
Climbing Your Financial
Mountain
How a W2 Employee
became a Millionaire,
and how you can to!

Table of Contents

Introduction

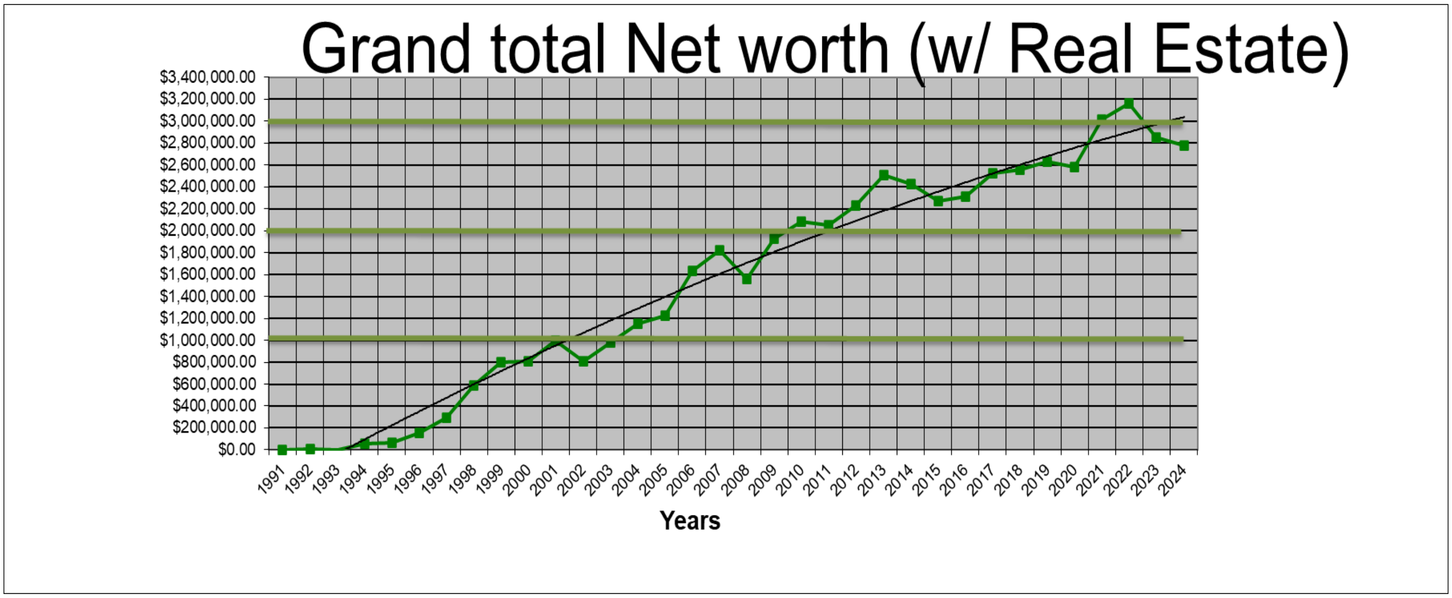
– **My (Our) Story**

First off, I am not trying to sell you anything. I don't sell insurance, I don't have a coaching program, I don't sell stocks. I am simply writing this book because a good friend told me, while we were discussing money, that I should write this book. In his words, "It would be a shame if your knowledge and wisdom were not passed on to others." So, Keith, this is your fault.

This is NOT a how to book, it is a this is how I did it book. I am not arrogant enough to tell you how to become a millionaire, or even how to become rich, whatever that means. I am not going to argue with you about different methods, I am not going to tell you this is the only way to become successful. I can tell you what I did (meaning my wife and I, we are a package deal, and the accomplishments in this book are as much a result of her efforts as they are mine.). We were able to, in about 15 years, move from having a net worth of close to $0.00 to having a net worth of $1 million while working in W2 employee jobs, raising a family, and becoming debt free. We achieved our second million in net worth seven years later. Just two years later, we both lost our jobs due to layoffs, our net worth fell below the $2 million dollar mark, our debt rose, and we faced monetary issues just like everyone else. This is NOT a perfect journey!

We had to reassess our situation. I started my own training company, and my wife found work as a contractor, and then as a W2 employee some years later. It took us seven years to get our net worth back up to $2 million, and now we are close to the $3 million mark. During this time, we sent our kids to college, paying for their undergraduate degrees so they would have no crippling college debt. I'm telling you all this to explain this to you**: Achieving financial success is possible for W2 (regular) employees.** While many books are written discussing starting your own business as the only way to financial success, this was not true in our case. If we can do it, you can do it as well. We do believe there are certain rules that need to be followed and generally are not discussed by any financial planners or financial books.

Below is a graph of our financial journey. The green lines represent the $1M, $2M and $3M dollar levels. As you can see, this is not a perfect journey, and certainly not one without financial bumps. I am not going to tell you I did everything correct, but will say the trend line and the overall picture looks pretty good. I am not a financial genius, nor did I win the lottery or hit something really big. We were able to achieve these financial goals through a get rich slow program, while sending our kids to college debt free, buying and selling land and homes, buying mutual funds. We had financial issues just like all people, we found jobs, lost jobs, had cars wear out and had to replace them, had car wrecks, pregnancies, medical issues, etc. etc. Murphy hit us just as he will hit you. You can do this. You must **decide** to do this.



At the end of several chapters, I may offer some quotes, some words of wisdom, I have accumulated over the years. They don't have an order to them, but I have found wisdom, solace, and sometimes a kick in the pants from them. Maybe some of them will do the same for you.

I use words like honor, code, loyalty. Words like honesty, truth, right, wrong. I use other words like respect, love, trust, God. I use these words because they make us better, better men, better women, better people. These words, these concepts, are concepts I believe in, because they are concepts worth believing in.

The big, bad world doesn't owe you a thing.

Believe in yourself. That belief is the beginning of every dream.

Control your life, or it will control you.

Basic Principles

Before I get started too deep, I need to lay down some simple basic principles. These are just some basic, maybe random ideas that need to be understood. Call it a foundation, or groundwork. Maybe, just some things to think about before I get too deep into details.

Don't take advice from broke people.

This would seem like a simple rule, but it seems many people will tell you what you can do when they themselves haven't done it, or they refuse to talk about it. In this country, we have been taught not to talk about money. Therefore, we don't know about money. I believe we must talk about it, and we must become comfortable discussing money situations. The reason for me telling you our story is to answer Principle 1. We are not broke people. We were, but we were able to change that. I believe you can as well.

There are certain questions to ask financial advisors.

I need to preface this by saying I have worked with financial advisors for years and believe they have helped me greatly in our success. At this point, I use two different firms, having about half our funds in each. They have different philosophies, and therefore this is another type of diversification. Having said that, you must ask certain questions of your financial advisors, Such as:

How do you get paid? Some are paid commissions based on products they sell, and some are paid based on a percentage of your portfolio. Understanding that everyone has to get paid (no one should work for free), their method of compensation might color their advice. Please understand, I am not against financial advisors getting paid, nor am I going to begrudge them their commissions. However, you need to be concerned about your money, and for this reason, when looking at different financial advisors, I always tried to **compare returns after fees**. That means you are not just comparing returns, as some programs might have high returns, but high fees as well, reducing the money to you. Be sure to compare returns after fees, not returns before fees.

Are you a fiduciary, or do you have fiduciary duty? This is described as an organization or an individual that manages money and has a legal responsibility to act in the best financial interest of someone else. They must be able to establish a level of trust with their clients and must avoid conflicts of interest. If you were to choose a financial advisor to handle your money, it would be in your best interest if they had fiduciary responsibilities toward you. Legally, they cannot then suggest something that would not be to your benefit. As a side note, I do not have fiduciary responsibilities toward you. I am telling you what we did with our money, not telling you what you should do with your money.

What is your financial situation? Are you a millionaire? Do you have massive debt? Are you financially independent? How do you invest? Basically, you are asking them if they are eating their own cooking. This goes back to Principle 1, There are too many people in the financial industry that are just commissioned salespeople, who really know no more than you do about creating, building, and maintaining wealth. They will sell you what they have been taught to sell, regardless of whether it is in your best interest.

If offered free money, take it!

There are programs often offered by your employer, essentially give you free money! Some programs may match 3 – 6 % of your salary (essentially additional money) for a company 401(K), a Roth IRA, or an Employee Stock Purchase

Plan (ESPP). I’ve heard friends tell me, “I would like to take advantage of the programs, but I just can’t afford it.” **You can’t afford NOT to use these programs! Take the money!** Take advantage of these programs, as this free money can multiply and create a real difference in your overall financial situation.

