JEFFERSONIAN GROUP

CHAMPIONS OF FREEDOM AND SELF RELIANCE

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The Source for Freedom and Self-Reliant Information[1]

Thomas Jefferson defined *rightful liberty* as "unobstructed action according to our will within limits drawn around us by the equal rights of others—I do not add 'within the limits of the law,' because law is often but the tyrant's will, and always so when it violates the right of an individual."

Inside This Issue

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Financial Freedom: 3 Ways to Achieve Financial Independence

It doesn't matter if you make $25,000 a year or $1,000,000 per year, you can achieve financial freedom.

What does it mean to have financial freedom?

Financial Independence has nothing to do with your net worth (assets less liabilities). There are many millionaires who are not financially independent; if they lost their 6-to-7 figure incomes from their jobs or career, many would have to file for bankruptcy. Many millionaires must work every day to pay their mortgages on several homes, yachts, and all of their other expensive trappings of perceived wealth; they are slaves of the banks, who they pay their mortgages to; they are slaves of government who they pay their federal & state income taxes, Medicare & Social Security Taxes, and the ever-increasing real estate taxes on their lavish homes. If they must work at their jobs and careers to maintain their lifestyle, they are not financially independent.

Real wealth is a cash flow generated from your passive investments or assets that exceeds your expenses necessary to support the lifestyle of your choosing. You do not have to go to work; you may wake up at 6:00 am or noon; you may travel and live anywhere; and, your passive income or cash flow continues to flow into your bank account 24/7 regardless of whether you are awake, or asleep.

Once you become financially independent, you may choose to continue working; you may start another career or business; you may decide to go back to school; you may start a charitable foundation; or, you might just want to do nothing but travel and see the world. Once you have obtained financial freedom, you are no longer a slave and can do whatever you want; the choice is yours!

To achieve financial independence, you only need to do three things!

1. Pay Yourself First

A common strategy recommended by financial planners is to take the first 10% of your earnings and put it into your savings, which has now been coined, the pay-yourself-first principle. For example, when you sit down to pay your bills or common living expenses (e.g., rent or mortgage, utilities, auto, etc.) the first payment should be to yourself. Normally it is recommended that you take the first 10% of your earnings or paycheck and save or invest that amount every time you pay your bills. The 10% should be based upon your gross salary or earnings, not the net amount, which is after withholding for federal income taxes, State & local taxes, Social Security & Medicare taxes.

In today's uncertain world, when job security is no longer the norm, 10% may not be enough. You should attempt to save and invest at least 30% of your gross salary or earned income. If you make a habit of this and live below your means, it will become second nature.

Parents and grandparents can help their children and grandchildren learn this valuable lesson when they receive cash money for doing chores or working, or, for birthdays and other holidays. For example, if your child receives $10, have them put $3 in a piggybank or savings jar. The goal is to accumulate at least $600 to be able to open an account with an online discount broker. If they receive $1,000 from generous grandparents for a birthday, take at least $600 and open a brokerage account with an online discount broker and show them how to buy 10 shares of Coca-Cola (KO) stock. Explain to them that The Coca-Cola Company has over 500 sparkling and still brands selling 1.9-billion servings per day in over 200 countries. And, every time we drink a bottle of Dasani purified water, or any other Coke products you may like to drink, we, as owners of this great business, are helping to make our stock more valuable; and, enable our company to continue to pay and raise its dividends, which is good for us and the entire economy of the United States.

The sooner one starts to invest using the principle of compound interest, by buying great businesses—that have survived recessions, depressions and wars—that have paid and raised their annual dividends for at least 25 years and longer, the sooner one is able to attain financial freedom.

2. Live Below Your Means – Minimize Expenses

To be financially independent and maintain your financial freedom, you must accumulate assets or investments that pay you passive income that continues to grow and is always greater than your expenses necessary to maintain your lifestyle. If you are creative and able to develop a product or fill a need, or, lucky enough to win a lottery and generate millions-of-dollars, you may be temporarily financially independent. But, if you want to maintain your financial freedom, you will need to acquire assets or investments that pay you passive income that continues to grow and is always greater than your expenses to maintain your lifestyle.

