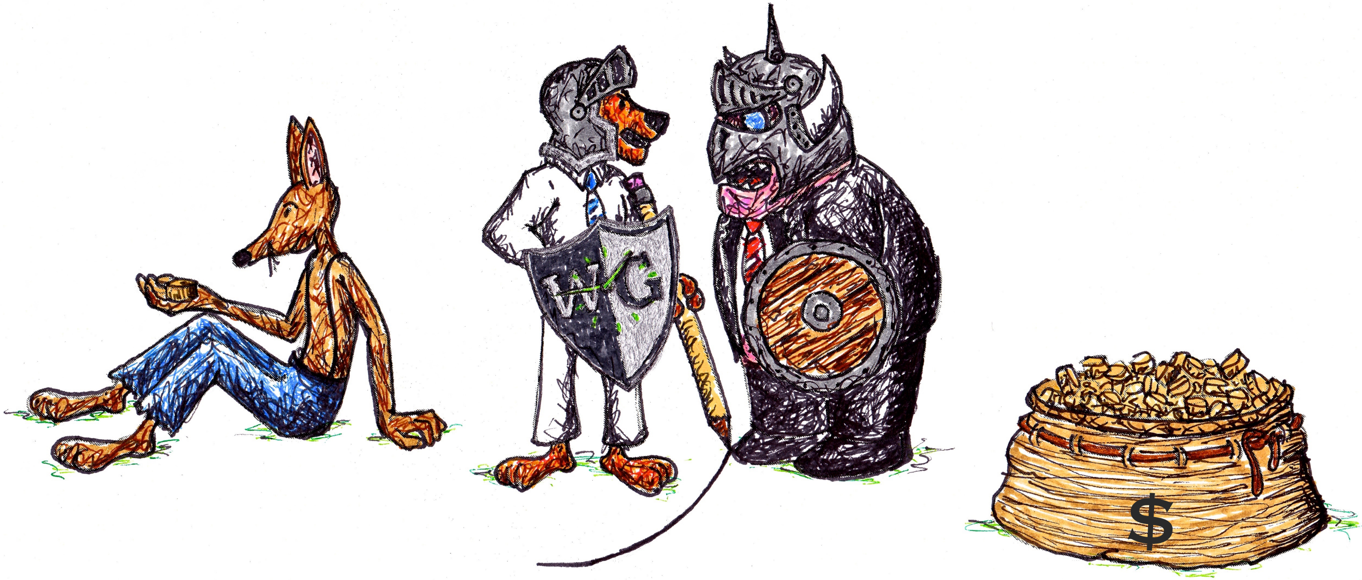
The Most Important Finance Book Ever Drawn



Because We Have to Draw the Line Somewhere

Authored and Illustrated by

Stephen Paluga

WATCH GUARD
CAPITAL LLC

www.watchguardcapital.com

Additional information about Watch Guard Capital LLC is also available on the SEC's website at www.adviserinfo.sec.gov. Our CRD number is 284719.

Watch Guard Capital LLC

Special Thanks

Thank you to my sister, Nicki, for being my first and most important role model. Without you, I would have never found my way.

Thank you to my sister, Missy, for being the most caring individual I know. Without you, I would not understand that family and friends are the true measure of wealth.

Thank you to my wife, Tiffany, for supporting my endeavors which were sometimes at the cost of your own. Without you, I would not know the peace that comes with balance.

Thank you to my daughters, Harper and Lennox, for inspiring me to try to make the world a better place. Without you, I would have never experienced my greatest joy, which is your laughter.

Thank you to my father, Phil, for my first financial lesson, "save 10% of every dollar you earn." Without you, I would not understand the importance of discipline.

Thank you to my economics professor, Dr. Ellis, for teaching me the math behind consumer behavior. Without you, I would not have discovered the importance of questioning the status quo.

Special thanks also to Ryan and Scott Pensinger, Mr. Stepro, Tim Eames, Jim Miley, Bobby Stark, Sean Barter, Mark Dorff, and Damian Shaw, for lessons necessary to succeed in life and mission.

Thank you to my clients for your trust. Without you, none of this is possible.

- Stephen Paluga

Take Away: Nothing is accomplished alone, so thank those who make your successes possible.

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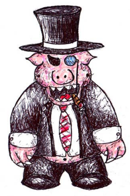
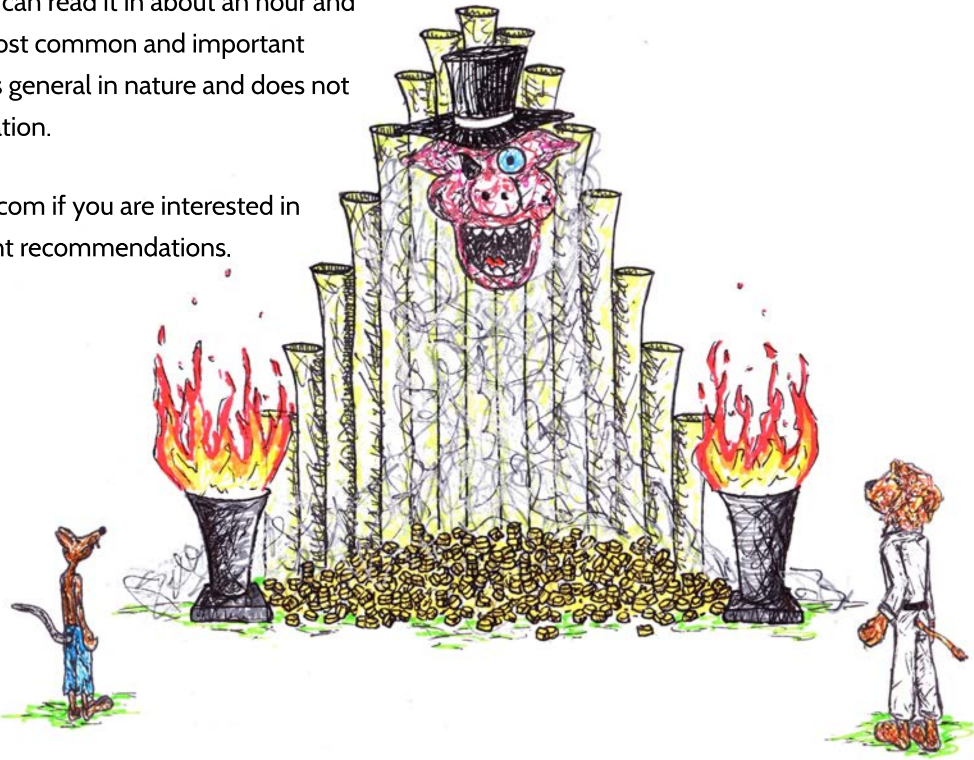


The Financial Industry

The financial industry does not adequately educate Investors about the importance of financial planning or prepare them to make smart financial decisions. I created this book to help bridge that information gap. It is written so that an individual can read it in about an hour and have a basic understanding of the most common and important financial concepts and principles. It is general in nature and does not consider your personal financial situation.

Please visit www.watchguardcapital.com if you are interested in specific financial advice or investment recommendations.



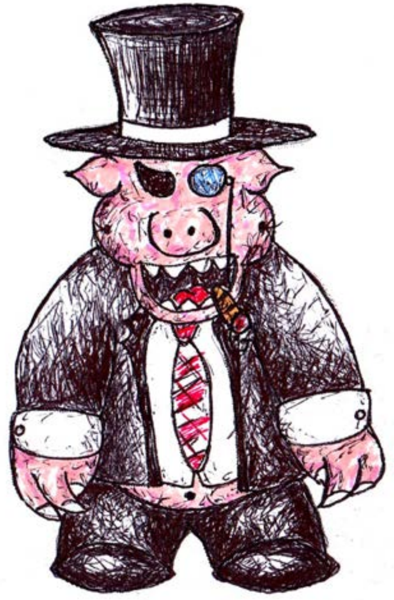
Take Away: If you do not have a basic understanding of finances, this industry will take your money.

Economic Players

Laborers are the backbone of our society. They exchange hours of work for paychecks and often live week-to-week with no financial plan.

Capitalists are planners who transitioned from Laborers by putting money aside and investing it. They have saved money for a rainy day and retirement.

Financial Barons focus on money above all else and can never have enough. They are willing to take advantage of others in their pursuit of wealth.



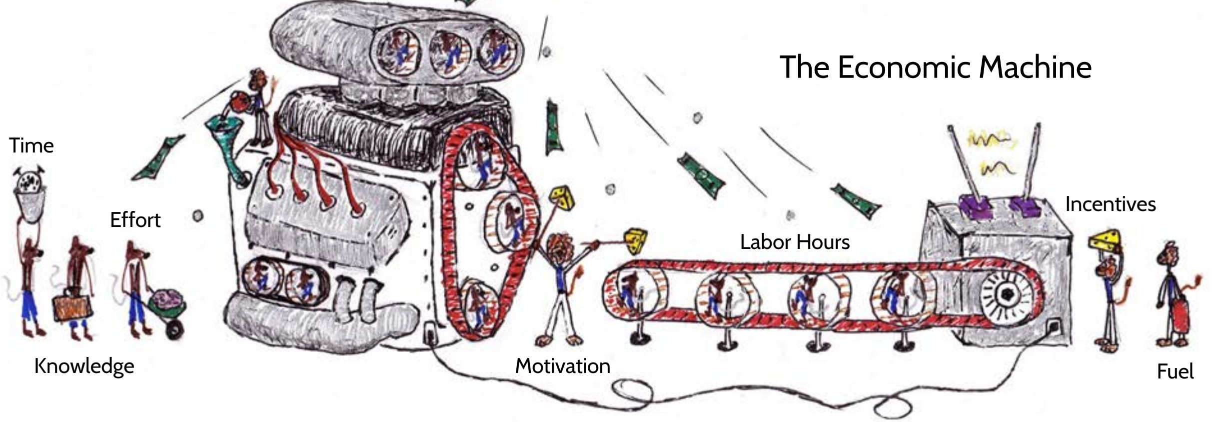
Take Away: Finance is about balance and money should improve your life, not destroy it.

Economic Roles

The majority of the population is made up of Laborers who contribute time, effort, and knowledge into our economic engine. They are not the capital owners so they receive very small shares of the profits.

Barons depend on the input of Laborers and Capitalists and siphon off wealth for their own agendas with little concern for others.

Capitalists are entrepreneurs, savers, and investors who drive growth, motivate Laborers, create jobs, and provide the fuel that makes our economic machine run.

