pearler. | A COMMUNITY COLLABORATION PROJECT

AUSSIE FIRE

The Ultimate Guide to Financial Independence for Australians

FEATURING 20 OF AUSTRALIA'S TOP FIRE BLOGGERS

Aussie FIRE

The Ultimate Guide to Financial Independence for Australians

With 20 co-authors from the Australian FI Community, in order of appearance:

- Dave from Strong Money Australia
- Kurt from Pearler
- Aussie Doc Freedom
- Ms FireMum from A Family on FIRE
- Kylie from The Thrifty Issue
- CashHippy from Sustainable Living
- Aussie Firebug
- Miss Balance from All About Balance
- Kara from The Flawed Consumer
- Latestarterfire
- Kate from How to Money
- Ms FieryIce from Two To FIRE
- Captain FI
- Sarah from Keepin' It Frugal
- Shaun from Project Palm Tree
- Alex & Ellie from HisHerMoneyGuide
- Victor from The Frugal Samurai
- Frogdancer Jones from Burning Desire for FIRE
- Serina from The Joyful Frugalista
- Michelle from Frugality and Freedom

Commissioned by Pearler.

Compiled by Michelle from Frugality and Freedom

Foreword

By Dave Gow, Strong Money Australia | strongmoneyaustralia.com

I met Kurt from Pearler in Sydney in 2019, for the Playing with FIRE Documentary Premiere screening (which Pearler kindly organised).

Like many of us, his enthusiasm for the FIRE movement is infectious, and what became clear to me is his genuine desire to bring people together to talk about money and personal finance, where there would otherwise be stigma and silence.

This eBook is a great example of that. Here, he has brought together a talented group of Aussie bloggers to share their expertise and practical tips on all things FIRE.

You're likely reading this because you dream of a better future and escaping the full-time rat race. Maybe you're frustrated with work consuming most of your waking hours. Hobbies, passions, and sometimes even your health go neglected. I totally get it - I've been there.

The truth is, much of the time, we all have things we'd rather be doing than dragging ourselves out of bed for another long day at work. Don't get me wrong, work is valuable in itself and often gives us a great sense of purpose in our lives.

But wouldn't it be amazing to call the shots on when you work, who you work for, and what you work on? Instead of making your life fit around work, you can make your work fit around your life. That's where Financial Independence comes in.

In these pages, you'll learn how to make this powerful shift from other Aussies just like you, who are either well on their way, or who have already reached FI.

They all have something to teach, and the wonderful part is, it's coming from a position of kindness - wanting to spread the word, pass on knowledge, and help others.

If you're new to FIRE, the thought of retiring at 40 (or maybe even 30) probably sounds too good to be true. And I'll admit, it does sound pretty crazy. But this thing is for real. The numbers check out, and the methods work.

From a personal standpoint, venturing down the path to Financial Independence is the best thing I've ever done. After deciding very early that the standard option of working 50 hours a week for 50 years wasn't for me, I devoted my efforts to building enough wealth to live a more free and self-directed life. Utilising many of the things you'll learn in this eBook, I was fortunate enough to retire early, at age 28.

That was three years ago now, and being on the other side of that journey, I can wholeheartedly recommend it to anyone. Not just for reasons like financial security and peace of mind. But for the other things FI gives you: The freedom to choose how you spend your time. The ability to live more in line with your values and what matters to you most, without the need for a pay cheque getting in the way. This, and the many other benefits, make for a more meaningful and happy life.

By the time you've finished this book, you'll be well equipped to get started. If you've already started, this will reinforce important points and provide fresh motivation to propel you the rest of the way.

To my fellow Aussies, this opportunity is well and truly there for the taking. Welcome to the FIRE community and I wish you all the best on your journey!

Dave

About Dave from Strong Money Australia | strongmoneyaustralia.com

STRONG MONEY AUSTRALIA
BUILDING FINANCIAL STRENGTH & A LIFE OF FREEDOM

Dave reached financial independence at the age of 28. Originally from country Victoria, Dave moved to Perth at 18 for job opportunities. But after a year or two at work, Dave became dismayed at the thought of full-time work for 40+ years, with very little freedom. To escape the rat race, Dave began saving and investing aggressively into property and later shares. After another 8 years of work, he and his partner had reached financial independence. Read more at strongmoneyaustralia.com

Table of Contents

Foreword 3

Introduction 8

Part 1: Prepare your FIREplace

Chapter 1: Find your why and type of FI 12

Chapter 2: Debt. The Good, The Bad and The Tolerable 25

Chapter 3: The Debt Dilemma. Pay it off or invest? 36

Chapter 4: Dealing with debt emergencies 47

Chapter 5: Get perspective - A tale of two spenders 55

Part 2: Stack your FIRE

Chapter 6: Focus on savings before earnings 63

Chapter 7: Bag the easy wins 73

Chapter 8: Beyond the easy wins 83

Chapter 9: Get the most BFYB 93

Chapter 10: Prepare for emergencies 108

Part 3: Spark your FIRE

Chapter 11: Why you should invest ASAP 126

Chapter 12a: Why FI loves shares 135

Chapter 12b: Diversifying with other assets 145

Chapter 13: Learn to play the long game 154

Chapter 14: FIRE with a family 161

Chapter 15: FIRE for late starters 174

Part 4: Stoke your FIRE

Chapter 16: Optimise your portfolio 193

Chapter 17: Superannuation and FIRE 207

Chapter 18: International investing for Aussies 218

Chapter 19: Fuel for the FIRE - Leverage 227

Chapter 20: Property investing meets FIRE 238

Part 5: Get FIRE'd

Chapter 21: Find your FIREstyle 254

Chapter 22: Life Once FIRE'd 262

Chapter 23: Build financial resilience 269

Chapter 24: Wealth beyond money 278

Chapter 25: Next level tools 288

Conclusion 293

At Pearler, we pride ourselves on the quality of the financial advice we give. Please note though, that this advice has not been tailored for you. You have unique financial goals, circumstances, and needs which may make this advice inappropriate, and it is important that you know whether it applies to you. If you are unsure we urge you to speak to someone you trust who is competent with money and understands your individual needs, whether they be a trusted friend or professional.

Introduction

By Kurt Walkom, Pearler | pearler.com

Financial Independence Retire Early, or "FIRE", as it's better known, is hard to define.

From the outside, FIRE seems to be a financial strategy – get rid of bad debt, save more than you spend (if you can!) and invest your savings in passive, diversified investment vehicles. Once your passive income and/or safe withdrawal rate exceed your annual expenses, you're FIRE'd and work becomes optional!

But once you scratch the surface, it quickly becomes obvious that FIRE is far more than a financial strategy.

Financial strategies don't spread from thousands to millions within a handful of years.

And financial strategies don't translate directly between countries who don't share a language.

But FIRE does.

If I only had one word to describe FIRE, it would be **community**.

It's a community of people who are helping each other spend less time and money on things that don't matter to them and more on things that do.

It's a community of people who are turning the money taboo on its head by openly talking about what they spend their money on, what financial services they use, and where they invest.

And it's a community of people who are beginning to create deep social change in the world by demonstrating that there are clear, actionable steps that almost anyone can follow to achieve Financial Independence.

In a post-COVID world, the positive impact of the FIRE community can only grow.

The value of Financial Independence has never been so clear on such a vast scale, and millions of people will be acutely aware of the benefits of being prepared for unexpected financial turmoil – from first-hand experience.

As Aussies, we're lucky. For the vast majority of people, FIRE is attainable. Doesn't matter if you're a bricky or a barrister, a nurse or a neurologist, or something entirely different – if you have a full-time job and live in Australia, there is a type of FIRE and place in our community for you.

But, today's FIREscape still tends to be dominated by US-centric information. It can be quite hard to find relevant information for Aussies – especially if you're early on in your journey.

So, we got Australia's top FIRE experts together to create Aussie FIRE – a guide which we hope will be used by Aussies pursuing Financial Independence for years to come.

Now, no matter your background, you have the information and tools you need to start and succeed on your own FIRE journey.

It's fitting really – 25 chapters of red-hot FIRE content by the community, for the community.

This is what it's all about!

I know you're eager to get started, so I won't say much more.

But before I sign off, a massive thanks needs to go to each and every one of our authors. The Aussie FI community really dug deep to put this eBook together, despite COVID-19's best efforts to derail it!

And finally - what's Pearler trying to get out of this?

The answer is simple really – we want to help the FIRE community grow, because the more it grows, the more the communities we live in thrive, and the more our business thrives.

So, from Hayden, Nick, myself and all the team at Pearler – happy reading, happy FI-ing, and please help spread the FIRE (!) by sharing this eBook with those you care about.

Kurt

About Kurt from Pearler | pearler.com

Kurt is one of Pearler's co-founders. After reading the Barefoot Investor at the age of 14, Kurt got started on his Financial Independence journey early. He invested his $15,000 in "life savings" in 3 stocks based on a stockbroker's recommendation – right before the Global Financial Crisis. Seeing his share portfolio plummet in value (and never bounce back), Kurt resolved to learn all he could about investing, and why retail investment advice gets it so wrong, so often. In 2018, Kurt co-founded Pearler with his two friends, Hayden and Nick, to make it easier for everyday Aussies to invest in shares the right way - incremental amounts in diversified portfolios, for the long-term.

PART 1: PREPARE YOUR *FIRE*PLACE

Chapter 1: Find your why and type of FI

By Kurt Walkom, Pearler | pearler.com

Find your why

Achieving financial independence is generally defined as the point in time when your passive income exceeds your ongoing living costs.

It's the pinnacle of the FIRE journey, and it means so much to so many people.

But what will it mean for you?

If you don't have a good answer, it's incredibly important that you find one.

You need your why to make spending and saving decisions based on your values.

And your why is what inspires you to find creative ways to spend less and/or earn more, so you can reach your financial & lifestyle goals sooner.

Arguably, finding your why is the most important step in the FIRE journey.

Without it, what are you saving for?

But this first step is also the one that many budding FI-ers get so wrong. They have a cloudy vision of 'endless holidays' in their mind and that's about it. Poorly-defined goals aren't motivating. Clear, detailed goals are.

Unfortunately, this is one step you can't afford to get wrong. Your why is your foundation. And a lack of foundation when times get tough is the main reason that those who've started their FI journey stray from their path.

There's no rulebook for finding your why. Everyone's why is different - only you can discover it. Also, your why won't be a static thing either. As you go through life your motivations and goals will probably change… mine certainly have!

But, there are a number of methods out there that can help - ranging from professionally-taught courses to blog posts from people who've done it!

At the end of the day, if you simply take some time to reflect on what you would do when you hit FIRE, why that's valuable to you, and WRITE IT DOWN, then that's a great start.

Reflecting on how popular the FIRE movement has become over the last decade, it's clear that FIRE does satisfy many "whys".

No matter whether you're a doctor or nurse, a tradie or teacher, an engineer or a designer or something entirely different, Financial Independence has something to offer everyone. You just simply need to find out what it has to offer you!

> **"FINANCIAL INDEPENDENCE HAS SOMETHING TO OFFER EVERYONE. YOU JUST SIMPLY NEED TO FIND OUT WHAT IT HAS TO OFFER YOU!"**
>
> KURT @ PEARLER
> AUSSIE FIRE

Fundamentally though, not having to rely on your paycheck to live and being 'unshackled' from a salary is an intoxicating idea for almost everyone I've met.

And while most people still don't believe it's possible, that's starting to change.

In fact, as FIRE has become more and more popular, different 'Types' of FIRE have begun to emerge.

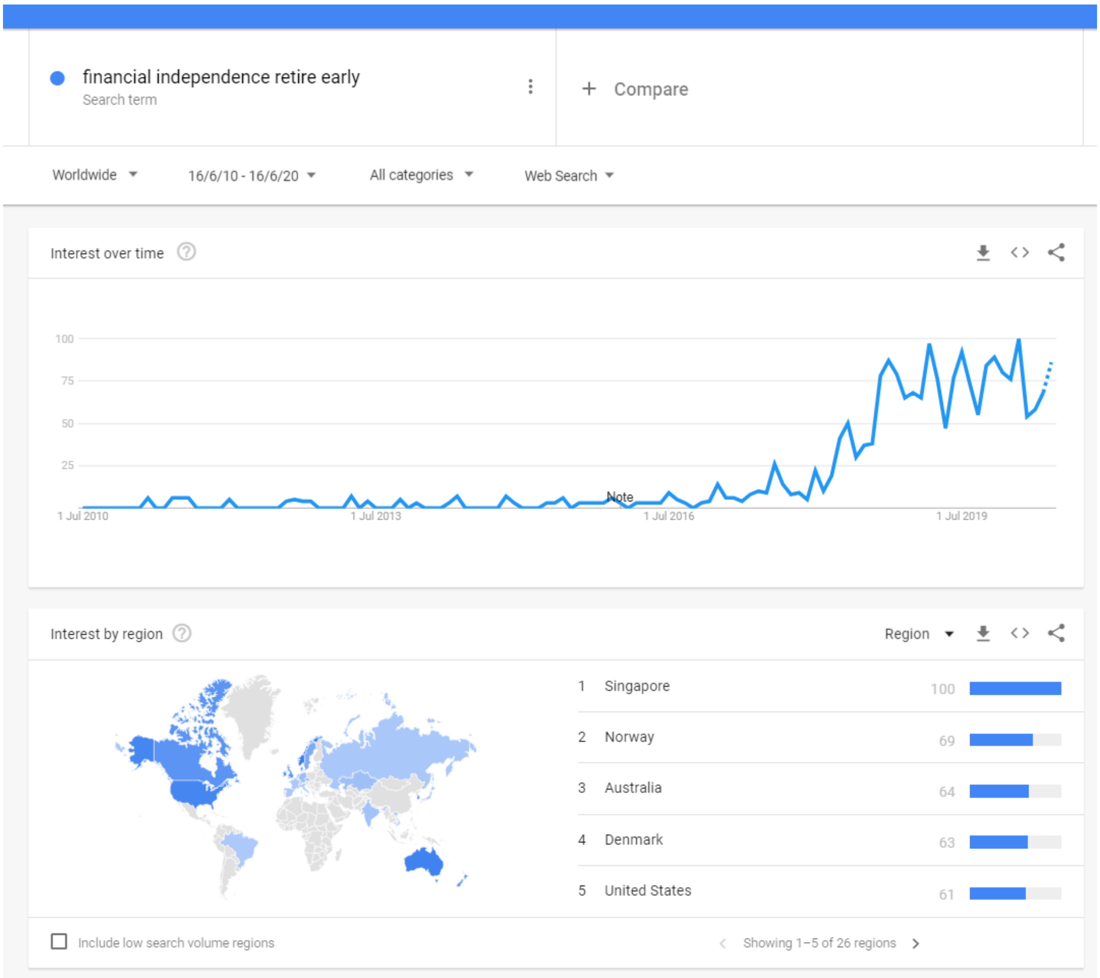
So, as you're contemplating your why, I figure it's probably worth introducing you to the many different Types of FIRE that are now out there so that you can get an idea of the options available to you, and ultimately, FIRE faster, or in a way that suits you better - and hopefully give you a little chuckle along the way too!

The 7 Types of FIRE

The FIRE movement has gained massive popularity over the last decade. So much so that there are now 7 Types of FIRE! They are:

1. TraditionalFIRE (or just "FIRE")
2. LeanFIRE
3. FatFIRE
4. BaristaFIRE
5. SemiFIRE
6. GeoFIRE
7. NomadFIRE

I think Google Trends tells the story pretty well. The graph below shows how interest in FIRE, or more specifically the "Financial Independence Retire Early" search term has grown over the past 10 years.



Astonishing, right? Just from late 2017 to now, interest has grown **over three times**. And not only that but "Financial Independence Retire Early" is a ranking search term in 26 countries - many of whom don't even have English as a first language!

It's undeniable - the FIRE is spreading!

With so many people interested and engaged, FIRE has evolved to have a few different sub-types based on simple but important questions such as:

- What kind of lifestyle do I want to live on my journey?
- How do I plan to reach my end goal?
- What am I willing to do or not do to save money?

Some people want to retire ASAP because they hate their job. Others love their job and aren't in a rush at all - they just want that intoxicating feeling of independence!

Similarly, some people want to maintain their current lifestyle, while others want to cut back and bring their FIRE date forward as fast as possible.

And the list goes on...

While everybody's answers to these questions are different, common patterns have emerged that have led to the creation of 7 distinct types of FIRE (so far!).

I've summarised each of the 7 types & have also provided links to the best resources I've found on each type - my aim is to provide one place to explore every type, not to be comprehensive about every type!

We've also made a Types of FIRE quiz to help you explore strategies that might be a good match for you!

Please remember though, the beauty of FIRE is that it can be achieved in many different ways. Your quiz result is just an indication of where your strategy lies based on community stereotypes we've researched and experienced ourselves here at Pearler - it's not advice! The only right way to FIRE is **your way**, which needs to be based on your unique goals and your own research - which, hopefully, this helps you to do!

With that out of the way, let's explore the 7 types!

TraditionalFIRE

You're probably already familiar with **TraditionalFIRE** - or just "FIRE".

It is the foundation for all of the other types.

The aim is to be able to retire from traditional work and not rely on a paycheck.

This is typically achieved by accumulating income-generating assets - with the goal being to accumulate enough money to cover your current living expenses.

Basically, people who fall into TraditionalFIRE want to retire living the same lifestyle as they do today.

If this is you, then you typically...

- Have average to above-average income

- Are diligent about not spending money on things you don't value
- Aren't counting every dollar you spend, but do track some spends
- Have simplified your lifestyle
- Save money aggressively & invest most it
- Enjoy working, but want flexibility & choice

The big distinctions between FIRE & the sub-types only really become apparent after understanding the other types - so read on!

LeanFIRE

LeanFIRE is FIRE *on a tight budget* - $40,000 a year is the commonly-quoted number.

The aim of this type is usually to retire ASAP.

When it comes to saving money, people in LeanFIRE are creative (some may even say 'relentless'! 😂).

If this is you, then you are happy with living a simple and minimalistic lifestyle in retirement.

On top of saving money, simplifying their lifestyle and investing - LeanFIRE'ers are experts at managing their expenses and being frugal, but they do so without completely compromising comfort.

If this is you then you typically...

- Have below-average to average income
- Are extremely conscious of your spending
- Are an expert at tracking and cutting your expenses
- Have a frugal lifestyle
- Save money aggressively & invest most it
- Want to retire from your current job ASAP
- Don't want kids and/or live in a LCOL area

FatFIRE

FatFIRE is FIRE *on a large budget* - $100,000 a year is the commonly-quoted number.

The aim of FatFIRE is to reach financial independence in style. Retiring isn't enough!

Those pursuing FatFIRE have ambitious goals in mind & want to 'live the high life' in retirement - at least in comparison to the other types of FIRE.

Most people who pursue FatFIRE are high-income earners - high disposable incomes allow them to save greater amounts of money on which they will live once they FIRE.

If this is you, you might be spending more money than the average person - but your high income means you can still save significant amounts - perhaps even proportionately more.

If this is you then you typically...

- Have above-average income
- Spend more, but still in a values-based way
- Are not tracking your expenses
- Have a more expensive lifestyle
- Save money aggressively & invest most it
- Enjoy working and are not in a rush to retire
- Want kids and/or live in a HCOL area

BaristaFIRE

BaristaFIRE is FIRE without the RE - at least not in the literal sense...

Those who BaristaFIRE choose to work part-time jobs or in the gig economy after they wrap up their 9 to 5.

Typical "Barista" jobs include:

- Barista (surprise surprise)
- Fruit-picking

- Uber driving
- Airbnb hosting
- Sports coaching
- Freelancing
- And the list goes on...

The drivers behind choosing to BaristaFIRE are diverse - some people just want to be social, others struggle with having too much free time and others want to FIRE from their 9 to 5 ASAP and this is the quickest way to get there.

Those who pursue BaristaFIRE are aiming to save at least enough to only have to work a fraction of each year to maintain their lifestyle.

Others don't necessarily pursue BaristaFIRE, but end up working a casual job once they FIRE anyway.

Reasons for the retro-active Barista'ing are very diverse, but common ones include needing to supplement income after financial circumstance change (such as a market crash!), finding a new social outlet, and becoming bored in full-blown retirement.

The key difference between BaristaFIRE and SemiFIRE (next section) is that those who BaristaFIRE usually work in part-time occupations that aren't related to their previous professional careers. They are also typically not professional jobs.

Whatever the reason, and whether planned or not, these people are not fully FIRE'd, but they have hung up the boots of their previous profession for good.

Many in FIRE use the option of BaristaFIRE as a back-up or last resort if their projections turn out to be too optimistic. Please remember - it's always better to be conservative than optimistic when it comes to financial projections!

Imagine having enough money saved that you only need to earn $5000 or $8000 a year. That isn't impossible to achieve! No more 40+ hour work weeks.

If this is you then you typically...

- Have the same traits as TraditionalFIRE

- Except you're happy to work a fraction of the year for a few years if that means you can FIRE from your 9 to 5 earlier
- You probably also live in or intend to move to a LCOL area
- You might be considering coupling this strategy with LeanFIRE

SemiFIRE

SemiFIRE is the other type of "part-time FIRE."

Those who pursue it typically enjoy their current jobs and don't want to fully retire, though they would like to take things a little easier.

Essentially, they'd like to work part-time towards the end of their professional careers.

Keyword: **professional**.

Unlike BaristaFIRE, these people don't intend to participate in the gig economy.

Typically, if you pursue SemiFIRE your part-time work covers your day-to-day expenses and lets your nest egg continue to compound when you take a step back from full-time.

You also typically enjoy your profession & find it very fulfilling - but you'd just like a bit more time to do other things. Unsurprisingly, it is often paired with a FatFIRE strategy.

The life of a SemiFIRE person is: work little, play hard. Goodbye 40+ hour work weeks!

If this is you then you typically...

- Have the same traits as TraditionalFIRE
- Except you enjoy your profession and don't feel any need to "retire early"
- Instead, you'd like to move into a part-time role towards the end of your career
- You might be considering coupling this strategy with FatFIRE

GeoFIRE

GeoFIRE is FIRE with geoarbitrage.

What is geoarbitrage? It's moving to a relatively low cost of living (LCOL) area to reduce annual expenses once FIRE'd. It doesn't matter where, all that matters is that living expenses are lower!

People who are pursuing GeoFIRE either have relocated or plan to relocate once they FIRE to bring forward their FIRE date.

This American couple estimates they saved [$80,000 per year by moving 10 miles] (16km) and reduced their time-to-FIRE by 9 years. And that's just domestic relocation. The savings really start to ramp up if you're willing to relocate internationally!

Imagine this scenario:

- Age: 30
- Net worth: $50k
- City: Sydney, Australia
- Monthly income: $3000
- Monthly spending: $1500

The cost-of-living in Sydney is $2774/mo which means it would take this person 30 years to reach FIRE. They will retire when they are ~60 years old.

Meanwhile the cost-of-living in Ankara, Turkey is $750/mo. This means that this person could retire in ~8 years at the age of 38 if they move to Ankara.

FIRE'd cost-of-living makes a massive difference to your FIRE date.

For those who have remote work as an option, you wouldn't even have to wait until you FIRE to move - and that would ramp up your savings rate enormously too.

Imagine working for a big tech company but living on a beach in Sri Lanka. These days, that's possible. In a post-COVID world, it'll fast become possible for more and more people too...

That said, moving is definitely not for everybody! Family, friends, healthcare are all huge considerations that together means GeoFIRE is not an option for most. But if it is for you - awesome!

If this is you then you typically...

- Have the same traits as TraditionalFIRE
- Except you also wouldn't mind relocating if it dramatically reduces your time-to-FIRE
- You might be thinking of coupling this strategy with FatFIRE or LeanFIRE too - both become much easier to achieve if your living expenses are significantly less!

NomadFIRE

NomadFIRE is the extreme version of GeoFIRE.

People who are pursuing NomadFIRE have been bitten by the travel bug *hard*.

They plan to travel full-time either after they've FIRE'd or in the lead-up to FIRE (also known as "digital nomading").

If this is you, you would enjoy moving from place to place every couple of months or so - or already do!

I.e. You wouldn't just stop at Ankara, after a couple of months you might move to Santiago, Chile and the year after that might be Tangalle, Sri Lanka (these examples are impractically expensive to fly between, but you get the point! 😅)

Travelling through LCOL countries allows you to increase your savings rate in the lead-up to FIRE, and reduce your overall FIRE number. The key to accelerating FIRE this way is to live frugally in places where your money goes far.

The lifestyle can be too adventurous and less stable so it is not for everybody. Take this into consideration before deciding on any big move!

If this is you then you typically...

- Have the same traits as TraditionalFIRE
- Except you also love to travel & want to travel HEAPS when you FIRE, or in the lead-up to FIRE
- And you also probably don't want kids - at least, not while you're travelling!

Wrapping up

As the FIRE has spread, the community has become more and more creative.

Nothing is taken for granted, and as you've seen, there's a type of FIRE for everyone - or at least a mix of them!

Here's a general summary of the types of FIRE today:

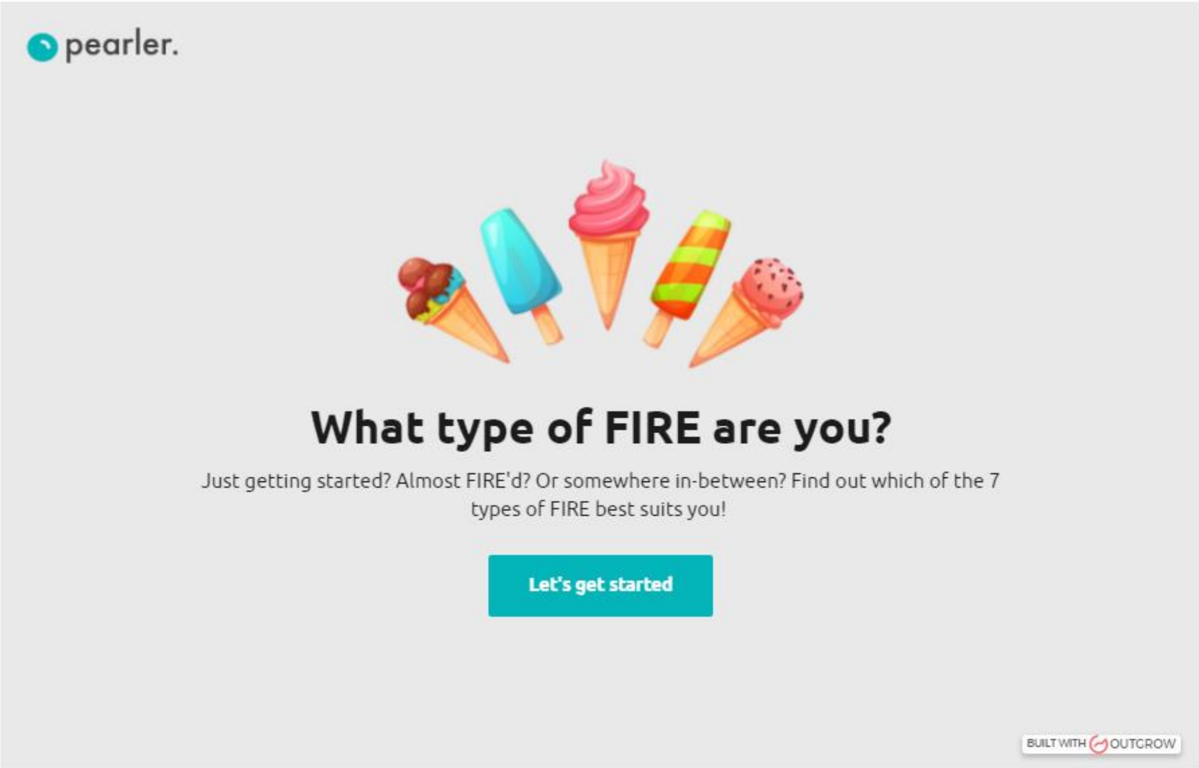
	Trad.	Lean	Fat	Barista	Semi	Geo	Nomad
Income?	$ - $$$	$	$$$	$ - $$	$$ - $$$	$ - $$$	$ - $$$
Invest?	✔	✔	✔	✔	✔	✔	✔
Enjoys work?	~	x	✔	x	✔	~	~
Enjoys saving?	~	✔	x	~	~	~	~
Family?	✔	x	✔	✔	✔	✔	x
Travel?	~	~	~	~	~	✔	✔

Personally, I see myself going down the SemiFIRE/FatFIRE route. I'm tempted to go down the NomadFIRE route too, but I do love Australia. Maybe I could Nomad for a couple of years though...? Not in this COVID climate, I guess!

What type of FIRE are you?

If you're not sure, or just want to play around - test out our free Types of FIRE Quiz!

It will tell you which type you align with best, based on community stereotypes we've researched and experienced ourselves here at Pearler.



Please remember though, the beauty of FIRE is that it can be achieved in many different ways. Your quiz result is just an indication of where your strategy lies.

The only right way to FIRE is **your way**, which needs to be based on your unique goals and your own research - which, hopefully, this helps you to do!

If you'd like to explore the Types of FIRE further, you're in luck! Here is a shortlist of the best resources we've found when it comes to each type.

Resources: The 7 Types of FIRE

- The 7 Types of Fire Quiz

TraditionalFIRE

- Learn about the basics of FIRE
- FIRE Reddit Community
- FI Australia Reddit Community
- Pearler's FI Resources

LeanFIRE

- What is LeanFIRE?
- A LeanFIRE approach
- LeanFIRE Reddit Community

FatFIRE

- What is FatFIRE?
- A FatFIRE approach
- FatFIRE Reddit Community

BaristaFire

- Learn more about BaristaFIRE
- A BaristaFIRE approach

SemiFIRE

- Learn more about SemiFIRE
- A SemiFIRE approach

GeoFIRE

- Learn more about GeoFIRE
- A GeoFIRE approach
- Compare the cost-of-living in different cities

NomadFIRE

- Learn more about NomadFIRE
- A NomadFIRE approach
- NomadFIRE calculator (also useful for GeoFIRE)

About Kurt from Pearler | pearler.com

Kurt is one of Pearler's co-founders. After reading the Barefoot Investor at the age of 14, Kurt got started on his Financial Independence journey early. He invested his $15,000 in "life savings" in 3 stocks based on a stockbroker's recommendation – right before the Global Financial Crisis. Seeing his share portfolio plummet in value (and never bounce back), Kurt resolved to learn all he could about investing, and why retail investment advice gets it so wrong, so often. In 2018, Kurt co-founded Pearler with his two friends, Hayden and Nick, to make it easier for everyday Aussies to invest in shares the right way - incremental amounts in diversified portfolios, for the long-term.

Chapter 2: Debt. The Good, The Bad and The Tolerable.

By Aussie Doc Freedom | aussiedocfreedom.com

Consumer debt is a common trap, and a stealthy destroyer of personal wealth.

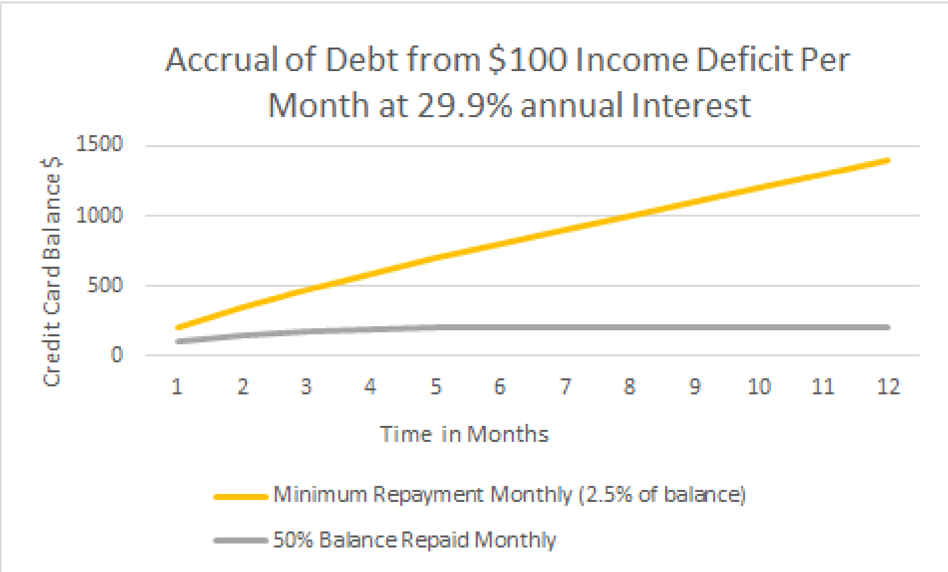
But debt can be necessary, and even used as a powerful tool for reaching financial independence.

There is a scale from terrible (life-destroying) debt to "Good debt" used efficiently to build wealth.

What is Bad Debt?

Many individuals are stuck in a bad debt cycle, often through extremely difficult circumstances.

If income is less than your expenses and you are forced to borrow for essential needs such as groceries, the situation is dire. Even a small deficit (say $10/month), will accrue debt, which becomes much harder to pay off over time. Add interest and late fees and this soon becomes a nightmare downward spiral.



Others, not through necessity, but a lack of understanding, choose to enter the bad debt cycle.

Consumer debt is what is generally meant by “Bad debt”. It is debt used to buy goods that are consumed or assets that will not grow in value. Classic examples include car loans, credit card “shopping therapy” and borrowing to buy a boat.

Paying interest on debt that is not essential, to buy assets that lose value once purchased is a little insane. But people do it all the time. “I deserve it” and “I can afford the repayments” are common justifications.

“It’s time to share a big chunk of my future wealth with a bank/credit card company!” Admitted no-one, ever.

It’s easy to miss the significance of accumulating consumer debt when the repayments are affordable and the purchase desirable.

But just as in a poverty induced debt spiral, the debt becomes harder to repay over time.

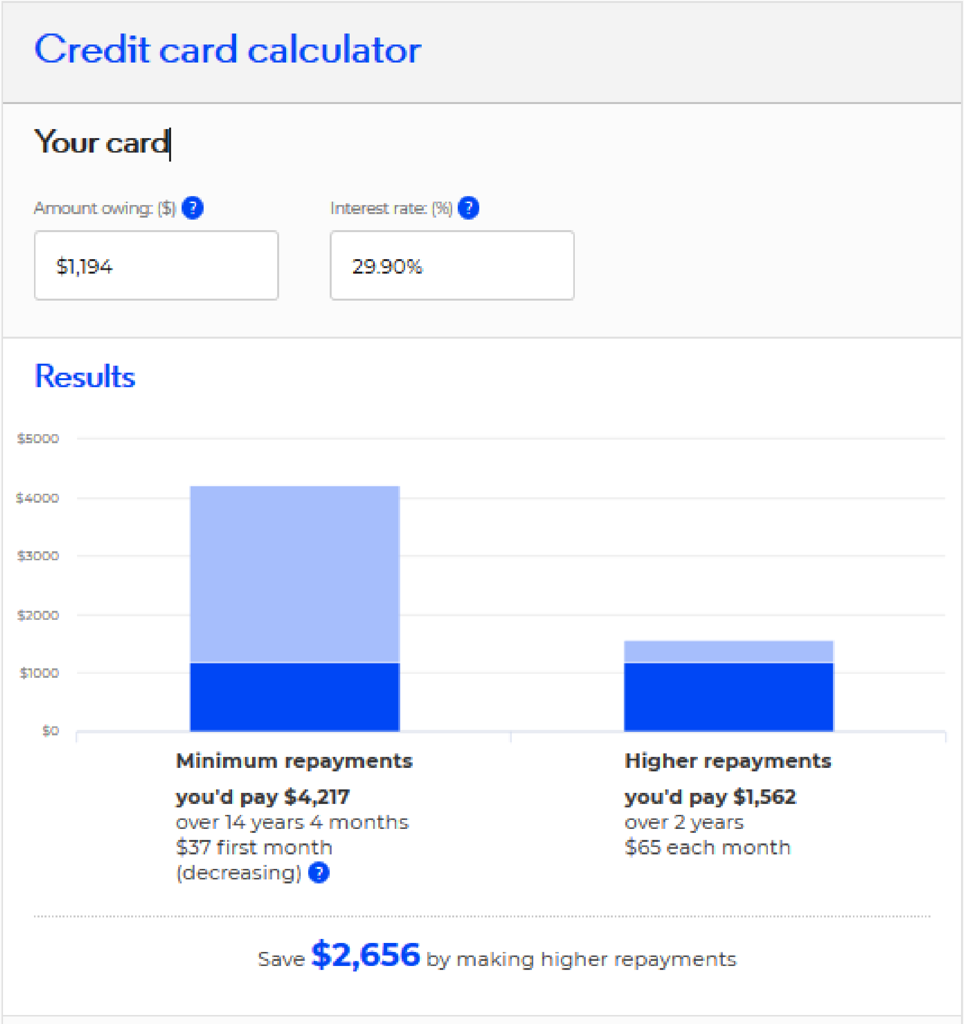
All income levels are susceptible to this, including high-income earners, who tend to borrow bigger and brasher. The repayments may be manageable, but they are stealing your opportunity to build wealth.

You may have heard of the “Debt snowball” and “debt stacking” (see Chapter 2), which encouragingly make debt pay off sound easy.

But there is a long period before the snowball or avalanche begin, where you’re trying to make a dent in your debt.

Most of your cash is going to interest until you can start making a significant impact on the principal. I call this the “Debt Dung Ball”. It always takes far too long to pay off debt!

If you’re ever thinking of going down this road, take a quick look at MoneySmart’s Credit Card Repayment Calculator to make sure you’re going into the decision with eyes wide open (screenshot below).



Car loans

A car purchase commits you to many additional expenses including registration, insurance, fuel, and maintenance. If you need a car, it is wise to limit the damage as much as possible.

As soon as you purchase a vehicle, it is losing value over time (depreciating). New cars depreciate quickest in the first five years, making second-hand cars better value generally.

Borrowing to buy a car adds interest to the cost of the car, boosting the negative effect on your long-term wealth.

People often borrow from their mortgages to buy a new car, due to the low-interest rates incurred. At record low interest rates of 3%, a modest $30,000 car paid off over 5 years will cost an extra $13,125 in interest.

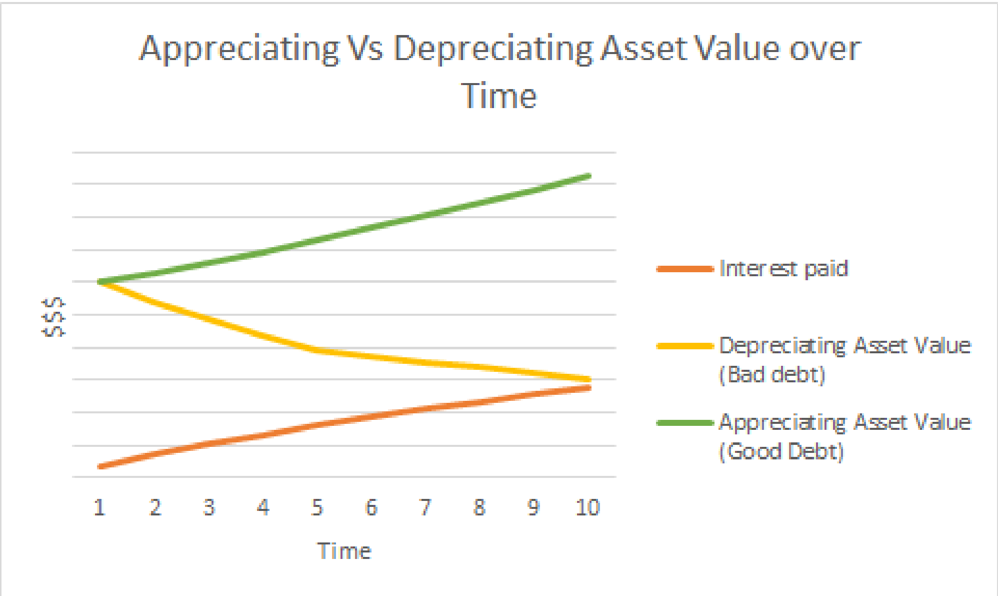
If you pay the debt off over 15 years instead of 5, it will cost you another $30,711 in interest (even at 3%) – doubling the cost of your car!

But yes, if you have to borrow to buy a car, and your repayment behaviour will remain unchanged, then it makes sense to use the mortgage. Really try not to though.

Personal loans, credit cards and buy now, pay later.

Personal loans currently charge around 6-8%. They are often used for boats, cars, holidays and general living-beyond-means expenses. The value of all these purchases decrease over time, and the interest rate is significant.

The widening gap between asset value (decreasing over time) and total cost paid (increasing over time) is the exact opposite of what you want to achieve in order to build wealth.



If you want to be dirt poor, one of the fastest ways to do it is by letting credit card companies scalp you 12-30% interest on depreciating goods. Brutal!

Buy now, pay later schemes are similar to a credit card with an interest-free period. Potentially free if paid off without fail, but quickly punished with fees if repayments are late. They tend to be used for retail purchases, which fall in value after purchase.

These are all methods to spend more than you earn, and slowly degrade your future wealth.

What is Tolerable Debt?

Tolerable debt is often debt that you cannot avoid. In the original example, the first $10 debt to buy groceries may be tolerable to allow time for extra income to be earned to make up the deficit.

A car loan may be tolerable debt if there is no other way to get to work to earn an income (no available public transport). In these cases, the bare minimum debt should be incurred, at the lowest interest rate. Pay the debt off as fast as humanly possible to get back on track.

Home loans, in some cases, are tolerable debts too. If the home is not an investment you would purchase for its growth potential, it is a tolerable rather than good debt.

Many towns have average or worse capital growth expectations for property. It makes a lot of sense to keep your home mortgage modest in these circumstances and leave borrowing power for better quality investment assets.

What is Good Debt?

Good debts are those used to buy assets that grow in value (appreciate) over time. The intention of taking on these debts is to increase the net wealth of the borrower, despite interest paid.

For a debt to be classed as “Good” the asset MUST have an expected after-tax return greater than the interest paid. Good debt loans usually charge the lower end of interest rates available at the time.

Taking on good debt involves risk, and can sometimes go badly.

To make an informed decision taking on a “Good debt” it’s important to understand all the potential risks, as well as your risk tolerance.

Borrowing to Buy Property

Borrowing to buy a carefully chosen home or investment property can be considered good debt. This can be a powerful way to build wealth.

But expected and actual after-tax returns must be greater than interest owed to make a debt productive. It is not enough to buy any asset (including property) and expect it to perform well.

In 2010, Amy incurred $400,000 "Good debt" to buy an investment property. Amy had friends who had made a significant profit in Darwin properties. She brought a 4 bedroom home on plenty of land.

A decade later, the house is now worth $325,000. The bank doesn't care she hasn't made a profit, as Amy has to pay the interest regardless of the property's performance.

To make matters worse, in order to free herself of the underperforming property, Amy will need to find $75,000 to pay out the remainder of the loan after sale.

Amy is not alone. Many investors have investment properties worth far less than they owe, with their borrowing capacity tied up in an asset too expensive to sell.

Borrowing to Buy Shares

Other investment loans, for example borrowing to buy shares, are also traditionally considered good debts.

The long term returns for the ASX since 1900 is an incredible 11.8% per annum.

Borrowing at 3% to buy and hold shares over the long term would be a productive debt, as long as returns were greater than the interest paid. This, of course, is never guaranteed.

Student Loans

Borrowing money to study is generally considered a good debt. The qualification should be to work in a field you will enjoy long-term. If you will be able to secure work after graduation, and the income over the long-term will compensate for the time and money spent studying, student loans can be a very effective use of debt.

Taking on student debt and failing to complete your qualification is a regrettable waste of money and time. Debt is not forgiven if you drop out or change courses multiple times.

If there is little employment in the field your studies qualify you for, high levels of competition or poor pay, the financial burden taken on may not be worthwhile.

This is a huge decision to make at 18 or so! If in doubt, consider a year of work experience to give you time and insight.

Home Renovations

Borrowing to improve your home can be a good debt, but rarely is.

The resulting value of the renovated property should compensate for the amount paid for the renovation including interest.   It is very easy to overcapitalise on your home by improving it beyond the top price point of the suburb and street.

This then becomes a lifestyle choice – best not funded with bad debt. If you are keen to improve your home, assess what the realistic best post renovation valuation is and use this to guide your budget. If you are investing for lifestyle, consider saving and paying with cash to minimise the negative financial impact.

Small business

Small business debt can be a very powerful use of debt – business is a rapid wealth builder if successful.

But it is very high risk; according to the Australian Bureau of Statistics, more than 60% of small businesses fail within 3 years. Debt taken on to fund a small business that fails is obviously a bad debt.

A small business idea should be thoroughly thought out, researched and planned with realistic risk management before any debt is taken on.

Debt for Cashflow

"Cashflow is king" is a common catchphrase among investors. Everyone needs adequate cash flow to get them through rough times.

When taking on your biggest debt, a mortgage, consider borrowing a little extra to stock an emergency fund. Owners are usually most vulnerable in the first year or two of a mortgage (home or investment).

Stashing any extra borrowed along with ongoing savings in a 100% offset account is ideal. You will not pay interest on the money whilst it's in your offset account. As long as you don't raid it for non-emergency spending, you will pay no more interest for the added flexibility.

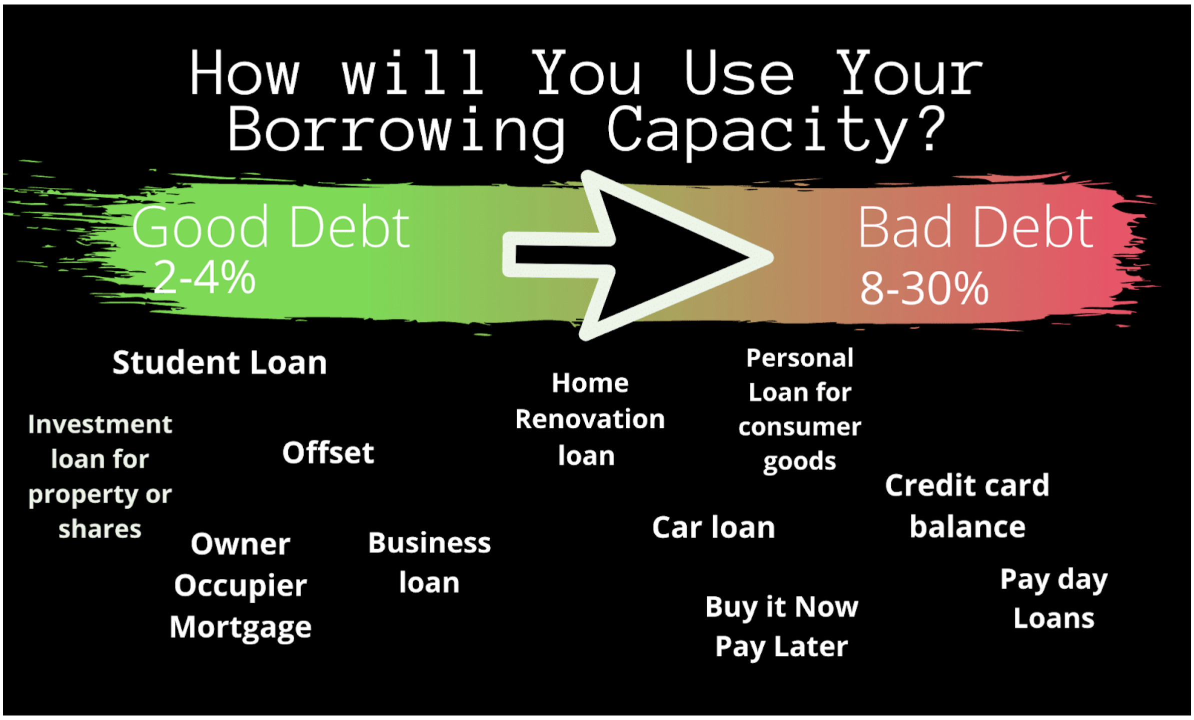
Debt for Tax Optimisation

Paying off the home mortgage is a psychologically tempting prize. Flexibility here should be considered, in case of job loss or other unanticipated disasters.

Placing extra funds into an offset account, rather than a redraw facility, means you can withdraw your money without the bank's consent. If circumstances change, banks can stop you redrawing money, but cannot stop you accessing offset savings.

Circumstances often change more than anticipated, and the home you planned to live in forever may eventually become the perfect rental property if you move.

If you have paid off the mortgage, you cannot then redraw and make interest tax-deductible. If you have only offset the mortgage, you can move your cash and deduct interest paid against rental income.



When Good Debt Turns Bad

Bad Timing

Whatever asset class you invest in, no-one is able to tell you what the returns will be in ten years.

Borrowing to invest at a bad time can result in several years of negative growth.

This tends to happen when an asset class has done particularly well over the preceding years. It is constantly in the news, everyone is talking about it, and those not already invested feel they are missing out!

An unpredictable amount of time later, the peak of the market declares itself when the asset price collapses, devastating to those leveraged into the investment.

If you borrow to invest, you must be able to manage this risk. Resist the temptation to follow the crowd, and be suspicious anytime there is excitement over a particular investment class.

Only invest for the long-term. If a reasonable investment is held long enough, it is likely to recover and benefit from another period of growth. If sold, you crystallise the loss and pay interest for the pleasure.

Default risk

Good debt can turn bad quickly in the event of being unable to service the debt.

Underestimating holding costs of property, failing to anticipate future increases in expenses or drops in income can cause loan defaults, or selling at the wrong time. Before taking on good debt, carefully identify and minimise all risks.

Opportunity Cost

Even when you have a "Good debt," there may be better opportunities for it.

Buying your own home would generally be considered a good or tolerable debt. Perhaps the expected capital growth for that home is a little over the interest paid at 4%. Depending on your risk profile, future plans and preferences, there may be a more efficient use of that borrowing power (see Chapters 19 & 20).

Every time you decide to take on debt, it is worth considering whether there is a better use for that debt. Everyone has limited borrowing power, use it effectively!

Advanced Debt Utilisation

Credit Score and rewards

Credit scores are how lending institutions assess your reliability to pay back debt.

Having a good credit score makes it easier to get a loan, may increase the amount you can borrow, and lower the interest rate.

It is not impossible to get a loan without a credit history, but it may be harder.

If you have utility bills, a mobile phone plan or any other history of borrowing you will have a credit score.

You can obtain a free copy of your credit score from Equifax annually, and monitor it month to month at Creditsavvy.com.au. This is important to monitor for mistakes on your file, and the effects of credit card applications (especially for travel hackers).

Credit cards can be a tool to build a better credit rating over 12 months or more, for those wanting to secure a mortgage at a great rate.

It is a lot easier to spend excessively with plastic than cash. Do not get a credit card if you're not sure you can control your spending and pay the full balance every month without fail.

"DO NOT GET A CREDIT CARD IF YOU'RE NOT SURE YOU CAN CONTROL YOUR SPENDING AND PAY THE FULL BALANCE EVERY MONTH WITHOUT FAIL"

AUSSIE DOC FREEDOM
AUSSIE FIRE

If you feel you can handle credit cards, consider finding one with no annual fee. You need to outplay the credit card company. They want you to spend on your card, fail to pay it off completely and start paying them ever-increasing interest. Organise the full balance to be paid off each month automatically through the credit company. Make sure you will never pay them a dollar in interest or late fees through missed repayments.

Debt to income ratio

How much debt should you take on?

Any debt is unproductive if you are unable to consistently make repayments without putting stress on your household.

A common rule of thumb is that home mortgage repayments should be less than 30% of your take-home pay. If you maximise this, you are using most of your borrowing power, limiting opportunities for leveraging into investments.

There is no acceptable limit for bad debts – they are devastating your finances so should be eliminated ASAP.

Total debt repayments including "Good debt" should only be pushed higher than 30% if you have assessed expenses, risks, future changes to income and expenses and have a generous emergency fund saved.

About Aussie Doc Freedom | Aussiedocfreedom.com

I've spent much of my life with my nose in a book – either studying medicine, or learning about finance! I discovered and enthusiastically embraced the financial independence framework as a structure for my tangled ideas around values-based spending, freedom and choice. I am pursuing FI, planning to perform part-time work that I love, and leaving plenty of time to spend enjoying my beautiful boys.

Chapter 3: The Debt Dilemma. Pay it off or invest?

By Ms FireMum, A Family on FIRE | afamilyonfire.com

Deciding whether to pay off debt or invest can be hard. Obviously, both are important, but how do you decide between the two when money is in short supply?

Debt can be a sensitive and stressful topic for most people. The feeling of being saddled with debt can range on a spectrum, ranging from mild uneasiness to soul-crushing despondence. It's no surprise that we feel that way. Most of us are taught that debt is 'bad, shameful, and morally wrong', despite how common it is. But it's not the end of the world. Debt happens, and it's reasonable to want to get rid of it quickly.

"MOST OF US ARE TAUGHT THAT DEBT IS 'BAD, SHAMEFUL, AND MORALLY WRONG', DESPITE HOW COMMON IT IS. BUT IT'S NOT THE END OF THE WORLD"

MS FIREMUM @ A FAMILY ON FIRE
AUSSIE FIRE

While the compulsion to get back into the black is quite reasonable, what you should do with your money is a bit complicated. In some situations, it may be smarter to let your debt sit tight for a while, and invest the cash instead.

In others, it makes sense to pay off your debt ASAP – and this is **almost always the case if you have bad debt**. The interest charged on personal loans, credit cards or overdue buy now, pay later loans is far more than the return you can reliably expect from any investment – and that's before tax!

So if you take nothing else from this chapter, know that **you should always pay off bad debt before you invest**.

The case for paying debt off first

Debt can be a terrible burden on your finances. It can be frustrating to have to commit a portion of your income to repaying debt, leaving less to cover your living expenses.

There are some good reasons to consider eliminating debt before starting your investing journey:

1. Less debt means less interest paid to the bank
2. Getting rid of the debt will free up more cash to save and invest
3. Being #debtfree is a major achievement, which gives you a clean slate to begin your FIRE journey
4. Can be an easy target to achieve, particularly if the debt amount is not high

Let's say you have a personal loan of $10,000 at 15% interest. If you pay the minimum repayment amount of $300 a month towards the loan, you'd fully pay off the loan in 4 years. The total interest you'd pay over that time will amount to $3,017.

