

**33.8% ROI  
this Month!**

**CONSIDER ADDING  
TO YOUR HOLDINGS  
AFTER A MARKET  
CRASH**

**401k/IRA**

**REVIEW YOUR 401K  
AND IRA RULES**



**WHAT DO THEY KNOW?  
TEACH EM ABOUT  
CAPITALISM?**

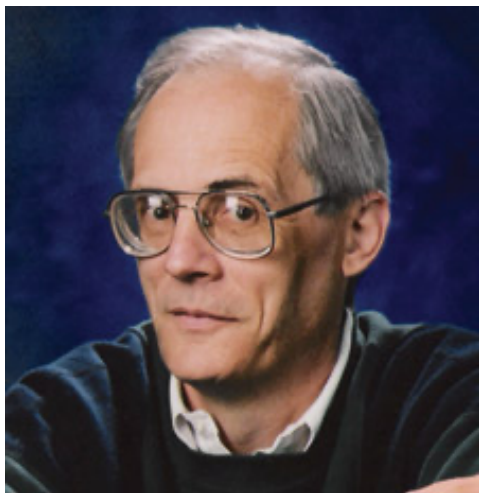
**Recession**

**IT'S OFFICIAL.  
UNLESS YOU LISTEN  
TO THE NEWS.**

# THE UNDERGROUND

## Self Directed IRA/401k

The tax code of 1978 created a way for employers to establish a savings plan for their employees. Most accountants and advisors knew about it, but did not know how to take advantage of the new rule until Ted Benna created the 401(k) in



**Ted Benna**

1981. He first devised the idea for a banking client while working for Johnson Cos. His boss said, “If this is possible, why hasn’t the top consulting firms come up with it?” Sound familiar? Never quit innovating.

The big innovation was to set it up so employees would participate. If low income employees don’t participate then high income employees cannot participate. Employee matching was the key. If the employer matches, then the program has wide appeal.

Back then most people tried to get a job where the company offered a pension. Those old pension plans were for workers who stayed till they were 60. But what if they fired you for some trumped up offense? Or what if the company declared bankruptcy? The company with your plan owned you in those situations.

The 401(k) was a huge innovation with far reaching effects. Workers had more freedom. They owned their retirement and could take their 401(k) money with

them when they left. Workers usually open a 401(k) account on their first day, and don't have to worry about the company changing the pension rules.

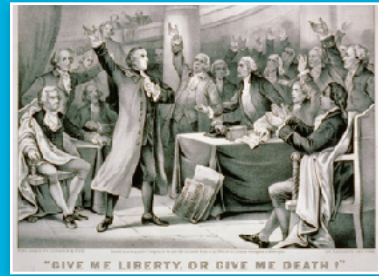
Should you participate in your company's 401k? Yes, but how good is the deal? You can invest \$19,500 or \$26,000 if over 50 (in 2022). The company might match 6% of your income. So if you earn \$200,000 then you can contribute \$19,500 and the company will contribute \$12,000. Great you have deducted \$19,500 from this year's taxes and contributed \$31,500 to your taxable retirement account. The deduction saves you \$3,000 this year in taxes but you don't get the cash till you are 59 1/2 Your 401k is taxable, you will have to pay income taxes when you take it out.

You select FBGRX, a Fidelity Blue Chip Growth Fund for your investment. FBGRX from January 2000 till August 2022 has had an average annual return of just under 4.2%. If you contribute the same amount every year or 20 years your 401 will be worth \$1,173,428. Check out our really cool retirement calculator: [undergroundcapitalist.com/investments.php](http://undergroundcapitalist.com/investments.php). And send me a note telling me what you think about it.

