# Achieving Financial Independence

Most people measure their success in life by how much material wealth they accumulate. If they go to all the right places and do all the right things, dress in expensive clothes with all the right accessories, have a big house or two, lots of expensive vehicles, and all the latest electronic gadgets, then, by definition, they must have "made it." They will then be the envy of all of their friends and family and have crossed the goal line of modern life. In reality, however, financial success has little to do with how many material goods or experiences you buy and everything to do with how much you have left over after you do so. The real financial goal line of life is not to accumulate material goods or experiences but instead to build enough wealth to enable financial independence. In other words, the measure of success is not how much money you spend, it's how much money you retain.

When you retain enough money the income you earn from your financial investments produces enough money to provide for your present and future needs. You no longer need to work to support yourself, but can live off your money working for you. What a concept – you don't need to work for money – your money works for you. When this happens, you have achieved financial independence. Financial independence enables you to live your life however you choose. You can work if you want to, not because you need to. You can pursue education, interests, travel and growth. Your life becomes your own.

While we have found material wealth, by and large, to be highly overrated, financial independence is a goal that can enable you to discover what lies beyond the blind acquisition of more material goods. Life has some wonderful rewards available, but you are unlikely to find them if you are wrapped up in material pursuit or struggling to keep shoes on the kids and food on the table.

Financial independence is within your reach via some simple steps and six simple rules. Once you obtain financial independence, you are free from the daily grind of trying to stay out in front of the bills, and provide shelter, food, etc. At that point, you can explore the world and your life to find out what things are really all about.

Financial independence means having your investments producing income through earnings that are greater than your current and future needs.

Financial independence is not measured by the number of objects (cars, homes, TVs, etc.) that you collect or the experiences (vacations, retreats, etc.) in which you partake. Most people who are financially independent live relatively modest lives, living in homes and driving cars that you would not rate as "rich" (read The Millionaire Next Door to learn more).

Money is what you spend. That is how most people think about rich vs. poor. The more people spend, the richer they must be. Spending, however, is a very poor measure of financial independence. Most people who spend lavishly and live "rich" lives are in debt up to their eyeballs and are two missed paychecks from living in their car, assuming it hasn't been repossessed like everything else.

## Spending vs. Wealth

In my late 20's we lived in a rented town house on a lake in Northern Illinois. Fox Lake was a summer retreat for Chicago gangsters in the 20s and retains its role as a cooling water retreat for the Summertime sweltering Chicagoland masses. One of the most entertaining and educational things I did while living there was to wander down to the boat docks on weekends and watch people and their boats.

People tend to prop up their self-esteem and identities with their possessions, perhaps nowhere more so than with their boats. As such, almost every weekend I'd watch some proud as a peacock guy motor up to the dock in his shiny 25' boat. He's strut around and spout about his pride and joy, especially to those with mere 20' boats. He was king of all he surveyed until, inevitably, up pulled another guy in a 30' boat, who subsequently repeated the performance until the certain arrival of a guy in a 35' boat. And so on.

Sitting in my lawn chair watching this drama play out, weekend after weekend, taught me an essential universal law of material wealth: **There Will Always Be a Bigger Boat**. No matter what you buy, there will always be a bigger and better one come along.

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| This guy thought he had a really big boat. | Until his neighbor pulled up and crushed his ego. |

My thinking related to money was that the more I spent, the richer I was. What I had learned when I was young was that if you always had money and you could always buy whatever you wanted and could always pay the dinner bill for everyone, you were rich. And if you were rich, everyone would love you. A lifetime of television, magazines and advertising only reinforced these messages. Powered by credit cards, I spent my entire early life spending as much as I could, accumulating things and experiences to achieve richness and accompanying adoration by all who surrounded me. I managed to spend a lot of money and achieve varying levels of adoration.