If you doubled your repayments, you'd clear the loan in 2 years, saving you $1,733 in interest.

What's more, by clearing your debt first, you're effectively guaranteeing yourself a return on investment equal to the debt interest rate. In the example above, your return on investment would be 15% (after-tax!).

Types of debt

Debts come in all shapes and sizes. In the previous chapter, we explained the difference between good debt and bad debt.

Now let's look at an alternative view of debt - deductible debt, and non-deductible debt.

Deductible debt

Deductible debt is debt used to purchase assets that will generate an income. The Australian Tax Office (ATO) allows you to claim the cost of this debt as a tax deduction. Some examples of income-producing assets are investment property, shares, and managed funds.

In general, deductible debt is used to purchase 'good debt'. A loan against an investment property is considered deductible debt because the investment property can return a rental income. A margin loan to purchase shares or managed funds is also deductible provided that they may return an income via dividends or capital gains.

Unfortunately, a loan to purchase a principal place of residence (PPOR), which is the home you live in, is not deductible. That's because you don't receive an income from your home. However, if you rent out part of your home and receive rental income, a proportion of your home loan may become tax-deductible.

Non-deductible debt

Conversely, non-deductible debt is debt that cannot be claimed as a tax deduction. The ATO classifies this debt as 'personal use' i.e. debt that does not return an income. For example, interest incurred on a personal loan for a holiday or a new car is not tax-deductible. Nor is interest on a credit card used for your everyday spending.

Most 'bad debt' is not tax-deductible as they're often used for non-income producing purposes.

However, if you used a personal loan to purchase shares, it would be deductible. That's because you'll be earning an income from the shares. But with interest rates on personal loans far exceeding the return on shares, it may make more sense to use a different type of loan for the purchase instead!

So what type of debt do I pay off first?

Most financial advisors recommend that you **pay off non-deductible debt first**. That's because non-deductible debt will not give you any tax benefits. Plus, most non-deductible debts tend to depreciate in value - cars, holidays, and the like.

Ideally, you'd start with the ones with the highest interest rates. Most bad debt, like personal loans or credit cards, has much higher interest rates than good debt. At the time of writing the interest on personal loans and credit cards start from 8.99% upwards.

Based on just the interest rate alone, it makes good financial sense to clear bad debt with high-interest rates as quickly as possible before starting on your investment journey.

Common debt reduction strategies

Debt stacking

This method of debt reduction involves listing your debts from the highest interest rate to the lowest interest rate. You then put as much money as you can towards the debt with the highest interest. Once that's paid, you move to the next highest. So on and so forth until all debts are paid.

The stacking method makes the most financial sense. By tackling the loan with the highest interest rate first, you will end up paying less in interest. Minimising the amount of interest you pay is a big win, as it allows you to spend as little as possible to get back on track.

Snowball

With the snowball method, you'd pay off your loans from smallest to largest. The strength of this method is in its ability to let you feel you're conquering your debt mountain one step at a time. Each time you cross a debt off your list, you'll get a huge psychological boost. This, in turn, gives you more confidence in your financial management skills - always handy to have when you're on this FIRE journey.

However, the snowball method may not be the most cost-efficient as debt stacking; particularly if the largest loans are also the ones with the highest interest rate.

What about paying off the loan on my home?

Home loan rates tend to sit around 3-5%. But as we've discussed before, they're not tax-deductible. Though conventional wisdom tells us non-deductible debt should be paid first, some different considerations apply in this case.

Due to the high cost of housing in Australia, loans for property run in the hundreds of thousands of dollars. The average Australian will be paying their home loan over 20-30 years. It can feel like a long, hard slog - and when it's finally paid off, who knows how far the market might have moved in that time. Property also typically appreciates in value over time, which is another point of difference compared to other non-deductible assets.

The question then becomes - is it still worth paying your home loan off, if it means starting the investment journey later?

Benefits to investing sooner rather than later

"Compound interest is the 8th wonder of the world. He who understands it, earns it; he who doesn't, pays it." - Albert Einstein

The biggest benefit of investing sooner is simple: the power of **compounding**.

The compounding effect

Compound interest is simply interest paid on interest. When you invest money, you get a return on your principal over a period of time. Over time, this includes all of the accumulated interest from all previous periods. This compounding effect will make a sum grow at a much faster rate than simple interest, which is calculated only on the initial principal.

The compounding effect is particularly noticeable over long periods of time. In short, the earlier you start investing, the bigger your returns.

Assume you have $300 to invest each month. Your investments earn 7% interest per year. The table below shows how much your investment would have compounded if you had stayed invested over 20 years.

Investment period	You invested	Interest earned	Your final balance
At the end of 10 years	$36,000.00	$16,228.34	$52,228.34

At the end of 15 years	$54,000.00	$41,643.37	$95,643.37
At the end of 20 years	$72,000.00	$85,189.62	$157,189.62

At the end of 10 years, the interest earned is just under half of what you invested. But at the end of year 20, the interest earned is more than what you personally put in.

Such is the power of compounding. This alone is why you should consider investing early, and often.

If you had waited to clear your debt first, you would have missed out on the power of compounding. Using the example above, if it took 5 years to clear your debt before investing, your final balance would have been $95,643.57. That's a reduction of about $61,546.25 just from delaying your investment by a mere five years.

Can you pay off debt and invest at the same time?

Suppose you have some extra money, and you're trying to decide whether you should invest it or pay down your debt. We'll explain how to run a cost-benefit analysis that can help point you in the right direction.

Understanding the after-tax rate of return

The **after-tax rate of return** is the return on an investment after subtracting the effects of taxes.

Almost all investments state their rate of return **before tax**. We need the after-tax rate of return because it is a more accurate measure of performance after the ATO has taken their share.

The after-tax rate of return takes into account your personal marginal tax rate, so it's handy to know this number. The ATO publishes a table that sets out individual income tax rates here:

https://www.ato.gov.au/rates/individual-income-tax-rates/

You could also use the Money Smart calculator to help you work out your tax rate:

https://moneysmart.gov.au/income-tax/income-tax-calculator

Doing a cost-benefit analysis

Theoretically, the smartest thing to do is to compare two numbers:

1. The interest rate you are paying on your debt
2. The after-tax rate of return you expect from your investment

Generally, if the after-tax rate of return is higher than your debt's interest rate, then it would make more sense to invest than paying off the loan.

The formula for calculating your after-tax rate of return is:

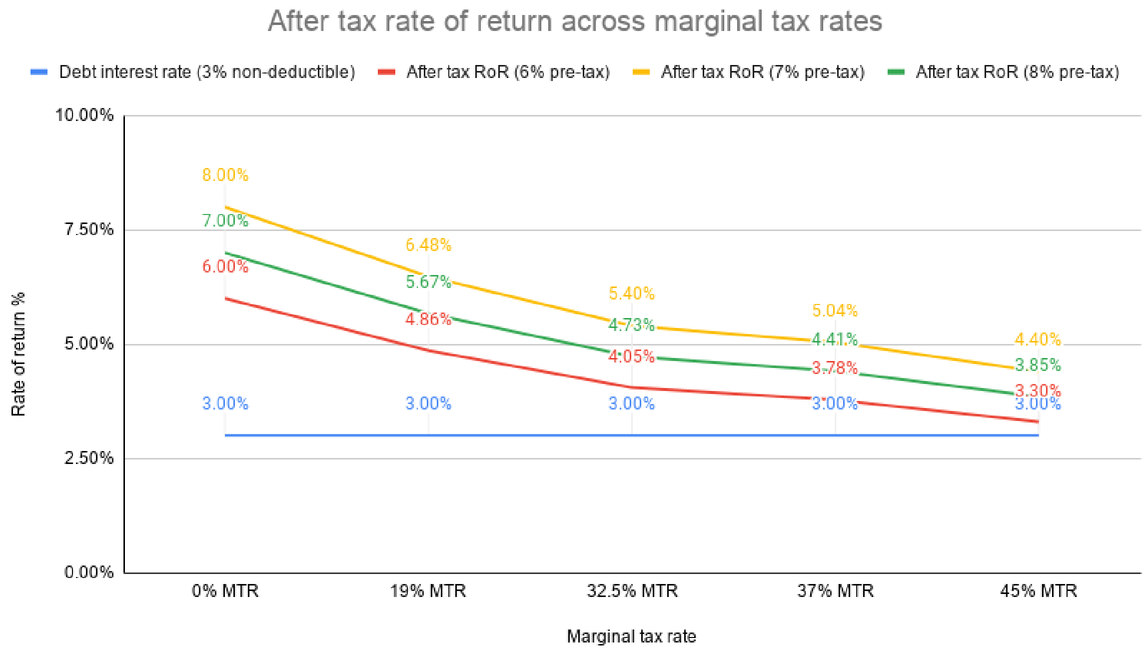
After-tax rate of return = Pre-tax rate of return x (1 - tax rate)

Time for another example: Let's say you're on the 37% marginal tax rate. You have a choice of paying down your home loan at 3%, or making an investment that will return 7% (before tax) annually.

If you decided to invest, you would get an after-tax return of 4.41%. This is calculated as follows:

$$0.07 \times (1 - 0.37) = 0.0441 \text{ or } 4.41\%.$$

Since the after-tax rate of return (4.41%) is higher than your current debt interest rate (3%), you would be better off using the extra funds to invest, rather than pay down your loan.



The chart above shows the relationship between the after-tax rate of return against all the different Australian marginal tax rates. In general, if you're on the lower tax brackets, you'll get a larger after-tax benefit if you invest compared to those on higher tax brackets.

Now you know why accountants typically advise that investments should be made in the name of the lower-income earner (but definitely speak to your accountant to get specific advice for your situation)!

If that's all too complicated, don't fret. Here's a handy calculator to help you work it out. Simply plug in the interest rate on your debt, your expected return on investment, and your marginal tax rate.

https://calcxml.com/calculators/pay-off-debt-or-invest

Working backwards

Calculating minimum rate of return required for non-deductible debt

You can also use the same formula to work out the minimum rate of return (pre-tax) that you would need to make investing worthwhile. Simply flip the formula around like so:

Pre-tax rate of return = After-tax rate of return / (1 - tax rate)

Using the same example as before, your current after-tax rate of return is simply the interest rate for your home loan (3%). This is because your home loan is not deductible and you're paying it with after-tax dollars.

So the minimum return on investment you would need is:

$$0.03 / (1 - 0.37) = 0.0476 \text{ or } 4.76\%$$

In this case, any investment you make will need to be returning at least 4.76% before tax. Anything lower isn't worth considering; you will do much better using excess funds to pay down your existing debt.

Comparing deductible debt against potential investment

Note that the examples above assume you have non-deductible debt. As explained earlier, non-deductible debt is when the debt is personal in nature and does not qualify for a tax deduction.

Comparing deductible debt against a potential investment is much simpler, and does not require any calculation. This is because the interest on your debt is already tax-deductible, paid with pre-tax dollars - and is therefore equal to your pre-tax rate of return.

So if you had an existing investment loan of 3% and wanted to invest in a different asset, you would need to find another investment returning greater than 3% to make it worthwhile.

It's that easy!

There's also an advanced strategy called debt recycling, where you can turn non-deductible debt (such as your home loan) into deductible debt. We'll cover this in a bit more detail in Chapter 19 - Fuel for the FIRE - Leverage.

The element of uncertainty

Whilst we've covered the logical side of things, there's an element we cannot discount: Our emotions.

Risk tolerance

Behavioural economics go into a lot of depth on the relationship between human behaviour and risk tolerance.

When people are exposed to uncertainty, they exhibit one of two behaviours. Risk seekers are willing to take a punt on an uncertain outcome. Those who are risk-averse prefer to take on a sure shot.

Your risk tolerance can be a factor in your decision to pay off your loan or invest.

There is no guarantee that if you invest, you'll get that magical 7% returns. Past performance is not an indicator of future performance. Even if the data shows us that over the long term, 7% return in a well-diversified balanced portfolio is possible, it may or may not turn out the case in the future.

So what will you choose when faced between paying off your loan (which is a known quantity, and largely under your control), and the possibility of a higher investment return?

Some people just feel more comfortable taking the safe option. They might prefer being debt-free. They don't want the additional burden of debt over their head. And that's perfectly okay! If your debt is affecting your peace of mind, then perhaps you might prioritise getting rid of the debt completely.

If you're generally risk-averse, you shouldn't feel obligated to weigh any factor in this decision any more than what makes you sleep better at night. After all, you need to be able to live with your decision. Don't be afraid to prioritise paying debt off even if the numbers are in favour of investing. This could be one of those rare situations where money can buy happiness.

But if you find yourself being ambivalent about both options, then run the numbers, and see what comes up. The answer may very well lie in the math.

A very personal decision

Ultimately the decision boils down to a simple variable - you. Your decision has to factor in three things:

1. What's important to you
2. How likely you are to stick with that decision
3. What lets you sleep well at night

No matter which path you choose, you should eventually get to the end-game, which is to have zero debt, and an abundance of quality investments that give you the means to retire early. With some effort and a bit of patience, FIRE is a goal that you can achieve.

> **"NO MATTER WHICH PATH YOU CHOOSE, YOU SHOULD EVENTUALLY GET TO THE END-GAME... WITH SOME EFFORT AND A BIT OF PATIENCE, FIRE IS A GOAL THAT YOU CAN ACHIEVE"**
>
> MS FIREMUM @ A FAMILY ON FIRE
> AUSSIE FIRE

About Ms FireMum from A Family on FIRE | afamilyonfire.com

a family on FIRE

Hi, I'm Ms FireMum. My husband and I are seasoned investors, having started our investing journey early in life, but we've only recently discovered FIRE! So we're now on a mission to turbocharge our nest egg and achieve financial independence by our mid-40s. I write about our journey at A Family on FIRE – with stories on being frugal, saving, and investing - all while bringing kids along for the ride!

Chapter 4: Dealing with debt emergencies

By Kylie Travers, The Thrifty Issue | thethriftyissue.com.au

Debt can feel overwhelming at times, especially when other emergencies crop up such as job loss or illness.

Whether you are one step away from bankruptcy or simply realising you want your credit card cleared, there are numerous things you can do to clear it faster, deal with debt collectors without stress and get your finances back on track.

This chapter provides good context and checklists, but if you are currently in a genuine financial crisis, we recommend you reach out to Financial Counsellors Australia immediately.

Financial counselling is free for all Australians and if you are facing financial hardship it is the best resource you can seek out.

This chapter covers two of the most critical points to consider debt emergencies:

1. How to deal with debt collectors
2. How to clear debt

And should be used in conjunction with the help of a Financial Counsellor, not as a replacement for one.

How to deal with debt collectors

Debt collectors want their money; it's as simple as that. What many don't know is they will accept lower amounts if you can offer a lump sum. Instead of avoiding debt collectors, use these tips from debt collectors, including my own father.

"DEBT COLLECTORS WANT THEIR MONEY; IT'S AS SIMPLE AS THAT. WHAT MANY DON'T KNOW IS THEY WILL ACCEPT LOWER AMOUNTS IF YOU CAN OFFER A LUMP SUM"

KYLIE @ THE THRIFTY ISSUE
AUSSIE FIRE

1. **Get your paperwork in order**

   Find all the paperwork outlining how much you owe and to whom. Read through it carefully so you know the amounts and can easily negotiate when you speak with debt collectors. It might help to highlight the amount, the interest, and due dates so you can easily refer to them at a glance.

2. Talk to them

Stop avoiding the phone calls. Answer them and if you have your paperwork ready at the time, start negotiations. If they call at an inconvenient time, still answer, tell them you do want to discuss it and can they please call at x time when you are available and will have all the paperwork there to discuss the payments or offer to call them. Then be sure to answer the phone at the agreed time.

Be calm when you speak with them, clear, concise and firm. They may push for you to do something now but if you remain calm and repeat "I need to have my paperwork for us to discuss this, please call back at x time" they will have to accept it. Do not say more or try to explain your situation too much. They are trained to get around your excuses so keep your answers short and stick to repeating the facts when you can discuss and why.

3. Negotiate

There is a lot of room for negotiations when it comes to debt collectors. In fact, you can often get 30 - 50% off the debt if you are able to offer a full payment. Ask them what the lowest amount is if you can pay today. Then ask if that amount is truly the lowest or offer something lower than what they did.

The older the debt is, the more likely they are to accept a smaller payment from you. If they simply will not budge, say "That's ok. I will have to go on a payment plan then." Only agree to small repayments and they are likely to be more negotiable on the lump sum offer.

If you don't have a lump sum available, you can go on a payment plan. See step 5.

4. Make an immediate payment if possible

Whether you have a full amount available or will be asking for a payment plan, if you are able to pay anything at all on the day, this will help. It is viewed as a gesture of goodwill, shows you are willing to pay off the debt and are going to work with them. However, do not pay more than you can afford.

5. **Arrange a payment plan if you don't have a lump sum**

   Without a lump sum to offer, you still have options and can still possibly negotiate a lower amount. Discuss a payment plan you can afford, based on your finances and do not let them bully you into paying more. Specifically state you are in financial hardship. This ensures they legally have to consider a payment plan.

   Stay calm, reiterate what you can afford and why. For example, someone I know had thousands of dollars owing but lost their job. She offered $10 a week as that was all she could afford and they accepted it. Later, when she got a job and saved a little, she rang and discussed paying a reduced lump sum, which they accepted.

   They will push for more but be firm. Some money is better than no money so if you keep stating what you can afford and why it will not be more, without deviating from those statements, they will have to accept it.

6. **Get written proof it is finalised**

   Make sure you are emailed a statement from them outlining the date, what was paid, that the debt is cleared and no more money is owed. Essentially, a final statement. Ask them to do it while you are on the phone and get a receipt number as proof of the phone call. Write down the time, date, who you spoke to, and what you paid for your own records as well.
   They should also mark the debt as paid or settled on your credit report.

7. **Request it be removed from your credit file**

   By paying the debt in full, you can request a goodwill deletion or adjustment. This means the overdue debt can potentially be removed from your credit file. It cannot always be done but if you have an otherwise good credit history, there is room for adjustments to help increase your credit score and clean your credit file.

How to clear debt

Clearing debt enables you to use more of your money to save and invest in your future. The quicker you clear it, the more you save on interest, fees, and charges. To do this, you need to create a plan of action and know what you are dealing with. I am going to assume you have a budget or are using the tips in this book to create a budget. Once you have a budget, create your plan for debt.

Gather the information on all your debts. How much you owe, where you owe it, what the repayments are, and what the interest rates and charges are. Doing this can be overwhelming but getting it out in the open will help you pay it off.

Now you know what you owe, you can create your plan.

1. Have an emergency fund

Get $2,000 into an account to use for emergencies so you stop using your credit card or debt to pay for those emergencies. Only use this money for real emergencies. Anything which would be a normal expense such as an electricity bill, car service, new tyres, etc. should be budgeted for in your regular budget.

2. Get the family on board

If you have joint finances with your partner, you'll need them on board with paying off debt and changing your habits. Make a time to sit down and discuss your money, going through these steps, and creating the plan together.

3. Commit to stop using debt

Make a commitment to yourself to stop using credit cards, personal loans, Afterpay, and any other credit service as you pay off debt. Credit cards can be a great financial tool when used correctly. However, if you aren't paying them off each month and have debt, they are not great for you.

Making this commitment is an important step to break those habits. Along with this, learn delayed gratification. If there is something you really want to buy or feel you need, put it on a list. At the end of 30 days if you still want or need it, consider working it into your budget and save for it but do not allow yourself to put it on debt. This will go a long way in helping you change your spending habits.

4. Negotiate and get a better deal

Call and ask to reduce interest rates, waive fees, or see what else they can offer. If your credit is good and you have enough income, it might be worth looking to switch your debts. For example, if you have a credit card, there are numerous 0% balance transfer offers. By switching, you will be able to pay 0% interest but be sure to close your old credit card once you switch and do not add any more debt.

Be aware, if you choose to do this, every application you make will go on your credit history which can make it harder to get a mortgage or similar later.

5. Decide which to clear first

Firstly, keep the minimum repayments up on all debts so you don't fall behind. Then choose which debt you are going to focus on to clear first. There are two commonly used methods for clearing debt - a debt snowball and a debt avalanche.

The debt snowball is where you pay the smallest debt first. Any extra money you get to pay off debt goes to this debt to clear it first. Once that debt is paid off, you put the money you were using for that debt onto the next smallest debt and so on until all debts are clear. Most prefer this method as clearing a small debt quickly provides a psychological boost and motivation to continue paying off debt.

The debt avalanche is where you pay the debt with the highest interest rate off first. Again, any extra money you have for debt is paid off this debt. Once it is clear, you take all the extra money and the minimum repayment you were making on this debt and put it on the debt with the next highest interest rate.

With this method, you save more money because you pay less interest by clearing the more expensive debts first. However, for some, if the debts are large it can feel as if you are never going to pay the debt off. It comes down to which method you are most motivated by and will stick to.

6. Find motivators

Join groups where people are clearing their debt so you can support each other, follow people paying off their debt and sharing tips on social media, and surround yourself with like-minded people. People in these groups love sharing tips and showing when they have paid off a debt. They are super supportive and it can help you stay on track. You'll also be able to read and learn about their journey paying off debt which can be motivating.

Consider printing charts to colour in as you clear your debt. Debt Free Charts have a wide selection of charts you can print for free for anything from credit card debt to saving for a house deposit.

7. Overhaul your expenses

When was the last time you reviewed your insurance? Electricity, gas, internet, mobiles and all other expenses? Write down all your expenses then compare each one to see if you can get a better deal. With insurance, too many people simply pay the renewal fee annually. Most of the time, if you get a fresh quote or compare online, you can save hundreds on your insurance instead of paying the renewal.

Once you have compared and are sure you are on the right deal for you with all your providers, look at ways you can cut back. Try reducing the amount of meat you eat, planning your meals, shopping with a list, and cooking in bulk to save on groceries. Consider refinancing your home loan to get a lower interest rate or move to save money on rent if you can. Check your subscriptions to see if you are paying for services you no longer use.
By reviewing all your expenses, you'll be able to know how much you can throw at debt and how much more you need to make to clear it faster.

8. **Find ways to make more money**

   There are only so many ways you can cut back on your spending. By all means, do a complete overhaul of your budget, review all your expenses and see where you can cut back to use that money for paying off debt. Then, shift your focus to making more money.

   We are fortunate to live now when there are so many ways to make money on the side, many without much effort and which can be done at the same time as each other. Work out how much time you have, what you are comfortable doing, and search for ways to make money.

   Some of my favourites have been renting out my garage for $50 a week on Spacer. Renting out a spare room either to boarders or on Airbnb. One Christmas when we went away, I rented my tiny 2 bedroom apartment for $1,300 for 5 days. Another time, in the middle of winter I rented it out for $600. Freelance writing, blogging, and consulting have turned into full-time incomes for me.

   Sell off anything you can, consider buying things to resell or selling for others. Look at sites such as Airtasker for odd jobs available you could do. Offer domestic services such as ironing, cleaning, babysitting, pet sitting, yard work, etc. Anything you can do to bring in money and clear your debt faster. I tracked my side hustles one year and made $33,277.57 in 12 months with very little effort.

9. **Utilise lump sums**

   Use that tax return, bonus from work, or any other unexpected money to pay the debt off faster. If you want to treat yourself with it, set a limit for that but try to put as much as you can on debt. Lump sums make it much easier to reduce your debt and free up your money.

One final note on debt, there are financial counsellors available to help you with your finances. Most charities have this option available as do some churches. If you need help sorting out your debt, negotiating with your debtors and working out what to do, a financial counsellor is a great help.

About Kylie Travers from The Thrifty Issue | thethriftyissue.com.au

Kylie Travers owns The Thrifty Issue which aims to empower Aussie mums through financial independence. Having gone from homeless single mum on Centrelink to multiple international award-winning CEO she shares all her tips to help other Aussies make the most of their money. Kylie has won numerous international awards including Best International Personal Finance Blog and been a finalist for Young Australian of the Year because of her work.

Chapter 5: Get perspective - A tale of two spenders

By Mrs Hack, Sustainable Living | sustainable-living.blog

What does it take to blow $10,000 a year?

Just $27.50 a day in miscellaneous spending.

Let me tell you a story of two people. They live in the same town. Both are married and have two children. As a family, each has the same combined income. Yet, one family is far wealthier than the other.

> **"WHAT DOES IT TAKE TO BLOW $10,000 A YEAR? JUST $27.50 A DAY IN MISCELLANEOUS SPENDING."**

MRS HACK @ SUSTAINABLE LIVING
AUSSIE FIRE

Wealth accumulation was not from winning the lottery or receiving an inheritance. It wasn't due to socio-economic privilege, better education, or an amazing side hustle. It purely came down to life choices.

Our story begins by introducing the protagonists: Sally and Laura. They are both the heroes of their own journey. There is no overt enemy to give the tale a peak of excitement. The call to adventure is subdued, perhaps barely noticed by others. The approach to the story climax is slow, even simmering. There will be no bells and whistles to announce to the world a successful outcome. In fact, to the broader population, our true hero seems just like any other everyday person.

However, only one of our protagonists will reach the holy grail of reward. In this story the prize is financial sustainability. The other will wonder why they are always broke and life is a constant financial struggle, despite earning a decent income.

The day begins the same as every day for both Sally and Laura. The alarm on their smartphone wakes them in their respective houses at precisely 7 am. The children are already awake and can be heard arguing from their bedroom. Traffic noises hum past the houses as the birds delight in the new day with cheerful chirping.

Let us start our story with Sally. She rolls over in bed and checks she turned off the electric blanket last night. Her Google Nest gives her a rundown of the day ahead:

the weather, the traffic, her scheduled workout at the local gym, and a reminder to book in her next hair colour at the salon.

She starts the day cursing. There's been a traffic accident that's blocked the fastest route to work. Time to get ready for work is now at a premium.

Sally goes to the kitchen and as a habit presses the remote control to enjoy her new purchase. She's pleased she recently bought a TV on a payment plan through the store. They even gave her a bargain price on a new toaster, kettle, and sandwich press. She didn't actually need to replace those items but they really gave the kitchen a lift.

Realising there's no time to watch TV, Sally turns it off and selects a motivating track from Spotify using her phone and the Wi-Fi connected speakers. As her phone was a year old, she upgraded to the latest model on a 24 month plan which meant no upfront payment. All up it was only going to cost $80 per month.

Looking in the fridge, Sally notices they are out of ham. Toasties are out for this morning. Milk is in short supply too so that means no cereal. She makes a mental note to buy more Kellogg's gluten-free cereal. Sally isn't gluten intolerant; however, she did see an advertisement that told her why gluten-free was better for you.

To save time and due to the lack of food at home, Sally decides to buy breakfast for her and the kids on the way to school and work.

Yelling at the kids to hurry up, Sally quickly throws in their lunch boxes packets of chips, crackers, roll-ups, a container of jelly with a plastic spoon. Fruit, the kids need fruit. She grabs a little tub of peaches in juice for each of the kids. There's no need to worry about packing her lunch as there's a really nice café near the office and the staff knows her food preferences – it's so much easier to buy lunch.

Sally and the kids rush to the car, mindful about having to go the long way this morning. It's such a nuisance that the 3km journey is now going to be extended.

The car isn't looking as clean as Sally would like so she decides that after work they'll go through the car wash. It's important to keep the car in good condition as she's hoping to trade it in for a newer model soon. Her current car is still under finance but she's not concerned. The car yard will come up with another loan arrangement for her. Maybe her husband could upgrade his car at the same time.

Grabbing their breakfast from the drive-through, Sally drops the kids off at school, gets to work, and scrambles for the coins to pay for car parking. It's been such a stressful morning that Sally grabs a latte at the café (and a bottle of water for later). She then lights up a cigarette to help her relax on the way to the office.

As you can see, Sally's morning is much is like the morning of most people. She does all the normal things like getting the kids to school and then going to work.

So let's compare Sally's morning to Laura's morning and really focus on the differences.

Laura's alarm on her phone wakes her up, just like Sally. Except Laura has an older phone that she paid around $200 cash, and her plan is prepaid. She gets all the same call, text and data allowances as Sally – but for $25 per month.

Sleep was deep and satisfying. The second-hand blankets her friend was going to throw out were not only warm but heavy and comforting as well (her friend was buying an electric blanket and didn't need the woollen blankets any more).

Laura got up and flicked the power points on – there was no point wasting money on stand-by power when not using appliances. She turns on the radio she's had since her teenage years and listens to the weather report. At that moment the boarder wakes up. She enjoys the company of another person in the house, plus his rent helps to cover the mortgage payment and bills.

The boarder, Laura and her husband talk about how much cheaper the power bill was last month after changing all the lights over to LEDs. This was on top of the noticeable difference in the electricity and gas bills from getting the best provider deal in their area.

Then Laura notices the kids have left the light on in their bedroom and reminds them, yet again, to turn lights off when they leave the room.

They all sit down to breakfast and enjoy eggs from the chickens, fresh bread made in a second-hand bread machine, and no name cereal. Laura doesn't understand why people pay premium prices for brand name items when generic items taste just as good. Or why people buy expensive gluten-free food if it's not a dietary requirement. It's unusual to find ham in the house as they eat very little meat due to the cost. There's plenty of quality fresh vegetarian produce available at a cheaper price.

Getting food ready for work and school has been streamlined. A large tray of slice was made on the weekend and frozen. Laura packs lunch boxes with frozen slice (which will defrost in time to eat), fresh fruit and cut up veggie sticks in a reusable container.

Lunch for the kids is usually a sandwich wrapped in a napkin and put into another reusable container. Water bottles are filled. Milky lattes for the adults are made on the stovetop and put into thermoses for later. Laura and her husband's own lunches are dinner leftovers.

Bike helmets are grabbed, backpacks put on and the family head off on their bicycles. They have a family rule for any distance less than 5km that they should ride bikes – this not only saves them money but also provides free exercise.

Laura's bike was a score. It was yet another discarded item left at the waste transfer station even though there was nothing wrong with it. Her husband got his bike for a bargain through a second-hand trading site.

Contrary to appearances, they do have a car for rainy days and long distances. It's an older yet still reliable car they paid cash for many years ago. As the car is getting on in age and they don't drive it much, it makes the insurance premiums cheaper. Also, there's no car loan repayments.

The ride to school drop off and work was refreshing and invigorating. Laura heard on the radio about traffic delays due to a car accident. Whilst she felt empathy for those hurt, she was thankful that it didn't affect her getting to work as she was riding her bike. Another bonus to riding was that Laura didn't have to pay for parking on arrival at her job.

Walking to the office, she got her latte from her backpack and took a sip making sure to avoid the frazzled looking woman trying to smoke a cigarette and hold a plastic water bottle and disposable coffee cup all at the same time.

The differences in lifestyle choices between Sally and Laura are stark. Both trajectories have long-lasting financial and environmental impacts whether they be for good or bad. For example, whilst at work both women notice a small hole in their top. Sally is upset that her brand name clothing isn't lasting and goes out to by another brand name top (she might even find some other new season clothing she would like to purchase). Meanwhile, Laura wonders if she has the coloured thread at home to repair the hole in her top before it gets any bigger. In this case, who is spending less money and who is creating less environmental waste?

Back to Sally, she's now finished work for the day and drives 1km to do a quick workout at the local gym where she has a membership. She just adores her Nike bag and is considering buying protein powder.

Sally picks up the kids from after school care and realises she still needs to grab some breakfast items from the supermarket. Off she goes. Everyone is hungry by now so they impulse buy some snacks to get through to dinner time. The kids are complaining they're thirsty and Sally gets them a bottle of fizzy drink each (she also gets another packet of cigarettes).

Arriving home, Sally checks the letterbox and puts the magazine she subscribes to in her bag. There are some bills there too that she'll attend to later.

As she loads the groceries into the fridge, Sally notices a nasty smell. Searching through the fridge contents she discovers some food has gone bad. Oh well, it happens all the time and she throws the whole lot in the landfill bin.

Feeling exhausted, Sally decides to buy delivered pizza. She also orders a dessert. It wasn't her intention to buy something sweet, however, the photo of it looked so good on their website when she was ordering.

Beyond tired, she collapses on the designer leather couch, turns on the TV yet can't decide between watching Netflix or Stan, and wishes she could go on an overseas holiday. She turns to her husband and they talk about getting the limit on their credit card extended.

Now, over to Laura. Her workday is done and she rides her bike to her friend's house. They have an arrangement where they look after each other's kids. This arrangement doesn't involve money. When she's there she gets a text from the library that her favourite magazine is available to pick up – this is, of course, a free service. And then she notices an email about a bill to pay. Laura made sure all her bills were electronic to avoid paying the extra charges for paper bills.

The bill is for their house insurance. She's happy with the amount as every year she shops around for the best deal and makes sure she gets the 'new customer discount'.

Laura gets home and makes the kids a snack of homemade popcorn. It's such an economical food to make as ¼ cup of kernels makes an enormous bowl of popcorn. She doesn't use a popcorn machine, but instead a saucepan and lid.

Whilst the kids are having their snack, Laura does a quick workout at home using weights. Sometimes she gets onto YouTube and does a free workout.

As Laura's family does meal planning and shops once a week, they don't run out of food unnecessarily. This avoids going to the shop multiple times or impulse buying. They are also mindful not to waste food, and put whatever household rubbish they have into the right bins.

Because they did away with single-use items such as cling wrap, paper towel and tissues, they now have less waste. This had the flow-on effect of being able to get a smaller cheaper landfill bin from their local council.

After dinner, the adults crack open a homemade cider. Laura quickly mends the hole in her top, whilst her husband starts watching a new series on catch-up TV (a free service).

They turn to each other to discuss where to go for their next holiday. In summer, they camped at a national park at the beach. Maybe for the autumn break, they could go back to that campsite by a large lake in the mountains. Their camping trips are so cheap they have no need to put it on a credit card. In fact, they don't have a credit card at all.

As Laura and her husband go to bed, they turn off appliances at the power point and snuggle under their heavy blankets to keep warm.

Now our two protagonists are fast asleep, who do you think is the true hero of our story? If the Holy Grail is the reward of financial sustainability, is it Sally or Laura who earns the cup?

Let's look at all the ways Sally and her family spend money and ask yourself – was it really necessary? Did it improve her life? Was she able to save and invest money? How does it impact the environment?

Here's the rundown of Sally's expenses for the day: there's debt for new appliances, the car loan and credit card; they buy processed packaged food, take away food and drinks; there's no meal planning; groceries are brand name, fad foods and impulse purchases; she has the latest technology at premium prices; they take the car for short distances and pay for car washing and parking; there's a gym membership and regular expensive hairdresser appointments; plus, designer furniture, cigarettes and holidays on credit. Oh, did I mention the subscription services of Spotify, Netflix, Stan and magazines…

Hmmm, so far our protagonist is not doing so well. Even if Sally and her husband stopped wasting money, could they do even better?

Back to Laura. What is Laura doing that Sally is not? Apart from everything previously listed, THERE'S MORE.

Laura doesn't waste money on standby power, costly plans with electricity, gas or insurance providers; bills are all received electronically to avoid extra fees; they use low wattage items like light globes; their appliances are either good quality older items or second hand; they don't need the latest technology or expensive phone plans; whenever possible they ride bikes rather than drive; their holidays are within their budgeted means; they repair items, rather than throw away and buy new; single-use items are rarely purchased; they eat little meat, opting for a more vegetarian diet; and, they have a boarder whose rent helps to pay the mortgage and bills.

So, what does it take to blow $10,000 a year? Just $27.50 a day in miscellaneous spending. Without a doubt, Sally blows more than $27.50 a day.

Would you rather be like Sally or Laura?

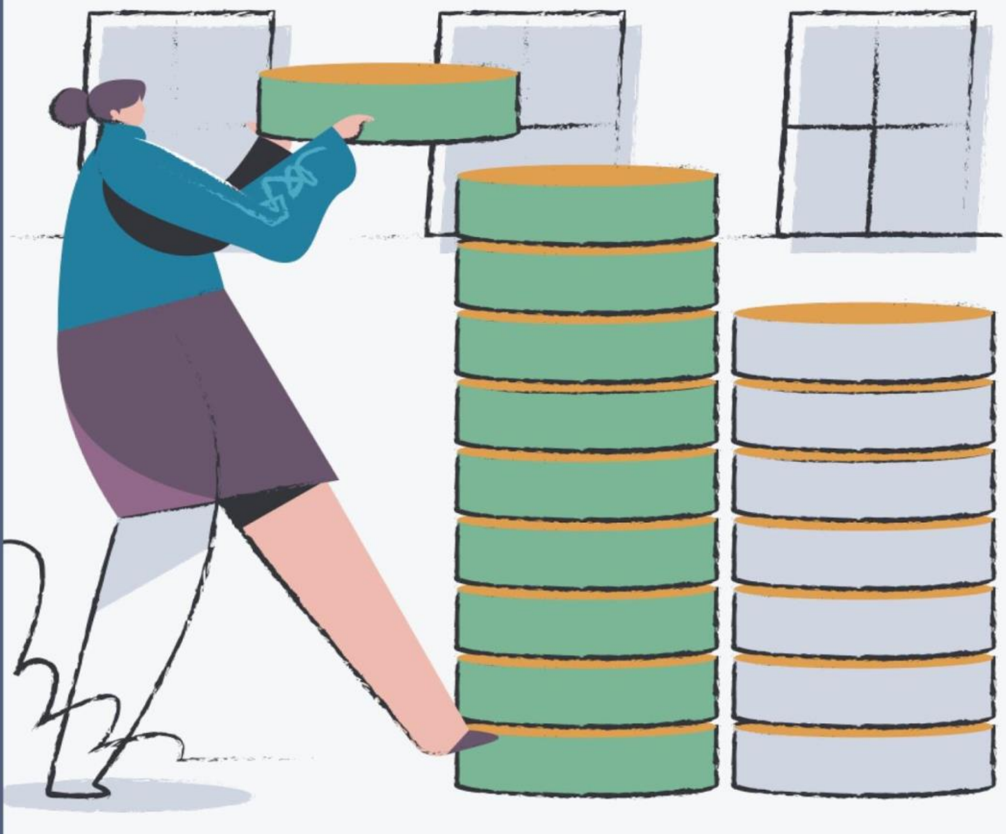
About Mrs Hack from Sustainable Living | sustainable-living.blog

Sustainable Living is a website dedicated to eco-friendly and frugal living as a path to financial independence. Mrs Hack, aka @CashHippyAU, is a school teacher, mum to six children and lives in NE Victoria. She's also what you'd call a 'late starter' to FI. Living frugally, saving and investing is what is going to save her and her husband from being broke pensioners, and instead be absolutely fabulous self-funded retirees when they decide they are ready to retire.

pearler. | A COMMUNITY COLLABORATION PROJECT

AUSSIE FIRE

PART 2: STACK YOUR FIRE



Chapter 6: Focus on savings before earnings

By Aussie Firebug | aussiefirebug.com

"A dollar saved is better than a dollar earned"

We've all heard that one before. The ability to save more than you earn is a fundamental principle upon which FIRE is built.

Hands-down the most important step for reaching FIRE is how much of your paycheck you can keep and invest.

You cannot earn/invest your way out of bad money habits. It will eventually catch up with you no matter how much money you make. If you're spending more than you earn, you're going to be broke. It's just simple mathematics!

> **"YOU CANNOT EARN/INVEST YOUR WAY OUT OF BAD MONEY HABITS. IT WILL EVENTUALLY CATCH UP WITH YOU NO MATTER HOW MUCH MONEY YOU MAKE. IF YOU'RE SPENDING MORE THAN YOU EARN, YOU'RE GOING TO BE BROKE"**

It's sort of the equivalent of trying to outwork a bad diet and expect results in the gym. In fact, there are so many parallels between good financial habits and being fit and healthy it's uncanny. Most health/fitness experts would agree that your diet probably plays the biggest role in keeping your body happy. The other two major players would most likely be exercise and sleep. If you're nailing all three of those, there's a pretty good chance your body is feeling awesome.

Savings is to FIRE, what eating the right foods is to living a healthy lifestyle.

And if we follow this little analogy a bit further we might conclude that...earning money in FIRE is equivalent to or around the same level of importance as exercise when it comes to health and fitness. And maybe we can put getting a good night's rest at the level of investing.

It's not a perfect one for one comparison but it makes for a good metaphor so let's keep rolling with it.

I'd wager that 90% of FIRE content is either about saving money or investing. But we seldom read how to earn more money even though it has astronomical benefits when implemented correctly. It's true that FIRE is income agnostic, two people with a savings rate of 65% will both reach FIRE in around 10 years even if one earns $60K and the other $400K.

But there comes a point of diminishing returns for both saving money and investing.

The purpose of this article is to explain how beneficial it is to spend more time and energy increasing the amount of $$$ that flow into your accounts. Anyone who is on this path is already doing some form of exercise (earning money) but if you can look past your standard crunches and pushups you'll discover there are gymnasiums out there filled with weird and wonderful machines that provide all types of workouts. And when you combine a great diet with a dialled-in training routine that works best for you, the *gainz* can be off the charts.

BFYB Factor

The aim here is to illustrate just how much of an impact increasing your income (even a tiny bit!) can have on your journey towards FIRE.

Let's try and apply the same metric to the three most important focus areas IMHO when it comes to reaching FIRE.

- Save more than you earn
- Increase how much you earn
- Invest your savings

We'll call the metric BFYB (bang for your buck).

BFYB = The amount of effort required to improve a focus area

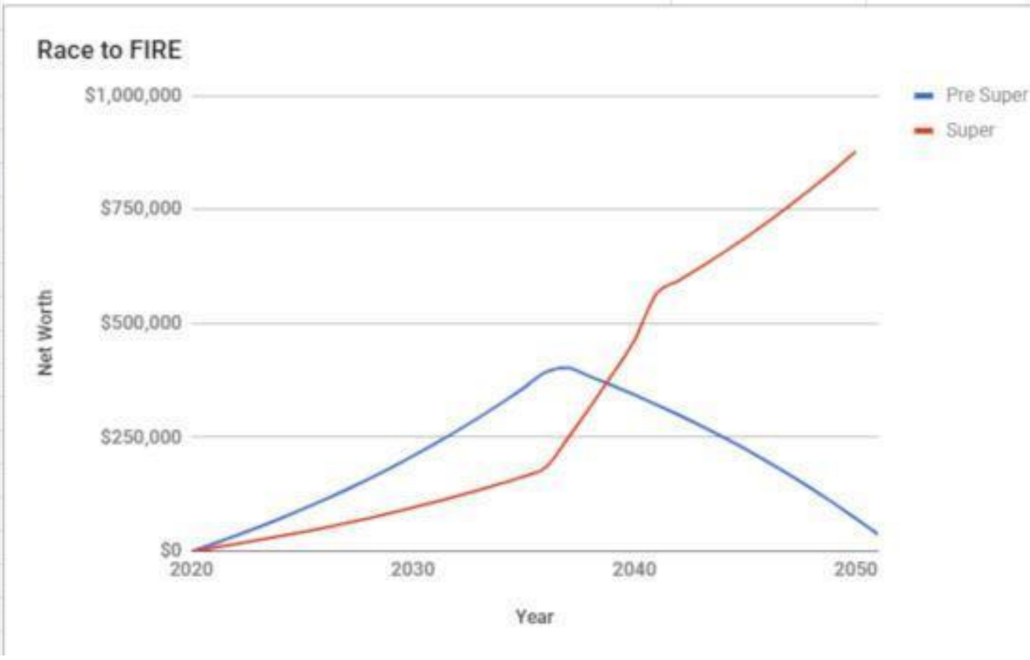
Let's look at our first focus area (save more than you earn) and re-establish why it has the best BFYB value.

Increasing Your Savings Rate

Using [The Australian Financial Independence Calculator]() we can plug in Joe Smith's journey towards FIRE starting from $0.

We're assuming he is a single 30-year-old Sparky from Brisbane who owns his 3 bedroom home (no mortgage), works 38-40 hours a week, doesn't have kids and all the below numbers stay constant over the next 30 years to make the modelling super simple.

D.O.B	1-January-1990
Current net worth excluding Super and any equity in your home	$0
How much do you currently have in Super?	$0
Super Guarantee from Employer	9.50%
Growth rate of investments that make up your net worth %	8.00%
Estimated inflation rate %	3.00%
Household income earned pre tax per year	$80,000
Household income earned post tax per year	$55,383
How much post tax money can you save each year?	**$16,615**
Savings Rate	30.00%
How long in years will it take you to reach FIRE?	21.24
What year will it be when I reach FIRE?	2041

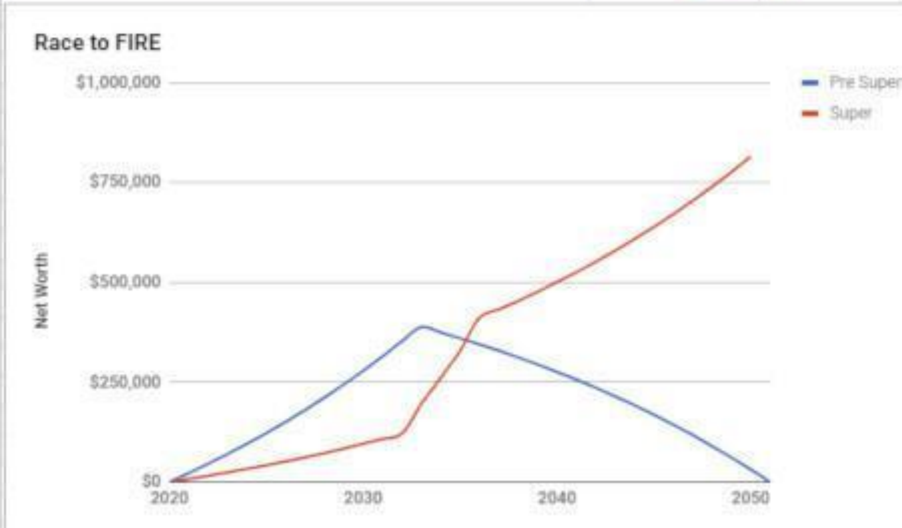


Ok, so an Australian who earns $80K with a savings rate of 30% can retire in 21.2 years. Not too shabby.

A 30% savings rate is already way above the average but let's just assume Joe, whilst obviously a diligent saver already, is living a pretty normal consumerist 21st-century lifestyle with a heap more fat to cut. I don't think it's unrealistic or even that hard for him to go from a 30% savings rate to 40% given his circumstances above. The difference between 30%-40% is $5,538 a year or $106 week. I would almost guarantee that 90% of Australians spend more than $106 dollars a week on things they don't need or even want half the time (myself included). Optimising big-ticket items like housing, transport and food would almost certainly save a whole lot more than the $106 a week we require for this example.

Anyway, if we bump the savings rate up to 40% we wipe off 4.5 years!

D.O.B	1-January-1990
Current net worth excluding Super and any equity in your home	$0
How much do you currently have in Super?	$0
Super Guarantee from Employer	9.50%
Growth rate of investments that make up your net worth %	8.00%
Estimated inflation rate %	3.00%
Household income earned pre tax per year	$80,000
Household income earned post tax per year	$55,383
How much post tax money can you save each year?	**$22,153**
Savings Rate	40.00%
How long in years will it take you to reach FIRE?	16.79
What year will it be when I reach FIRE?	2037



BFYB: Great

Everyone's circumstances will vary but the effort required in my guesstimation for Joe to increase his savings rate 30% to 40% is rather small and the BFYB is high.

This is what we want. Low effort, high reward.

And it's why focusing on your savings rate is absolutely the best way to decrease the amount of time towards FIRE... up to a certain point.

There comes a point of diminishing returns where focusing on your savings rate will not yield a good BFYB and the hard part is that it's different for everyone because of circumstances. I can only speak for ourselves but this is what our savings rate BFYB chart looks like:

Currently, we can pretty much save close to 40% of our after-tax income without breaking a sweat. That means no sacrifice or comprising on anything. The effort for us to save 40% is almost the exact same as saving 10%. But the effort required to maintain a savings rate of >60% is when things start to change. For us to optimise our lifestyle further and squeeze out a few more percentages is astronomically harder to do when we start to get around the 65%-75%+ range. Don't get me wrong, we could do it. And that would speed up our journey to FIRE... but at what cost?

If I can draw from our earlier metaphor of our savings rate being similar to a diet, we could say that cutting out junk food during Monday-Friday and making sure you eat some sort of leafy greens every day is a realistic goal with huge health benefits. But if we tried to never drink alcohol or eat Macca's ever again, firstly we might be setting ourselves up for failure and secondly, whilst being the healthy option, it's not going to have as big of a health benefit as the first goal. There are diminishing returns for eating healthy just like there are diminishing returns for improving your savings rate.

"Increasing your income has a direct correlation with your savings rate"

AUSSIE FIREBUG
AUSSIE FIRE

Increasing Your Income

This is the focus area that doesn't get enough attention.

Increasing your income has a direct correlation with your savings rate but for whatever reason, a lot of people never put in the time and effort to improve it. There's so much low hanging fruit that doesn't really require a whole lot of effort but has a high BFYB value.

D.O.B	1-January-1990
Current net worth excluding Super and any equity in your home	$0
How much do you currently have in Super?	$0
Super Guarantee from Employer	9.50%
Growth rate of investments that make up your net worth %	8.00%
Estimated inflation rate %	3.00%
Household income earned pre tax per year	$80,000
Household income earned post tax per year	$60,921
How much post tax money can you save each year?	**$22,153**
Savings Rate	36.36%
How long in years will it take you to reach FIRE?	18.55
What year will it be when I reach FIRE?	2039

Let's look back at Joe Smith from above but change one thing. Instead of him saving $5,538 a year, let's have him earn an extra $5,538 (after tax) a year and see what happens. Joe increased his after-tax income by $5,538 which in turn wiped off 2.7 years!

BFYB: Really good

We're going to be talking about the low hanging fruit later on but if I'm being honest, Joe could easily make an extra $5,538 (after tax) purely from giving up more of his time. If we assume he's making an after-tax hourly rate of $28, he would only need to put in an extra 197 hours worth of work over the year. And that's not even factoring in overtime or weekend rates. An extra hour for 197 working days a year is really not that much.

Some of the stories I've heard first hand from young London bankers are absolutely mind-boggling. Think 70-80 hours per week... and work on weekends is to be expected!

2.7 years is not as good as our savings example above which wiped out 4.5. But if we combined them, we get epic results!

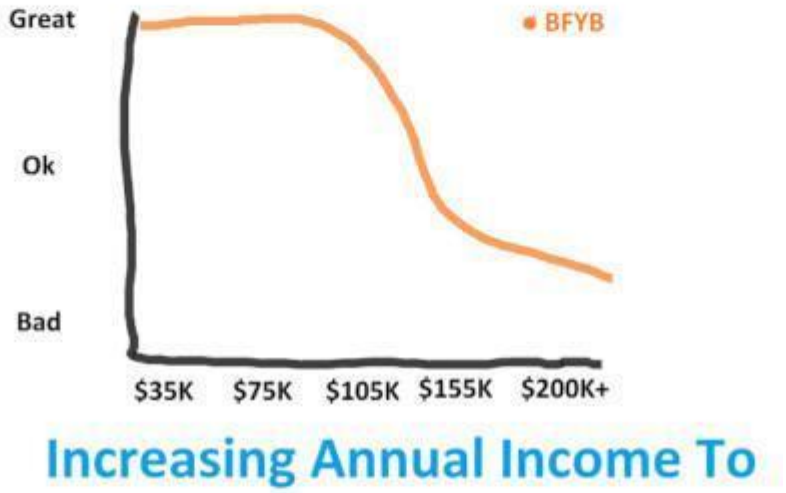
D.O.B	1-January-1990
Current net worth excluding Super and any equity in your home	$0
How much do you currently have in Super?	$0
Super Guarantee from Employer	9.50%
Growth rate of investments that make up your net worth %	8.00%
Estimated inflation rate %	3.00%
Household income earned pre tax per year	$80,000
Household income earned post tax per year	$60,921
How much post tax money can you save each year?	**$27,691**
Savings Rate	45.45%
How long in years will it take you to reach FIRE?	14.71
What year will it be when I reach FIRE?	2035

Improving our savings rate and increasing our income by the very same amount has annihilated 6.53 years of working.

Now we're cooking with gas!

But just like our savings rate, there are diminishing returns in the pursuit of increasing your income. And I keep coming back to circumstances but unfortunately, it's very much a circumstantial question when we start talking about this focus area because we all aren't on an even playing field.

Below is my personal increasing income BFYB chart:



Let me explain what this means because it's important.

Let's say I'm unemployed next year (which is what's most likely going to happen when we move back to Australia) and my salary is $0 (ignoring any investment income of course). I'm scanning through the classifieds looking for my next job, which, for this example will be the sole source of my income.

For my circumstances personally, it doesn't require any extra effort for me to land a job paying $100K as opposed to around $35K annually. I don't want to sound overconfident but I have a certain set of skills and experience that the market is willing to pay me and I'm 99% sure I could land a job paying close to $100K no worries. In fact, I'd probably have a harder time getting my old job back at Coles if anything. Beyond $100K is when the effort required starts to increase and the BFYB value starts to go down.

Remember, BFYB = The amount of effort required to improve a focus area.

The effort required to earn a salary past $100K starts to increase a lot and for me personally, the extra effort doesn't justify the extra income at around the $130K-$150K mark. Beyond that, there's too much sacrifice with not enough gain. Too many responsibilities and work-related stress that I don't feel is justified for the extra $$$. You may have certain skills and experience where earning $150K is actually quite easy and no different (in terms of effort) than earning $100K.

If we look at the [ABS data from 2018] the median income for a full-time employee in Australia is $76K a year. If we adjust for two years of inflation we can round it off to 80K and we now have a benchmark.

$80K a year is the standard form of exercise for full-time Aussies. One light jog and occasional push-ups weekly would probably put you in the average to above-average category of exercise in Australia as sad as that is.

If you're earning under $80K a year and have already optimised your expenses, you may be in the position to grab some really low hanging fruit and increase your income for an excellent BFYB return.

