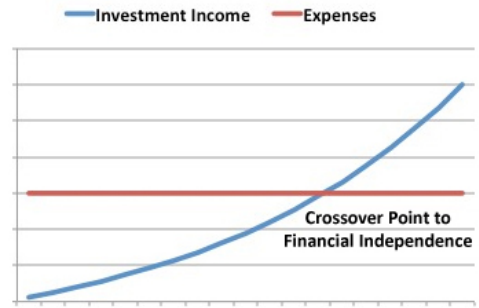
GET RICH SLOWLY

MONEY TOOLBOX RESOURCES

THE UNCONVENTIONAL GUIDE TO MASTERING YOUR MONEY

The One-Page Guide to Financial Independence



Financial Independence occurs when you've saved enough to support your current spending habits for the rest of your life without the need to earn more money. You might choose to work for other reasons but you no longer *need* a job to meet your expenses.

To achieve Financial Independence, heed the basic rule of personal finance: To build wealth, you must spend less than you earn. Instead of following the standard advice to save 10%-20% of your income, practice extreme saving. **Your goal should be to save at least 50%of your income, and 70% is better.**

To do this, conduct a three-pronged attack.

First, **minimize your spending**. Because a handful of expenses consume most of your budget, pursue these first (and with greatest vigor).

- Choose a home in an area with a low cost of living. Reject the advice to "buy as much home as you can afford". Buy as little as you need. Take out a small mortgage at a low interest rate. Repay it as quickly as possible. Don't be afraid to rent. Spend less than 25% of your income on housing – less than 15% is best.
- Reduce your use of motor vehicles. Walk, bike, or take the bus. If you *must* have a car, buy a fuel-efficient used model and drive it until it's dead.
- When possible, purchase used items instead of new. When you can, do it or grow it yourself.
- Save for the unexpected. Maintain an emergency fund to cope with life's little disasters, and start an opportunity fund so that you may take advantage of unforeseen opportunities.
- Practice mindful spending. Buy only what you need, when you need it.
- Avoid debt.

Next, **maximize your income**. It's great to cut expenses and develop thrifty habits, but there's only so much fat you can trim from your budget. In theory, there's no limit to how much you can earn.

- Aside from your health, your job is your most important asset. Treat it as such. Negotiate your salary, learn new skills, connect with colleagues, and manage your career carefully.
- Become better educated. In general, greater education brings greater pay.
- Sell your stuff. Doing so will bring you greater mental and financial freedom.
- Start a side gig.

Finally, **funnel your savings into investment accounts**. Take advantage of employer- and government-sponsored plans first. Then route your money to regular investment accounts. Don't get fancy. Invest your money into low-cost, diversified mutual funds. Ideally, choose a total-market index fund, such as Vanguard's VTSMX. Ignore the news. Ignore market fluctuations. Ignore everyone. Keep investing during good times and bad.

If you follow these three steps, you *will* become rich.

As you work and earn and save, keep score. Track your progress. Each January, conduct a review. How much did you spend during the previous year? How much are your investments worth? Have you saved enough to retire? To determine whether you can retire, use the following assumptions:

- You'll spend as much in the future as you do now. (In reality, most people spend less, but go with this.)
- If you withdraw about 4% of your savings each year, your portfolio will continue to maintain its value against inflation. During market downturns, you might have to withdraw as little as 3%. During flush times, you might allow yourself 5%. But around 4% is generally safe.

Based on these assumptions, there's a quick way to check whether your goal is within reach. **Multiply your current annual expenses by 25. If the result is less than your savings, you've achieved Financial Independence.** If the product is greater than your savings, you still have work to do. (If you're conservative and/or have low risk tolerance, multiply your annual expenses by 30 before comparing the product to your savings. If you're aggressive and/or willing to tolerate greater risk, multiply by 20.)

With a 50% saving rate, you'll achieve Financial Independence in about 15 years. At 70%, it'll take nine years. But if you only save 20%, you'll need to work for 30 years before you can retire – and at 10%, you'll need to work for 45 years. That's it. ***Enjoy early retirement!***

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