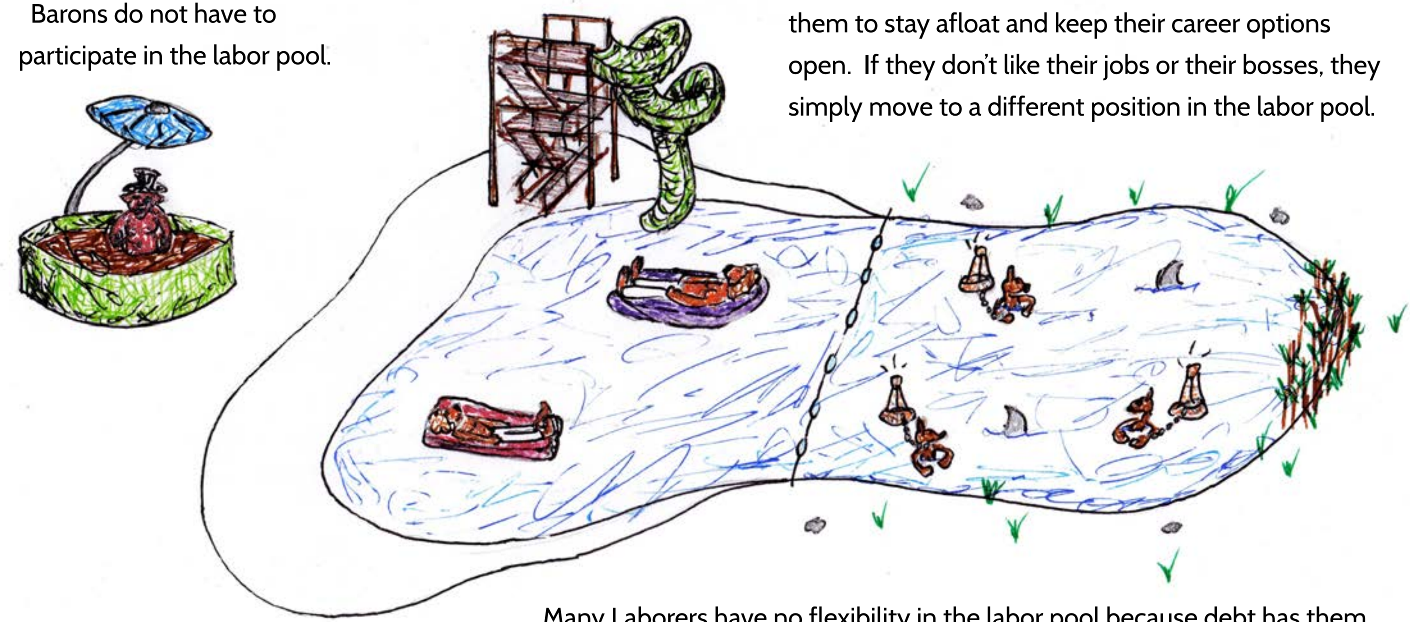


Take Away: The economy has many moving parts, participants, and agendas.

Labor Pool

Barons do not have to participate in the labor pool.

Capitalists make smart financial decisions that allow them to stay afloat and keep their career options open. If they don't like their jobs or their bosses, they simply move to a different position in the labor pool.



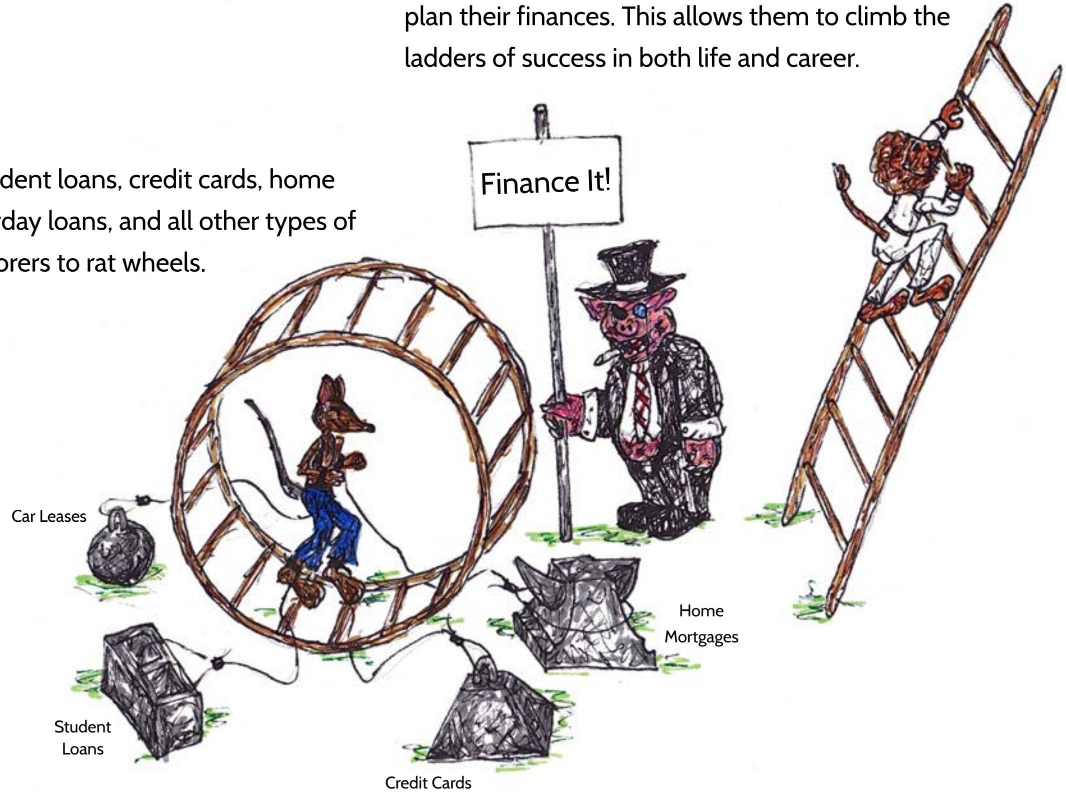
Many Laborers have no flexibility in the labor pool because debt has them chained to their positions. Questions such as, "How am I going to make the next mortgage payment?" or "How can I afford to retire?" keep them treading water in jobs they hate for years.

Take Away: Debt destroys your flexibility to move around freely in the labor pool.

Rat Wheel vs. Ladder of Success

Capitalists avoid unnecessary debt and carefully plan their finances. This allows them to climb the ladders of success in both life and career.

Car leases, student loans, credit cards, home mortgages, payday loans, and all other types of debt chain Laborers to rat wheels.

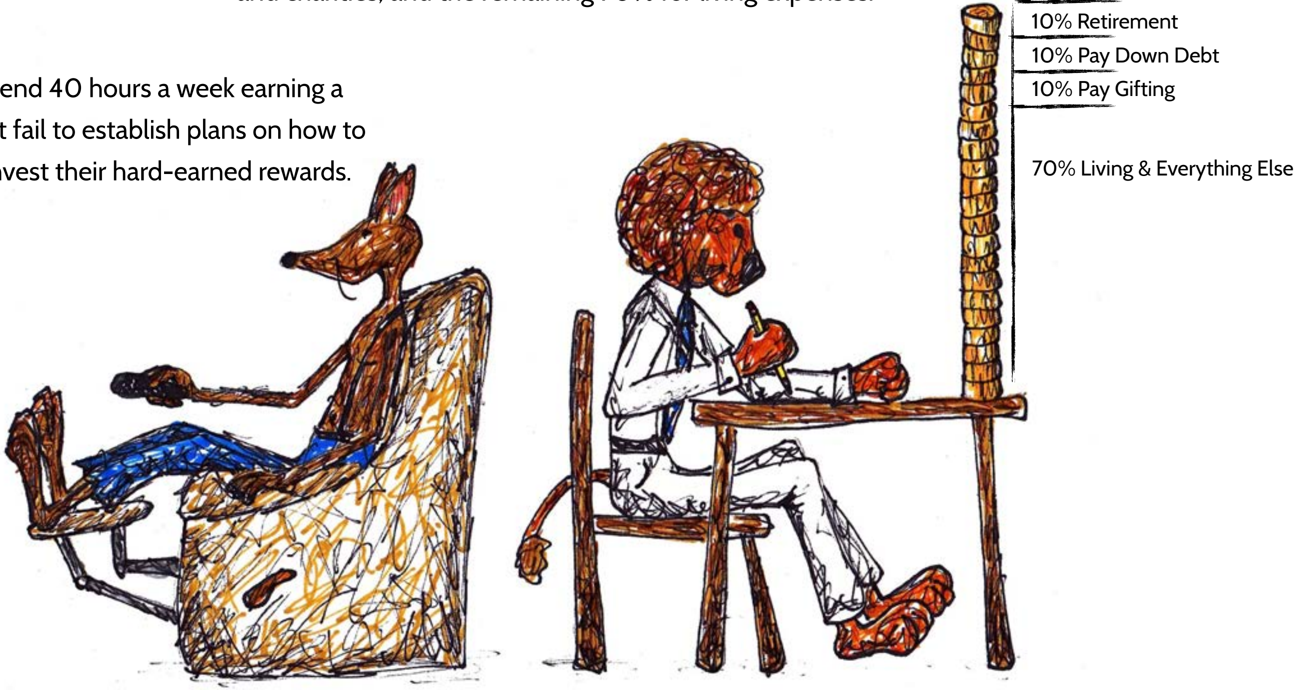


Take Away: Nothing hinders progress in life more than debt; delay your gratification and avoid it.

Budgeting

Capitalists have a plan in place to manage their paychecks, thereby ensuring they are gaining ground on their goals. A simple and effective plan for your take-home pay is to allocate 10% for retirement, 10% to paying down debt, 10% to gifting to family, friends, and charities, and the remaining 70% for living expenses.

Laborers spend 40 hours a week earning a paycheck but fail to establish plans on how to spend and invest their hard-earned rewards.

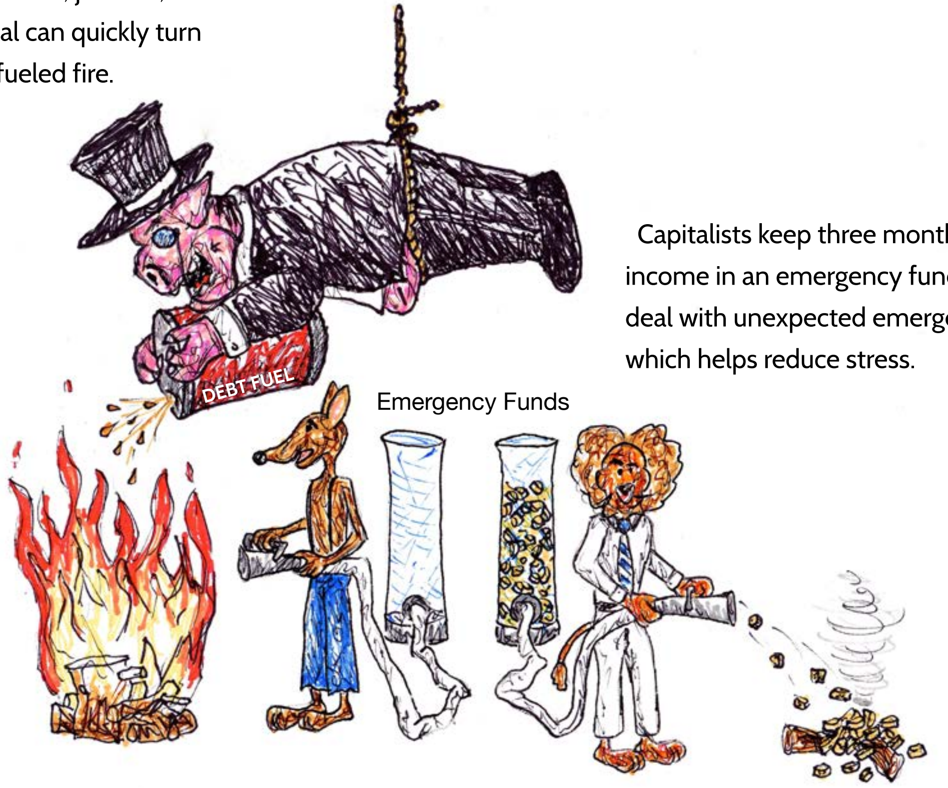


Take Away: Establishing a budget is the single most important thing you can do financially.