When I was in my late 30's a friend of mine, Bob Grambling, told me "Doug, all you are going to end up with is a stack of receipts." That really hit me, and eventually I realized he was absolutely right. The spending was not guaranteeing me adoration and if all I did was keep spending money as fast as I made it all I would have in the end is a bunch of old stuff and fading memories. My relationship with money was flawed. I was making decent money, but I was spending every penny of it, and was going to end up living under a bridge with nothing but distant memories to show for all my hard work. I finally realized another universal truth: **Spending Does Not Equal Wealth**.

Financial independence is measured by wealth. Wealth is what you keep, not what you spend. You build wealth by spending less than you earn. It's not the things you retain that determines your wealth, it's the money you retain.

### Your Relationship With Money

You need to make a fundamental decision regarding money, wealth and the life you want to lead. If you don't come to terms with how you relate to money, you will probably spend your life living paycheck to paycheck, hand to mouth, chained to the wage slave treadmill until you keel over dead or end up sleeping on a park bench. A good book to help you understand how you relate to money is the first book by Suze Orman, The Nine Steps to Financial Freedom (I don't think her later work or her current radio/TV stuff is nearly as good as this first book).

You need to figure out why you feel the way you do about money. If you resent money or unduly long for it, you are going to have a tough life. If you are convinced that money is evil or that it is the key to happiness, you are going to have a lifetime of frustration and smoldering anger. It is essential to figure out and understand why you feel the way you do about money, spending and wealth. Once you've got that together, you can stop using money to salve psychological wounds, attract affection, punish yourself or your parents, etc. Money is a tool, and you need to get yourself into a healthy mental place with it, or you are going to suffer economically your entire life.

Once you get past the psychological aspects of it, you basically have two choices related to money: live stupid or live smart. Stupid is spending your entire life in debt, meanwhile making other people rich by paying high interest rates, etc. Smart is using money as a tool, using debt wisely and being focused on becoming financially independent. Do you want to be stupid or smart? If you want to be smart, then try pursuing financial independence instead of spending your life financially dependent on debt and experiencing endless financial struggle.

Understanding how you relate to money is an essential prerequisite to achieving financial independence.

## The Six Rules of Financial Independence

The good news is that the two most powerful forces available in building wealth are 1) time and 2) the power of compounding. Due to these two factors, at your ages, if you start now, you could easily be financially independent by your forties or fifties. And you don't need a high paying job or to hit the lotto to accomplish this goal. Read "The Wealthy Barber" to find out more.

### Rule #1: Spend less than you earn and save the rest.

The first simple rule to learn and put into practice regarding money, wealth and financial independence is to spend less than you earn. When you spend less than you earn, you produce disposable income. Disposable income can be spent on products or experiences. Can you tell me what products or experiences you spent your extra money on this day one year ago? It's very rare that the products (clothes, games, etc.) or the experiences (clubs, movies, etc.) we spend our money on are that memorable or meaningful over time. It's even less likely that our memories outlast the time it takes us to pay for them. What would happen if you took some of your disposable income and, instead of spending it, saved and invested it?

As little as $100 a month, invested wisely, steadily and regularly, could make you financially independent at a very young age. How do you come up with $100 per month? We bought a small espresso machine for $25 on sale. I use $10 worth of espresso and about $10 worth of chocolate milk a month to make a daily mocha. A similar sized mocha at Starbucks or a specialty coffee shop is at least $4. You do the math. I'm saving a minimum of $100 a month, just by making my own coffee.

Once you get settled into a steady job, most employers will offer a 401k or similar retirement savings plan. Most will also match a percentage of your contribution. In other words, for every dollar you put in, they will put a dollar in, up to a certain limit. This means that you are doubling your contribution to your savings. Instead of $100 a month, you're getting $200 a month saved, and only $100 is coming from you. Pretty sweet. And better yet, that money comes out pre-tax, meaning that it is deducted from your earnings before taxes are applied. For most people, the impact of pre-tax savings is like getting $100 a month in savings and having it only cost you $75. Again, pretty sweet.

For an example of how quickly regular savings can build up over time, play around with the spreadsheet at this link: Compound Growth Calculator. Try putting some different amounts in the green boxes and see what happens. What if you increase your monthly savings amount? What if your investments get 9% average return? As you can see, regularly saving relatively small amounts of money can build into some significant wealth given enough time and compounded interest.

