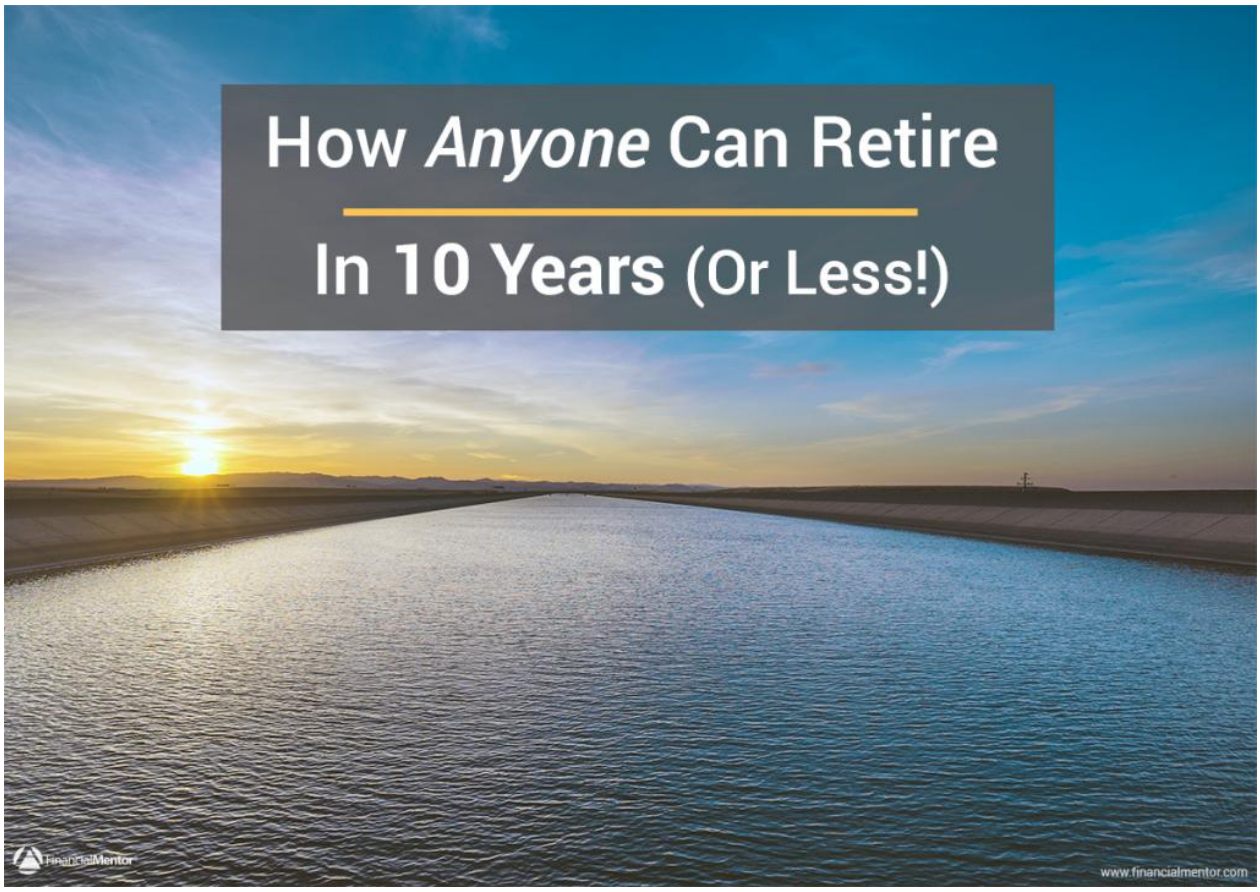
Early Retirement Is Possible For Anyone – There's No Special Knowledge Required – But Few Succeed



Key Ideas

1. The math that makes early retirement and financial independence possible for anyone.
2. Why you don't have to become a brilliant investor or possess any unusual skill to retire in 10 years or less.
3. How to align your finances, your goals, and your values for financial success.

Surprisingly, it's not that hard.

It doesn't require hitting the lottery or inheriting a windfall from ol' Aunt Myrtle.

Similarly, you don't have to become a brilliant investor or possess any unusual skill.

Also, the title claimed "anyone" can do it so the strategy has to be repeatable and predictable. We're talking science – not random luck.

In a word, the answer is "frugality" – extreme frugality by most people's standards – accompanied by basic investing.

Anyone can do it, but almost nobody will… and therein lies the rub.

Let's start by proving the theory with mathematics, and then we'll explore the rest of the strategy in greater depth…

How The Math of Saving Your Way to Early Retirement Works

Let's play with some simple equations to illustrate the point.

We'll assume $48,000 per year earned income to keep the taxes low and the math easy.

Alternatively, you could just assume $48K after taxes and eliminate the tax complication from the equation. That works out to $4K per month spendable.