Emergency Fund

Laborers often live paycheck to paycheck with no emergency fund. A car accident, job loss, or unexpected trip to the hospital can quickly turn into an uncontrollable, debt-fueled fire.

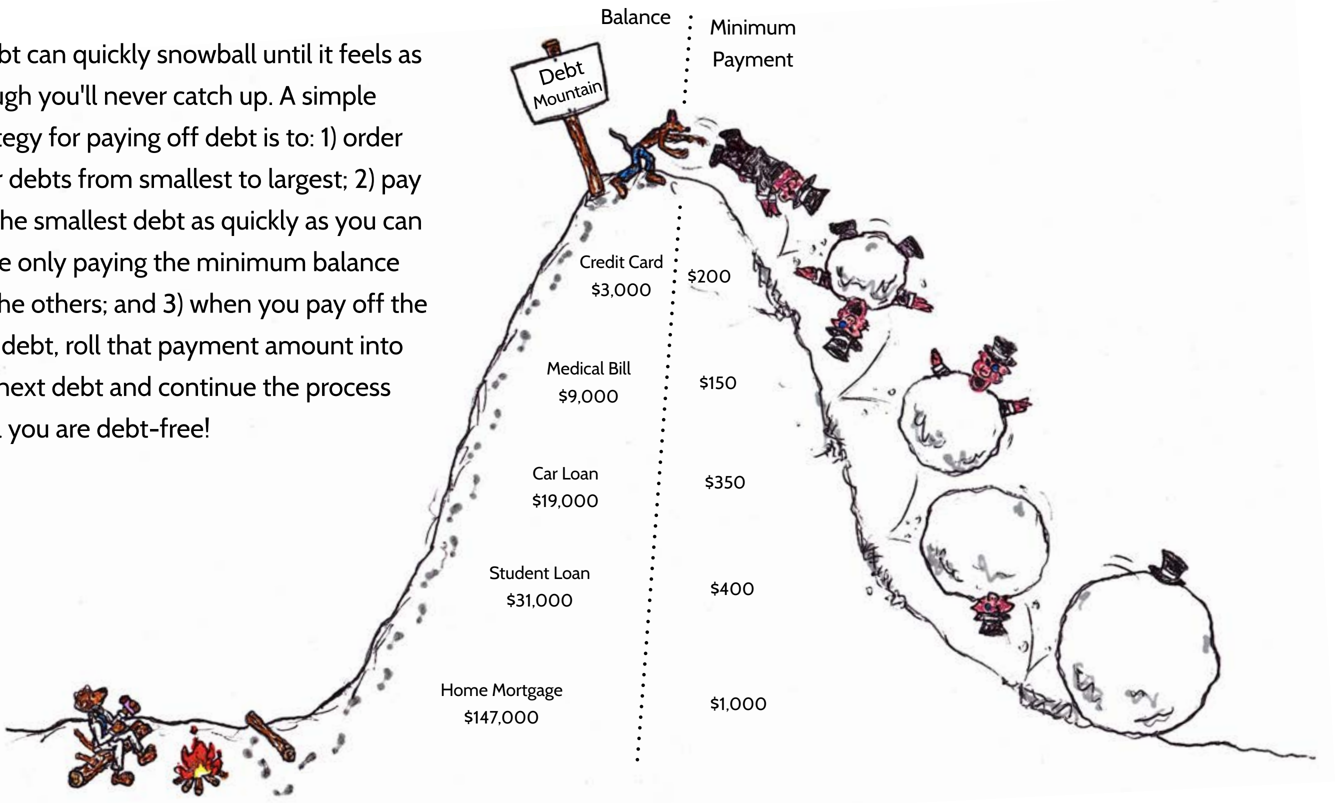
Capitalists keep three months of income in an emergency fund to help deal with unexpected emergencies, which helps reduce stress.



Take Away: Keep three months of your income in a separate account to cover unexpected emergencies.

Debt Snowball

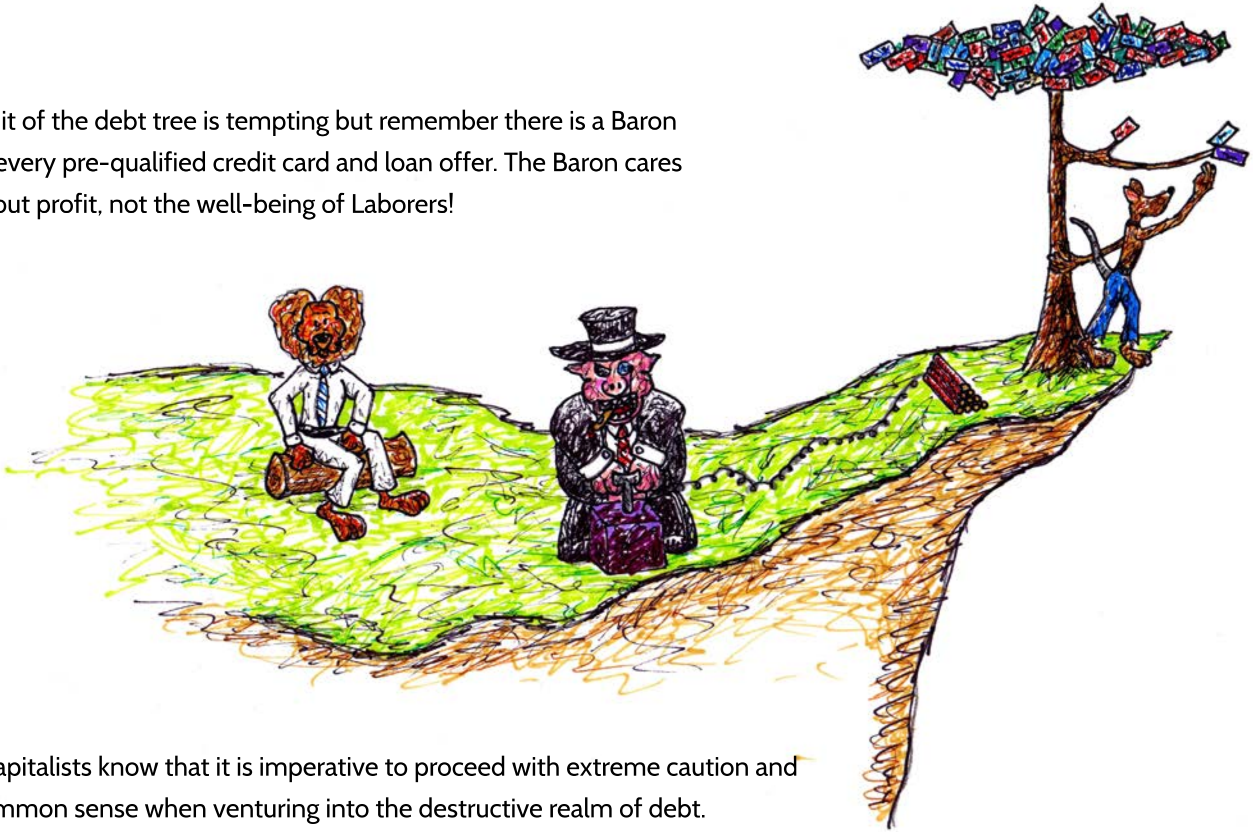
Debt can quickly snowball until it feels as though you'll never catch up. A simple strategy for paying off debt is to: 1) order your debts from smallest to largest; 2) pay off the smallest debt as quickly as you can while only paying the minimum balance on the others; and 3) when you pay off the first debt, roll that payment amount into the next debt and continue the process until you are debt-free!



Take Away: Order your debts from smallest to largest and pay off the smallest until you are debt-free.

The Debt Tree

The fruit of the debt tree is tempting but remember there is a Baron behind every pre-qualified credit card and loan offer. The Baron cares only about profit, not the well-being of Laborers!

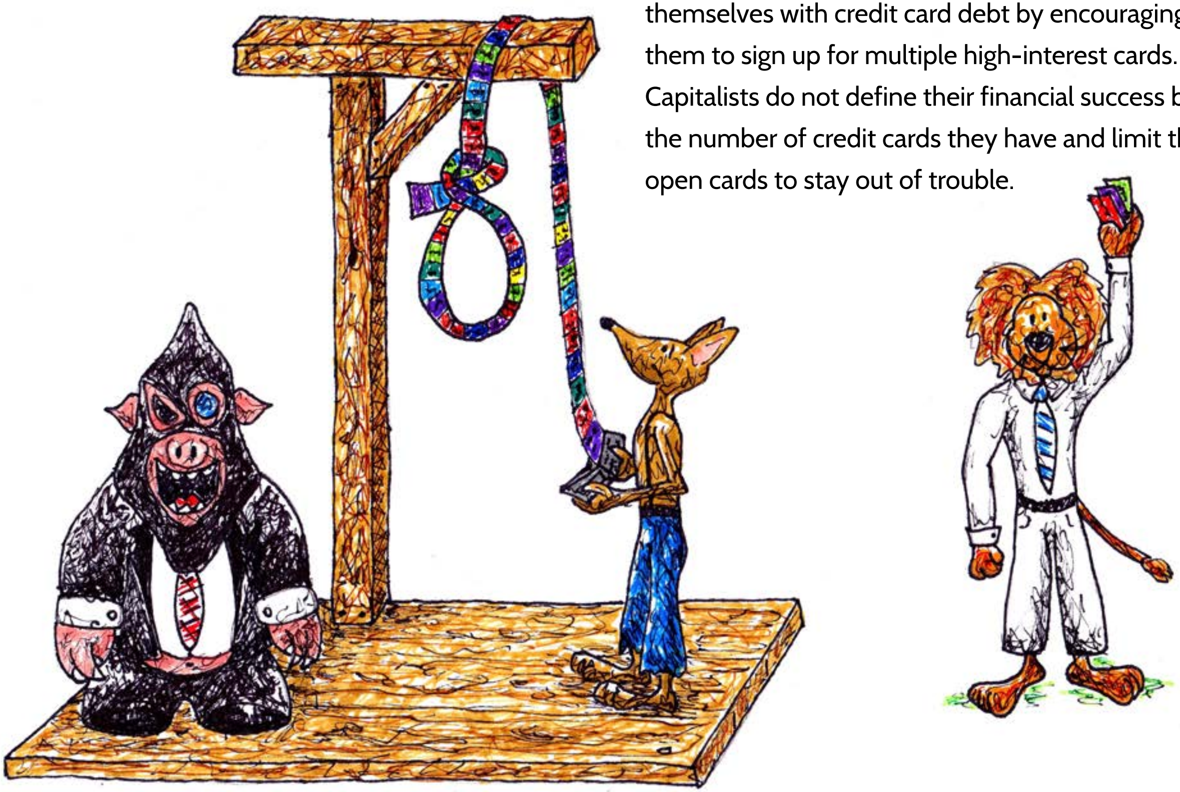


Capitalists know that it is imperative to proceed with extreme caution and common sense when venturing into the destructive realm of debt.