Regularly saving money is the key to building wealth and establishing financial independence. Saving money is on the plus side of economic life. Most people don't do a very good job of managing savings, but do an even poorer job at managing the debt side of their economic life.

**Rule #2: Use debt wisely**

Most people feel better about themselves if they have lots of credit cards with high limits. It makes you feel pretty good when someone is sending you a piece of plastic and saying “we think you are worthy of a $20,000 credit limit.” Wow. That’s pretty neat, having someone give you a blank check for $20,000. You can not only buy whatever you want, they believe in you too. And then another one comes in the mail. Before long, you are spending money and buying things that mark you as somebody: the right clothes, the right music, the right everything. But then you start getting the bills and notice that even when you make the minimum payments, the amount you owe is not coming down. You never really paid that much attention to the interest rate, but now you start to realize that 18% interest is really high. You don’t even like to open the bills, they are so depressing. You let them pile up, or start making payments on one card by using another. You get further and further behind and further and further into the hole. And then one day you try to pay for something and the card is refused. You try another one, and it’s refused too. You’ve reached the bottom of the credit card hole. And once you dig yourself into that hole it can take many years to climb back out.

How do I know this? Because I’ve done it. Twice. Once through stupidity and once living on credit cards while I started a business. Both times, it took years to recover and rebuild my credit rating. Those times were both excellent examples of using credit stupidly. Conversely, using credit smartly is one of the keys to achieving financial independence.

Ways to use credit smartly include:

- Paying off your credit card bills every month.
- Buy things on credit that last longer than it takes to pay them off, i.e. washing machines, refrigerators, etc. In short, durable goods. The worst example is buying restaurant meals on credit. A $35 dinner can easily cost over $100 by the time you get it paid off four years later. The best example is buying a washing machine out of the dented/scratched aisle for 40% off retail and paying off within a year.
- 0% financing on durable goods. When you get the option of 0% (or very low interest rates) for a car loan or a rebate ($2,000 cash back!), always choose the low interest. You are very likely to spend the cash back amount rather than save and invest it. And if you do invest it, you will never match the interest savings of the low or no interest rate. Make sure the 0% or low interest rate is for the life of the loan/financing contract. “Interest free for a year” or “no payments until 20XX” are just gimmicks to get you to buy something you cannot afford.
- Home mortgage. Although you’ll pay a huge amount in interest over the life of a mortgage, current tax law allows you to deduct the mortgage interest cost from your income taxes. Plus, unless you buy at the top of a highly cyclical bubble market (such as Southern California), your home is likely to increase in value over time. Always get a fixed rate mortgage. If you cannot afford to buy it on a fixed rate, then don’t buy it. Do not allow yourself to get sucked into more home than you can afford by gimmick “interest only” or variable interest rate loans.
- Income property. Buying property and renting it out is one of the proven paths to building wealth. Done correctly, your renters will pay the mortgage and you will enjoy the appreciating value of the property. Always, always get a fixed rate mortgage. Your mortgage payments will stay the same as your rents rise over time.

The key thing to remember about debt is that money is a product.

People who loan money are selling money. The interest you pay them is their profit on their product. It’s no different than buying a TV at Best Buy, it’s just a different product.

Banks and credit card companies make money by loaning you money and charging you interest. Credit card companies don’t want you to pay off your balance every month, because then all they make on you is the annual fee and the 3-4% they charge the vendor who sold you the product.

The credit card companies love people who have $20,000 of credit card debt paying 18-22% interest. When you borrow money, you are buying someone's money and paying them a profit in the form of interest.

Again, the key concept is that when you borrow money, you are buying someone's product, which in this case is money, and paying them a profit in the form of interest.

