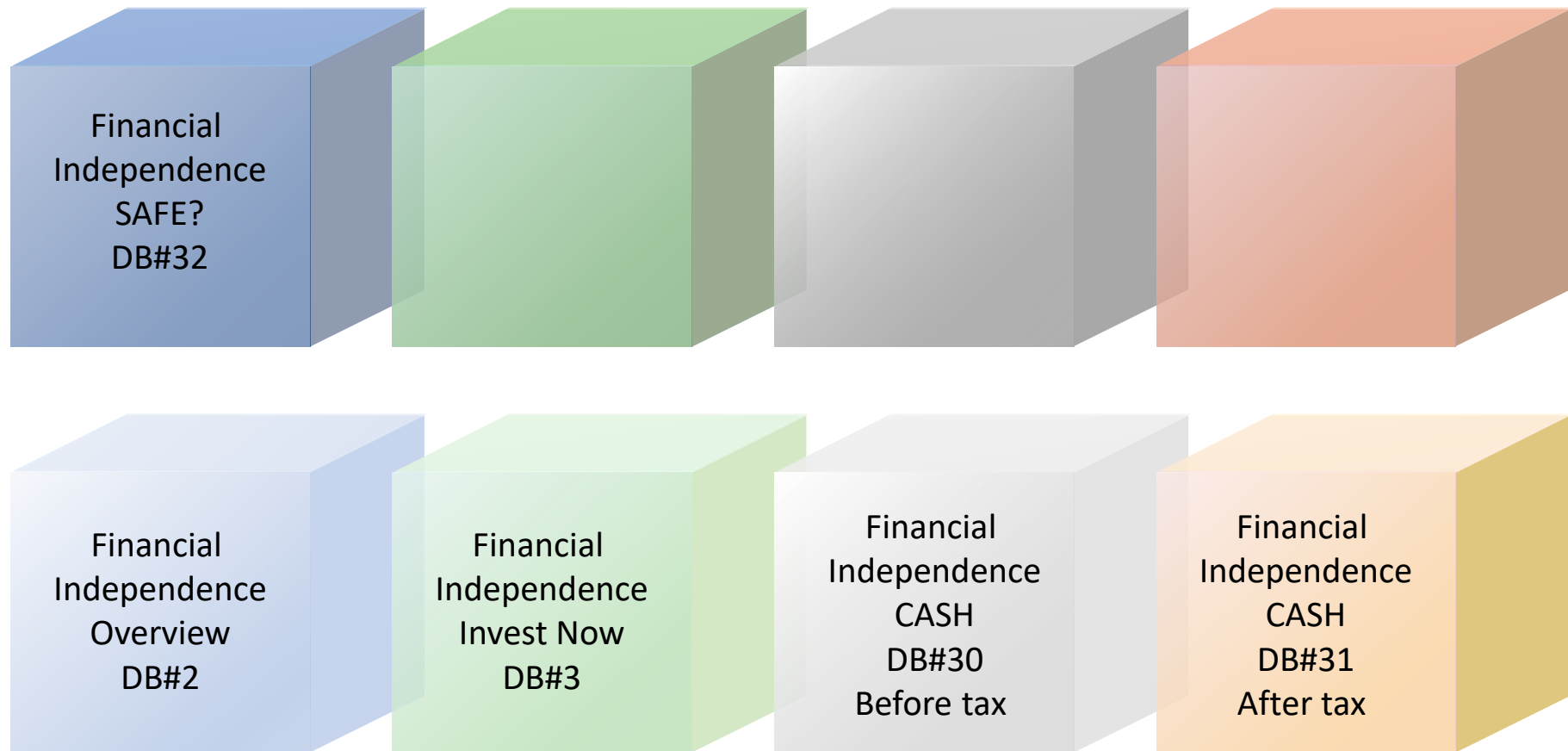


# Financial Independence Building Blocks

SAFE investment? Before & After taxes with cost to sell ... DB#32

*How might I determine if this investment is SAFE?*

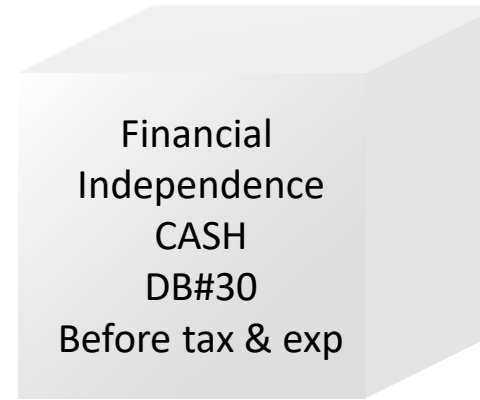


# FI Building Blocks

## SAFE?... DB#32 with Before & After Tax impact



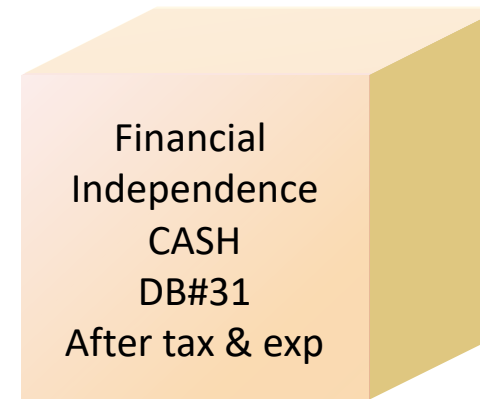
= Review of everything you need to understand this 'tool called money'



= I'm going to spend this money in the next 5 years, I need some growth and safety. (in a before tax account)



= You might say, "I don't care, just tell me how to invest now"



= I'm going to spend this money in the next 5 years, I need some growth and safety. (in an after tax account)

# FI Building Blocks

## SAFE?... DB#32 *with Before & After Tax impact*

We are not financial advisors. Our training materials are for educational purposes only and merely cite our own personal opinions. In order to make the best financial decision that suits your own needs, you must conduct your own research and seek the advice of a licensed financial advisor, if necessary. Know that all investments involve some form of risk and there is no guarantee that you will be successful in making, saving, or investing money; nor is there any guarantee that you won't experience any loss when investing.

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You are responsible for your actions and smart decisions and do your own research!

# FI Building Blocks

## SAFE?... DB#32 with Before & After Tax impact

01

0-5-YEAR BUCKET

---

CASH OR CASH EQUIVALENT  
INVESTMENTS

02

6-10-YEAR BUCKET

---

MODERATE RISK  
INVESTMENTS

03

10+ YEAR BUCKET

---

HIGHER RISK  
INVESTMENTS

*Why buckets? To help you sleep at night, you will be able to invest more aggressively with the money that you do not need any time soon.*

*Today we will focus on all three buckets*

# FI Building Blocks

SAFE?... DB#32 *with Before & After Tax impact*

What does 'SAFE' mean to you?

What is your 'RISK tolerance'?

**For the last 20 years of history we will look at:**

- 1 month drop (1M drop)
- 1 year & 2 year drops (1 year drop) & (2 year drop)
- 2000 Tech Bubble (2000 drop (24M))