Unfortunately, anywhere from 44%-to-70% of lottery winners and others that receive a windfall end up broke within five years because they do not understand this principle. **To maintain financial freedom, you must acquire assets or investments that generate passive income that continues to grow; and, your passive income must always exceed the expenses necessary to**

maintain your lifestyle. If you must liquidate or sell your investments to maintain your lifestyle, you will ultimately run out of money, which is what happens to most lottery winners.

For the majority of us, the greatest amount of income or cash flow that we receive comes from our jobs or careers, whether we work for others or ourselves. Therefore, you should first do all that you can to maximize your job or career earnings. If you are unhappy with your career choice or you cannot generate enough income from your chosen career, try something else.

My grandfather, a World War I veteran, self-educated, and who built bridges in Northern Illinois and Wisconsin while employing many others during the depression-era, advised: Look at every job as a paid education; once you have learned all you can from a particular job, move on to another job until you have learned and saved enough to start your own business. So, if you are unhappy with your current employment, take my grandfather's advice, i.e., look at your current position as a paid education, work another part-time job to enhance your education, find another job to continue your paid education, and then, start your own business to increase your income.

Unfortunately, since the industrial revolution, our government-controlled schools no longer encourage the entrepreneurial and independent spirit. The U.S. education system was designed, based upon the German-system; to stifle individual initiative; to encourage students to be satisfied with mundane factory-type jobs (or today, work 8-to-10 hours a day at a desk in an administrative position); to follow orders; and, to respect authority and pay their taxes to the federal government without question. And, the easiest way for the U.S. government to collect taxes is for most citizens to be employed by companies that withhold and deposit taxes directly to the Internal Revenue Service. While the entrepreneur and self-employed tend to be more creative, taking advantage of available loopholes in the tax laws.

Many people are "highly-educated, professionally successful, and financially illiterate." This is due to our compulsory education or indoctrination system, which encourages like-minded thinking, finding a good paying job, and reliance on government to solve all problems. As a result, most people become "trapped in the Rat Race." Robert Kiyosaki illustrated how a financial dream turns into a financial nightmare:

> The classic story of hardworking people has a set pattern. Recently married, the happy, highly educated young couple now share a cramped rented apartment. Immediately, they realize that they are saving money because two can live as cheaply as one.

> The problem is the apartment is cramped. They decide to save money to buy their dream home so they can have kids. They now have two incomes, and they begin to focus on their careers. Their incomes begin to increase.
>
> . . . as a result of their incomes increasing, they decide to buy the house of their dreams. Once in their house with a mortgage, they have a new tax, called property tax. Then they buy a new car, new furniture, and new appliances to match their new house. All of a sudden they wake up and their liabilities column is full of mortgage and credit card debt. Their liabilities go up.
>
> They're now trapped in the Rat Race. Pretty soon a baby comes along and they work harder. The process repeats itself: Higher incomes cause higher taxes, also called "bracket creep." A credit card comes in the mail. They use it and max it out. A loan company calls and says their greatest "asset," their home, has appreciated in value. Because their credit is so good, the company offers a bill-consolidation loan and tells them the intelligent thing to do is clear off the high-interest consumer debt by paying off their credit card. And besides, mortgage interest is a tax deduction. They go for it and pay off those high-interest credit cards. They breathe a sigh of relief. Their credit cards are paid off. They've now folded their consumer debt into their home mortgage. Their payments go down because they extend their debt over 30 years. It is the smart thing to do.
>
> Their neighbor calls to invite them to go shopping. The Memorial Day sale is on. They promise themselves they'll just window shop, but they take a credit card, just in case.

As Kiyosaki correctly explained, the problem the typical hardworking couple has is not how to make more money but, "their trouble is really how they choose to spend the money they have." "It is caused by financial illiteracy and not understanding the difference between an asset and a liability."

