not an issue that the government can directly solve and will be an impossible goal for millions if basic financial know-how is not addressed and disseminated.

Our goal, then, is to help build your confidence in creating a healthy, independent financial future. This simple toolkit holds lessons and insights meant as both a resource for the young and a market refresher for the seasoned investor. We explain in the simplest terms the enormous benefits that our free market financial system offers for those who understand how it works. We strongly believe every American can secure his or her financial future and reap the rewards of our dynamic private sector. And by the time you are through with this toolkit, you will better understand why you, not the government, are the best steward of your money.

What Free Markets Mean to the Individual

Our private sector ecosystem, which most of us take for granted, is composed of millions of large and small businesses experimenting with how things can be done better so that their profits and wealth grow. Too often, people mistake our capitalist market system for a cruel zero-sum game. While there are indeed winners and losers in business, the reality of how this powerful system actually grows the pie for everyone over the long term is missed. A clear example: In 1980, the U.S Gross Domestic Product (GDP) was $2.85 trillion. As of the second quarter of 2021, our GDP grew to $22.72 trillion! The basic elements of free markets revolve around competition, pragmatic regulation, innovation, and disruptive technology, all of which are key to creating wealth and employment opportunities and reducing poverty.[1]

Thomas Sowell, the great economist, said it best when he shared: "Freedom… is, above all, the right of ordinary people to find elbow room for themselves and a refuge from rampaging presumptions of their 'betters.'" In other words, freedom provides an opportunity to capitalize on our skills and reap the rewards of our investments.

If we don't take advantage of our free market system and instead surrender our financial freedom to the government, we leave our financial security in the hands of politicians and bureaucrats who don't always have our best interests at heart and have a history of grossly mismanaging funds. A worst-case scenario of the tragic consequences of state control is how Venezuela destroyed its private sector, and as a result, devastated its economic growth. From the late 1950s to the early 1980s, the Venezuelan economy, benefiting from high oil prices, was one of the strongest and most prosperous in South America. It was considerably more productive than China. Unfortunately, this once prosperous country capitulated to corrupt, misguided leadership. The consequences of this economic and political breakdown continue to affect South, Central America, and Mexico, as evidenced daily by the steady stream of migrants at our border. We must never underestimate our country's advantages: the power of Freedom and the opportunity it offers to build your own financial security.

1 https://www.bea.gov/news/2021/gross-domestic-product-3rd-quarter-2021-second-estimate-corporate-profits-3rd-quarter

CHAPTER 1: YOUR NEST EGG: WHY, WHEN, AND HOW DO I GROW MY SAVINGS?

"I have enough money to last me the rest of my life, unless I buy something." - Jackie Mason

Rule 1 ~ Start saving early. Hopefully, you are earning enough money doing work that you enjoy and helps build your skills. "If you are skilled, your wallet will soon be filled." Stashing even small amounts of cash when you are young is key to growing savings, even if you don't earn a high salary. When it comes to investing, time is your golden opportunity. Compounding returns can turn savings into wealth over time.

Rule 2 ~ Take advantage of technology resources. Tech applications make it easy for anyone to learn and invest their money, even if you have a modest budget. New digital applications allow you to automatically micro-invest your money. Some will allow you to start investing for as little as $5. Today's financial tools are far greater, cheaper, and more effective than ever. There is a range of free online apps available to make finance and investing easier to understand. (See chapter 5)

Rule 3 ~ Make a realistic budget; figure out a savings plan; then purchase stocks. This will allow you to take advantage of the power of compounding. Don't forget to keep track of your investments. Ownership in financial assets like stocks is one of the keys to wealth creation. Others include owning a business, real estate, or a private equity stake.

Rule 4 ~ Your investing clarity can help you better understand public policy. With a better understanding of markets, you will have a greater appreciation of the bad government policies that can get in the way of building your wealth and your retirement savings, including: raising personal and capital gains taxes; increasing regulatory burdens on private sector business; and changing the current 401K tax-advantaged structure and how future social security deficits will be addressed.

