Independent Wealth in One Page[1]

Independent wealth means not having to earn a salary to support yourself and your dependents. Most people think of "retirement" as a particular age or the terminus of their career. A more personally responsible approach is to think of retirement as independent wealth, a financial goal you may choose to achieve before you are 65+ and before those Social Security checks start rolling in. Retirees and the independently wealthy both support themselves by skimming the yield or growth off their net worth. Unfortunately, retirees often are forced to spend less than what they are accustomed to, due to insufficient net worth or growth. The independently wealthy have sufficient net worth and yield to live at a level of their choosing. Here are the steps to becoming independently wealthy.

As described in [2], track your assets, liabilities and net worth (assets minus liabilities), your income, expenses, and the annual growth in your net worth. Personal financial management software (Intuit's Quicken or Microsoft's Money or Excel) is great, but not strictly necessary for this purpose. Who knows, you might already be independently wealthy! If not, you need to **know where you are** and how far off that is from independent wealth.

When you want anything and can't afford it, you borrow money to buy it, right? Wrong! This is stupid borrowing if you've paid for something whose value shrinks over time and you've paid interest, too. It leads to *negative* net worth. It's better to do without. Always pay off your credit cards before you start getting charged interest or late fees. These are money down the drain. To build positive net worth, as stated in [3], **pay yourself first**. A great way to do this is to maximize your contribution into your 401(k) plan.

When you want something and have enough in the bank to pay for it, you buy it, right? Wrong! That leads to *zero* net worth. As described in [4], **live below your means**.

When you do spend or borrow money, **invest it in appreciating assets.** Consider making mortgage payments instead of rent payments. This also helps build your credit rating for intelligent borrowing (later). Keep your net worth growing by putting your savings in interest-bearing accounts, certificates of deposit, bonds that pay you interest, real estate, index funds that grow, stocks that grow or pay dividends, or your own business.

Once you can grow your net worth reliably at some minimum annual rate (5%, 7%, or even 10%), **use income streams to fund your dreams**. Your net worth is the goose that lays the golden egg of growth. As described in [5], allocate portions of your savings to annual expenditures, so that the annual *growth* of those portions—not the savings themselves—fund those expenditures. In case your net worth doesn't grow as expected, **prioritize your expenditures.** Less important expenditures (luxury car payment, vacation home mortgage) may have to be sacrificed in some years to maintain the expected growth in the allocations for more important expenditures (retirement, children's college education, independent wealth). Try to fund all consumables and depreciating assets this way.

Assets that appreciate, like your reliably growing savings, make attractive collateral. If the interest rate on your loan is lower than your annual growth rate, you can **borrow intelligently** (when you *can afford not to)* against your net worth without disturbing your savings. Loans create liquidity—for example, a HELOC lets you spend the appreciation on your house without selling it—but the cost of liquidity is the interest on the loan.

Add up the annual expenditures that are currently paid from your salary (groceries, clothing, mortgage) and benefits (health insurance). If you have enough net worth and reliable growth that the growth can cover these expenditures, then congratulations! You are independently wealthy.

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[1] As I am not yet independently wealthy, this is somewhat theoretical. Decide if it makes sense for you.

[2] *Your Money or Your Life: Transforming Your Relationship With Money and Achieving Financial Independence,* Joe Dominguez, Vicki Robin, Penguin Books, 1999

[3] *The Automatic Millionaire: A Powerful One-Step Plan to Live and Finish Rich,* David Bach, Broadway Books, 2004

[4] *The Millionaire Next Door: The Surprising Secrets of America's Wealthy,* Thomas J. Stanley, Ph. D., William D. Danko, Ph. D., Longstreet Press, 1996

[5] R*ich Dad Poor Dad: What the Rich Teach Their Kids About Money—That the Poor and Middle Class Do Not!,* Robert T. Kiyosaki with Sharon L. Lechter, CPA, Warner Books, 2000