Contrary to popular opinion, a home is not an asset for creating real wealth, it is a liability. Your home does not generate any income; it is a *Money Pit*. You must pay the mortgage, utilities, maintenance, property taxes that continue to go up each year, and, insurance that tends to also increase annually. After so many years, kitchens need remodeling, carpets & flooring replaced, and, painting and decorating requiring new furniture to match the updated changes. And, the larger the home the more furniture that is needed to fill it up.

To become financially independent, you need to keep your expenses low, limit or eliminate your liabilities, and, accumulate assets or investments that pay you an income. You must keep your expenses low so that you have enough income to acquire assets or investments on a regular basis. The earlier you start, the sooner you will become financially independent.

For those of you who have just left college or a trade school and have landed a new job or career near your parents, consider moving back home to save on rent, utilities, etc., which may enable you to save 30%-to-50% or more of your gross earnings over a one to two-year period. You might also consider sharing an apartment or rental house with several roommates to keep your living expenses low.

If you move into a neighborhood where everybody drives luxury cars and belong to country clubs, you will most likely end up making the same choices as your neighbors. However, if you curtail your immediate desires for gratification and acquire assets that generate passive income, you will become financially independent much sooner.

To become financially independent and maintain your financial freedom, you must always live below your means, i.e., your income must always exceed your expenses necessary to maintain your lifestyle. Whatever your income is, you should be able to save and invest 10%-to-30% of it. For example, if your monthly income is $5,000, you should be able to invest 10% of that amount or $500 each month; if $10,000 per month, you should be investing 30% or $3,000; and, if $25,000 per month, you should be investing at least 30% or $7,500 per month. Any bonuses and pay raises should be invested rather than spent on luxuries or to buy a bigger home. Buy that bigger fancier new house after you have accumulated enough assets or investments that generate an increasing passive income that can pay for it.

Married couples who both work should attempt to live off one income only; and, even invest 10%-to-30% of the other spouse's income. Before you know it, neither spouse will have to work because you will be financially independent.

3. Invest Wisely Using Principle of Compound Interest

If you put $10,000 in a DRIP (dividend reinvestment program) "yielding 5%---and the company grows its dividend 10% each year, so that in year number two you're earning 5.5%, in year three you earn 6.05% and so on—you'll be sitting on well over $5 million at the end of 30 years. And this . . . doesn't even factor in the potential growth in share price!"

Investing in a DRIP addresses two of the most pressing problems facing . . . you today: inflation and relentlessly low interest rates." According to Dan Ferris, the ultimate stock strategy for any stock market correction or downturn "is buying the world's best businesses at great prices . . . and then compounding your way to wealth over many years." The businesses he is talking about have DRIP's and include "blue-chip *World Dominators* like Microsoft and Coca-Cola."

“These businesses have tremendous advantages over their competitors. They generate huge cash flows, which are directed to shareholders in the form of higher dividends, share buybacks, and rising share prices.” If you buy these businesses at great prices, “a stock market correction is nothing to worry about.” “No matter what the day-to-day movements of the market are, World Dominator companies like Intel, Johnson & Johnson and Coca-Cola will still be No. 1 in their industries. They will still have giant, insurmountable competitive advantages. They’ll still have consistently thick profit margins. They’ll still generate huge cash flows. They’ll still direct a portion of those cash flows to shareholders through ever-increasing dividends. And they will still allow shareholders to put the power of long-term wealth compounding to work.”

Grace Groner turned $180 into $7-million in 75-years through a DRIP with just one company; and, Anne Scheiber took a $5,000 investment in DRIP’s and turned it into $22-million 51-years later.

The Coca-Cola Company (KO) has paid and raised its annual dividend each and every year for the past 55-years. Its name or brand is one of the most recognized throughout the world, selling its products in over 200 countries. If you had purchased 100 shares of KO on November 30, 1994 for $5,112 using the Company’s DRIP or dividend reinvestment program, after 18 years ending December 17, 2012, your 100 shares would have grown to 1,958 shares worth $73,914 representing an average annual return per year of 74.56%. More importantly, the dividend yield, at the time of purchase was only 1.5% or $78. For the year ended December 17, 2012, that dividend payout to you would have grown to $1,977.44 representing a one-time yield or return on your original investment, just from the dividends received, for the year 2012 of 38.68%; this annual yield continues to increase each and every year. For the year ending December 15, 2016, the last quarterly dividend payment in 2016, the total dividends paid was $3,053.46 on this original investment of $5,112 representing a total return for 2016 of 59.73% based upon the dividend payments alone. And, within several more years, the annual dividend payments will exceed the original investment!

