Financial Freedom 101
part one: Money Scripts and Saving Rates

Douglas Tsoi and J.D. Roth
What were the first messages you received about money? How have these “money scripts” affected you and your life from childhood until today?
Imagine you were in an intimate relationship with money. How would you describe this relationship? What would money say to you? What would you say to money? What’s one step you can take today to have a better relationship with money?
What is wealth?
Money Scripts/Maps/Blueprints

- Money Avoidance
- Money Worship
- Money Status
- Money Vigilance
Our Money Scripts
The Shockingly Simple Math of Financial Freedom

Working Years to Financial Independence

- Working Years (Assuming 6% Real Return on Investment)
- Savings Rate (After Tax Income)
The Crossover Point

- Trend of Total Monthly Income
- Trend of Total Monthly Expenses
- Monthly Investment Income

Crossover Point:

- Now
- Finite Period of Time
Financial Freedom by the Numbers

• Multiply your annual expenses by 25. If the result is less than your savings, you’ve achieved financial freedom.
• If you want to be conservative and/or have low risk tolerance, multiply your annual expenses by 30.
• If you want to be aggressive and/or have a high risk tolerance, multiply your annual expenses by 20.
Savings = Income – Expenses

*Example*

$75,000 income
$72,900 expenses
$2,100 savings
Saving Rate = \frac{\text{Savings}}{\text{Income}}

\textit{Example}

\$75,000\ income
\$2,100\ savings
2.8\%\ saving\ rate
Profit = Income – Expenses

Example
$75,000 income
$72,900 expenses
$2,100 profit
Profit Margin = Profit / Income

Example

$75,000 income
$2,100 profit
2.8% profit margin
Financial Freedom 101

part two: Mission Statements and the Quest for Enough

Douglas Tsoi and J.D. Roth
Mission Statements

• **Nike** — *To bring inspiration and innovation to every athlete in the world.*

• **Harley-Davidson** — *To fulfill dreams of personal freedom.*

• **IKEA** — *To create a better everyday life for the many people.*

• **Google** — *To organize the world’s information and make it universally accessible and useful.*
Money is a means to an end. What is that end?
What’s Your Why?

• Freedom *from*
  – Work
  – Worry
  – Constraint

• Freedom *to*
  – “Do What I Want, When I Want”
Question One

Imagine you’re financially secure, that you have enough money to take care of your needs, now and in the future. **How would you live your life?** Would you change anything? Let yourself go. Don’t hold back on your dreams. Describe a life that is complete and richly yours.
Question Two

Now imagine you visit your doctor, who tells you you only have 5-10 years to live. You won’t ever feel sick, but you’ll have no notice of the moment of your death. **What will you do in the time you have remaining?** Will you change your life? How will you do it?

*Note: This question does not assume unlimited funds.*
Imagine that your doctor shocks you with the news that you only have 24 hours to live. Notice what feelings arise as you confront your very real mortality. Ask yourself: **What did you miss?** Who did you not get to be? What did you not get to do?
“I want to be the best person I can be, both mentally and physically. I want to sample all that the world has to offer by fostering new relationships, exploring new ideas, and daring to try new things. I want to use my skills and experience to improve the lives of others while also improving my own.”
“I want to help people learn and feel closer to their communities.”
Money is a means to an end. What is that end?
Money and Happiness

<table>
<thead>
<tr>
<th>Monthly income</th>
<th>$0-$1500</th>
<th>$1501-$3000</th>
<th>$3001-$4500</th>
<th>$4501-$6000</th>
<th>$6000+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average quality of life of</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>all participants in that</td>
<td>2.81</td>
<td>2.77</td>
<td>2.84</td>
<td>2.86</td>
<td>2.63</td>
</tr>
<tr>
<td>income range</td>
<td></td>
<td></td>
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<td></td>
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</tr>
</tbody>
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Lagom
Not too little  Not too much
The Fulfillment Curve

- Survival
- Comforts
- Luxuries
- ENOUGH
- Overconsumption

Fulfillment vs. Money spent
Your Real Hourly Wage

Real Hourly Wage = (Income – Costs) / Time Spent for Work

Common Adjustments:
- Taxes
- Commuting (both time and money)
- Clothing/Uniform
- Meals
- Decompression/Vacation
- Other Expenses

“Money is something we choose to trade our life energy for... You pay for money with your time.” - Your Money or Your Life
Success Is INTERNAL

Circle of Concern vs. Circle of Control

How Reactive People Act
Large Circle of Concern and a small Circle of Control. A lot of time and energy is wasted reacting to issues that they can’t control.