To get an idea of how much you pay to buy someone's money, play around with the loan calculator at this link: Loan Cost Calculator. Put in different values in the green boxes and see the effects. Pay special attention to the "Interest over term of loan" amount. That's how much profit you pay the people who sold you the money. It's easy to see how much a TV, car or home will actually cost you over the cost of the financing term. This is why it is so important to use debt wisely. If you buy everything on credit, **your entire life will cost you 10-25% more** than someone who buys only selected assets with debt.

The primary variable with the cost of buying money is risk. If you prove by your use (and misuse) of money that you are less likely to pay the money back, then if you can find anyone willing to sell you money, they are going to charge you a lot for the privilege. That will come in the form of a high interest rate. The interest rates you pay will be tied to the money vendor's perception of the risk of selling you the money. Your risk rating is tracked in your credit report, which largely determines your cost of participating in the financial world.

**Rule #3 – Your credit rating is your most valuable financial asset**

Your use and misuse of money is tracked through your credit rating. Getting and maintaining a bad credit rating guarantees that money in all forms will cost you more than people with good credit ratings. This means you will pay higher interest rates for credit cards, car loans and home mortgages.

If you have a bad credit rating, you will find it difficult or impossible to buy money (get financing) through normal channels. You will need to turn to "bad credit" financing industry, which will be happy to sell you money for incredibly exorbitant rates, 20-30% for "We Finance Anyone" car dealers and up to 150% and more a year for storefront payday loans.

You may also find it difficult to open or maintain a bank account. If you don't have a bank account, you will need to use paycheck cashing outlets, money orders and money shippers (Western Union, etc.) to participate in the economy. These are the absolutely highest cost forms of retail money exchange.

If you have a bad credit rating you will find it very difficult to rent or own shelter. If you can't qualify for a lease, then you'll need to live in a boarding house, or other property you can rent by the day/week or month, at incredibly expensive rates.

Your bad credit rating can also prevent you from getting hired. Most employers use credit ratings as a primary indicator of trustworthiness, reliability and propensity to steal. It is very, very difficult to build and sustain a good career when saddled with a poor credit rating.

Bad credit also leads to higher insurance rates. Again, bad credit is equated with higher risk in all areas of your life. Insurance companies base their costs on calculated or perceived risk. If you have bad credit, you will be perceived as a high risk customer.

All of these are examples of how expensive it is to be poor. The poor and those with bad credit ratings pay much more for money, transportation and shelter than everyone else in the economy. And because you are paying so much more for everything, it takes that much longer to dig yourself out of the bad credit rating hole.

If you make the same mistakes I did and wake up with a bad credit rating, all is not lost. Here's how I got from there to here:

1. Spend less than you earn. You must free up funds to pay off your debts. Adjust your lifestyle accordingly.
2. Obtain a copy of your credit report from all three main agencies. Make sure all the information is accurate. Make sure you are aware of all the accounts that show as open or charged off.
3. Write a letter to every account on your credit report confirming the amount you owe them. Commit to a payment schedule with them and stick to it. It they call and harass you for payment, refer them to your letter. Do not make changes in your plan. Some accounts will be last to get paid off and they won't like it.
4. Cut up all cards but one. If you still have a charge card (a card such as American Express or Diners Club that must be paid in full every month), then keep that one. Otherwise keep the Visa or MasterCard you've had the longest. Lock it up and don't use it.
5. Pick a card account to pay off. Make minimum payments to all others and focus all available funds on the target card. Never miss a payment and never make a payment late. Pay it off in full. Repeat until all cards are paid. This can take a long time, but it's the only way.
6. If you've got any available room on cards and they offer a low interest rate for transfers, then make the transfers and consolidate your credit card debt on the lowest interest rate

card(s). You must be extremely diligent about not missing or being late for a payment, as transfer balances will bounce up to 18-24% interest if you do.
7. When you've paid off some cards and can afford it, get a car loan. Car loans are the easiest loan to qualify for. Make your payments early. Never, ever miss a payment or make a payment late. Pay a little extra every month (even $5) and pay the loan off early. This loan will be the foundation that you will rebuild your credit on.
8. Begin to use your one remaining credit card. Pay off the balance every month. Without fail. If you need to make a major purchase with it, prepay the amount on the card prior to the purchase.
9. Obtain a copy of your credit reports annually. Make sure that all information is accurate. Pay special attention to attempts to check your credit rating & status. This is how I discovered my identity had been stolen.
10. Protect and defend your credit rating like you would your most precious financial asset, because it is.
11. Continue to spend less than you earn.

