Financial freedom is true freedom

WEND

Table of contents

Personal Finance

Personal finance consists of managing your personal finances. There's a blurry line we need to be cognizant of which is personal financial literacy is not equivalent to investment literacy. Investing is more high level and focuses more on companies and analysis rather than your own money.

For personal finance, we will touch on a few subjects that are the most lucrative and provide you with guidance and resources so you can make the best out of your finances.

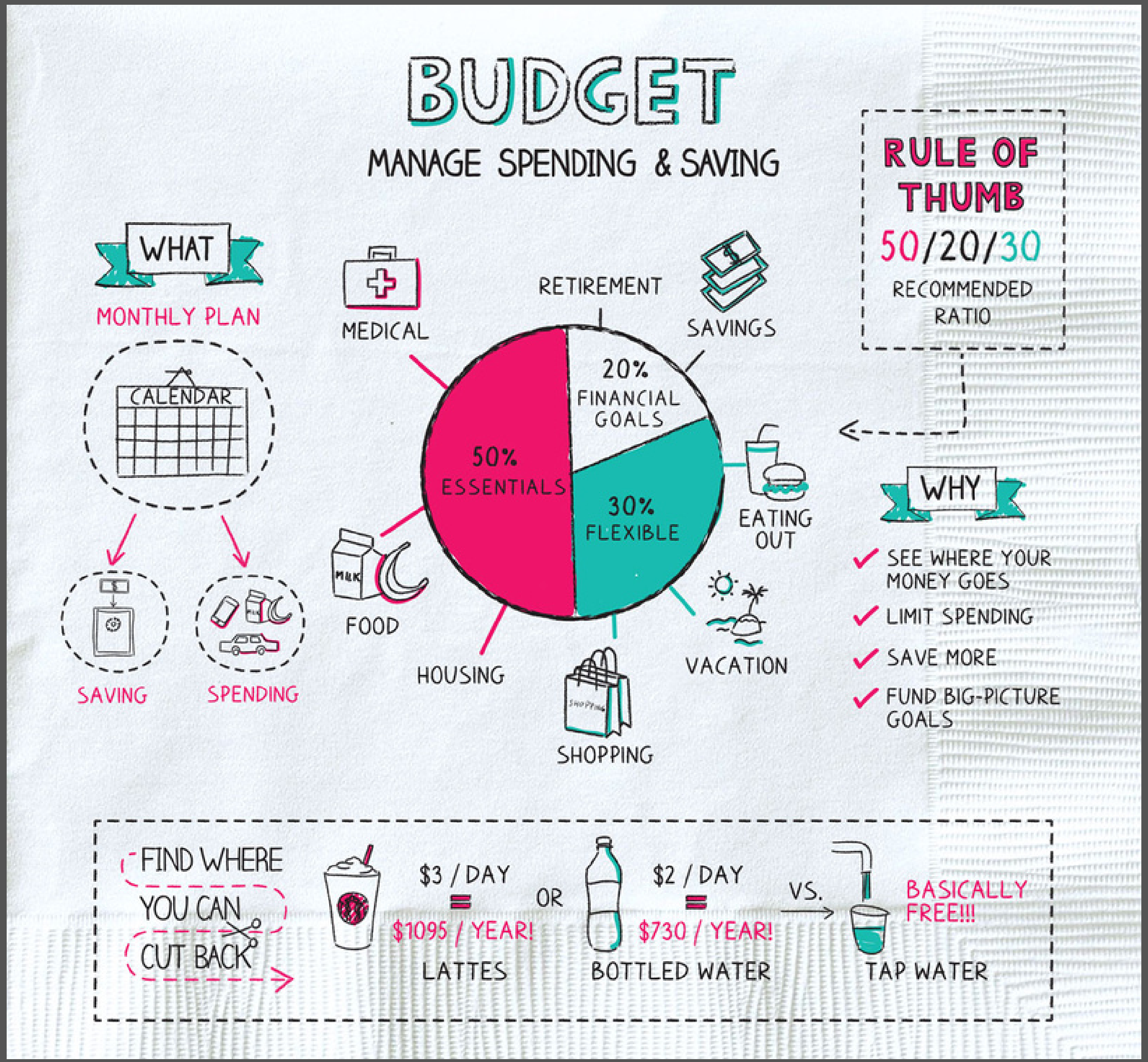
Budgeting

At Wend our mission is "Building Equity in Us". If you budget the way mainstream culture and traditional advisors tell you, you will never build meaningful wealth.