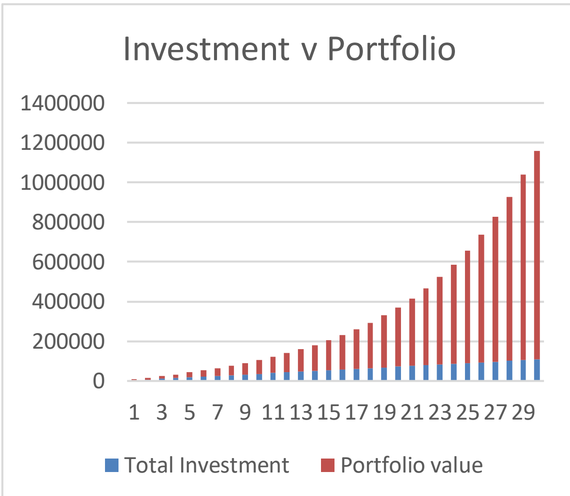
Learn the rules of the game.

If you were to learn a new game, any game, like football, baseball, volleyball, poker, dominos, etc., you would want to learn the rules of the game. Why? To win. I like to put it this way. ***Learn the rules of the game, so you can use the rules to your advantage, so you can win*.** Personal finance is a game. Learn the rules of this very important game, so you can win. The difference here is you get to determine what winning means. So, you must define winning, or success.

Choice management is a Thing

I’ve taught many classes on time management. People will often say things like “I don’t have time to do that” or “I don’t seem to get everything done that I need to” or “I’m busy, but I don’t get things completed”. We talk about Time Management as if it were a thing. Time Management is **NOT** a thing. You cannot manage time. There are 24 hours or 86,400 seconds in every day. You cannot manage time; you cannot make time. Time management is **Choice Management**. Choice management **IS** a thing. You can only manage your choices. This reality can be extremely freeing to some people or extremely frightening. To fully grasp this, you must turn in your victim card. Your personal financial plan is also all about choices. **Money management is also Choice Management.** You have choices as to what to do with your time, or your money. Choose wisely.

Compounding Interest



Compounding interest can be your best friend and will be your worst enemy. If you are investing, compounding interest is your best friend. Let's take this example.

Suppose you are able to invest $300/month for 30 years. You invest it in an index mutual fund which returns 12% per year (the Standard & Poors (S&P) 500 Index fund has returned over 13% over the last 10 years, so this is not unbelievable). At the end of 30 years, you will have invested $108,000. Quite a sum! But, your account is now worth $1,051,934! Which would you rather have? Another caveat you need to consider is this. Suppose you put off investing $300/month for two years, you aren't eliminating the first two years; you are eliminating the last two years. Those last two years generated a value of $226,852! You cannot afford to put off investing. The best time to invest was 20 years ago. If you didn't do it, start investing today. The sad fact is you are making most of your money on the back end, not the front end. So, use compounding interest for your benefit.

Compounding interest can also be your worst enemy. How? When you take out a loan, the compounding interest works against you. Let's take this scenario. Suppose you decide to buy a new car. C'mon, who doesn't like a new car? The car dealership will work hard to get you into that car. They will even finance it for you for 6 years at the same 12% interest rate. The car costs $50,000 and is really nice. The payment is $977 per month (wow!), which you may think is steep, but you can swing it. In six years, you will have a car with 150,000 miles on it (assuming 25,000 miles per year driving). You have paid the $50,000 car off, but you have also paid $20,380 in interest. Adding those together, you paid $70,380 for a car that is now worth maybe $8,000 -$10,000. You would likely be better off buying a good used car (Carfax.com is your friend here) for much less money, upgrade as needed, but keep your car debt small, and maybe even invest the difference.

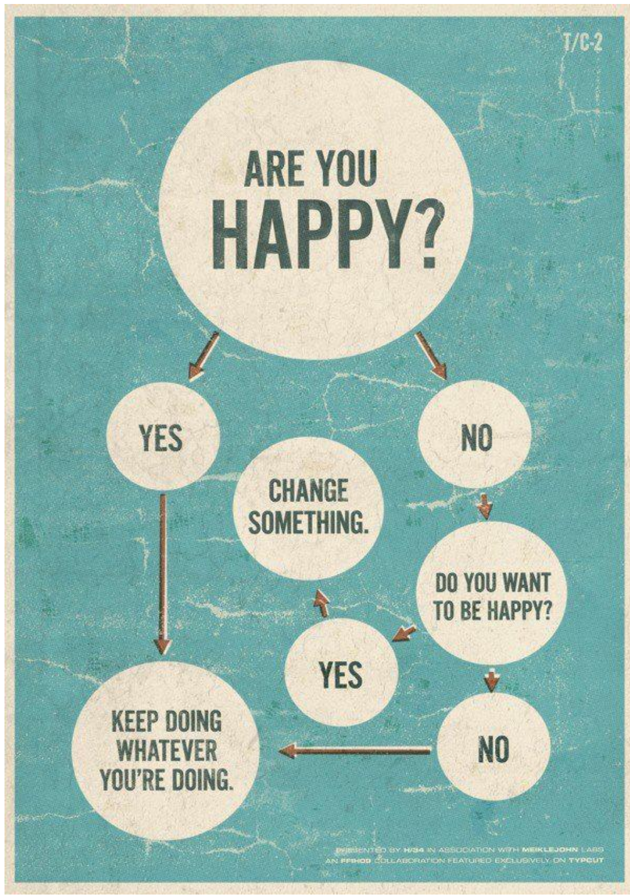
Car loans are the third biggest consumer debt affecting Americans, only after student loans and credit cards. Credit cards and student debt may be worse. After all, student debt cannot be wiped out by bankruptcy, so it will follow you forever. And credit cards charge a higher interest rate, anywhere from 18 to 29%! So, use compounding interest for your benefit, not to your detriment.

Become a Beaver

Many people relate to animals. Terms like the sly fox or the noble deer seem to be common. This is just a fallacy. What a deer needs to do is find water to drink, food to eat, and mate at certain times of the year. If it doesn't find water to drink today, it goes thirsty. If it doesn't find food to eat today, it goes hungry. If that happens often enough, it will die. Is this really what you want to pattern your life after? This is true for all animals, except for the beaver.

The beaver will find a place where it cannot thrive, a place of rushing water in a forest. It will then bring in mud and rocks, cut down trees (with its teeth!) and bring those to the water's edge. It will use these things to build a dam, which will cause the water to back up, creating a nice, placid pond. This pond will provide an environment where the beaver can build its home. The pond provides security for the beaver and his mate. It will provide shelter from the cold and heat. It will provide food. And, the pond will enrich the lives of other animals, providing a better place for fish, a source of drinking water for other mammals. No other animal, other than man, will create and change the environment to suit its needs. If you are going to mimic or follow any animal, I would suggest the beaver. Change your environment to suit you, to provide security and safety for you and yours. Become like a beaver!

Lastly, just a flowchart to consider.



Successful people tend to drive their lives; less successful people tend to let their lives just happen.

If you keep doing what you are doing, you will keep getting what you are getting.

You can get better, or you can get bitter. Choose.

Pre-Retirement (Accumulation)

While climbing any mountain, financial or otherwise, there has to be a beginning.   For the purposes of this book, I have broken that mountain up into 2 parts that I call Pre-retirement or Accumulation, and Post-retirement or Distribution.

When looking at the Pre-retirement phase, most reference books and financial advisors will discuss money, and just the accumulation of money. I think that is too simple a concept, and money, while an important part, is just a part.   So, let's look at other aspects, as well as money.

- **Define Success**

In his classic book 7 Habits of Highly Effective People, Stephen Covey talked about habit #2 – Begin with the End in Mind. With that thought, before you start any journey, including a financial one, you should begin with the end in mind. I have heard this called an Overarching Goal. This means a goal that is all-encompassing, one you wish to achieve above all else. Or, as I like to say it – Define Success.

Success may take on many forms, many different areas. The people who define success tend to be more successful than those who just wing it or live life day to day. Some areas you may choose to define success are as follows:

- **Money Savings**

Maybe you have a number in mind of what you need for retirement. One million dollars was often the number used to define if you are rich. This may be your goal, and that is fine. For some, the money goal is $10 million. Those two goals will require a different plan to achieve. Either way, you need to define an end point. If you don't, how do you know if you are winning?

– **Family**

Success to you may mean a great family life. A good relationship with your spouse, with your kids, with your parents. This is a fine goal, and one you will need to work on. It doesn't just happen. It happens because you make the effort to spend quality time with your family, go on vacations, spend time playing ball, eat dinner together. These all come with an opportunity cost, and we all tend to end up where we head for. If you want a good relationship with your family, make it a priority.

– **Living area**

Some people define success by the home they live in. Some desire a really big home, others in a particular part of the country, some want the mountains, some the valleys, some the desert. If this is important to you, understand this too comes with a cost. What are you willing to sacrifice to have that big home in an upscale neighborhood?