(By the way — the actual income level is irrelevant to the calculation as you will see below, so use whatever income works for you. The key is the percentage of income that is dedicated to savings.)

Using one of my handy retirement calculators, we'll determine how long it takes to save your way to financial independence applying industry standard numbers like 8% for investment return, and 3% spendable retirement income to support living expenses.

If you saved 70% of your income, or $2,800 per month, at 8% return, you would have $515,000 at the end of 10 years.

Yes, I know that leaves you with only $14,400 per year to live on (I'll address this issue later), but the fact is you'll be financially independent in 10 years because 3% of $515K is $15,450 in spendable income.

This would be $1,000 per year greater than what you had been living on.

(If that math went by a little too fast and you want more detail, read this ebook: How Much Money Do I Need To Retire. It explains everything in step-by-step detail… plus a whole lot more.)

If you're really in a hurry to tell your boss what he can do with your job, and don't mind extreme frugality, then try saving 80%.

You could be financially independent in less than 7 years, because $3,200 per month at 8% results in a $361,000 savings balance, providing $10,830 of annual spendable income at 3%. This is greater than the $9,600 ($800 per month) you would be living on for this scenario.

Quieting the Naysayers

The first and most obvious comment nearly every reader will have to these two examples is something like, “Cute idea, Todd, but I can’t even get by on 100% of my income. The idea of living on 20-30% is a pathetic joke! Your article is complete rubbish!”

(Come on… own up to it. The little voice in your head was saying something like that. Right?)

Here’s the rub. That’s only true for the people making those lifestyle choices. It’s not “the truth”.

There are many people who have committed to extreme frugality as a lifestyle choice because they don’t want to spend any more of their life than absolutely necessary working for money.

They would sooner live without the luxuries that others have claimed are necessities than pay the price of working to have all that stuff.

It’s an expression of personal values.

There are people who choose to live in motorhomes, use public transportation or their bicycle, shop only at thrift stores, grow their own food, and so on to keep expenses to a bare minimum.

It can be done. It’s possible if that’s your choice.

Alternatively, living on 20-30% of your income doesn't have to equate to extreme frugality. Try running the same numbers with $250K or $300K in income.

It leaves plenty of spending money for lifestyle today. Sure, it's far less than you could afford at that income level, but again, it's a choice.

In fact, I initially built my wealth following this exact formula. It totally works.

I just raised my income to a very high level, paid my house off, and never got frivolous, but never suffered.

I chose my spending consciously based on my values (personal growth, reading, research, outdoor sports, adventure, and recreation), and never needed to spend much of the fat income.

The bulk went to savings with little effort or discipline. Presto! Instant financial freedom.

So anyway, it does work, and it's do-able. People do it every day.

Others might attack the 3% spending rule or the 8% return on investment. My answer is save your breath.

3% spending is easy to support in perpetuity because a portfolio of quality dividend stocks would pay that (and likely more) while growing to adjust for inflation, and without ever touching principal. It's easily do-able.

Similarly, 8% growth during the 10 years in this example is supportable using investment strategies designed to safely support growth that I teach my financial coaching clients.

However, even if you disagree with me on this point, the argument is moot because the compound return represents very little of the asset accumulation over this short time period.

The math is dependent on the percentage savings rate – not the growth rate. It helps, but it isn't critical.

The time is just too short to make a big difference. Don't waste your energy arguing details – it all boils down to the savings rate.

Also, notice that I didn't include Social Security, pensions, or anything else. This is simple, stripped down math to make a minimalist point that is unarguably clear.

Anyone can retire and live with financial independence (but not freedom) in 10 years or less. It's absolutely, 100% do-able.

I've done it, lots of other people have done it, and there's a whole website community run by Jacob at EarlyRetirementExtreme.com of people trying to walk the talk.

If you're a naysayer, then just be honest with yourself and realize your negativity is all about a lifestyle choice – not the viability of the strategy.

With that said, the reality is very few people will ever succeed with this approach. Let's look at why.

Why So Few Succeed

You probably already guessed why so few people are able to follow this plan…

It takes the self-discipline of a celibate monk living in a brothel to survive on 20-30% of what most people earn in our current culture.

I did it easily because my income was substantial while living the simple life as a single male.

It would have been much harder if I was married with kids on an average income.

Does that mean you can discount this article and throw the idea away? No!

The math is the math. I'm teaching you how saving your way to financial independence works.

This is one of three paths to financial independence (the other two are real estate and owning your own business), and the rules are inviolable. They are scripture in stone.

You can't argue with them. It's just math.

You can reduce the savings rate and lengthen the time, but you can't change the math.

- Staying with the example above, a 25% savings rate ($1,000 per month) compounds to roughly $1,149,000 in 27 years where it will finally replace the 75% of your earned income you're spending. This example isn't as rock-solid because the time period is much longer, meaning you have to start including inflation and other complicating factors to make it realistic; however, the principle demonstrated is consistent.
- A 10% savings rate in our simplified example requires a traditional career duration of 40-45 years to make sense of the numbers. It's the classic retirement savings formula most people are taught to follow – save 10-15% throughout a normal career duration to replace 80-90% of earned income – but few actually ever do it.