- 2008 Great Recession (2008 drop (13M))
- Number of negative annual returns in 20 years

**We will also look at:**

- Standard deviation (1M, 12M stdev) and Variance (12M VAR) for Statisticians
- 20 year GAINS for \$100,000 Before & After Taxes

# FI Building Blocks

## SAFE?... DB#32 *with Before & After Tax impact*

Too much  
DETAIL!  
  
'Working'  
SUMMARY

	VTSAX VTSMX	VWITX VWIUX	VBMFX VBTXL	VWAHX VWALX	TGMNX	TPINX	VWINX VWIAX	VFIIX VFIJX
	Vanguard Total Market	Vanguard Intermediate- Term Tax- Exempt	Vanguard Total Bond Market Index	Vanguard High- Yield Tax- Exempt	TCW Total Return	Templeton Global Bond	Vanguard Wellesley Income	Vanguard GNMA
1M drop	-17%	-4%	-3%	-6%	-3%	-8%	-7%	-3%
1 year drop	-43%	-4%	-3%	-12%	-2%	-9%	-16%	-4%
2 year drop	-46%	0.4%	-2%	-9%	-1%	-8%	-15%	-1%
2000 drop (24M)	-41%	17%	21%	18%	26%	22%	13%	21%
2008 drop (13M)	-45%	2%	2%	-7%	-1%	0.2%	-18%	6%
1 YR AVG over 20 yrs	7.5%	3.9%	4.3%	4.7%	5.4%	8.1%	6.6%	4.2%
\$100K becomes (20 years)	336,779	230,690	260,986	270,884	328,911	470,893	404,234	251,729
GAIN	237%	131%	161%	171%	229%	371%	304%	152%
MIN (20 years)	59,717	100,912	101,408	101,236	102,204	96,397	102,932	101,593
1M stdev	5%	1%	1%	1%	1%	2%	2%	1%
12M stdev	16%	3%	3%	5%	4%	8%	6%	3%
12M VAR	0.19%	0.01%	0.01%	0.02%	0.01%	0.06%	0.05%	0.01%
TAX & EXPENSES						note: 10 year, very poor recent returns		
Reduce gains by for TAXES	-22%	-5%	-35%	-5%	-40%	-59%	-30%	-41%
Before tax avg 1 year gain ** BT **	7.5%	3.9%	4.3%	4.7%	5.4%	8.1%	6.6%	4.2%
20 years at ** BT ** Before Taxes - SIMPLE	426,023	213,413	232,240	252,888	287,376	476,256	360,658	227,086
20 years at ** BT ** Before Taxes - COMPLEX	344,294	238,509	267,161	279,920	339,965	382,306	411,988	255,096
	checked	checked	checked	checked	checked	checked	checked	checked
After tax 1 year gain ** AT **	5.9%	3.7%	2.8%	4.5%	3.2%	3.3%	4.7%	2.5%
20 years at ** AT ** After Taxes & Sale of shares - SIMPLE	313,560	205,462	173,743	242,690	189,239	192,433	249,078	162,764
20 years at ** AT ** After Taxes & Sale of shares - COMPLEX	221,170	228,265	189,314	266,019	210,672	162,996	265,219	174,836
Number of negative return years in 20 years	<b>6</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>0</b>	<b>4</b>	<b>2</b>	<b>1</b>