CHAPTER 2: THE POWER OF LONGEVITY INVESTING

"I look to the future because that's where I'm going to spend the rest of my life." – George Burns

When it comes to financial stability and financial independence, time is an important asset. We all grew up being told that "money doesn't grow on trees," and that's true. However, if you invest carefully and maintain those investments, you can "grow" much more money than you spend. This is the power of compounding interest, and when done over many years, the difference between what you invest and what you earn continues to grow. For example, if you invested $3,000 today and put $100 a month into financial vehicles that had a 7% return on investment for ten years, you would have put in $15,000, but the returns would earn you another $7,495.

If you do this for 20 years, you would have put in $27,000, and your investment returns will quadruple to $33,829. You've now created your own "money tree."

As our life spans increase, so does uncertainty about the future of social security. If we had privatized or rather invested just a tiny portion of social security taxes in stocks back in the early 1990s when the Dow Jones Industrial Index was at 8,000 (it is almost 37,000 today), tens of millions of Americans would be receiving retirement income two to three times more than Social Security will now pay them. Furthermore, there would be no Social Security Trust Fund depletion in 2035, and younger Americans would have accounts overflowing with money.

So it is more important than ever to understand how a savvy investing and savings discipline can grow your money to create a more financially stable and comfortable life. Be assured that technology is creating enormous investment opportunities; this trend will only continue, so be sure to take advantage of the phenomenal growth.

Check out below how the average retirement costs have increased since 1951. We can adjust these numbers for inflation using this tool: **https://www.usinflationcalculator.com**

- **In 1951** - Cost to Retire: **$27,991.60**
- **In 1971** - Cost to Retire: **$64,970.80**
- **In 1991** - Cost to Retire: **$218,116.00**
- **In 2019** - Cost to Retire: **$540,999.90**

These are no small sums. If you do not have this amount saved for retirement by age 60, you are not alone.

The good news is that there are more options available today than ever before to prepare for your retirement. To get on the right track, start by calculating a clear estimate of your income needs and savings. Find ways to cut expenses or consider moving to a lower-cost state, as millions have done throughout the pandemic. Utilize tax advantaged retirement planning vehicles such as 401Ks, IRAs, and HSAs. These are critical to accelerating your savings plans. The good news is that there are more options available today than ever before to prepare for your retirement.

How does money grow over time? The calculator will show you exactly how savings build over the years and may affect your thinking on a retirement savings timetable.

Let's look at a **Compound Interest Calculator - NerdWallet : Compound Interest Calculator**

When you plug in the following numbers, the calculator reveals an impressive end result:

$4,000 initial investment + $100 a month over 30 years @ 10% ROI = $307,362

Most people may not understand the concept of compounding or linear versus exponential growth, but these are the most powerful principles of wealth building. Albert Einstein once labeled compound interest the eighth wonder of the world: "He who understands it, earns it. He who doesn't, pays it."

Imagine the following two scenarios:

Option #1: I give you $1 per day for the next 30 days;

-or-

Option #2: I give you a penny on the first day, two cents on the second day, four cents on the third day, eight cents on the fourth day, and so on for 30 days.

Obviously, option #1 nets you $30. This is easy to predict, the definition of linear.

But option #2, where we are starting with a penny and doubling the amount for 30 days (i.e., growing exponentially), goes from deceptive to disruptive.

After 30 doublings, the situation gets disruptive because if you chose option #2, you would end up with a payout of $10,737,418.24.

That's a payout of 1-billion fold which clearly illustrates the promise and power of exponential growth versus linear growth. One of our biggest challenges is to train our brains to think exponentially.

CHAPTER 3: TIPS FROM TOP INVESTORS AND FINANCIAL TECH FOUNDERS

Building wealth may mean going beyond your comfort zone. Below are some words of wisdom from Money Masters, Financial Tech innovators with formidable track records, and a former financial entrepreneur turned Senator. All these folks know a thing or two about building your nest eggs. The need for substantive financial knowledge is more important than ever because almost 60% of today's youth are self-directing their investments to build their wealth. They remain skeptical of Social Security's future and the financial establishment's exclusive, expensive history.