Adding in some resistance training 2 hours a week is such a small amount of effort that has an incredible return. Not only will you become healthier and stronger, but you'll also potentially save yourself a lifetime of injury and illness that's so common in our sit down all day 21st-century culture. Cardiovascular and resistance training has shown to help with sciatica, pelvic tilt, back pain, heart disease, diabetes etc. I have always considered myself a pretty active person but even I had hip issues 3 years after starting full-time work which I 100% attribute to sitting down all day and not stretching my hip flexors or strengthening my glutes. These hip issues crept into a lower back pain issue and before I knew it, I was going to the physio a few times a month. It didn't take longer than a few weeks of specific stretching and strengthening exercises to completely resolve all of my issues and I continue parts of that program to this day nearly 10 years later.

You don't need to jump into a 5X5 strength split or start yelling "*Yeah buddy...Ain't nuttin' but a peanut!*" after every rep in the gym. Three focused 45-minute sessions a week offers great health benefits just like spending a bit more time increasing your income can wipe years off your FIRE journey!

Now you know why reducing expenses is the FI community's favourite option to achieve financial independence faster and the following few chapters give great ideas on how to do so.

There's only so far you can go when it comes to reducing expenses in a BFYB way though, so once you've done that (or simultaneously), it makes sense to focus on increasing your income, at least until you reach the same BFYB point!

I’ve got to say, increasing income is one of the most underrated tools for fast-forwarding your FIRE date. There’s a floor on how much you can save, but no ceiling on how much you can earn! So once you’ve got your spending sorted, read on to 2.4 where I make the case for increasing your income.

About Aussie Firebug | aussiefirebug.com

AUSSIE FIREBUG

I'm an early 30's country boy from regional Victoria on the path towards FIRE! Big fan of all things tech/finance/sports related and love the Collingwood Magpies. Started a blog/podcast that details my partner’s and my journey towards financial independence back in 2015 which I continue to run to this day.

Chapter 7: Bag the easy wins

By Miss Balance, All About Balance | allaboutbalance.com.au

In the chapter above we covered why reducing expenses beats increasing income – so where do you start? Below you will find a detailed list of many ways to save money, find 'lost' money, and ensure ongoing savings. However, before you jump ahead, let's check in on your mindset.

Mindset – why it is an important place to start

There is a lot of research on how money management and decisions are ruled by emotions more than mathematical sense. While we can never remove the psychological side of money management, we can reduce the negative impacts emotions might have on your financial decisions.

If you read the below list with a closed or fixed mindset that "This is going to be horrible, I'll have to cut all my spending and never have any fun" then you will very likely feel the pain every step of the way. It will feel restrictive and there is every chance you won't take the steps needed to reach your financial goals.

However, if you work through each option, even the ones that seem radical* to you at first with an open mind, or a growth mindset you will be better able to look for ways to make it work, rather than focus on why it cannot.

** we are more about sustainable changes, not being radical so there is nothing too scary below*

If your initial response when you read each example of how to save is a negative one, I challenge you start to explore that a little more and ask yourself;

- Can we trial it short term?
- How can we make this happen?
- What do we need to set up to allow us to do this in the future?

If you ponder those sorts of open questions, the answer might not come to you straight away, however, your brain will automatically start to search for answers. Let's use that power of your subconscious to start to notice the ways that will support our savings efforts. Look for others who have achieved what you want and ask them how they made it work for them. Start to notice the ways your neighbours, family and friends, or others save money and find ways that will work for you.

You can start small with just one thing at a time until your confidence builds up, you reflect and realise it isn't all that bad after all and you start looking for ways to save even more.

Ok so let's get into it and find you some easy wins to get you started.

Easy wins

Here we will breakdown your easy wins into five main categories starting with what we hope will be the easiest for you to achieve. As you go along make sure you write down in the right-hand column on the checklist below how much you saved at each step. As you see the numbers add up it will positively reinforce what you are doing, which provides a motivation to continue.

Category	**Action Step**	**Amount**
Free Money	Lost Super	$
	Unclaimed Money	$
Cancelled	Online Streaming (Netflix, Hulu, Stan, etc.)	$
	Magazine and newspapers	$
	Online memberships or clubs	$
Negotiated	Bills – phone, internet, electricity	$
	Insurance – car, homes, contents, life, income protection	$
	Multi Policies	$
	Mortgage/Loan interest rate	$
	Settlement payment for debt	$
Consolidated	Superannuation	$
	Debt	$
OTHER		$
TOTAL		**$**

Claim your ‘free’ money

If you were walking along and dropped $20 on the ground would you pick it up? I would. How about $1? Still a yes from me.

> ”IF YOU WERE WALKING ALONG AND DROPPED $20 ON THE GROUND WOULD YOU PICK IT UP? I WOULD. HOW ABOUT $1? STILL A YES FROM ME. I WOULDN’T THROW AWAY MY MONEY AND NEITHER SHOULD YOU”
>
> MS BALANCE
> @ ALL ABOUT BALANCE
> AUSSIE FIRE

I wouldn’t throw away my money and neither should you. There are millions of dollars out in the world that Australians haven’t taken any responsibility for. Make sure none of that is yours.

- Unclaimed Money - Australians have a whopping $1.1 billion worth of unclaimed money from shares, bank accounts and life insurance policies. Luckily there is no time limit on claims, so head on over to the Government MoneySmart website and see if there is any money out there with your name on it
- Lost super - You may have opened up a superannuation fund when the scheme was first introduced and forgotten about it, or your employer may have opened a new fund in your name if you didn’t submit your paperwork within 28 days. Whatever the reason, there may be money out there with your name on it and all you need to do is claim it.
  Your lost super may be held by your super fund or by the Australian Taxation Office (ATO). It's easy to find your lost super online, just sign into your myGov account linked to the ATO and click on “Manage my super” or if you’d prefer you can get a paper form from the ATO website.

Cancel

This will be an easy win for some. Anything you are signed up to on a subscription basis where the money is automatically deducted from your account each month can be easy to forget about. Now is the time to reassess and see if they are adding any value to your life or if they can be cancelled. Go through your bank or credit card statement and look for anything that is set up on auto payment, it could be things such as;

- Any free trials you have signed up to with the intention to cancel before they deduct the first payment – set a reminder and make sure you don't get caught out
- Multiple accounts for similar services. Do you really need 3 or 4 streaming services; I'm looking at you Netflix, Hulu Stan, YouTube premium, Anime Premium. Choose your favourite 1 or 2 if you absolutely must have them (I don't) and ditch the rest.
- Subscriptions you haven't used in the past three months and/or are unlikely to use ongoing
- Magazine and newspapers
- Online memberships or clubs
- Anything else you forgot you were signed up to

Negotiate

For anything you aren't able to cancel, you should at least review and shop around for a better deal and negotiate where possible. You may have signed up to a great deal last year, though if you don't review this again you may be hit with a 'lazy tax' where the premiums are increased for subsequent renewals in the hopes that people don't check again. Some areas you should shop around include;

- Bills – phone, internet, electricity
- Insurance – car, homes, contents, life, income protection
- Multi Policies – ask for a discount if you hold more than 1 policy with the same company
- Mortgage/Loan interest rate – ask for a deal every 6-12 months, with interest rates currently at record lows you might be surprised how much your lender is willing to do to keep you
- Settlement payment for debt – if you plan to pay off debt, you can negotiate the final amount to be paid. (See back in Chapter 4 for more detail on negotiating debt.)

Consolidate

Saving money comes in many forms. Some you can see in your bank account straight away, such as those you cancelled or negotiated above. Others you may not see immediately however add up over a lifetime. These are usually the result of having multiple accounts that charge fees for essentially the same service. The two largest in this category are;

- Superannuation – As of 30 June 2018 approximately 6 million Australian's had more than one Superannuation account. Having multiple super accounts could mean you are paying extra fees and charges which may reduce your overall retirement income. To consolidate your super sign into your myGov account linked to the ATO and click on "Super" and "Transfer Super" (this option will only appear if you have more than 1 account).
- Debt – If you are new to the Financial Independence space you may still have some debt to get rid of. If you do, I encourage you to review the interest rate for each of your debts, and research whether consolidating into one debt with a lower interest rate will be beneficial to you.

The BIG Three

According to the Australian Bureau of Statistics Household Expenditure Survey 2015-16, the average Australian spends about 52% of their take-home money on just three things; housing, food and transport. What better place to look for ways to save than where you know a huge chunk of your money is going?

Housing

Let's start with the biggest one first. We all need somewhere to live right? Whether you rent, own already or are thinking about buying, if your total housing costs are as low as possible you are already winning.

If you are currently handing over any more than 25-30% of your hard-earned for a basic necessity such as shelter, think about how you could reduce this cost. Everyone's personal situation is different, so some may absolutely not be possible for you. Some ideas:

For everyone

- Rent out a room – having more people cuts not only the cost of shelter but also bills
- Move to an area with a lower cost of living
- Pay for only space you will use. Why is everyone obsessed with having a guest room when it isn't used 90% of the time?

For renters

- Negotiate your rent if paying above the current market or looking to stay longer term

For owners

- Ensure you are getting the best interest rate possible on your mortgage every year
- Rent out your spare room as an office/storage space
- Pay your mortgage weekly or fortnight to reduce interest
- If you aren't ready to stay in one place for at least 10+ years then consider renting instead of buying as buying/selling costs are so high
- Look into an offset account and see if it would benefit your situation

Food

The second largest expense in Australia is food. Are you eating your money? Or throwing it away?

In 2015/16 the average food expenditure for groceries and non-alcoholic beverages per person aged 25-34 years old was $2,675. In addition to this, the average cost of eating out per person for the same age cohort was $1,917 per annum.

That's almost $2,000 per year you could save by not eating out. Though don't worry, I did say this was about sustainable changes and not making you miserable so instead of cutting all of your eating out budget cold turkey let's look at some other options to optimise your money here.

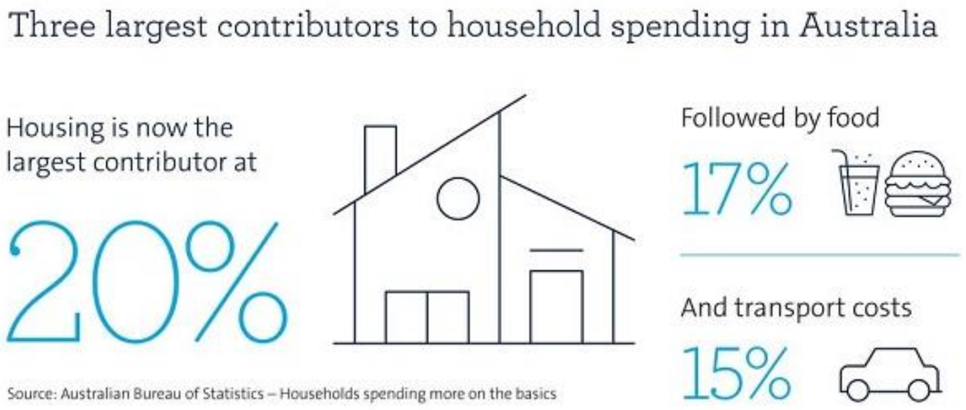
Tips for saving money on food;

- Consider generic brands for items that taste the same
- Buy in bulk and in season
- Meal plan – then only buy what is on the list
- Use what you buy – approximately 20% of all food gets thrown out each week
- Stock up when items are on special
- Cook at home as much as possible
- Don't go shopping while hungry
- Eat out only on special occasions – then they'll feel more special

Transport

The third and final largest expense is transport. Depending on where you live, you may be able to save on transport by;

- Travelling at off-peak times for a cheaper fare
- Questioning whether you really need a car for each person in your household or at all?
- Rideshare (Uber, Didi, etc.)
- Use Public transport
- Commute by bike
- Walk if you are travelling local



Source: https://www.amp.com.au/insights/manage-my-money/3-biggest-household-expenses

Pay yourself first – the power of automation

Look at all those savings! What's next?

As we discussed at the beginning of this chapter, psychology plays an important role in your money. In this step, we want to remove that emotional aspect and instead automate the process and take away any decision that you may sabotage depending on your emotional state at the time. You want to ensure all of those savings you've found don't get whittled away slowly with lifestyle inflation. It can be easy to see a pile of savings and let them slip through your fingers by spending just a little more over a period of time.

When you prioritise saving first, you are telling yourself that your future and your goals are the most important thing – not the bills or the bank. This is a powerful motivator. So how do you set it up?

> **"WHEN YOU PRIORITISE SAVING FIRST, YOU ARE TELLING YOURSELF THAT YOUR FUTURE AND YOUR GOALS ARE THE MOST IMPORTANT THING – NOT THE BILLS OR THE BANK"**
>
> MS BALANCE
> @ ALL ABOUT BALANCE
> AUSSIE FIRE

1. Calculate your take-home pay
2. Set yourself a savings goal (hint: lots of people in the FI community aim for 50%, however you can start smaller and work your way up)
3. Find a bank that will let you set up multiple accounts or sub-accounts with no account keeping fees, ideally paying a high-interest rate
4. Ask if your employee allows salary splitting, otherwise set up automatic transfers to come out each pay before anything else
5. Watch your savings grow. Review and adjust on a regular basis

When you make paying yourself first a priority, you have to learn to live on the rest. This forces you to make hard choices and prioritise spending on what truly matters to you.

Savings goals calculator

Automating your savings is the best way to ensure you don't spend your future millions. Source: https://moneysmart.gov.au/saving/savings-goals-calculator

Final thoughts on easy wins and paying yourself first

We hope that you were able to find some easy wins in the list above to help you kick start your FI journey. Some may have been large, others small; however every dollar you save now on everyday expenses means $25 less dollars you need to fund your future self.

Your personal financial situation will change many times over your lifetime. Remember to regularly review and adjust as needed and challenge yourself to increase your savings by small amounts as often as you can.

Keep reading for even more ways to boost your savings rate and gather money for your FIRE pit.

About Miss Balance from All About Balance | allaboutbalance.com.au

ALL ABOUT BALANCE

Miss Balance writes at All About Balance, a blog about reaching financial independence while still having a life! On the blog, you can read her tips and tricks on saving, investing, and growing your income. She maintains that it is possible to do this while sustaining strong relationships, as well as a healthy body and mind. If you'd like to learn more about how you can build a life you don't want to escape from.

Chapter 8: Beyond the easy wins

By Kara from The Flawed Consumer | theflawedconsumer.com

Once you've tackled the easy wins, it's time to delve deeper into your finances to find other ways to reduce your expenses.

This part of the cost-cutting journey requires a strong mindset and dedication to the cause. That's because reducing your expenses beyond the easy wins is about your lifestyle, and therefore requires (sometimes drastic) changes to the way you live your life.

However, it's not all doom and gloom. Just because you're diving deep into your spending habits doesn't mean you can't have any fun. The key to enjoying your new, cost-effective lifestyle is to ensure you strike the right balance.

Spend according to your values

The next step in your cost-cutting journey is to cut out mindless consumption and only spend your money on what makes you happy and fulfilled. This is known as "values-based spending".

In order to figure out how to spend according to your values, you need to firstly know how you're spending your money - especially your "discretionary" spending. If you haven't done this yet, take some time to go through one of your financial transaction statements for a recent month. Have a look at all your debits to see what you spent your money on and make a list of the items you purchased.

Once you have a picture of your spending habits, it's time to work out what is worth spending your money on and what isn't. If you spent $60 on a gym membership you barely use, cull it. If going to the gym once a month really brings you happiness and makes you feel awesome, keep it. Same with those streaming service subscriptions, clothes, organic vegetables, puzzles, or whatever else you have on your list.

The key is to be realistic and honest with yourself. If you really, really love and/or need the item, then go ahead and keep spending. But if you buy it "just because" then it's time to take an axe to that expense.

This approach will ensure that you don't needlessly spend your money on things that don't matter to you, which allows you to have more money not only for savings, but for the things that bring you long-lasting happiness.

Savings hacks

Once you've brought your discretionary spending in line with your values, it's time to implement some savings hacks to reduce your "core" expenses (the necessary ones you can't cut out completely like groceries, toiletries, utilities, etc.).

Payment options

One of the easiest ways to save money these days is through the way you pay for things, such as electricity and insurance. A lot of businesses offer discounts of between 3-17% for paying your bill on time, by setting up automatic direct debits, or for paying for a premium or subscription annually, rather than monthly. When it comes to expensive utilities such as electricity, these payment discounts can save you hundreds each year.

All you need to do is look into whether your supplier offers a discount for direct debit or annual payments, then sign up for the deal (or change your suppliers) and reap the benefits. Sometimes these deals do have a lock-in period of 12 months for example, so just make sure you do your research first to ensure that you're getting the best deal, and will continue to do so throughout the lock-in period. Also, make sure you're aware of the terms, as a default in an automatic direct debit may result in you losing the bonus rate, or copping a fee, which could defeat the savings purpose of signing up for the deal in the first place.

Savings range: $10-$55 per month.

Groceries

Groceries are one of the largest household expenses. However, there are a number of ways you can reduce these costs. When it comes to food, buying in bulk is a great way to save money. You can do this by looking at the cost per kilo/litre prices of items. Buying the best value item per kilo/litre will ensure you're getting the best deal and will help you save money in the long run. However, make sure you only buy what you'll use, or else you won't save money at all.

During the COVID-19 lockdown, a number of wholesalers, such as PFD foods expanded into the retail market. As a result, you can benefit from buying in bulk for wholesale prices on many household food items through these businesses. Buying items such as fish in bulk at $15 a kilo and freezing, will save you a lot over the long-term if you were to pay retail prices of $40+ a kilo for the same foods.

Additionally, a number of charity organisations offer subsidised groceries. Most organisations offer these services to those in dire financial situations. However, some organisations offer discounted groceries to everyone, irrespective of financial position. An example of this is Lighthouse Care in Loganholme near Brisbane. This organisation offers groceries at a hugely discounted price, including a $25 shopping trolley deal (for groceries that would cost you about $150 in the supermarket!). These deals are open to anyone, irrespective of financial situation. Therefore, it is well-worth it to spend some time doing some online research to see if any organisations offer anything similar in your local area!

Savings range: $40-250 per month.

Cleaning products and toiletries

Cleaning products are often expensive, especially if you choose the 'green' options. However, they're one of the cheapest items to make yourself. With a few core ingredients such as vinegar, bi-carb soda, washing soda, castile soap and essential oils… You can make almost everything you need to clean your house. From oven cleaner, to washing powder, to surface spray; you can make all of these things from the ingredients outlined above. Simply do a web search for a recipe for whatever cleaning product you want to make, and off you go.

Toiletries, such as body wash, face serum, body moisturiser and deodorant can also be made at home for a fraction of the cost of buying them in the shops. The added bonus of making them yourself is that you can control what chemicals you put on your body. Furthermore, you can use the essential oils you've already purchased for cleaning products in them, so you don't need to double up on these costs. In order to get started, get yourself some base oils such as sweet almond oil in bulk. From here, a few web searches will give you all the recipes you could ever need to produce your own natural, healthy and cheap toiletries.

Just be careful to do your research for good prices, as there are plenty of overpriced essential oils online. Better yet, source your products directly from a manufacturer that sells directly to consumers through their website, such as Leonardi Laboratories in Sydney. They sell a vast range of essential oils and bulk base oils, such as sweet almond and rosehip, in a range of sizes to suit any budget.

Savings range: $5-50 per month.

Negotiate better deals

Another way to save money is to ensure you never pay full price. Negotiating better prices for products and essential services, such as utilities, is easy if you follow 3 key negotiation principles:

1. Play nice - a positive, friendly attitude is much more likely to get you what you want;
2. Know your bargaining range - knowing what you want, what you'll settle with, and what's unacceptable to you, will make sure you don't walk away with regret;
3. Do your research - researching the market for deals and prices ensures you're in the best position to get a great deal.

With these principles in mind, it's time to contact your phone, internet, electricity and other providers to negotiate a better deal. You can do this over the phone, or via live chat. Essentially, you want to state that "xx" has a deal offering "x" and that you're thinking of leaving your current provider for the competitor. Next, ask your current provider what kind of deal they can do to keep you. You'll end up in the hands of the customer retention area, who'll be in a position to offer you a better deal. It won't always work, but when it does, you'll likely save hundreds of dollars as a result of your efforts.

This approach can also be applied to price-match/price beat policies in stores. Most stores have some kind of policy where they'll either match or beat the price for a comparable product offered by a competitor. These days, a lot of stores will even match online competitors, as long as the cost they're matching includes postage. When you plan to buy a new item, such as electronics, from a shop, just do your research first to find the best price for that product online. Then, simply ask the store you're planning to buy from if they price beat/price match. If so, you'll likely score yourself a good deal, without having to wait for delivery from an online store.

Savings range: $30-100 per month.

Promo codes are your best friend

When it comes to products, promo codes are now widely available for online shopping. You can sign up to the email newsletters of your favourite retailers to be kept in the loop when they have promo codes available. Alternatively, just Google the name of the retailer you want to purchase from, "promo" or "discount" code, and the month and year you are making the purchase in. For example, "Country Road Australia promo code March 2020". Most of the time you'll find at least a 5% or $5 off code to use on your purchase.

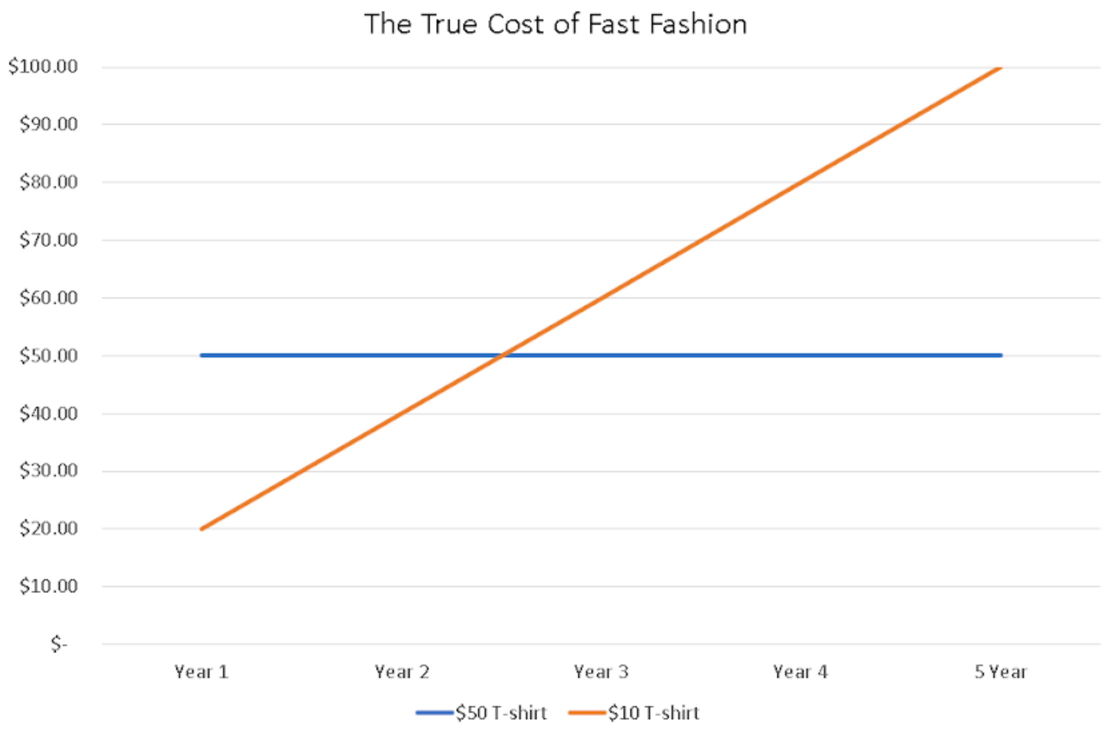
Savings range: $5-50 per month.

Second-hand bargains

Alternatively, buy things second-hand. Online marketplaces, such as eBay, Gumtree and Facebook Marketplace, make it really easy to both buy and sell second-hand items. You can find almost anything you need second-hand these days; and buying this way not only saves you money, but helps reduce resource consumption and your consequential environmental impact.

Buying second-hand is particularly important when it comes to clothes. You may think that fast-fashion has made clothes cheaper, but think again. Cheap, poor quality clothes and shoes seem like a bargain. But, if you spend $10 on a t-shirt that lasts six months, versus $50 on a good quality t-shirt that lasts 5 years, the $10 shirt actually costs twice as much. Ditch fast-fashion and transition to a capsule closet of high quality, second-hand pieces instead - your wallet and the planet will thank you for it!

Savings range: $5-200 per month.



Savings hacks summary

Savings Hack	Savings range per month
Payment options	$10-$55 per month
Groceries	$40-$250 per month
Cleaning products and toiletries	$5-$50 per month
Negotiating better deals	$30-$100 per month
Using promo/discount codes	$5-50 per month
Buy second-hand	$5-200 per month - depending on number of purchases

Your long-term plan = Frugality

Frugal living is about living life in a way that minimises expenditure and consumption through making do with what you have as much as possible.

Living a frugal lifestyle is key to achieving financial independence. This is because what you spend is more important than what you earn. For example, say you earn $150K net per year, but spend 90% of it on your lifestyle and save 10%. At the end of the year, you'll only have saved $15K. However, if you earn $60K net per year, but only spend 50% and save the rest, you'll be able to save $30K per year. Therefore, if you want to achieve financial independence, living frugally so that you can spend considerably less than what you earn is crucial.

> **"WHAT YOU SPEND IS MORE IMPORTANT THAN WHAT YOU EARN"**
>
> KARA
> @ THE FLAWED CONSUMER
> AUSSIE FIRE

If you want to live more frugally, there are a few key principles to keep in mind:

1. Being frugal requires long-term thinking;
2. Most of the time you can make do with what you already have.

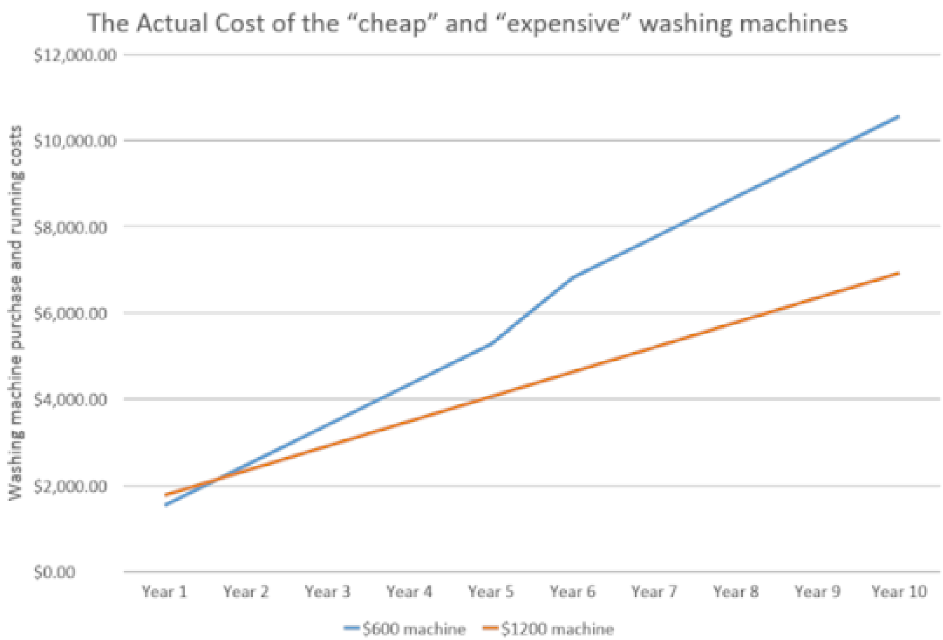
A common mistake people make when trying to be frugal is to mistake frugality with the price of items, i.e. buying what's cheapest. However, this is actually counter-intuitive to living a frugal life. Buying the cheapest item available is not usually the most frugal approach. This is because low-quality items often do not stand the test of time, are inefficient to run, and are not able to be effectively repurposed.

This is where long-term thinking comes into play. It is important to think about the lifespan and versatility of an item before you make a purchase. This will help you determine the true cost of each item so that you can choose the option that will cost you the least in the long-term. As previously mentioned, clothes are a particularly good example of “cheap” not actually being cheap. However, another example is appliances.

”IT IS IMPORTANT TO THINK ABOUT THE LIFESPAN AND VERSATILITY OF AN ITEM BEFORE YOU MAKE A PURCHASE. THIS WILL HELP YOU DETERMINE THE TRUE COST OF EACH ITEM SO THAT YOU CAN CHOOSE THE OPTION THAT WILL COST YOU THE LEAST IN THE LONG-TERM”

KARA
@ THE FLAWED CONSUMER
AUSSIE FIRE

When you buy a fridge, washing machine, dishwasher, coffee machine, or any other type of appliance, it is really important to calculate the long-term cost of the appliance. You might baulk at spending $1200 on a washing machine, when you can get one for $600. However, if the $600 washing machine costs you $18 a week in water and electricity and only lasts for 5 years, over a ten year period, it’ll cost you $10,560. Alternatively, the $1200 washing machine, which has a 5-star energy efficiency rating and is made in Germany, costs you $11 a week and lasts for 10 years. Consequently, the total cost of this washing machine is $6920. Therefore, over a ten year period, the washing machine that is twice as expensive to purchase, saves you $3640.



In today's society, it's pretty easy to be tricked into thinking that you need to buy a specific item for a specific purpose. This is because consumer marketing makes us think this way. Whether it be TV, magazine or social media marketing, we are constantly bombarded with fit-for-purpose products for everything we could ever need. However, the simple truth is, we don't need to buy specific items for each purpose. In fact, quite often, we already have what we need but just don't realise it.

Next time you need a new item, have a think about what you've already got that could be used instead. Say you want a glass jug for the fridge, simply use an empty alcohol spirit bottle. Need to buy some more dishwashing cloths? Check to see if you have some old face washers that can be used and washed over and over again instead. You'll be amazed at just how often you'll be able to repurpose something you already have!

Additionally, before you throw out random items, such as bits of packaging, rubber bands, string, etc... Have a think about what else these supposedly "useless" items could be used for. Perhaps you could use string from packaging to hang a wall picture, or to stake tomato plants instead of buying string or ties? Maybe you could use toilet paper rolls for kids' art and craft projects instead of buying more toys? Or, perhaps you could even use the box your Keep Cup came in to store your pens instead of buying a pen holder? Whatever it is, have a think about alternative uses before you throw it out. Over the long-term, you could save yourself a small fortune by reusing supposedly "useless" or single-use items instead of buying fit-for-purpose items all the time.

By cutting back on your spending and pursuing a frugal lifestyle, you'll be well-placed to save a significant portion of your income. The next step in your financial independence journey is to figure out how to increase your income so that you can save even more money.

About Kara from The Flawed Consumer | theflawedconsumer.com

Kara is an early-30's, formerly flawed consumer on a financial independence journey. Throughout her 20's, Kara made a lot of silly financial decisions that are now costing her in her 30's. She started theflawedconsumer.com to help fulfill her mission to prevent others from making the same financial mistakes she did in her 20's. To achieve her mission, Kara isn't afraid to admit her faults and poke fun at herself in order to get her personal finance message across.

Chapter 9: Get the most BFYB

By Aussie Firebug | aussiefirebug.com

In Chapter 6, we discussed the great impact of reducing expenses on your FI date. Now, let's talk about the flipside: Increasing Your Income!

Remember the BFYB Factor from Chapter 6? Here it is again:

- Save more than you earn
- Increase how much you earn
- Invest your savings

We'll call the metric BFYB (bang for your buck).

BFYB = The amount of effort required to improve a focus area

Let's apply this to increasing income in different areas and see how it goes.

In Chapter 6 we discovered the following when it came to getting the most BFYB.

Now let's dig in on other ways you can increase your income (& compare with a couple of well-known cost-reduction techniques too)

Improving Your Investment Returns

We've come to the most talked about, most analysed... most overrated focus area.

Investing!

I want to bring up two quotes to set the tone for this focus area.

"If investing is entertaining, if you're having fun, you're probably not making any money. Good investing is boring." - George Soros

"There seems to be some perverse human characteristic that likes to make easy things difficult." - Warren Buffett

I am so guilty of the second quote.

When I first discovered financial independence I was convinced that there's some sort of magic formula that these rich guys must be using to get ahead. It's part of the reason I started investing in a trust. It was like this complicated black box with all these advantages that only the rich guys understood and used. I wanted in on the secret and did my research hoping to stumble upon the golden goose.

While there are some benefits of investing within a trust, I must admit that I was lured to its complexities and perceived mysteries (for whatever reason). It took me years to fully appreciate the power of simplicity and if I could start again, I would have never bothered with the trust.

I feel so many FIRE n00bs fall into the same trap. They go looking for a magical formula that simply does not exist. And even if it does, it's almost certainly locked away in a secure blockchain quant investment hedge fund somewhere.

Here's the deal, you can absolutely optimise your investment results up until a certain degree with barely any more effort involved. I'm going to ignore inflation, risk appetite and investment horizons for a second to make the point.

Investment returns have historically fallen around these marks:

0% - Storing your money in a shoebox under your bed

2% - HISA

3.5% - Bonds

7% - Real estate

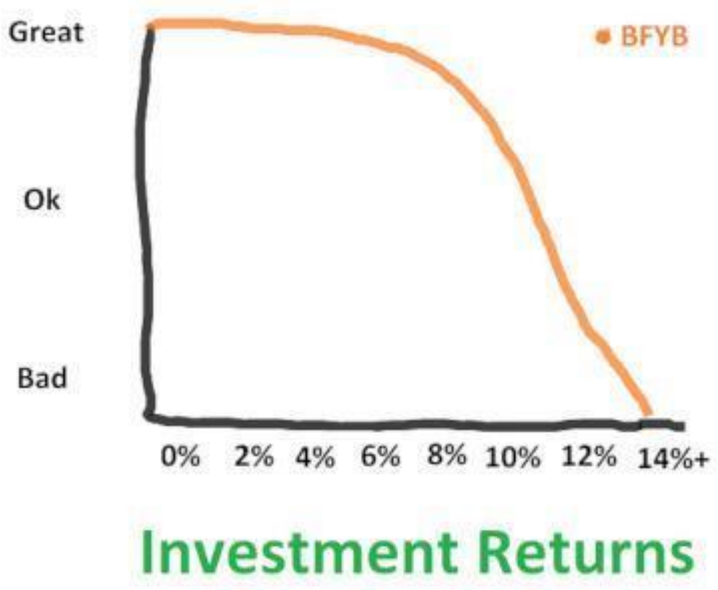
8% - Shares

You can argue back and forth about how those numbers were gathered and what methodologies were used but it doesn't really matter.

Realistically, any Aussie out there can achieve those returns rates in those asset classes without an economics degree. Index investing opened Pandora's box and enabled the average Joe to grab a piece of the market without needing to spend the time researching and analysing financial statements.

Diversification and low management fees provide the best BFYB when it comes to this focus area. Everything else has such minute benefits that it's laughable so many people spend so much time and effort trying to see which ones better.

To demonstrate this here is our BFYB chart for investment returns:

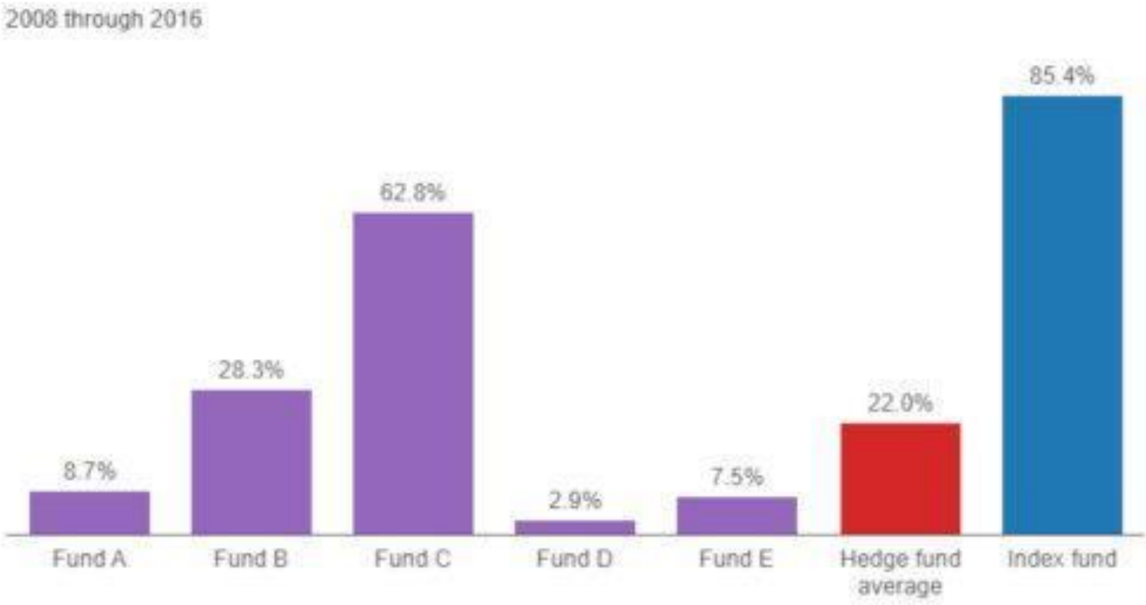


So basically we can get up to around 8% without much effort required. It's always good to put the time and effort into understanding the asset class but theoretically, any Joe Blow could dump their money into a diversified index fund like VDHG and get ~8% over the long term.

I don't know any assets class where you can get a better return without extra effort. There's plenty of ways to improve your return on investment. I sold my first investment property and calculated an after-tax annualised return of 36% but the number of extra hours I put into that investment was the equivalent to another part-time job.

Newbies to FIRE and investing don't really understand just how hard it truly is to beat the market consistently over a long period of time (20+ years). There are people who can do it, I'm not saying it isn't possible. But the amount of effort and skill that is required to actually discover alpha year after year is something only a very few incredibly skilled people have managed to achieve.

We've all heard the famous story of Warren Buffett betting a $1M bucks against 5 hedge funds that a simple index-tracking ETF would outperform them over an eight-year period. Not only did he win that bet, but it wasn't even close.



The funds of funds have not been named publicly; the index fund is Vanguard's S&P 500 Admiral fund

Source: BRK 2016 letter • Created with Datawrapper

But let's just entertain the idea that you're an outlier. You possess incredible skills and techniques far beyond most active traders and hedge fund managers all around the world and you're able to consistently beat the market.

How much better off would you be if you were able to outpace the market by a whopping 100 basis points (1%). 1% doesn't sound impressive but if someone can beat the market by 1% over a long period of time then you're most likely going to make more money in a hedge fund picking stock than you are at your day job. Your skills are extremely valuable.

We're going to pretend that you keep this incredible skill to yourself and only use your god-given talents for your personal share portfolio. How much of a difference would 1% actually make?

D.O.B	1-January-1990
Current net worth excluding Super and any equity in your home	$0
How much do you currently have in Super?	$0
Super Guarantee from Employer	9.50%
Growth rate of investments that make up your net worth %	9.00%
Estimated inflation rate %	3.00%
Household income earned pre tax per year	$80,000
Household income earned post tax per year	$55,383
How much post tax money can you save each year?	**$16,615**
Savings Rate	30.00%
How long in years will it take you to reach FIRE?	18.90
What year will it be when I reach FIRE?	2039

Even using our top tier investing prowess we only managed to wipe off 2.3 years which was actually the worst result compared to saving $5,538 (4.5 years) or earning an additional $5,538 (2.7 years).

BFYB: Bad

Think about how much time and effort some funds put into research for investing. It's a full-time job with an army of analysts and advisors all crunching numbers, creating models and using the latest predictive methods in the odd chance that they can justify their hefty management fees. And most of these funds don't even beat the index when fees are accounted for.

What hope in hell do the rest of us have?

The example above used a huge 1% difference over nearly 20 years.

How many times have you seen someone ask about A200 vs VAS on the internet? It's gotta be one of the most discussed and analysed topics within FIRE communities. The difference in management fees between these two funds is 0.03%...

Let me say that again. 0.03%

They do track different indexes (ASX200 vs ASX300) and do you know what the difference has been between those two indexes over the last 10 years... 0.04%

So maybe... just maybe those two funds might return a difference of +-0.1% over the long term.

10 basis points of difference is your reward for correctly picking the better performing ETF over that time period.. and that's assuming you're even able to use skill to pick the one that's going to perform better (which you almost certainly won't be able to do).

BFYB: Horrendous

A200 or VAS?

A200+VGS or VAS+VTS+VEU?

IVV or VTS?

AFI or VAS?

LICs or ETFs?

VDHG or create my own?

Most of these arguments don't make a huge difference. It's really important to understand the key concepts around management fees, diversification and why index investing works. But just understand that if you've got one of the above combo's, you're already more diversified and paying lower fees than most Australian investors to begin with.

The basic investing principles for Australian FIRE is to build a low cost, diversified share portfolio mainly made up by ETFs/LICS. You want to buy consistently no matter what the market is doing and grow your snowball to a point where it's passive income can fund your lifestyle.

There's going to be a 100 different flavours of that ice cream but once you have those basics down pat, the bulk of the work is done. You can always tweak and improve your portfolio to suit your circumstances but honestly, if you're trying to reach FIRE faster and think that crunching numbers in Excel for 10 hours a week is going save you years of working, you might be in for a rude shock!

Keep your investing simple and boring. Use your precious time optimising your expenses and working on ways to increase the amount of money that flows into your account because IMHO, focusing time and energy on savings and increasing your income has the best BFYB returns.

> **"THE BASIC INVESTING PRINCIPLES FOR AUSTRALIAN FIRE IS TO BUILD A LOW COST, DIVERSIFIED SHARE PORTFOLIO MAINLY MADE UP BY ETFS/LICS... KEEP YOUR INVESTING SIMPLE AND BORING"**
>
> AUSSIE FIREBUG
> AUSSIE FIRE

Different Ways to Increase your Income

I hope after reading the above you can now appreciate just how underrated increasing your income is. The saving rate is held in high regard within the FIRE community thankfully, so there's not much to add there.

But my goodness does investing get way too much of the limelight. It's largely out of your control too. Other than choosing your diversification levels and sticking to a low-cost fund, you're very limited to how much you can improve the results.

When it comes to increasing your income though, the complete opposite is true. The harder you grind the more money you will make! And the more money you make, the higher your savings rate will be (if lifestyle inflation doesn't get ya)

So let's jump in to see how we can improve our crunches and pushups and maybe head over to the dark corner of the gym, away from the treadmills and cross-fitters... the weight room!

Ask For A Raise

We're going to start by improving our current workout (salary job).

One of the easiest and most low hanging fruits on anyone's list should be to simply have a conversation with their boss about their salary and ask for a raise if they think they deserve more money.

How many times have you heard about someone complaining for years that they're underpaid but never actually taking the action of setting up the meeting to discuss their pay? I'm not saying this will have a 100% success rate but more often than not, it will start the process of you either getting more benefits or creating the plan for your next raise or bonus.

You probably want to approach the meeting with some sort of reasoning like citing average incomes within your industry or comparing the work you do with someone else that's being paid more.

BFYB: Great

Hardly any effort with the potential to add thousands extra to your accounts for years to come! No real risk either and it's not like you have to learn something new.

Change Jobs Regularly

Asking for a raise or putting your head down and bum up climbing the corporate ladder is a noble way to jump the food chain and reap the rewards. But the sad truth in my experience is that loyalty to a company (or business for that matter) is rarely rewarded.

Your utility provider doesn't offer a better deal when you've been a loyal customer for 10 years. It's only when you leave do they all of a sudden roll the red carpet out.

If your goal is to make the most money in your field, changing jobs every 2-3 years is the best way to do it.

Be bold, be confident. Apply for positions beyond your capabilities. Back yourself to get the job done after you land it.

Fortune favours the bold!

I'm not saying to lie your way to a position only to fall flat on your face. Just understand that an ungodly amount of people are in jobs they were never qualified for or completely lacked the experience necessary to perform it at the start.

When I worked for the government back in Australia, we would engage with consultants all the time from various companies who always charged an obscene day rate to perform projects. Think $1,000+ a day. I worked directly with a lot of these consultants on the technical side and it always struck me as odd when they clearly didn't know a whole lot. Here we were, getting charged $1,000 a day and I would end up doing 30% of the work.

Fast forward 5 years and I became a consultant myself after picking up contract work in London. My second contract was at one of the big four global consulting firms who are widely regarded as having some of the best professional services networks in the world. And boy do they charge accordingly for that reputation.

I worked on client-side with a team of consultants but was the only contractor. Two of the team members were really junior. One was 18 months out of uni and whilst really smart and willing to learn, didn't know a whole lot about the technologies we were implementing.

My day rate for that contract was a whopping £500. It was more than double my daily earnings from back home and I couldn't believe that a company would be willing to pay me so much.

Well, you might have guessed that I was completely blown away when I found out that the consulting company who I was subcontracting for, was actually charging me out at their SC (senior consultant) rate which is a staggering £1,250 a day 🤯. Even at £500 a day, I was only getting 40% of the pie!

And now it made sense why all the firm's partners were driving McLaren's...

But here's the point of the story... everyone on the team was also being charged out at £1,250 a day!

I mean... honestly. One of them barely knew anything. And it was at this point that I realised that companies will lie and exaggerate the skills and experience of their products/services in order to get the most amount of money they think they can get away with.

You should be doing the same!

Last point on this one, be prepared to move somewhere where your skills are in demand. This might mean international.

BFYB: Great

Side Hustles

Time to get out of your comfort zone!

The two tips above were focussed on improving your current situation. Everyone's working out to some degree so it would make sense that we start by improving your running technique or buying training gear. But now I want to take you into that dark corner of the gym where you might not have been before. It's not going to be easy and learning new things can be difficult. But I promise you that the benefits here are worth the effort.

I'd rather not bore you by listing every single side hustle I can think of either. I have personal experience in a few side hustles which I'd like to talk about but there's really an unlimited amount of ways to bring in a little extra cashola.

Work a second job

This one depends on how exhausted you are working your main job, but there's plenty of people who work two jobs and cope just fine. Mrs FB used to do a bit of bar work on Thursday and Friday nights even though she didn't need to. She worked with her sister and a few friends and half the time most of her friends were drinking at the bar (a small country town so not many other options lol) so she was sort of where she'd be anyway just earning money instead of spending it. A little bit of extra work equated to thousands of extra dollars in her account without too much effort involved.

The second gig can be anything too. Teaching piano, tutoring, Uber driver etc.

BFYB: Ok

Sell stuff

One of my biggest pet peeves is throwaway culture. The amount of effort that went into digging something out of the ground, refining it, transporting it, manufacturing it, shipping it, storing it and to have someone finally buy/consume it... only for it to be thrown away in the trash not long after.

Utter insanity!

Never throw away something just because you don't want it anymore. If it was once a good product, odds are you can sell it online to someone and recoup some of your losses. Hell, I even managed to sell my old pair of Nike's for $30 once. Legit took me less than 10 minutes to list it. How many of you out there would be willing to work for $180 an hour?

At worst go down to your local Salvos and donate it. Chucking something that is perfectly fine in the trash is sooooo lazy, a bad financial habit and adds to humanities ballooning trash pile that mostly ends up in our oceans.

BFYB: Ok

Credit Card Hacking

I've been credit card hacking for nearly a decade. In a nutshell, you sign up to new cards to take advantage of the signup bonus these CC companies offer and then spend the points on products, flights or convert them to cash. You can also pay for everything on the CC and accumulate points over the course of the year. A little bit of effort for a pretty decent bump IMO. The only risk is that you need to ensure you pay off the CC amount in full at the end of each month.

Oh, and some cards come with free travel insurance which can cost hundreds of dollars.

BFYB: Ok

Matched Betting

Something I only discovered in 2019 after ignoring it for nearly 6 months because I thought it was a scam. The principles are very similar to CC hacking. The bookies offer you signup bonuses where you join with the caveat that you need to gamble the bet in order to access it. Matched betting is the mathematical approach for discovering arbitrage opportunities between back and lay bets. Or simply put, playing the bookies against each other to make money. When you do it correctly it's mathematically impossible to lose but it's a lot more complicated than CC hacking.

There's a lot of low hanging fruit here for those who want to put the time and effort into learning it. The two advantages that matched betting has over CC hacking is that firstly the amount of money you can make is a lot more. The low hanging fruit can be anywhere between $1K-$2K. And secondly, matched betting can be done for an extended period of time and not be just a one-off. I've had many people email me about the money they have made from matched betting exceeding $15K.

The signup bonuses are the low hanging fruit because after that it basically turns into another job. The fact that you can do it over the internet is a huge plus in my book.

Full warning with this side hustle though, you must do your research because if you make mistakes you can lose a lot of money. I'd suggest listening to the matched betting podcast I recording in 2019 and reading about the feedback I received from readers later that year. Some people had good experiences, some had bad.

BFYB: Ok

Start An Online Business

I've become an enormous advocate for having a crack at online business.

There are just so many advantages that being 100% online offers to the traditional way of doing things.

Some of my favourites are:

- Can run the business/company from anywhere in the world as long as you have an internet connection
- Startup speed. You can literally create a website/blog/YouTube Channel and begin creating content/a product and have the world at your fingertips within hours. This is simply mind boggling and it gives any entrepreneur a realistic chance to create something that will be successful.
- Incredibly small start-up costs. Gone are the days where you'd have to risk financial ruin in order to start a business. How many people over the last 100 years have had a killer idea but lacked the capital to get it off the ground? I think Aussie Firebug cost me <$100 the first year.
- Can scale as your business grows. This is what I love about cloud services in general. You only pay for how big you are and you can scale in a matter of seconds to accommodate a larger audience if/when you get there.

Aussie Firebug will always be a passion project but around late 2018 I officially started to monetise my content and miraculously it managed to make over $30K last year and I'm on track to make it again this FY.

I could do an entire article about how to monetise a blog/podcast because making money digitally is such a new concept (relatively) and there's a lot to get your head around. Even though I've already listed a whole bunch of benefits above, probably the biggest advantage that an online business can offer someone on the road to FIRE is its ability to make semi-passive income.

A website/podcast/YouTube Channel is constantly available to everyone in the world. It's not like a shop where you need to physically be there to make things run. And if your product is digital (you're not selling something physical) you don't need to store it and it can be replicated without any cost. If you sell a physical book you will need to pay to get that book printed and shipped. If you sell an ebook, you can literally just copy and paste a new version and send it to people straight away. The power of the internet!

Plus there's a whole bunch of automation you can set up in the background where a lot of the day to day business operations can run on autopilot.

I think back to how many hours I put into Aussie Firebug during the first three years. The amount of time was crazy, probably averaged 1.5 hours each weeknight for 3 straight years. But the beauty of something like a blog/podcast is that most people are making the content because they really enjoy it. I didn't earn anything for the first three years but I built the content that would later be the main drivers to allow the site to be monetised.

I've made over $60K during the last 2 years and I'd say on average I'm lucky to spend ~5 hours a month these days. My life has become completely different since moving overseas and travelling around and I just can't dedicate as much to Aussie Firebug as I would like to.

But the point is that I've set up certain automations that enable the site to make me money while I sleep. I can't tell you how satisfying it feels to wake up most mornings and see people taking advantage of companies that I use and recommend.

This concept is immensely powerful no matter what the online business is. Work can be recycled and can continue to make you money even while you sleep. I know a YouTuber that basically earns most of his money from a few videos he recorded years ago. Yes, he still continues to make new videos to keep the channel up to date, but the bulk of his income is still being generated from 2 or 3 pieces of digital content he created a long time ago.

That's something you simply cannot do when you trade your time for money.

If you're thinking about creating content I'd probably say that YouTube is the easiest way to start earning serious cash, followed by starting a podcast and unfortunately, dead last would be blogging.

The Double Whammy Effect

Side hustles and online businesses are a great way to bump up your income but there's also a massive opportunity to simultaneously work on something that's often forgotten about.

What are you going to do once you reach financial independence?

You don't need to be FI to start plugging away at your passion project or whatever it is you've always wanted to have a crack at.

Start that project this weekend!

Momentum is a powerful force. If you have a little side hustle or project you get to work on for fun in your spare time, more often than not, when you do decide you've had enough of sitting in a cubicle for 40 hours a week, the transition is so much easier because you've already built up something to further sink your teeth into.

My preference will always be an online business but it doesn't have to be that. Make candles, sell scented oils from Etsy, create a monthly COD tournament in your area. Anything you're interested in will do. And don't worry about making money because 9/10 times if you start doing something you love it somehow finds a way to pay for itself eventually.

Wrapping It All Up

I wrote this article with the intention of highlighting one of the most underrated focus areas in our community. Everyone should know by now that your savings rate is king but rarely do I see such admiration for putting time and effort into earning more money in your day job or by hustling on the side.

Far too often people come to the FIRE community hoping to discover the secret sauce that enables us to retire 30 years earlier than most. The methods we use to invest are actually incredibly boring and simple.

If you're anything like me, discovering the concept of FIRE can change your life. I was bursting with excitement and enthusiasm when I realised that financial independence was an achievable goal that nearly any Australian can achieve if they prioritise it highly enough.

Focus more of this energy into something that's within your control. That's saving money and earning more. The majority of investment returns are largely out of our control which is why the never-ending debate between which investment is the best is largely a waste of your time. I'm not saying you shouldn't educate yourself about investing. Just know that the difference between choosing A200 or VAS will not be a difference-maker that could potentially wipe years off your journey.

On the contrary, starting a hobby of making and selling custom jewellery in your spare time does have the potential to eliminate multiple years and maybe even decades. But more importantly, side hustles/businesses can offer the more important benefit of shaping your future in retirement. No one wants to reach financial independence just to say they did it. We want the freedom that it grants. But using that freedom to create your ideal lifestyle doesn't have to start once you reach that magical number, you can start meaningful work right now and it can help you along the journey!

If I can refer back to our metaphor from the intro one last time I'll leave you with this...

Most of you guys already have a great diet. Some are dialled in so well that you are hitting your macro and micro-nutrients to the gram. But it's time now to look at your workout routine and see if you can fit in a few more sessions every week to really take it to the next level!

Spark that 🔥

About Aussie Firebug | aussiefirebug.com

I'm an early 30's country boy from regional Victoria on the path towards FIRE! Big fan of all things tech/finance/sports related and love the Collingwood Magpies.