As DRIP investors, we do not care if the market crashes and the value of our KO shares drop because the dividend payout continues to increase each year; and, we are able to acquire more shares at less cost. If you want more information, read, *The Best Kept Secret to Financial Freedom*, available from Amazon.

Take Action

It doesn’t matter if you make $25,000 or $1,000,000 per year. If you do these three things—**Pay Yourself First, Live Below Your Means, and, Invest in DRIP’s Using the Compound Interest Principle**---you will become financially independent within 10-to-15 years.

Oh… if you are already financially independent and want to stay that way, you must continue to do these three things throughout your entire life, i.e., (1) Pay Yourself First, (2) Live Below Your Means, and (3) Invest in DRIP's Using the Principle of Compound Interest.

"The Capitalist Code, It Can Save Your Life"

In 2017 Ben Stein, wrote a great little book titled, *The Capitalist Code, It Can Save Your Life And Make You Very Rich!* It is a great companion read with *The Best Kept Secret to Financial Freedom*. Stein's "key lessons of [his] book:

1. Free market… stock market capitalism is a phenomenal system for creating freedom and wealth for societies and nations.
2. Free market… stock market capitalism is a fabulously effective way for individuals to become well-to-do and even rich.
3. The people who tell you that capitalism is an evil, exploitive system for draining the blood of the workers and the nonwhites are lying. There is no freer, more diverse, and more equal opportunity employer than capitalism. Capitalists have no interest at all in skin color or sex. They only want to see what you can produce. If you can produce more than you cost, you get and keep a job. If you can produce a large amount of excess over your costs, you get well paid. And if you produce very much more than you cost, you get **rich**. Skin color and ancestry have nada to do with it. Capitalism is, and must be, an equal opportunity employer. The people who tell you different are deeply incorrect as a matter of theory and fact.
4. In this life, the acquisition of money is of paramount importance. In this life, the acquisition of assets that produce income is life or death. **The absolute surest, simplest, easiest way to do that is by owning a diversified index of stocks. [Better yet, DRIP stocks**… read *The Best Kept Secret to Financial Freedom*, which explains why.]
5. The preferred holding period is forever {which can only be done with DRIP stocks, not Index Funds!]
6. There is an immense tax subsidy built into owning stock through the nontaxation of run-ups in book value until the stock is sold and also in terms of the vastly lower taxes on income from capital gains than labor. [Unlike Index Funds, you do not have to sell your DRIP stocks to receive income, you just stop reinvesting your dividends, which is much more tax-efficient.]
7. The goal is not to "play the market." That way lies insanity. The goal is . . . [to] end up owning your own business---made up of many infinitesimal shares of all the biggest American businesses—and Wall Street makes it super-easy to do it."

Ben Stein's, *The Capitalist Code* is a great read, which supports the three ways to achieve financial freedom. His only mistake is that he appears to be unaware of DRIP stocks even though he believes "the greatest genius about money since Adam Smith [is] Warren E. Buffett," who made his fortune by buying DRIP stocks like The Coca-Cola Company. Buffett's strategy with his company, Berkshire Hathaway, is to acquire great businesses that continue to pay and raise dividends, but, he has never paid dividends to any of his stockholders.

To take advantage of Einstein's theory of compound interest—which will allow you to become financially independent in 10-to-15 years---you must buy passive assets that continue to pay and raise their income each, and every year; Index Funds don't do this… only DRIP's as explained in, *The Best Kept Secret to Financial Freedom*.