– **Investment types**

There have been lots of books and programs out there telling you how to

become rich, however they define rich. Understand, there are many ways to invest, and one of them will work for you. What works for you may not work for me, and vice versa. Don't get hung up on the type of investment you should invest in simply because others do it. Take the time to inform yourself and come up with a plan, an investment type, you feel fits you. It may be real estate, it may be the stock market, it may be residential properties, and/or bonds. The key here is you understand the investment type, and that it is taking you toward the goals you set. Don't try to live someone else's dream. Dream your dream, then create it with the investment type you understand and takes you there.

– **Career**

It seems like there is a common theme about your chosen career that goes something like this:

- Follow your heart and the money will follow.
- Do what you love, and you'll never work a day in your life.
- Do what your heart tells you and the universe will reward you.

These statements all sound good, but will your chosen career path pay you the salary you need to meet your other goals? I'm not telling you to only follow the money, but money, salary, payments, must be a consideration.

For example, I would love to go camping for a living, but it doesn't pay me enough to meet my financial goals. So, I have done something else to meet my dollar needs and go camping for vacation. You may need to make similar decisions.

- **Wealthy or Rich?**

Another way of thinking about success is to define "rich". We hear this used many ways, like "Tax the rich!" "The rich are exploiting the poor." But no one really defines the word rich.

The word "wealthy" is also thrown around a lot, and some will use these two words interchangeably. I will define them this way. Wealth, or being wealthy, means to accumulate a lot of money. How much a lot is, I will let you define that, most people define it as anyone having one more dollar

than they do. But, being rich, I like to define as having the things that are truly desired. Things like a close, loving family, friends you can be counted on, contentment in your life, your job, your environment. Certainly, money can help. It has been said while money can't buy happiness, it is more comfortable to cry in a Mercedes than on a bicycle. With those definitions in mind, it is OK to be wealthy, but I really wish for you to be RICH.
Some additional thoughts about success. You need to do the math. C'mon, it's not hard math. Don't just hope things will work out. Get a spreadsheet and work out your financial plan, chart it in a graph, set goalposts and clock progress. You will have a better chance of hitting your goals. What if you don't hit them? Suppose you wanted to save $100,000 and you only saved $85,000. Did you fail? No, you saved $85,000! Awesome! Set the next goal, reprioritize, and go from there. Think about how much better off you are now. You did well, this is NOT an all or nothing thing!

Please, take some time to define what Success means to you, and then work to achieve that success. By the way, the definition of success may change over time as life happens. Life is not static, and neither are your goals.

It is good when we achieve our dreams. It is sad we dream about small things.

It is your ACTION, not your INTENTION that determines your destination.
-Brian Tracy

A dream doesn't become reality through magic. It takes sweat, determination, and hard work.
-Colin Powell

Be honorable yourself if you wish to associate with honorable people.

The best index to a person's character is how he treats people who can't do him any good, and how he treats people who can't fight back.

– Ten Rules for Riches

As a pre-concept to the Ten Rules for Riches is the law of income. What the law says is “What you make is not nearly as important as what you KEEP.”

Your income is important, and is your chief wealth builder, but if all your money has someone else’s name on it BEFORE you earn it, that money is not really yours. So, think about KEEPING your money, not just earning it. This is why the first three rules are so very important.

1. Pay yourself first
2. Control your spending
3. Control your debt

Rule #1 Pay yourself before all others.
Here is the idea behind this statement. You have heard to always create a budget. In fact, Dave Ramsey will tell you this is THE most important part of his Financial Peace. And, I have no problems with that. Create your budget, every month, assign every dollar a name.
You likely won’t do it. Most people just don’t have the discipline to create, and follow, a budget every month. So, here is an alternative.

I will bet you will pay your electric bill on time. And I’ll bet you pay your mortgage, and, in fact, all your bills. I suspect you are diligent in paying everyone……. except you. It’s not that you don’t want to save. It’s just when the month is all done, you have nothing left for you. So, here is the solution.

Pay yourself before all others. Then pay all your bills. I suspect you will find a way to do that. Put, say, 10% of your take home pay into a savings account or a mutual fund every month, then pay all your bills. By the way, the first month will be WAY HARD. The second month will not be much better. By the third month, you've adjusted to the new amount. By the end of the year, you have created a pretty cool savings plan, perhaps more than you have ever had before. Try it. So, Rule #1. PAY YOURSELF BEFORE ALL OTHERS.

Rule #2 Control your Spending.

You've all heard it before "Spend less than you make." However, most of us don't do that. We spend more than we make or spend exactly what we make. Then, in 20 years, we are surprised when we have nothing saved. Some of us will then complain about those who DO spend less than they make and DO save for retirement. They call them Wealthy by those who don't plan.

I don't say this to embarrass you, or to make you feel bad. I do say this so you can understand YOU are in control of YOU, and YOU are in control of YOUR spending. The biggest difference between those who are considered wealthy and those who are not is how they CHOOSE to spend their money. In the end, it all comes down to decisions.
If you don't have enough money to go out to eat, eat at home.
If you are deep in car debt, sell it and buy a less expensive car.
If you are deep in student loan debt, make a plan to get out of debt.
All of the above are choices we make. You are in charge of you. I usually get someone to say, "but what about…." Yes, there are circumstances we may get in that create debt for us, medical bills for example. But, for the VAST majority of us, we can make our own choices, and we often choose badly.

Some people can make a budget every month and stick to it.

Some of us aren't that disciplined. Figure out a way to control your spending. If you don't know how, you might try this plan – Pay yourself first. See Rule #1.

So, Rule #2, in our Ten Rules for Riches is Control your Spending. Remember, it's not what you make that is nearly as important as what you keep.

Rule #3 Control your debt.

Most of us have debt. Some of it is debt on the house, some debt on cars, some credit card debt, and some student load debt. All of these can rob you of your now take-home pay, and some of this debt may have been very well worth the cost incurred. Let's look at these from the standpoint of the biggest problems caused by debt.

Mortgage debt: One of the largest debts a family will usually have, it is often considered good debt, as if there were such a thing. The reason is normally, that debt is used to buy something (a house) which will likely appreciate in value. This means you are putting this money into something which will increase, not decrease, in value. That sounds more like an investment. While most people won't borrow money to put into the stock market, they will borrow money to buy a home. Both are investments, the difference being you can live in the home. Try to keep your housing costs at 25-30% of your take-home pay.

Student debt: This is rapidly becoming the biggest issue in families, particularly among the 25 – 40-year-olds. Many went to college and went into debt to do it. Going to college is generally a good deal, as college graduates tend to make about 40% more than those with just a high school education. However, if the college degree did not translate into a job which pays well, this college debt can be a problem that is extremely hard to get rid of. Say you borrowed $100,000 total to pay for school, a hefty amount no doubt. At a 6% interest rate, and a payoff time of 10 years, the payment for the loan is $1,110 every month! If you had a take home salary of $60,000 / year, $5,000 per month, more than 20% is going to student debt.

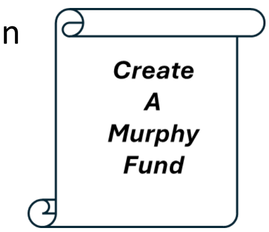
That is before housing, food, cars, insurance, anything….and, student loan debt if NOT forgiven in a bankruptcy. It is a huge problem, no doubt.

Car debt: This has been a huge problem for many for years, and the car dealers are making it worse. There is truth in the adage: “Rich people ask how much something costs; poor people ask how much down and how much a month.” We often drive a more expensive car than we can afford. A $40,000 car, at 4% interest and payoff in four years would cost you $903 a month. A car is also an asset which depreciates with age, usually very quickly, so many get upside down quickly. The terms upside down or underwater both mean the same thing. You owe more on the item than the item is worth. This can accumulate over time if you will let it. Let me explain: Suppose you buy a $40,000 car, and to make payment smaller, you took out a 6 year loan at 6% interest. You drive the car for four years and decide to sell it. Car prices have risen, so your comparable car now costs $50,000. The dealer will give you $6,000 trade-in value on your car, but you still owe $15,000. You are underwater, or upside down in the loan. The dealer will happily make you a deal. $50,000 minus $6,000 trade-in means the car sale is for $44,000 PLUS the $15,000 you still owe on the loan (you are upside down by $9,000), so the total cost of the new car is now $59,000, and that is what the new loan is now. Some people do this several times and just continue to accumulate car debt. There has got to be a better way. Buying used cars are typically a better deal.

Credit Card debt: How easy it is to pull out the plastic and pay for everything and think, I’ll pay it off over time. Most credit card companies will charge between 18-29%. This can very quickly turn into hundreds of dollars per month! And that just pays the interest, which, without paying down the principle, will go on for the rest of your life! Credit cards have hurt many people financially, including me.