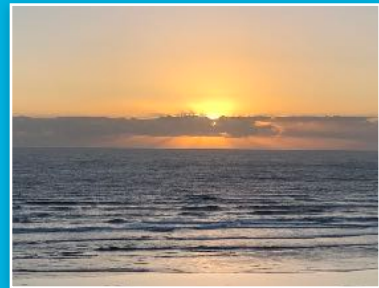
So what is the biggest problem with a 401k plan? Your investment options are limited. How good is a growth fund that earns 4.2%/year? Not very good when the inflation rate is 9.1%/year. You should consider what you can do to improve your average returns. If you were about to earn 12% on you money in the prior example you would see your investment grow to over \$4.5M.

Now would be a good time to check the rules on

## First Principles



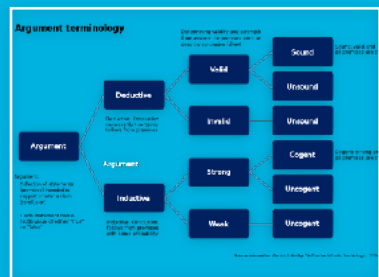
Courage



Faith in God



Knowledge



Critical Thought



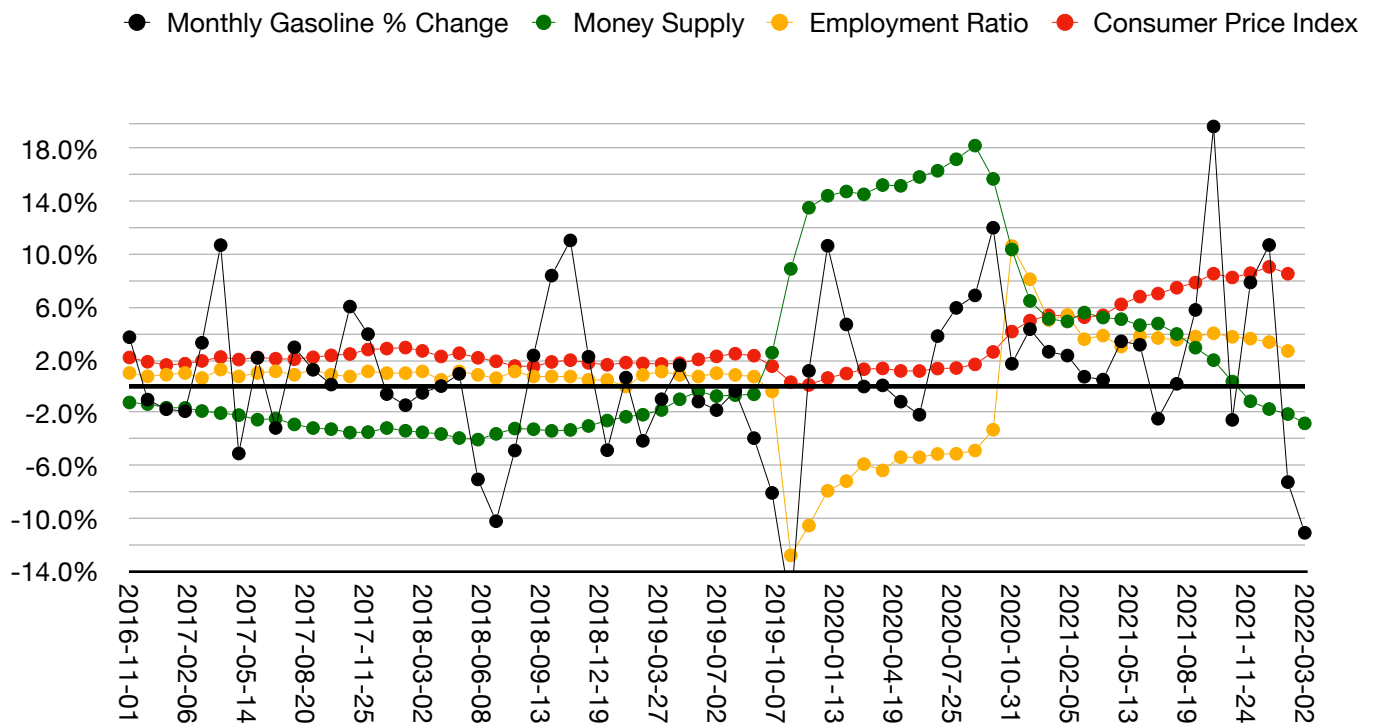
Create Wealth

your 401k. Are you allocating your investments to meet your goals? Do you have a 401k from a previous employer or an IRA that is not well allocated? Your retirement depends on it. Most people roll their 401k into an IRA held with a broker. It allows you to invest in stocks, mutual funds or exchange traded funds. But a typical IRA will not allow you to invest in individual real estate properties, foreign currency, margin trading, cryptocurrency, precious metals with possession, private companies or pooled investments like the one with Underground Capitalist.