Senator Tim Scott (R-SC): "Success is created in studio apartments and garages, at kitchen tables, and in classrooms across the nation, not in government conference rooms in Washington."

Warren Buffett's most inspirational declaration is this: "In its brief 232 years of existence, there has been no incubator for unleashing human potential like America. Despite some severe interruptions, our country's economic progress has been breathtaking. So our unwavering conclusion: Never bet against America."

Cathie Wood, the founder of Ark Investments, shares her outlook: "I think I understand how [the world] works now. So I focus on how it is going to change and invest in companies that will become global leaders in a range of emerging technologies in healthcare, transportation, business services, etc. That is the real excitement. In order to assure top performance, surround yourself with people trying to shape the future."

Noah Kerner, CEO of the micro-investing app Acorns, observed that: "most people who have wealth today came from nothing or their parents came from nothing. So this idea that anyone can grow wealth is central to what we do."

Orrin Woodward, author, observes: "A person either disciplines his finances or his finances disciplines him!"

Yes, top investment managers can reassure investors during moments of extreme volatility, but a belief in ourselves, common sense, and our free markets is our major advantage. Becoming financially independent is an achievable goal as opposed to depending on big government to solve every problem.

CHAPTER 4: FIVE WORST FINANCIAL MISTAKES TO AVOID

Many financial mistakes cause long term damage, many of them potentially attributable to emergencies. Here are some critical mistakes for young people and every saver/investor to avoid.

1. NOT establishing a rainy day fund

"Pay yourself first" means to prioritize savings. Waiting to build up savings can be devastating. Imagine having to buy a car because yours broke down, all while your job requires a vehicle. If you have no savings, this situation could force you to enter into significant debt, potentially at an excessive interest rate. Then you may fall behind on bills, leading to an increase in credit card debt. This cascading effect is real for people all across the country and why neglecting rainy day savings is a critical mistake. For many people, once they're caught in a debt spiral, they rarely escape unscathed. These savings should be able to sustain all your expenses for several months if necessary.

2. Learn to invest wisely. Don't confuse trading with investing!

Investing is a long-term strategy focused on building wealth throughout several years, usually relying on a steady mix of high-quality stocks that compound returns over time. Investing is generally better for those hoping to minimize risks and who do not have the time or expertise to focus on trading.

Trading is centered on quick maneuvers into and out of stocks, futures, options, or cryptocurrencies to maximize daily, monthly, or quarterly returns. Constant buying and selling of stocks or other liquid assets hold much greater risks, even with expertise.

3. Selling too early or liquidating portfolios in a panic

Don't let market volatility lead to hasty decisions to sell or buy. We live in a global market environment, so volatility is here to stay. Compare numbers over the long term for steady investments. If you bought Apple in 1980, holding on to this stock would have increased your wealth by 100,000% over four decades. Financial guru Suze Orman recalls that her greatest regret was selling her Amazon shares early. Had she held on to her $5,000 initial investment, those shares would be worth nearly 6 million dollars now. The goal is not to magically pick the next Amazon but to select high-quality stocks that will bear the brunt of unexpected economic shocks and volatility to provide consistent gains.

4. Misunderstanding your earning potential relative to your expenses.

Whether you're buying a house, car, boat, or going to college, you must understand the immediate and long-term costs and compare those to your immediate and long-term earning potential. College debt is one of the most important decisions to consider, as it is a major source of debt for millions of people. It could have a significant impact on your future wealth creation and near-term earning potential. If you're undecided about a career path, then spending tens of thousands on annual tuition and taking on student loans for college may not be the wisest investment. Student loans now total over $1.6 trillion, and the top ten most expensive university tuitions and room and board for the class of 2021 now average $76,500 a year. Outrageous.

Explore other ways to build your skills by taking online classes, attending a trade school, or taking community college courses.

5. Avoid online financial fraud

Avoid online financial fraud by being suspicious of anyone who may pose as banks, debt collectors, or investors with offers designed to steal your financial information. NEVER provide any unknown figure with your bank, credit, or debit card information.