Great Businesses to Buy Now

Of the 12 Great Businesses that we believe should be in everyone's portfolio, the following *U.S. Dividend Champions* (paid and raised dividends for at least 25-years) meet our parameters and are current buys:

1. Johnson & Johnson (JNJ) - $143.72, yield = 2.31%, Paid & Raised Dividends for 55-years
2. Exxon Mobil Corp (XOM) - $88.62, yield = 3.46%, Paid & Raised Dividends for 35-years
3. Coca-Cola Company (KO) - $47.81, yield = 3.05%, Paid & Raised Dividends for 55-years
4. Procter & Gamble (PG) - $87.18, yield = 3.14%, Paid & Raised Dividends for 61-years
5. McDonald's Corp (MCD) - $153.83, yield = 2.43%, Paid & Raised Dividends for 41-years

McDonald's (MCD) just fell slightly below our 2.5% or better yield criteria but, its 20.1% average annual increase will make up for the difference; if you do not own MCD buy it now!

Johnson & Johnson (JNJ) also fell below our 2.5% or better yield, but it has paid and raised dividends for 55-years and its average annual increase is above 10%; if you do not own any JNJ, you should consider acquiring some shares in this great company.

One additional Great Business that we believe ought to be in everyone's portfolio is also considered a current buy:

- Walt Disney Company (DIS) - $111.66, yield = 1.50%, Paid Dividends for 36-years

See June 2, 2017 Issue 13-2017, for details about The Walt Disney Company (DIS).

The following additional *U.S. Dividend Champions* are also good buys right now:

1. Kimberly-Clark Corp (KMB) - $121.29, yield = 3.27%, Paid & Raised Dividends 45-years
2. PepsiCo Inc. (PEP) - $120.77, yield = 2.64%, Paid & Raised Dividends 44-years
3. Target Corp (TGT) - $76.85, yield = 3.22%, Paid & Raised Dividends 49-years
4. Weyco Group Inc. (WEYS) - $32.84, yield = 2.62%, Paid & Raised Dividends 35-years
5. Archer Daniels Midland (ADM) - $43.34, yield = 2.94%, Paid & Raised 42-years

Contenders are companies that have paid and raised their dividends for 10-to-24 years. The following five *Contenders* are priced right for acquisition:

1. General Mills (GIS) - $60.04, yield = 3.26%, Paid & Raised Dividends for 14-years
2. Int'l Business Machines (IBM) - $166.84, yield = 3.59%, Paid & Raised 21-years
3. Omega Healthcare Investors (OHI) - $27.18, yield = 9.63%, Paid & Raised 15-years
4. Qualcomm Inc. (QCOM) - $67.61, yield = 3.33%, Paid & Raised Dividends 14-years
5. Enterprise Products Partners (EPD) - $29.28, yield = 5.79%, Paid & Raised 20-years

The next category of dividend payers are *Challengers*, which have paid and raised their dividends for 5-to-9 years. In today's market, we like the following two companies:

- Cisco Systems Inc. (CSCO) - $42.84, yield = 2.73%, Paid & Raised for 7-years
- Johnson Controls (JCI) - $40.55, yield = 2.56%, Paid & Raised for 10-years

See prior newsletter, dated June 2, 2017 for reasons why you should consider CSCO.

Johnson Controls International PLC (JCI) was founded in 1885 in Milwaukee, Wisconsin. In 2016 they merged with Tyco, a provider of fire and security solutions. It serves customers in over 150 countries, manufacturing building control and battery systems. It has paid dividends since 1887; and, has paid and raised its dividend for 10-years by 9% and 11.4% over the past 5-years. After the merger in 2016, it is now headquartered in Ireland, which will reduce its taxes and hopefully, use some of that savings to up its annual dividend payments.

How to Invest

Our recommended portfolio now includes 31 DRIP stocks; if 100 shares of each were purchased today, it would cost approximately $315,000. If you have investment capital of $500,000 or more, it would be appropriate to purchase 100 shares of each of these stocks… if interested, send us an email and request our complete listing.