For self directed investments the government requires you to use a self directed IRA/401k custodian since you are not allowed to take possession of the money. We found a list of self directed custodians at [www.nasb.com/commercial-lending/resources/self-directed-ira-custodians](http://www.nasb.com/commercial-lending/resources/self-directed-ira-custodians). There are lots of IRS rules on self directed IRA/401k accounts and your custodian will help you understand those rules. If you want to brainstorm self directed opportunities give us a call.

## Inflation Updated

To improve our dashboard we added retail gasoline prices. We found a good source of data from the US Energy Information Administration. Adding gasoline prices to this chart seems redundant but gasoline prices are published weekly and have far reaching implications to the CPI.

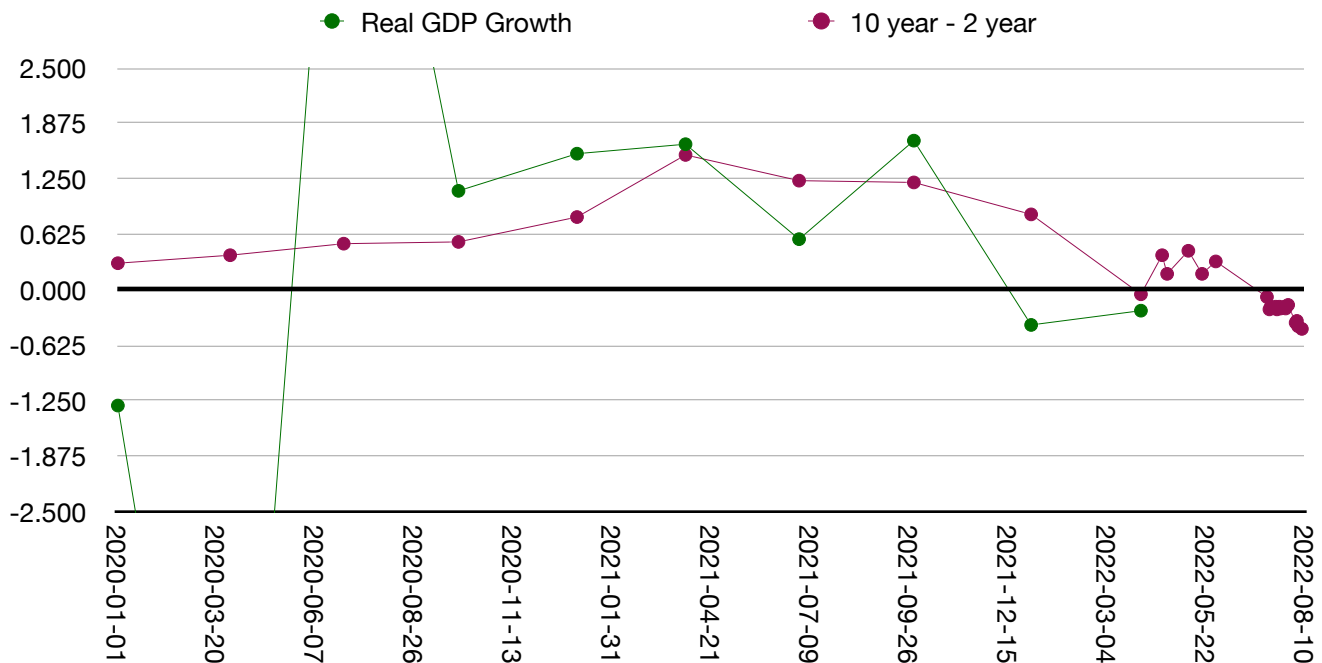


The consensus estimate for CPI was .2%. Looking at gasoline prices we are more optimistic and predicted a 0% monthly change making the headline number 8.5%. As expected the good news created an immediate improvement in the stock market.