Started a blog/podcast that details my partner and I's journey towards financial independence back in 2015 which I continue to run to this day.

Chapter 10: Prepare for emergencies

By Latestarterfire | latestarterfire.com

Life is full of surprises.

Good ones and bad ones.

Not all surprises require money, of course. But if it does, how will you cope?

We can look back at our past credit card transactions and bank records to ascertain how much we spend on a weekly, monthly and annual basis. We can budget for these planned and most likely recurring expenses - our rent or mortgage, food, transport, childcare, utility bills, Netflix subscriptions and more.

But how do you budget for the unexpected surprises?

Your car breaks down and you need to fix it urgently so you can take your Mum to her medical appointment. You lose your job (during a pandemic when no one is hiring in your field of expertise). A freak tornado takes your roof off. Or perhaps a loved one has an accident overseas and you need to urgently fly there to be with them as they lay dying in a foreign country.

The Grattan Institute, an Australian public policy think tank analysed data from Australian Bureau of Statistics survey on income and housing for 2017 - 18 and came up with these figures:

- 10% of working households had less than $90 savings (in bank accounts)
- 40% had less than $3600 savings

Looking at how this relates to working households' weekly income, the report also found that:

- 25% of working households had less than 1 week's income saved
- 50% had less than 5.6 weeks' income saved

The report's conclusion was that not many households can rely on their savings to see them through a protracted job loss.

Where are you situated in these data? Are you prepared for what life may throw at you? The good and the bad?

Building financial resilience

Saving for emergencies should be part of every FI plan.

Because we want our plan to be resilient, i.e. the ability for our finances to bounce back from a setback. We don't want to accumulate more debt to deal with our emergencies. And we definitely don't want a financial emergency to derail us from our ultimate goal of achieving FI. A delay perhaps but not be forced off course completely.

So, having an emergency fund and adequate insurances is part of my contingency plan on the way to achieving FI.

Emergency Fund

An emergency fund is basically savings that you set aside and can access quickly, specifically to deal with those unplanned and unexpected surprises.

Having a fully-funded emergency fund is empowering - you feel financially secure; you are confident you can face whatever surprises life throws at you.

"HAVING A FULLY-FUNDED EMERGENCY FUND IS EMPOWERING - YOU FEEL FINANCIALLY SECURE; YOU ARE CONFIDENT YOU CAN FACE WHATEVER SURPRISES LIFE THROWS AT YOU"

LATESTARTERFIRE
AUSSIE FIRE

There are many circumstances out of our control, which we may or may not be prepared to deal with emotionally or physically. The coronavirus pandemic is a case in point.

Not having to deal with financial woes while coping during these stressful situations is priceless.

How much do you need in your Emergency Fund?

When times are good - the economy is strong, the stock market is rising daily, you have a job - it is tempting to think you don't need much in an emergency fund. But when disaster strikes, we may regret that we haven't saved enough.

The conventional wisdom is to have enough for 3 to 6 months of expenses in your emergency fund. This will give you time to breathe, to take stock of your current situation and plan your next move.

But it really depends on *your* life circumstances. Questions to consider include:

How secure is your job? How soon do you think it will take for you to find another job? Perhaps you are self-employed - do you need an extra buffer if the business is going through lean times?

Are you the sole breadwinner? Do you have your partner's income as backup? Who else depends on your income?

If saving more than 6 months expenses gives you peace of mind and a good night's sleep, then that is perfectly fine. Do what is best for your life circumstances.

How will you save for an Emergency Fund?

It is daunting to think about saving 6 months or one year of expenses but it doesn't have to be done overnight. It may take you a year or more. Mine took me 19 months. Start with a goal of $500, $1000 but start, you must.

Look at every line item on your budget - is there anything that you can reduce or cut? It doesn't have to be forever. Once you have your emergency fund at a level that you are happy with, you can reintroduce those luxuries.

Any income earned from working overtime or side hustles? End of year bonus? Tax refund? Sold something on eBay? Anything extra goes straight to your emergency fund.

For me, the simplest way is to automate a weekly deduction from my pay. So, look at how much you can deduct from your regular income - and send that to a separate account weekly, fortnightly, monthly depending on your pay cycle. Set it up to be automatically transferred so you don't have to remember to do it every week. It may only be $20 per week to start but it will add up over months and years.

What if you are in a debt crisis? Should you still save for an emergency fund?

Yes, you should. Because you don't want to get into further debt if you have an emergency. Pay the minimum on all your debts and prioritise saving a $2000 fund. Once you reach this target, ramp up your debt repayment again but continue to save a smaller amount towards your fund until you reach your target.

Where will you stash your emergency fund?

An emergency fund should be readily available - you must be able to access it quickly. And it must keep its value.

To me, this is cash, cold hard cash.

You don't want to stash it in your stock portfolio, only to have it drop in value by 10% one day, up 5% the next. Yes, you can liquidate your stocks quickly and have access within 2 working days. But what if the stock market is having a bad run (pandemic, anyone?) - do you really want to sell your shares now and crystallise your loss?

Sometimes, on the journey to FI, we are very focused on optimising every dollar - what is the return on investment if I put $X here and how about $Y there? Are there opportunity costs if I just let a pile of cash sit in a high-interest savings account, doing 'nothing'?

To me, that cash is not doing 'nothing' - those dollars have a job - they are simply waiting to be deployed. I also appreciate its role in helping me sleep better at night.

High-interest savings accounts (HISA)

I prefer to stash my emergency fund in a high-interest online savings account (HISA), in a totally separate bank to my everyday transaction account. When I need the money, I transfer it online to my everyday transaction account and withdraw it via an ATM. It is just enough of a hassle that I'm not tempted to touch it for ordinary purposes.

In general, online savings accounts offer a higher interest rate as their overheads are much lower compared to brick and mortar banks. However, these days, even high-interest savings accounts don't earn much interest. At the time of writing, most offer less than 2% but the good news is that your emergency fund is safe from the volatility of the stock market.

Below is a comparison table of savings accounts with popular online banks (ING, Me and UBank) vs the 4 big brick and mortar banks:

Bank & product	**Base interest p.a. (if eligibility criteria for bonus interest is NOT met)**	**Bonus Interest p.a.**	**Total Interest p.a. (if eligibility criteria is met)**	**Eligibility criteria to receive bonus interest**
ING Savings Maximiser	0.1%	1.7%	1.8%	$1k monthly deposit into linked everyday transaction account + 5 debit card purchases per month
Me Bank Online Savings Account	0.1%	1.7%	1.8%	Make 4 Tap & Go purchases on linked everyday transaction account per month
U Bank USave	0.54%	1.06%	1.6%	Linked to USpend transaction account; deposit at least $200/month
NAB Reward Saver	0.05%	0.95%	1%	Deposit at least once on or before second last banking day of the month with no withdrawals
Westpac Life	0.4%	0.6%	1%	Balance is greater than the previous month
ANZ Progress Saver	0.01%	0.84%	0.85%	Make at least one deposit of $10 or more with no withdrawals in a month
CBA Goal Saver	0.1%	0.4%	0.5%	Balance under $50000; deposit $200/month with no withdrawals

As you can see from the above table, online banks offer much better interest rates.

The savings accounts in the above table all come with a bonus interest if certain eligibility criteria are met for the month. Each account has its own eligibility criteria. If this criteria is not met, the interest rate reverts to the much lower rate.

Most banks also offer short term savings accounts with a higher introductory rate that then reverts to a much lower rate after several months.

Choose an account that suits you and always read the fine print to ensure you know what to do to get the interest rate you want. There is no point in getting an ING account if you are opposed to using debit cards.

Don't get too wound up about the best interest rate - the important thing is to start saving and to have a system that works for you. The simpler, the better.

Government guarantee

The Australian Government guarantees up to $250 000 per account holder per authorised deposit-taking institution (ADI). This includes banks, building societies and credit unions.

But beware of different brands of banks operating under the same ADI eg. UBank and NAB or BankWest and CBA. If you have less than $250 000 combined in UBank and NAB accounts, you are covered. But if both your UBank and NAB accounts combined exceed $250 000, only the first $250 000 is protected.

This guarantee provides an extra level of security – your cash is in safe hands.

Where else can you stash your Emergency Fund?

Term deposits used to be popular, especially with the older generation. You lock your money away for a pre-determined time period for an agreed interest rate. It is inflexible - you can't add to it and you lose the interest payment if you withdraw earlier than the stated time frame. These days, the interest rates offered are not any better than online high-interest savings accounts.

Many people choose to keep their emergency funds in their mortgage offset accounts if they have one. This helps to lower your interest payable on the mortgage as interest is calculated on the difference between your mortgage and the balance in the offset account. But be aware that this amount is still owed to the bank. And when you close your mortgage account, you will need to save for an Emergency Fund from scratch.

Others have mortgage accounts that allow a redraw of excess repayments and consider this 'extra' money as their emergency fund. But beware, as banks can change their conditions any time (as in the case of ME bank recently) and 'absorb' the extra repayments which means suddenly your emergency fund is much smaller.

When will you use your emergency fund?

Define what an emergency is to you. Have a clear idea when the fund can be accessed. So you are not tempted to spend it on something frivolous.

When you do use it, make sure your most urgent priority is to replenish it to its original level.

Review and reassess

When your circumstances change, don't forget to assess if the target amount is still adequate. Has your family grown? Are you now self-employed? Alternatively, your expenses may have decreased, for example, you no longer have a mortgage.

Insurance

Life is unpredictable. Misfortune such as natural disasters, accidents and ill health can befall us at any time.

While an emergency fund of 3 to 6 months expenses can tide you over and give you breathing space, it is inadequate to rebuild your house should a fire destroy it, for example.

We may need to purchase insurance to further protect us from the financial ramifications of dealing with major misfortune. Once again, we don't want to derail our FIRE plan.

How much risk are you willing to live with?

It may seem that buying insurance is a waste of money - you are purchasing a product that you hope you will not use. Because if you do use it, it means that something bad has happened.

But how much risk are you willing to live with?

Regardless of which type of insurance you purchase, there are two questions to consider:

- What are the chances of a catastrophic event happening?
- What are the implications (financial and otherwise) if this event happened?

For example, the chances of a fire destroying your house may be low but the financial ramification is large if it did happen.

Do you have enough money to rebuild your house? Where will you live while your house is rebuilt? Can you afford rent? Can you afford to replace the items lost in the fire?

Buying home (and contents) insurance and paying an annual premium of $1000 may save you forking out hundreds of thousands of dollars to rebuild your house later.

Using these two questions, will you insure your mobile phone against loss or theft? Most likely not if you can afford to purchase another phone outright (that emergency fund comes in handy here). Or perhaps you are very careful with your phone and it doesn't leave your person at all times.

Do you need personal insurance if you are pursuing FIRE?

Personal insurance is also known as life insurance. There are 4 types of life insurance –

1. Life cover (or sometimes referred to as Death cover) - pay your beneficiaries a lump sum if you die
2. Total and permanent disability (TPD) - pays you a lump sum if you are injured and can never work again
3. Trauma insurance - pays you if you suffer a heart attack, has cancer or other major or critical illness

4. Income protection - pays you up to 85% of your income for a specified period if you can't work due to injury or illness (most policies pay 75%)

Only you can decide if you need insurance, based on your life circumstances. Besides the amount of risk you are willing to live with, there are 3 more questions to consider:

- Is anyone depending on your income - a spouse, children or elderly parents?
- Do you have debt?
- How far along the FIRE journey are you? How big is your nest egg?

In other words, what are the consequences to your dependents if you are injured or diagnosed with a major illness and unable to produce an income? Will your dependents be homeless if they can't afford to pay the mortgage after your death?

If you are at the beginning of your FIRE journey and you have dependents and debt, then an income loss due to an injury or a major illness may put you in financial hardship.

If on the other hand, you are single with no dependents and have paid off your mortgage, you probably don't need life cover. No one suffers financially should you die.

It all depends on *your* life circumstances and the amount of risk you are willing to live with.

For me personally, I am not concerned about what happens after I'm dead because I don't have any dependents and I am debt-free. However, I am terrified of being so badly injured that I may need round the clock care or expensive modifications to my car and house. Therefore, I continue to pay for TPD insurance inside my superannuation.

Self-insurance

There are some in the US FIRE community who eschew insurance and prefer to self-insure, most notably Mr Money Mustache.

The overriding question here is how big is your nest egg? Can your savings withstand the catastrophic events that may occur? And once again, how much risk are you willing to live with or pass on to your dependents?

Insurance inside superannuation

Life insurance is offered inside your superannuation - life (or death) cover, TPD and income protection, not trauma insurance. It is no longer automatic for those aged under 25 years old.

Fees are automatically deducted from your balance to pay for these insurances. Check your statement to see which type of insurance you are paying for and contact the super fund for more detail about the insurances - know what you are covered for.

If you have multiple superannuation accounts, you may be paying for multiple policies for the same type of insurance but you may not be able to make a claim under multiple policies.

Your insurances could also be cancelled if you have a low balance or the account is inactive for 16 months.

Switching superannuation funds could also jeopardise your insurance if for example, you have a pre-existing condition - the new super fund may not want to insure you.

Having insurance inside your super is convenient as the premiums are automatically deducted. The payments are not part of your budget as such but they reduce your overall retirement savings. The premiums are cheaper than those offered outside of super as the fund purchases insurance in bulk for its members. But the insurance may be generic and not specific enough for your needs.

If you choose to have life insurance outside of super, make sure you cancel those offered inside your super.

Ways to reduce insurance costs

Always read the Product Disclosure Statement (PDS) of your insurance policy and know what events are insured and what or how you will be compensated. You may be surprised as to what is or is not covered. Are you paying extra for top of the range insurance when a basic one suffices?

Most of us have a set and forget attitude with insurance. Do not automatically renew your insurance policy when it is due. Assess your needs - have your circumstances changed since the previous year?

In my case, the insurer automatically increases the sum insured for my home and contents insurance by 5% every year while premiums increase by 20%. I saved $600 by switching to another insurer, reduced the sum insured on both home and contents and increased my excess. For more details, refer to my post – Home and Contents Insurance – How I Reduced A Recurring Expense.

Check some comparison sites to make sure your policy is still competitive but be aware that not all companies list their products with a comparison site. Visit the company's own website and obtain a quote. Then contact your insurer for a better deal or to match a competitor's quote.

A note on comparing health insurance policies - use PrivateHealth.gov.au for independent analysis instead of commercial comparison sites. This site lists every policy available on the market.

The table below notes some of the broad issues to consider and ways you may reduce your premium for common insurances:

Insurance	**Issues to consider**	**Ways to reduce premium**
Home and contents	Do you need both home and contents? Eg a renter needs only contents while a real estate investor only needs home insurance Check the insured amount for building and the separate amount for contents What are the exclusions? Eg are you insured for flood or flash flooding? Are you insured for sum insured (an agreed maximum sum) or total replacement (whatever is needed to rebuild your house	Combined home and contents – usually a discount is available Reduce sum insured for contents eg after decluttering Reduce sum insured for home to reflect rebuilding costs Increase the excess Install locks or alarm Insuring for sum insured is less expensive than total replacement cover

	to the standard before the event)?	
Car	Do you need comprehensive or merely third party? If your car isn't worth much or you can live without it, you may only need third party Are you insuring for market value (car's value at time of accident)? Or agreed value (a fixed amount decided at purchase of policy)?	Third-party property is cheaper than comprehensive Increase the excess Age – over 25s pay a cheaper premium Insuring for market value is less expensive
Life (or Death)	The older you are with pre-existing medical conditions, the more dangerous your job is or the more high risk your hobbies are, the higher your premium Consider stepped or level premiums – premium calculated at each renewal (generally increase as you age as the chances of you dying increases) vs a higher premium at the start	Lifestyle changes – become a non-smoker or non-drinker Cheaper within super – check amount insured Cancel policy within super if you have one outside super Reduce sum insured as your debt decreases or you no longer have dependents (grown up, employed, no longer depending on you financially)
Income protection	Do you have access to sick leave? Are you covered for a percentage of your salary or an agreed amount? If your salary is less at the time of injury (compared to salary at the time of policy purchase), you will be paid a percentage of the lesser salary unless you are insured for an agreed amount.	The longer the waiting period (the time you must wait before you receive payment), the cheaper the policy The shorter the benefit period (the specified time period that you will receive payments), the cheaper the policy Cheaper within super but not tax deductible
Total Permanent Disability	What is the definition of totally and permanently disabled in your policy? Will it pay out if you can't do your job before disability (known as your own occupation) or if you can't do	Cheaper within super Cover for any occupation is cheaper than for your own occupation

	any job (known as any occupation)?	
Trauma	What serious injury or critical illness or cancer are you covered for? Do you have any family history of these illnesses? Can health insurance cover treatment? There are stringent criteria on diagnosis and exclusions	May be cheaper if bundled with Life insurance outside of super
Health	Covers hospital and medical costs not covered by Medicare Different levels – bronze, silver, gold, platinum – check which services are covered in each level What services do you need? If you are past child bearing age, do you need cover for assisted reproductive services? Extras – which services do you need covered? Can you save up for dental check ups or physiotherapy? How often would you use these services?	Extras cover is expensive if you choose to be insured for all services Increase the excess Age – some insurers offer a discount for 18-25 Lifetime Health Cover (LHC) – avoid 2% loading if you take up health insurance before you turn 30. Otherwise loading applies on top of premium for every year you are not insured after 30.

The above table does not list every single issue to consider when purchasing insurance. Please consider your own circumstances and what is important to you.

A good resource is moneysmart.gov.au

Final thoughts

We pursue Financial Independence to attain freedom, to have choices, to be financially secure.

Preparing for emergencies by having a fully-funded emergency fund and adequate insurances help us withstand financial setbacks and ensure our FI plan's resilience, thus enabling us to be on track to achieve FI.

About Latestarterfire | latestarterfire.com

Latestarterfire began her FIRE journey at 47 years old. She writes about her wins and struggles as a late starter on her blog, Latestarterfire. She is passionate about sharing other late starters' stories to encourage all that it is never too late to start and to learn from each other.

PART 3: SPARK YOUR FIRE

Chapter 11: Why you should invest ASAP

By Kate Campbell, How To Money | howtomoney.online

Considering that you're reading this guide, I'm sure that you've either thought about or have already started investing. Without investing, FI is going to be very difficult to achieve for most people and whichever form of investing you pursue, it's essential that you start as soon as possible. In this section of the guide, I'm going to show you just how important it is to start investing ASAP!

Making Choices

"Money can't buy love, but it does buy power and choices. Money gives us choices about where to live and enables us to follow our dreams. Money can enable you to go and do what you want with confidence. You can control money; it doesn't control you."

Source: *The Joyful Frugalista* by Serina Bird

Over the past few years interviewing many people about personal finance-related topics, the most common advice I received from guests was to start as early as possible. Now they weren't always talking about investing; it's also really important to start learning about personal finance topics and investing yourself and your career early on. Sometimes we can get so caught up before getting started, that we can delay actually doing anything for years. But here's the thing, not doing anything is still a choice. By not making a choice, something or someone will make the choice for us. The risk of leaving your cash sitting in the bank account is huge, not only in the opportunity loss but primarily because of the silent killer of wealth, inflation.

No one wakes up overnight knowing exactly what to do with their finances and it requires hard work, but you do have to make the decision to take the first step. I like to think about it as starting a lifelong personal finance journey, where you take one step at a time and each thing you learn builds on the last as you grow. By recognising that you don't need to have it all figured out to get started (most people don't), you can make the choice to start at any age and take back control over the financial path you're taking.

Getting Started Early

Winning a game of monopoly requires patience, skill, negotiation, cooperation, hard work and a handful of luck. You feel the elation of winning, the disappointment of being broke and the frustration of continuously paying rent and tax to someone else, all in one simple board game. Sometimes you move one step forward only to take two steps back, and it feels like you're running in circles.

There are many similarities with playing monopoly and this game we call life. There are winners, losers and those who just get by. Some people make their wealth through chance, others through strategy and skill and many just get there through making sound decisions over a long period of time. There's proven paths that you can follow and rules that make the entire game that little bit more straightforward. The great thing is that with the availability of information nowadays, you can work out the rules of the game for yourself, and build wealth through investing.

Investing isn't only for the wealthy and it's not just for the brainiacs, and you'll be surprised to know it's something you can do with just $5. Despite what you may think, investing is accessible to everyone in Australia. The ability to purchase a share does not discriminate based on education, gender or the size of your bank balance. You can get a perfectly respectable return without too much thought at all - go check out the magic of **ETFs**! For most people investing isn't about the charts, numbers and inside scoop, it's about finding a simple, cost-effective and diversified solution that you can put in place and monitor, making the occasional adjustments.

"INVESTING ISN'T ONLY FOR THE WEALTHY AND IT'S NOT JUST FOR THE BRAINIACS, AND YOU'LL BE SURPRISED TO KNOW IT'S SOMETHING YOU CAN DO WITH JUST $5"

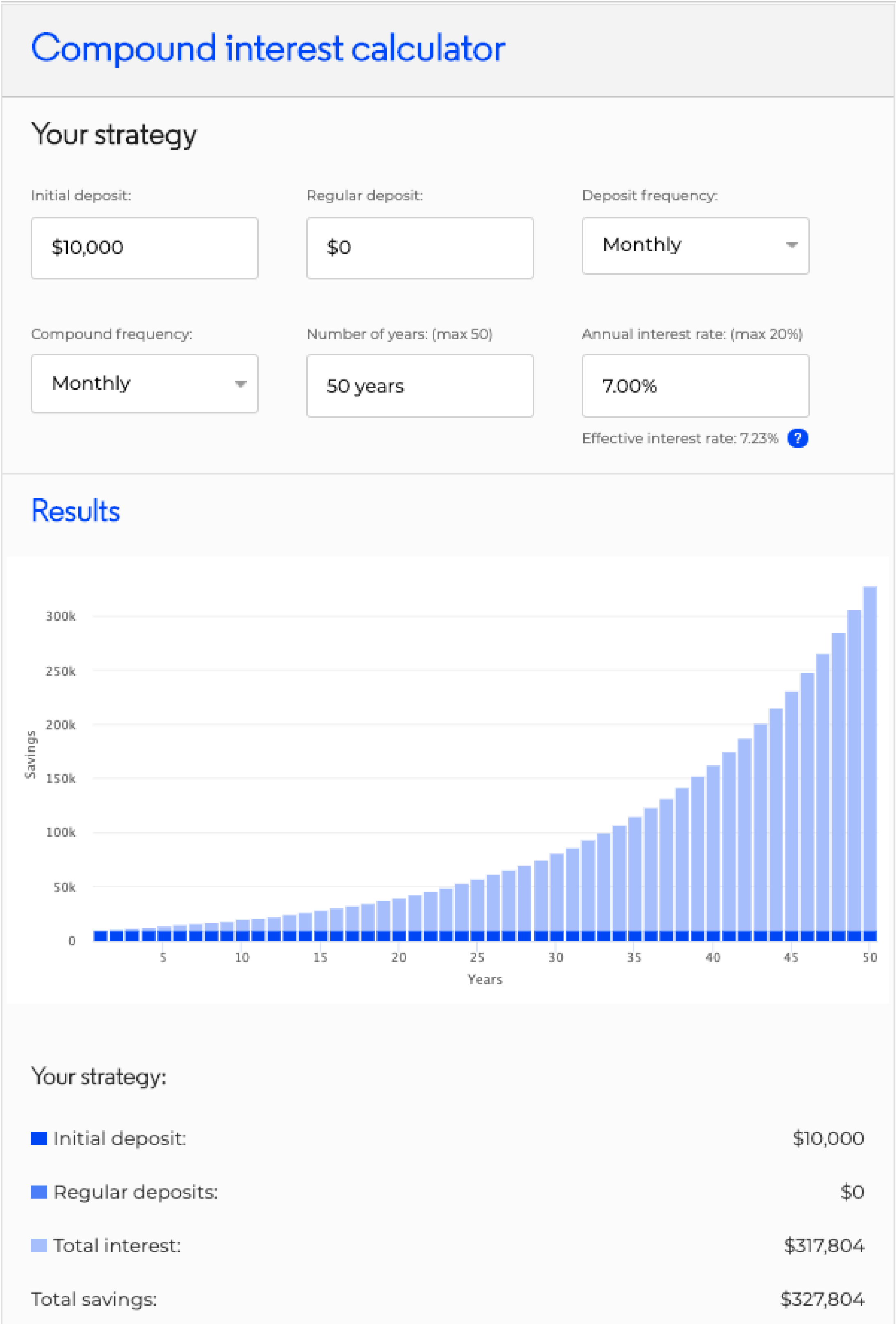
KATE @ HOW TO MONEY
AUSSIE FIRE

Your first investment doesn't need to be the next big stock that your roommate told you about or some insane leveraged product. Throw showing off out the window, because no one will care down the track that you found something more exciting than them to invest in, and your brokerage account will thank you. Now that's not to say that once you're confident with the basics you don't step up your game and start incorporating different products or analysing your own stocks.

As my friend Owen from Rask Finance puts it, investing is about little bits, lots of times. And it works! Having a small starting balance and committing to a regular contribution plan, is leaps and bounds beyond waiting years until you have what you believe is a big enough chunk of cash. Just look at the numbers if you don't believe me - and I certainly encourage you to visit the ASIC MoneySmart Compound Interest Calculator to play around with these numbers for yourself!

I know how scary it can be when getting started with investing, you're putting your hard-earned dollars into companies, properties, bonds and other investment products that have big warning labels on the side. "Past performance does not equal future performance", "high risk", "general information only", "returns not guaranteed" and many more. However, we can look historically at how different asset classes globally have performed and see just how much of a difference investing just

$10,000 has over someone's lifetime. Vanguard has a fantastic tool to explore global asset classes over the last five decades.



When you're investing, you're also hopefully optimistic about the future of Australia and our global economy. You're putting your money in companies that will take us into the future and making the assumption that the world will be a better place in the next few decades. Many people in the finance industry will tell you that there's nothing free when it comes to investing, except perhaps compound interest.

The Magic of Compound Interest

If you've ever wondered how people turn $1000 into enough to retire from, the secret weapon behind this is compound interest. Okay, so it's not as magical as Rumpelstiltskin turning straw into gold, but I'd say it's pretty close. The essence of compound interest, is that your money grows over time as the income and capital growth on your investments compound. It's often depicted as a snowball, the longer you let it roll down the hill and the more snow you feed it, the bigger it gets. Investopedia has a great breakdown here.

"THE ESSENCE OF COMPOUND INTEREST, IS THAT YOUR MONEY GROWS OVER TIME AS THE INCOME AND CAPITAL GROWTH ON YOUR INVESTMENTS COMPOUND"

KATE @ HOW TO MONEY
AUSSIE FIRE

If you start investing just $250 per month and continue doing so over the next 50 years, your little snowball will grow into a life-changing amount. So, let's break down some of the numbers.

Amount Invested (pcm)	25 years	50 years
$250	$202,518	$1,362,018
$500	$405,036	$2,724,035
$1000	$810,072	$5,448,071

If you want to hop on the fast train to FI then you're going to need to invest much more money on a regular basis, as you'll have a much shorter timeframe to let compound interest work its magic. Let's have a look at some calculations.

Amount Invested (pcm)	**10 years**	**15 years**
$4,000	$692,339	$1,267,849
$5,000	$865,424	$1,584,811
$6,000	$1,038,509	$1,901,774

The fast route is certainly possible for some people, however, it's important to make sure that your FI goals don't stop you living a meaningful and fulfilling life. If you're currently in a stage of life where you're making a significant income, selling a business or inheriting money, take advantage of this by putting a large portion towards your FI goal. Otherwise, focus on a more sustainable route towards FI that you can stick to over the next few decades, while compounding works its magic on your investments.

Head over to the ASIC MoneySmart Compound Interest calculator to try out these calculations for yourself. Another place to plug in the numbers and see what might be possible for your own situation, is the Money School FI Supply Calculator.

The next thing to think about to ensure that you maximise your ability to compound your returns is automating your finances. One of my favourite personal finance writers who talks a lot about the importance of automating your finances is Ramit Sethi.

"By setting up a bulletproof personal finance system, you can start to dominate your finances by having your system passively do the right things for you. It will help you automatically manage your money, guilt-free, for years to come."

Work out your plan and spend some time to implement it. You'll be thanking yourself in years to come and make your financial life immensely less stressful.

Making Mistakes Early

Of course, it's better to make mistakes early on in your life, but we don't always have the luxury of starting our investing journeys straight away. The most important thing to remember is that you need to make the mistakes yourself. You might choose to use a financial adviser and accountant to help you with everything, but you need to make sure that you're fully involved in that process and taking ownership of your financial future.

No one is ever going to care about your finances and your future like you will. You can pay people that are incentivised by money, reputation and hopefully a desire to help you, but they will never have the same passion for building a life that you love that you do.

If you're working towards your FI goal over the next few decades, the most effective approach to start with now is investing small amounts, lots of times. Don't focus on investing everything at once, just work out a plan and start investing on a regular basis. At the beginning of your FI journey when you're just getting started with saving and investing, it can feel like a lifetime before you reach your first $100k and like you're never going to get to your FI number. However, that's exactly why it's so important to build an investment plan that's sustainable for your life and ensures that you can maximise enjoyment over the coming decades, while also achieving your goals.

If your FI goal is making you miserable, then it really needs to be re-evaluated and changed. There's absolutely no point working your butt off to getting towards this goal and not actually enjoying your life in the meantime.

Mistakes to Avoid

When you enter the world of investing for the very first time, everything looks like a potential opportunity, and everyone online will be telling you something different. Look one direction, you'll see someone promoting CFD trading, another way they'll be spruiking stocks and turn around to find another IPO for the next big thing! I get it, I really do, everyone's got something to sell or a point to get across, and maybe it really did work for them, but investing is already confusing enough without all these distractions.

But that's what they are, distractions, and you don't want to waste years of opportunity and your hard-earned money chasing the next big thing. Investing can actually be quite simple if you can look past all the distractions and get rich quick schemes. Remember all that glitters is not gold - sadly I didn't come up with that one myself!

To save you some time, here are 10 ways you can lose money when investing. Obviously, this is not an exhaustive list, but it's a few things to be mindful of when you are navigating the minefield that is Google.

1. The Great Aussie BBQ Tip
2. Online Forums & Stock Pumpers
3. Not questioning a free lunch/seminar/portfolio review
4. Trends (eg. lithium, drones, marijuana, crypto, silver)
5. IPOs & Crowdfunding
6. Your investments are in someone else's name
7. The returns promised are out of this world
8. You send your money off to the Cayman Islands in efforts to evade tax
9. Deciding you're the next big day trader
10. Having no idea what you just invested in

Whether it's a stock, managed fund or property make sure you do your research before making an investment. Ensure you understand the costs, risks, management and read the appropriate documents before committing your hard-earned cash. Check out this ASIC MoneySmart Guide for more information on making informed investment decisions.

So, what are you waiting for? Investing is now accessible to anyone with an internet connection and a bank account. Continue making your way through the rest of this fantastic resource and remember to start investing ASAP.

About Kate from How To Money | howtomoney.online

Kate Campbell is the founder of How To Money. Kate created HTM from a passion to help young Australians start talking about money, and share the resources she finds along her financial education journey. This led Kate to start her own journey to financial independence a few years back and she now works in the Australian financial services industry.

Chapter 12a: Why FI loves shares

By Ms. FieryIce, Two to FIRE | twotofire.com

What investment options do you have?

You've made up your mind to start investing. The next question you ask is - Where?

A quick Google search throws up two main categories - Property and Shares.

We've all grown up hearing of the Great Australian Dream. Get a job, make some money, put down a deposit on your dream home and then live happily ever after. This was the grow-rich-scheme that worked for our parents and their parents. But today's world is very different.

Property is at an all-time high, some would even say that it's enveloped in a bubble. That means that you have to put together a lot of equity just to be able to enter the market in the capital cities. And if you're looking to buy in Sydney or Melbourne, the upfront payments for a good property are even more formidable. Then of course there is the aspect of taking out a home loan and paying interest on the borrowed money. Ongoing maintenance expenses on the property in the form of Strata Fees, Council Fees, etc. apart from actively dealing with tenant management and other issues also take up a fair bit of time, effort and money. And if you want to divest, property is not that easy to sell, making it an illiquid asset. Property investments of course can feel more secure being bricks and mortar, have a high emotional value and their value can be less volatile.

The other option then is Shares. But you don't know anyone who invests in shares. Your parents didn't do it, your friends don't do it and neither does your neighbour. Warren Buffett is perhaps the only investor you know of. The only time that you ever sit up and notice the share market is either when it's touching newer heights or when it's tanking. And how do you even invest in shares?!

These are all great questions. And while they seem intimidating, they are all very surmountable. Most people in FI invest at least some, if not all, of their portfolio in shares. Here's why.

Shares demystified

Shares or units of corporations are nothing but a small portion of their ownership.

When a business starts out, its shares are typically held by the founders and perhaps some employees. As it grows, its need for capital grows and it starts to add more and more investors who provide it with more and more capital.

When you buy a share of an entity, you effectively become an owner of the enterprise, albeit a small one. This entitles you to the profits that the corporation generates. There are two ways that these profits are passed onto the shareholders. It is either distributed in the form of Share Dividends or is reinvested into the company for growth which leads to an increase in the share price leading to overall Capital Growth.

When a business becomes large enough and its need for capital becomes big enough, it can go 'public'. This means that new shares of the business are issued and sold to the public for cash. These public shares are then listed and traded on stock exchanges such as the Australian Securities Exchange (ASX), New York Stock Exchange (NYSE), etc. Listing with an exchange comes with a lot of compliance requirements and public oversight, significantly reducing the associated level of risk. The price at which these shares are traded is dependent on the demand-supply of the shares which effectively is dependent on the health of the business, the sector in which it is in and the economies in which it operates.

Investing with shares

Getting started is easy

It is pretty easy to get started with share investing. All you have to do is register with a share broker and you're set. Brokers come in all shapes and sizes, starting from low-cost online brokers like Pearler and SelfWealth, to online robo-advisors such as StockSpot & Raiz, to more traditional brokerages such as CommSec, NAB Trade, etc. The entry barrier to share investing is also pretty low. You can start buying shares with as little as a few thousand dollars especially with low-cost online brokers & robo-advisors. The entry barrier is a bit higher with traditional brokerages.

Passive income

What makes investing in shares unlike anything else is that the income you derive from them in the form of Dividends is completely passive income. Meaning that all you've had to do is provide capital to the corporation. Once you do that, the corporation's hardworking employees start working for you, with their sole motive being shareholder value growth, while your own involvement is completely non-existent.

Investment diversity

The biggest differentiator that share investing offers is that depending on your choice, you could invest in any asset class such as bonds, gold, equities and even real-estate. You could get exposure into any industry in the world, ranging from Oil & Gas to Pharma to Tech. Geographic limitations don't apply to you either. Sitting in Australia, you could invest anywhere in the world; in developed economies such as the US and Europe and even emerging economies such as Asia, South America & Africa.

High liquidity

Because these shares are publicly traded on the stock exchanges, you can liquidate and exit at any time. This allows for a tremendous amount of flexibility in the management of your portfolio and even cashing out if for some reason you require funds urgently.

	Stocks	**Property**	**Gold**
Ease of Starting	High	Low	High
Passive Income	High	Medium	Nil
Investment Diversity	High	Low	Low
Liquidity	High	Low	High

Stock investment strategies

Just like diet fads, a new type of stock investing strategy emerges every few years, but almost all of them fall within the following four major categories.

Value investing

The basic premise of value investing is that stock markets are irrational and that there are good companies on the market that are currently undervalued. Value investing requires considerable fundamental and technical research on the part of the investor who is looking to unearth these hidden jewels. Once found, the value investor invests significantly into these undervalued companies with the expectation that in time the markets will correct themselves and these undervalued companies will start trading at their real value. Value investors, therefore, rely on getting a great deal when buying. Our good, old Warren Buffett falls within this category.

Growth investing

Growth investing has been traditionally seen to be the diametric opposite of Value investing. It relies on finding stocks that have the greatest growth potential in the future. Growth investors also spend a lot of time determining which industries will see the greatest growth and which companies within those industries are poised to be the driving engines. At the time of investing, a growth investor is not bothered about whether the shares are undervalued, overvalued or right-valued. They are only looking at the future. Most tech investors that got into the likes of Apple, Facebook, Netflix, etc. would fall within this category.

Dividend investing

This is a strategy in which the investors buy stocks that have historically offered high dividends, in order to create a regular revenue stream from dividends. These stocks typically belong to well-established companies that distribute their profits back to their shareholders. A lot of retirees prefer this type of investing strategy.

Index investing

In contrast to value, growth & dividend investing which require active stock-picking, Index investing offers a much more passive approach. Investors attempt to generate returns similar to a broad market index such as the ASX 200, S&P 500 or even specific currencies such as the USD or commodities such as Gold. Exchange Traded Funds (ETFs) have been the flag-bearers of this methodology. ETFs are financial products that trade on the market and provide exposure to underlying shares and other assets such as bonds, commodities, real estate, etc.

Index investing is a particular favourite for FI, not only because it is hands-off, but also because many studies have shown that over the long term index investing almost always outperforms most stock-picking strategies. Even Warren Buffett touts the advantages of low-cost index investing over stock-picking for smaller investors when he says "By periodically investing in an index fund, for example, the know-nothing investor can actually outperform most investment professionals. Paradoxically, when 'dumb' money acknowledges its limitations, it ceases to be dumb."

However, if you are more inclined to go with Value, Growth or Dividend Investing but do not want to spend the time researching and picking, you could choose to invest in a Managed Fund. Managed Funds pool money from different investors which is then invested by an experienced fund manager. Many different types of Managed Funds exist in the market with different types of investment themes to satisfy almost every type of investor.

	Value Investing	**Growth Investing**	**Dividend Investing**	**Index Investing**
Share Attributes	Under-valued	High-growth	High dividend yield	Index
Stock Picking	Active	Active	Active	Passive
Knowledge required	High	High	High	Low

Dividend Income	Medium	Low	High	Medium
Time investment	High	High	Medium	Low
Investment Fees	-	-	-	Low

Taxation & Franking credits

FI is all about maximizing your saving rate. That can be done either through increasing your income or minimizing your expenses. One key component of expenses which a lot of us fail to consider is taxation.

Whenever you earn any income, be it through labour or through capital, the government will take its pound of flesh, but what's interesting is that income from labour is generally taxed at a much higher rate than income from wealth. What does that mean? In simple words, it means that your salary attracts a higher tax than the returns that you make on investments.

Another key nuance of taxation which is very typical to Australia is Franking Credits, which further helps in reducing the tax on capital income. And as we learnt from the 2019 Aussie elections, franking credits can make or break governments.

Here's a quick primer on how each component of your income is taxed.

Income from Salaries

This is the one that you would already be most familiar with. At the end of every financial year (FY), you provide a summary of what you earned to the ATO and they calculate how much income tax would be levied on you. The rate of taxation depends on your income bracket and the rate that you get charged is called the marginal tax rate. For a yearly income of more than $90,000, your marginal tax rate would fall somewhere between 32.5% - 45%.

Income from Dividends

The dividends that you receive from your investment in shares are also considered a part of your Income for that FY and are required to be taxed at your marginal tax rate. But that's where Franking Credits come in. Franking Credits are a mechanism to avoid double taxation of profits. So when a company pays corporate taxes, it gets an equivalent amount of franking credits, which it can pass on to its shareholders along with any dividends that it pays them. The shareholders will show this Dividend received as an income in their tax returns but will also be able to show the franking credits as a deduction, meaning that they will effectively be required to pay taxes only on the unfranked portion of the received dividend.

Capital Gains/Losses

Capital Gains arise when you sell an asset such as property or shares at a price that is higher than what you bought it at. If however, you sell your capital assets at a lower price, it is considered to be a Capital Loss. Capital Gains are also taxed at your marginal tax rate, but if you have held onto your capital asset for any more than 12 months, your Capital Gains Tax is automatically reduced by 50%. In case you've made a Capital Loss, then you are allowed to set it off against any other Capital Gain that you would have made that year or else you are allowed to carry that loss forward to future years.

Key fundamentals of investing with shares for FI

Investing with shares can seem somewhat daunting when you're starting out. When do you enter the market? How often should you invest? Which shares/ ETFs should you buy? What if the markets are volatile, what should you do then?

There are some key fundamentals for FI that would make this whole process simple and streamlined.

Develop an investment plan

This is perhaps the most critical step to any form of investing. Understand your cashflows. Determine what your investment horizon is and how much risk you are comfortable taking. This will help you narrow down to the asset allocation that is ideal for you. That asset allocation will help you determine what percentage of your total investment should be investing into shares along with what type of share investment strategy would be best for you. It will also help you define how you should look after your investments over time.

Minimise investment costs

A key goal for FI is increasing the savings rate. It is therefore imperative that in your decisions regarding share investments, you keep this key fundamental firmly in mind. When choosing a stockbroker, critically evaluate their brokerage charges and overheads. Often it is best to choose low-cost online brokers or robo-advisors. The same factor should also come into play when selecting between different ETFs, Managed Funds, etc. Not only should you choose a product that has performed well historically, but take into consideration their management fees. A higher management fee could significantly dent the returns that you can stand to make over the long term.

Invest consistently

It is easy to fall into the trap of wanting to time the market to make the most of your investments. But that almost never happens. It's impossible to determine when the markets are at their top or when the next downturn is coming. The strategy that works best with share investments is that of consistency. Chalk out how often you can invest in the market. It could be weekly, fortnightly or even monthly and then keep that timetable. What consistency does is that it allows you to take the benefit of dollar-cost averaging, which will let you ride through the market volatility mostly unscathed.

"THE STRATEGY THAT WORKS BEST WITH SHARE INVESTMENTS IS THAT OF CONSISTENCY. CHALK OUT HOW OFTEN YOU CAN INVEST IN THE MARKET"

MS. FIERYICE @ TWO TO FIRE
AUSSIE FIRE

Diversify your investments

Diversification is a risk management strategy that helps you reap more stable returns from your investments. It's good to have exposure to all major asset classes such as equities, bonds, gold and real estate. Given how globally connected we all are now, it also makes sense to diversify your assets geographically. Diversification balances your investment portfolio, which means that you're never overly reliant on a particular type of investment. And because some of these assets classes are inversely correlated to one another, meaning when one goes up, another goes down, it'll leave you squarely in the middle with stable returns.

Be in it for the long term

Share markets are volatile and investor biases abound. Every decade or so the global economy and in turn the share market goes through a slump. So in your investment lifetime you will see a lot of ups and downs. Don't let these scare you. Keep your head down and continue investing. Remember you're in it for the long term. Whatever may happen in the short term, there is no better way to grow capital in the long term than investing in the share market.

About Ms. FieryIce from Two To FIRE | twotofire.com

Ms. FieryIce is one half of Two To FIRE, a Sydney-based couple of 30-somethings. Despite our background in finance and analytics, we were clueless about FIRE until 2019. Having realised the power of its principles, we have started our journey towards Financial Independence. We write about our experiments with investing and personal finance at www.twotofire.com.

Chapter 12b: Diversifying with other assets

By Captain FI | captainfi.com

When it comes to constructing your portfolio, you can get by with really only a few key principles; Live below your means, invest in diversified, low cost, total stock market index-tracking funds (such as Exchange Traded Funds or good quality, old school low MER Listed Investment Companies), and keep a small cash buffer for emergencies. As you transition from the accumulation into the retirement phase, you will need to hold more cash or fixed interest in order to smooth out the volatility and protect yourself from having to sell your shares at a loss or make up for reduced dividend payments. That is really all there is to it - but of course, no one wants to believe that it is this simple.

"THAT IS REALLY ALL THERE IS TO IT - BUT OF COURSE, NO ONE WANTS TO BELIEVE THAT IT IS THIS SIMPLE"

CAPTAIN FI
AUSSIE FIRE

But what about those other asset classes? Let's take a look.

Bonds

Bonds are basically the same as a term deposit from your bank. You lend your money for a set period of time, and then at the end get it back with some interest paid along the way. Except it's other people borrowing your money; governments, businesses etc.

Ever heard of the term war bond? These were issued by the allied governments during the war to raise funds for war fighting equipment, an IOU to the citizens to be repaid back with the spoils of war. Bonds once issued can be bought or sold on a secondary market just like a stock. The thing about bonds is that when the interest rate drops, new bonds come out with a lower coupon rate (they pay less interest). Which means the original bonds, with the higher coupon or interest rate, go up in value. Bonds are also seen as a 'safe' alternative to shares, since they pay out a known income - great if you're a retiree looking for regular grocery money.

These factors mean that when the market drops and spooks investors, many flood into the perceived safety of bonds; making bonds and stocks move in opposite directions. Similarly, bonds could be called an inflation hedge; as a market deflates, currency increases in 'value' and interest rates decrease, they go up in value. Conversely, as the interest rate increases, the older ones go down in value (because the newer ones pay more interest)

Cash and fixed interest

The current financial planning industry might suggest your portfolio be something like: your age as the percentage of cash and fixed interest(bonds) you hold. This means if you were 20 years old, you hold 80% stocks (domestic and international) and 20% fixed interest (a mix of cash and bonds). To me, this sounds excessive, and the portfolio drag is unacceptable; the fixed interest lowers your volatility day today, but also lowers your total long term return.

As a 20-year-old, conventional work has you going another 40 maybe 50 years before retirement, why on earth would you care about volatility if you had half a century ahead of you? - do you really need bonds dragging your long term return down this whole time? I think you really only need to consider fixed interest during your drawdown phase, (once you've FIREd) and some starting suggestions could be;

- Your age divided by 5,
- 5-10% of your portfolio worth; but
- A year or two of living expenses is probably a better metric. It all depends on your cost of living or 'burn rate!'.

There are some studies that show the benefits to holding a small amount of fixed interest in your portfolio, but since I am disciplined, like to keep things simple, and am in the accumulation phase I just keep a small cash cushion of up to $2000 to cover unexpected emergencies. Once I transition to the drawdown phase, I expect to keep a year worth of living expenses as cash (about $20K). If you have businesses or other streams of steady passive income like royalties, intellectual property rights or websites then your cash buffer probably doesn't need to be as big

Commodities and precious metals

So what about commodities or precious metals? Well let's not start the conspiracy theorist debate about fiat currencies going to zero and Gold being the only safe asset... YES, Gold is money. Gold is a store of wealth. Fiat currency is currency, not money. Gold slowly grows in 'currency value' over time because it is a hedge against inflation; as the fiat currency slowly inflates as per Reserve Bank controls, you need more of it to buy the same amount of gold. But the gold itself doesn't really do anything.

Warren Buffet (regarded as the most successful investor in the world) once said he could buy the biggest block of gold around and he could just stand around and marvel at it all day - but it still wouldn't do anything for him; which is why he is focused on buying productive assets like stocks. Gold is a defensive play, a non-productive asset that is really just a hedge against inflation, a bet against the economy and a tool of fear; in the long term it underperforms productive assets. But in the short term, it could move in the opposite direction to stocks as people fear an impending crash.

Investment Properties

Personally I also invest in property; seeking cash-on-cash yield and the power of leverage to accelerate my journey to financial independence with minimum deposits and interest-only loans (I treat this like a business and divorce all emotion from the dealings).

Property is great for the accumulation phase, but in the drawdown phase having equity locked up in a property can be troublesome; just like appreciated values (capital growth) of shares, you have to sell it to realize and live off the gain.

Property is not as frangible or liquid as shares and this is why most FIRE people end up switching from property in the accumulation phase into ETFs in the drawdown phase. But if you have solid fundamentals, a low interest rate interest-only loan, and a high yield property with low capital growth (such as a block of units in a regional area), then this could be an ideal FIRE asset for the drawdown phase.

See Chapter 19 for more about property.

Putting it all together

OK so now we have a bit more of an understanding of a few of the different asset classes, but there are far more out there. How do we put them together to make a portfolio? And then what about further subdivisions within an asset class? Well this is the crux of the problem.

No one really knows, and those who tell you they do and can quantify risks in the future are liars. You can get somewhat of an idea by quantitative analysis of old data, but past performance is no indicator of future performance. What is risk anyway?

Risk is conveniently described as the probability that something bad will happen. So can we assign a probability that the stock market will fall or crash? Unfortunately, no one can predict the performance of the market; whilst efficient, it is certainly not rational.

The old data shows that in the long term, investing in stocks is the highest yielding asset. We can also look at company fundamentals or so-called 'technical stock analysis'; would you buy a company because they are the 'next hot stock' and are tipped to grow massive, or would you buy a company with low debt, great sales performance, a powerful business 'moat' (such as trademark or copyright on a novel process) and a track record of increasing dividends? I know what I'd be investing in.

We know the risks associated with trying to pick stocks, and the benefits (financial and psychological) of omitting this process altogether and adopting an index-based investing approach.

But even an index investing approach will still fluctuate and subject investors to some gut-wrenching volatility as the stock market moves and are continually priced every few seconds! At its extreme, volatility can also mean 'crash' with a short bear market causing prices to fall by 20% or more within a week or so. Any less than that is usually called a 'correction'. The good news is that these bear markets are usually short-lived and tend to recover within a few years; which is why a sensible cash buffer, a low cost of living and a diversified stream of passive income will allow your portfolio to be 'crash-proofed'!

Crash proofing your portfolio

While you can't predict a crash, you can't really 'crash-proof' your portfolio - the capital value of your shares will go down! The trick here is just not to sell them when they have gone down; don't worry about the price - capital values are irrelevant if you don't plan to sell anyway and are looking to dividends for income.

Consider dividend yield; during the 2008 Global Financial Crisis, share prices dropped around 50%, but their dividends were only cut by around 20% - hence why investors in Aussie Dividend shares like Peter Thornhill were not really that worried - the old school 'Grand-daddy' Listed Investment Companies he had invested in continued to churn out pretty solid fully franked dividends. Further, a solid cash buffer accounts for the reduced dividend during such a market recession, and you can draw this down until such time as the dividends or market recovers.

There is no magic solution, there is no reward without risk. If you want to think you have a magic solution, go pay a financial advisor heaps of money to get a false sense of security. They will tell you to invest in non-correlated asset classes like the 'all weather portfolio'… In reality, in my limited experience and opinion, the best you can do is invest in all equities and keep a sensible cash buffer to even out the volatility; maybe a year or two of expenses. The more important thing in this equation is to be frugal and keep your expenses low.

Keeping this cash buffer is the key to not having to sell during a market downturn when you're in the drawdown phase. As you transition from the accumulation phase (where you only need a very small cash buffer due to your regular high income) into the drawdown phase, you might consider a smallholding of bonds or fixed interest to complement your emergency cash buffer.

Portfolio rebalancing

Rather than portfolio tinkering, something can be said for the benefits of portfolio rebalancing at set time intervals. This means at regular intervals (once or twice per year) to sell your highest performing assets and reinvest into your lower-performing assets to get your portfolio ratios back up to your pre-defined splits.

This really only works properly if it's automated and time-based, you have a good idea about what your splits should be, and you don't let your personal bias get in the way. Because in effect yes you would have bought low and sold high and achieved the market timing everyone is desperate to benefit from.

But remember - Trying to time the market and jump between assets is akin to madly switching lanes in peak hour; it doesn't really get you anywhere and the risk is immense! Brokerage and tax implications can also be factors here, but the bigger benefit is automation and having zero emotion involved.

Automate your portfolio

Awesome ways to automate your portfolio are to simply set an automatic payment from your bank account into your brokerage account. When your brokerage account exceeds your minimum buy size, make your purchase. I personally do this and am trying to buy $3000 worth of index fund ETFs or LICs each fortnight.

There are a number of other ways to automate your investing, like using robo-advisors or Bpaying directly into funds such as Vanguard's retail/wholesale funds, but these approaches all cost you more management fees. If you are not disciplined or have only small amounts to invest then these could well be cost-effective ways for you to invest; but when you're serious about investing then going through an Accredited stock exchange sponsored broker is the only way to go (in Australia this means being CHESS sponsored).

Dollar-cost averaging versus lump sum investing

Studies show lump sum investing is best; invest money as soon as you get it! This is because the market rises for longer than it falls; steady bull markets may continue to slowly rise for 10 years while a rapid sharp bear market may only last 1-6 months. Governments control inflation using reserve banks to ensure a target positive rate of around 1-2%; this promotes a bull market with rising equity values.

Continually investing income as soon as you get it is actually BOTH lump sum investing and dollar-cost averaging! Despite being statistically the better option, Lump sum investing can be psychologically very stressful; if you are not able to stomach investing $50K in one hit, perhaps try doing 5x$10K trades each month. Investing isn't just about the numbers and ultimately you have to be able to sleep at night.

Morningstar Analysts have written about this in detail with examination of past 'simulated' portfolios, and two articles for further reading are *Going all-in versus drip feeding your portfolio* [Bourlioufas, 2018] and *The dollar-cost averaging myth: why lump sum investing usually wins* [Lauricella, 2019]

Day trading; timing the market

Some people advocate for jumping in and out of the market or between asset classes to profit from these assets moving in different directions? Buy low sell high right! Haha slow down bucko, the human brain just doesn't work that way. Studies show actually, the majority of investors buy high and sell low! So when stocks are soaring you get FOMO and buy some, whereas when they crash you worry about them going to zero and you sell; this is because the human brain is more conditioned to avoid loss than it is to embrace gain!

The best investors are actually those who have forgotten they had money invested, or who are dead! Why is that? Because they don't tinker with their portfolios. Timing the market just doesn't work. This again goes back to the adage that markets will recover quite efficiently from crashes, so just give the thing time!

Globally, in the short term (under 5 years), the majority of active day traders and fund managers underperform the index. As you draw the time-frame out to medium term (15 years), the number of active traders underperforming the index approaches 85% [Perry, 2018], and in the long term (30+ years) this number approaches 99%.

To explore this more, read up on JL Collins blog and book 'The Simple Path to Wealth' as well as Pete Adeney's 'Mr Money Mustache' where they explain it quite well. Further reading and specific articles on the quantitative analysis behind actively managed vs index funds can be found online at the American Enterprise Institute, CNBC markets and the Australian Financial Review.