If you were to buy 100 shares of all 18 of the companies listed above, it would cost you about $148,000-to-$150,000. Also, by the time you get this newsletter, the prices will have changed but, you should buy the companies you desire, assuming the dividend yield at the time of your purchase, is above or near 2.5%.

Some of you may already own many of these stocks; feel free to add to them. First purchase the stocks you own less of. Some of you may not own any of these great businesses. Some of you may have $100,000 to invest while others may only have $1,000. Using a discount broker (e.g., E*TRADE, Schwab, TD Ameritrade, Fidelity, etc.), you can now buy 10 shares, or 1,000 shares and the brokerage fees will be less than ten dollars. In addition, **once you acquire any of these DRIP's, you should instruct your discount broker to automatically reinvest the dividends**. The reinvested dividends should be done with no additional cost.

If you are just starting this investment program, first acquire the five *U.S. Dividend Champions* that we have recommended for everyone's portfolio, i.e., JNJ, XOM, KO, PG, and MCD. The order of our listing has nothing to do with one company being better than the others; they are all great businesses! If you have enough investment capital to invest in all five, 20-to-100 shares of each, then you should consider doing so. Your goal would be to acquire 100 shares of each of these five *U.S. Dividend Champions* before moving on to any of the other recommendations.

If you only have $1,000 to invest, buy 20 shares of Coca-Cola (KO); then buy more shares the next month; or, pick any other great business listed as *U.S. Dividend Champions* that you personally like; they are all great companies that have paid and raised their dividends for more than 25-years. As an alternative, you might select one-to-three stocks to acquire each month.

Start investing in these great businesses… NOW!

Remember, the only way to become financially independent is to acquire assets (e.g., DRIP's) that pay you enough passive income to cover and exceed your lifestyle expenses.

W**hen you buy a DRIP, you are buying it for life**. At some point in the future, you will no longer reinvest ALL the dividends; you will live off the dividends.

The Tax Cuts and Jobs Act of 2017 – Will It last?

On December 22, 2017, President Trump signed into law *The Tax Cuts and Jobs Act of 2017*. Because of this major tax reform bill, over 250 large corporations gave their employees bonuses of $1,000-to-$3,000 and more; at least one company reduced customer utility bills; and, many other corporations are bringing back money from overseas. Apple has stated that it will invest $350-billion in the United States over the next 10-years because of this tax act; and, ExxonMobil is going to invest $50-billion in the United States over the next five years. The list of companies that are giving their employees bonuses & raises and bringing money back from offshore continues to grow!

The drop in the corporate tax rate from 35% to 21% and the one-time 15.5% tax on previously untaxed accumulated offshore earnings will create jobs and real wealth in the United States. Every U.S. citizen will ultimately benefit from these changes since corporations only collect taxes, they do not pay them. Corporate taxes and the cost of regulation are paid for by the employees, the shareholders, and ultimately, the customers and clients who purchase and use the products and services provided by the companies. It is the poor and middle-class that suffer the most from the hidden taxes and regulation of corporations.

As a person who believes in freedom, my only regret is that this tax reform did not go far enough! However, any reduction in taxes and any roleback in regulations represent a step in the right direction. But, will it last?

Since 1913, when the 16th Amendment was passed, allowing for an income tax, through 2017, there were 54 Tax Reform Bills enacted over this 104-year period. That represents, on average, a tax reform bill every two years, i.e., tax reform tends to last until the next election!

If the Democrats get control of the House and Senate, they will likely impeach President Trump and reverse all the good things that he has done for this economy. Therefore, if we want this tax reform to last, President Trump must serve two terms with the Republicans in control of both the House and Senate; and, we may then have time to implement a Tax Revolution.

Please go to our website, www.jeffersoniangroup.com and sign our petition to abolish the IRS.

Tax Reform does not work and will only last until the next political party takes control of the country. We need a Tax Revolution—we must repeal the 16th Amendment to take the ability away from Congress to tax incomes.

Dum spiro, spero—While I breathe I hope.

Slainte mhath,

Robert G. Beard Jr., C.P.A., C.G.M.A., J.D., LL.M.