CHAPTER 5: DIGITAL TOOLS

Financial technology (Fintech) has developed and matured significantly over the past decade and now provides valuable market information, better pricing clarity, and low-cost transactions. A review of the most popular digital applications includes these major market players:

- **Acorns:** a tool to help you save and invest for your future
- **Betterment:** a low-fee investment management tool
- **Public.com:** an app to invest in stocks and learn from others
- **Realworld:** a personalized platform for young people that explains and simplifies decisions around finances, health, work, government, end life.
- **Robinhood:** a trading/investing tool
- **Stash:** an investment tool geared toward making investment approachable for beginners
- **Tornado Investor:** a "money mentor" and community helping users connect with Wall Street Pros, keep up with the latest financial developments and engage with other investors.
- **Wealthfront:** an investment management app

The newest digital employment sites and tools to help you find the job you need to get you moving toward financial stability include the following:

- **Linkedin**
- **CareerBuilder**
- **Indeed**
- **Glassdoor**

CHAPTER 6: HOW INFLATION IMPACTS YOUR MONEY

If you tried to buy toilet paper during the early days of the COVID-19 pandemic, you probably understand how inflation works. When demand exceeds the supply, the price for the product increases. What's important to note is that emergencies aren't the only cause of inflation. If the government decides to print and inject significant amounts of money into the economy, this changes the dollar's relative value to a good or service. When the marketplace is saturated, the dollar loses bargaining power, and prices rise.

What steps do you take to prepare for inflationary impacts, and what does this mean for our investment/ savings prospects?

Most people know how higher prices put a dent in their wallets but do not comprehend how it impacts savings. As inflation increases, the value of your savings decreases. Imagine that you could time travel back to 2010 and needed to conduct a currency exchange to spend $100,000—you would have to pay nearly $125,000 of your 2021 money. You see, the dollar had an average inflation rate of 2% per year over the past 12 years, producing a cumulative price increase of almost 25%. Looked at another way, your dollar today only buys 80% of what it could purchase then. You are paying more today for the same items from yesterday.

A 2% inflation is not that uncommon. The 2010 inflation rate was 1.64%. The current year-over-year inflation rate (2020 to 2021) is now 5.39%.[1] If this number holds, $100,000 today will be equivalent in buying power to $105,391.45 next year. And imagine the collapse of the dollar's value in the years ahead if this inflationary impact continues upward to 5, 6, or even 7%, which appears likely.

Over time, inflation is like a big tax on your savings. This is why it's important to focus on high-quality investments like technology stocks or real estate and less on bonds to ensure your assets outperform the inflation rate.

We can also help prevent inflation by staying informed and fighting bad policies that breed high inflation. Massive trillion dollar government spending plans are marketed to sound like they will solve big problems, but huge deficit spending ultimately devalues the dollar and, therefore, your savings. The higher taxes needed to pay for these massive federal spending programs always have consequences. For instance, higher corporate taxes-which lead to higher costs of running a business-are passed onto consumers in the form of increased prices on goods and services. Therefore, inflation can accelerate and eventually lead to an economic slowdown.

CHAPTER 7: DIGITAL CURRENCY REVOLUTION: WHAT IS CRYPTOCURRENCY?

The digital world is ever-growing and changing faster than ever, and now new ways of paying or trading in digital currency are rapidly expanding. Moving away from government control and regulations may be great, but is it a safe pathway for our money?

Definition ~

Cryptocurrencies are digital tokens. They are not physical coins or cash. They are a type of digital money that allows people to make payments directly through an online system. They were created to allow person-to-person transactions without the need for banks. Cryptocurrencies have no value set by law; they are not managed or controlled by any central authority. They are simply worth what people are willing to pay for them in the market. Just as there are many different traditional currencies globally, there are a growing number of different cryptocurrencies. As of April 2021, there were 10,000 different types of cryptocurrency, and a new cryptocurrency can be created at any time. The most well known of these is Bitcoin. Bitcoin is the world's largest cryptocurrency, followed by Ethereum, Ripple, Bitcoin Cash, Cardano, and Litecoin. In addition, we have COINBASE, a publicly traded company founded in 2012, that operates a cryptocurrency exchange platform.