Summary: How Captain FI invests

Personally, I invest through the ASX in a split of three ETFs to gain exposure to the Australian, US and world economies: A200, VTS and VEU (listed and cross-listed on the Australian stock exchange).

I also consider investing in old school LICs such as AFI, MLT, ARG and BKI: but only if they are trading at a discount to their net asset value - which means I am picking up a bargain. When I do my yearly portfolio rebalancing I'll check if these are now trading at a premium; if so I usually sell them and instantly buy ETFs.

I also invest in property, through cash-flow-positive rentals. These provide a small cash in hand yield and capital growth which provides me with a growing equity. As I transition to the retirement phase, I will seek to either refinance to extract equity (to invest in ETFs) or sell the property; either way I plan to never pay down the principal value of the loan.

During my accumulation phase, I hold a personal emergency fund of between $1000-2000, and a $10,000 offset on the IP1 to deal with property emergencies. Once I reach Financial Independence and no longer actively fly full time for a job, I plan to hold a minimum cash amount of one year's cost of living (~$20,000) as well as a $10,000 offset on each Investment Property, up to a maximum of two years cost of living (plus $10K per IP).

The real trick to my financial security is my ability to live cheaply. As I continually reinvest my surplus dividends after I reach Financial Independence, I can afford to allow my cost of living to slightly rise without taking on the undue risk of portfolio failure. For a detailed analysis on my three-stage retirement plan, check out my blog for my monthly updates!

About Captain FI | captainfi.com

I'm Captain FI, and I'm flying my way to Financial Independence! I grew up below the poverty line in a single parent family, and vowed to make a change to master my finances. I left home at 17 on a scholarship to become an Engineer, but I always wanted to fly. After graduating and working multiple jobs to afford flight school, I eventually managed to become a professional pilot with an Airline Transport Pilots Licence and instructor qualifications. I'm on track to become Financially Independent by 30. Follow my journey at www.CaptainFI.com.

Chapter 13: Learn to play the long game

By Sarah, Keepin' It Frugal | keepinitfrugal.com

The road to FIRE (Financial Independence Retire Early) is definitely not a quick journey, but it beats the rat race most people compete in to get to traditional retirement - not that they get there any quicker.

As you're playing the long game, why not treat it as a literal game. Think of it like Monopoly and you're the banker. You'll make a few trips around the board, collecting dividends each time you pass GO, until that lucky day you land on Free Parking.

So how can you enjoy life as much as a game?

When we talk about keeping a long-term perspective, we're essentially talking about your attitude towards the journey and not just the end result.

It's all a matter of mindset and time.

While we have no control over the *speed* time flies past us, we do have control over how we *spend* it. Just like your savings will compound, there's an opportunity to start doing the same with your time.

"WHILE WE HAVE NO CONTROL OVER THE SPEED TIME FLIES PAST US, WE DO HAVE CONTROL OVER HOW WE SPEND IT. JUST LIKE YOUR SAVINGS WILL COMPOUND, THERE'S AN OPPORTUNITY TO START DOING THE SAME WITH YOUR TIME"

SARAH @ KEEPIN' IT FRUGAL
AUSSIE FIRE

As we slowly begin to build more space in our days, in essence, we're gradually getting into the mindset of being financially independent. So when the big day comes and your FI amount is in the bank you'll already have the right lifestyle to match it.

So how do we build our balanced lifestyle while keeping our perspective over such a lengthy period? Here's some ways to start planning and adjusting your life for the long term.

Imagining the Future

"Love the life you have while you create the life of your dreams." Hal Elrod

What does it look like and what is life like when you're financially independent? Start by asking yourself "What would I be doing if my FI number was in the bank today? How does that differ from my life now? Where can I bridge the gap and integrate those differences?"

Asking these questions helps to keep perspective of where you're going and builds anticipation for the day to come when you do reach FIRE. Over time your future self will become clearer as you test out your answers now in micro-form.

How do you know what your day will look like you ask? Start by researching what people do with their time post-FIRE. This might be through books, blogs or asking people in the FIRE community.

Follow Your Happiness (and Slow Down)

"The most important thing is to enjoy your life - to be happy - it's all that matters." Audrey Hepburn

Everyone wants to be happy. Just because you're delaying gratification through investing, doesn't mean you have to sacrifice your happiness for 10+ years as well! By focusing on what makes you happy now, this can give you huge insight as to what you may want to do more of, later in life post-FIRE.

A great way to start bringing more happiness into your life is to take note of what areas in your life currently bring you joy.

Is it spending time with family and friends, learning a new side-hustle or camping in the mountains for weeks at a time? Maybe it's getting up an hour earlier to do yoga before everyone else wakes up, or planning a hike for the end of every month so you have something to look forward to. Perhaps you might like to call a friend after dinner, just to check in and say you're thinking about them.

How can you implement more of these things into your life now?

It doesn't matter how big or frequent the activity is, just taking the time to consider what currently makes you happy and then do more of it, can bring much more joy to your FIRE journey.

Slowing down an existing activity can be another way to enjoy a mundane task more. Instead of two-minute noodles, plan and cook yourself a three course meal with music and a glass of wine. Stop to smell the flowers or watch the birds on your walk, or sit at the cafe 15 minutes longer than usual simply to take in the atmosphere around you.

Make a list of up to 5 activities you'd love to make time for in your life. Plan to do one of these this week and see how it makes you feel.

Investing Time

"The key is in not spending your time, but in investing it." Stephen Covey

A great way to keep balance while you wait for that magic number to build is to carve out time. This could be in the form of weekend getaways, mini-retirements, going part-time in your job or something as simple as an afternoon to yourself each month.

This allows you to get away from the hustle and bustle of your current work and home life, creating space to stop, think and reflect on where you are and where you're going.

A lot of people on the road to FIRE use mini-retirements or going part-time as a way to test what FIRE'd life might look like. On those days (or months) off, they really test and analyse what works and to see what they want more of in life.

If that sounds a little extreme, smaller ways to bring space for thought into your life could be going for a local weekend away, a walk around the block or spending 15 minutes doing a meditation.

With the extra time, you could find yourself drawn to a new hobby or activity that brings you energy and joy. Or you might find you wish to travel full time or live abroad in a city with cheap living expenses (known as geo-arbitrage). The options are only limited to your imagination and desires.

These ways to invest time in yourself are fantastic for learning more about who you'll be in the future, allowing you the opportunity to begin integrating and investing more time into *you* throughout your journey.

Can you organise a mini-retirement or afternoon off? What appeals to you the most?

The best way to make it happen is to just do it! Book it in, and then plan what you'll do later. Once you have the time off, take notes of what you find yourself drawn to with your newfound space.

Building Boundaries

"Boundary setting helps you prioritise your needs over other people's wants." Lauren Kenson

For those with busy schedules or friends who burn through their cash every weekend, boundaries might be just what you need. These are limits you create to help protect your time, money and keep you on track.

Personal boundaries are a good start, as they are rules you set for yourself. Start simple, such as leaving work at 5pm to spend more time with your family or placing a budget on your entertainment expenses to meet your monthly savings goal.

Then you can build up to bigger boundaries. If you're saving hard, you might set a boundary for friends in which you let them know you won't be spending money on fancy restaurants and you'd prefer to spend time with them over a drink at a wine lounge or a potluck picnic in the park.

Boundaries allow you to set clear expectations for yourself, your family, your friends and your work. As you're building wealth, your life will sometimes look very different from those still working the daily grind. Setting boundaries gives you the power to not be influenced by other people, helping to solidify the path you're on, while maintaining the respect of those around you.

One thing to note, your boundaries should empower you, and never feel like a sacrifice or burden. They are put in place to make your life better!

Do you have enough boundaries in your life? If you're feeling pressure from commitments or spending money, think about some limits you could put in place to make things easier for you and your journey ahead.

Learn Along the Way

"Knowledge is the compound interest of curiosity." James Clear

While some people are rearing to get to the RE (Retire Early) part of FIRE, others will be happy reaching FI (Financial Independence) and continuing to work for their love of learning or keeping themselves busy. It's completely up to you.

The pursuit of knowledge can sometimes provide just as much value to your life as your share portfolio. This could be taking the time to watch DIY videos to learn how to do home renovations (that can save you thousands!) or you might like to build a veggie garden to supply half of your food. It could even be building up a blog about your passion that provides you with another passive income stream and knocks a few years off your required FIRE number!

Growing and building on your passions and knowledge now will entertain and keep you energised in the short term while helping you on the path to self-sufficiency in the long term.

What are 3 areas you could research that could prove invaluable in 10 years' time?

Tracking Stats

"Tracking is a simple exercise. It works because it brings moment-to-moment awareness to the actions you take in the area of your life you want to improve."
Darren Hardy

There's nothing better than watching your FIRE number grow. As your journey takes place over years, seeing and tracking your growth really gives you those bursts of motivation to keep going. While tracking every day is probably too frequent, updating at the end of every month or quarter can really shine light on your progress.

Tracking your investments not only shows how far you have to go but if you're feeling stuck or down, can also remind you of just how far you've come. While we all want that perfect trajectory that points straight up, we know sometimes life gets in the way, and that's okay. The beauty of tracking and planning is that it allows you to alter course as your life changes or expands. You might change jobs or have a child. While these events can often cause your growth to plateau, you'll usually be back on course before you know it.

A good money tracker to get you started is in Vicki Robin's book - Your Money or Your Life. This will set you up to monitor your income, spending and passive income change over time until you reach what is known as a Crossover Point - when your passive income is more than your spending.

If you don't track your numbers yet, take the time to set this up over the weekend. Sometimes you'll be amazed at what you find, and what your path to FIRE could look like. It might be shorter than you think!

Celebrate the Wins

"The more you celebrate your life, the more there is in life to celebrate." Oprah Winfrey

While tracking the numbers is always fun, there's plenty of other huge milestones zipping by on the path to FIRE. These are the moments to celebrate just as much as another gain in your share portfolio.

One way to celebrate your journey is to keep a gratitude journal or an achievements diary. A gratitude journal could simply be a daily account of everything you were grateful for that day. It can help you keep a positive mindset during downtimes and focus on those silver linings. An achievements diary is something you could record on a monthly basis. At the end of each month, you outline all the amazing things you achieved. As an example, it could be bigger achievements like buying a new house, or little everyday things such as a really fun night out with friends or baking a successful sourdough loaf.

What ways can you celebrate your wins along your journey? If you don't like record keeping, you could just dance on the spot or splurge on a nice dinner.

Ignore the Punters

"The stock market is a device for transferring money from the impatient to the patient." Warren Buffet

So much can happen in the space between investing your first dollar to when you hit FI. From recessions, stock market fluctuations and even pandemics, there's no smooth sailing when it comes to building your wealth.

It's so important to choose wisely on who or what channels you listen to for your financial advice. It's even *more* important to ignore questionable advice from unqualified sources that will be eagerly offered from all directions.

Some friends and family love to “help” here, especially those who've never invested. For example: “Shares are gambling and you’ll lose all your money,” or the classic, "Lithium batteries are the new gold, you should put your money in that!"

Major news headlines can often be another unreliable source. Events are often blown out of proportion from one day to the next: “Worst stock crash in history! Scratch that, now best stock gains in history!” Okay, that might be a *slight* exaggeration, but you get the point.

If you’re consistently investing over time, patience will get you to FI. Block out the negative news, allow the highs and lows to pass, and stay your course.

Still learning about investing? Start by reading books or articles from Warren Buffet, John C. Bogle and JL Collins. They share some very wise words and easy to understand advice.

Now you’re armed with some new insights, what changes can you make in your life to get you ready for FI?

Do you feel you’ve already created a balanced lifestyle and are well on your way? Or are you already looking up destinations for your mini-retirement right now?

By finding the right balance, and integrating a financially independent mindset, you'll learn to stop hurrying through today to get to tomorrow. You'll check in from time to time, knowing the trajectory is right, then sit back to enjoy today, right now, this moment, exactly as it is.

About Sarah from Keepin’ It Frugal | keepinitfrugal.com

Keepin’ It Frugal is a blog dedicated to living more with every dollar. It’s a home for people who know that by living a life of financial freedom, we gain the power to choose our work, holidays and home. Follow the adventures of Sarah & Laura on their path to FIRE, through frugality and wellness.

Chapter 14: FIRE with a family

By Ms FireMum, A Family on FIRE | afamilyonfire.com

A commonly-repeated statement in the FIRE community is that financial independence is only possible without the burden of children. But the myth that you can't retire early if you have kids simply isn't true.

The FIRE movement is saturated with the voices of millennials, most of them single or double income, commonly with no kids. Families are under-represented such that it's often thought that it's impossible to reach financial independence with children.

It's no surprise - kids are expensive. No one in the history of mankind has ever gotten rich simply by the virtue of having children.

Needless to say, there are many more important things in life than pursuing financial independence. If we don't take the time to experience the joys of life in our youth, then what's the point of life itself? For some, that might mean a life well-travelled, reaching a certain point in their career, or establishing a passion project. For others, it's the experience and enjoyment of having children.

Changing mindset with kids in the picture

One of the biggest differences in pursuing financial independence with kids is the big shift in mindset.

As parents, our top priority is to make sure that our kids are in a safe, loving environment that allows them to thrive. It's no longer just about you; it's about what's best for the family. Kids are little humans that have their own needs and wants. You'll now have to balance what they need to succeed against your own personal goals.

FIRE can still remain a priority, but it won't be the only priority.

I'll be very blunt: if your sole focus is to achieve FIRE, then having kids isn't going to be the best financial decision. Kids cost money. They may not cost as much as a mansion in Double Bay, but the outlay won't be zero either.

You might also find that you'll start making decisions that are at odds with your FIRE goals. Your appetite for risk may be diminished. You might find yourself wanting to spend more time at home rather than at work, even if more money was on the table. This might affect your progress to FIRE. But it could be a trade-off you'll gladly make if it means that you'll have the opportunity to create more happy memories with the family.

Having kids is an immensely personal decision, and this book isn't the right place to talk about the advantages and disadvantages of having offspring. There are many factors that go into the decision to have kids - money only being one of them. But if you do decide that kids are going to be part of your life at some point, then you might want to consider how you'd go about achieving FIRE with them in the picture.

How much children cost

In 2018, the [Australian Institute of Family Studies (AIFS)] estimates that a low-paid family's budget would come up to approximately $1,173 a week, or about $60,996 a year.

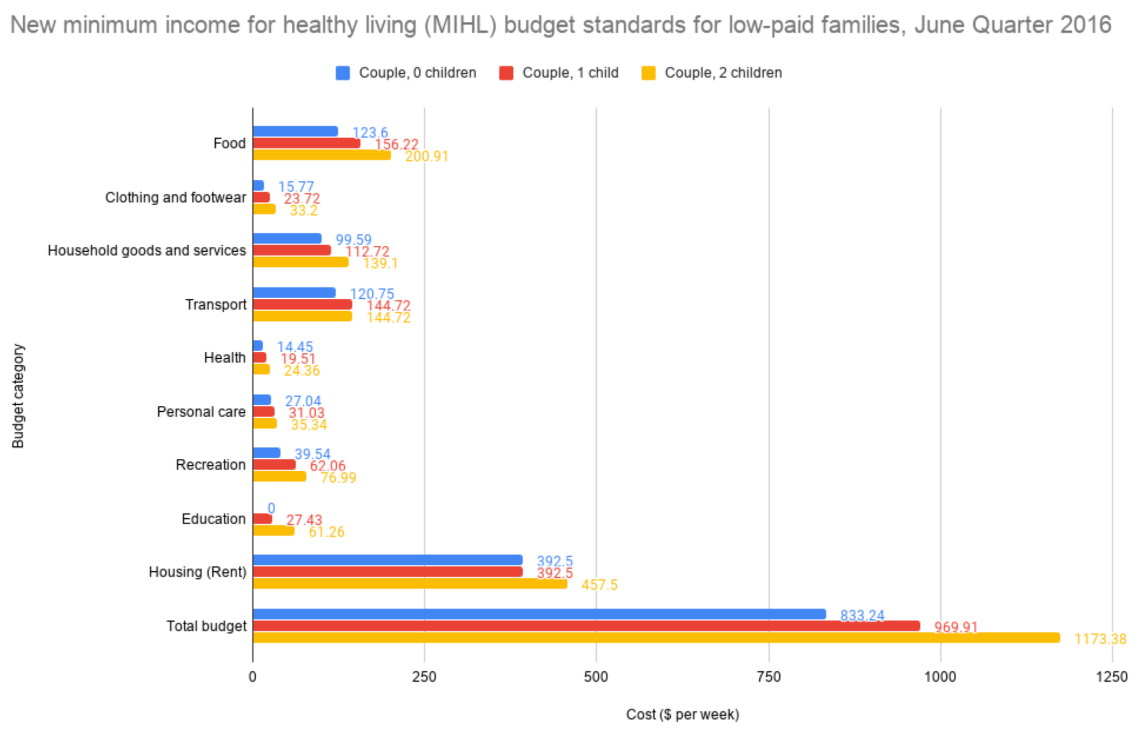


Chart produced using data from the [Australian Institute of Family Studies (AIFS)]

According to the researchers, this figure represented items that were 'necessary to guarantee that all family members could achieve a full and healthy life, albeit one that involves a minimal level of outlays'.

The breakdown of costs depended on the child's age, and how many children the family had. A six year old girl would cost about $137 per week. Costs for a ten year old boy were $206 per week. Families with two children would benefit from efficiency in scaling, with the budget for two children (minus the parent's cost) coming up to $340 a week, or $17,680 a year.

This is a generalisation of course, and may not be representative of your personal circumstances. But there is plenty of anecdotal evidence that the costs of raising children vary quite widely, and can be significantly higher than benchmarked in this study.

The big impact on families' budgets

The cost of care in the early years

Many families have reported that the biggest expense, next to their mortgage, is the cost of childcare. This is no surprise. Young children who are not old enough for school require full-time care. Unfortunately in Australia, there is no publicly delivered early childhood care (unlike the formal school system).

Some parents may choose to outsource this, paying hefty childcare fees to long daycare centres or other care providers. According to a 2018 Mitchell Institute report, the median weekly out-of-pocket cost for formal early childhood care came up to $154 per week ($8,008 per year). In some places, this is more than the cost of sending a child to a private primary school. It's not uncommon to find childcare costs ranging from $90 to $150 per day (before rebates) in expensive cities like Sydney and Melbourne.

Families who prefer not to put their children in care will still have to pay the cost of childcare, though this is experienced through the loss of income. One parent may have to take time off work, either temporarily or permanently, to look after the children. A family may find themselves living off reduced income for years, depending on how many children they have, and the length of time between kids.

Impact on careers and future earnings

The parenthood penalty does not end after the child goes to school. The primary carer (typically the mother) may also face the 'parenthood penalty' in the form of reduced super balances. And then there's the wage gap (estimated at 7% in a Workplace Gender Equality Agency report) when returning to work after taking parental leave.

Those who spend a significant time out of the workforce also report some difficulty in re-establishing their careers when they try to return. Some may never get back to earning what they used to before having children. This could be due to various factors; the most common include returning on a part-time basis, or no longer wishing to climb the career ladder in favour of reduced responsibilities and more time with family.

Housing and schooling

These two are related mutually because the old adage about real estate (location, location, location) applies to both. Due to strict school zoning rules, parents may find themselves having to pay a premium to buy or rent in suburbs with sought-after schools. Some parents may find it cheaper to stay where they are and shell out the extra for private school. Conversely, families with multiple children may find it cheaper to pay the housing premium so that their kids can go to a highly reputable public school.

Housing can also be a pain point the more children you have. Whilst a two-bedroom apartment may work fine up until primary school, it's a different story with teenagers who will need their own space. Given the high cost of housing in Australia, you will need to weigh up the costs of settling in a property early for the long haul, or moving only when the need arises.

Expenses for kids

Basic expenses

Just like adults, kids' expenses can be categorised as discretionary and non-discretionary.

Non-discretionary costs are fairly standard across all families. Kids need food, clothing, and shelter, and care. To a certain extent, families can reduce these costs simply by making frugal choices. We'll cover this a little bit later.

Your basic costs will also increase over time. It's probably obvious that things like your grocery bill and utilities will increase. The cost of transport could go up as well, if you have to upgrade your vehicle to fit the entire family.

On the other hand, discretionary costs are highly variable. It's impossible to predict how much a family can spend on their kids. Some families can spend close to nothing, and others can spend a few thousand a month! It really depends on the kids' interests and what the family is willing to spend.

For example, you might have a budding musician on your hands - and so you may choose to pay for music lessons, state or national competitions, instruments and the like. All of which may amount to thousands of dollars a year. Or your child might be interested in an activity that overall, may only cost a few hundred a year with change to spare.

We touched on schooling earlier - and to an extent schooling can be as discretionary as you like! Education might cost nothing in public school (except for school uniforms and books) or run in the tens of thousands in fees for a private education.

For a child, birthdays and celebrations are the social highlights in a year. You might be able to control how much you spend on your own child's birthday, but then there are their friends' parties that they may want to attend (and buy a gift for)! There's also the cost of holidays, or special occasions that you may want to indulge your kids in.

The not-so-obvious costs

The added complication with children is that as they grow, their behaviours and interests change. What may pique their interests today may not be so next year. Then there's the unexpected - stuff that even you may not have thought you'd need to prepare for.

For a child, birthdays and celebrations are their social highlights each year. You might be able to control how much you spend on your own child's birthday, but there are also their own friends' parties to attend. You might have to make some decisions about how many parties and gifts you can reasonably pay for before it starts getting too much.

Busy parents may also find themselves paying for the cost of convenience without realising it. Parents strapped for time may end up choosing the easiest or quickest option, rather than the cheapest when it comes to all sorts of daily needs. That might be ordering takeaway on evenings when both parents are too exhausted to cook, or opting for a cleaning service in order to catch up on precious sleep.

Kids get sick an incredible amount of times. Apart from medical costs, you may also have to take time off work to look after them - which may cost you money.

Aside from the usual illnesses and maladies that plague many a kid's childhood, sometimes life might drop you a curveball. Unexpected medical expenses may turn up, lasting months or years. Unfortunately, you're going to have to roll the dice with this one unless you have a highly reliable crystal ball. Luckily we have universal healthcare in Australia, but you may still be up for some out-of-pocket costs.

Each family is different

As you can probably already guess, the cost of raising kids varies widely. It's inherently difficult to plan right down to a tee how much kids will end up costing you. The best one can do is to estimate and refine as you go.

There is no right or wrong answer with kids' expenses. Like all things FIRE, it comes down to what you value, the cost you are willing to pay, and the benefit you get. It is really no different with kids, though it will now be a more complex decision. Because you will also need to consider the child's interests, and balance out the cost to you, with the benefit and enjoyment that the child gets.

It's also important that you tread your own path. Each family will have their own priorities, which could be vastly different from your own. Parenting is already a tough enough gig without adding this whole FIRE business to the mix. Do yourself a favour and use your own values as your benchmark, instead of comparing yourself to others.

Ideas to save money

Whilst kids might cost an arm and a leg, there are many ways to reduce the cost. Here are some ideas to help you save some money while raising children:

Food

- Breastfeed babies if possible. Not only is it free and convenient, but it also provides babies with antibodies to fight off infections.
- Cook at home instead of eating out. Kids eat a lot!
- Take advantage of 'kids eat free' promotions if you do go out. When kids are young, consider sharing your meal with them rather than ordering their own portion. Not only will it save you money, it will also help to broaden the child's palate.

Clothing

- Buy clothes second-hand instead of new. Kids grow at an alarming rate; what fits today will most certainly not fit in a few months' time!
- Use cloth nappies as an alternative to disposables. It might be a bit more work, but it could save you some money. And it's also kinder for our planet.

Equipment

- Consider getting these items second-hand: cots, prams, change tables, kids' furniture. They'll only be used for a short period of time.
- You can also buy used car seats. Make sure that it meets the AS/NZS 1754 standard, is not more than 10 years old, and has never been in an accident.
- If you must have a baby capsule, consider hiring instead of purchasing. Most babies will grow out of capsules by the time they are 6 months old.

Entertainment

- Toys and entertainment can be bought cheaply second-hand. It's fairly easy to find used bikes, mud kitchens, cubby houses on classified sites like Gumtree. Like clothes, kids grow out of toys quickly too, so it might be more cost-effective to buy used instead of new. The same goes with technology, teenagers don't need the latest phone or tablet. An older model will work just fine.
- Be creative with activities! Younger kids are often just happy going to the local park or the beach for the day. Save expensive trips (like Disneyland) for later when they can remember it.

Childcare:

- If you have family who are nearby, ask (nicely!) if they are willing to provide some care for your kids, and pay them accordingly. Depending on what you pay for formal childcare, this could save you quite a bit. The grandparents may enjoy the extra time with the kids too.
- Utilise your employer's flexible work policy, if it exists. For example, you could ask for flexible start and end times to allow you to do the school run. Or you could work a compressed week (40 hours in 4 days rather than 5), giving you a day off to spend at home.
- Consider saving up annual leave prior to going on maternity or paternity leave, and using it creatively. Perhaps on your return to work, you could take a day off each week (rather than taking a whole block at once). This would give you 4 days of work but you'd be paid full time.

Impact of raising kids on FIRE

We've talked at length about how much kids would add to a family's bottom line, so I hope you haven't been scared off kids (and if you already have kids, it's far too late to back out!). But I want to stress this again: the cost of raising children should never be the deciding factor when choosing to start a family, or when pursuing FIRE. If it is, then don't have kids.

"THE COST OF RAISING CHILDREN SHOULD NEVER BE THE DECIDING FACTOR WHEN CHOOSING TO START A FAMILY, OR WHEN PURSUING FIRE. IF IT IS, THEN DON'T HAVE KIDS"

MS FIREMUM @ A FAMILY ON FIRE
AUSSIE FIRE

Here's the good news. You can absolutely FIRE with kids.

It just takes a little longer.

How much longer it takes depends quite a bit on your anticipated expenses and your savings rate. For example, let's suppose that the minimum cost to raise a child is $203 a week (based on the AIFS data) for a minimum period of 18 years. This means the total cost of the child will be $190,008. Let's also assume that you think you'll be able to put aside $2000 in savings each month.

Courtesy of Physician on FIRE's Time to FI calculator, the results are below:

PoF Time To FI Calculator	
Starting Amount / Lump Sum	$0
Monthly Investment	$2,000
Desired Years' Expenses for FI	18
Desired Annual Spending	$10,556
Desired Retirement Savings for FI	$190,008
Current Deficit	$190,008
Years to Goal at 2% Real	7.4
Years to Goal at 4% Real	6.9
Years to Goal at 6% Real	6.5
Years to Goal at 10 % Real	5.9

Based on the table above, your additional time to FI would be anywhere between 5.9 to 7.4 years, depending on the performance of your investments.

You can do your own calculations if you'd like to know how much longer it'll take you to FIRE with kids. Simply enter your estimated monthly savings and how much you think you'd spend on your kids into this calculator.

https://www.physicianonfire.com/timetofi/

How to achieve FIRE with kids

There really isn't any secret to achieving financial independence with kids. The principles of FIRE are the same irrespective of whether you're doing it alone or for a family of ten.

If you minimise your expenses to a standard you and your family can live happily with, you will reduce your time to FIRE.

If you can increase the amount of money you earn or save each month, that also helps to bring your FIRE date in.

If you invest in a well balanced portfolio giving you a rate of return higher than inflation, that will help get to FIRE quicker.

That said, there are a couple of approaches that you can use to plan your FIRE journey with kids in tow.

Include the cost of children into your overall expenses

As we've mentioned earlier, it can be hard to plan exactly how much you will spend on kids, particularly if they don't exist yet. And even if they did, there's no guarantee that these expenses will remain the same on an annual basis.

The simplest option might then be to assume a base expense figure, per child, and roll that up into your FIRE number.

For example, you may have had a target of $40,000 in passive income which will fully fund your expenses. That means you'll need a portfolio of $1M, returning 4% net each year.

If you think a child will cost you an additional $10,000 per year, then your new target portfolio should be $1.25M. This will give you $50,000 a year, enough to fund both you and your child's expenses.

It's not the most optimised way to go about it, but it's the best way to do it with so little information at hand. You can always revise your FI number as you know more. The worst that can happen is that by the time your child flies the nest, you'll have more money than you need to fund your retirement. This honestly isn't a bad thing at all!

Medium term, goal-based investing

Sometimes you might already know what you want to spend on, and how much it might cost. You can use goal-based investing to save for that expense only, with the intention of fully drawing it down by a certain timeframe. It's similar to calculating your FI number, only on a smaller scale.

Let's say you intend on sending your child to a private school in their teenage years. The total for one child might be $150,000 in today's dollars ($202,000 in 2030 dollars after accounting for inflation). You have 10 years to save up the full amount before you plan on drawing it down.

So the goal is to invest such that you will have $202K to spend in ten years' time. Assuming you invest $13,700 a year for ten years with a return rate of 7%, you will end up with $202,535 in 2030 dollars.

You can use calculators like this to work out your target investment balance and annual contribution, whilst also taking into account your tax rate and inflation rate.

https://www.calculator.net/savings-calculator.html

The benefit of this approach is that you can account and save for expenses that you know will only apply in the short to medium term. In the example above, you've effectively separated out a big expense from your annual FI number. This means your FI number will now only include the minimum non-discretionary expenses needed to support your family. Your final FI number will therefore be smaller than if you had rolled up all of your children's overall expenses with your own.

Enjoy the journey

The pursuit of financial independence is a constant balancing act; this is even more so with kids in the picture. We do our best to spend on the things we value, and cut out things that we don't. We also find a balance between making enough money to support the family and having enough time to spend with them.

Having children can also be an incredible motivator to reach financial independence sooner. Kids grow up in a blink of an eye, such that you may want to find a way to slow life down. The good news is, by reading this book, you've got a blueprint to get yourself there.

As parents we all want the next generation to be better than us. What could be better than sharing the financial lessons and discipline you have learnt with your kids? Whether you decide to leave them an inheritance or not, your kids will already be better off simply by getting a solid financial education from you. They've already got time, the biggest advantage in the quest for FIRE - and these lessons will hopefully inspire them to pursue FIRE for themselves.

Children and financial independence do not need to be mutually exclusive. Having both makes for an epic life journey - and just like any adventure, there might be bumps and twists en route. But despite the challenges of seeking financial independence with kids, I wouldn't dream of having it any other way.

About Ms FireMum from A Family on FIRE | afamilyonfire.com

Hi, I'm Ms FireMum. My husband and I are seasoned investors, having started our investing journey early in life, but we've only recently discovered FIRE! So we're now on a mission to turbocharge our nest egg and achieve financial independence by our mid-40s. I write about our journey at A Family on FIRE – with stories on being frugal, saving, and investing - all while bringing kids along for the ride!

Chapter 15: FIRE for late starters

By Shaun from Project Palm Tree | projectpalmtree.com

Pick up any blog post, podcast or book about the FIRE Movement and you are likely to read stories of young millennials saving a million dollars and retiring in their early 30's.

You will hear their stories of rejecting the accepted 'hamster wheel' of 'college – job - mortgage – retire at 65'.

Free from their 9-5 jobs, they pursue their life passions or travel the world without the need to return to their jobs after. A dream for many that would have seemed impossible even a decade ago.

Increasingly though, you may also have begun hearing stories of a group of people older than these young Millennials. Generation X folk who for decades have been on the very same hamster wheel that these Millennials have managed to escape.

Just like their younger counterparts, these older folks have googled 'how to retire early' and discovered the wonderful world of FIRE.

To us, the older Gen-X folk, the Millennials appear to embrace FIRE as a defiant act. They symbolise ingenuity and resourcefulness, defining a new life outside the norm, full of opportunity and positive vibes. They are victors over the system.

However, to these Millennials, it may appear that their older counterparts are chasing FIRE in an act of final desperation. (Help me Mr Money Mustache, you're my only hope).

Generation-X might even appear a little defeated by the system.

The fact is that lessons learnt from Millennials in the pursuit of FIRE are the same for anyone, regardless of age.

There are some subtle differences for this older group pursuing FIRE – the reasons behind their decision, how their finances look when they start out, as well as the tools that they have at their disposal.

Here's how FIRE works when you start out late.

Life on the Hamster Wheel

Generation X are those of us born between 1965 and 1980.
When we were in our 20's and 30's Gen-X had only ever heard of the sort of life where you went to school, then got a job, got a mortgage, and worked your entire life until the traditional retirement age of 65.
This is the sort of life that those in the FIRE community call the Hamster Wheel.
Unlike the millennials, few of us Gen-X folk ever thought to challenge this way of life.

The problem for Generation X is that the promise of a lovely retirement that the hamster wheel provided to generations before us has not happened for us.
At the same time that we become aware of our 50th birthdays looming on the horizon, we have also become aware that our generation is in a terrible financial situation.
A low balance in our Super, a lack of savings and mountains of debt.

Generation X has been hit with the realisation that we are less destined for a champagne and caviar lifestyle in retirement, and more likely a beans-on-toast existence.

The state of personal finance for Gen-X

According to a recent study by the Australian Housing and Urban Research Institute (AHURI) nearly half of Australians between the age of 55 and 64 are still paying off their mortgages, with many unable to pay off their mortgage by the time they retire.

Not only that but by age 55, the average super balance is less than $175k for men and less than $100k for women, By age 65 the average is $270k for men and $160k for women. That's way less than even the $1million that was being suggested as the minimum amount you needed saved for your retirement years ago. Hit with this grim vision of our future, we look at our savings then look at the time left till retirement.

On the one hand – we think about how few years we have to earn enough money to afford to retire comfortably, that's if we can hold on to our jobs.
At the same time, we feel exhausted and can't contemplate having no option but to have to work all those years.

No wonder we feel so overwhelmed.

Generation X - The Sandwich Generation

So why can't Generation-X Save?

One big reason is lifestyle creep – we simply want more things than our parent's generation did.

But the other big reason is with children staying at home longer, and parents living longer, Generation-X is the most likely generation to support others.

This is why Generation-X is sometimes called the Sandwich Generation.

Discovering FIRE – spend less, earn more, invest the difference.

If you are anything like me when you came to the realisation that your investment savings were not where they needed to be approaching your 50th birthday, you would have felt a whole range of negative emotions. Anything from feeling frightened, feeling angry, or just feeling pretty bloody stupid.

How did I get here?
Why didn't I think to save more and invest more when I was younger?
Is it too late?

The biggest challenge to getting out of this mess and getting your finances in order is to drown out that negative talk, figure out what needs to be fixed and work like hell to fix it, as if your life depended on it.
(PS - your life doesn't, but your lifestyle in retirement certainly does)

'Accept Reality, Make a Plan and Move' - Ramit Sethi, Author of 'I Will Teach You to be Rich'

Making a plan is where FIRE comes in.

The three levers of FIRE that enable people to achieve Financial Independence at any age are:

1. Spending Less
2. Earning More
3. Investing the difference.

Using these 3 levers, it is equally possible for Generation-X to achieve Financial Independence as it has been for Millennials.

Millennials and Gen-X - the Fundamental Differences

It goes without saying that the greatest difference in the journey towards Financial Independence for Millennials and Gen-X is TIME!

The time when they start their journey toward FIRE, the time they have for compounding to work, and the time left to keep earning an income for investing before they reach retirement age.

Obviously, someone in their 40s or 50s starting out on the road to FIRE today is much older than their Millennial counterparts.

Given they are older, they have had more time earning money which means more opportunity to:

- Earn a large salary
- Build up their Super
- Save more money
- Buy their own home, and
- Pay down their mortgage.

Of course, that also means they have had more time to:

- Build up consumer debt, and
- Experience lifestyle creep.

But what exactly is lifestyle creep?

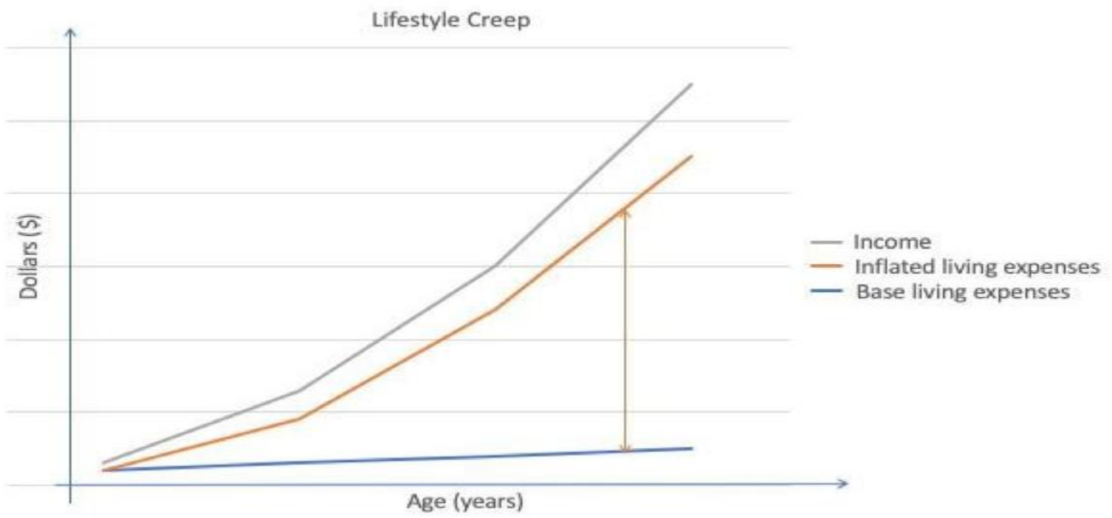
Lifestyle Creep

Remember when you first started working and how little you paid for rent, clothes and going out for meals? The sort of car you drove and the standard of hotel (hostel?) you were happy to stay in when you travelled?

Now think about how much more you were happy to spend on these things once your salary increased over time. How much do you spend now?

That's what's known as Lifestyle Creep or Lifestyle Inflation. When the amount you spend on non-essentials increases every time your income goes up.

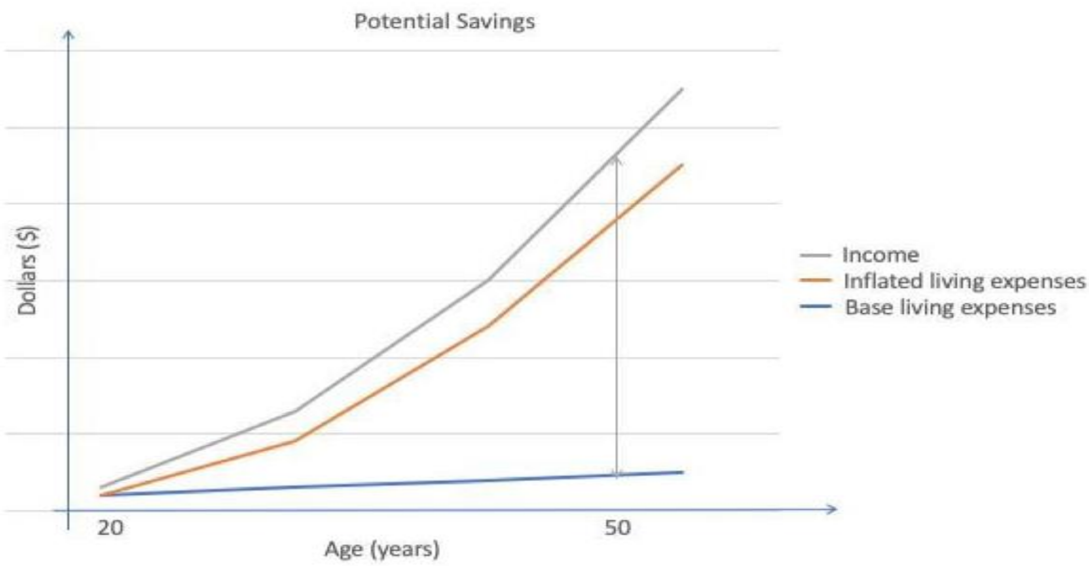
Things that seemed like a luxury when you started your work life, suddenly feel like a necessity that you can't live without.



The great thing about starting on the path to FIRE later in life is that you have DECADES of Lifestyle Creep to cut out from your budget – potentially way more than someone starting out on the path to FIRE in their 20s.

Once you remove those lifestyle expenses away from your hopefully significant income, your potential to save should be substantial.

This means that you can reach your target savings rate much quicker, just by cutting out a raft of non-essentials from your life.



The biggest challenge will be convincing yourself that you can actually live a good life without your (luxury) 'essentials' (non-essentials). Understanding that this 'sacrifice' will lead to less worry about money and achieving Financial Independence early.

What about time in the market?

You would think that someone starting out in the pursuit of FIRE in their 40s or 50s has less time to have compounding work its magic than someone in their 20s.

That's certainly true if both were trying to reach FI by say 60 – the Millennial would have decades more to use compounding to reach their FI number, whereas the older Gen-X investor would likely have less than 1 decade.

But let's not forget, most millennials aim to reach Fi within 7 to 10 years, which is also the aim of Gen-X, so really, what's the difference?

Not only that, but in theory, Gen-X starts with more money in super, savings and other investments, so they are already ahead of the game.

How long is the journey you are planning for?

Of course, you also have to think about how each Generation needs their FIRE nest egg to work for them.

For example, imagine that both the millennial and the Gen-X live till they are 100.

If the millennial reaches FI at age 40, and the Gen-X reaches FI at age 60, the millennial needs to make their money last for 60 years, while the Gen-X only needs to fund 40.

On the other hand, the Millennial has 60 years of compounding to take advantage of, but the Gen-X only has only 40.

How the 3 Levers of FIRE work differently for Gen-X

When you think about it in terms of net worth at the start of the road to achieving FIRE, the average Gen-X should (should) be starting their FIRE journey ahead of the game compared to most millennials.

In other words, Gen-X should have more assets:

- They own their own home, even if it is mortgaged
- They have upgraded to a more expensive home
- The home should have grown in value over time
- Their super balance should be way higher than a millennial's
- They might already have investments like rental property or shares
- They own lots more 'stuff' including more expensive cars

On the flip side, the Gen-X could also have more debts:

- A larger mortgage left to pay off
- More consumer debt
- Car loans, etc

And finally, even if they are not a real go-getter, in theory, the Gen-X should have a bigger salary than a millennial, at least compared to someone in a similar industry.

Here's how Gen-X uses the 3 Levers of FIRE to get from a state of desperation to achieving Financial Independence.

1. Spending Less

When it comes to the idea of spending less, the first thing you hear is a collective groan, and then all sorts of mutterings like 'I can't cut anything out', and 'it's gonna be horrible', or 'boring', and 'I hate budgets'.

As Grant Sabatier says in his book 'Financial Freedom', budgets are too fine-grained to make any real impact. In other words, if you have a bonafide budget and you are tracking everything you are likely to focus your attention on the little (and easy) things like how many lattes you buy, rather than the big 3 categories:

1. Housing
2. Transport
3. Food

I would argue that in my own experience, you should add number 4 – Insurance.

Notwithstanding the significant benefits of leveraging Lifestyle Creep in your favour, here is how the mechanics of spending less is different for Gen-X.

Spending less on Housing

Sure, if you are in your 40s and 50s you probably can't move back in with mum and dad. Couch surfing is probably not your thing either, particularly if you have a partner or even kids or fur babies. And years of living independently probably makes it hard to conceive of even living in a house share.

But if you have exercised your Lifestyle Creep muscle when it comes to housing, you likely rent or own a place that is way more than you really need, which would allow you to move into something smaller, move into an area or a complex that is more affordable, or both.

One of the options that my Financial Planner modelled for me was selling my home and renting. All the modelling and anecdotal evidence suggests that you are way better off when you own your home outright when you retire. Not just the financial stuff, but the sense of security too. Barefoot Investor certainly supports this argument, too.

That doesn't mean you can't downsize, but you should really think carefully about going from owning to renting.

Spending less on transport

To be honest I am not the greatest source of information when it comes to spending less on transportation since I have lived without owning a car for over a decade. That is certainly made easier since I live in a small flat in an inner Sydney suburb (is that then called an 'urb'?) and work in an office that's a 15-minute walk away. I have 3 supermarkets within a 5-minute walk including an Aldi and more restaurants, bars and pubs than I can walk to in 10 minutes, and way too many more within a $10 Uber ride radius.

15 years ago, I owned a $15k Honda Civic (the car of choice for FIRE bloggers and podcasters in the US) that was sitting in the basement of my then apartment building in Brisbane. I wasn't using it since I could walk to work and my choice of bars, restaurants and shopping.
After I sold it, I figured that I was at least $600 per month ahead, compared to hanging on to it.

Since it was just sitting there in the garage I was only paying for insurance, rego and the loan.
My savings would have been even higher if I had actually been using it and also paying for petrol and maintenance.

Trust me, it takes a lot of uber and taxi fares to make a dent in a $600 surplus you get from not owning your car.

It should come as no surprise that if you have exercised your lifestyle creep muscle when it comes to the number of cars you own, or the calibre of car that you own, then you have the ability to liquidate some of those assets, or at least downgrade and have money available for saving and investing.

Spending less on food

Again, taking advantage of lifestyle creep is your friend when it comes to reaching Financial Independence – by dramatically reducing how much you spend on food then saving and investing the difference.

The obvious way to spend less money on food is looking at how much money you spend on eating out.
Look at it this way – the less brunches you indulge in on your path to Financial Independence, the sooner you will get to financial independence and the more brunches you will get to enjoy once you are retired (hopefully in Paris or New York or at least Noosa).

As far as eating out is concerned, Gen-X may not be much different to the Millennials (avocado toast anyone?). It's just that because we may have gotten into the habit of eating out more often, and at more expensive venues, we have that much more spending to cut out. Spending less money on eating out and instead cooking great meals at home will significantly increase your savings rate.

Which leads to groceries. Do you still do the bulk of your grocery shopping at Coles or Woolies? (Do I dare ask if you shop at Harris Farm or DJ's Food hall?). If so, consider swapping to supermarkets like Aldi, if you haven't already.

When I finally gave up my anti-Aldi Snobbery, I really started seeing some real savings on groceries.

For me, shopping at Aldi not only reduces decision fatigue (there's only one type of everything) but it's seriously cheaper than sticking to Coles for your Fly Buys. Plus the quality is at least as good and often better (yes better) than Coles, if my own experiences are anything to go by.

And those savings go straight into your retirement nest egg.

2. Earning More

When it comes to earning more, the FIRE community means 'earning more than you are right now'.

It should come as no surprise that as a Gen-X you have been working for many years and have loads of experience, so you are probably earning more than a millennial working in the same industry (that's not necessarily always the case of course - there are some seriously minted Wunderkinds out there).

Here are some ways that Gen-Xers can 'Earn More'.

Earning more at the Peak of your Career

Chances are that in your 40s and 50s you are at the peak of your career and earning way more than someone in their 20s and 30s, particularly compared to someone working in the same industry as you, doing a similar job.

A 70 percent savings rate of a $100,000 take home salary is way higher than a 70 percent savings rate of a $50,000 take home salary. That helps you to pay down or pay off your mortgage sooner than the millennial, get investing and reach FIRE sooner than them.

You're already ahead of the game.

Earning more at your 9-5 job.

The unfortunate truth is that unless you change jobs frequently, or have the opportunity to get equity as a partner or director in the business where you work, it's unlikely that you will be able to increase your salary significantly once you hit this peak.

This is unlike our Millennial counterparts who still have plenty of scope to increase their salaries through promotion. And of course, moving around early in your career marks you as a go getter, compared to later in your career, when it is frowned upon. You get labelled as being unreliable or just plain difficult.

Not to mention that changing jobs is harder later in life because it's harder to get a new job that pays a high enough wage to justify the change, and by this age you will be more specialised than not, and so finding the right fit is extremely challenging.

Earning more with a second job or side hustle

Finding a second job or side hustle is one tool heavily favoured by millennials in their quest to reach FIRE quickly. But for Gen-X, this is often a harder proposition.
For one thing, since you are earning in a higher tax bracket, any extra money you earn driving Uber quickly erodes making it less of a great use of your time.
Not only that, but being a senior member of your team means increased work demands and the need to justify your wage. That translates to having to work long

hours and experiencing high levels of stress, meaning that you are likely to lack the time and energy to pick up a second job or side hustle once you hit 50.

And if you do have the energy to start a side hustle, the ability to scale it in a way that makes it profitable is more challenging than if you were younger.

3. Investing

As mentioned previously, the biggest perceived constraint to investing for Gen-X compared to Millennials is the lack of time in the market.

And as I have also said before, achieving Financial Independence in 7 to 10 years is 7 to 10 years regardless of whether you are 25, 45 or even 55.

> **"ACHIEVING FINANCIAL INDEPENDENCE IN 7 TO 10 YEARS IS 7 TO 10 YEARS REGARDLESS OF WHETHER YOU ARE 25, 45 OR EVEN 55"**

SHAUN @ PROJECT PALM TREE
AUSSIE FIRE

Here is how investing to get from where you are at the beginning of your FIRE Journey to achieving Financial Independence is different for Gen-X.

Investing – you do have enough time for compounding to work.

Most people who discover FIRE later in life, do so in their 40s and 50s, and tend to give themselves anywhere between 7 and 10 years to reach FIRE
That's no different to someone aged 25 aiming to reach FIRE by age by 35.
In theory, a 25-year-old and a 45-year-old starting out on the path to FIRE today, could achieve their goals in exactly the same time.

That's equal amounts of time for compounding to start working its magic, both on what you invest now, and what you have sitting in your Super.

The only difference is the 25-year-old would likely be planning on having many more years of post-retirement life to look forward to.

Investing – taking advantage of years of Super already saved

Compulsory Employer Paid Super came into effect in Australia in 1991, meaning those of us working since then have had several decades to build up a tidy nest egg in their Super account.

If you recently looked at your balance and thought that it was lower than you had hoped, remember that you are much further ahead than you were in your mid 20s, and that much closer to Financial Independence than you realise.

Not only that, but you have that base fund sitting there and able to continue compounding, in addition to compounding you get from any other investments you make outside of super.

Investing – access your Super Early than the pension Age

The good news is, you can begin to access your Super as early as age 60 without any taxation penalties.

That means that if you reach FIRE at age 55, you only have to wait 5 years to access your super, compared to say, 25 years, for someone reaching FIRE at 35.

In fact, most people in their 20s and 30s will tell you that they will never be relying on the pension.

I imagine that they won't be relying as heavily on their Super as Gen-X either since they are fully focused on living off of their savings between reaching FI and reaching preservation age.

Conclusion

Pursuing FIRE in Midlife is uniquely different from pursuing FIRE in your 20s or 30s. Discovering a lack of retirement funds as you approach 50 leads to a sense of desperation as you google 'how to retire early'.

However, when you discover FIRE and apply the 3 levers you quickly discover that your ability to successfully reach Financial Independence in midlife is 2% basic math and 98% psychology.

In order to reach FIRE when you start out late, it's important to believe that it's not too late.

"IN ORDER TO REACH FIRE WHEN YOU START OUT LATE, IT'S IMPORTANT TO BELIEVE THAT IT'S NOT TOO LATE"

SHAUN @ PROJECT PALM TREE
AUSSIE FIRE

You definitely can change things around.

The secret is to stop focusing on the past and start focusing on what you can do NOW.

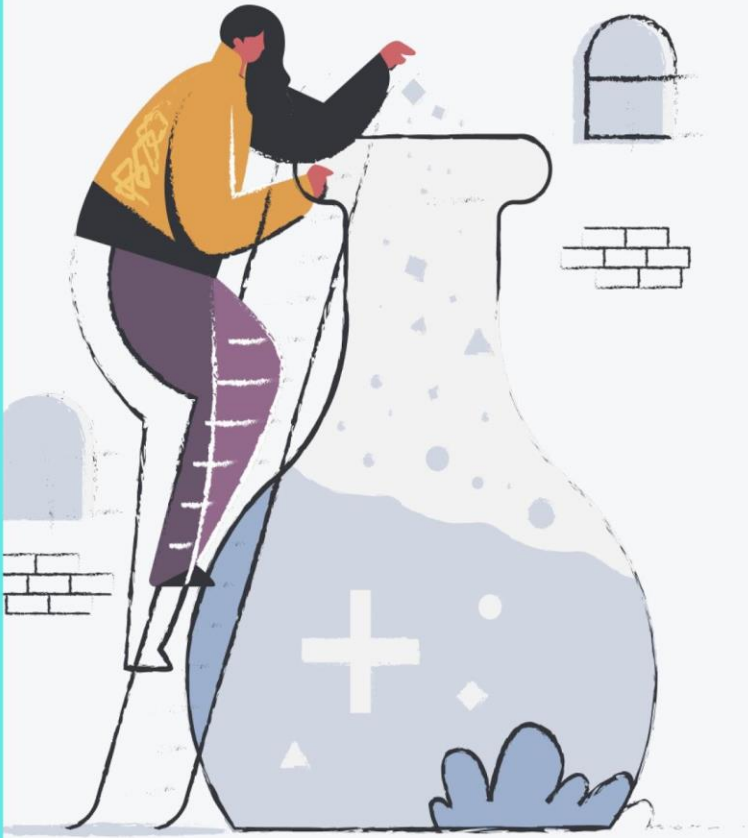
Once you really reduce spending, start saving and investing, you will really start seeing results.

You will start feeling less anxious and you will know that you are well and truly on the road to Financial Independence.

About Shaun from Project Palm Tree | projectpalmtree.com

The year before I turned 50, I realised that if I didn't take control of my personal finances, I would have no option but to work well into my 60s. Not because I was passionate about my job, but because without that money, I couldn't have a comfortable retirement.

I write about my journey towards reaching Financial Independence as a member of Generation-X.



PART 4: STOKE YOUR FIRE

Chapter 16: Optimise your portfolio

By Kurt Walkom, Pearler | pearler.com

Optimisation time huh? Welcome to the big leagues!

If you're at this stage you should definitely have your financial house in order - 'optimising' a bad foundation is a complete waste of time!

What does 'financial house in order' mean?

- You have ZERO bad debts (see Chapters 2 & 3)
- You are maximising your savings (see Chapters 6, 7 & 8)
- You are maximising your earnings (see Chapter 9)
- You have an emergency fund in place (see Chapter 10)
- You are consistently investing (see Chapters 11, 12a, 12b & 13)

If you don't look at that list and think to yourself 'yes, yes, and yes', then stop reading now and go straight to the chapter that you're not sure about and make sure you've got it covered.