So, what to do? I recommend the debt snowball. Simply, it is this. List all your debts smallest to largest. Pay the minimum amount on all but the smallest debt and attack that debt. When debt 1 is paid off, take all the money paid for debt 1, add it to the minimum payment on debt 2, and attack that debt. Using this method, you get victories quicker, which tends to keep you motivated. Oh, and you must quit increasing your debt (using credit cards). Many people can get out of debt in 2-4 years.

Rule #4 Create a Murphy Fund.



I'm sure you have all heard of Murphy's Law: If anything can go wrong, it will.
So, we all KNOW that something is going to go wrong. Our options are:
1. Prepare for it
2. Don't prepare for it
3. There is no 3rd option.

So, what is a Murphy fund? Simply put, it is a savings account, $1,000 to $2000, set aside to take care of those things that go wrong, like, the car needs a new set of tires, or a plumbing problem at the house, or the refrigerator quits and needs to be replaced, or, or, or … you get the idea. Under most circumstances, we might solve this problem by throwing a credit card at the issue – unless your credit cards are maxed out. These Murphy problems can create a LOT of stress in your life! So, let's take that stress away.

Create a Murphy fund. Put $1,000 - $2,000 dollars in a savings account, so when Murphy bites you, you will simply transfer the money to your checking account and pay off the bill. No muss, no fuss, no stress! Life becomes much easier.

You might say, "Mike, easy for you to say! Who has $1,000 to $2,000 to just put in a savings account?" Well, good question. Answer, you should! Figure out how to get it! Hold a garage sale, sell some things on Craigslist, Facebook Marketplace, eBay, get a part time job delivering pizzas. Stop going to Starbucks until you get a Murphy fund. Stop eating out, until you get a Murphy fund. If you don't have one, or the money for one, figure out a way to make a few bucks to build one. This should be quick, and most folks can do this in a month or two. By the way, after you build it, and after you use it for the emergency, build the money back up to your Murphy limit. He will be back.

Rule #5 Buy Insurance when Appropriate.

I don't sell insurance. But I KNOW it can help out. And probably, so do you. The key is to buy insurance when appropriate. This last part is hard.

What insurance am I talking about? HHHmmmm, let's think. What is insurance anyway, and why should you consider it?

Insurance is simply a way to transfer risk to someone, or something, away from you. For this privilege, you pay a monthly or yearly premium. This transfer of risk can save fortunes and keep you out of a lifetime of debt. How many of you have needed to go to a hospital, then are faced with a bill of $35,000, $50,000, or $100,000? And then to find insurance will pay for 80-95% of the bill. Instead of owing $100,000, you only owe $5000. This is the difference between an inconvenience, massive inconvenience it might be, to a life-changing and financially crippling event. This is what insurance is for. So, when is it appropriate? I don't know for you, but maybe I can help you with some ideas. What insurance should you consider?

· Health Insurance – for when you, or a member of your family gets sick or injured

· Disability Insurance – since your income is your best wealth creator, you should protect it. What would happen if you couldn't work?

· Life Insurance – it's not for you, it's for those you leave behind. When I married my wife, I promised to take care of her for the rest of her life, not for the rest of mine. So, when I die, I want her to get a check (by the way, it's tax free) to help her with the bills for the rest of her life, so she won't ever be destitute.

· Car Insurance – because accidents happen, and you need to be able to take care of your car, but also the car and the people you may have hurt in your accident.

· Home Insurance – to help fix those things that happen. Like when there is a fire, or a hailstorm, or some other accident in your home. Houses are expensive, so insure it.

· Renter's Insurance – This is like a homeowner's policy except it covers your stuff if you are renting, not the structure. Did you know that if you are living in an apartment and the apartment burns down, the apartment owner is NOT liable for your things? That's right, so maybe you should look at renter's insurance to protect your stuff. It is typically pretty inexpensive, so check it out if you are renting.

· Umbrella liability policy – We live in a sue-happy society. If someone comes over to your house, a friend of yours, slips on your porch, breaks an arm, they may end up suing you for pain and suffering. And they might win. If you have significant resources, like a 401K or a Roth IRA, this lawsuit may be able to go after those assets. After a lifetime of earning, you could end up with nothing. An umbrella policy will protect you from liability lawsuits to protect your accumulated assets. This is VERY important for people with even modest amounts of money. Remember, most people don't have money, and they may just try to take yours.

Do you have to get all of these? No. But you should consider what you need for your situation. I don't sell any forms of insurance, so I won't ever make a dime on whether you buy insurance or not. However, insurance is important. Remember, no one is as interested in your money as you. Sometimes you spend time earning and growing your wealth. Other times, you spend time protecting your wealth. Insurance is a form of protection.

Rule #6 Invest Every Month.

I know as a Ramsey Preferred Coach that Dave Ramsey says to get completely out of debt before you start investing. After you are out of debt, invest 15% of your income in retirement. I think this is all well and good **IF** you have the discipline to follow through with that plan. The problem is many people don't have the discipline to completely get out of debt, and therefore put off, maybe forever, investing. This will cost you thousands, maybe hundreds of thousands, of dollars.

Let's start with this question. When is the best time to invest? Probably 10 – 30 years ago. How about an example or two? If you had invested $500/month 30 years ago, and could earn 7% interest on that money, you would have about $610,000 today! And your total contribution would only be $180,000. Your investment would have grown about 3.4 times!

How about another one? If you had invested the amount of the average car payment (according to Credit Karma) which is $568 every month for 30 years and averaged a return of the stock market for the last 30 years (which is right at 10%), you would have $1,283,957! Wow, don't you wish you had started investing 30 years ago? Sure, but if we could invest in hindsight, we'd all be millionaires. Since you might not have done that, what should you do today?
Start investing. Every month. Every single month.

Are there some things to consider? Sure, but the real rule is this: Invest something every month and try to increase it over time. Will the stock market always go up? No, in fact the stock market goes down, on average, about once every four years. But, if you continue to invest, even in a down market, you will be buying more shares. When the market recovers, your additional shares will provide you with a greater increase than if you had stopped buying.

How should you invest? Well, there are millions of people out there with their crystal balls telling you what to buy and when to buy it. They will try to tell you they know the market and can time the market. In other words, they just know when to buy and when to sell. This will most likely lose you money, because they are investing **emotionally** (investing because they feel like something will happen). About the only guarantee I have ever made anyone is if you invest emotionally, **you will lose money.** Most of them will try to get you to buy what THEY get a commission on. You might consider investing in an index mutual fund, one that will try to mimic the S&P500 or the Dow Jones Industrial average. The costs are minimal, and they tend to do as well as most mutual fund portfolios. It's a good place to start.

What about real estate? Well, real estate is a great place to invest IF you know what you are doing, are willing to invest in cash (don't go get loans to invest, remember 2008?). Flipping houses is not as easy as they show on TV, and, when you make a mistake in real estate, the mistakes tend to come with lots of zeros on the check, meaning mistakes cost you lots of money. One myth about real estate is you make money when you sell the property. Realistically, you make money when you **buy** the property. In other words, you must buy it at a discount, repair it or remodel it doing much of the work yourself, then sell it at market value. You must buy it at a lower price, and most of us aren't that good at negotiating the price downward.

If your company has a 401(k) plan, this is a great place to start, especially if they have a match of some kind. That match is FREE MONEY, and you should take it. If your company does not have a 401(K), you might consider a Roth IRA. There are limits, but they are easy to set up, and 100% of the money, both principal and interest, comes out TAX FREE after you are age 59 ½.

The important thing in all of this is you need to start an investment plan so you can take care of your retirement. The government will provide you with social security (providing it is still around), but this will NOT be enough for you to retire. In January 2020, the average Social Security payout was $1,503 per month, just $18,036 per year. Would you want to try to live on that? If you can't live on $18k per year, maybe you should start investing. Today.

Rule # 7 Allow yourself time and money to Play.

It's ok to play. You need to play. Don't go in debt to play. I had a friend of mine who worked hard all his life. He made a decent living, but he always lived frugally, saved his money, invested his entire life. He really, really kept his nose to the grindstone. And he was really looking forward to retirement. "When I retire, I will see the world! The US, then Europe, maybe the mysterious Orient. Finally, Africa! I can't wait!" Well, he retired at 65, and went on his first trip, one to Alaska for two weeks. He died of a heart attack one week after his return. Yes, you need to plan for the future. However, we are not guaranteed a future. Any of us may pass away tomorrow, from an accident, from a heart attack, from cancer, from covid. Plan for tomorrow but remember today. Take care of your loved ones around you, hug your kids, your parents, your friends. Take the vacation, go on the fishing trip, do it while your health is good enough to enjoy those things, with the people you love. But, plan for it. Make your play time and your play money part of your known purchase plan, your budget, your bucket list. Don't go into debt for it.
Take the vacation. Don't let the costs follow you home.