Take Away: It is human nature to desire more, so you should have strict rules in place to control debt.

Number of Credit Cards

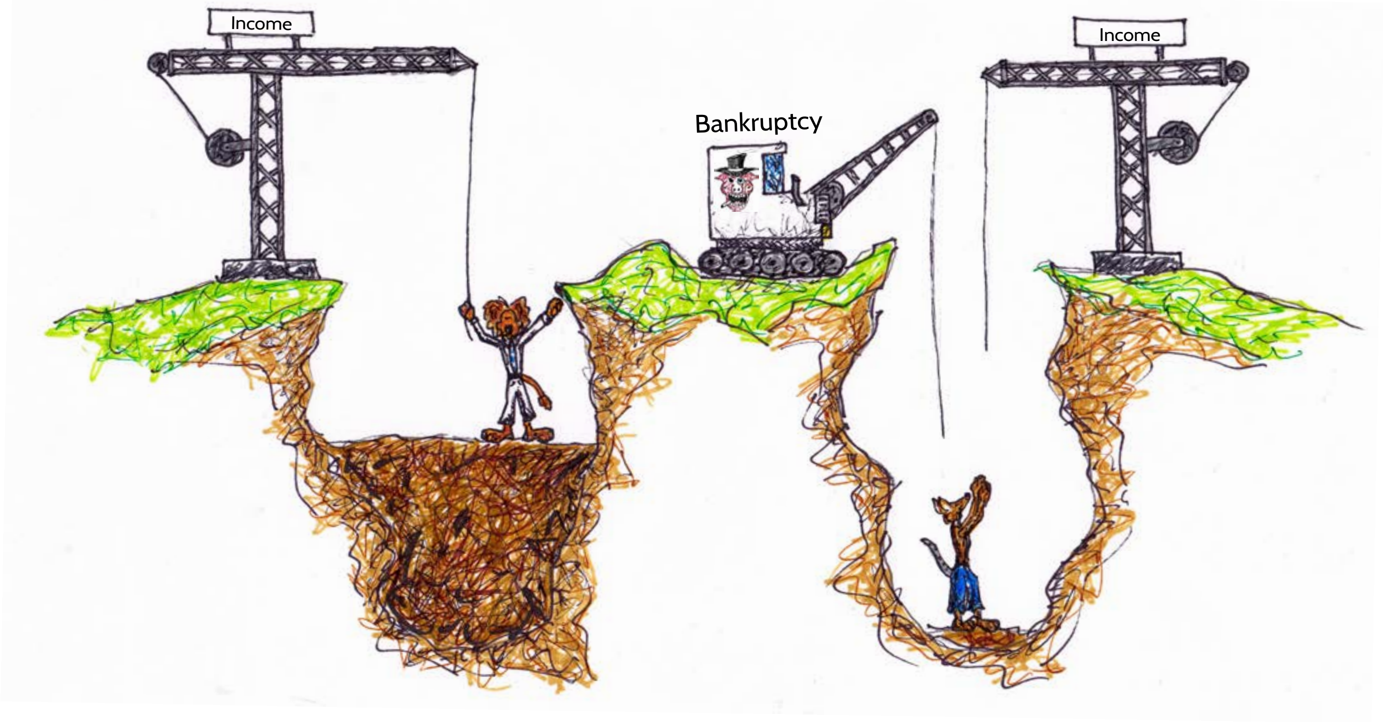
Credit card companies help Laborers hang themselves with credit card debt by encouraging them to sign up for multiple high-interest cards. Capitalists do not define their financial success by the number of credit cards they have and limit their open cards to stay out of trouble.



Take Away: Limit the number of credit cards you have to no more than three.

Available Balance Limits

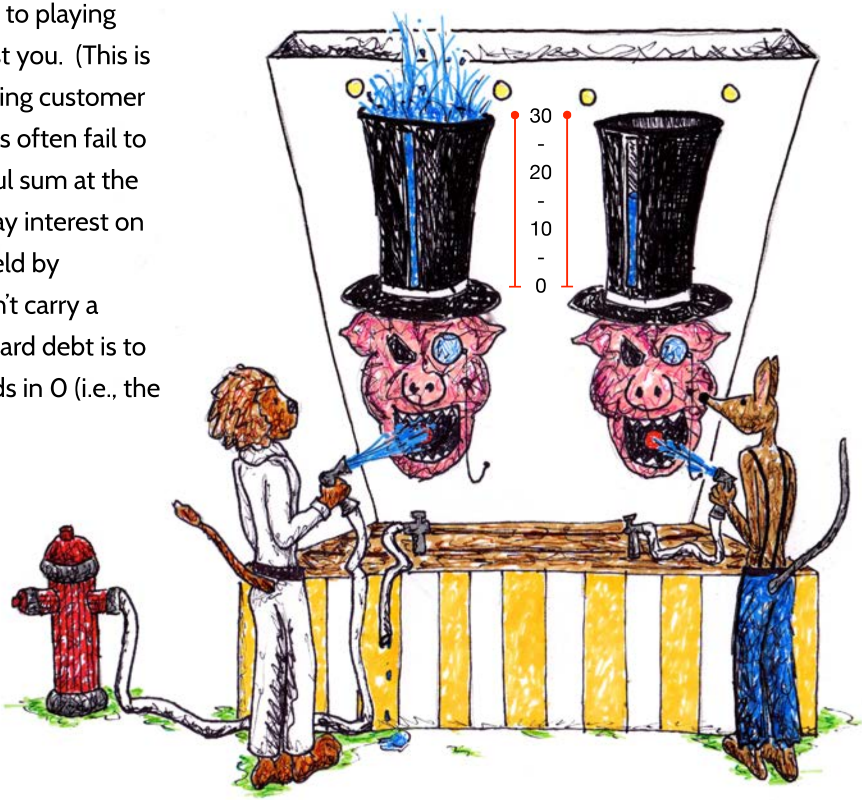
Capitalists know that every time they use a credit card they dig themselves deeper into debt. To control risk and avoid lowering their credit scores, they set their available credit limits to twice their monthly take-home pay and don't charge more than 50% of the allowed amount, or one month's take-home pay. Laborers ignore this rule and their income may not be able to keep them on level ground. If not, they might be tempted to take the easy, but financially devastating, bankruptcy route.



Take Away: Set your maximum available credit limit to no more than twice your monthly income.

Paying Off Credit Cards

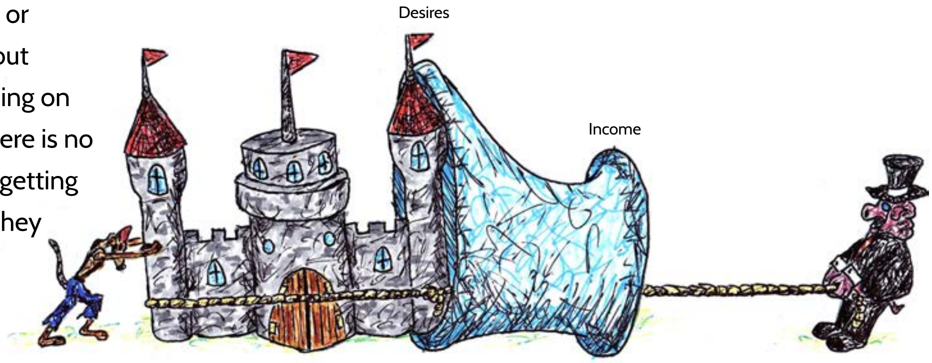
Working with credit card companies is akin to playing carnival games–the odds are stacked against you. (This is the same industry that was fined for shredding customer checks so it could charge late fees.) Laborers often fail to pay off their balances, which can be a painful sum at the end of the month, and are then forced to pay interest on their charges. Capitalists level the playing field by establishing a routine to make sure they don't carry a balance. A solid strategy for tackling credit card debt is to zero out your balance on every day that ends in 0 (i.e., the 10th, 20th, and 30th).



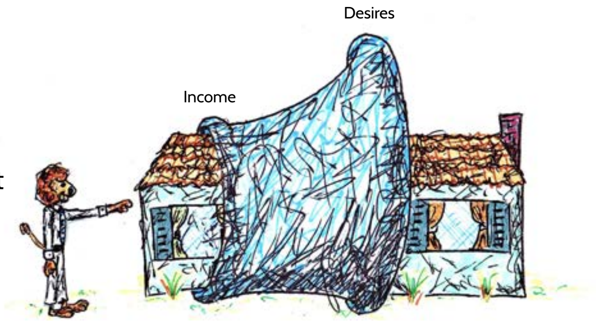
Take Away: If you can't pay your card balances in full, increase the number of payments per month.

Home Purchase

Laborers often make themselves "house rich" and "cash poor." They find houses that fulfill their desires and figure out how to make their income work with the mortgages and debt afterward. Reducing or eliminating retirement contributions, taking out Adjustable Rate Mortgages (ARM), and skimping on life expenses are not long-term solutions. There is no shortage of Barons in the mortgage industry getting rich from selling Laborers expensive homes they don't need and can't comfortably afford.



Capitalists know that it is important that a home fit financially within their budgetary goals so they start with their income first. They have a well thought-out plan so the process is a lot less stressful.



Take Away: Keep emotions out of buying a home by working backwards from your available income.

Home Selection

A Capitalist's Home Purchase Checklist

Step 1: Know your maximum monthly payment. A good rule of thumb is to keep your mortgage payment to no more than 30% of your net pay (take-home pay after taxes and deductions).