Damaging your credit rating is, sad to say, a mistake many of us make, especially when we are young. Damaging your credit, and leaving or keeping it damaged throughout your adult life, is the single most stupid money thing you can do.

**Rule #4 – The Magic Number**

Once I had learned some basic lessons about money I was still frustrated. Even though we were working hard, making decent money, had little debt and were saving some, we were not making much progress towards financial independence. In my mid-40s we had a conversation about money, wealth and what it all meant with a friend of ours, Dave Waugh. Dave listened to my frustrations and responded, "You'll never get anywhere until you understand the Magic Number." I was disappointed to think that all our efforts had been for naught, but considering how little we'd managed to save to that point, I thought it best to listen further.

Dave explained that if you wanted to achieve financial independence you had to have a concrete goal, a specific number to work towards. If you didn't have a discrete, specific financial target to accumulate, you'd likely spend your life working hard, saving a little, but not ever achieving financial independence. There would always be things that would come up that would distract you and siphon off your hard earned savings: a new car, a bigger house, that big vacation, another business to start, etc. Unless and until you understood exactly what you were trying to achieve, you were very unlikely to just stumble into it. All of this made sense to us, but we still didn't know what the magic number was or how to calculate it.

Dave explained that the calculation was exceedingly simple.

1. Determine how much money per year you would need to live if you were not working (in current year dollars).
2. Calculate how much you would need in investments to produce that much income at a conservative rate of return.
3. The amount you need to have invested is your Magic Number.

The Magic Number is the amount you need to save and invest in order to achieve financial independence. Once you cross that line, you are free.

Here's how it works with real numbers. You can calculate your Magic Number at this link: Magic Number Calculator. Try an estimate of an income of $65,000 a year (gross, or pre-tax) to live comfortably if you were not working. A conservative return from your investments is 5%. In order to generate $65,000 a year at a return of 5% you need to save, invest and accumulate through compound interest and growth $1,300,000.

Wow. That's a really big number. How could anybody ever accumulate One Million Three Hundred Thousand dollars? That's impossible! I could never do that. I might as well just go ahead and spend $20 on this DVD. And spend the rest of my life chained to the wage slave treadmill until I die or get kicked off to live in the gutter.

There is another way. You ***can*** achieve your Magic Number without massive amounts of cash. Here's how.

Two important things to keep in mind about the Magic Number are:

1. It is based on the income you need to "live comfortably."
2. There are more ways to reach your income needs than just investing in CDs, stocks and bonds.

First, think about how much you need to live comfortably. In our travels, we've found that the people who have the least material possessions tend to be the happiest. Try taking a trip or two to developing nations as early in your life as you can. Chances are you will come back and dramatically reduce your "income required to live comfortably" number. At a 5% return on your investments, every $10,000 reduction in your income needs reduces your Magic Number by $200,000. Try it again at the Magic Number Calculator.

Secondly, think about other ways to achieve your income requirements. If you buy a few rental properties at your young ages, you can have a nice income stream from them by the time you are ready to stop working. Here's how it works.

Residential rental properties such as homes or duplexes return about 60% of the gross rent after taxes, management fees, repairs, expenses, etc. If you own a typical three bedroom / two bath rental property with a $1,000 rent, it will yield about $600 a month after operating costs when you own it free and clear of any mortgages. If you buy a rental property with a 30 year fixed mortgage your mortgage payments will stay constant for the term of the loan. During those 30 years, the rents you charge will rise with inflation (as will your expenses such as repairs and property taxes). As the rents you charge rise, you will be in a position to pay a little extra each month on the mortgage. Consequently, you can pay off the mortgage early, in as little as 10, 15 or 20 years. At that point, you will receive your net profits from the property, or $600 a month in today's dollars, free and clear, from every rental property you own. If you owned seven typical 3B/2B rental properties, you would be receiving a profit of $4,200 a month, or $50,400 a year from them.