How Proactive People Act
Small Circle of Concern and a large Circle of Control. A lot of time and energy is focused on issues that are within their control.

Circle of Concern
- The sex lives of celebrities and politicians
- The economy
- What other people think of you
- The weather
- Wars, weapons, and terrorist threats
- The news
- Political views of others
- Natural disasters
- Where you live
- Where you work
- What you buy

Circle of Control
- Your attitude and enthusiasm
- Businesses you start
- Places you travel to
- Where you work
- What you read
- What you buy
- What skills you learn
- Leadership positions you hold
- Articles and books that you write
- Where you live
The Stockdale Paradox

You must combine optimism with brutal honesty and a willingness to take action.
Financial Freedom 101
part three: Winning the Game of Money

Douglas Tsoi and J.D. Roth
Money is a game.
The rules of the game

- Get rid of debt.
- Save – automatically.
- Invest – automatically.
- Earn more.
- Spend less.
- Set goals.
- Spend time with smart people.
- Change your money mindset.
- Never stop learning.
- There are no shortcuts.
## How to Produce Profit

<table>
<thead>
<tr>
<th></th>
<th>High Difficulty</th>
<th>Low Difficulty</th>
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</thead>
<tbody>
<tr>
<td><strong>High Return</strong></td>
<td><strong>ONE-TIME VICTORIES</strong> (ongoing projects)</td>
<td><strong>BIG WINS</strong> (top priority)</td>
</tr>
<tr>
<td></td>
<td>• Housing costs</td>
<td>• Transportation costs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Entertainment costs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Recurring expenses</td>
</tr>
<tr>
<td><strong>Low Return</strong></td>
<td><strong>PYRRHIC VICTORIES</strong> (avoid these)</td>
<td><strong>DAILY VICTORIES</strong> (ongoing projects)</td>
</tr>
<tr>
<td></td>
<td>• Making your own laundry soap</td>
<td>• Clipping coupons</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Conserving energy</td>
</tr>
</tbody>
</table>
Your Grocery Budget Is a Red Herring!
#3 - Transportation
#2 - Housing

Home Prices

Graph showing the trend of home prices from 1880 to 2020.
#1 - Income

- If you spend the American average of $57,311 per year, the most you can possibly save by cutting costs is $57,311. Even if you trimmed costs by 50%, the most you could save is $28,655.
- If you earn the American average of $74,644 per year, a 10% raise will net you $7,464. A 20% raise will get you $14,928.
The Extraordinary Power of Compounding

- Susan invests $5,000 annually between the ages of 25 and 35
- In total, she invests $50,000

- Bill invests $5,000 annually between the ages of 35 and 65
- In total, he invests $150,000

- Chris invests $5,000 annually between the ages of 25 and 65
- In total, he invests $200,000

Growth of savings accounts

- $0
- $200,000
- $400,000
- $600,000
- $800,000
- $1,000,000
- $1,200,000

25 30 35 40 45 50 55 60 65

$540,741

$602,070

$1,142,811
The Shockingly Simple Math of Financial Freedom
Profit Margin = Profit / Income