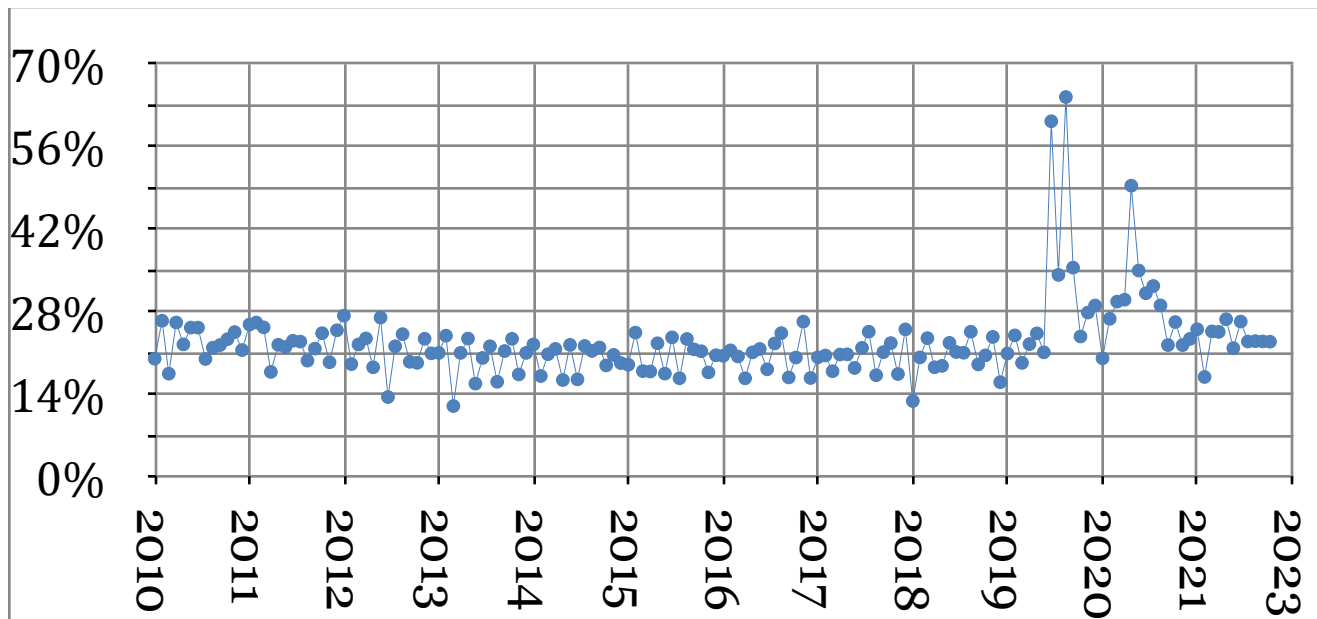
In the longer term, the money supply grew by \$60B which is \$70B less than what we think is required to maintain the Federal Reserve Bank goal of 2% inflation.

## Economic Dashboard

The Yield Curve continues to decrease going more negative. It's official, we have two quarters negative Real GDP Growth indicating a recession. As the Federal Reserve Bank continues to increase the Federal Funds Rate the 2 year rate increases but the 10 year is less affected.



We updated the size of government spending to reflect the actual spend for the month. A huge increase in the size of the IRS is proposed in congress. Adding 87,000 Armed IRS agents - what could go wrong? Who will they be auditing? The 2019 audit statistics show that 8.7% of the people earning over \$10M were audited. About 1.5% of those earning over \$1M were audited. .2% of the middle income people were audited and 1.1% of those with no positive income were audited.