Rule #8 Guard your investments with knowledge and commitment.

No one is more interested in your money than you are. People will tell you they have your best interest at heart. They don't. They have their best interests at heart. If they can serve you by serving themselves, they will happily do so. But the VAST majority of people are only interested in themselves. If you understand the real estate market, invest in real estate. If you don't understand it (and understand it WELL), then don't invest in real estate. I have made most of my money by investing in mutual funds over time, in the stock market. That's me. May not be you. Understand your investments.

Make a known purchase plan. What is a known purchase plan, you may ask. It is simply planning for purchases you KNOW you will have to make. For example, let's say you have a car whih has 150,000 miles on it. Let's say you drive 25,000 miles per year. Chances are you will need to purchase a new car (probably a new to you car) in the next 2-3 years. You KNOW that is going to happen. Start saving for that car now. You can likely make a better deal with a better down payment.

Rule #9 Make yourself more valuable. Never, ever, ever stop learning.

This seems so simple, yet few people really do this. Why is this important, you may ask. Well, if you are currently employed, you will likely hold 5-10 more jobs before you retire. People are tending to job hop more than ever, so you are likely to have more jobs than the generations before you. Maybe half (HALF!) of those jobs have not been invented yet. So, the way to combat this, the way to keep yourself up to date, the way to keep yourself relevant is to continue to learn. It will not only keep your job skills current, but it will also help to keep you mentally sharp. Make an education plan for upgrading your skills. Stephen Covey, in his book <u>7 Habits of Highly</u>

Effective People called this habit Sharpening the Saw. (By the way, if you haven't read this book, get it and read it.)

Rule #10 Give to others, as this is going to enrich your life.

Give to a charity you think is worthwhile. There are many, many out there. Some focus on the homeless, some on impoverished children, some on orphaned children, some on churches, some on whales, etc, etc. Figure out a cause and support it. You can't financially support everything that needs supporting. I get that. So, find something you care about, give to it. It will help them and enrich their life. It will help you and enrich your life.

Anyone can become successful in this country. First, you must define success. Secondly, you must determine that YOU are responsible for your success. Third, build your plan for your success. Fourth, execute your plan until your success is achieved.

"A man doesn't have the right to not reap what he sows"

-Brother Thomas from Southern Heat

Ten Rules for Riches

1. Pay yourself before all others.
2. Control your spending.
3. Control your debt.
4. Create a Murphy Fund.
5. Buy insurance when appropriate.
6. Invest every month.
7. Allow yourself time and money to play. It’s okay to play. Don’t go into debt to do it but it’s okay to play.
8. Guard your investments and knowledge with commitment.
9. Make yourself more valuable, never, ever, ever stop learning
10. Give to others, as this is going to enrich your life

– **Investment types**

There are many ways to start your investment journey, and you should not be tied to just one type. The different ways to invest is another form of diversification, and diversifying your portfolio is a very important aspect. Use the investment types you are comfortable with, ones you understand. Never invest in something you don't understand and understand well. It likely won't end well. If your company has a 401(K) plan, this would be a great place to start. If not, you might consider starting with an index mutual fund. We will discuss all these below.

– **401(K)**

A 401(K) plan is a retirement plan provided by your employer where you can contribute money pre-tax from your paycheck into the 401(K) account. The investments in the accounts grow tax-deferred and are not taxed until the funds are taken out of the account as a distribution, but then they are taxed 100% as ordinary income. So, if you are in the 20% income bracket and you take out $100, you must pay $20 income tax. If you take money out before you are age 59 ½, the government will hit you with an additional 10% penalty. A 401(K) really is a retirement fund. There are several types of 401(K) plans, and I have only used the traditional plan, so this is all I will address. The best part of a 401(K) plan is many (most) employers have a matching program. So, if you put in a certain amount of your paycheck every month, say 3%, the company may match the 3%. This is FREE MONEY! Remember one of our beginning Principles was, if someone gives you free money, take it!

401K

There are several good things about this type of investment. The biggest, of course, is the free money. The 401(K) will grow tax free, and you will not have any cost to this account until you begin taking money out of it. Then, it will be taxed as ordinary income. Another aspect of this is the money put into this account is also not taxed, therefore it will reduce your taxes in the year you put the money in. Again, there is no tax penalty until withdrawal. This is a great investment tool. Depending on your company, you may or may not have much say in how it is invested. After leaving the company, or upon retirement, you can convert this to a traditional IRA, which is also not a taxable event. My recommendation is to invest at least enough to cover the maximum employer match.

- **Traditional IRA**

A traditional Individual Retirement Account (IRA) is an account where individuals will add money to the account pre-tax. In other words, this money will not be counted against your income in the year it is earned, but, when withdrawn, the principle and the increase will both be counted as ordinary income. This account will be used often by people who have contributed to a company 401(K) and have then left the company. These people may wish to have more control over how their money is invested and will then roll it over from an employer 401(K) to a traditional IRA. This is a non-taxable event as long as the money never actually goes out to the individual. Usually, this will be done by a financial advisor. You will pick an advisor and then tell them to roll over your 401(K) to a traditional IRA. They will be happy to do this, and then they will manage the IRA under their supervision. There should be no cost to do the rollover.

- **Roth IRA**

A Roth IRA is an Individual Retirement Account where money is added to the account post tax. In other words, the money put into this account is taxed as regular income when it is earned. The money then grows tax free, and when it is withdrawn, it is also withdrawn tax free. This is HUGE, because most retirement experts will tell you the biggest expense you will have in your retirement is taxes. There are restrictions as to how much money you can put into a Roth account every year, and there are income restrictions as well. These change on a regular basis, so check with a tax professional. However, you can also move money into a Roth by what is called a Roth Conversion. This is where you pull money out of a traditional IRA and convert it into a Roth. You must pay taxes on the money as it comes out of the traditional IRA, but it will then grow tax free while in the Roth. This is a great way to shield yourself from possible future taxes, especially if most of your retirement savings (as was mine) was in a 401(K).

- **403B**

A 403(B) plan is a retirement plan much like a 401(K) except this is available to employees of public schools, churches, and some 501(C) nonprofit organizations. This plan also has restrictions as to how much you can add to an account every year.

- **HSA**

A Health Saving Account (HSA) is an account created for or by individuals to save for medical expenses. Contributions may be made into this account by the sponsoring company and/or the employee. There are restrictions as to how much may be added to this account each year. The real benefit here is accounts grow with the market, and are not taxed as income as long as the money is used to pay for medical expenses. As always restrictions apply. If the money is taken out before the individual turns 65 and is not used for medical expenses, the money is taxed as ordinary income AND is subject to a 20% penalty (don't do this). If the account holder is over 65, the money can be taken out and used for non-medical expenses and is not subject to the 20% penalty, although it will be taxed as ordinary income.

- **Stocks**

Buying stocks means you are buying into a company, but instead of buying the entire company, you are buying a very small part of it. You may get paid dividends every year. So, what is a dividend? Think of it this way. At the end of the year, after the company pays all the employees, all the taxes, all bills, etc, they have a bag of money left over. (They should always have something left over, if they were profitable.) This bag of money is called Retained Earnings. The company will do a couple of things with its retained earnings. First off, they can keep it in the company and use it to run the company next year. The second thing they can do with the money is

return it to the investors and will return so much money per share. This is called a Dividend. How much is kept in retained earnings and how much is

distributed back to the investors (owners) is completely up to the board of directors. It may be an even split (50/50) or a very uneven split (60/40, 70/30 etc). This is entirely up to the board of directors.

The second way you can earn money with stocks is the appreciation the stock might receive over the time period you owned it. For example, if you own a single stock of ABC company you bought for $20, kept it for five years, and sold it for $30, you would have gotten the dividend those five years, plus the $10 increase, called a capital gain. You will have to pay income tax on both the dividends and the capital gains in the year you actually receive the funds. At present, the tax on the capital gains is taxed at either 0%, 15%, or 20% based on your other income. Consult your tax professional to find out where you might fit.

- **Mutual Funds**

A mutual fund is a financial vehicle managed by investment companies which pool cash from a variety of investors and invests that money for them. Mutual funds are available in a broad number of asset classes, such as small capitalization (small cap) funds, which are typically smaller companies. These tend to be more volatile and carry more risk than large capitalization (large cap) funds which are larger companies. There are also mid-cap funds, growth funds, income funds, sector funds, international funds, all which try to do what their name implies.

The real beauty of mutual funds is you don't have to buy a complete share of stock, and you are buying with a group of other investors who are all buying lots of kinds of stocks. This means mutual funds will always buy different stocks which will create a certain amount of diversity in your portfolio.

