



## Financial Freedom In Plain English



Financial freedom 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 — such as passion or purpose — but you no longer *need* a job to support your lifestyle.

To achieve financial freedom — or other money goals — heed the basic rule of personal finance: To build wealth, you must spend less than you earn. Forget the standard advice to save 10% or 20% of your income. To become a money boss, practice extreme saving. **Your goal should be to save half of what you earn.** (More is better.)

Sound impossible? It's not. Plenty of people do it. To start, conduct a three-pronged attack:

First, **minimize spending**. Because a handful of expenses consume most of your budget, pursue those 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 no more than 25% of your income on housing — less is better.
- 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.
- Be frugal with food. Eat out less, be a savvy shopper, and eliminate food waste.

When you're focused on big long-term goals, these won't seem like sacrifices. They'll be trade-offs made to pursue a more important purpose. Plus, with mindful spending you'll still have the freedom to spend on the things that matter most to you.

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.

- Your job is your most important asset. Treat it as such. Negotiate your salary, learn new skills, connect with colleagues, and actively manage your career.
- Become better educated. Studies show that, in general, the more you learn the more you earn.
- Sell your stuff. It'll improve both your mental and financial health.
- Start a side gig. Make money from your hobby. Take a second job.

Finally, **funnel your profit into smart investments**. Take advantage of employer- and government-sponsored retirement plans first. Then route profit to regular investment accounts. Don't

get fancy. Invest in low-cost diversified mutual funds. Ideally, choose a total-market index fund, such as Vanguard's VTSMX. Ignore the financial news. Ignore market fluctuations. Ignore everybody. Keep investing during good times *and* bad.

If you follow these steps, you *will* become rich. You'll build wealth and achieve financial freedom.

With your profit, you'll **create a wealth snowball**. Track its growth. Conduct an annual review. How much did you spend during the previous year? What are your investments worth? Have you reached financial freedom yet? To determine whether you can retire, use the following assumptions:

- You'll spend as much in the future as you do now.
- If you withdraw about 4% from your savings each year, your portfolio will maintain its value against inflation. During market downturns, you might need 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 reached financial freedom.** 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. If you're aggressive and/or willing to take on greater risk, multiply by 20.)

If you save half of what you earn, you should achieve financial independence in about fifteen years. If you save 70%, it'll take nine years. But if you only save 20%, you'll need to work for thirty years before you can retire — and at 10%, you'll need to work for forty-five years.

And remember: Your ultimate goal is happiness not riches!