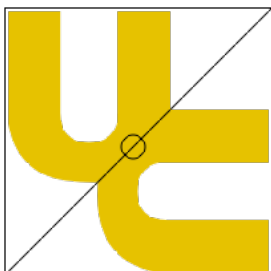


Hiring 87,000 new agents is an increase of 112% presumably increasing audits by the same amount. Of course a rational person would improve the computer systems first, effectively allowing an audit on 100% of all returns.

Will the IRS begin to audit all of us through a new Big Brother/AI machine? If not, then most of the new audits will be on small businesses and people earning less than \$1M/year. Why? Because taxes are complicated. Large businesses and the rich are already self auditing. An audit on them is a test of the accounting firm. Small businesses and low income earners do not usually hire accounting firms. In particular will be those who earn tips.

But why worry? If you not breaking the law what's the problem? The problem is, the cost to defend yourself in court will bankrupt you, end your business, and end all of those jobs you provide. Big government keeps killing small business.

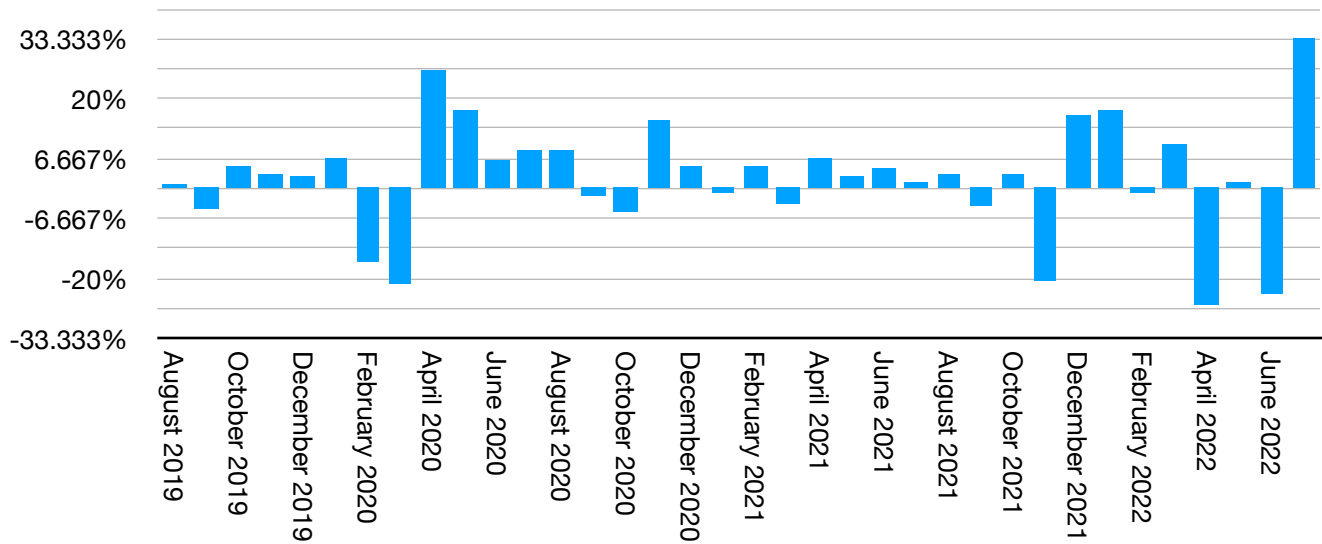
## Historic Returns



In July 2022 we earned 33.8%. A big win! If you added to your holdings after last month's downturn, this month brought you a huge windfall. We should continue to look for a drop in the market - particularly TQQQ and consider adding to our holdings when the market drops.

Will we keep going? If inflation stays low and the Federal

Reserve reduces it's balance sheet and reduces expected interest rate hikes then the market will improve. Watch the gas prices and the FED.



## Imparts

Underground Capitalist is very interested in your questions on our process, suggestions for Upcoming Thoughts, Additional Statistics and Reoccurring Sections we should include. Please contact us at ...

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