Honestly, if you've ticked off everything up to this point, you should already achieve FIRE. This section's aim is just to help you get there a bit faster. But if you don't have everything up to this point covered, then you can read this section and you may still never reach it!

So, first things first - get your financial house in order!

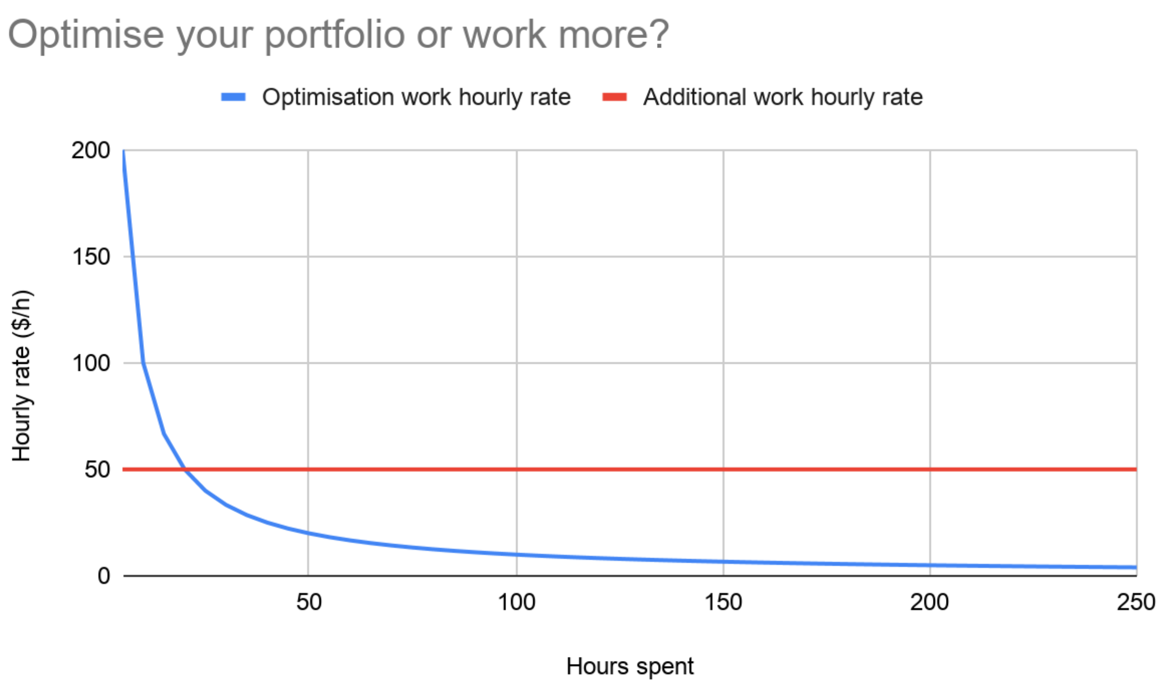
Next point is that I can't say, hand-on-my heart, that researching & implementing the concepts contained in this section are actually the best way to spend your time.

One of my favourite arguments against picking stocks is "look, even if you could pick stocks in your free time better than the guy at Goldman Sachs who gets paid to do it for a living, is that really going to give you the best return on your time?"

My key point here is that when we're dealing with relatively small amounts of money, like anything less than millions, the time spent getting an extra 1% return on your funds would usually been better spent working more in your main job, or on the side - not to mention that an additional 1% return above vanilla ETFs for the same level of risk is extremely hard to do!

For example, let's say you have a $100,000 portfolio and have the talent to earn 1% more than regular ETFs. How many hours would it take you to get that extra 1%? And would those hours spent be worth it?

Well, let's assume that any time you spend optimising your portfolio could be just as easily spent working additional hours somewhere & being paid $50/h. Here's how the numbers look...



In this case, if you have to spend more than 20 hours getting that extra 1%, then it's not worth it.

If you like, you can [calculate the trade-off for your own circumstances].

So, now you're aware of the trade-off you're making from a purely financial point-of-view and you're going into this optimisation stuff with eyes wide-open.

Maybe it doesn't make sense for you to invest the time optimising, but you're a personal finance nerd like me and enjoy working through this stuff - if so, welcome! You've just found nirvana! 😂

Or maybe you are a high-roller (#FATFIRE) and it makes complete sense for you to invest the time optimising your portfolio?

Either way, this chapter, and this whole section, is written for you.

Ok, so when it comes to portfolio optimisation, the place we need to start is with Modern Portfolio Theory, or MPT, because this is the foundation you need to understand the risk/return consequences of your portfolio tweaks, which when it comes to investing, is all that really matters.

I will say though that getting into the nitty-gritty of risk/return optimisation isn't light-reading, so be warned!

Alright, time to get started, we're not getting any younger.

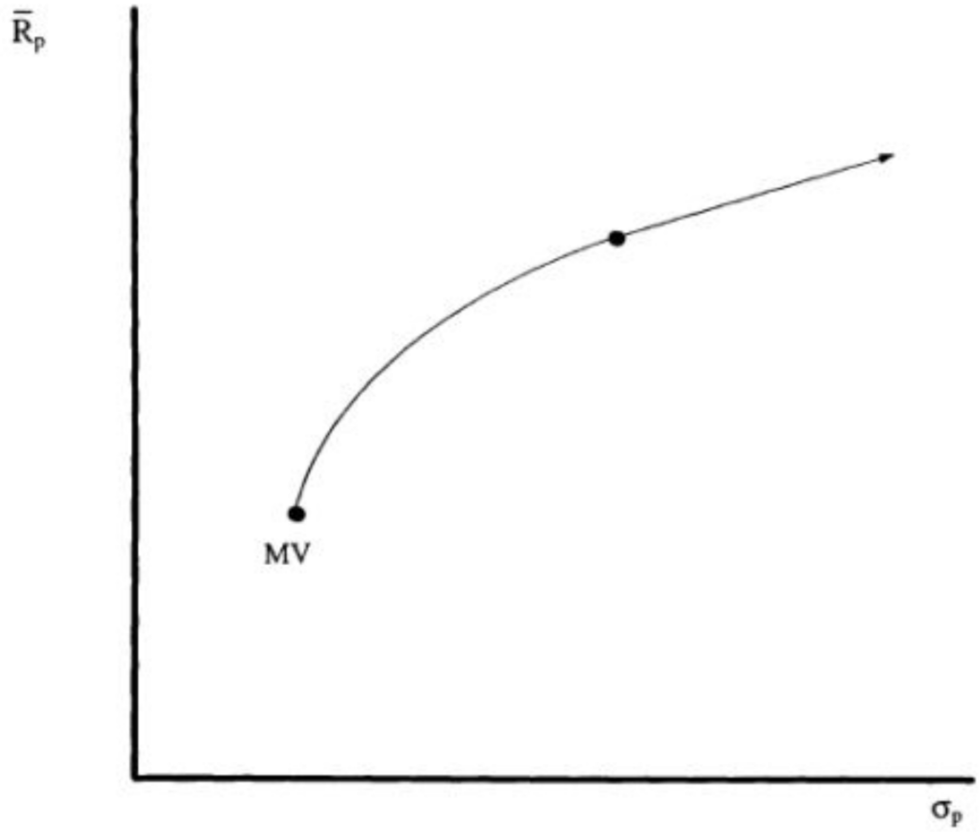
An introduction to Modern Portfolio Theory (MPT)

MPT is a Nobel Prize-winning investment theory pioneered by a bloke called Harry Markowitz in 1952 that today forms the basis of how most professional investors put together their portfolios, including hedge funds, managed funds and super funds.

It states that since most investors are risk-averse (i.e. don't want to lose money), they require more return for taking on more risk, that for each level of risk there is a corresponding combination of assets that maximises return, and that of all these portfolios, there is one that maximises the risk-return trade-off - this is known as the Optimal Portfolio.

Note that the risk accounted for in this trade-off is "systematic risk," which means the risk factors that are present affect the whole market and cannot be eliminated through further diversification. This type of risk is measured as standard deviation and therefore is a measure of how extreme market movements are, not necessarily the risk of losing your capital. We'll get into the difference in more detail later.

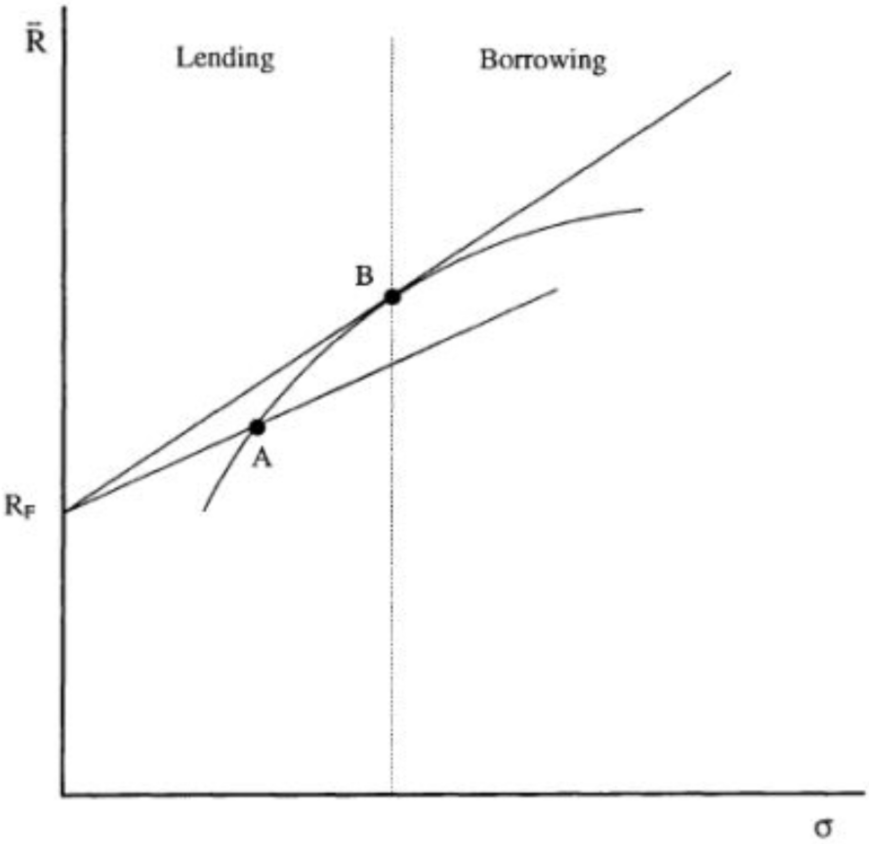
Ok, so here's what the range of portfolios (known as the efficient frontier) looks like. The right axis is return (% pa) and the horizontal is standard deviation. The line is the efficient frontier. MV stands for mean variance. The efficient frontier is comprised solely of non-cash assets.



So, where on the efficient frontier is this optimal combination of assets?

To figure that out we first need to introduce the concept of the *risk-free rate,* or Rf, which is the rate that investors can borrow or lend money at. Theoretically, Rf allows us to lend money by buying risk-free assets with extra cash, or borrow money by loaning some extra cash to invest in the optimal portfolio.

Then, if we draw a line between Rf and the efficient frontier, the point on the efficient frontier that maximises the slope is the optimal portfolio (i.e. **point B = Optimal Portfolio in the graph below**).



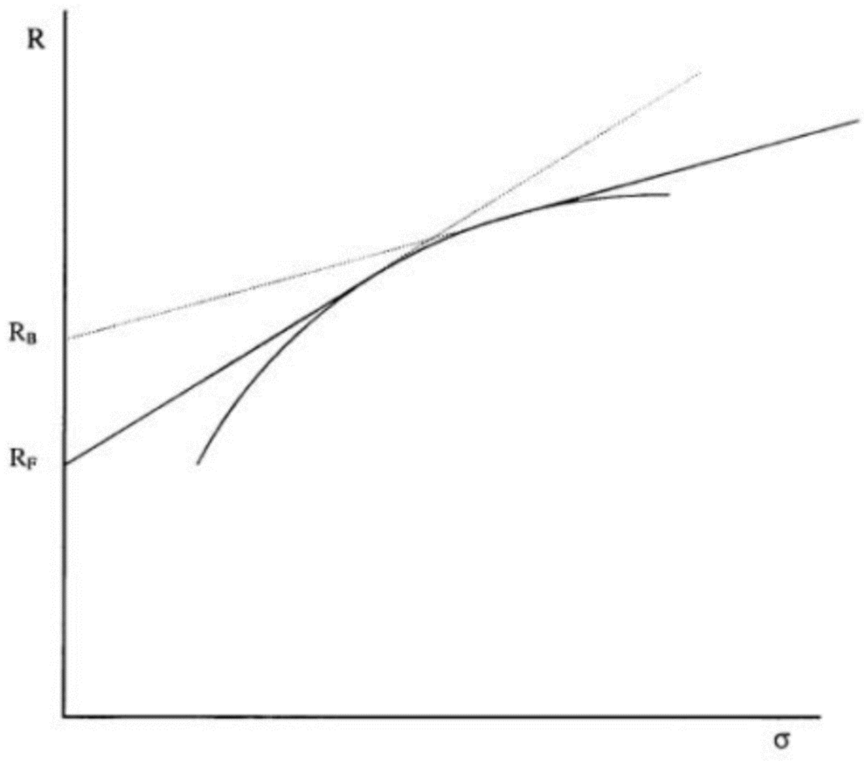
Note that the gradient of the line between Rf and B is the Sharpe ratio and the line itself if called the Capital Market Line. This means that the portfolio of assets at point B maximises the Sharpe ratio and the best return achievable in the Market for any level of risk is plotted along the Capital Market Line.

So, how do we move along the Capital Market Line? Well, any of these points can be achieved by allocating a proportion of funds to the optimal portfolio and the rest to cash. We can even allocate a negative proportion to cash, i.e. **we move along the line by lending or borrowing at Rf**.

Theoretically, investors move along the line to their own "happy risk point" by lending or borrowing at the risk free rate to maximise the return they get for the amount of risk they're willing to bear.

Problem is, **in practice, investors cannot borrow at the same rates they can lend.** Investors can lend close to 'risk-free' by buying government bonds, however, we will always pay a higher borrowing rate than what we can lend at.

So, if our lending rate is different to our borrowing rate, then the capital market line becomes kinked, as shown below.



In this case, instead of having one optimal portfolio, there is a range of optimal portfolios between the two points of intersection of Rf and Rb. The higher the difference between Rf and Rb, the greater the number of optimal portfolios and the more the benefit of leverage is reduced.

Using current figures, AU Government bonds yields are around 1% pa, but most margin loans will cost you closer to 5% pa. So yes, it seems like an unfair trade, plus there's a bit of work involved in setting up margin accounts and monitoring asset values.

This is why I'd dismissed leveraged investing as a viable option for my own portfolio for a long time.

Put theory into practice

As you've just read, MPT is built around the concept of an optimal or market portfolio.

In theory, this optimal market portfolio is a bundle of investments that includes every type of asset available in the world financial market, with each asset weighted in proportion to its total presence in the market (yes, the name kind of gives it away)! But how do we invest in every asset in the world in the right proportions?

Simply put, we can't. We're retail investors with limited time on our hands. But, by using ETFs we can get close enough with not much effort.

First, we need to decide on how much risk we're comfortable with. As mentioned before, I don't think of this risk as risking capital loss because it's not. Standard deviation is a function of volatility, not permanent loss and therefore the true risk is being unable to withstand temporary value decline, psychologically or financially.

This is a subtle difference but an important one. The question I often hear new investors being encouraged to ask themselves is 'can I afford to lose this money?', which is just so wrong.

Thinking this way further reinforces the misconception that investing is gambling - the same misconception that stops so many Aussies from becoming investors in the first place.

Instead, the question should be 'what temporary value decline am I psychologically comfortable with and when might I need to access the capital I've invested?'*

"THE QUESTION I OFTEN HEAR NEW INVESTORS BEING ENCOURAGED TO ASK THEMSELVES IS 'CAN I AFFORD TO LOSE THIS MONEY?', WHICH IS JUST SO WRONG... INSTEAD, THE QUESTION SHOULD BE 'WHAT TEMPORARY VALUE DECLINE AM I PSYCHOLOGICALLY COMFORTABLE WITH AND WHEN MIGHT I NEED TO ACCESS THE CAPITAL I'VE INVESTED?"

KURT @ PEARLER
AUSSIE FIRE

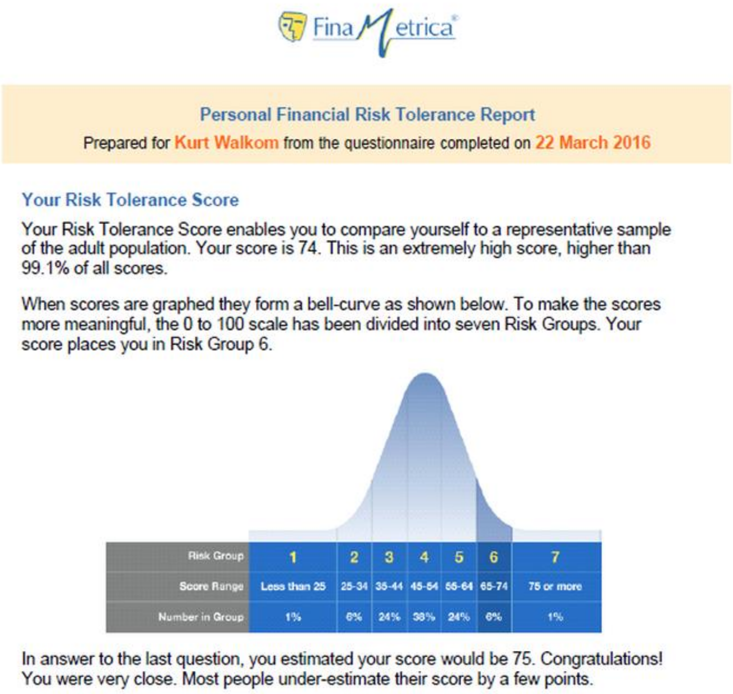
So, there are two parts to this question. Firstly, how can we measure our psychological ability to withstand temporary value decline? And secondly, what are our future needs for our invested capital?

I think we can use past experience as a conservative way to estimate our psychological tolerance to temporary value decline - e.g. think about what's been the worst decline you've been able to ride-out and go from there.

For me, this was the GFC. I made my first investments in 2007 and come 2008 my investments were worth 75% less (perfect timing!). I didn't sell any shares until 5 years afterwards so I expect I can ride out another 75% value decline, if it were to happen (which is extremely unlikely as I now mostly invest in ETFs).

With COVID rocking the markets recently, you should have a pretty good idea of how much volatility you can psychologically withstand - were you stressed? Did you sell? Or didn't you even break a sweat?

But what if you haven't had to deal with a market crash yet? Or you think my past-experience approach sucks? Well, you're in luck. There are a bunch of Risk Profiling quizzes you can take, like this FinaMetrica one. If you've got a .edu email it's free. The front page of my report is below. My results were what I expected. I imagine most FI-investors would be towards the upper end of this range.


FinaMetrica

Personal Financial Risk Tolerance Report
Prepared for Kurt Walkom from the questionnaire completed on 22 March 2016

Your Risk Tolerance Score

Your Risk Tolerance Score enables you to compare yourself to a representative sample of the adult population. Your score is 74. This is an extremely high score, higher than 99.1% of all scores.

When scores are graphed they form a bell-curve as shown below. To make the scores more meaningful, the 0 to 100 scale has been divided into seven Risk Groups. Your score places you in Risk Group 6.

Risk Group	1	2	3	4	5	6	7
Score Range	Less than 25	25-34	35-44	45-54	55-64	65-74	75 or more
Number in Group	1%	6%	24%	38%	24%	6%	1%

In answer to the last question, you estimated your score would be 75. Congratulations! You were very close. Most people under-estimate their score by a few points.

Together, these two methods should give you a solid understanding of your investing psychology.

Next, we've got to consider our future needs for invested capital, both planned and unplanned. This is hyper-personal and I don't know of a broad way to give guidance here, but here are my circumstances:

- I don't intend to access my current investment capital **ever**. This capital and a portion of my future capital is being used to become FI (financially independent), my #1 financial goal.

- I haven't set other personal financial goals yet and apart from a lumpy income, my financial affairs and commitments are uncomplicated - not married, no dependents, etc.
- When new goals do arise, I expect to be able to save for them in a way that doesn't compromise my FI-investing strategy.
- In particular, when my life circumstances change and I want to purchase a house and other big-ticket items, I don't think my need for capital to purchase these items will ever be so urgent as to force me to sell at bad prices, if I need to sell at all.
- I have private health insurance and always cover myself with travel insurance when abroad.
- If everything goes wrong I have a family safety-net to fall back on.

The outcome of my personal circumstances is pretty simple. I intend to never need my invested capital that I put towards FI for anything other than achieving FI, and I am confident my circumstances will allow me to do this for 20 years.

But what if it wasn't so straightforward? Let's say that I plan on using this capital for a home deposit in 5 years time. How should I change my strategy?

Well, for me it would depend on how fixed I am on that 5-year timeline. If I *would like to* own a home, but *not have to,* then my strategy would remain very similar - I would just invest in the way that maximises my return over the long-term. If the sharemarket plugs along normally I'll be fine, and if it shits itself I will just wait until it rebounds.

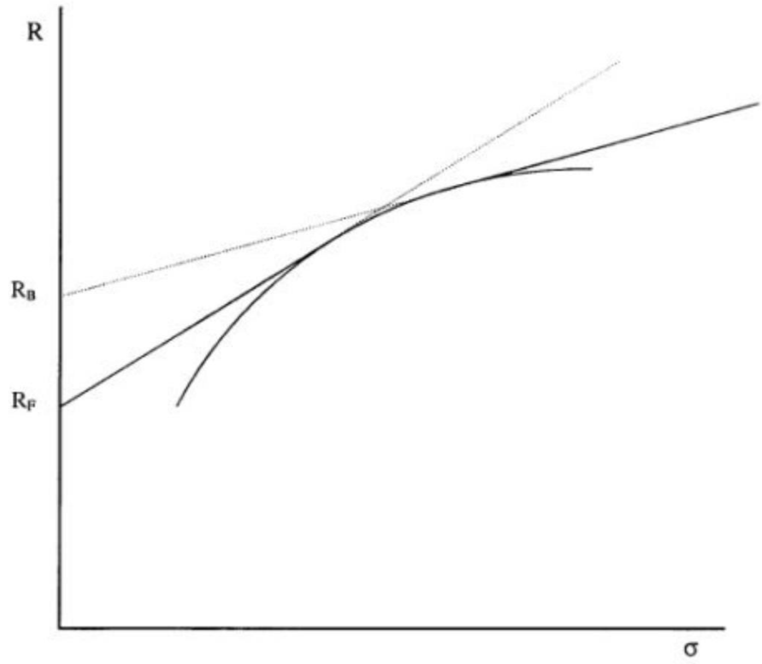
Of course, this all changes if I *must buy a home in 5 years*. In this case, and with a 5-year timeline, my capital really isn't safe in the market. Historical figures suggest I could lose up to 12% of capital invested over rolling 5-year periods, and 37% over rolling 1-year periods. So the decision now becomes a toss-up between how much I am willing to risk having to purchase a less expensive property vs the additional expected return.

The difference is ~2% per annum in a HISA vs ~10% per annum in the market, or about 5x!

Note that this isn't a static decision either, because as the timeline becomes shorter my risk of capital loss increases. It's a tough call that will be unique for everyone - far simpler to avoid getting into the position where I *must* do anything with my capital, I reckon.

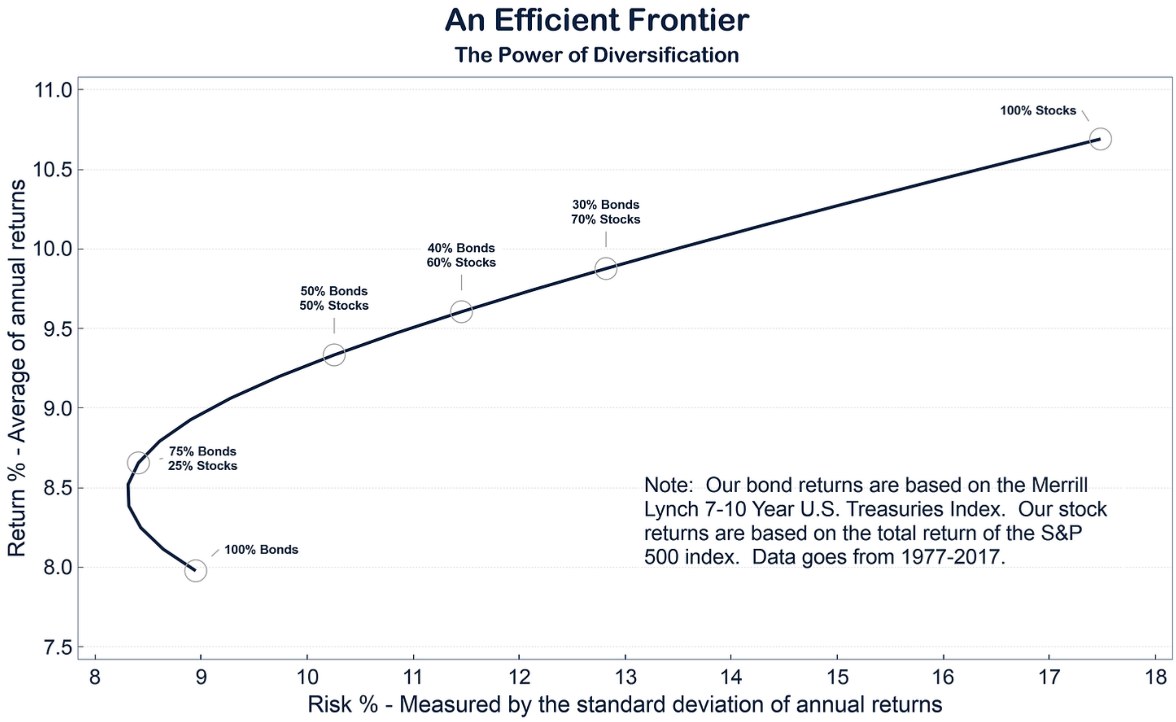
So, taking stock of my situation: I've got no fixed future obligation for invested capital and I've withstood a ~75% temporary value decline before. This means I can withstand a lot of volatility and so I am a fair way to the right on the horizontal axis below.

As you can see, I'm past 'the kink' and so should theoretically have a leveraged portfolio with a mix of bonds and equities.



Up until recently though, I wasn't aware of any viable ways for retail investors to invest with leverage.

The costs of margin loans (~5% pa + active monitoring) just didn't make sense, so my strategy to cost-effectively maximise my return had been to invest all my cash in AU & global equity ETFs and forgo bonds completely, as per the efficient frontier asset allocations below. **



As you can see, a 100% equity-portfolio is theoretically how to maximise return if leverage is cost-ineffective.

Theoretically, MPT uses the market-weighted portfolio (an all-world, all-equity, market-weighted portfolio with assets allocated based on risk profile). If there were no tax or currency considerations to take into account, this would mean we should allocate less than 5% of our funds to Aussie investments!

In practice though, there are regulatory benefits for Australians to invest in Australia (franking credits, dividends & currency), which are the main reasons that the ideal all-equity portfolio for an Australian has a much higher concentration of Aussie equities than 'market weight'.

As you can tell, I'm a bit of a nerd about this stuff and I researched the theoretical optimal domestic asset allocation for Australians quite heavily.

While I didn't find exactly what I was looking for, I did find a journal paper from 2013 that looked specifically at Aussie equities! Here's the key takeaway:

Overall, the optimal allocation to equities from the perspective of a taxable Australian investor is between 32% and 60%, with higher allocations leading to lower volatility of the overall equity portfolio.

So, extrapolating this to other asset classes (which seems valid, but I may be wrong), typically we're looking at the 30% to 60% Aussie asset allocation range. Note that this study assumed the top tax bracket, pushing the optimal allocation higher than it would be for investors in lower tax brackets. Still, I think that it's fair to assume that for all tax brackets this range is accurate enough to use.

Using leverage

I'd assumed for years that leverage was just too cost- and time-ineffective to use to invest in equities (for those of us on the far RHS of the Efficient Frontier).

5% p.a. margin loans to earn ~10% p.a. with 32.5c tax to pay on every additional dollar of income **plus** the stress of margin calls just doesn't appeal to me.

Over the past few years though, I've discovered that there are ways to cost- and time-effectively invest in equities with leverage.

The most well-known and widely recommended is debt recycling. Debt recycling is a process that essentially allows you to invest in shares with leverage at the same interest rate as a home loan, while making the interest tax-deductible.

Debt recycling is the most widely recommended for a good reason; it mitigates the two biggest downsides of margin loans:

1. Stressful margin calls
2. Prohibitively high interest rates

But, there's one key ingredient you need that many of us who are early on our FIRE journey don't have - a house!

So, if you have a house and are interested in leverage, I strongly suggest you read this awesome guide to Debt Recycling by A Family on FIRE, and this one by Dave from Strong Money Australia too.

But, if you're like me and don't own a home, then what do you do?

One option I've been testing out over the past year are Internally Geared ETFs, which are effectively corporate margin loans for retail investors.

They are a relatively new product category and there are only two ASX-listed options - GEAR which tracks the ASX200 and GGUS which tracks the S&P500.

Currently, the borrowing rate for them both is ~2% and the leverage is centrally managed by the ETF provider, making them much more time- and cost-efficient than the traditional margin loan alternative.

But, we are in an extreme period of volatility, and internally geared ETFs underperform in extreme volatility because they have to rebalance often.

Still, they are the best leveraged investment option I know for retail investors who don't own a home in Australia, so if you're interested in leverage and don't own a home I recommend you read my detailed analysis of Internally Geared ETFs.

To be complete, another worthwhile consideration is NAB's Equity Builder. This product essentially allows you to to take out loan to invest in a selection of 'safer' assets, including most Aussie ETFs.

It's fees are stilll quite high (~4% p.a.), but it doesn't have any margin calls. The repayment behaviour is like a blend of mortgage and margin loan and is generally pretty customer-friendly.

Similar to a buying a house, the Equity Builder can incur a fair bit of pricing risk if not used intelligently though- you want to DCA and not lock in the price at a market peak (unfortunately you don't have this option when buying a house!).

For more information about NAB's Equity Builder, read this thorough review.

The Outcome

Now you've got the foundation to start optimising your portfolio.

Work out what your risk tolerance is. Work out when you need access to the capital you're investing. Then work out what that means for your asset allocation and apply it.

It's as simple as that.

About Kurt Walkom | pearler.com

Kurt is one of Pearler's co-founders. After reading the Barefoot Investor at the ripe old age of 14, Kurt got started on his Financial Independence journey early. He invested his $15,000 in "life savings" in 3 stocks based on a stockbroker's recommendation – right before the Global Financial Crisis. Seeing his share portfolio plummet in value (and never bounce back), Kurt resolved to learn all he could about investing, and why retail investment advice gets it so wrong, so often. In 2018, Kurt co-founded Pearler with his two friends, Hayden and Nick, to make it easier for everyday Aussies to invest in shares the right way - incremental amounts in diversified portfolios, for the long-term.

* This is the part where the past performance is not an indicator of future performance BS disclaimer usually features, but I'm taking a stand because if your time horizon is long enough and you invest with adequate diversification, your chances of permanently losing your capital are zero, unless the world suffers a cataclysmic catastrophe (then we're all F###ed). What is an adequate diversification/time horizon mix? And what's a cataclysmic catastrophe? Well, if you invested in the top 500 companies listed in the US alone, there's not one rolling 20-year period since 1872 that would've lost capital value... Not one of the world wars, financial crises or natural disasters was enough of a catastrophe to stop the relentless progress of the sharemarket for 20 years.

** It's important to make sure that the dataset of the efficient frontier you're using is over a sufficiently long time frame. Crudely applying MPT with short-term data can have an over optimisation problem, i.e. it will just pick and promote recent 'hot' asset classes.

A big thanks to d42.com for providing most of the efficient frontier images used in this article.

Chapter 17: Superannuation and FIRE

By Alex and Ellie, HisHerMoneyGuide | hishermoneyguide.com

How does the idea of having more money in retirement sound?

The good news is that anyone can build their retirement funds. The bad news is that not many people seem to be taking advantage of the opportunity.

Luckily, both you the reader and we at HisHerMoneyGuide are pursuing financial independence, and in particular early retirement, so it's a topic dear to our hearts.

Most people in the Australian context will depend on superannuation to fund the bulk of their retirement. However, superannuation can be an overlooked opportunity in the FIRE equation, or alternatively something that can be dangerously relied on.

So what role can it play in FIRE planning, and what are our own plans for superannuation when we retire?

Firstly, let's start with a brief recap on the purpose of superannuation in Australia. Currently, employers are legislated to pay 9.5% of staff wages into their employees' retirement funds in most instances. That's due to rise to 12% by 2025.

For the most part, as long as you receive at least $450 a month in wages from your employer, you should receive superannuation into your nominated account. Some superannuation fund managers perform better than others, so it's very important to shop around.

Why does superannuation exist? Rather than governments needing to pay pensions, it was decided that people should have their wages set aside for them - compulsory retirement savings – so as to take pressure off the public purse. It's a multi-decade goal, and so far it's resulted in almost $3 trillion in retirement savings as at December 2019.

If you consider the finances of an average household, it's a simple fact that many people need money set aside for them automatically, because otherwise they'd spend it on their day-to-day living expenses and luxuries. It's financial FOMO and YOLO rolled into one. People generally don't plan for things decades into the future, but that's what sets people who pursue FIRE apart from the others (though we share a love of four-letter acronyms).

So how do the finances of superannuation stack up for retirement?

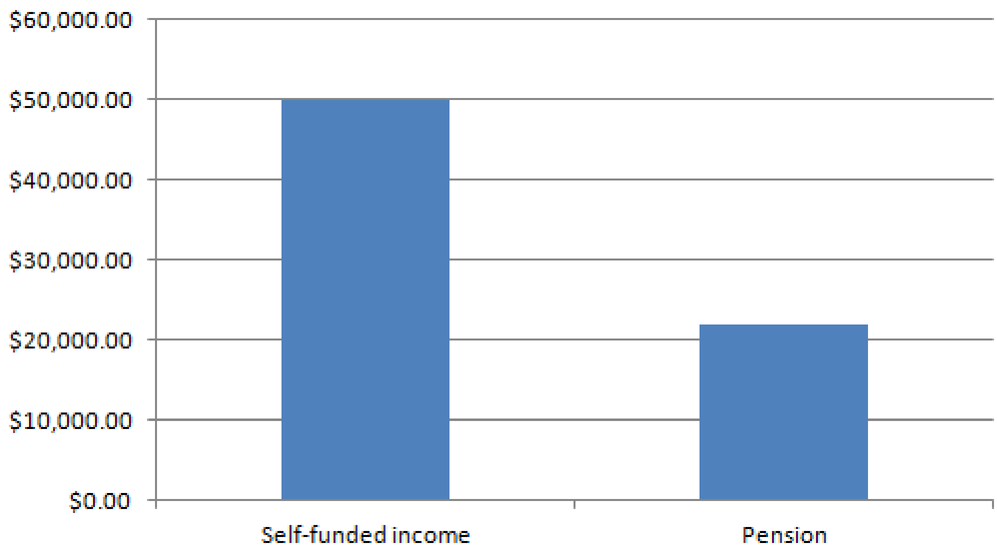


Figure 1: The $50,000 income is arbitrary, but we know which income option we'd choose, and which one we'd avoid at all costs. Needing to access the age pension would be a drastic decrease in income. Lesson: don't run out of money in retirement!

Retirement expenses: what superannuation tells us you need

If you go hunting for numbers for superannuation planning, you'll see that each fund has slightly different numbers compared to others, but the numbers generally agree with each other.

If you're an Australian couple retiring at age 67, it's estimated that you need about $62,000 a year to live a comfortable retirement – and about $45,000 a year for a single person. That comfortable life will allow you things like an overseas holiday every year or two, plus good health insurance.

A more modest retirement will still cost you about $40,000 for a couple and $28,000 for a single per year. It's not a poor life, but you'll rarely have any extravagances, and depending on your post-work goals, values and interests, that can be enough (think of it pretty much as being a LeanFIRE lifestyle).

In comparison, the Australian government aged pension currently pays about $32,000 a year for couples and $22,000 a year for singles. Being on the aged pension will allow you to survive, but sometimes not much more than that. It's a frugal life by necessity, without much support for extra costs such as healthcare, home maintenance, holidays or other little luxuries such as a night out.

At this stage, you might be wondering what any of this has to do with FIRE.

Well, you might be retiring well before the age of 67. But even if that's not the case, superannuation still has some teachings for you, and it's also an opportunity to both improve your FIRE finances and increase your financial safety net.

How much superannuation do you need?

Firstly, what sort of superannuation balance do you realistically need in order to achieve the numbers outlined above? The Industry Super Funds retirement calculator says that to achieve a 'comfortable' lifestyle, you need to have a balance of $1.1 million as a couple and $780,000 as a single.

For a more 'modest' retirement lifestyle, you'll need $720,000 as a couple and $500,000 as a single.

Pretty big numbers, right? Well, it's nothing too extreme (after all, people retiring at age 67 would have been working for well over four decades at that stage, so there is plenty of time to build up those balances).

But here's the kicker.

Those numbers are for you to retire at age 67 *and only live to age 85* - the approximate average life expectancy right now. That's only 18 years of retirement.

If you decide to (in our opinion, wisely) play it safer and adjust your life expectancy by an extra decade to 95 years, it's recommended that you need to increase those sums by around 50%. Ouch.

Maybe we've telegraphed our lesson here too much, but there's an important learning amongst all of these numbers. The goal with superannuation is to essentially use it all up. It's not a perpetual money-making machine. In the latter retirement case, $720,000 is only enough for a couple to live modestly for 18 years, while they'd need about $1,080,000 to support themselves for 28 years.

We've previously expressed our concerns about LeanFIRE, so hopefully those numbers give you some pause for thought if you're planning to retire 20 or 30 years *ahead* of the usual retirement age.

Meanwhile, superannuation has much higher withdrawal rates than the widely cited 4% withdrawal rule - and that's based around a 30-year retirement.

So for my money, that suggests that you need even *more* money to make your investment portfolios stretch for half a century (give or take), let alone taking into account the possibility of large expenses in retirement, such as growing healthcare costs.

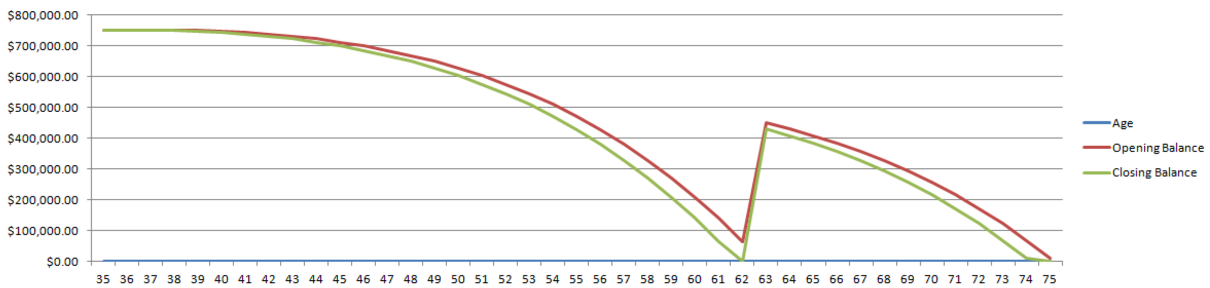


Figure 2: Running out of money early. (Assumption: 7% return and 2% inflation on a $750,000 balance and $50,000 in annual expenses.) Portfolio expended at age 63. This is followed by accessing superannuation at age 63 (Assumption: $200,000 into super at retirement age of 35, accessed 28 years later with a value of $450,000.) Your money is effectively expended at age 74. An awful situation to find yourself in if you then need to rely on the pension (see Figure 1 of this chapter).

Superannuation and FIRE - a much needed safety net

At HisHerMoneyGuide.com, we view our superannuation as a *safety net* – it's essentially something we're not planning to use if we can avoid it.

We're aiming to retire by the age of 45 with an annual pre-tax income of around $150,000 – earned primarily through a combination of share dividends and rental property income for diversification purposes.

Our goal is to avoid drawing down on any of our capital. We're planning to rely solely on dividends and rent, as opposed to passive income *and* gradually chipping away at our capital base over time.

Although our approach isn't novel, it isn't favoured by the FIRE community either. Why is that, you ask? Because it requires you to work longer and/or harder in order to build up a larger capital base to begin with. But in our opinion, it's by far the safest approach.

We're being very careful about planning for a savings and investment portfolio with in-built redundancy. Essentially, our long-term goal is that the superannuation we've accumulated won't ever be needed. Our investment portfolios will hopefully continue to grow over the years, in terms of both dividends and capital values for perpetuity (eg. forever).

However, what if this grand plan doesn't play out as expected?

What happens if some of our investments fall over, losing us dividend income? What if our income doesn't grow enough to match inflation? What if our expenses outpace any inflation and income growth due to a reason such as illness as we age? Or what if we encounter other unforeseen expenses later in life?

This is precisely why we're aiming to play it safe. We strongly believe that anyone who pursues FIRE should actively plan for a realistic worst-case scenario.

At the time of writing, coronavirus is basically a real world example of that worst-case scenario in action. Dividends are dropping across the board, share values have fallen, and many tenants have lost their jobs – subsequently passing on financial stress to their landlords.

In our case, we're yet to see how bad the impact will be. But we're expecting our passive income to drop by a good 50%. This obviously isn't great news. However, if you take a quick look at [our retirement budget](), you'll see that we could realistically survive income drops of 66-75% without needing to dip into any other money such as cash savings or drawing on our capital base.

It's eventualities such as these (i.e. short term shocks, or longer term erosion of wealth) where we can envision that superannuation might become our safety net.

The good news is that anyone who has worked in Australia before their retirement should have some level of superannuation tucked away for a rainy day. The even better news that this money will be there even if it's not needed, and that could actually make retirement very tasty indeed.

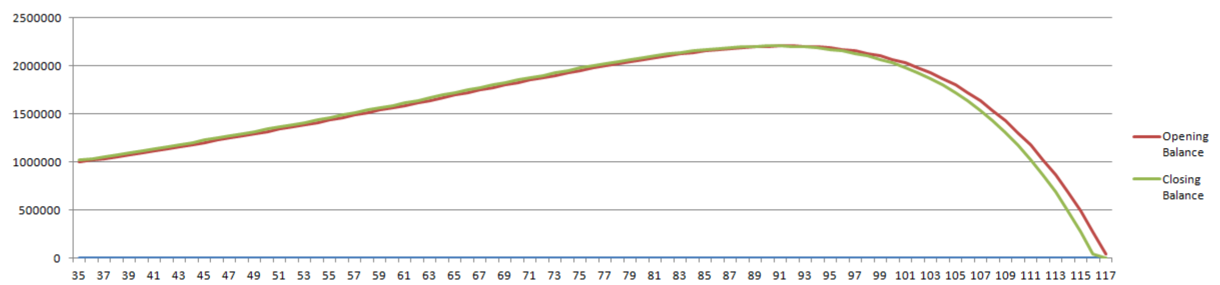


Figure 3: Example of a portfolio drawdown from age 35 with a safe balance to avoid pension: (Assumption: $1,500,000 portfolio, 7% return, 2% inflation, and $50,000 in annual expenses.) Unless you're retiring as a teenager, you should be fine under this scenario!

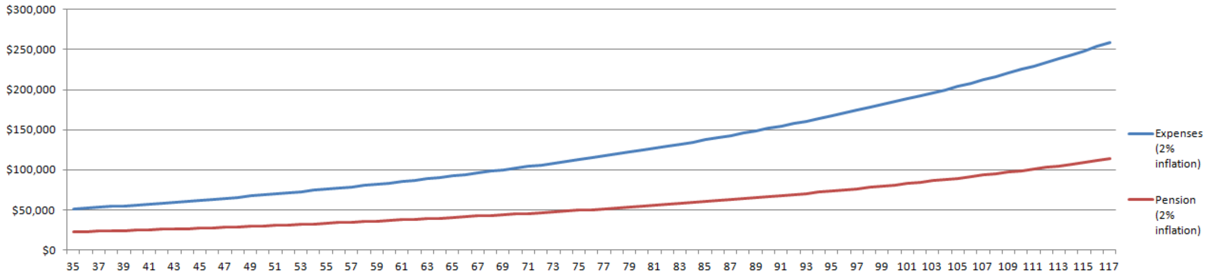


Figure 4: Thanks to a higher initial amount and compounding, you can beat the value of the pension (accessed from age 67) over time and have an increasingly higher quality of life than future pensioners.

Superannuation in the background: An opportunity

As great as superannuation is, there is one big downside. Under current Australian government laws, you cannot access your superannuation balance until you've reached the age of 60. For Australians looking to FIRE, this can pose a significant problem.

In our case, it'll be at least 15 years post-retirement (at age 45) before we can access that money. It's for that exact reason that we're not contributing any extra money into our super accounts right now, even if it is currently the most tax-effective thing to do.

In fact, we used to contribute extra into our superannuation for that very reason but stopped years ago because we firmed up our early retirement plans, and saw the giant gap between the time we locked that money away and when we'd be able to access it.

Nevertheless, the good thing is that once we do retire early, we'll have a nice super balance that will no longer be receiving any contributions but will still be growing quietly in the background.

Personally, our goal is to accumulate a superannuation balance of around $700,000 between us at the time of pulling the pin on paid employment.

Recently, our superannuation funds have yielded an annual investment return of around 9-10% per annum (around 6-7% above modern inflation). However, it's also worth keeping in mind that the 100-year share market return in Australia is actually only 2% per annum above inflation (with a total increase of 6% – so that's historically 4% annual inflation), so it's worth considering longer term trends to factor in the possibilities.

In our case, if our superannuation outperformed inflation by 6% per annum, it would grow from $700,000 to $1,677,000 over 15 years. Alternatively, if it only outperformed inflation by 2% per annum, our super would grow to $942,000 by the time we'd be able to access it. Both of those amounts are effectively 'in today's money' (after stripping out inflation).

You can draw down 4% of your superannuation at age 60, so that would end up being an extra income (after tax) of between $37,000 and $67,000 per annum (depending on a 2-6% net return).

Those are some eye-watering numbers right there folks. For us, that would be some heavy icing on the early retirement cake, considering that our $150,000 gross income would be around $115,000 after tax. So by dipping into our super, we could access extra available funds of somewhere between 32-58%. Crazy.

However, if we face any extra big annual expenses (such as medical bills, home maintenance costs, or even just needing extra help around the house with cleaning, gardening or wanting to order in more cooked meals to cut back our physical workloads as we age), that sort of money should cover these additional costs, while still allowing us to maintain our previous lifestyles and expenses. In late life, that's also enough money to open up options such as qualified in-home care.

Alternatively, if our income does gradually erode over time (or a combination of increased expenses and decreased income), unlocking our superannuation will also cover such an eventuality.

But if we hit the age of 60 and things are still going well, with our investments performing as expected, then that superannuation money is just sugar on the top. It could fund all sorts of extra comforts, interests and hobbies.

We reckon that makes superannuation a remarkable all-in-one financial safety net and opportunity.

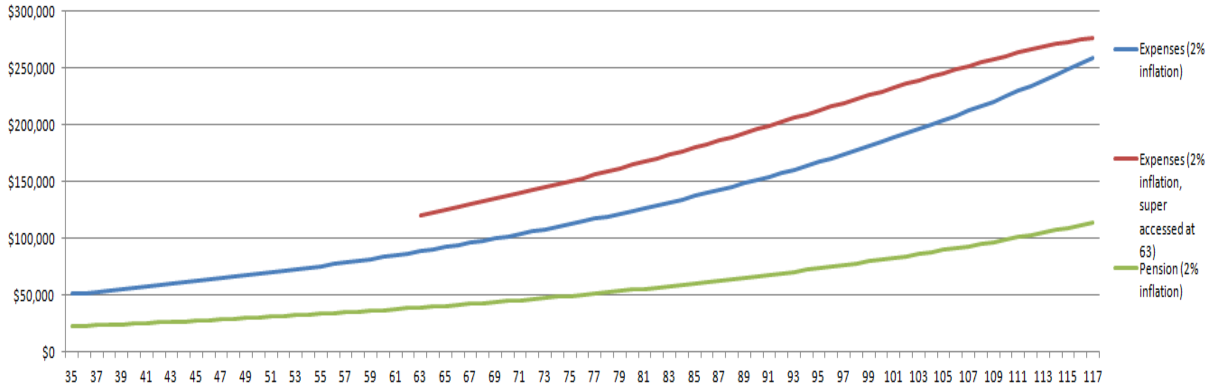


Figure 5: $50,000 annual expenses (2% inflation adjusted). As an extension to the depletion of money scenario (figure 2 of this chapter) that ran out of money at age 63, if you have a higher (safer) initial balance you can then see the additional safety net provided by superannuation once it is accessed at the same age.

Don't rely on your superannuation

Everyone's financial goals are unique because we all have different incomes, different expenses, and different things that we want to do with our money.

So our example is highly relevant to us, but perhaps less so to you.

Nevertheless, we hope that if this chapter has conveyed anything at all to you, it's that you should build a resilient financial safety net that can withstand *multiple* hits in the future.

In our opinion, superannuation is about as good a safety net as you can get, because it'll always be there bubbling away in the background to a greater or lesser extent, and you can't access it for a number of years.

However, because it's critically important to build redundancy into a financial portfolio (and redundancy is just another level of *diversification*), you shouldn't rely solely on superannuation to fund your retirement.

If you're planning to retire early and use a strategy that draws down and depletes your core investment capital by the age of 60 or so, and then access your superannuation to fund the rest of your life, this ultimately means that your portfolio has one less level of resilience.

If you ever find yourself relying on just one income stream, that's no longer true financial *independence*. Instead, it's just one step away from *dependence*. You could easily find yourself just one big expense away from depleting it and relying on government support.

> **"IF YOU EVER FIND YOURSELF RELYING ON JUST ONE INCOME STREAM, THAT'S NO LONGER TRUE FINANCIAL INDEPENDENCE. INSTEAD, IT'S JUST ONE STEP AWAY FROM DEPENDENCE. YOU COULD EASILY FIND YOURSELF JUST ONE BIG EXPENSE AWAY FROM DEPLETING IT AND RELYING ON GOVERNMENT SUPPORT"**
>
> ALEX & ELLIE
> @ HIS HER MONEY GUIDE
> AUSSIE FIRE

Even worse, let's say you retire as a couple at age 35 with a $200,000 superannuation balance (which is above average for that age) and you're planning to depend on accessing those funds at age 60, it might grow to $850,000 with a 6% net (after inflation) return over the next 25 years.

Or it might only grow at the historical 2% post-inflation rate and be worth $320,000 'in today's money' at age 60. At that level, you'll only have around half the income required for a "modest" lifestyle, and you'd be better off on the aged pension (if it'll exist at all in around 30 years).

We admit our own Fat/HIFIRE early retirement lifestyle might be overkill for most people. However, we want the reassurance and comfort of knowing that we never have to work again *and* have the freedom to pursue our own passions and interests – all the while being able to protect and maintain our lifestyles in all but the most extreme circumstances. The alternative scenario presents the risk of needing to return to work (maybe at a time when we're literally unable to work because of an economic downturn or ill health), which would be a major disruption to our lifestyles and everything that we've worked so hard to achieve.

Therefore, even if you're only striving for a humble early retirement, you should build a similar number of protective layers into your own retirement plans, at a level that is proportionate to your financial goals.

Superannuation might not be the financial hull of our ship, but it's a safety rail that we know we can fall back on to protect us from other ravages that could threaten the viability of our FIRE goals.

About Alex and Ellie from HisHerMoneyGuide | hishermoneyguide.com

Alex and Ellie live in Brisbane, are in their mid-30s and looking to Fat/HIFIRE by the age of 45. HisHerMoneyGuide.com follows their journey to an early retirement lifestyle where money isn't an obstacle to reaching their goals of a beachfront retirement and months of international travel each year. They've been blogging since 2019 and have a current net wealth of over $2 million. They've set themselves a FIRE target of $4.3 million, with a $150,000 per annum passive income.

Chapter 18: International investing for Aussies

By Ms. FieryIce, Two to FIRE | twotofire.com

Diversification, Diversification, Diversification

Diversification as a concept is so important, that it merits a mention every time we talk about investments.

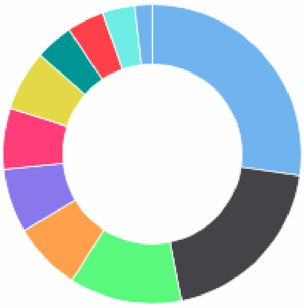
Diversification of your portfolio means mixing a wide variety of investments to make sure that you're not overly reliant on one particular type of asset class.

Over the long term, diversification offers the benefit of maximising your returns while minimising risk.

Typically when someone thinks of diversification, they think of buying multiple asset classes such as bonds, gold, real estate etc. to average out the risks associated with only buying shares & equities.

However, a key aspect of diversification that is also quite important for Aussies to consider is geographic diversification. Here's why:

1. The total market capitalisation of the Australian Securities Exchange (ASX) is approximately 2% of the total global market capitalisation.
2. ASX has a huge dependence on Financials and Materials which contribute to almost 50% of the total market capitalisation of ASX200, whereas sectors like Technology and Healthcare are just a tiny sliver in that pie.



SECTOR	INDEX WEIGHT
Financials	27.3%
Materials	19.5%
Health Care	12.2%
Industrials	7.4%
Consumer Discretionary	6.9%
Real Estate	6.6%
Consumer Staples	6.5%
Communication Services	4.1%
Energy	4%
Information Technology	3.5%
Utilities	1.9%

Source: SPG Global

What this means is that when you invest only in the Aussie share market, you're limiting yourself to less than 2% of the global opportunities, with only two sectors taking centre stage, making your investments extremely susceptible to a sector-specific downturn.