There are a couple of key principles you want to understand with this strategy…

1. The critical factor to success is the percentage saved from earnings. Every 10% increase in spending adds a little more than 3+ years to the process, because it not only decreases how much you save, but it increases the threshold of spending your assets must overcome as well. It's a double-edged sword.
2. Investment return and inflation have very little effect when the time period is short (high savings rate). However, investment return and inflation have a huge compounded effect when the time period is long (low or traditional savings rate). You must plan accordingly.
3. Almost nobody is motivated enough by financial independence to persist with a frugality discipline for 10 years and then survive on the same level of income for a lifetime. That's why so few people ever achieve financial independence following this path.

Frankly, I question if it is even a worthwhile goal as stated in this post here.

Questioning Your Goal

All of this begs the question, "Is your goal financial freedom or financial independence?"

Surprisingly, they aren't the same thing.

You can be financially independent on $15,000 per year in 10 years or less with the above example, but you'll have to give up some freedom to achieve it.

Living low on the economic scale limits what you can buy and do with your life. These limitations are antithetical to freedom and cause what I call a "poverty mentality."

Every corner must be cut, every dime squeezed for maximum blood. It creates an obsession with spending and money that doesn't equate to happiness for most people.

Unless your values are inherently *extremely* frugal, you'll constantly make concessions to save money as decisions are based on the right side of the menu of life (prices).

Rather than work for money, you'll spend a comparable amount of life energy working to save money through all the frugality strategies required to make ends meet.

This is not a right/wrong question – it's just reality. It takes effort to figure out how to spend less and survive on less.

Money buys convenience, but that convenience comes at a price because you have to give your life energy in the form of work to earn it in the first place. It's all just trade-offs. There's no perfect answer.

For example, extreme frugality would limit my ability to take my family to France for a month (like I did last year), which honors my values for adventure and life experience.

I wouldn't be able to honor my values on education by paying for quality, private school for my kids.

I wouldn't be able to honor my health values by paying for professional services like sports training, physical therapy, or expensive organic food. All these things would be luxuries in a world dominated by frugality thinking.

These would all be limitations to my freedom and would dishonor my values. In my personal experience, that's antithetical to true wealth and personal freedom. Others would disagree, but that doesn't make them wrong.

It's all a question of values.

Integrate Your Plan with Your Values

Extreme frugality is not everyone's cup of tea. It works fabulously for some people, and it's a recipe for misery for others.

The key is to integrate your plan for financial freedom with your values. The two must be congruent because the goal isn't just financial independence – the goal is true wealth and personal freedom.

For example, the spending level that honors my values as a 50 year-old, middle class, head-household, family of four, is much higher than when I was a single male straight out of college. It's probably higher than it will be 10 years from now when my kids are grown.

You must design a financial plan to reflect whatever reality is true for you. That's always the starting point when I begin working with coaching clients.

We co-design a wealth plan for financial freedom that integrates every aspect of their life: values, spending, life habits, skills, resources, interests and abilities.

We define their leverage points and competitive advantage into a plan specific to their needs.

Some clients save their way to wealth using the formulas discussed here.

Others choose real estate and/or building a business to better leverage their passions and interests (this employs entirely different equations beyond the scope of this article).

Most use some combination of these three paths to wealth (I usually encourage two of the three paths).

One size does not fit all. Your wealth plan must fit you like a favorite pair of jeans in order for you to succeed with it.

It must comfortably wrap every curve and unique attribute of your being, or it won't feel right and you won't stick with it long enough to succeed.

Getting your plan right is the first step to financial freedom on which all subsequent decisions and actions are built.

One Out of Three Paths to Wealth

In summary, the purpose of this article was to illustrate how the rules of frugality and saving your way to wealth can be applied within your wealth plan. It's one of three potential paths to wealth.

Traditional savings strategies are usually the primary choice (coupled with real estate) for W2 employees who lack entrepreneurial dreams.

Entrepreneurs will typically build wealth through their business, and park that wealth in paper assets or real estate.

There's no such thing as one-size-fits-all when it comes to wealth planning. It's a very personal choice.

How fast you want to achieve your wealth goals through savings (7 years? 40 years?) is purely a lifestyle choice and a statement of your personal values and priorities.

The paths you choose to realize your financial dreams should reflect your life situation.

The thing to note about paper asset savings plans is they're governed by specific mathematical rules and limitations.

If you want to break out of those mathematical rules and get more creative, then you must include the other two asset categories – real estate and business.

Finally, if building and implementing a customized wealth plan based on proven principles catches your interest, then the Seven Steps to Seven Figures Course is worth a look.

Let me know how I can help.