Diversity is important because of the simple adage "Don't put all your eggs in one basket." By investing in mutual funds, you are investing in multiple companies, so if one goes down, another might go up, creating some diversity. If all your mutual funds are in one industry, say a Hi-Tech mutual fund, you will have less diversity. You can create more diversity by investing in multiple mutual funds in different industries, or invest in a very diverse mutual fund, like one which follows the Dow Jones Industrial Average or the Standard & Poor's (S&P) 500. Bear in mind, in all these cases you are investing in companies in the stock market. The value will go up, and can go down, and this volatility is one aspect many investors don't like. This will not produce a guaranteed return. Having said that, the track record is pretty good. The web site www.morningstar.com is a great place to learn about individual mutual funds and their track records, or you can go to a broker, like Northwestern Mutual or Charles Schwab and learn about their mutual funds. These may be more limited in their selection.

- **Bonds**

Bonds are fixed-income securities that represent a loan made by an investor to a borrower, typically corporate or governmental. Here are some key points about bonds:

Types of Bonds: There are various types of bonds, including government bonds, corporate bonds, and municipal bonds. Government bonds are considered low risk, while corporate bonds may offer higher returns with increased risk. Depending on the type of bond you have, the returns may or may not be taxable. Again, consult your tax professional.

- **Real Estate**

Real Estate, the darling of many people, many courses, many coaching programs telling others how to get wealthy in real estate. Real estate is simply the

buying, selling, renting land and/or improvements on that land. It is different than dealing with stock and bonds in that you are actually buying a tangible (you can touch it and feel it) asset, unlike a stock which is basically a piece of paper saying you own something. With real estate, you can buy it, walk on it, see it, touch it, etc. A lot of people like this aspect of it, because it is more real to them. There are many ways of making money with real estate. You can buy a home, fix it up, sell it for more than you paid of it, i.e. flipping a home. You can buy a home, rent it out to renters. Here you collect a monthly rental fee, and, if you decide to sell it, maybe make money on the sale. Others will prefer a Real Estate Investment Trust (REIT) which operates like a mutual fund. You, and many others, pool your money, buy properties, and then get paid on the distribution profits from rents or sales.

I have a good friend of mine (Keith) who loves to invest in real estate and has done quite well with it. The method he uses is this. He buys a house for a good price. It is said you make your money when you buy the house, not when you sell it. He will then repair or remodel the house and do most of the work himself. This is key, because if you must pay commercial contractor rates for the remodel it becomes much harder to make a good profit. After the remodel is completed, he will then sell the house in an up market. He will sometimes live in the house while doing the remodel, other times not, just depending on the situation. As I said, he has been quite successful doing this. Another friend, John, also buys houses, but he buys them to lease on six month or one year leases. He currently has over 10 houses, and this provides him with a good monthly income for little effort, but he has quite a bit of money in a non-liquid (not easily sellable) state. While this works well for John, Keith is not willing to take on that amount of debt, that amount of non-liquid assets, nor willing to put up with the potential headaches of renters. Two different people, both making money in real estate, using two different methods. There are lots of ways to make money in real estate.

Making money in real estate is not a guarantee, however, as the saying goes, "Real estate will always eventually go up, because they are not making any more of it." This is true, but will your property be in an "up" state when you decide or need to sell it? The problem with investing in real estate in my mind is the profits or losses may come with lots of zeros. Meaning that instead of dealing with 10s or 100s of dollars, you are often dealing with 10,000s or 100,000s of dollars. There are three very good questions you might ask yourself when dealing with real estate. Those questions are:

Will this real estate investment make me wealthy?
Will this real estate investment keep me wealthy?
Will this real estate investment make me poor?

These considerations need to be asked before EVERY transaction. They are good questions to ask for every investment, but especially with real estate because real estate transactions generally involve more money.

That which we do not pay for we do not value.

The dictionary is the only place where success comes before hard work. Hard work is the price we must pay for success. I think you can accomplish anything if you are willing to pay the price.
– Vince Lombardi

– What we did in the Accumulation Phase

– 401(K)

Both my wife and I took full advantage of the 401(K) plans when they were available. Not all of our employers had these available, but when they did, we used them. We both took out the maximum amount we could, which was about 6%. The company matched the first 3% or 4%, so we were putting in more than the maximum match. Over the years, this grew considerably, and this is where the vast majority of our retirement income has derived from. Remember, this will be 100% taxable upon distribution.

– Employee Stock Purchase Plan

My wife and I also both contributed to the Employee Stock Purchase Plan (ESPP). This enables the employee to buy company stock at a reduced price. Typically, this must be held a certain amount of time before it could be sold. We tended to hold it in the company's stock until such a time as it was needed. When the company stock was experiencing a downturn, we continued to buy as much as possible, since when the stock went back up, we would have more shares which would increase in value. This money was used to fund our children's college fund, and was also used as a deep, or secondary, Murphy fund for emergencies.

– Mutual Fund investment

We invested in mutual funds as well. Remember, a mutual fund is a way to invest in the stock market without buying individual stocks. Simply using mutual funds instead of individual stocks will give you some diversity protection in your portfolio. There are many methods used to decide which mutual funds to use. Some will advise picking the fund based on the record of the fund manager. Other methods would pick funds based on sector, such as the

technology sector. This method will limit the diversification of your portfolio somewhat. After years of using mutual funds, we found the best fund for us was to use an index fund, one which mimics the S&P 500 or the Dow Jones market. We found this to be advantageous for several reasons. One, the costs of such a fund are miniscule. The returns are typically what you get with the market and have averaged over 13% over the past 10 years. The dollar amount needed to open an account is ridiculously small, like $25. While not a tax advantage program, you pay taxes only on the gains, and you can access the funds easily without any penalties. We used this for our children's college fund, and as a deep or secondary Murphy fund.

Real Estate

We never really intended to use real estate as an investment tool but it turns out we did. There are a lot of people who encourage using real estate as an investment tool, usually in buying residential property and renting the property, or buying property and flipping the house. While this can be lucrative, mistakes also come with lots of zeros, meaning you can lose money big time if you spend too much buying the property and can't sell it. If renting the property, you might have issues with collections, with property damage, with repairs, updates, and possible property managers. What we did with real estate was to buy raw (unimproved) land, our 85-acre ranch. We bought it for hunting purposes in Central Texas. The advantages for us were these. Since it was raw land, we really didn't need home insurance, and we ran cattle on the land, so we had an agricultural exemption, which saved us a lot of money on property taxes. We did add some improvements to the land, we developed a preexisting well, added some water lines, electricity to the property, built a shed to hold equipment, and a shelter for a recreational vehicle (RV). We sold the property after a health scare and made enough money on the sale to cover the improvements as well as to completely pay off the mortgage on our in

town home. So, investing in real estate worked out well for us, although that was not our original intention. Note: While we made money on the land and the improvements, we lost money on the cattle operation. It was not a significant amount, but it was not all peaches and cream.

- **Our Personal House**

We are living in our fourth house at this point. House #1 was bought before we were married, with an Adjustable Interest Rate (ARM) which started at 8.5%! When we sold the house after about four years, in a depressed market, and we

made about $1,800, not really an investment to brag about. House #2 was bought in two stages and was a house we had built. We were fortunate enough to buy the land (six acres) at a land auction, and then

had the house built a few years later. This was in an area which was growing quickly at times. We lived

in that house for about 25 years, and was able to pay it off completely when we sold the ranch (see above). House #3 we bought from my mother. Since she was in a retirement home at the time, she needed income, we sold the six acre house, paid cash for my mother's house, and was able to also pay for a large renovation. We sold that house a few years later and was able to recapture the cost of the house plus the cost of the renovation. House #4, and our current home, our mountain home, we bought with the proceeds from house #3, plus taking out a relatively small mortgage. This is the first mortgage we have had since selling the ranch, some 15 years ago. Our homes have not really been investments per se, but we have been able to use them to ladder ourselves to different, and in some cases, better homes.

- **My Recommendations**

Simply put, look at the Ten Rules for Riches:

1. Pay yourself before all others.

   Pay yourself 10% of your income.

2. Control spending.

   You don't need to keep up with the Jones. They're broke!

   You don't need everything from Amazon.

   Plan for your Known Expenses

3. Control debt.

   Use the Debt Snowball to get out of debt.

   Your income is your biggest wealth generator. It can't help you if your money is already spent before you get your paycheck.

4. Create a Murphy Fund.

   $1,000 to $2,000 in the bank to start. Hold a garage sale, take on a temporary second job. This will give you breathing room and reduce your financial stress level.

5. Buy insurance, when appropriate

   Car insurance, home insurance, renters' insurance, term life for starters.