# FI Building Blocks

SAFE?... DB#32 with Before & After Tax impact

	VTSAX VTSMX Vanguard Total Market	VWITX VWIUX Vanguard Intermediate- Term Tax- Exempt	VWAHX VWALX Vanguard High- Yield Tax- Exempt	TGMNX TCW Total Return	VWINX VWIAX Vanguard Wellesley Income
1M drop	-17%	-4%	-6%	-3%	-7%
1 year drop	-43%	-4%	-12%	-2%	-16%
2000 drop (24M)	-41%	17%	18%	26%	13%
2008 drop (13M)	-45%	2%	-7%	-1%	-18%
Number of negative return years in 20 years	6	2	2	0	2

The **Drops** in the last 20 years

*Please stare at this for a moment, what RISK can you tolerate?*

*VTSAX (100% Stock) dropped a \$100,000 account to \$59,717, yet most of the rest considered never dropped below the initial amount.*

# FI Building Blocks

SAFE?... DB#32 *with Before & After Tax impact*

	VTSAX VTSMX Vanguard Total Market	VWITX VWIUX Vanguard Intermediate- Term Tax- Exempt	VWAHX VWALX Vanguard High- Yield Tax- Exempt	TGMNX TCW Total Return	VWINX VWIAX Vanguard Wellesley Income
1M drop	-17%	-4%	-6%	-3%	-7%
1 year drop	-43%	-4%	-12%	-2%	-16%
2000 drop (24M)	-41%	17%	18%	26%	13%
2008 drop (13M)	-45%	2%	-7%	-1%	-18%
1 YR AVG over 20 yrs	8%	4%	5%	5%	7%
MIN (20 years)	59,717	100,912	101,236	102,204	102,932
Before tax avg 1 year gain ** BT **	8%	4%	5%	5%	7%
20 years at ** BT ** Before Taxes - COMPLEX	344,294	238,509	279,920	339,965	411,988
<i>WINNER Before TAX (BT) --&gt;</i>		6	3	<b>2</b>	<b>1</b>
Reduce gains by for TAXES	-22%	-5%	-5%	-40%	-30%
After tax 1 year gain ** AT **	6%	4%	5%	3%	5%
20 years at ** AT ** After Taxes & Sale of shares - COMPLEX	221,170	228,265	266,019	210,672	265,219
<i>WINNER After TAX (AT) --&gt;</i>		3	<b>1</b>	4	<b>2</b>
Number of negative return years in 20 years	6	2	2	0	2

*Before Tax Winner*

VWINX/VWIAX

*After Tax Winner*

VWAHX/VWALX



# FI Building Blocks

SAFE?... DB#32 with Before & After Tax impact

*Before Tax Winner*

VWINX/VWIAX

*After Tax Winner*

VWAHX/VWALX

**Does VWAHX beat VWITX  
For 5 year drawdown of  
\$40K/year on \$200K initials  
account?**

(see DB#30 & 31 for details on process)

# FI Building Blocks

SAFE?... DB#32 *with Before & After Tax impact*

*YES, for in an After Tax  
(AT) account*

*VWAHX > VWITX  
by a fraction ~1%*

*In a Before Tax account  
consider VWINX instead*

*(see DB#30 & 31 for details on  
process)*

	Method 3	Method 3A	Method 7A	
	VWITX	VWAHX	20% VWITX / 80% DLR	
	100% Muni Bond	100% Muni Bond	80% stocks / 20% Bond	
Simple Single Ratio (SSR) after tax	16.7	2.5	3.0	WANT:
Drawdown period (2008 - 2012) Dollars left at end of 5 years	\$24K	\$19K	\$35K	Max
Drawup period (2015 - 2019) - Dollars left at end of 5 years	\$12K	\$20K	\$70K	OK if >\$10K
Average of drawdown & drawup	18	19.5	52.5	Max
Initial amount	200	200	200	Max
Percentage of initial amount left after \$40K/year spend	9%	10%	26%	Max