The Bitcoin system uses blockchain technology to record transactions and the ownership of bitcoins. This technology connects groups of transactions (blocks) together over time (in a chain). Each time a transaction occurs, it forms part of a new block that is added to the chain. As a result, the blockchain provides a record (or database) of every Bitcoin transaction that has ever happened. It is available for anyone to see and update on a public network that is referred to as a distributed ledger.

The bitcoin system is protected by cryptography, a method of checking and securing data using extremely difficult mathematical codes that make the system hard to hack or destroy.

In the last two years, activity and volatility in cryptocurrency markets have increased dramatically, and prices have risen dramatically. The focus on these currencies is less on their use as a new system for making payments and more on their potential for trading profits. However, more and more long term investors are considering this asset class for retirement savings despite its volatility.

In fact, 83% of millennials with investable assets over $1 million own cryptocurrency according to a recent CNBC millennial millionaire survey. This is in contrast to baby boomers who only hold 4%.[2]

2 https://www.cnbc.com/2021/12/16/millennial-millionaires-plan-to-add-more crypto-in-2022.html

As major financial institutions grow their support for this investment, it will develop into a future asset class, especially if there is concern over inflation, trillion dollar budgets, and ultimately, dollar stability. Goldman Sachs reports that nearly half of its rich family office clients want to get into crypto, and 15% of them have already invested in crypto. According to Bloomberg, the report added that another 45% are looking to enter the market because of "higher inflation, prolonged low rates, and other macroeconomic developments following a year of unprecedented global monetary and fiscal stimulus."

CHAPTER 8: A RESPONSIBLE REVIEW OF DEBT

For most Americans, some level of debt is a reality in one form or another. The type and severity of the debt is an important concern that determines your next steps.

Understanding from a young age how college, career earning potential, and choosing business, entrepreneurial, academic, or nonprofit paths will affect your future remains as important as establishing savvy investment strategies.

Student debt is something that many working professionals are experiencing, and, naturally, they are asking whether their college education was worth it. Today, more than 54% of all college students have taken on debt. The average debt amount is $37,584, and in-state tuition and fees at public National Universities have increased 212% since 2000. Compare those price increases with the consumer price index inflation, which rose by only 50 percent from August 2000 to August 2020. This means that the price of college has increased at four times the rate of inflation.

Students are rightfully concerned about their student debt and should consider how this option affects them over the long term. Students who graduated in 2016 with a standard repayment plan for $37,172 (which is very near the average) in ten years will pay an interest of 4.29%. This means they will be paying $382 a month for the next decade. Think back to the power of compounding and imagine what that money could do if invested over the same time period. The answer is that you could make about $20,000 off the interest from your investments if your return on investment were 7%.

While those who hold college degrees still have higher median wages, it's important to note that this fact partly depends upon your degree and the job you obtain. Recent studies indicate that the median wealth of Americans born in 1981 who attained college degrees in the early 2000s is only minimally higher than those who did not attend university. Why? The crippling student debt from skyrocketing college tuitions has burdened many for decades and cut into savings.

Of course, a college degree is valuable, but tuition keeps exploding higher. As we stated earlier in chapter 4, it is time to champion lucrative alternatives like trade schools, apprenticeships, and tech training/programming skills at community college for those who do not want to shoulder hideous debt loads. Students and parents need to be asking, "will my degree pay for itself?" and balancing that with what they plan on doing for the rest of their lives.

When is the right time to pay down your debt versus investing that money? If you have student loans, keep paying them down because the tax deductibility is minimal, but if you have an affordable low-rate mortgage, this remains a heftier deductible item on most income taxes—so take advantage and use cash to bulk up your investment portfolio.

Our economy has experienced a low interest rate environment for years. It is important to understand a reasonable debt ratio relative to your income or assets. This will help you prepare for what happens if rates rise in the future and understand how that could change the stability of your portfolio.

CONCLUSION

Our newly digital world is transforming the ability of every individual to build their future more productively, more creatively, and with more information than ever before. Yes, there are problems, but it is up to us to take advantage of abundant financial opportunities aggressively and optimistically. Taking charge of your life will always be the American way and there is no better time to start doing it than now.

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