Step 2: Input your maximum monthly payment in a mortgage calculator with current interest rates to get an idea for your maximum loan amount. Contact a few Lenders to get pre-qualified if you are serious about purchasing a home.

Step 3: Find a Real Estate Agent and start looking at homes. Request that your Agent show you only those homes listed at or less than your maximum loan amount plus any available down payment.

Step 4: Once you find a home, combine one month's worth of taxes, Homeowners Insurance, and any other fees such as Homeowner Association dues. The remaining amount is what is leftover to pay principal & interest on the loan.

Do you know your maximum monthly payment? — Yes / No

Multiply your take-home pay by 30% to calculate your maximum monthly payment.

Can you afford a home in the area you are looking? — Yes / No

Search another area, find a higher paying job, consider roommates, etc.

Input your desired monthly payment in to a mortgage calculator for a general idea of the maximum loan to consider.

Contact a few lenders to ask about current rates and fees and get pre-qualified.

Were you able to get pre-qualified? — No / Yes

Find Real Estate Agent.

Did you find a competent Real Estate Agent? — No / Yes

Find a home.

Did you find a home at or less than your target loan amount plus your available down payment? — No / Yes

Go to the property's county website to find the yearly taxes.

Call insurance providers to get Homeowners Insurance quotes.

Find out if there are any other expenses/fees to consider (Homeowner Association, Condo, etc.).

Add any miscellaneous expenses together.

\+ + =

Subtract expenses from desired monthly payment.

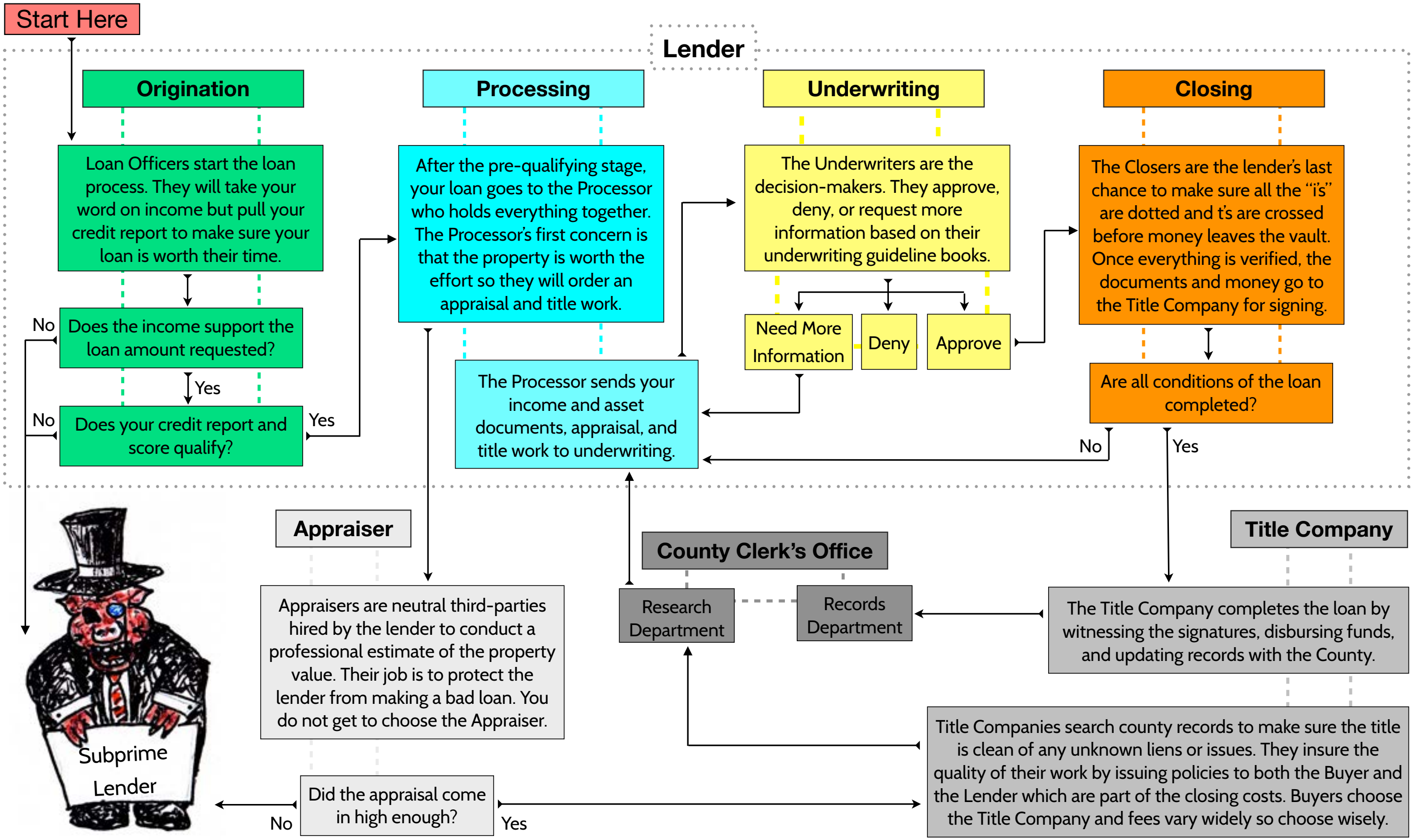
\- =

Does the remaining amount cover the principal and interest payment? — No

Continue to next page and begin the loan process.

Take Away: Ensure your mortgage works with your income so you can accomplish all your goals.

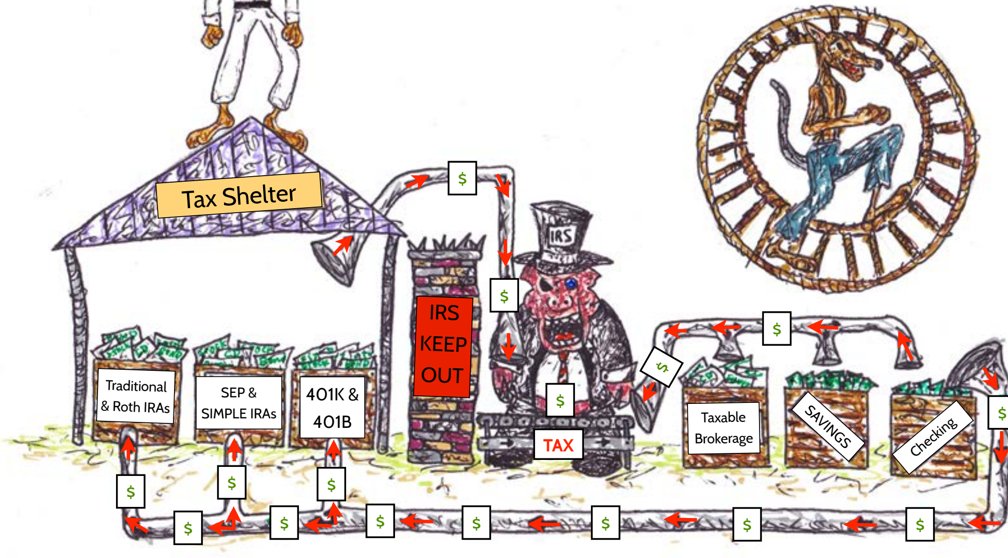
Home Loan



Take Away: Loans are complicated but understanding the process will prevent you from being cheated.

Tax Shelters

Laborers and Capitalists both make money in the labor pool which is taxed by the Internal Revenue Service (IRS). Laborers keep their money in taxable accounts while Capitalists make contributions for retirement to tax-sheltered accounts. The IRS does not care about what happens in a sheltered account, such as a Simplified Employee Pension (SEP) or Individual Retirement Account (IRA). Therefore, gains, losses, dividends, and interest are not reported, only withdrawals and contributions.



Taxable accounts work great for emergency funds and to earn extra money but taxes are due on earnings each year. It is important to consider how your money will be taxed when deciding which investments and accounts to include within your portfolio.

Take Away: Tax-sheltered accounts allow investments to grow tax-free or tax-deferred.

Tax Rates

The Federal Government typically imposes two taxes on ordinary income you earn at your job that is reported on your W2 at the end of the year: a flat 7.65% **Payroll Tax** (Social Security + Medicare), and a progressive **Federal Income Tax.** This means that as you labor for more dollars, they are taxed at higher percentages in higher tax brackets. Capital gains are earned from buying an investment and selling it for a profit. If a Capitalist holds an investment for a year and then sells it for a profit, profits are subject to long-term capital gains that are taxed at lower rates than those on ordinary income received from an employer.

● = Capital Gains

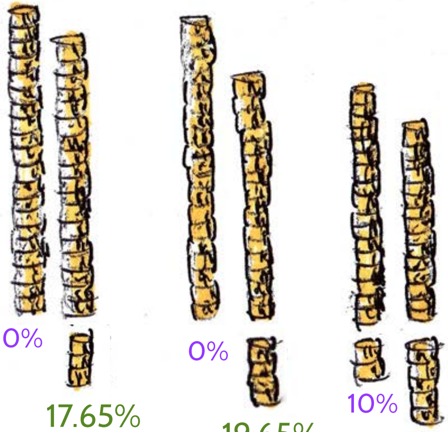
● = Ordinary Income

0% Tax Rate

7.65% Payroll Tax

Did you know the Standard Deduction does not block Payroll Taxes? So you'll typically pay 7.65% in Payroll Taxes even on your first dollar of income.

The Capital Gains Tax Rate is 0% for the first two Tax Brackets, but is 17.65% and 19.65% for Ordinary Income Earnings and only increases from there!