# FI Building Blocks

CASH EQUIVALENTS ... DB#31 AFTER Tax

APPENDIX

*- How I calculated the impact of FEDERAL TAX*

# FI Building Blocks

## CASH EQUIVALENTS ... DB#31 AFTER Tax

01

0-5-YEAR BUCKET

CASH OR CASH EQUIVALENT INVESTMENTS

### *How did I calculate the impact of AFTER federal tax?*

I created a 'Rate of Return reduced by Taxes'

Using Fidelity/Vanguard data returns without taxes to 'Highest marginal tax rate, no state taxes included and "After taxes on distributions and sale of fund shares - 5yrs"

		Rate of Return reduced by Taxes*		AVG 20 yr return reduced	
				From Before Tax	To: After Tax
VWIAX	VWINX	30%	40% stock / 60% bond	7.6%	5.2%
VDIGX		25%	100% dividend stock fund	8.9%	6.7%
VTSAX		23%	100% stock	8.0%	5.2%
STOCK		20%	actual stock LOW	16.0%	13%
STOCK		20%	actual stock DLR	16.7%	13%
VGSLX	VGSIX	13%	100% REIT	12.8%	10%
VWIUX	VWITX	5%	100% tax exempt bond	5.5%	5.2%
VWAHX	VWALX	5%	100% tax exempt bond	5.5%	5.2%

#### Notes:

\*Fidelity/Vanguard sites: Highest marginal tax rate, no state taxes included and "After taxes on distributions and sale of fund shares - 5yrs"

For stocks used simple 20% long term capital gains

# FI Building Blocks

## CASH EQUIVALENTS ... DB#31 AFTER Tax

01

0-5-YEAR BUCKET

CASH OR CASH EQUIVALENT INVESTMENTS

For  
Example:

VTSAX

VTSAX	1 Yr	3 Yrs	5 Yrs	10 Yrs	Life
<b>Before Taxes</b>					
Vanguard Total Stock Market Index Fund Admiral Shares	6.45%	10.03%	10.02%	13.73%	9.64%
CRSP US Total Mkt Index	6.47%	10.04%	10.03%	13.71%	--
Vanguard Spliced Total Stock Market Index	6.47%	10.04%	10.03%	13.74%	--
Large Blend	3.74%	8.15%	8.35%	12.22%	--
<b>After Taxes on Distributions</b>					
Vanguard Total Stock Market Index Fund Admiral Shares	5.95%	9.42%	9.37%	13.12%	6.32%
Large Blend	1.91%	6.19%	6.54%	10.68%	--
<b>After taxes on distributions and sale of fund shares</b>					
Vanguard Total Stock Market Index Fund Admiral Shares	4.12%	7.63%	7.72%	11.32%	5.53%
Large Blend	2.54%	5.83%	6.09%	9.70%	--
	92.0%	93.8%	93.4%	95.7%	
	63.7%	76.0%	77.0%	82.6%	
	8.0%	6.2%	6.6%	4.3%	
	36.3%	24.0%	<b>23.0%</b>	17.4%	

I then applied this 'After taxes on distributions & sale of share funds' to portfolio analyzer.com returns of the stated periods. See FI\_CASH\_EQUIV\_71620\_rev3\_wTAX\_72320.xlsx

# FI Building Blocks

## CASH EQUIVALENTS ... DB#31 AFTER Tax

01

0-5-YEAR BUCKET

CASH OR CASH EQUIVALENT  
INVESTMENTS

I am often asked – How do I get a better return on the money I will need soon?

First, anything outside of CASH is likely to be higher risk.

Second, you are unlikely to get ‘hurt’ by inflation because you will spend it soon.

With the obvious out of the way, I will look at a process to ‘assess the risk’.

I will walk through the process with EXAMPLES.

I will look at each of the SEVEN (7) methods and assess their performance over:

- 1) A turndown period (2008 – 2012)
- 2) A turnup period (2015 – 2019)
- 3) On an average return basis (using 20-year average return)

I will *attempt* to simplify of this with a SIMPLE SINGLE RATIO

SIMPLE  
SINGLE  
RATIO  
=  
REWARD  
-----  
RISK