The chart on the right is the typical 50/20/30 rule. We prefer what's called the 60/20/10 rule: 60% to investing, 20% to needs, and 10% to wants.

The goal for this allocation is two things: 1) Form a big balance in your investment account; 2) Let time take control.

As you can see on the right Investor A is better off than Investor B because they took advantage of a big lumpsum and longer time invested.



	Starting balance	Time Invested	Final Balance
Investor A	**$100,000**	**30 years**	**$2,387,246**
Investor B	**$200,000**	**20 years**	**$1,662,247**

Budgeting Cont'd - Tracking progress is a must

Key Performance Indicators or "KPIs": These metrics must be tracked to help you get a sense of your personal finances. Remember, these can change as time goes on. The goal is to maximize your wealth through the 60-20-10 rule, but KPIs can alter if current goals are too aggressive.

- **Net Worth:** What's your worth or equity
  - (Cash + property and real estate + stocks + valuable belongings) **MINUS** (total liabilities)
- **Cash Ratio:** How much cushion do you have in the short term
  - Cash / liabilities due **within** a year
- **Debt to Equity:** How healthy are your long term finances (ratio of .50 or less is ideal)
  - Total debt / equity
- **Expense Ratio:** How many times can you cover expenses for the month (ratio of 2.5+ is ideal)
  - Monthly income after taxes / monthly expenses

Inventory Management: It is important to keep tabs on your money. Here's a few things to track

- **Accounts:** How many checking's, savings, investment accounts do you have and where
- **Liabilities:** Student debt, car debt, mortgage debt, credit cards
- **Assets:** Personal invesment account, retirement accounts (roth IRA and 401k), HSA, 529

Weekly Report Hygiene: Weekly reports have a few components one must check

- **Weekly goals and actual performance:** Include spending, income retained, KPIs

Budgeting Cont'd - How often should I revisit my finances

Every budget should come with a set of controls (fancy word for procedures) that helps you govern your goals, risk, and changes made to plan. The table below is a sample template with the green blocks representing the frequency of how how often to perform the procedure. For example, personal finance governance consists of four items. These items are to be completed weekly.

AUDIT SCHEDULE					
	ResidRisk	Wk 1	Wk 2	Wk 3	Wk 4
Personal Finance Governance - budget review & feedback documented - documentation of finanical goals - weekly reports (spending and savings) - monthly reports (net worth)	High				
Risk Mgmt. - Inventory Mgmt. (accts, assets, liabilities) - KPIs monitoring - Financial Forecast Schedule (monthly)	High				
Respose Planning - Finanical goals review & changes - weekly assessment feedback - improvements to be made logged	Medium				
Investments - Portfolio rebalanced S/A - Selling and buying compliance - Review of quarterly reports	Medium	**Audit schedule for this section should be conduted every six month since investments are not as timely as personal finances**			

Outsmarting Yourself

Everybody has blindspots or gaps when managing their own money. THAT IS FINE! The goal is building **habits or controls** that make up for those gaps. Here's a list of helpful tips to remediate gaps:

Automate Savings and Investments

It's easy to spend our income after receiving our check. Instead of convincing ourselves that we need more things, simplify things by setting up recurring payments to your savings and investment account

Penalize Yourself

Going over your budget is inevitable. Charging yourself a fee can help you hold yourself accountable. Start off with $20 or $50, and next time you go over your budget, pay the fee and send it to your savings or investment account

Use a mobile app

Mental accounting is a phenomenon in which people track finances in their head. Tracking your finances mentally can be exhausting and inefficient. Using an app such as MINT can help you stay on top of things and become more responsive