0%

17.65%
(10% + 7.65%)

0%

19.65%
(12% + 7.65%)

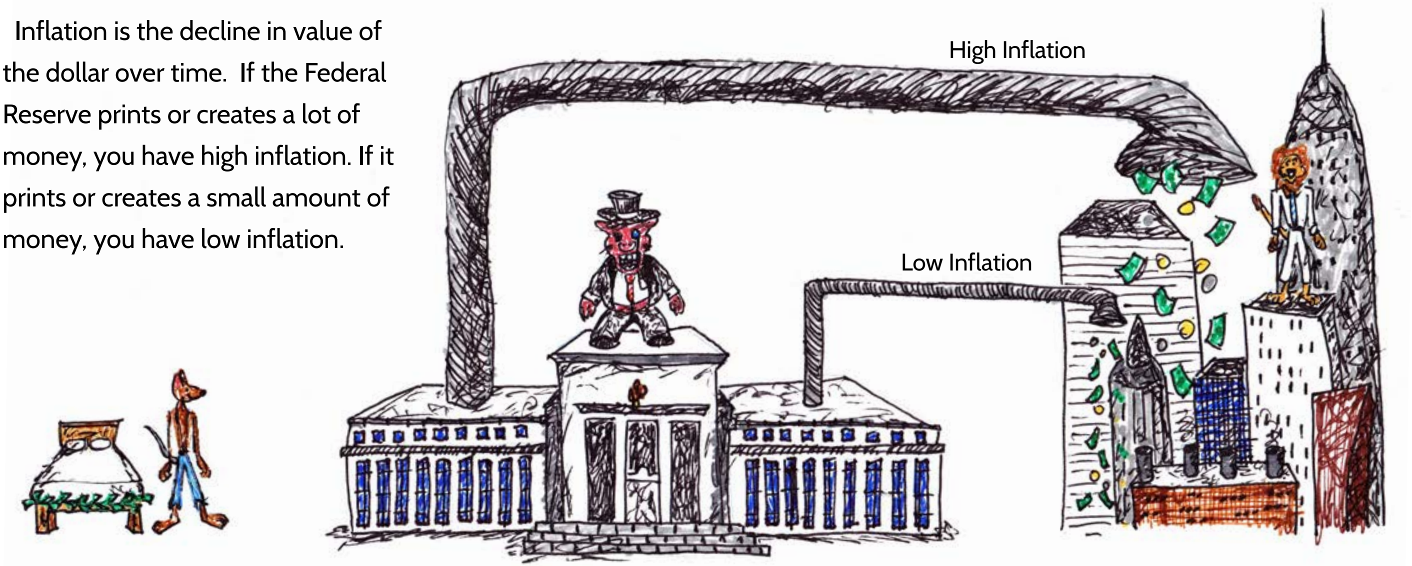
10%

29.65%
(22% + 7.65%)

Take away: If you like money, be a Capitalist because our tax system was made for them and you'll pay a lower percentage in taxes.

Inflation

Inflation is the decline in value of the dollar over time. If the Federal Reserve prints or creates a lot of money, you have high inflation. If it prints or creates a small amount of money, you have low inflation.



The Mattress | The Government & The Federal Reserve | Corporate Stocks & Bonds

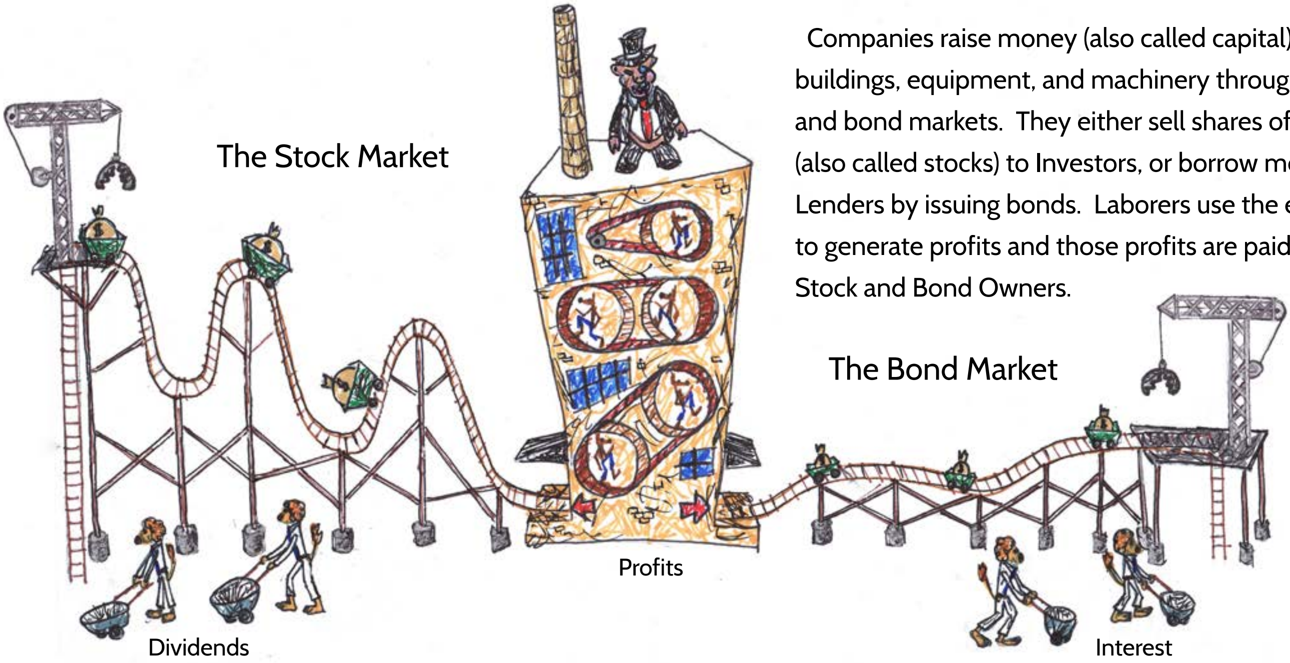
The Laborer keeps his money under his mattress. He thinks investments and stock markets are for the rich. When he pulls his money out in the future he will complain that a dollar doesn't buy him what it used to.

The Capitalist knows that the Government is going to print money every year. He invests in stocks and bonds that appreciate faster than the rate of inflation so that his dollar maintains its value and his wealth continues to grow.

Take Away: Cash may be comfortable because you understand it, but it is a poor long-term investment.

Stocks vs. Bonds

Companies raise money (also called capital) to buy buildings, equipment, and machinery through stock and bond markets. They either sell shares of ownership (also called stocks) to Investors, or borrow money from Lenders by issuing bonds. Laborers use the equipment to generate profits and those profits are paid out to the Stock and Bond Owners.

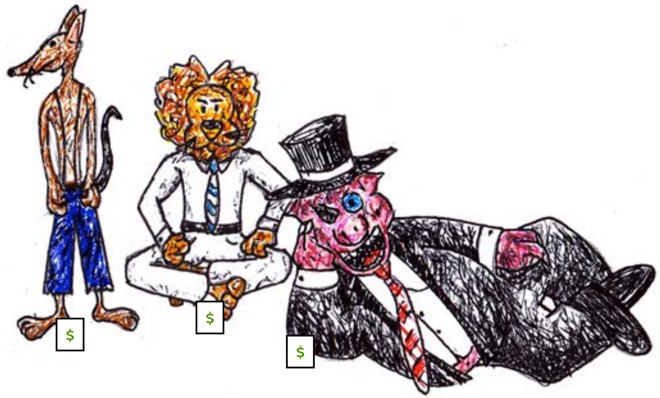


Capitalists use stock markets to increase their wealth. They know stocks can be volatile so they sell when prices go up and buy when prices go down. Company profits paid to Stock Owners are called dividends and shares sold for a profit are called capital gains.

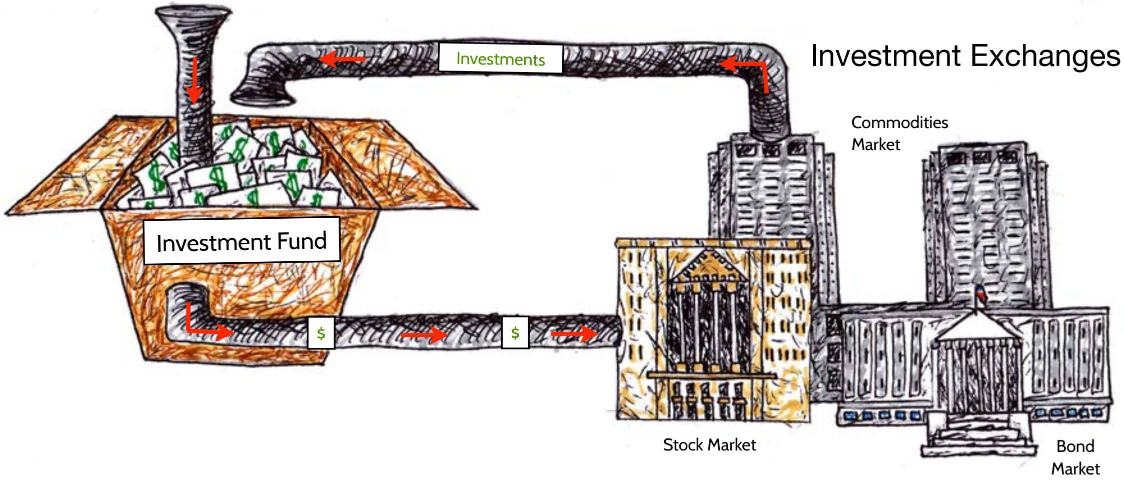
Capitalists use bond markets to preserve wealth and create income streams. Company profits paid to Bond Owners are called interest payments. Bonds are more stable than stocks and have less volatility over the long-run.

Take Away: Stocks are riskier in the short-term, but can offer greater returns in the long-run.

Investment Funds



Anyone can invest in an investment fund (i.e., mutual fund, exchange traded fund). A Fund Manager takes investor dollars and buys stocks, bonds, commodities, and other securities at different exchanges. A fund is just a "box" that holds underlying investments that will ultimately determine its performance. If the underlying investments are aggressive, then the fund is aggressive; the opposite is true if the underlying investments are conservative.



Take Away: Funds are pools of money and performance is based off their underlying investments.

Fund Managers and Expenses

The most important characteristic about funds, besides the underlying investments, is the Fund Manager. The Manager sets the fund's objective, selects the investments, decides the internal expenses that will impact performance, and runs the day-to-day operations. There are good Managers who keep fees low to maximize Investor returns and there are unscrupulous Managers who count on an Investor's lack of knowledge to hide fees and charges. Avoid Baron Brokers and bad Managers at all costs.

No Sales Load
0.25% 12B-1 fee
0.99% OER

5% Sales Load
1% 12B-1 fee
2.5% OER

Sales Load: If you are paying loads on funds you are probably dealing with a Broker and not an Advisor. It's time to move your business! Do you like the idea of paying 5% of your money to someone just because he or she introduced you to a "great" fund? Great for who…?

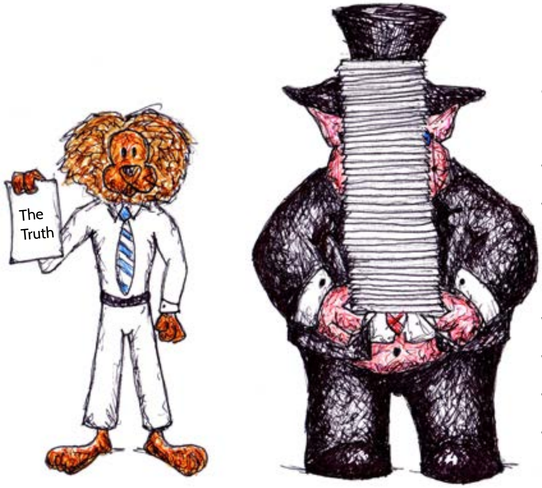
12B-1 Fee: An annual marketing fee paid to the person who recommended the investment. If he or she is charging the 1% maximum allowed, it's probably time to move your business. Small business retirement plans are big offenders of using this hidden fee.