6. Invest monthly, every month.

   If this scares you, open an account with Charles Schwab (www.schwab.com) and invest in the Schwab S&P 500 Index Fund. Costs are minimal, and it has returned an average of over 13% every year for the past 10 years.

7. Allow yourself time and money to play.

   Life is meant to be lived! Just don't go into debt to play.

8. Guard your investments with knowledge and commitment.

   Invest in what you know and are comfortable with. Learn!

9. Make yourself more valuable – never stop learning.

   Learn!

10. Give to others – this will enrich your life

    Giving to others makes their life better and makes your life better.

Post Retirement (Distribution)

The second phase of our financial mountain is the Post-retirement or distribution phase. At this point you have accumulated a set of investments, worked on your debt, and have probably been at a job, or a series of jobs, for years. So, all we have to do is spend that money, right? Well, probably not. Spending the money is a fun part of this, but how we spend the money, when we spend the money, become very important parts of our (hopefully) beautiful time of retirement. So, let's look at this phase.

- **Mentally Prep for Retirement**

Much too often when people talk about retirement, they only talk about money. Questions like:

- Will I have enough money to live on?
- Will I outlive my money?
- What will happen to my investment if something should happen to me?
- Should I try to leave a financial legacy to my heirs?

While the financial side of retirement is a big deal, it is not the only question which needs to be answered.

Some other questions that need to be answered are these:

- What should my retirement look like?
- Do I want to travel, and if so in what kind of style?

You can see a lot of land in an RV, which might be like heaven to some people and hell to others. You might choose to play golf every day, but this very likely gets boring after a while. There are several stories of

people who retired, played golf for six months, and then wanted to go back to work, as golf left them unfulfilled. Many people feel the need to be needed, and do not do well sitting on the couch, as nice as that might sound when working the 9-5 grind. In fact, I have noticed one of two things tends to happen when people retire. They completely bloom like a rose, and do the things they always wanted to do, but couldn't find the time. Or, they die. This seems to be more true with men than with women, as women tend to have a better support system of other women. But, that is a completely different book.

There are many books written about getting mentally prepared for retirement, and I won't pretend to present all that information here. I will tell you when my wife retired, I thought I was ready to retire as well, but I had my own business, and it took me almost three years to mentally prepare myself to walk into retirement. Call it fear of losing the income, or fear of losing the security blanket of the company, or fear of losing my feeling of self-worth. It was all of that. Finally, I got to the point of realizing what the work was costing me was not worth the income it was providing me. Once I actually convinced myself of that (remember, it took me almost three years!), I couldn't wait to retire. So, there really is a mental aspect to retirement you MUST work through.

– **Retirement Nest Eggs**

Typically, when people think about retirement, they think in terms of a nest egg. In other words, how much money do I have saved for retirement. While the nest egg is important, this is not what you will be living on. Just as in the pre-retirement world, what really matters is income. And, as we have stated before, it's not what you make, it's what you keep, so taxes are again going to be a strong consideration in how your retirement situation will look. A common way to look at how to turn your nest egg into income is to look at the bucket theory.

– **Buckets**

The bucket theory is this: Put your money into three different buckets. A bucket of money you need now, one to live on, the one you use to pay your bills. This is the Needed Now bucket. The second bucket is the Soon bucket, one you will need in the next several years, but you would like it to accumulate or increase, in the next few years. The third bucket is the Long Term bucket. This is the bucket you will need in the distant future, or the bucket that will house investments you intend to pass on to your heirs. You need to remember to rebalance your buckets regularly, like every six months to a year. Let's discuss each one in more detail.

– **Needed Now**

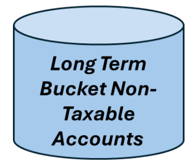
This is the money you need to cover your basic expenses now. This can come from different areas, but this is your basic monthly income while in retirement. Remember, what is always important is income, and you will have income in retirement. It may be less than during your working years, it will come from different areas than your working years, it may be guaranteed or variable. This typically is accounts which are very liquid, easily moved into cash and probably not very volatile. These accounts are typically in checking accounts, savings accounts, or money markets.

– **Soon**

The Soon Bucket is the money you will need in the next 5-10 years. This is money sitting in accounts you would like to see accumulate, so it is not sitting in a non-interest-bearing account. This money will move out of the Soon bucket into the Now bucket as time passes. This will likely be your taxable accounts, like your traditional IRA (fully taxable) and your mutual funds, stock, and bonds (partially taxable).

- **Long Term**

This is money that will be the last place you will pull retirement money from and maybe the money you will pass down to your heirs.



- **Retirement Income**

Remember, the name of the game is income. However, unlike when you were working, the income may not come from your job. Obviously, you may choose to work during retirement, and I have no issue with this. I did for a while, and then chose to fully retire (not work at all) at some point.

So, where does this income come from? Likely, from two sources, guaranteed income and variable income. Let's look at both of these areas.

- **Guaranteed income**

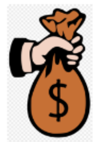
  - **Social Security**

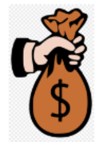
Yes, there will likely be social security available for you when you retire, and yes, it will likely be different than it is today. You must understand Social

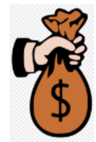
Security was never meant to be your total and complete income stream, meant to support you in any manner you wish to be supported. It is, and will likely be in the future, based on your working income. So, if you had a large income when working, you will have a larger income from social security in retirement. Think of it as a government required savings plan. If you put more into it, you will get more out of it. It will NOT provide for all of your needs, you will likely be disappointed in the amount of money it provides, and part of it will go away when you or your spouse passes. It is, however, a source of guaranteed income assuming you meet the minimum working requirements.

- **Other income (Immediate Annuity)**

An Immediate Annuity is an insurance product where an individual pays a lump sum upfront and receives an immediate payout for a period of time







A second form of guaranteed income can be found in the world of insurance companies. The immediate annuity. There are several different kinds of annuities, and I have had several. However, the only kind which has been really helpful to me is the immediate annuity. With an immediate annuity, what you are doing is buying an income stream for a particular time period, be it for 5 years, 10 years, 20 years, or a lifetime. You can also buy one for multiple lifetimes, like for you and your spouse. This is not backed by the US government like the FDIC, but only by the particular insurance company from which you buy the annuity. What this has done for our family is to create a guaranteed income stream for the life of myself and/or my wife. Therefore, if either of us passes away, this guaranteed income stream does not go away. You can get it where it has a COLA (Cost of Living Adjustment) or one that does not. Your payout, of course, is determined by how much you invest, your time period of payouts, and your COLA parameters.

- **Variable income**
  - **Voluntary**

This is the income you will pull out of your retirement accounts. The source for this income could be your traditional IRA, your Roth IRA, your mutual funds, stocks, even rental property (if you have any). Depending on what account this income comes from will determine its taxable status.

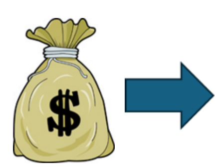
Money from your traditional IRA will be 100% taxable as ordinary income. Money from your stocks and mutual funds outside your IRA would be taxed based on the capital gains. The money which comes from your Roth IRA will be 100% tax free.

The tendency might be to take money from your Roth IRA first, to cut down on income taxes and push those taxes out. I think this would not be the method I would choose. The reason is the IRS will, in my opinion, raise taxes to higher rates in the future. Secondly, upon reaching 72 or 73, depending on when you were born, you MUST start taking money out of the traditional IRA per the Required Minimum Distribution (RMD), more on that in just a minute. Thirdly, if you were to pass this money from the traditional IRA to your heirs, they must take this money out completely in about 10 years, and it is 100% taxable, so this might raise them into a much higher tax bracket, so more of your money goes to the IRS and less to your heirs.

The methodology I have used to this voluntary income is to take money from my traditional IRA first. This does mean you will have to pay taxes on the money; however, you can control how much you take out, and you can control in what tax bracket (to some extent) you choose to pay taxes. For example, I might take money from the traditional IRA up to the top of my current tax bracket, thereby limiting my taxes to the IRS. If I needed more income, I could then decide: do I want to take additional money out at a higher tax bracket, do I want to take money from my mutual funds which only taxes the increase at a capital gains rate, or do I want to take it out of my Roth IRA at no additional taxes. You are in control, and you can control your taxes, to a great extent. Remember, taxes will be a huge issue for you in retirement and the distribution of your assets, so the more you can control your taxes, the better.

- **RMD**

Required Minimum Distributions (RMDs) are monies you must pull out of your traditional IRAs when you reach a certain age. Remember, the money put into the 401(K) and traditional IRAs went in pre-tax, and the gains from



those accounts are also tax-free. Well, the government wants its tax money. Therefore, the government will require you to pull money out of your IRA and pay the tax on it. Well, what if you don't take out the minimum distribution, you might ask. Then, the government will hit you with an additional 25% tax on the amount you should have taken out! There are many calculators online, including ones from AARP and the IRS to help you determine what your RMD might be on your IRAs. This is something you must stay on top of, or the government will take your money.