How could you ever accumulate seven rental properties when you don't even own your own home (or your own car) right now? Impossible! I'll never do that. I might as well go ahead and spend $150 on this pair of jeans for the party this weekend. Everyone will like me better if I show up in something new and trendy. I'll figure out how to pay for my nursing home when I'm 80. What do you mean my credit card was refused?

You can live a different life and have a different future. There are innumerable first time home buyer programs that enable you to buy homes. If you buy a duplex, you qualify for low cost financing because you will be living in the property. As the real estate market cools down, more and more sellers will be desperate to sell at any price. There will be no better time to buy than in the next few years. Shop for assumable mortgages, shop for seller financing, shop for repossessed properties and always, always shop for properties that you can improve yourself with some paint, sweat and time. There's no more direct path to wealth than real estate.

So, back to your Magic Number. If you've got seven rental properties yielding $50,400 a year, now you only need $14,600 annually from your financial investments to achieve your goal of $65,000. To produce $14,600 annually at a conservative 5% yield you need to save and invest $292,000 to achieve financial independence. Go back to the Compound Growth Calculator and see how little regular savings it takes to accumulate that much. Things should seem a lot more accomplishable now.

Will financial independence happen overnight? No, absolutely not. It takes time, it takes effort, it takes some sacrifice (but less than you are thinking right now) and it takes a plan. When you look at some of these numbers and compare them to what is in your pocket right now or in your bank account, it can easily seem overwhelming. Believe me, I've personally been every bit as broke as you are or ever have been. It is possible to accomplish the goal of financial independence; you just need to get started. As the Chinese say, "the longest journey begins with a single step."

There are three proven paths to wealth:

1) regular investment in no load / low load (low overhead cost) stock mutual funds
2) real estate
3) small business

All three of these take time and effort (in the case of small business, it takes immeasurable amounts of effort). We have used all three of these methods to achieve our goals, and I encourage you to also pursue a diversified strategy to achieve the goal of financial independence. Putting all of your eggs in one basket, especially small business, is not being money smart.

**Rule #5 – Live money smart**

Financial independence is within the reach of every one of you. All you need to do is make good decisions on a consistent basis and you will wake up to a day when you can explore who and what the world is and who and what you are rather than spending all day, every day, chasing a buck, recovering from the effort or drowning the pain of the reality of the pursuit.

Come to understand how you relate to money, and why you do so. Stop letting money control you, and stop using it as a blunt instrument of self-medicated feel-better therapy. Get on even terms with money and how it fits into your life.

Understand how money works. Learn how money is sold and traded as a product. Understand money as a product and the profit margins on selling or renting that product.

Understand how pre-tax savings plans work. Sign up for and maximize any and all employer retirement savings plans such as a 401k.

Maximize your contributions to savings plans. You will never miss saving 10% of your earnings, especially if they are pre-tax. That savings can mean the difference between financial independence and a lifetime of indentured servitude.

Understand how the basic instruments of investment work.

- Avoid high cost investment vehicles and service providers.
- Buy term life insurance and avoid insurance company annuities and “whole life” insurance.
- Use low cost investment managers such as Charles Schwab and avoid full service brokerage firms such as Merrill Lynch.
- Buy no-load (low cost) index mutual funds and avoid high cost, actively managed mutual funds.
- Avoid picking and buying individual stocks, regardless of the source of the tip.
- Buy a diversity of investment vehicles such as US Government I Bonds, corporate bond funds, real estate investment trusts, foreign currency denominated index funds and a variety of US market segments funds (small cap, mid cap, large gap, growth, value, etc.).
- Decide what percent of your investment portfolio you want in each type of investment and keep your portfolio balanced on a quarterly basis.
- Put some money into real estate, such as income (rental) properties, instead of having 100% of your wealth in the financial markets, especially in the U.S. market.