*Example*

$75,000 income
$2,100 profit
2.8% profit margin
With a 10% profit margin, you need to save for nine years to fund one year of expenses.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>INCOME</th>
<th>EXPENSES</th>
<th>PROFIT</th>
<th>MARGIN</th>
<th>SAVINGS</th>
</tr>
</thead>
<tbody>
<tr>
<td>YEAR ONE</td>
<td>$50,000</td>
<td>$45,000</td>
<td>$5,000</td>
<td>10%</td>
<td>$5,000</td>
</tr>
<tr>
<td>YEAR TWO</td>
<td>$50,000</td>
<td>$45,000</td>
<td>$5,000</td>
<td>10%</td>
<td>$10,000</td>
</tr>
<tr>
<td>YEAR THREE</td>
<td>$50,000</td>
<td>$45,000</td>
<td>$5,000</td>
<td>10%</td>
<td>$15,000</td>
</tr>
<tr>
<td>YEAR FOUR</td>
<td>$50,000</td>
<td>$45,000</td>
<td>$5,000</td>
<td>10%</td>
<td>$20,000</td>
</tr>
<tr>
<td>YEAR FIVE</td>
<td>$50,000</td>
<td>$45,000</td>
<td>$5,000</td>
<td>10%</td>
<td>$25,000</td>
</tr>
<tr>
<td>YEAR SIX</td>
<td>$50,000</td>
<td>$45,000</td>
<td>$5,000</td>
<td>10%</td>
<td>$30,000</td>
</tr>
<tr>
<td>YEAR SEVEN</td>
<td>$50,000</td>
<td>$45,000</td>
<td>$5,000</td>
<td>10%</td>
<td>$35,000</td>
</tr>
<tr>
<td>YEAR EIGHT</td>
<td>$50,000</td>
<td>$45,000</td>
<td>$5,000</td>
<td>10%</td>
<td>$40,000</td>
</tr>
<tr>
<td>YEAR NINE</td>
<td>$50,000</td>
<td>$45,000</td>
<td>$5,000</td>
<td>10%</td>
<td><strong>$45,000</strong></td>
</tr>
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</table>
With a 20% profit margin, you need to save for four years to fund one year of expenses.

<table>
<thead>
<tr>
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<th>EXPENSES</th>
<th>PROFIT</th>
<th>MARGIN</th>
<th>SAVINGS</th>
</tr>
</thead>
<tbody>
<tr>
<td>YEAR ONE</td>
<td>$50,000</td>
<td>$40,000</td>
<td>$10,000</td>
<td>20%</td>
<td>$10,000</td>
</tr>
<tr>
<td>YEAR TWO</td>
<td>$50,000</td>
<td>$40,000</td>
<td>$10,000</td>
<td>20%</td>
<td>$20,000</td>
</tr>
<tr>
<td>YEAR THREE</td>
<td>$50,000</td>
<td>$40,000</td>
<td>$10,000</td>
<td>20%</td>
<td>$30,000</td>
</tr>
<tr>
<td>YEAR FOUR</td>
<td>$50,000</td>
<td>$40,000</td>
<td>$10,000</td>
<td>20%</td>
<td>$40,000</td>
</tr>
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</table>
With a 50% profit margin, you need to save for one year to fund one year of expenses.

<table>
<thead>
<tr>
<th>YEAR ONE</th>
<th>INCOME</th>
<th>EXPENSES</th>
<th>PROFIT</th>
<th>MARGIN</th>
<th>SAVINGS</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>$50,000</td>
<td>$25,000</td>
<td>$25,000</td>
<td>50%</td>
<td>$25,000</td>
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</table>
With a 75% profit margin, one year of saving funds three years of expenses.

<table>
<thead>
<tr>
<th></th>
<th>INCOME</th>
<th>EXPENSES</th>
<th>PROFIT</th>
<th>MARGIN</th>
<th>SAVINGS</th>
</tr>
</thead>
<tbody>
<tr>
<td>YEAR ONE</td>
<td>$50,000</td>
<td>$12,500</td>
<td>$37,500</td>
<td>75%</td>
<td>$37,500</td>
</tr>
</tbody>
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Do What Works for You

- Jacob: $12,000.00
- Pete: $24,000.00
- J.D.: $36,000.00
- Average Joe: $54,000.00
- Jim: $120,000.00
Pay Yourself First

The Average Budget

- Savings (2.8%)
- Needs (64%)
- Wants
- Bullshit

The Ideal Budget
Financial Freedom is *Time* Freedom
“Live in this place as you were meant to and then, surprised by your abilities, become the ancestor of it all, the quiet, robust and blessed Saint that your future happiness will always remember.”

— from Coleman’s Bed by David Whyte