Operating Expense Ratio (OER): Every fund charges an OER to cover the distribution of annual updates (prospectuses), manager salaries, and to pay commissions when trading investments. You won't pay it directly because it is siphoned off your returns throughout the year. Make sure you aren't dealing with a Baron Manager and the fee is reasonable. Don't feel like doing the research? Use passive index funds with lower internal expenses.

Take Away: Fund Managers impact fund performance so make sure you have a good one.

Disclaimers and Disclosures

Beware of Barons who hide behind disclaimers and disclosures for the devil's deeds are hidden in the details. Only work with Advisors who are transparent and truthful about their investments and compensation. Here are questions the Department of Labor recommends that you ask your "Advisor."



1. Do you consider yourself a fiduciary?
2. If not, why not?
3. Are you willing to act as a fiduciary with a duty to act solely on my behalf?
4. Are you willing to disclose to me any conflicts of interest that may interfere with your acting solely on my behalf?
5. Are you willing to put this commitment in writing?
6. How are you compensated?
7. Do you earn fees or commissions based on the number of products that I buy or the size of my investment?
8. Will you earn a higher fee or other type of compensation if I invest in certain products you recommend or will you receive fees for services related to specific investment products?
9. Will you provide a list of the fees and commissions you receive either directly from me or from other sources in writing?
10. Are you a licensed or registered investment adviser?
11. Are you registered with the State, U.S. Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), or the Certified Financial Planner Board of Standards, Inc. (CFP Board)?
12. For how long? What is your experience?
13. Who supervises you? Are you a sole practitioner?
14. If a sole practitioner, do you have professional liability insurance?
15. Have you (or your firm) ever been disciplined? For what?

https://www.dol.gov

Take away: Avoid Advisors and investments that use small print and long disclosures to hide information.

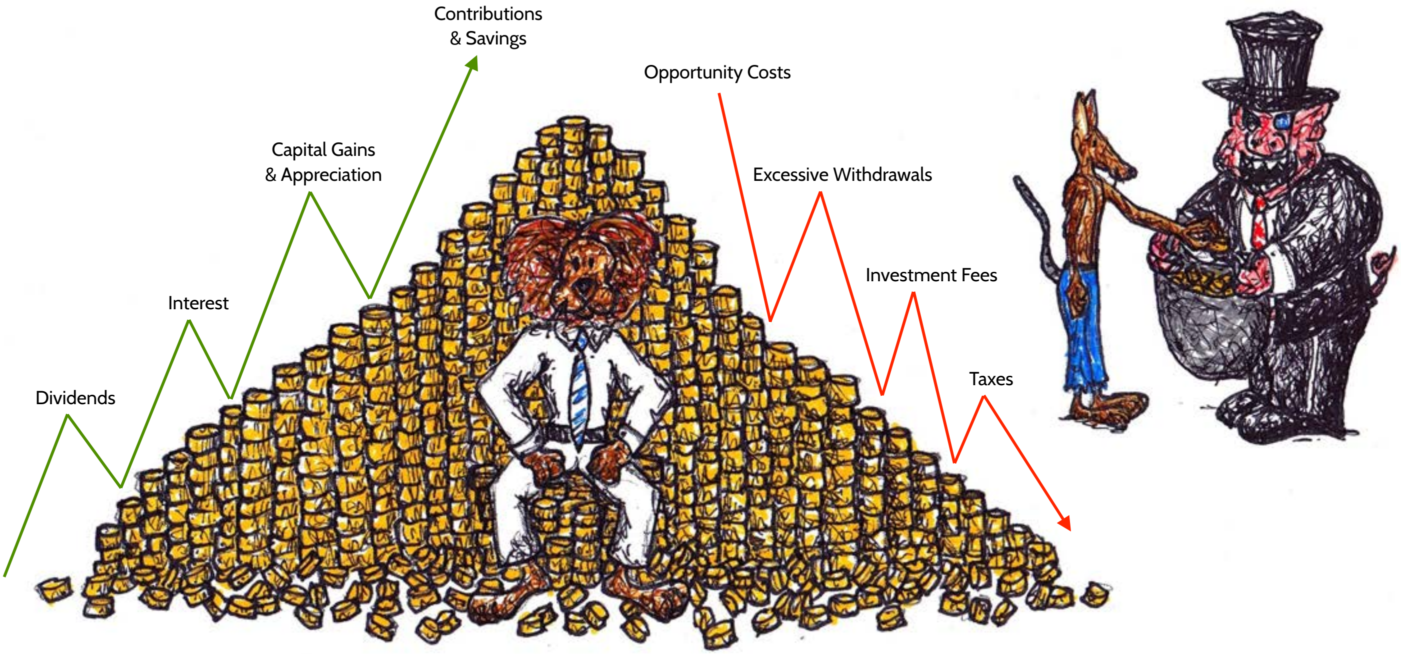
Portfolio Allocation and Emotional Balance

Capitalists know that a great investment strategy depends on a sound approach and not on the ability to predict an unpredictable future. The correct allocation between conservative and aggressive investments will balance out fear and greed and eliminate emotions from the decision-making process. If you are losing sleep over the stock market, you are probably too exposed to it. Everyone likes the idea of buying low and selling high, but are resistant to buying after prices have fallen and selling after prices have risen.

Take away: Allocating between stocks and bonds is more about controlling emotions than returns.

Portfolio Returns

Capitalists know that wealth is accumulated though savings, capital growth, interest, and dividend payments over time. The earlier they start the better their odds of reaching financial goals and living comfortably in retirement. Disadvantages of starting late, being attached to poorly performing investments, excessive withdrawals, and unreasonable investment fees and taxes are pitfalls that must be avoided.



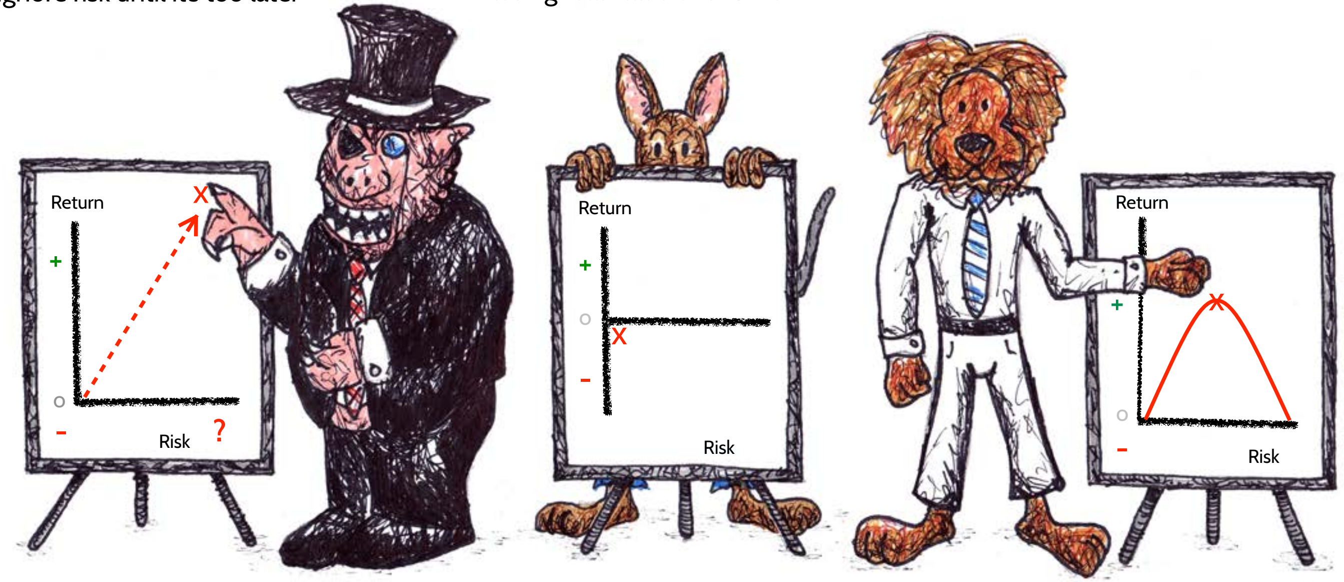
Take away: Building wealth is as much about controlling what comes in as what goes out over time.

Portfolio Risk

There is a misconception that more risk always yields more return. Increasing risk increases uncertainty which can lead to larger losses. Barons are only concerned with returns and ignore risk until it's too late.

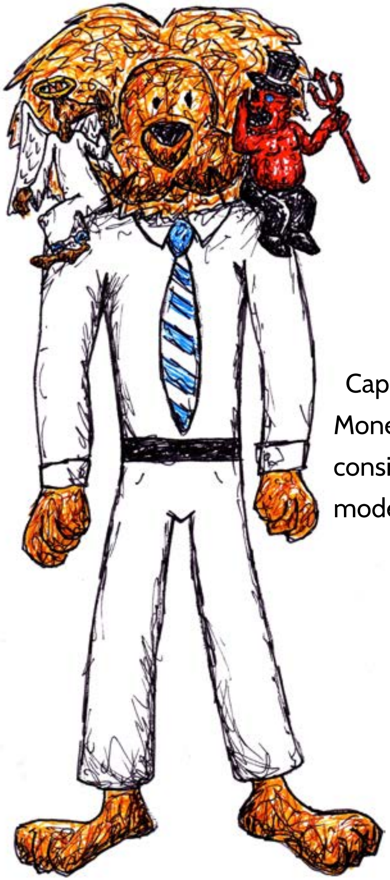
Some Investors opt to take no risk at all. Nothing ventured is nothing gained in the world of investing and wasting time is equivalent to wasting hours of life. Investments that do not keep up with inflation run the risk of losing real value over time.

Calculated risks do yield calculated returns. A healthy investing strategy focuses equally on risks and returns. At some point, taking on more risk is not a good idea and may lead to lower returns.



Take away: Every strategy should start with how much certainty you need, not the return you want.

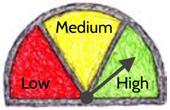
Time Horizon



Conservative Allocation | Moderate Allocation | Aggressive Allocation

Less than 3 years | More than 3 years | More than 7 years

Capitalists know that time is the most important consideration when choosing an allocation plan. Money needed within three years should be invested conservatively. Required stability is the next consideration. If stability is a low priority then an aggressive strategy may be appropriate. The moderate plan is an excellent option if you are looking for a balance between time and stability.