Tax Advantaged Accounts

Tax advantaged accounts are great because you're able to receive tax benefits. Most Americans are familiar with 401K's, but there's more:

1. **Roth IRA and 401k Roth:** IRA stands for investment retirement account. Forget all the fancy words. Roth basically means you can invest after tax dollars (the money you keep from a paycheck). Since the money you put in has been taxed already, the government gives you a loophole -> pay no taxes on the money you make on your investment within the account.
2. **Traditional IRA and 401k:** Opposite of the Roth. Your contributions into the account are pre-tax dollars (money before your check is handed to you). Since the government gave you a loophole of paying no taxes on that money you contributed to your traditional roth or 401k, you must pay taxes on the investment gains later on. This makes sense if your income is very high, because by maxing out your retirement accounts, you can reduce the amount of income you report and thus lower taxes.
3. **HSA (health savings account):** Many folks use this account only for medical expenses. However, once you have $2,000 in your HSA, you can begin to invest within it. Not only that, you can use gains for any medical expenses and you don't have to pay taxes on it!
4. **529:** Similar to an HSA which can only get used for medical expenses, a 529 can only be used for educational expenses. The cool things is that you can invest within this account and pay no taxes on the gains as long as they qualify as "education" expenses.

Investing Essentials - Beginner investor starter kit

Investing requires patience and a long-term outlook. There's a few other things hat you must ask yourself and answer before you get started on your journey:

1. Are you an active investor or passive investor?
2. What is my investment philosophy?
3. What is your risk tolerance? What is your risk ability? (somebody with a salary of 150k and no kids might have high risk ability but low risk tolerance if they cannot stomach a 50% decline in their investment account).
4. Have you created an investment policy outlining your do's and dont's?
5. What assets will you put money in and the % proportions?
6. Have you aligned yourself on your financial goals (short, mid, and long term)?
7. What type of investment account(s) do you plan on using?
8. How often do you plan on rebalancing portfolio?
9. Have you built an asset allocation strategy?
10. How will you shift goals 3-5 yrs out?

Financial Analysis

Balance Sheet

- Measures the financial health of the company (think of a car inspection)
- You have three main sections to digest - assets, liabilities, and equity
- Assets section consists of current assets (short-term, specifically 1 year) and noncurrent assets (long-term asset the company has)
- Helpful metrics when doing analysis:
    - current assets - total liabilities (if positive, the company is in great shape)
    - debt / equity (if lower than .50, the company is financially healthy
    - the real value of a company's stock share:
        - total assets - total liabilities = equity
        - equity / # of shares = bv per share

Income Statement

- Measures the financial performance for the year (revenue and profits)
- One main section: starts with revenue and subtracts all the costs, eventually getting you profit or net income
- Revenue = money generated
    - Cost of goods sold = direct costs
    - Operating expenses = indirect costs
    - Interest = interest paid on debt
    - Taxes = amount owed
    - Net income = overall profit
- Helpful metrics when doing analysis:
    - Every margin ratio: Tells you how much money was made per $1 of revenue. You want to look for companies with a Net income margin of more than 15%
        - Net income / revenue
        - Operating income / revenue
        - gross profit / revenue

Cash Flow Statement

- Measures the actual cash generated (a barbershop is high cash business while a dealership is high credit business)
- You have three main sections to digest - cash from operations (CFO), investing, and financing
- You want to look for a business that has a net positive operating cash flow over a period of time
- Helpful metrics when doing analysis:
    - CFO per $1 of revenue: CFO / Revenue
    - Healthy-ness of company: CFO / Debt
    - Efficiency of business:
        - CFO / total assets

Free Tools and Resources

1. Fun financial and business dictionary: https://napkinfinance.com/napkins/
2. Economic News and Reports Hot off the Press: https://fred.stlouisfed.org/#
3. Look up any public company and their financial data: https://www.sec.gov/edgar/searchedgar/companysearch
4. Government beginner investor tools: https://www.investor.gov/
5. Do portfolio analysis for free (advanced): https://www.portfoliovisualizer.com/
6. Financial News and community: Wend Financial App (coming soon)

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