And most importantly, spend less than you earn.

Don’t spend your entire life living money stupid and wake up old and gray still strapped to the wage slave treadmill, with no escape in sight.

Instead, live money smart and enjoy the rewards that financial independence can bring.

**Rule #6 – Believe that it can happen**

Financial independence is not something that happens to "other people." It is not something that happens only to the rich or to those born into money. The first person I ever knew who was financially independent was a butcher. He still worked because he liked it, but he didn't need to. He was in his mid-40s.

He'd achieved financial independence by maximizing his investments through his employer's retirement programs. He put at least 10% of his gross wages away every month before he ever saw it, mostly into "no load / low load" (low overhead cost) stock mutual funds. He also owned several apartment buildings that were mostly paid off. He'd started with a single rental home and had kept buying distressed homes he could fix up in his spare time, renting and selling them until he could afford a small four unit apartment building. Then he fixed that up and sold it and moved up into eight unit buildings. And so on.

He didn't see himself as brilliant, special and especially not lucky. He saw himself as someone who had a goal he wanted to achieve and a plan to achieve it. He started with a single step: he had automatic deductions taken from his paycheck and put into his retirement account. He never made a lot of money at his job. But the money he did make, he spent and invested with a single goal in mind: financial independence. By the time he was in his mid 40s, his money was working for him. He no longer worked for his money.

Anyone can achieve the goal of financial independence, even people you know. Here's my brother Jeff's story:

A testimonial about how it is possible comes from Michele and me. We didn't have a single penny saved when I got out of the Navy nine years ago. Through the power of compounded interest and a little (very little) discipline we now have a six figure nutshell we continue to invest in and watch grow. Our earned interest is almost exceeding our contributions now (this is the true power and benefit of compounded interest!!!). We managed to do this making very modest wages, becoming home owners and maintaining a manageable debt to income ratio. ***You can do it*** but it has to be a goal you value.

Two things I practice religiously from the book "*The Wealthy Barber"* are:

- Pay yourself first. Have $ automatically deducted from your check so you don't see it, touch it, smell it, or feel it.
- Invest at least 10% of your GROSS income. If you make $25K a year (before taxes) you should be saving $2.5K a year. If you think it's impossible, it will be. ***IF*** you make financial stability a real goal it's not only doable, it's quite easy. If you work for a company with a 401K it's even easier.

I don't invest in high risk / high yield stock market mutual funds. My portfolio is very conservative and diverse. As such I don't make huge gains when the markets are charging and I didn't suffer great losses, such as before and after 9/11. At our ages the professionals suggest being more aggressive, but I have always followed what I call the Will Rogers paradigm of investing. It is based on his quote **"It's not so much the return ON my money that concerns me as much as the return OF my money."**

A few other suggestions are:

- Always select dividend reinvestment across your entire portfolio.
- Buying a home is a good investment.
- Wants and needs are not the same. Being honest with yourself as to which one applies can be hard. Following that honestly can be even harder, but pays big on the back end.
- There is no checkered stripe at the end of the Cul-de-Sac. Don't try and keep up with the Joneses or beat them to it.

Jeff and Michele are well on their way to achieving financial independence. They are already starting to enjoy some of the freedom and flexibility afforded those who do. Recently Michele was able to cut back on her nursing job to allow her to pursue her love of scrapbooking in a part time business.

As you can see from Michele's example, the point of financial independence is not to be rich. The point of financial independence is freedom and flexibility. Financial independence gives you the freedom to live a life free of the requirement to work in order to live. Instead, you can work if and when you want to. Instead, you can pursue dreams, interests and goals other than the ones your boss gives you.

Pursuing money for money's sake will, in our experience, never bring you happiness. Instead, it is likely to lead to frustration and sorrow. In contrast, building and working a plan to achieve financial independence can enable you to free yourself from the drudgery of the endless earn & spend treadmill.

You can do this. You can achieve financial independence. The sooner you start, the sooner you finish. All it takes is a single step.

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