Stability

Stability | Stability

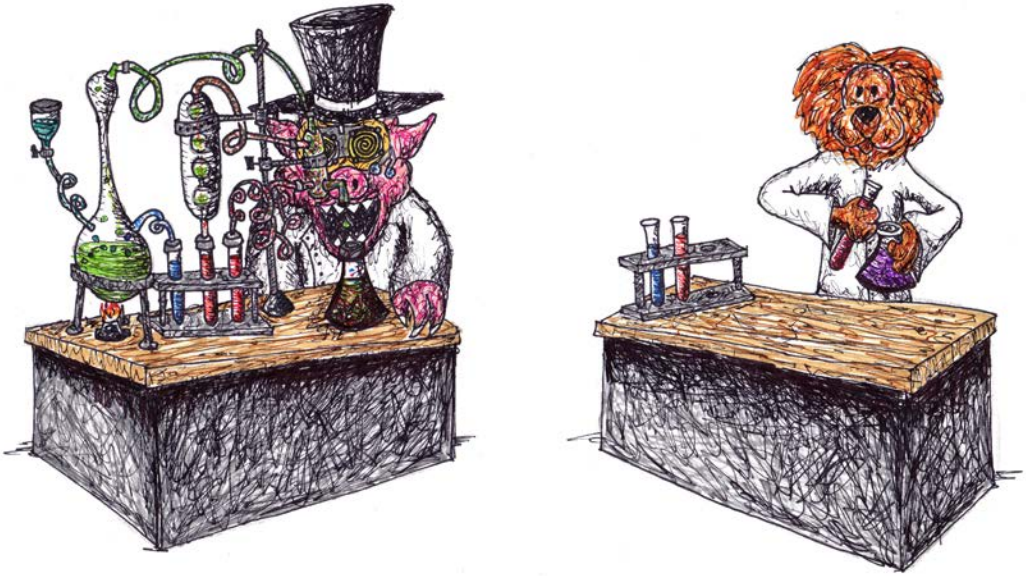
All plans fail if they are abandoned during stressful times so make sure you are honest about your priorities and don't let your inner greed or fear make the choice for you.

Take away: Time availability and required stability are more important than desired growth.

Portfolio Allocations and Construction

Portfolio allocations are simple investment formulas that determine the risks and returns that Capitalists will experience. The allocation guidelines specify a target percentage for each investment to purchase initially and rebalance to annually.

There are many "Advisors" out there who will construct portfolios for you. Be wary of overly complex formulas because this is how Barons insert commissions and fees into your portfolio and hide poor performance.



Take away: You should understand your portfolio and investments and avoid overly complex formulas.

Investment Policy Statement

The final step after choosing an asset allocation is to write the plan down on a document called an Investment Policy Statement (IPS). This document lays out which investments Capitalists will use and their amounts. It is important to create an IPS because bear markets and fear will attempt to lure Investors off course from their goals. The IPS ensures you will stay on course.

Conservative

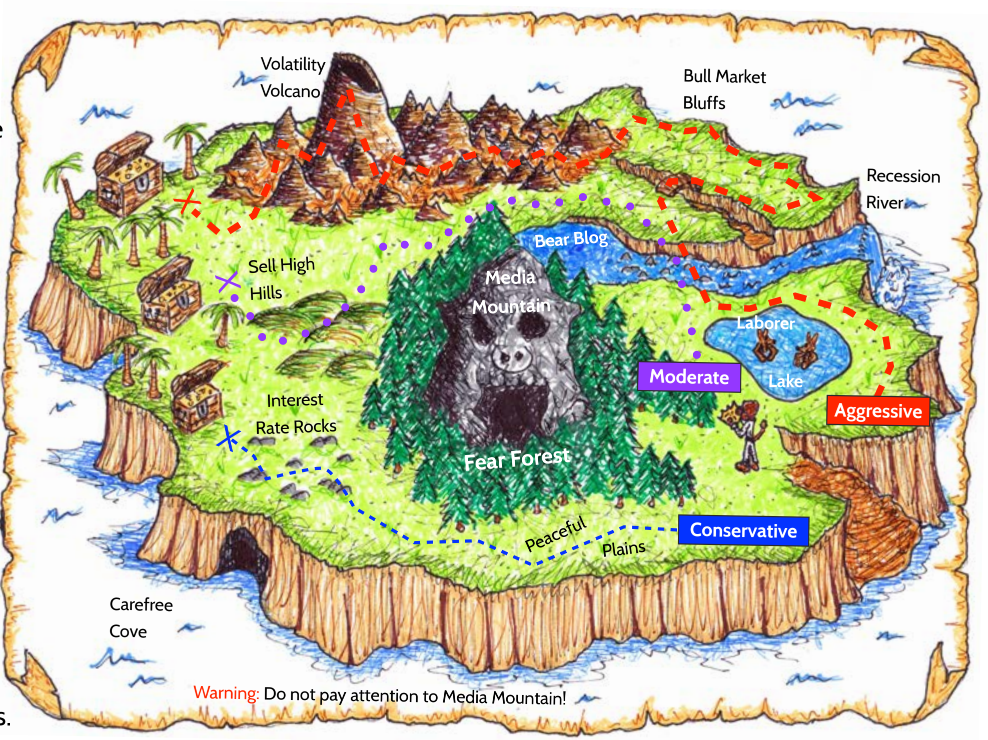
A relatively peaceful journey that may be slightly rocky for short periods of time if interest rates rise. Great for short-term needs and low-stress Investors.

Moderate

A balanced journey that combines the best parts of the conservative and aggressive paths. Great for most medium and long-term Investors.

Aggressive

A high-reward journey great for disciplined long-term Investors able to stay the course. This path only works if you don't lose yourself in volatile markets.



Take away: It is easy to get lost in the investment wilderness unless you have a written plan.

The Path to Success

The path to financial freedom is paved by making many small sound decisions throughout life.

Budget wisely!

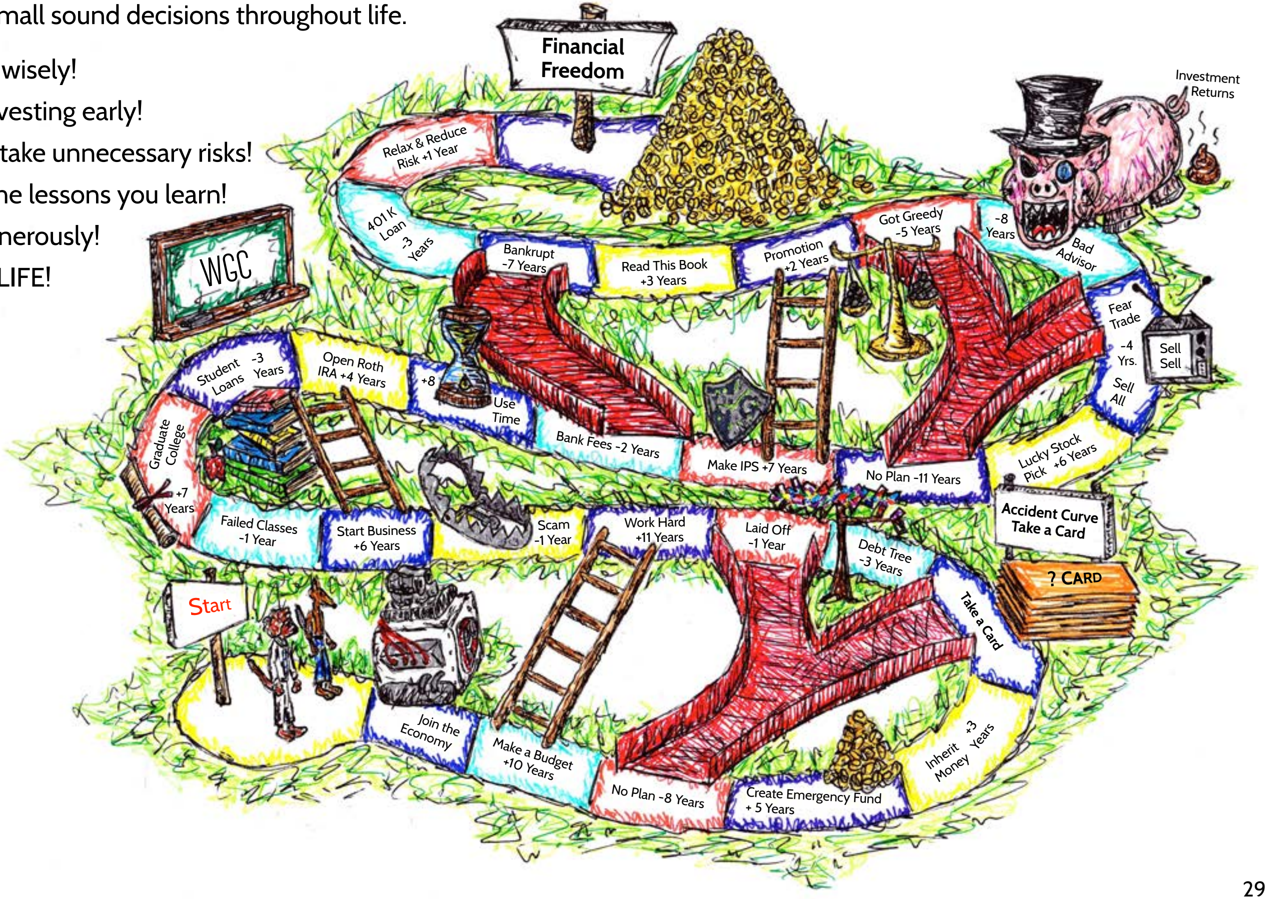
Start investing early!

Do not take unnecessary risks!

Share the lessons you learn!

Give generously!

ENJOY LIFE!



About Watch Guard Capital

Company Information

Watch Guard Capital is a Registered Investment Advisor and an investment and financial planning Fiduciary. Fiduciaries are required to put their clients' interests first, a responsibility we proudly accept. We believe that everyone should have a sound financial plan and an understanding of his or her investments.

Areas of expertise:

- Personal Finance
- Investment Management
- Retirement Planning
- College Planning
- Charitable Gifting
- Debt Reduction
- Advisor Review Services
- Caring about our Clients

Need help with something not listed? Visit our site for complete contact information.

Webpage: www.watchguardcapital.com
Email: help@watchguardcapital.com

Take away: Contact us today.

About the Author

Author Information

Stephen Paluga grew up in a small town in Ohio and graduated from Kent State University with a Bachelor's degree in business and a Master's Degree in economics while serving in the Air National Guard. During his studies, he was introduced to behavioral economics and developed a strong interest in Investor psychology.

Upon graduating, he invested six years of his career with a major brokerage firm and an affiliated Registered Investment Advisor where he was the lead Advisor responsible for managing more than $280 million in assets and eventually became an options and hedging strategist.

Stephen felt the finance industry was falling short when it came to providing ethical advice and promoting financial literacy so he founded Watch Guard Capital in 2016, a company specializing in investing, planning, and education. His goal is to travel the country teaching others about finance, the destructive nature of debt, and the importance of saving for retirement.

WATCH GUARD
CAPITAL LLC

The financial industry does not adequately educate Investors about the importance of financial planning or prepare them to make smart financial decisions. I created this book to help bridge that information gap. It is written so that an individual can read it in about an hour and have a basic understanding of the most common and important financial concepts and principles.