The Banking Royal Commission is a good example of how a sector-specific issue in the Financials dragged the ASX 200 down by almost 13% from Dec 2017 when it was announced to June 2018. In a more diversified exchange, perhaps, the impact on the overall index would not have been so pronounced.

Exposure to International equities is the antidote

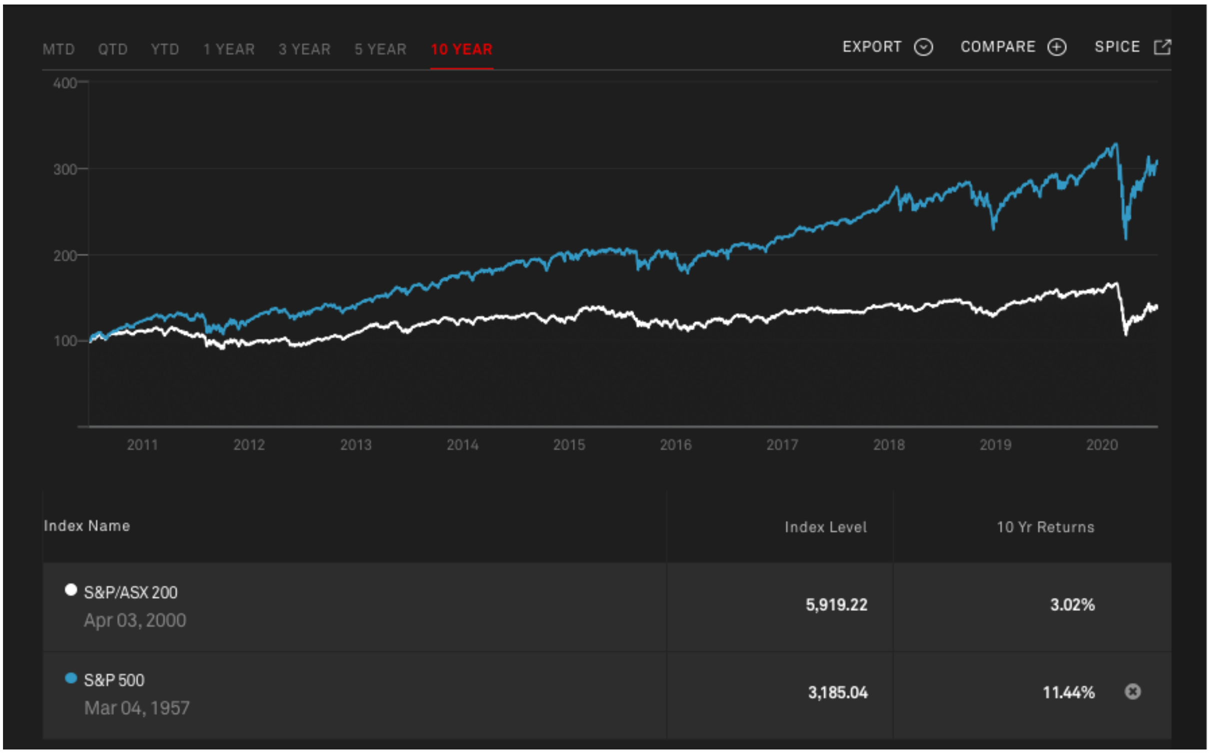
Investing in the global share markets can help provide the much-needed diversification for Australians not only across different international markets but also across multiple sectors and blue-chip companies.

Access to Global Markets

Each country's economy has a country-risk associated with it. The more developed an economy, the lower the country risk. But with a lower risk also come lower returns. Investing in international equities lets you participate in the growth of other countries and geographies, therefore optimising your returns, while also keeping the risk fairly contained.

While historically, the Australian economy has grown robustly, it is expected that its growth rate along with that of other developed economies such as the US will slow down while that of the Emerging Economies will gain momentum. When looking at investments from the angle of FI, it is important to look at long-term growth. Therefore investing in different economies, which are at different stages of their economic life-cycle, will make sure that you're not overly exposed to the blips in the growth of one particular economy and your bets are sufficiently hedged.

The chart below compares the performance of the top Aussie shares (ASX 200) with that of the top US shares (S&P 500) over a 10 year period. If you had had some portion of your investment in US shares you would have been able to get great returns from that amazing growth.



Source: SPG Global

Sector Diversification

The Australian share market has a disproportionately large dependence on the Large Four banks and Materials companies such as BHP & Rio Tinto. When investing internationally, it is possible to branch out and to get exposure to other core & growth sectors such as Technology, Healthcare and Consumer Discretionary. This helps reduce the concentration risk of the portfolio, spreading it over multiple sectors in different geographies while also stabilising returns. So if a particular sector in a certain geography is facing difficulties, the others in your portfolio will ensure that your overall returns stay relatively insulated from these aberrations.

Blue-Chip Stocks

The ability to invest in global markets also gives you the ability to buy stocks of global blue-chip companies such as Apple, Amazon, Microsoft, Johnson & Johnson, Coca Cola, Samsung etc., in case you follow the investment strategy of stock-picking. For a lot of people, buying shares of the top global companies provides a lot of peace of mind because of the stable growth prospects and the quality and depth of these companies.

How to start investing in International markets?

Your approach to investing in international shares will depend on your overall investment approach. There are three main ways in which you could invest in global equities.

1. Directly buying international shares - In case you are following the investment approach for stock-picking, this is perhaps the methodology that would appeal to you most. You can pick and choose the international stocks that you want to buy directly from the exchange where they are traded. Not all stockbrokers allow trading of international shares, so that is a factor you would have to consider when choosing a stockbroker. More on this later.

2. Through a Managed Fund - Managed funds are pooled funds which are managed by an investment professional. Many managed funds which invest in international markets trade on the ASX and therefore do not require you to actually invest in the international exchanges. These funds, however, come with high management fees especially for international themed funds because the amount of pooled funds are generally more limited.

3. Through Exchange Traded Funds (ETFs) - Just like Managed Funds, there are many international-themed ETFs that trade on the ASX. But because these typically track global indices not necessitating the stock-picking expertise of fund managers, their management fees are much lower. You can also buy ETFs traded on global indices, however, most funds such as Vanguard, BlackRock, iShares, etc. have introduced so many ETFs on the ASX targeting different investing themes and geographies that buying ETFs on other exchanges has become superfluous. Do note that it is possible for an ETF to be listed in ASX but to be domiciled outside Australia. From a taxation and DRP perspective, these ETFs are the same as internationally listed shares and come with the same complexities. Currency risk, however, is limited to Dividends and does not impact capital growth because they are listed and traded on the ASX in AUD terms.

Nuances of investing internationally

While investing internationally isn't much different from investing in Australia, there are some key differences that are worth knowing about and considering.

Stockbroker support and fees for international trading

Not all stockbrokers will allow you to trade international shares. So, if you want the ability to be able to buy stocks and ETFs on international exchanges, you should make sure that your stockbroker supports such transactions. Also of note is the fact that there would be fees other than the typical brokerage that would be levied on these transactions.

- Custody Fees - Unlike the Australian CHESS system, you will not own your international shares directly. Your shares will be held by a custodian on your behalf who may charge you a fee for their services.
- FX Spreads - Because your Aussie Dollars will have to be converted to the local currency of the Exchange you want to transact in, Forex related charges and conversion fees that would have to be borne.
- Exchange Related Fees - Some global exchanges charge transaction fees for buying and selling on them.

Currency Risk

Investing internationally comes embroiled in the Forex quagmire. Global currencies are ever fluctuating. When you invest in international shares, the relative movement between the AUD and that particular currency could have a huge impact on your overall returns.

This is because along with the share market risk that you typically take when investing in an ASX listed share, you will also be simultaneously taking the forex risk when investing internationally.

So if you buy a share in the US which provides a return of 2% in the first year in USD terms, but if the AUD has depreciated by 2% against the USD in the same period, your effective return in AUD terms will be zero. If the AUD had however appreciated, then your overall AUD returns would be higher than what the stock actually gave. This means that your returns can fluctuate very wildly.

If you do not want to bear the currency risk, then there are many ASX listed Managed Funds and ETFs that can provide you with hedged returns.

A special mention should be made of ASX listed but foreign domiciled ETFs here. While these ETFs trade on the ASX and have unit prices denominated in AUD, the dividends that they provide are in the local currency of their domicile, so will be exposed to a forex risk, whereas the capital gains will not be.

Dividend Reinvestment Plans (DRPs)

Aussies cannot opt-in for DRPs for international shares and ETFs. This also applies to international ETFs that are listed on the ASX but are not domiciled in Australia. So you would have to re-invest any dividends back manually once you've received them.

Taxation

Just dealing with taxation within one jurisdiction is complex enough but when you add more to the mix it becomes even more so. There are a few important aspects related to taxation that you should be aware of before you start investing in international shares. Your international taxation details will not be automatically populated in your ATO tax return form, you will need to manually provide the details.

Dividend Franking

Franking credits are a tax rebate that is available on dividends received from companies that have already paid company tax. This is a uniquely Australian concept and we covered this in more detail in Chapter 13.

Any dividend that you receive from your international investments will not have any franking credits associated with it. So if you receive a $100 dividend from your Aussie investments which have a franked component of $70, you would only have to pay taxes on the unfranked component of $30. Whereas, if you received the same $100 dividend from your international investments, you would be required to pay taxes on all of it, which would make your post-tax returns from your Australian investments much more superior. But remember, that dividends are only one part of the returns. The other, and in most cases a bigger chunk, comes from capital gains. So you should look at them combined to determine which one, your Aussie or international investments, offer you better returns.

Withholding Taxes

Any dividends that you earn from your international investments will be subject to a Withholding Tax, which is typically around 30%. To avoid double taxation of this dividend income, Australia has Double Taxation Avoidance Treaties (DTAT) with almost all the major countries in the world. Double taxation occurs when the dividend is taxed in the foreign country where it is generated and then again in Australia. Under the DTAT, when you file your tax returns, you will be able to get tax credits for any taxes that have already been withheld by the foreign country. You will, however, be responsible for informing the country that you are investing in that you are an Australian tax resident so that they can take their DTAT with Australia into account when they levy a Withholding Tax. This information is typically provided by filling country-specific forms such as the W-8BEN form when buying shares in the US. Do note that you won't be able to avoid tax leakage in case you invest in a country that Australia doesn't have DTAT with.

Capital Gain Taxes

Any capital gains from your international investments will be taxed in Australia just like your Australian investments.

	Investing in Australia Shares	**Investing in International Shares**
Stock Broker Support	Available (Of course!)	Limited
Transaction Fees	Single transaction fee	Multiple types of fees
Currency Risk	N/A	Medium to High
Dividend Reinvestment Plans	Yes	No
Taxation	Simpler with Franking Credits	Complex with no Franking Credits

Where and how much should you invest in international shares?

The answer to both these questions will depend on your risk appetite.

When investing internationally, it is quite typical for Aussie investors to invest in US shares. The US is the largest economy in the world and contributes to more than 50% of the global market capitalisation. However, in the medium to long term, it is expected that the growth of the developed economies will taper off and that China will take over the US as the largest global economy. Keeping that in mind and acknowledging that the Emerging Economies such as China, India, Brazil, South Africa, etc. have been growing much faster than the developed world, it also makes sense to get some exposure to these.

The contribution of international shares can range from 30% - 55% of the total growth assets in your portfolio. It can be on the lower end of the range if one is more risk-averse. Our portfolio has about 60% invested in international shares.

The proportion between US/ Developed Market shares vs Emerging Market shares is also a factor of risk appetite and overall goal. Of our international exposure, we are currently 50% invested in US equities and 50% invested in emerging markets.

The verdict

Investing in international shares can seem complex, but there are a lot of ways available in the Aussie market to get international exposure, without dealing with any of the hassles. Irrespective of how you get international exposure, it's important that you get some. It'll only make your overall portfolio stronger.

About Ms. FieryIce from Two To FIRE | twotofire.com

Two To FIRE

Ms. FieryIce is one half of Two To FIRE, a Sydney-based couple of 30-somethings. Despite our background in finance and analytics, we were clueless about FIRE until 2019. Having realised the power of its principles, we have started our journey towards Financial Independence. We write about our experiments with investing and personal finance at www.twotofire.com.

Chapter 19: Fuel for the FIRE - Leverage

By Victor, The Frugal Samurai | thefrugalsamurai.com

Introduction

Ah, debt and leverage. Those two words resonate with us all in different ways. Some people embrace and welcome them with open arms. Others cannot run away fast enough.

When applied correctly, leverage is the strategic tool that expands our resources beyond our capital limitations to produce greater results than we can generate by ourselves. The thing is though, many people misunderstand leverage. It's risky. It's a financial bondage. It destroys lives.

Yes, yes and all yes.

But.

What if you can harness it?

Accumulating wealth comes from the compound growth of personal and financial capital over time. The crucial aspect is that it doesn't have to be *your* personal or financial capital.

The Basics of Debt and Leverage

Debt is simply money that you owe. Debt often occurs when a borrower seeks a loan from a lender. In most cases, the borrower will pay interest to the lender. This interest is the cost of the debt.

Leverage and debt often go hand in hand. Leverage is the use of debt to acquire something. And when leverage is used for investment purposes? That's when the exciting stuff happens.

A simple example of how debt and leverage works is below:

Let's say your friend Mike invests $1,000 of his own money and invests in stocks.

If the stocks go up 20%, then Mike is feeling pretty chuffed, as he has just made $200 from his original investment.

Your other friend Michaela sees what Mike has done... and decides to go for gold. She borrows $1,000 on top of her original $1,000 investment (so $2,000 in total).

If the stocks again go up 20%, she has made $400. She then pays back the $1,000 and keeps the $400 as a 40% return on her initial cash.

Conversely, if the stock prices drop 20% - Mike is down $200 or 20% of his money, but Michaela has taken a $400 or 40% haircut to hers (not factoring in any interest on the loan either).

<u>Leverage = Debt when invested, multiplies return (both profits *and* losses).</u>

Pros and Cons of Financial Leverage

Before jumping into any investment idea, it is always good to understand both the pros and cons. This is even more so when we are discussing debt - or more specifically, investing with debt (leverage).

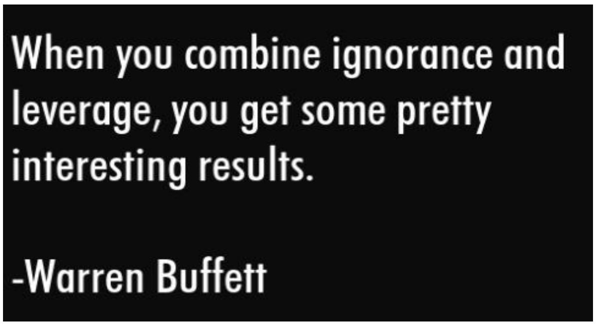
Pros:

- You are able to obtain control over an investment for relatively smaller upfront investment.
- You may be able to increase your purchasing power to acquire more assets through debt financing.
- Usually, the interest and fees involved with leveraging is tax-deductible (check with your tax specialist).
- If all goes well, financial leverage can lead to higher returns than if you had purchased it with just cash.

Cons:

- If the investment falls in value, that fall is amplified!
- Typically, there is an obligation to repay ongoing interest associated with the debt, this eats into cash-flow.
- If you are over-leveraged, i.e. hold too much debt, things can go south very quickly if the market turns against you.
- Each time you borrow money, you are putting your “credibility” at stake, this is reflected on your credit score.

There are numerous other benefits and risks involved with leverage, of course, factors such as interest rate changes (up and down), income changes (e.g. from rental increases or decreases from an investment property) or your own lifestyle changes (needing more/less money to service debt) – however the above are the main ones to consider when deciding whether debt and how much of it is right for you.



Ways Debt and Leverage Can Be Used On Your FIRE Journey

So, you're comfortable with the risks and understand the potential rewards with using leverage – but how exactly can we use debt to achieve our financial goals?

Well, the below are just some of the ways we can all utilize leverage. It's important to remember that these are general strategies only – always seek professional advice to tailor a plan that suits you!

Strategy 1 - Gear up to build wealth!

Once you have a handle on managing your current debt levels, the time might come for you to consider borrowing for investment purposes.

By gearing (leveraging) up, you could potentially multiply your investment profits and achieve those wealth goals sooner.

To be successful in the long run, the investments you acquire with borrowed money must generate a total return (income and capital growth) that exceeds the after-tax costs of financing the investment.

Traditionally the two ways of leveraging are through property and shares.

Property (as investment loans)

- You put a $100,000 deposit to buy a property worth $500,000.
- The property value increases to $600,000.
- The nominal return is a $100,000 gain or 20%, but the real return is 100% (less interest and fees)

Shares

- The same principles work, but for a more detailed example:
- A $5,000 investment, compounded at 10% over 20 years per annum = $33,637
- A $10,000 investment, compounded at 10% over 20 years p.a. (with $5,000 borrowed funds at 7% capitalized over 20 years) will yield $67,275 less interest cost of $19,348 = $47,927.
- Thereby resulting in a higher gain of $47,927 - $33,637 = $14,290

Strategy 2 - Effective use of a lump-sum (debt transformation)

If you were lucky enough to receive a financial windfall, such as a bonus from work or an inheritance, you may want to consider using the money to reduce your home loan and borrow an equivalent amount for investment purposes.

This is achieved through:

- Utilizing the lump sum to reduce the home loan balance (either paying the lump sum directly into the loan or a 100% offset account) and;
- Taking out an investment loan for an equivalent amount to be invested e.g. in property/shares.

This is known as debt transformation because it enables you to convert non-tax-deductible debt into a tax-deductible one (check with your tax specialist).

Although your overall debt level is unchanged, you could potentially reduce your after-tax interest cost considerably and establish an investment portfolio to help build your long-term wealth. Or alternatively, you can reduce your home loan balance faster using these tax savings.

Strategy 3 - Debt recycling

Following on from debt transformation, debt recycling is where you progressively redraw your home loan repayments for investment purposes, to replace non-tax-deductible debt with tax-deductible debt.

It allows us to build wealth for the long-term to meet our lifestyle goals whilst also having a home loan.

A typical way to do this is to borrow against the equity of your home as an investment loan.

However, it's important to understand that you need to be able to cover the monthly expense of the new loan from your current cash-flow.

This is how it works:

- Use the equity in your home to establish an investment loan
- Invest the borrowed money in assets such as shares and/or property.
- Use the income from the new investment, as well as any surplus cash-flow to reduce your outstanding loan balance.
- At the end of each year, you borrow an amount equivalent to what you've paid off your home loan, to buy more investments.
- Rinse and repeat until the home loan is repaid.

A word of caution.

Debt recycling is a higher-risk strategy because you're using borrowed money to invest and using your own home equity to secure this debt.

If the investment performs poorly or interest rates rise, you are at risk of facing significant financial stress.

Before jumping in, it is important to consider the below:

- It might take longer to pay off the original home loan, as surplus cash is re-directed to meet interest costs on the investment loan, which increases over time.
- There is a material difference in cash-flow if any of the loans are either interest-only or principal and interest.

- Interest rates between various lenders and loan products vary substantially, which has a direct impact on your cashflow.

Strategy 4 - Offset Your Investment Loans

If you have an investment loan and are currently saving for a future non-investment purpose e.g. a holiday or a new car, you might want to have a think of using the offset facility attached to your investment loan.

This is because if you had transferred all your monies to pay down the loan and then redraw the funds back out for a non-investment purpose – you have effectively diluted the tax deductibility of your investment loan, and hence reduced the portion of the interest which can be claimed as a tax deduction.

This is why depositing spare cash into a 100% offset account linked to the investment loan could be a better option, as you retain the tax deductibility of the loan *and* reduce your interest obligations at the same time.

As the offset account is separate to the loan, you can continue to make repayments or redraw funds without affecting the size of the investment loan and tax-deductibility of the interest.

By way of an example:

Our friend Michaela has an investment loan of $200,000 which she has used to purchase an investment property.

She has recently received a handy $20,000 bonus from work, which she plans to buy a new car in 12 months' time.

She can either:

- Pay $20,000 directly into the investment loan
    - In which case, the loan balance drops to $180,000, but when she redraws the $20,000 back out – she can only claim deductions on the $180,000 (as the $20,000 has diluted the original investment purpose of the loan); or she can,
- Pay $20,000 directly into the investment loan offset account
    - This means she is effectively paying interest on $180,000.
    - When she redraws the funds out, she can still claim tax deductions against the original $200,000 – as the original loan is untouched.

Leverage Strategy Comparison Table

Gearing up! *Pros:* Ability to multiply investment profits to accelerate wealth goals *Cons:* As you are borrowing money to make money, the total return must exceed the cost of borrowing
Debt Transformation *Pros:* Conversion of non-tax-deductible debt into a tax-deductible one. *Cons:* Overall debt levels remain the same, only the tax treatment differs. Also reliant on investment portfolio increasing.
Debt Recycling *Pros:* Similar to debt transformation but slower, allows conversion of non-tax-deductible debt into a tax-deductible one. *Cons:* As you are borrowing against your own home, potentially putting your livelihood at risk if investments turn negative
Offsetting Investment Loan *Pros:* Allows control over the tax treatment of your loan repayments should you decide to use it for personal use. *Cons:* None that I can think of... unless you are tempted to use the money in offset at the casino, in which case it's a big no-no!

Common Asset Classes For Leverage

After reviewing these strategies, you've now decided you want to use more leverage to accelerate your FIRE journey, but what will you leverage into? Here are three of the most common asset classes and what to watch out for with them:

Real Estate

When you hear about large sums of debt, usually you think of real estate, as without debt buying into the property market would be extremely difficult to do.

Here are some of the benefits of using leverage in real estate:

- Allows entry into the housing market.
- You control how much you want to borrow, through your deposit level.
- No margin calls if there is a housing market downturn.
- Usually a lower loan interest rate than other asset classes.
- More flexible features such as offset facilities, redraw options, loan holidays etc.

And some of the risks:

- A mortgage takes a *long* time to pay down.
- Interest repayments tend to be higher as a proportion of income.
- It is still an asset class, which means there is volatility (Google "negative equity and mining towns").
- Loan interest rates can rise.
- Real estate transactions are illiquid, which means a higher likelihood of lower returns when selling if you need immediate cash-flow.

Stocks

Just like real estate, you can leverage into the stock market through margin loans, either as a lump sum or regular instalments.

Here are some of the benefits of using leverage in the stock market:

- You control how much you can borrow, as different stocks and managed funds have capped leverage levels e.g. 40% for the riskier stocks and up to 75% for the blue-chips.
- Instalment gearing allows dollar-cost averaging (investments acquired at regular intervals to smooth out volatility).
- Prepaying interest in advance (can also do with property), which allows greater cashflow certainty.

And some of the risks:

- Usually a higher rate of interest than home loans.
- Potential for margin calls if there is a market downturn (higher chance to lose *much more* than your initial investment).
- Limited investment options, as it is subject to the lender.

As a short aside, but I worked for a margin lender many moons ago – smack bang in the middle of the GFC.

I saw things with my eyes which I cannot unsee and heard things with my ears which I cannot unhear.

Harrowing stuff.

Leveraged Share Fund or ETF

There are actively managed funds and passive ETFs which use leverage within their own investment for potential outperformance.

Here are some of the benefits of using leverage in managed funds/ETFs:

- The fund is able to borrow at wholesale interest rates, which are generally lower than those available to individuals.
- Usually, no margin calls are required if there is an investment market downturn.
- Most of the loans are limited recourse, which means your personal liability is limited to the value of your initial investment.
- Investing in the fund is much simpler than establishing a borrowing facility yourself.

And some of the risks:

- Limited control over the gearing level.
- Limited number of providers and investment options.
- Interest on the fund borrowings is generally offset against fund income.
- No tax deduction for interest is available to investors as it is fund who takes out the borrowing, not the investor.

There are many more asset classes which participate in leverage of course. Examples include the FX market - where leverage can and often go up to 500:1 ($1 controls $500); the futures market – where margin calls are part and parcel of the game (best evidenced in the Eddie Murphy movie *Trading Places*); the options market – where we enter the world of Iron Condors, Butterfly Spreads and Long Strangles; and much, much more.

But that's entering the world of trading and speculation – not for the faint hearted. It's a jungle out there.

In Summary

Leverage in Real Estate *Pros:* Gain entry into the property market More control over your investment More flexibility in terms of loan features *Cons:* Loan amounts can be substantial compared to household income An illiquid asset class which means longer transaction times, not good if you need cash urgently. Interest rates will eventually rise
Leverage in Stocks *Pros:* You maintain control over borrowing amount Allows dollar-cost averaging into investments Can prepay loan interest in advance each year *Cons:* Potential for margin calls; you can lose more than your initial investment Investment options are subject to the lender Usually higher interest rates than home loans

Leverage in Share Funds or ETF

Pros:

Usually, personal liability limited to your initial investment (no margin calls)

Can buy into greater exposure of underlying assets

Leverage (see what I did there) into professional experience and management

Cons:

Lack of control over what fund is invested in

Lack of visibility over underlying assets

Can be illiquid (redemption freezes) if significant volatility exists

I must say I thoroughly enjoyed writing this chapter, as debt and leverage are concepts quite close to my heart.

MrsFrugalSamurai and I are pretty deep in the real estate FIRE journey ourselves.

We both use the notions detailed here on a daily basis, and I sincerely hope that you can take some of this away on your own path, be it in real estate, or shares, or whatever you choose – please remember, investing is all about managing risk, and risk is there to be controlled.

Happy Investing!

About Victor from The Frugal Samurai | thefrugalsamurai.com

Hi, I'm Victor, a 30-something millennial from Sydney, Australia. Growing up, no one showed me how to attain wealth so I've had to teach myself the hard way. I share my journey to being financially independent at thefrugalsamurai.com – I typically focus on investing, personal finance and development as well as commenting on topical financial issues. I've worked in the financial industry for over 13 years (and counting) and this allows me a unique perspective as a fly on the wall.

Chapter 20: Property investing meets FIRE

By Victor, The Frugal Samurai | thefrugalsamurai.com

The beautiful thing about FIRE is that there are many ways to achieve it.

Many of us go down the tried and tested passive investing route with ETFs and LICs.

But for those of you who wanted a bit more of a hands-on approach to achieve financial success, investing in real estate can be equally if not more rewarding on the financial journey. It's what I usually blog about over at thefrugalsamurai.com – simply because I can't get enough of it!

Don't just take it from me though! The latest Australian Taxation Office data shows that there are over 2 million landlords in Australia and residential real estate accounting for more than half of all household wealth.

In this chapter, I'm here to run through what is real estate investing, how it works, the different types of real estate investing, the different strategies, and lots more.

Introduction

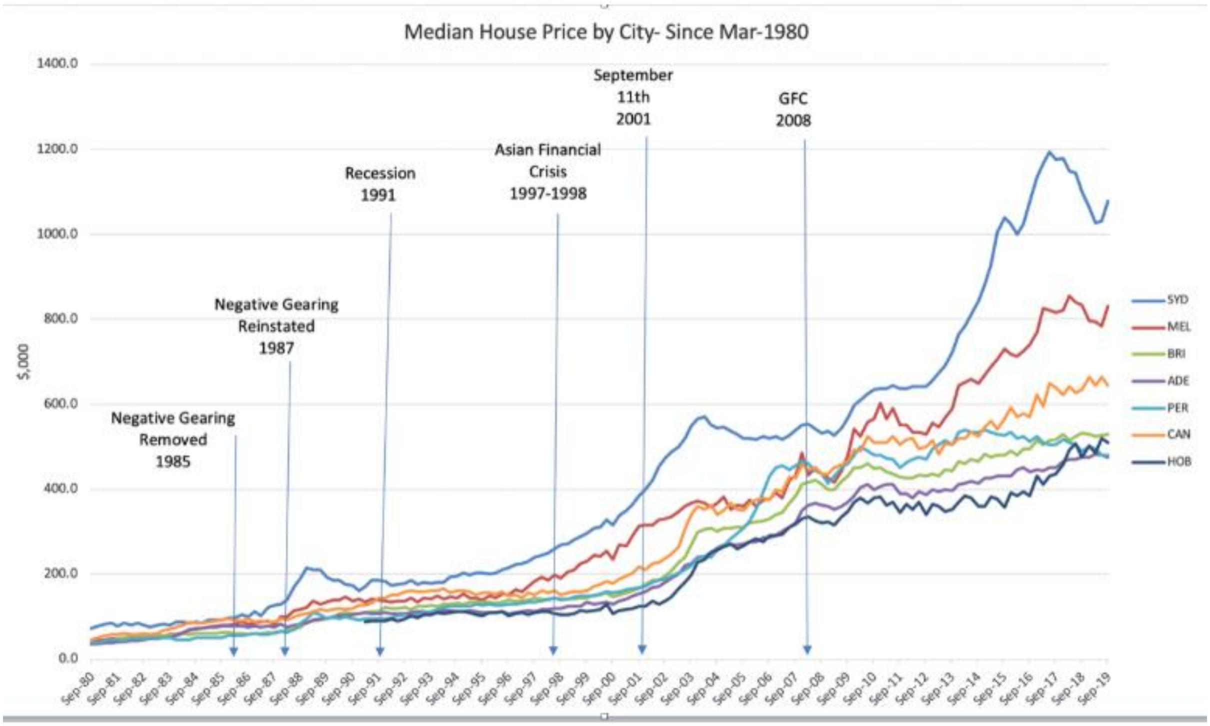
Real estate investing in Australia is a unique and oftentimes rewarding pastime mainly because us Aussies, we love real estate.

It is so culturally ingrained into our psyches, that the "Great Australian Dream" of homeownership even has its own Wiki page!

"The Australian Dream or Great Australian Dream is a belief that in Australia, homeownership can lead to a better life and is an expression of success and security".

The chase for this dream, has led property prices to rise, and rise, and rise some more.

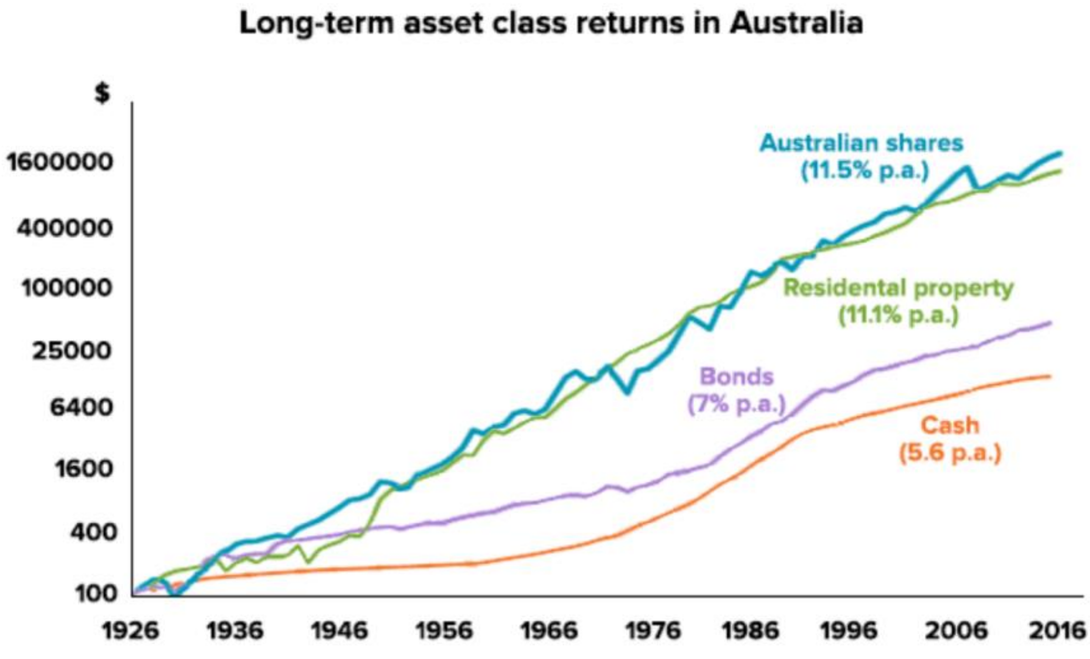
In fact, the chart below shows the historical return of the major cities in Australia.



Look at those returns!

I can just see the gold coins flashing before my eyes. And all that through quite a number of financial shakeups.

And if you were wondering what the historical return of properties versus shares has been, take a look at this chart below:



Assume an initial investment of $100 in 1926

Not too shabby right!

So what next? Should we just go out and buy the first property we see?

Well no... because the first thing we should be doing is...

Plan

Every journey starts with a plan, and investing in real estate is no different.

But how?

One way I approach planning is to have the end in mind, and then work backwards.

For example, many people are targeting a "magic number" in terms of passive income.

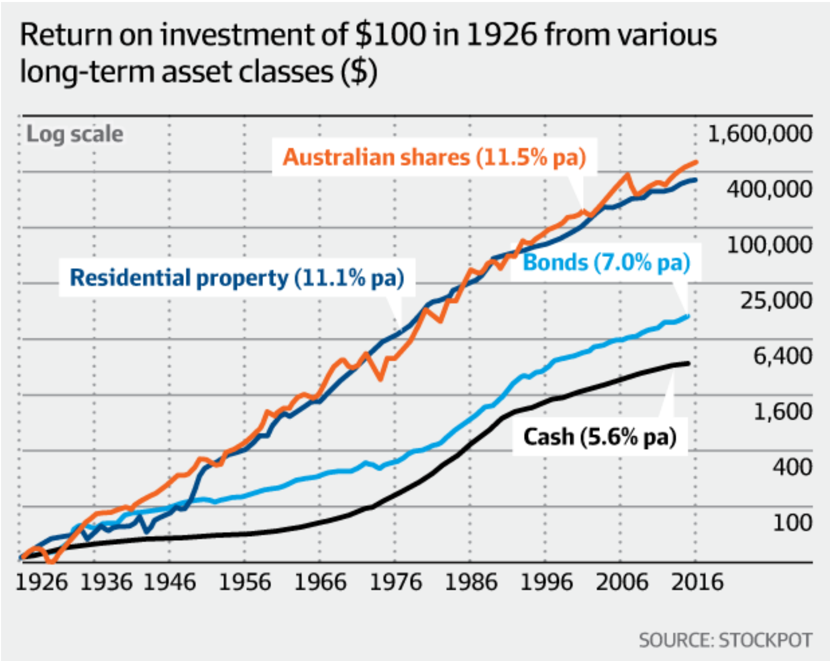
A commonly cited figure is $100,000 p.a.

Assuming a 5% return, you will need $2 million in real estate assets to get you there.

Strewth - $2 million! That's a pretty big figure.

Well, to be honest, residential property has actually far outperformed 5% historically. This is because the returns from real estate take the two forms; capital growth and rental yield.

Combine these two together, and real estate has performed pretty much in line with shares over the ages.



The figures above don't factor in the costs of holding property nor the leveraged property investing allows - but even still, a net return of 5% is a realistic number to aim for.

What to invest in

So, you've figured out your magic number, and you know what you need to take you there – but what should we buy?

There are two main types of real estate, being:

1. Residential Real estate – this one is the most common with the least barrier to entry to normal folk like you and I. Think a standard house or apartment/unit.
2. Commercial Real estate – this is a bit more specialized as you are buying into retail (e.g. shop/café), office (e.g. um, offices) and industrial (factory warehouses and units) types of property. Commercial real estate is generally riskier and not recommended for the novice investor.

For the purposes of this chapter, the focus is on the most common type: residential real estate.

Property investing strategies

You might have heard of the terms "negative gearing" or "positive gearing."

Are these strategies?

Not quite.

You see, whether positive or negative gearing, they are just a reflection of a point in time.

Negative gearing means the expenses of holding your investment is higher than the amount of rent it is bringing in, with the hope that the capital gains is higher than the difference.

Positive gearing is when the income generated (rent) is higher than the expenses.

But these aren't strategies, they are tax outcomes.

No, real strategies are more like:

Buy and hold

As the name suggests, involves buying and holding for the long-term. This way you are sitting on your investment in the hope for capital gains over the long-run. There is usually a more ongoing, and predictable income in the form of rent (beware the vacancies!) and lower transaction costs. Although your money is tied up longer as it may be many years before you see lip-smacking returns.

Add Equity

The beauty with real estate investing is that you can add value to your investment. You can't do that with a stock or ETF. Renovating is a great way to manufacture equity and artificially create value. TV shows like "The Block" or "House Rules" has popularized the renovation concepts to the mainstream. A fresh lick of paint or an updated kitchen and bathroom will do wonders to the valuation of your property. But beware to not over-capitalize, a rule of thumb is generally $2 added for every $1 spent.

Subdivision/Development

This is where the serious money is made, and also where there are enormous risks. Subdividing and developing is where you are creating something from scratch. Be it in the form of subdividing a block from 1 into 2, or building another dwelling on your property (dual occupancy), to building a whole row of townhouses. There are many, many moving parts with this strategy so it is imperative that you have experience behind you and not bite off more than you can chew.

How to structure your investments?

When I first started, no one showed me the different ways to structure your investments – so I've had to learn the hard way.

I suppose that's what an accountant is for right? Please seek professional advice for anything personally tailored for yourself, however, the below are the three general structures property investing is held in.

Individual

The easiest and simplest option.

Holding investments in individual names allows you to utilize negative gearing against your other incomes. However, there is minimal asset protection in the event of litigation, and you are taxed at your marginal rate should you decide to sell your asset (CGT discount is available after 12 months though).

Company

A company is a separate legal entity, which provides some form of asset protection. The corporate tax rate is a flat 30% (27.5% in some instances), but there is no negative gearing available. Any losses are trapped in the company and can only be offset by future gains. There is no CGT discount also.

Trust

A trust entity is an entity whereby a trustee looks after the trust's assets for the benefit of the beneficiaries. Um... a simple way to explain it is to think of driving a car. The trust is the vehicle itself. The driver (you) is the trustee, you control the action. The kids in the back seat (yours) are the beneficiaries, gotta look after those precious babies. A trust provides flexibility in distributing income, and there is the CGT discount available. However, any negative gearing losses can only be offset against income within the trust.

There are pros and cons to each entity people! So please seek professional advice for which one is best suited for you – don't just rely on a faceless guy called The Frugal Samurai. Hey, that rhymes!

What to buy & what to avoid

Ah yes, the all-important question.

There's no right or wrong answer here, as it depends on your strategy of course.

But here's the type of property that I am constantly on the look-out for:

High land-to-asset ratio

Land, no one is making any more of it. Typically, land appreciates and buildings depreciate, so the land component is what drives the growth of your investment. That doesn't necessarily mean a larger block of land, but one in which the value of the land makes up the significant part of the asset value.

Below intrinsic value

Part of the reason why I love real estate is that you are able to negotiate directly with the seller, you can't offer 20% off BHP shares or 15% off CBA shares – but you can make any offer you want when buying a property (whether it's accepted is another thing). Sometimes you can nab a real bargain and make good money on the way in.

With a twist

There has to be something unique or special about the property – a water-view or a slightly larger courtyard for example. This will differentiate the property from the others on the market, as well be reflected with a slightly higher valuation with comparables.

Add equity

Typically, I do not like buying new, because you are paying a developer's premium when you do. I like to manufacture capital growth through small refurbishments or renovations rather than waiting for the market to do its thang.

Demographics

The all elusive "gentrification" of a suburb, the key is to get in before it starts to gentrify, which is easier said than done. But many fellow investors have done very well with buying into ugly duckling suburbs.

Property Management

This is probably one of the main reasons' investors are turned off from investing in real estate.

It probably explains why 71% of the 2.15m landlords have only 1 property, and why only 20,000 people have more than 6.

With all the added costs and time commitments such as council and water bills, insurance bills, land tax bills, property management costs, repairs and maintenance costs – it's no wonder some investors are looking to sell up.

But like any serious investor – we should be treating real estate investing as a business, not as a hobby. You'll find that if you have a good property manager, the time commitment is reduced substantially.

> **"WE SHOULD BE TREATING REAL ESTATE INVESTING AS A BUSINESS, NOT AS A HOBBY"**
>
> VICTOR @ THE FRUGAL SAMURAI
> AUSSIE FIRE

Unfortunately, there's not much you can do with upkeep and maintenance costs, nor the various bills involved, but again a good property manager should be helping you to take care of these things.

Rent vs Buy primary residence

This is a very common question, should I rent or buy a place to live?

"Rent money is dead money" is a common argument against renting. But is it? Let's have a look at the pros and cons of each:

Pros of renting:

- In some cases, the rent is often cheaper than mortgage repayments on the same property.
- There is no large commitment (mortgage debt) that you owe.

- In residential leases, the landlord pays for the outgoings such as rates and strata fees; they are also responsible for the repairs.
- Flexibility of moving to another location if and when you choose (provided it's outside a fixed lease).

Cons of renting:

- Your hard-earned money is helping to pay off someone else's mortgage.
- You are at the whim of the landlord; they can move in or evict you if they want to put the property up for sale.
- Similarly, you are reliant on the landlord to carry out repairs and maintenance in a timely manner. You also cannot make any major changes to the property.
- Rent can increase over time.

Pros of buying:

- You own your own home!
- Each loan repayment builds up your equity position
- You can personalize your own place as you see fit
- Optionality, a lot of people have turned their homes into investment properties down the track

Cons of buying:

- The mortgage is a very large financial commitment; probably the biggest purchase you and I will ever make.
- Saving a deposit can be HARD.
- Those pesky interest charges, means the banks are laughing all the way to... the bank.
- Volatility, we are at the whim of the housing market.

So, what's the conclusion?

Well, rent money is dead money – because you will never be able to get it back, at the end of the day you do not own anything.

But buying a property usually means a mortgage, and there is a reason they are over 30 years – that's the bulk of our working lives gone just to service one loan. Not to mention the other costs involved when buying a property.

Aw but then again, a place to call your own and grow roots doesn't sound too bad does it?

I'll sit on the fence here because it's impossible to confidently state which one is better over the other, there are way too many factors involved – it all comes down to your life goals and financial position.

But here is a summary table to make it easier for you:

Renting & Investing In Shares Vs Buying A Home

Pros of renting whilst investing in shares: If the rent is cheaper than mortgage repayments, you can use that free cash flow to participate in gains in the share market. You also receive income from your investment portfolio which you can use to buy more assets. There is also the option of not being tied down into such a large commitment and your lifestyle arrangements remain flexible.
Cons of renting whilst investing in shares: "Rent money is dead money". Your money is paying off someone else's mortgage. The share market is traditionally more volatile than property, which means the value of your investment can drop suddenly. You are at the whim of the landlord.
Pros of buying a home: You own where you live. There is typically more leverage afforded to home loans, meaning you can build up equity quicker. Each time you make a repayment, you artificially create equity.

Cons of buying a home:

The mortgage is a substantial expense for a *very* long time.

Saving for a deposit is also extremely prohibitive.

If interest rates rise, your loan repayments increase.

Risks with real estate

Like any investment, there are risks involved with real estate. Although generally deemed less risky than shares, it is imperative to evaluate the risk of any investment. In this section I'll walk through the main risks you should be aware of:

- Illiquidity | Property is not liquid, which means your money is tied up in the investment. If "touch wood", something befalls you, it is not a simple case of selling your investment and withdrawing your money. It takes a long time to transact.
- Interest Rates | We are fortunate to be in a position in recent memory that the RBA has been cutting rates like no tomorrow (literally), this means that many younger generations have not experienced rising interest rates and hence rising mortgage repayments.
- Market Forces | Like any investment class, property is still subject to market factors such as supply and demand, consumer sentiments, creditability factors which affect the value of the asset.
- Vacancies | Just because you own property doesn't mean it will always be tenanted. Be prepared for those periods where you don't have one, as this means no income is coming in... but the expenses still add up.

The A-team

If you're the smartest guy in the room you're in trouble – because, like any great investor, you should have a great team around you. Here's your A-team:

- Accountant | Absolutely crucial to have an accountant on your FIRE journey who understands what you are trying to achieve. Here in Australia, we have one of the highest tax systems in the world – so it's paramount to get your taxes sorted out correctly.

- Broker/lender | Property investment is a game of finance. If you want to take it seriously, you have to build up a portfolio. This is where having a mortgage broker or home lender is vital to review your portfolio on a regular basis and set you up for the next purchase or three.
- Solicitor/conveyancer | When was the last time you read through a legal contract? Yep, never is the answer for me too. Having an experienced solicitor and/or conveyancer is worth their weight in gold. When you are dealing in six, sometimes seven digits – mistakes are extremely costly, waste time and downright are stressful, protect yourself against them!
- Property Manager | An unsung hero on any team, but a good property manager is invaluable. They source the best tenants, conduct the application process and make sure your best interests are protected. Oh, and they also manage any property maintenance and repairs, to make your life much EASIER.

There are other benchwarmers on the team, of course, real estate agents, insurance specialists, buyer's agents (if you're time poor), but at the end of the day – don't do it alone!

Alternatives

As the real estate market evolves so do different alternative ways to invest in real estate, some of these are:

- Fractional Real estate – fractional investing (or crowdfunding) is a relatively new phenomenon in Australia. As the rise in property values has priced many people out of the market, pooling everyone's funds together allow us to each hold a slice (fraction) of ownership into these markets. BRICKX and DomaCom are the two main platforms in Australia.
- A-REITs – which stand for Australian Real Estate Investment Trusts. These are ASX publicly-listed companies that pool investor funds much like a managed fund. Instead of buying shares, an *AREIT* purchases and manages a portfolio of typically commercial properties.
- Property stocks – just like any other sector, there is a real estate sector on the ASX, which holds about 80 individual companies. They are usually either

property developers (Mirvac, Lend Lease), or commercial landlords (Scentre Group, Stockland, Dexus).

- Mortgage Trusts – this is more the domain of the larger players and more sophisticated investors – usually in the tens if not hundreds of millions of dollars. One day!

Personally

In case you haven't realized, I am a big advocate of real estate investing.

MrsFrugalSamurai and I currently hold eight properties in our portfolio, and we are positively EXCITED for the future with how it can help us to FIRE!

If you liked this chapter, head over to thefrugalsamurai.com as I go a bit more in-depth into the sections covered.

Finally, I'd like to say that I wish I had a resource like this when I first started my journey – the path is so much easier when it's been walked on before.

About Victor from The Frugal Samurai | thefrugalsamurai.com

Hi, I'm Victor, a 30-something millennial from Sydney, Australia. Growing up, no one showed me how to attain wealth so I've had to teach myself the hard way. I share my journey to being financially independent at thefrugalsamurai.com – I typically focus on investing, personal finance and development as well as commenting on topical financial issues. I've worked in the financial industry for over 13 years (and counting) and this allows me a unique perspective as a fly on the wall

PART 5:
GET FIRE'D!

Chapter 21: Find your FIREstyle

By Frogdancer Jones, Burning Desire For FIRE | burningdesireforfire.com

If a genie emerged from a magic lamp and granted you 2 extra days a week to do whatever you wanted - what would you do with that extra time? Do you even know?

If this scenario sounds improbable, think again. It happened to me at the start of this year. Well, ok... it wasn't a genie but my principal who granted me the extra 2 days, though I was so happy when she said yes that the moment appeared magical! I'm a secondary teacher and I decided, after 30 years in the classroom and 6 years on the FIRE path, that now was the time to go from full-time to part-time work.

Think of it - that's 2 full workdays suddenly transformed into "me" time. Instead of the job taking over the lion's share of my week, I'm now there for 3 days. Over the course of a year, that's a LOT of extra free time.

Now put yourself in that picture. Whether you decide to slow down as I did or to pull the pin entirely from your job, there's going to come a time when you have lots of free time in every week, month and year. Those weeks, months and years are going to keep on coming. It's important to start thinking NOW about how you're going to use that time in ways that bring joy and fulfilment to your life.

"THERE'S GOING TO COME A TIME WHEN YOU HAVE LOTS OF FREE TIME IN EVERY WEEK, MONTH AND YEAR. THOSE WEEKS, MONTHS AND YEARS ARE GOING TO KEEP ON COMING. IT'S IMPORTANT TO START THINKING NOW ABOUT HOW YOU'RE GOING TO USE THAT TIME IN WAYS THAT BRING JOY AND FULFILMENT TO YOUR LIFE."

FROGDANCER JONES
@ BURNING DESIRE FOR FIRE
AUSSIE FIRE

You've read plenty of good advice about money, numbers and spreadsheets in the chapters before this one. It's important to get your head around these things. But ultimately, money is only a tool to facilitate every other area of your life. I'll say it again - money is a tool. It's the *other* areas of your post-retirement life that often get overlooked in the planning stages. Yet these are the very areas in which our lives are built.

Let's assume your financial plans are in place - one day you'll be able to enjoy many decades of life in retirement. Terrific! Now... how are you going to fill your days?

I don't mind admitting that this question still fills me with a creeping kind of fear. I know I'm not alone. The questions of "But what if I get bored?" and, "But what will I do all day?" are real. Our jobs take up a huge part of each workday, especially when the time spent on commuting is taken into account. Many people leave home in the dark and get home in the dark, only having the weekends to race around to get everything else done.

Given this, it makes total sense that people might be a bit leery about what life in early retirement will be like. And yet, that's precisely why we should be looking towards that time and building relationships, friendships, investigating possible interests, and building expectations about how we'll design our lives once we're the ones deciding how our hours will be spent.

There's no point running towards having total freedom over our time if we don't know what we'll do with it once we get there!

Early retirement

This sounds fabulous but really; what does "early" even mean? Depending on where you currently stand on the continuum between the cradle and the grave, "early" can mean anything from 25 to 65.

Speaking as a woman who's heading into the shady end of her fifties, "early" to me means anything a few years before pension age. Anyone who has been able to get their financial act together and retire before they "have to" is doing alright in my book. But to someone in their thirties or forties, the prospect of retiring at 60 might seem impossibly old. It's all relative.

An important consideration about early retirement, especially if you're on the younger end of that continuum, is that your plans need to have the flexibility to pivot and change as your interests and situations evolve. My wishes and needs as a single parent of 4 small boys, back when I was on the Sole Parents Pension over 20 years ago are now very different as my family has grown and I've reached FI. Same person, but different life stages. You won't remain as you are now - take my word for it!

Beware of remaining too rigid in your plans and expectations - it's smart to allow some wriggle-room in your plans for how your retirement will appear.

Whether you're aiming at 20 or 50 years of retirement, those days will have to be filled. We've already assumed that you have your finances in order, so before you actually pull the pin and charge off into the sunset, it's an excellent idea to put some serious thought into the core beliefs and values that underpin your life.

In other words: what brings you a deep sense of satisfaction - of a day well spent?

Who (or what) brings laughter and joy to your life?

Are there any skills or creative endeavours that you've always had a yen to master but simply never had the time?

Think of travel. Which destinations lift your heart and make you want to pack your bags to head out there?

Do you feel a desire to give back to the community in some way? Our society is run on the work of volunteers in so many different areas. Is there a niche where you've always had a sneaking suspicion that you'd enjoy working in?

Maybe you don't want to create works of art, but instead, you'd like to be a consumer. Are there books you've always wanted to get lost in? Galleries that you'd love to wander around in, unfettered by time? Bands or orchestras that you've always wanted to hear? Sporting teams or events that you'd love to be able to soak up the atmosphere and get lost in the excitement?

Retirement is definitely the time to dust off those dreams and start living them. If not then, when? And if you've set yourself up for 'early' retirement, that's even better! Imagine all the possibilities...

Passion Projects

Isn't that a great term? PASSION PROJECTS! How could you not want to sink your teeth into something like this?

For me, a passion project is something that you do for yourself. I'll be covering voluntary work next - but a passion project is an activity that you've always hankered to spend more time on but had to back off from, due to the pressures of life and work. Now - as you leave work, time is no longer a barrier.

What do you want to achieve?

Just let that question sit with you for a bit...

Can you feel your spirits lift as ideas start to rise to the surface?

Creative types can dust off the woodworking tools, the paintbrushes or dive headlong into their stashes of crafting materials. A guy I went to school with retired a little while ago and has turned his garage into a studio. In his youth, he went to art school but then spent decades in the police force in order to support his family. Now, he finally has the time to spend honing his craft - and he loves it.

My cousin chooses to spend a lot of time on the golf course. She's always been active throughout her life but golf is a game that takes up a fair chunk of time. She's happily engaged in improving her game as often as she likes now - her job is no longer standing in her way.

People with itchy feet, whether for local or international travel, are in for a treat. The world is almost literally their oyster. This is something that I'm definitely looking forward to exploring. I'm an English history buff and it was so thrilling to actually walk in the same rooms and streets as the people I've been reading about my whole life. My trip to North Korea, by contrast, was fascinating (and a little unnerving) in very different ways. The world is such a wide and wonderful place and I can't wait to see more of it.

So many passion projects that revolve around the home! Gardening, pottering around the shed and doing projects around the place - all bring a great sense of pride and satisfaction.

My father spent years doing up vintage cars. His passion was for an English brand - the Riley. It was his first car, so naturally, he has a warm spot in his heart for them. He'd find old wrecks, bring them home in boxes and spend the next few years painstakingly restoring them, one by one, back to their former glory. Along the way he taught himself many skills such as rebuilding motors, painting the exterior, rewiring them, varnishing the woodwork dashboards and door features. He spent HOURS in the garage, happy as a clam. He now has some beautiful cars to drive - almost like works of art. Without a doubt, he counts those hours as time well spent.

Ultimately, the people we love and care about are what our lives revolve around. Our friends and family are a passion project in themselves! This can run the full spectrum of just chilling and having fun to becoming caregivers. When my mother fell and was very frail for a long while afterwards, I realised that the time spent with her is something to be cherished as it wasn't going to last forever. One of the reasons I decided to work part-time was so I could see her more often and enjoy little moments that we'd otherwise not have had. Looking after grandchildren is definitely a passion project - apparently, people who have grandchildren are quite fond of them and like to spend time developing that relationship. Not something I know much about as of yet!

"ULTIMATELY, THE PEOPLE WE LOVE AND CARE ABOUT ARE WHAT OUR LIVES REVOLVE AROUND. OUR FRIENDS AND FAMILY ARE A PASSION PROJECT IN THEMSELVES!"

FROGDANCER JONES
@ BURNING DESIRE FOR FIRE
AUSSIE FIRE

These passion projects are one thing, but what if you take it a step further and push these interests out into the wider world? You have the joy of doing things you enjoy, with the added benefits of working with other people and adding value to the community.

Volunteering

I have a friend, Mandy, who retired a couple of years ago when she was 56. She and her husband downsized to the Peninsula, where they were nearer to their grandchildren and a more relaxed lifestyle near the beach. Even before she left her job, she said to me a couple of times, "When I retire, I'm going to find a dog shelter and walk the dogs. Not the little dogs; the big dogs that no one wants to walk."

This is what she says about the role of volunteering in her life:

"I spent 12 months volunteering at 2 animal shelters and recently decided to discontinue one of the roles. I was feeling overcommitted, (overcommitted in retirement! Haha!!), and my role at one of the shelters was very physical and rather thankless. I kept going for the sake of the animals but ultimately decided to focus my energy on the shelter where I feel my contribution has the most impact and is more valued. If I want to increase my shelter volunteer work again in the future I can easily commit to additional shifts at that same shelter."

Her voluntary work also has a little bonus - Buddy, one of the dogs she walked eventually found his way home with her.

Mandy also volunteers once a month in a local group that picks up rubbish at their local beach. She sometimes takes her little grandchildren with her, which reinforces the value held in their family of looking after the environment while also doubling as a fun afternoon on the beach with Gran.

You can see by Mandy's example that volunteering needn't be a huge time-suck. She walks the dogs on Monday mornings and is home for lunch. The beach clean-ups are once a month for an hour or two, yet doing these things means that she satisfies a need to be useful and valuable in society. She's also naturally building new friendships and ties with her town, avoiding feeling isolated or lonely.

Mandy chose her voluntary work based on her love of dogs and the environment. You, too, might have interests or values that would lend themselves beautifully to a voluntary gig or two.

Religious? Why not teach a Sunday school class, or do R.E. classes at primary school? Many churches seem to have opportunity shops, so a few hours a week in one of those would help raise much-needed funds for charity.

If you're sporty, then there's a myriad of community sporting groups that need coaches, people who look after the sporting equipment and people to run the canteens.

As a teacher, I know for a fact that schools are always looking for people to give their time to help out with kids who are having trouble with basic literacy and numeracy. Volunteering your time in a task like this can literally change a kid's life for the better.

I have another friend, Libby, who is a keen advocate for social justice. When she retired a few years ago, she put her hand up to help out at a charity for refugees. She collects and assembles food parcels and clothes for families who have arrived here after escaping the most horrific conditions. Libby lives in the inner suburbs and has a beautifully busy social life, but her face lights up when she talks about her days at the charity. She absolutely loves it.

As for me, I haven't really thought that far ahead when it comes to volunteering. I've vaguely thought that I might teach a class in literature or poetry at U3A - the University of the Third Age, which are classes run for and by retirees. I'll probably knit warm hats and scarves for the homeless - I hate the cold and I like making quilts and knitting things to keep my loved ones warm.

But who knows what may emerge? The beauty of volunteering is that there is literally something for everyone. It's just a matter of being open to possibilities and keeping your eye out.

Less stress

I don't know about you, but almost every retired person I've talked to laughs and says, "I don't know how I ever found the time to work!"

Don't you hate that? Especially if you're *at* work and the person has dropped in ~~to gloat~~ to visit their old work-mates.

I asked Mandy about whether the pace of life has changed for her since she left work two years ago. She said, "One by-product of retirement is that I've finally learned to slow down – most of the time anyway. It took quite a while to wind back to a gentler pace, but generally, I no longer feel the urgency to get everything done today, not when I can see a whole bunch of 'todays' in front of me. Life is not lived at the same frantic pace as before and there is more time to enjoy the small moments. Interestingly too, having learned to slow down, I just don't need as many things to fill the day. Compared to my pre-retirement life, I now feel like I do a lot of "nothing". It's not really that I'm doing nothing of course, but I'm going at a slower pace and enjoying more quiet moments."

The FIRE lifestyle has so much going for it! Free of financial constraints and with years of extra time to spend on what *you* decide, it's a lifestyle that's hard to beat. When you fill those decades of extra time with activities that mesh with your core beliefs and values, you have the recipe for an extremely rewarding life.

For me, that's worth striving for.

About Frogdancer Jones, Burning Desire For FIRE | burningdesireforfire.com

Frogdancer Jones is incredibly interested in Financial Independence, having been a single mother of 4 boys for over 20 years. Raising that many children on one wage is expensive! She is on a glide-path towards retirement, having dropped back to part-time teaching in 2020. Single people can FIRE too.

Chapter 22: Life Once FIRE'd

By Dave Gow, Strong Money Australia | strongmoneyaustralia.com

While at work in my mid-twenties, I would spend an abnormal amount of time dreaming of the day I reached FIRE. These fantasies weren't anything elaborate mind you. It was mostly just a vision of kicking back in a comfortable chair or maybe looking at the ocean, with a peaceful smile and an internal glow of satisfaction, knowing that I was completely free to do whatever I desired for the rest of my life.

And for all the time I spent with these images in my mind, for some strange reason, I never thought past that. I just assumed I'd be happy living out the rest of my (hopefully) 60+ years relaxing and not doing much at all.

But because humans thrive on having things to do, it doesn't work like that. We need projects and meaningful tasks to 'work' on to keep our brains ticking and our happiness juices flowing.

It sounds silly now, but I just didn't give 'Life After FIRE' much thought back then.

Luckily, I quickly adapted to retired life and found many enjoyable ways to spend my newfound freedom. But for some people, it's easy to feel lost, directionless and even depressed, not knowing how to fill the large chunk of time where work used to be.

For this reason, it's a great idea to prepare in advance for FIRE'd life!

How To Spend Your Freedom

Maybe you're a bit smarter than me. Maybe you've already thought about all the things you'd like to do during early retirement. If so, fantastic!

Either way, here are my recommendations for deciding how to spend your freedom…

Firstly, think about your main motivations for FIRE in the first place?

Is it for more family time? So you can do lots of travelling? To focus on your health? Something else? Spend time revisiting this because it's really important.

Next, make a list of all the things that interest you. Anything you might want to do or try. Activities you want to experience. Topics you'd like to learn more about.

People you'd like to spend more time with. Hobbies you want to get back into or try for the first time. Maybe a business or freelance idea you're keen to test out. Places you want to visit. Causes or charities you'd like to help or volunteer with.

Don't think about it too much or question whether it's practical or not. Just write it all down! It's going to be a long list, and that's okay. In fact, it's fantastic.

Look at all the possibilities and things you'll soon have more time to dive into!

Remember, you don't actually *have to* do any of it, but it's there for inspiration.

Lifestyle Design

When we leave work, we lose one unusual thing that goes unnoticed: structure.

Our lives are built around our work, so we're forced into a routine. But without it, we're more or less left with unlimited options for how we spend our day.

Some people struggle with this, which is totally understandable because it's a huge change after all. The solution is to create a new routine, one that we love. How do we do that?

Well, first imagine what your ideal day looks like. And I don't mean the weather, I mean the structure. What is the structure of your ideal day?

Remember, everyone's different in this regard, so your ideal day will probably look quite different from someone else's.

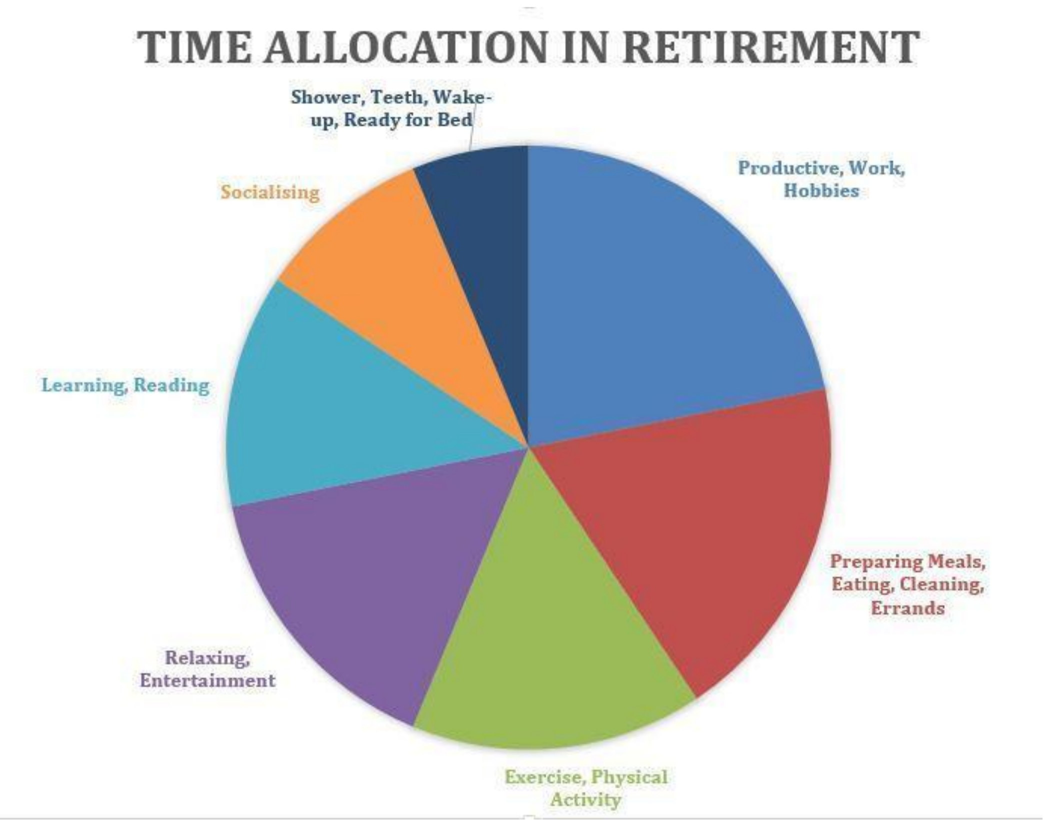
Maybe you're not sure what your ideal day looks like yet. That's okay. To offer some insight here, I'll share some details from my own life. After being 'retired' for about 3 years now, I've noticed a similar theme from the days I enjoy the most.

They include:

- A few hours of being active. This usually includes a nice morning walk, bike rides, lifting weights or bodyweight exercises, playing with the dog, or sometimes some yard/garden work.
- A few hours being productive. For me, this means working on an article for my blog, responding to readers comments/emails, thinking and jotting down new ideas, and perhaps managing/monitoring our finances.

- Ample time for relaxing. This means having plenty of space in the day to gather my thoughts, ponder the universe, think about the future and appreciate the present. Having time for thinking and reflection is so valuable, yet we largely ignore it in modern society, to our detriment.
- A few hours of reading. Enjoying whatever book I'm reading currently, or consuming blog content. A day doesn't feel complete if I haven't made an attempt at learning anything that day.
- Time spent socialising. I'm an introvert by nature, so I don't need tons of socialising. But my best days definitely include some of it! This includes catching up with friends, talking with relatives on the phone, or simply enjoying time with my partner and our dog.
- Enjoying nature. After leaving full-time work in 2017, we decided we wanted to be around more nature since we had the time to enjoy it. Now we live in a much greener area of Perth, close to a huge regional park. Nearly every day we get to see beautiful birdlife in the trees, swans on the lake, kangaroos in the woodlands, and certain times of the year, we even see long-neck turtles.

Explained visually, here is a rough breakdown of how I spend my waking hours...



Of course, there are other things we do, but you get the idea. Like anyone, I'm prone to laziness and procrastination, so not every day is a happy, productive day.

But when I remember how much I enjoy these activities, it helps me refocus and start using my time more wisely.

The overarching point is, your lifestyle can be designed around the activities that bring you the most fulfillment on a daily basis.

"THE OVERARCHING POINT IS, YOUR LIFESTYLE CAN BE DESIGNED AROUND THE ACTIVITIES THAT BRING YOU THE MOST FULFILLMENT ON A DAILY BASIS"

DAVE @ STRONG MONEY AUSTRALIA
AUSSIE FIRE

Okay, so we've covered what you might do with your time and the importance of having a structure in your days. Now I'd like to share some of the things you can expect from 'retired' life and the lessons I've learned.

What To Expect From Early Retirement...

Upon leaving work, you're likely to quickly experience or realise many of the following things:

- Every day starts when you decide it will. No more alarm clock.
- No more soul-sucking commute. You can structure errands to avoid traffic/busy times.
- Much, much more time is available for your kids/pets.
- Health gets to be a focus, and you can invest time in preparing nice food.
- Any work chosen from now on is completely optional.

For us, the first few months were dedicated to unwinding from the rut of full-time work. It was about enjoying the freedom, considering our options (like the list from earlier) and settling into a nice, relaxed groove.

After this initial 'holiday' period, you'll likely find yourself feeling refreshed and with near-abundant levels of energy. And before long, you'll soon find yourself wanting to be productive. That surprised me because as I mentioned earlier, I was someone who thought work was over and simply imagined a satisfying life of leisure. How wrong I was.

Anyway, with our newfound energy, my partner decided to really get into gardening, while I decided to start a blog. These are both activities which we enjoy to this day.

As more time passed, we had the following realisations:

- Working on things is way more fun when it's something you're actually interested in. And doing it without the draining nature of a robotic, productivity-driven workplace makes it even better.
- Without direction, your mental state and happiness can suffer. This may differ between personalities, but I'm much happier when working on, or learning about things that are important to me. Don't get me wrong, I'm a laid-back guy who likes a simple life and a small to-do-list, but getting stuff done feels good too.
- Time still passes relatively quickly… unless you literally do nothing. But that's not a great idea either - see above! It seems inevitable that a good life is going to feel like it goes fast because you'll be busy doing stuff you enjoy. Maybe that's the trade-off?
- Money is less meaningful after reaching Financial Independence. Don't get me wrong, it still matters. But most of the time, money is simply a bunch of numbers on a screen or a spreadsheet. The FIRE movement is more about life than it is about money. This sinks in more than ever once you no longer work for a living.

So your new mission (and the real lesson here) is: Find engaging hobbies or work that you'd do for free. Because if you're just doing it for the money, then it can't be that good.

Some surprises about FIRE'd life…

Freedom can be scary.

It sounds weird, but hear me out. Looking down the barrel at a lifetime of freedom ahead of you is kind of like winning the lottery. At first, you can't believe your luck.

Next, you start to realise what this means. Your mind is flooded with options, ideas and opportunities. Now you actually start feeling a little overwhelmed. You now have too many choices! A first-world problem, for sure, but a problem nevertheless.

And it's the same with Financial Independence. Having complete freedom can be a little daunting. Because of this unique opportunity, you might start feeling like you have to do something ultra meaningful in a save-the-whole-world type of way.

But after a while, you realise that just having a couple of enjoyable things to work on that mean something to you, is plenty good enough. As long as you're helping others or a cause in your own little way, you'll derive a sense of meaning from that.

So you can then relax into your new life and work on things at your own pace. This is another reminder of why it's good to have a rough plan, structure or list of ideas ready before retiring!

You forget that you're retired!

After a while, you'll be going about your day, maybe working on something or doing whatever it is you do, then it hits you. You remember that all this stuff is optional because you're FI!

Or sometimes you might be grumpy for whatever reason (yes you still experience the full range of emotions once retired!), and then realise that you're more fortunate than a large portion of the population, or the rest of the human race for that matter!

These little sledgehammers to the forehead often catch me by surprise and remind me to be grateful.

Mindset and Outlook

As time goes on, you may also find your attitude changes in a few different ways.

Firstly, because you've stepped off the glorified hamster wheel, you'll start caring even less about what others think of you. Besides, if you ever need reinforcement that sensible money management is a good idea, it's simply a case of taking stock of your fortunate position versus that of your peers.

Essentially, your life will be more independent than ever.

You'll also be living at a more calm and peaceful pace, like you're in some parallel universe. Where you literally have time to smell the roses, look at the clouds, and appreciate each day and the freedom you have.

There'll be an unspoken deal with yourself, that any work undertaken must be enjoyable or worthwhile for its own sake. The joy this brings is a game-changer. Having the feeling that work can be dropped or you can make a change when it no longer suits you will prove to be hugely comforting.

Because of these reasons and the time you have to dedicate towards it, your health and energy levels will typically improve too. Quality sleep. Low stress. Improved nutrition. More movement. And a more balanced, overall happier lifestyle. All of these things are much easier once you've got your freedom back.

Above all, your focus will automatically shift towards spending time on what's most important. By your own measure, nobody else's.

About Dave Gow | strongmoneyaustralia.com

Dave reached financial independence at the age of 28. Originally from country Victoria, Dave moved to Perth at 18 for job opportunities. But after a year or two at work, Dave became dismayed at the thought of full-time work for 40+ years, with very little freedom. To escape the rat race, Dave began saving and investing aggressively into property and later shares. After another 8 years of work, he and his partner had reached financial independence.

Chapter 23: Build financial resilience

By Serina Bird, The Joyful Frugalista | joyfulfrugalista.com

When times get tough, the tough get resilient. Or so we like to think.

Although some people may claim they had the power of prophecy, few of us could have predicted the dramatic events of 2019 or 2020. I certainly could not have predicted the bushfires, toilet paper shortages, pandemic or school and business closures.

But I did know that Australians have some of the highest levels of personal debt in the world. #lifestyle and #treatyourself and #YOLO have been keywords in our collective vocabulary, up with a love of good food, fine wine, travel and Instagramming it all. Our financial contingency planning was virtually non-existent. Yet with global trade wars looming and retail businesses going bust in 2019, there were signs that economic easy times were coming to an end and we needed to prepare. Or maybe we didn't want to know.

Financial disaster can happen to anyone at any time. In this article, I share some tips for navigating financial stress and building long term financial resilience.

My story

Outwardly, I had it all. I had four degrees, spoke fluent Mandarin Chinese and was a bubbly diplomat on her first posting to Asia. I had a charming husband, a young son and a baby. We went to gala charity events, cocktail parties and National Day receptions. I mixed with CEOs, CFOs, General Managers, economists and the mega-wealthy. I shook hands with President, the Opposition Leader, and from time to time, was even on TV and radio. We lived in a posh neighbourhood in an apartment building that had marble tiles and artwork in the carpark. Our humble sedan was parked next to Rolls Royces, Lamborghinis and Ferraris.

But appearances can be deceiving.

For one thing, I was a secret frugalista who wore op shopped clothes to meetings and functions. And below the surface, my domestic life was crumbling. My husband became increasingly jealous, distant, and eventually violent. One night I called my colleague to ask for consular assistance because I needed money to pay a hospital bill after my husband hit me in the face and then threw me in the front door. Meanwhile, my two young sons were behind the locked door in our apartment; I wasn't just scared for myself.

It can happen to anyone.

We returned to Australia a year later, but things did not improve. After my husband dropped me off at work one morning, I took a taxi to the ACT Magistrates Court and received an interim Domestic Violence Order. The order precluded him from contacting us – not an easy thing when we had joint finances and children together. It also meant that overnight, my financial circumstances changed.

We had been frugal for a long time, amassing a portfolio of ten investment properties, and I prided myself on following key figures in the FIRE movement. But here was a structural problem: we were over-geared on property, and there was no cash to splash. I also had to pay for the mortgages, childcare, legal fees, food and things like doctors visitors.

It was a tough time, but it also led to the birth of what would become The Joyful Frugalista. I began blogging about frugal living and I became convinced that money was more than just dollars in the bank. Without a good job, assets, and frugal habits, it would've been hard for me to leave. Now I'm happily remarried and have left my job to pursue writing, podcasting and other endeavours.

Coping in difficult financial times

For months after my separation, I felt sick at the thought of anything to do with money or finances, despite having previously loved reading and talking about money. I was worried I was going to lose everything I had worked to build up. I felt like a fraud; I had been proud of my growing investment portfolio but now lived from payday to payday.

But slowly, things improved. We did sell most of the properties, although I kept two, and half of my net wealth disappeared (including $100,000 of my super). But I walked away with the family home mortgage-free. And then, I started to rebuild. These are some of the strategies that helped me survive and thrive.

Gratitude

I was more fortunate than many people. I had a secure job, I had a roof over my head, and I could put food on the table. I also had the love and support of my family, especially my Dad, who helped me get out. These were blessings that not everyone had, and every day I gave thanks for it.

When things are difficult, I make a conscious effort to focus on gratitude. When I wake up each morning, I count off things I am grateful for on my fingers. Eg.

> "Loving husband – 1,
> Two handsome sons – 2,
> Clean water and hot showers – 3,
> Warm bed during a freezing winter – 4" and so on.

I also keep a gratitude journey, where I record my blessings in writing. The funny thing is that the things I am most grateful for are often simple, inexpensive things such as homemade soup, a phone conversation with a friend, the parrots outside my window, blue skies or the love of family.

Face the music

Problems don't go away; they only get worse. And this includes financial difficulties. When my finances aren't as good as well as I would like, hoping they will get better and burying my head in the sand doesn't help. Instead, I am honest with myself about where I am at. For instance, a few days before writing this, I sat down and updated our budget to reflect reduced rental and freelancing income (COVID casualties). I now know exactly where we are tracking and what we can afford (or not). I have the facts and I'm not living in denial or a fantasy land.

Whether it's money troubles, beating addiction or getting fit, there is power in taking the first step of acknowledging there is a problem. Step two is to celebrate and congratulate taking responsibility and owning that. Sometimes it can feel like you will never break a money habit as it is so tempting to go back to your old and familiar ways (especially when under stress). Surely you need to treat yourself to a new dress, a fun night out with friends, or to buy just a few cheap sale items online. But despite the occasional regresses, when you make up your mind to focus on your financial wellbeing and commit to tracking your progress, you have a framework for achieving your goals.

> "PROBLEMS DON'T GO AWAY; THEY ONLY GET WORSE. AND THIS INCLUDES FINANCIAL DIFFICULTIES. WHEN MY FINANCES AREN'T AS GOOD AS WELL AS I WOULD LIKE, HOPING THEY WILL GET BETTER AND BURYING MY HEAD IN THE SAND DOESN'T HELP."

SERINA @ THE JOYFUL FRUGALISTA
AUSSIE FIRE

Abundance thinking

Do you hold yourself back from receiving abundance because you feel you don't deserve to be wealthy? Perhaps you grew up in a household where there was a limiting belief about money (e.g. all rich people are tax dodgers and/or greedy)? Some people have mixed feelings about wealth, feeling that it is somehow morally wrong to be rich. Yet there is nothing spiritual about poverty; abundance gives us power and choices.

How we think about money and abundance is crucial. It is especially important now as some people believe no one deserves to profit while others are suffering. The media is all doom and gloom. Yet opportunities are always around us. Some people have become billionaires during this crisis because they have been able to provide people with what they want and need. How can you choose to accentuate the positives and eliminate the negatives in these difficult times?

I often use abundance mantras to reset my thinking. Two of my favourites are "money comes to me freely and easily", or "I'm good with money". When I find myself thinking "I can't afford it," I switch to a positive mantra instead such as "abundance is all around me". Reading positive and helpful narratives such as in this book will also help.

One thing at a time

If your financial situation turns topsy-turvy, the first instinct is to panic. It's understandable: it's a stressful time. As shut down started in March 2020, I had 14

Airbnb cancellations – including from an Australian living in Kazakhstan who broke down and cried uncontrollably. It felt like everywhere I turned, there was stress and worry. I had to turn off the news. I felt my brain was overloaded with things to do, and I struggled to do any of it.

When this happens, I go back to my core motto "one day at a time, one thing at a time". I pick one financial thing to do, action it, then move onto the next. I aim to do at least one thing that will improve my financial situation a day. Financial success is rarely due to one big thing but rather than a series of little things: that barista coffee you said no to, filling out MyGov forms, or setting up an account to invest in ETFs, or deciding to listen to finance podcasts or read up on topics.

> "FINANCIAL SUCCESS IS RARELY DUE TO ONE BIG THING BUT RATHER THAN A SERIES OF LITTLE THINGS: THAT BARISTA COFFEE YOU SAID NO TO, FILLING OUT MYGOV FORMS, OR SETTING UP AN ACCOUNT TO INVEST IN ETFS, OR DECIDING TO LISTEN TO FINANCE PODCASTS OR READ UP ON TOPICS"

SERINA @ THE JOYFUL FRUGALISTA
AUSSIE FIRE

Key ways to cope with financial problems

- Make gratitude a habit - keep a diary or make counting your blessings part of your morning ritual
- Admit there's a problem - and commit to fixing your financial situation
- Get yourself into a positive money mindset - tune out to negativity and focus on opportunities
- One day at a time, one thing at a time - with this magic motto, you can accomplish almost everything.

How to build financial resilience

Our lives rarely go to plan, and (while over time they statistically go up) neither do our investments. While hoping for the best, we also need to plan for the worst. Here are some practical steps to build long term financial resilience.

Have an emergency fund

In early March, I spoke about the abundance mindset with a group of hairdressers. "You need to be prepared as you never know when things could change – something unexpected could happen, and you could lose your job." A few weeks later, almost one million Australians did lose their jobs as businesses shut their doors due to COVID-19.

When the unexpected happens, you might need money quickly. That's where an emergency fund comes in. The challenge is balancing higher-performing investments with financial liquidity (i.e. long term investments versus money you can get your hands on right now). I'm not suggesting you keep piles of cash as your emergency fund, unless you are an eccentric billionaire. What if your house burns down! Nor do I recommend you keep large amounts of money in low-interest bank accounts – you could end up going backwards as inflation will eat most of it all up. But you do need to have at least some money accessible should you need it quickly, e.g. in a mortgage offset facility or a high-interest savings account or term deposit.

How much should you put away in an emergency fund? There is a range of views, and it depends on your circumstances. For the average middle-class worker, I suggest aiming for a buffer of two months' worth of expenses; if you suddenly lost your job, you have time to pivot. Sadly, going into the 2020 crisis, many people had nothing – only debt.

If you are in an abusive relationship, having a fxxk off fund (aka running away money) is vital. Financial abuse is nearly always present in controlling relationships. If you are vulnerable, you need some secret cash, even if it's only enough for an Uber fare and a few nights' accommodation.

Create diverse passive income

Most FIRE strategies focus on building passive income-generating assets (e.g. dividend income and rents) rather than capital growth (e.g. share or property value increases) to ensure you have an income stream when you retire.

2020 has shown us how important it is to ensure income from more than one source – not just your employer or one investment. For instance, some landlords have had rental income reduced or deferred because their tenants have lost their jobs. Many Airbnb hosts are exposed due to the collapse in the travel industry. And blue-chip (or any) shares are not immune, either. According to The Australian Financial Review, Australian dividends could dive by up to 25 per cent due to COVID-19.

Invest in yourself

Your best investment is to invest in yourself. Improve your own knowledge and you can earn more and develop better investment strategies. The global employment market is changing as we move towards the fourth industrial revolution. Many roles can now be performed overseas or by machines – and not just in manufacturing. Bots can answer many questions online and no profession is safe.

> **"YOUR BEST INVESTMENT IS TO INVEST IN YOURSELF. IMPROVE YOUR OWN KNOWLEDGE AND YOU CAN EARN MORE AND DEVELOP BETTER INVESTMENT STRATEGIES."**
>
> SERINA @ THE JOYFUL FRUGALISTA
> AUSSIE FIRE

But new jobs are being created with some emerging so quickly that by the time someone graduates from university their skillsets are already redundant. Upskilling and reskilling will become a feature of our lives. There will always be a need for people with empathetic communication, leadership and innovative problem-solving skills.

For those who have reached FIRE, it is still important to continue to invest in yourself. You never know what might happen. For instance, a year after my friend Leanne reached FIRE, her husband walked out and she had to get a job as she wanted to keep her house. Or maybe a recession affects your investments and superannuation, and you need to re-enter the workforce or continue working longer.

Keeping your skillsets current could even be fun. For example, you could take up blogging, podcasting, YouTubing, coding or improve your photography. These hobbies can give you valuable skillsets that would make you marketable as a freelance writer, social media manager, video editor, website designer, producer or photographer. In fact, you might even want to generate income from these hobbies in retirement just because you can and like what you do.

Be aware of legislative changes

Will negative gearing be abolished? Will franking credits also go? Will the compulsory superannuation scheme be further overhauled, or will higher personal income tax become mandatory? Will the pension age be extended, or pensions abolished altogether?

There are only two certainties in life: death and taxes. And of the former, a key certainty will be that taxes will likely increase because governments around the world are borrowing heavily to help stimulate the economy and support people affected by the economic downturn. Further, in Australia the ageing population and climate change effects (e.g. droughts, bushfires, floods) will all need policy solutions that will cost money.

All investors need to follow government policy so they are aware of how potential changes could impact them. Watching the annual Federal budget, and then reading key policy documents after the Treasurer's speech, is important to keep informed. Government websites such as the Australian Taxation Office and the Treasury Department also provide updates and details on implementation; sometimes the Senate will not pass items in the Federal Budget or there is a delay in it coming into effect. Usually there will be warning, or at least give you time to readjust your strategy.

As my tax accountant tells me every year, if you have to pay tax it's because you are earning money – and that's a good thing. And being the proud Australian I am, I consider it a privilege to live here (and contribute by paying taxes). It might not feel like it at tax time, but it's a blessing.

I've been through tough times and found a way through. And I'm sure that, despite being in a good place now, there'll be further challenges (and opportunities) ahead. I'm confident that with the right strategies – and mindset – you can adapt to anything that might come your way. I wish you all the best on your journey.

How to build financial resilience

- Establish an emergency fund - it's a balance between higher growth from investments and having money on hand if you need it
- Rely on more than one sources of income - have passive income from more than one source
- Invest in yourself - you are your best investment ever (even in retirement)
- Understand and anticipate legislative changes - if you are paying tax it's actually a good thing as it means you are making money.

About Serina Bird from The Joyful Frugalista | joyfulfrugalista.com

Hi, I'm Serina Bird aka The Joyful Frugalista. I was always a bit on the frugal spectrum, but I started blogging about budget food, saving money and investing after I become suddenly single nearly six years ago due to domestic violence. I love cooking and am a Top Cook at Australia's Best Recipes. I also contribute to Money Magazine Australia and MoneySaverHQ. I wrote a book called The Joyful Frugalista that was published by Murdoch Books last year, and I host The Joyful Frugalista podcast that includes guest interviews with people you may recognise in the FI/FIRE community. This year I set a challenge to declutter at least 366 items in a meaningful and mindful way, and having reached halfway through the year, I've now extended it to 1,000 items.

Chapter 24: Wealth beyond money

By Michelle, Frugality and Freedom | frugalityandfreedom.com

What do you think about when you consider the idea of *wealth*?

Money and financial resources are generally what quickly spring to mind – whether it be cash, shares, bonds, or even gold. Perhaps material goods like houses or cars soon after, or assets such as businesses that provide you income.

With all our talk of Financial Independence, it's easy to get fixated on the "F word" – Finances – as the all-important measure of wealth and resources to create our desired lifestyle.

However, when you start to look deeper, you'll understand there are many other resources you already have and can grow for your abundant, fulfilled life – no matter your bank balance.

In this chapter, I'll highlight different aspects of wealth beyond only money, reasons you may be far wealthier than you knew, and why appreciating these alternatives could mean lowering the amount you need for financial independence.

Later, we'll explore using our resources to help create the world we want to live in on the way to financial independence and beyond.

Your wealth is more than your money

I'm sure you've heard the expression, "The best things in life are free". This is hinting that not every aspect of a fulfilled and abundant life is tied up with money.

While this book has mainly been discussing money as the tool for creating our ideal lifestyles, this is only a single piece of the puzzle.

In fact, you actually have a much broader "portfolio" of wealth already at your disposal – such as your skills, connections, knowledge, culture, society and environment around you.

While these can seem abstract, understanding and investing in these actually has practical applications on the path to financial independence, as we'll discuss below.

You have multiple forms of capital

The Oxford Dictionary defines "Capital" as "Wealth in the form of money or other assets". It is this "other assets" component that has underestimated potential in creating your ideal lifestyle and fast-tracking your financial independence.

I came across the idea of "multiple forms of capital" from US-based FI blogger Rich and Resilient Living. She often discusses the 8 Forms of Capital expressed by Ethan Roland and Gregory Landua, which present a more rounded view of our resources – with financial capital only one part of a bigger whole.

These 8 Forms of Capital are:

Financial capital	Monetary wealth, such as cash, savings, shares, credit access, bonds, term deposits and other financial vehicles.
Material capital	Physical assets and tools you own or have access to. Houses, cars, equipment, kitchen goods, computers, garden tools, furniture and other items that make your life comfortable or bring you usefulness.

Social capital	The benefits enjoyed from your relationships and being part of your wider society. Having high social capital can bring you satisfaction through friendships or allow you to access help through your personal connections
Living capital	The wealth you have in the living environment around you, such as having a garden for food or pleasure, access to parks or nature, or quality air for good health.
Intellectual capital	The knowledge you gain through schooling or self-education.
Experiential capital	Your wealth of hands-on experience and skills, such as cooking, basic car maintenance, or DIY know-how.
Cultural capital	The wealth you feel in relation to culture and traditions, such as through your heritage or community.

Spiritual capital	The richness in your sense of spiritual well-being, whatever form that takes for you. You may feel peace and abundance from connection to religion or practices such as mindfulness and meditation.

When you take this broader view of wealth and consider these other components, you may find:

- You increase your sense of abundance and well-roundedness in your life, even if your financial net worth is low.
- You feel peace of mind from lowering your risk and diversifying your wealth into forms beyond only money,
- You feel empowered by growing your overall wealth through investing in these other areas of capital, especially if growth in financial income or savings is a struggle.
- You reduce your stress around money by acknowledging these other resources you have to help support yourself.
- You get a boost of self-satisfaction from learning and increasing your skills.
- You might not need as much financial capital to achieve overall financial independence, if you boost your wealth in other areas.

You can reduce your FI number through other wealth

This last point is worth repeating: You can lower your overall “FI number” - the financial stash you need to achieve financial independence - by growing your wealth in these other forms of capital.

Here are examples of how investing time and effort towards other forms of capital can reduce your FI number through lowered living expenses - or get you to your goal more quickly by raising your financial income potential.

- Increasing your experiential capital can reduce the need to hire others or pay a premium for convenience - such as building hands-on skills in minor renovations, cooking your favourite cuisine, or making clothing adjustments. You could turn these skills into a money-earning side hustle, or boost your social capital by providing these skills as a favour to others.
- Increasing your living capital by growing an edible garden means you could increase food security and lower your food bill, so you need less for this budget line in your FI stash. Again, you could offer the excess fruit and vegetables to others for income or good will.
- Increasing your social capital with shared history and reciprocity over time could mean you're invited to holiday at a friend's beach house for free which reduces your travel costs. You could have neighbours share some babysitting with you and you can eliminate that expense. Or a fellow social club member could recommend you for a new job which boosts your salary.
- Increasing your material capital could lower expenses in the long-run, such as buying a slow cooker which makes meals easier and reduces your takeaway purchases; or owning a trailer you use regularly means avoiding the need to hire one and can allow you to rent or lend it out.

You can find a "multiple forms of capital" approach in play by looking at many FI enthusiasts out there. A few examples are:

Jacob from Early Retirement Extreme famously lives on US$7,000 a day, having reduced the financial capital he needs through "in-sourcing" many activities. As a self-described "renaissance man", he has a strong focus on building experiential capital, with skills such as doing repairs, building and gardening.

Vicki Robin of Your Money or Your Life talks about the social capital she'd built through friendships and community, and how well she was looked after by those in her network at a time of medical need – reducing her care costs.

Others such as Financial Mechanic decide to invest in their intellectual capital, taking on specific courses or self-study in areas that level up their earning potential.

As you can see, there are immense benefits from considering these alternative forms of capital on your journey to financial independence.

On the flipside, if you neglect these other aspects, I'd argue that you won't really be wealthy even once you've crossed your financial independence number. For example, if you don't have social capital of friendships, the material resource of a home you enjoy, experiential skills or intellectual knowledge for self-actualisation, or the living capital of a healthy environment – you've missed the essence of what being FI really means.

Identifying the extra wealth you already have

I'd encourage you to give some thought to these different forms of wealth and how they apply in your own life.

- Take some time to brainstorm the specific assets you have in each category, so you can see the different ways you are wealthy.
- Next, consider areas you'd like to invest in and what benefits these will bring to you.
- Make a plan for how you are going to invest in these other areas – such as learning something new via a YouTube video or reaching out to make a new friendship.
- While we are aiming to disconnect our idea of wealth from only money, old habits die hard (!) so you may wish to put a dollar estimate to help quantify the increase in other forms of capital. Examples using the '25x Rule' to estimate your FI stash needed:
    - Eg. Experiential capital: Learning to cook your favourite takeaway meal: $30 saved per month x12 = $360 saved in annual expenses x 25 = $9,000 less needed for FI

- Eg. Social capital: Taking up a friend on their offer to use their beach house for a weekend each year: $400 saved annually x 25 = $10,000 less needed for FI

Creating the world you want

While we're discussing wealth beyond what is in your bank account or your investment portfolio, it's a good time to talk about how we can enhance wealth in the world around us.

As you'll know, the pursuit of financial independence is about intentionality and aligning how you use your resources with what you value. It's about making deliberate decisions for how you spend or save for your desired lifestyle. And because we don't exist in a bubble, I'll bet that your desired lifestyle will typically include being in a clean, healthy environment in a safe community that's part of a robust society enjoying positive well-being.

Here we can see some of these other forms of capital in play. Investing in the living capital of our environment, the social capital of community, and the cultural capital that grounds us has benefits extending beyond ourselves.

Let's look at some ways you can use your resources and wealth to create the kind of place you want to live your best FI life within.

Value-based spending

You may have heard it said that each dollar you spend is casting a vote for what you want to see in the world. It's saying "yes" to showing support and creating demand for a particular business, service or cause. At the same time, the dollars that you *don't* spend also make a small statement towards your desired personal and community life.

"EACH DOLLAR YOU SPEND IS CASTING A VOTE FOR WHAT YOU WANT TO SEE IN THE WORLD. IT'S A "YES" VOTE THAT YOU WANT TO SUPPORT A GIVEN THING, SERVICE OR THOSE BEHIND IT"

MICHELLE @ FRUGALITY AND FREEDOM
AUSSIE FIRE

With this in mind, it's worth considering taking time to consider a short spending policy for yourself. This can help guide you when making purchase decisions, so you are reminded in the moment to spend in alignment with your values.

- Will you avoid or reduce spending at certain businesses or on selected products? Eg. Avoiding cosmetics with animal cruelty, products with excess packaging, or corporations with a history of unfair labour use?
- Will you choose to spend in the small business or café nearby, even if more expensive than a large chain, so your funds help its family owners to keep the doors open and save diversity of businesses in your area?
- Will you choose to buy second hand, or not purchase at all, to limit waste to landfill and reduce new resources being used?

Be a conscious consumer and think about what you want to see for the future of your community and environment – then put your money where your heart is! We can't get it right all the time, but if we aim to bring some of our signature FI intentionality and reflectiveness to our spending, we'll all be richer for it.

Ethical & socially responsible investing

Following on from value-based spending, you may wish to bring these values into your investments – especially in the share market.

According to Canstar: "Ethical investment (or responsible investment)... is when an investment is selected to complement views on moral, environmental or political matters."

These options are growing in popularity, especially as climate change becomes a growing concern across the world. Depending on the ethos of a certain investment product, negative screening may exclude certain corporations (such as those in fossil fuels or coal mining) and/or positive screening can actively seek out companies in priority areas (for example, renewable energy companies).

- There is no single perfect way to do ethical investing, as everyone's values vary and it's challenging to represent all concerns in one investment option. You'll need to consider what your main priorities are – such as your stance on gambling, weapons, old-growth forestry, uranium mining, underrepresentation of women on corporate boards, etc.

- Being clear on your motivation for whether or not to pursue ethical investing will help decision making. For example, you may be uncomfortable earning profits from corporations that don't match your ethics in doing so; you may anticipate better future returns by avoiding companies focussed on depleting fossil fuels; or you may even choose to be a shareholder for certain companies to advocate for change from within.
- Ethical investing typically has higher management fees, with fund managers being more actively involved due to the company screening process, vs. basic low cost index funds. You'll need to weigh these against potential returns and your motivations.

Do your own research to see if ethical investing options suit your preferences and needs. Organisations such as Australian Ethical Investments offer a variety of ethical managed funds based on different criteria. If you prefer to buy exchange traded funds on the stockmarket, you might like to review Betashares' ETFs: Australian Sustainability Leaders 'FAIR' (including 80 local companies) or Global Sustainability Leaders 'ETHI' (including 100 international companies). There are also ethical investing options for your superannuation. You can read more on how I choose to invest here.

Giving

Another way to help create the world you want to see is through charitable giving to the causes important to you – whether with money or volunteer time.

Giving generously to organisations, services or directly to people who need it can create positive change and improve lives. Making room for giving in your budget can also foster a sense of abundance and boost your own joy. There is a quote that reads, "No one ever went broke from giving."

- Similar to a values-based spending policy mentioned earlier, consider having your own short giving policy. Identify the organisations and causes you want to support and the ways in which you will commit to doing so – whether through automatic donations, adding a bequest in your next will update, setting aside a regular budget line for spontaneous giving, or signing up to volunteering on a project.

- If established charities don't resonate for you, consider supporting causes in different ways such as through advocacy on issues, sponsoring local amateur sports teams, donating books to libraries, or setting aside money for direct gifts to extended family or community members in need.
- For FI enthusiasts who enjoy optimisation, you may like to join the Effective Altruism movement, which conducts extensive research into the most effective charities providing the highest benefit for donations.
- If you are making financial donations to Australian charities with DGR status, don't forget to keep receipts for tax deductions on donations.

I'm glad to have been able to share a more well-rounded picture of wealth in this chapter. I hope it has opened up your views on the many different resources in your hands and the positive impact you can have with them on your FI journey.

About Michelle from Frugality and Freedom | frugalityandfreedom.com

Michelle is a mid-30s semi-retiree, sharing her journey towards financial independence on her blog at FrugalityandFreedom.com. Michelle alternates between seasonal events work, online freelancing and long-term travel – visiting 40 countries so far. She writes with the perspective of pursuing FI as a single person on a modest income, emphasising lifestyle design and enjoying the FI journey as much as the destination.

Michelle writes about frugal hacks, solo travel, housesitting, minimalism, sustainability, and ethical investing. She is passionate about connecting with others in the financial independence community, including highlighting different voices through the Australian FI Weekly series.

Chapter 25: Next level tools

By the co-authors of Aussie FIRE!

Below is a crowdsourced list of our co-authors' favourite FI resources. Enjoy!

Financial Services

Pearler

This book wouldn't be complete without highlighting the new FI-focused Aussie stockbroker, Pearler.com. I appreciate the $9.50 trade brokerage fees, amongst the cheapest on the market. I also enjoy taking a peek at the profiles of other FI bloggers who've shared publicly, to see how they are investing. With calculators, auto-invest feature, goal setting tools and the SimpliFI blog, Pearler is as much FI community builder as affordable stockbroker. - *Michelle, Frugality and Freedom*

Transferwise

The best platform for sending and receiving foreign currency. You can get local bank details in all the major currencies and move money at close to the spot rate. - *Kurt, Pearler*

Raiz

Raiz is a micro-investment platform that allows you to start investing with as little as $5. Micro-investment tools, such as Raiz, are so great as investing a lot of money into shares, etc can be off-putting for the average person. But, investing small amounts that accumulate over time is more palatable as these people don't struggle anyway near as much with letting go of small amounts of cash at a time. Therefore, micro-investing through Raiz makes Financial Independence more achievable for the average person as the "risk" they see in letting go of large sums of money is removed, and therefore they are much more likely to start investing, rather than just keep their money in low-return bank accounts that don't allow them to keep up with inflation and get ahead. A review of Raiz can be found here. - *The Flawed Consumer*

Calculators & Tracking

MoneySmart Compound Interest Calculator

It's a legit calculator from the government ASIC website. There are also many other useful calculators on the website specifically for Australians. - *Sustainable Living*

Moneytree

Moneytree offers a really great free product. Other than budget tracking, Moneytree also offers tracking of Credit Card reward points. We also found it pretty convenient that Moneytree lets us correct/ edit spend amounts and categories. Read our review here. - *Two To FIRE*

Pocketbook

Finally! An actually accurate way to assess how much you really spend. Budgets never worked for the Aussie doc household. Now we can track our spending through Pocketbook (assuming your bank allows it) and see exactly where we can cut back. - *Aussie Doc Freedom*

Sharesight

Sharesight is an investment tracking platform that we have been using. It allows for automatic dividend reinvestment tracking and also accounts for brokerage fees which helps in calculating the actual portfolio returns. We use their asset allocation and portfolio management reports quite frequently too. - *Ms. FieryIce, Two to FIRE*

Microsoft Excel & Google Sheets

Plugging in your own numbers allows you to better understand and then control your own budget and financial projections. If you rely on a black box where numbers go in and out without you understanding them, you risk missing things. - *HisHerMoneyGuide*

MS Excel is the most underrated FI tool. I'm a fairly old-fashioned kind of guy, so the good ol MS Excel is an invaluable tool to use for FIRE. I think many of us understand how to use Excel properly - but when it comes to calculations and numbers and all that jazz, Excel does it perfectly. - *The Frugal Samurai*

Networthify Early Retirement Calculator

Networthify is an extremely simple to use calculator which lets you plug in your income, expenses, and gives you a concrete timeframe of when you'll reach FI. I love it because it's so user-friendly, you can quickly adjust the numbers and see what the impact of spending less, earning more etc. does to your retirement date. - *Strong Money Australia*

Use a chart to track spending

It keeps your purchases intentional instead of being impulsive. Also, don't be a short-term thinker. Keep your eye on the prize. - *Burning Desire for Fire*

Money Saving Tools & Tips

MotorMouth

Website and app that's great for getting super-cheap petrol in your area. We save around $500 a year using it. - *Keepin' It Frugal*

Shopback

Shopback is where you can earn free CASH back just for spending how you normally would online. All you do is click on a store that you want to shop through (or get the chrome extension and you'll be notified when there is cashback available) and shop how you would normally. Read review here. - *All About Balance*

Debt recycling

In a nutshell, debt recycling is a way to turn non-deductible debt into deductible debt. Why would anyone want to do that? Simple. Deductible debt can be offset against your income, helping to lower your taxable income (so you pay less tax!). Anything that reduces tax is a win in my book – why give the taxman any more than his share? - *A Family on FIRE*

Salary sacrifice to save on tax

For many, tax is our largest expense. Salary sacrifice seems complicated, but is really simple to set up and save large amounts of tax. - *Aussie Doc Freedom*

Study at [Open Uni]

Always good to boosting your skills and income levels, which is why I recommend Open Uni - In this day and age, no one can take their job for granted. So it's never been more important to keep on upskilling and increasing those streams of income. Open Learning is a great hub to learn new skills and pursue other career paths to ensure we can maximize our number one financial asset - ourselves. - *The Frugal Samurai*

Get started!

Don't stay frozen with fear if financial stuff is new to you. Start putting things in place now. Start where you are. - *Burning Desire for Fire*

Having a budget

What's not measured can't be managed'. The ability to set financial goals is critical to reaching FI. A budget helps you to "pay yourself first" the amount that is required to reach those goals, then prioritise what's important and spend what's left on that. - *Project Palm Tree*

Packing your own lunch every day. Seriously.

That and not buying barista coffee (don't get me started on that - I'm a passionate tea drinker). You might think that packing a lunch every day sounds kind of mumsy. But it's all about habits, and the mindfulness of habits. It's one of the quickest ways to give yourself a payrise. There are many ways to save money, and many of them are structural (e.g. selling a car, moving house) or one off (better insurance deal). Food is ongoing - and every time you do it, it signals you are on course to achieve your goal. - *The Joyful Frugalista*

Books & Podcasts

***The Simple Path to Wealth* by JL Collins**

If you're looking for a book that gives you a no-nonsense approach to planning your financial future with the greatest level of ease possible, then this book is the one for you. Although written from a US perspective, JL certainly includes useful aspects in this book for all readers and is a huge advocate of making money simple and easy to understand. One of the reasons so many people stay away from the share market, is the sheer number of products and companies out there to choose from, but JL cuts through the noise and points you in the direction of index funds, or ETFs (for Australians) and examines the simple math behind building wealth through it. - *How to Money*

***Atomic Habits* by James Clear**

Achieving FI requires consistency and good money habits; learning how to create a good habit and break a bad one is a game changer. See my review here. - *Latestarterfire*

***Millennial Money* by Patrick O'Shaughnessy**

Patrick uses this book to explore one of young people's greatest advantages, 'the chance to build a fortune by making early investments in the stock market'. He clearly steps out how to get started, and reminds young people that holding cash over time erodes your purchasing power. The book introduces three key principles to follow when investing in the stock market: go global, be different, and get out of your own way. - *How to Money*

Property Couch podcast

I am so grateful to have stumbled upon the Property Couch podcast. Without Empower Wealth Property Advisory Services, I wouldn't have had the confidence to take the plunge into property investing - a goal of mine for many years. - *Aussie Doc Freedom*

***The Year of Less* by Cait Flanders**

This is a phenomenal book that really makes you examine your relationship with the stuff in your life, and whether you are a mindful consumer. Cait provides a refreshing and honest view of she overcame her unhealthy relationship with money and material possessions. The book definitely made me start selling my unused items on Gumtree and think about my purchasing decisions. Ask yourself—'Do I really need it?' - *How To Money*

Conclusion

By Michelle, Frugality and Freedom | frugalityandfreedom.com

What a ride! We're at the end of nearly 300 pages covering the ins-and-outs of achieving financial independence in Australia. I hope you've enjoyed this book and learned a lot, no matter what stage you're at on your journey.

There's a diverse community of FI enthusiasts out there

From our 20 co-authors' bios, you can see that even this small group represents a diverse range of people on the path of financial independence.

We heard from singles and couples; childfree, families and empty nesters; straight and LGBTQI; high, average and lower income earners; various age groups and ethnic backgrounds; city dwellers, suburbanites and regional residents – even nomads too.

Our co-authors come from a range of industries, with jobs in event management, teaching, technology, engineering, medical services, home duties, project management, online freelancing, business, marketing and real estate to name a few.

Beyond this book and the bloggers behind it, you'll find many different Australians creating their ideal lifestyles and pursuing FI. Whether on Facebook groups, Reddit forums, Instagram, at organised meetups or in your own neighbourhoods, you're sure to find other FI enthusiasts whose stories and situations resonate with you.

Check out the FI Resources page on Pearler's site to discover online groups where you can connect with others on financial independence topics. You can also subscribe to the Australian FI Weekly enews for regular local FI content and event listings, or check out the Australian FI Bloggers list to find more new favourites to follow.

You can "choose your own adventure" towards FI

Just as there's diversity in the people working towards financial independence, there's plenty of variety in the how, why and what type of FI you can pursue.

There's no "one size fits all", so you can try out different approaches and see what works for you. Pursuing FI is a "choose your own adventure" – whether it be the tools and investments you use; the jobs, businesses, side hustles or alternative income you gain; the focus on reducing spending vs increasing earnings; or the type of FI that appeals to you (as described in Chapter 1).

You can also decide on the pace with which to build up your FI stash - whether you prefer to earn and save aggressively to "white-knuckle it" to an early retirement finish line ASAP; or you are happy to take longer by downshifting to part-time work, taking mini-retirement breaks, or letting compounding over time do the heavy-lifting to coast you to that FI goal.

Getting clear on why you want financial independence and what your values are will help you make these decisions and design a FI path to suit you.

Focus on the basics and value progress over perfection

Despite the length and detail in this book, it's worth a reminder that the path to financial independence can be quite simple:

Spend less. Earn more. Invest the difference.

Don't get paralysed by indecision or the desire for a perfect, optimised route. As just mentioned, there is no single golden path!

Start to take action now, even if only small or imperfect steps. If you do something 1% better each day, you'll be 37% ahead at the end of a year. Those incremental gains add up! You can continue to learn and tune along the way.

Focus on what you can control. Direct your efforts to the big easy wins or "low hanging fruit", as 20% of the work often brings 80% of the results. Keep things uncomplicated and automate your systems where possible, such as setting up direct transfers to savings or make automatic investments to ETFs.

The journey to financial independence can often feel long, and sometimes seem to be a "two steps forward, one step back" dance. However, keep at it! The time will pass anyway. You'll soon look back and be surprised by how far you've come.

FI is not all-or-nothing

As you progress along the FI path, you'll quickly realise that you don't need to hit your full financial independence number to experience some of the benefits.

You'll gain more freedom as your FI stash, confidence and knowledge grows - allowing you to make ongoing modifications towards your ideal lifestyle.

Whether you aspire to early retirement or not, pursuing FI can help you make "little quits" along the way and ditch those things that don't serve you – such as declining overtime, rejecting full-time work for part-time instead, or leaving a bad job without the next one lined up.

Alternatively, you can use your growing financial buffers to take a sabbatical, make a career switch, take time off for parenting, pursue freelance or small business opportunities, or simply appreciate more peace of mind.

It's important to enjoy the journey and not delay having a satisfying life until you reach FI. You only have one precious life, so find the balance that works for you to both enjoy the now and secure your future.

Congratulations to Pearler for realising their vision for an "ultimate guide to financial independence for Australians". Thanks again to all the co-authors for generously sharing their perspectives and covering topics with such care and detail. It's been a pleasure to be part of bringing the Aussie FIRE community together in this way.

Happy adventures in FI!

Michelle, Frugality and Freedom

p.s. If you have any questions, simply reach out to Pearler

About Michelle from Frugality and Freedom | frugalityandfreedom.com

Michelle is a mid-30s semi-retiree, sharing her journey towards financial independence on her blog at FrugalityandFreedom.com. Michelle alternates between seasonal events work, online freelancing and long-term travel – visiting 40 countries so far. She writes with the perspective of pursuing FI as a single person on a modest income, emphasising lifestyle design and enjoying the FI journey as much as the destination.

Michelle writes about frugal hacks, solo travel, housesitting, minimalism, sustainability, and ethical investing. She is passionate about connecting with others in the financial independence community, including highlighting different voices through the Australian FI Weekly series.