- **Government issues**

Retirement and retirement distribution would be much easier to understand and handle if the government stayed out of it. But, of course, they won't. They are the builders of the game, and we must learn the rules of the game so we can use the rules to our advantage so we can win (see Principle #4, right after the introduction). Of course, the rules are constantly changing.

- **Income tax brackets**

*"Only two things are inevitable, death and tax*es." I don't know who originally said this, but it does seem to be a true statement. Depending on your personal situation, your tax rate may change dramatically. Listed below are the tax brackets for the tax year 2024. Depending on when you are reading this, the current tax bracket may change drastically. If you are in a situation where

2024 Federal Tax Brackets

TAX BRACKET/RATE	SINGLE	MARRIED FILING JOINTLY	HEAD OF HOUSEHOLD
10%	$0 - $11,600	$0 - $23,200	$0 - $16,550
12%	$11,601 - $47,150	$23,201 - $94,300	$16,551 - $63,100
22%	$47,151 - $100,525	$94,301 - $201,050	$63,101 - $100,500
24%	$100,526 - $191,950	$201,051 - $383,900	$100,501 - $191,950
32%	$191,951 - $243,725	$383,901 - $487,450	$191,951 - $243,700
35%	$243,726 - $609,350	$487,451 - $731,200	$243,701 - $609,350
37%	$609,351+	$731,201+	$609,351+

THE COLLEGE INVESTOR — Source: TheCollegeInvestor.com you can or will choose where you will pull your retirement income, you may be able to somewhat dictate your tax rate. For example, suppose you are in the Married Filing Jointly category, and you want to pull $20,000 from your traditional IRA (100% taxable) and this would bring your total adjusted income up to $190,000. You might choose to pull an additional $10,000 out of your IRA, and put it into your Roth, your mutual funds, or your Murphy fund, simply because the additional $10,000 won't move you into a higher tax bracket this year. You control the tax rate you decided to pay on that money, and not when it was required by the IRS. Understand the tax brackets and use them to your advantage.

- **IRMAA cliff**

Income-Related Monthly Adjustment Amount (IRMAA). What a mouthful. Basically, this is an income related adjustment to your Medicare premiums. This can be described in several ways. One way would be to call this means testing. The more means (income) you have, the more Medicare part B and part D will cost you. Another way of describing this is a way to tax the rich, since the more income you have, the more your premiums for Medicare with cost you. I like to think of it as Uncle Sam must penalize you for doing well, with my tongue firmly in my cheek. And, it is a cliff! By this I mean if you are $1 over the bracket, your premiums will go up for the entire year, maybe as much as 3.4 times as much for the same service. Just to make this more difficult, this has a two year look back period, meaning the Medicare premiums will be based off your income from two years ago. Would you like a third gotcha? The cliff brackets are different than your IRS tax brackets. Confused yet? I am!

Basically, you need to remember this. You will pay additional surcharges on Medicare parts B and D depending on your Modified Adjusted Gross

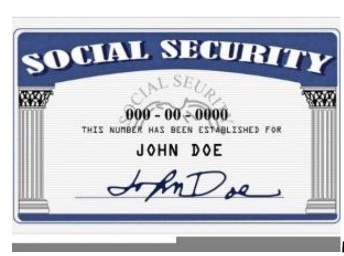
Income (MAGI) from two years ago. The income thresholds are set late in the current year, so the IRS will use your tax return from two years ago to determine your penalty. Remember I said tax planning becomes very important in retirement? Not only for the current year, but you will need to look forward for planning purposes, and back two years to watch out for the IRMAA cliff. Just going over the cliff by $1 could cost you over $800 next year in increased Medicare premiums. And, yes, all your MAGI will count towards this IRMAA, including your IRA to Roth conversions. It is easy to look up the current cliff positions on the internet, as they are readily available online, so I won't attempt to print them here (they change every year!). Just be aware that another piece of the puzzle is retirement distribution.

- **Required Minimum Distributions (RMDs)**

We discussed RMDs in the previous section, so I won't explain them again. Just understand this is something you will have to plan for when you turn 73 years of age. RMDs can become a monster! For some, this will be a non-issue. For others, those with relatively large amounts of money in the traditional IRA, you will need to plan for RMDs and do what you can to minimize tax issues for yourself and for your heirs. For yourself, if your RMDs are large, they may push you into a high tax bracket which you won't enjoy, and it may also push you over an IRMAA cliff as we described above. A way to combat the need for RMDs is to make a plan to convert your traditional IRAs to a Roth IRA in your 50s or 60s, so your RMDs are either not necessary, or are inconsequential. Again, planning is key.

- **Social Security issues**

We've all heard that Social Security if running out of money, it won't be there when I need it, Congress has stolen the money, blah, blah, blah. Well, there is some truth to what is being said.



Social Security will now be depleted by 2033, the OASI (Old Age and Survivors Insurance) Trust Fund may be depleted, if nothing is done. However, Social Security is a major part of most retirees' income, and I know all Congressional Representatives and Senators are elected. Since their first job (in their eyes) is to get re-elected, I truly believe Congress will come up with a solution to keep Social Security paying benefits in full. If they do not, their chances of re-election are diminished considerably (retirees do and will vote), and the benefits will still continue, although at a reduced rate. Social Security will be there for your retirement. Having said that, Social Security is not now, and never was intended to be, your total retirement package. If you have done nothing else, and are forced to live on Social Security alone, you will be living below the poverty level! Social Security is a SUPPLIMENT to your retirement, not your entire retirement fund.

If you are not making mistakes, you are not doing much.

Failure is the teacher. I've learned far more from my failures than I have from my successes. Therefore, dare to fail. Be quick to fail. Learn from it.

– **What We did for Retirement income**

We did follow the three bucket rule, using the Now bucket for immediate needs, the Soon bucket for need future needs, and the Long Term bucket for long term investments and legacy.

– **Immediate Annuity**

We have two immediate annuities which provide us a monthly income, which I like to call mailbox money. These were both bought with money from a traditional IRA, so this money is 100% taxable. As mentioned earlier, an immediate annuity is an insurance product. These products are bought, in our case with a lump sum amount, and immediately began paying a monthly income. This provides us with a guaranteed income. The annuity will pay for the rest of the life of the person who bought the annuity. We bought ours to cover both our lives, so they will both continue to pay out as long as my wife or I am alive. This is a constant amount, so there is no COLA associated with these funds, but we will never not have income. This is from the NOW bucket.

– **Social Security**

Both my wife and I are receiving Social Security. We both took those benefits early. There is a penalty for taking benefits early, and many financial advisors would advise against what we did. Our thoughts were there was a breakeven point which occurs about 80 years of age. By taking the benefits early, we were able to use our Social Security funds to fund our NOW bucket, and allow our SOON and LONG TERM buckets to grow. We are currently getting more in our investment than we would with the approximately 8% growth provided by Social Security. So, this is also part of our NOW bucket.

– **Mutual Funds**

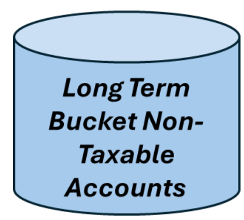
We have money in the aforementioned Schwab S&P 500 Index Fund. This is one of the things we are using for our Murphy fund. I mentioned the Murphy fund should be in a checking account type fund, and we have one of those as well, but the index fund tends to return close to 10% per year, so I am good with the additional risk exposure, and we do have funds in the checking account. This is also part of our NOW bucket.

- **IRA**

We have the bulk of our money in a traditional IRA, which was a rollover from our company's 401(K). Since this was our primary accumulation vehicle, it stands to reason this is where the bulk of our money still sits. This is all invested in the stock market. I use two different advisory firms. The reason I use two different firms is they have different philosophies when it comes to long term investment, and this gives me another type of diversification. Some years, one firm does better than the other, sometimes they are close to the same in terms of returns. One firm definitely carries more risk, but they also tend to bring a better return. We are constantly in the process of moving funds from the traditional IRA to a Roth via the Roth conversion, as tax rates permit. This is our SOON bucket.

- **Roth IRA**

We have about one third of our total portfolio now in Roth IRAs, also invested in the stock market, with the same two firms. We are actively moving funds from the traditional IRA to the Roth IRAs, this is our LONG TERM bucket, and this is the last place we will be pulling retirement funds. This is also where the bulk of our legacy (read the money we give to our heirs in our estate when we pass). The reason for this is we do not want to create a big tax burden for our children when we pass. The Roth IRA funds must be taken out by our heirs in 10 years, but there is no tax liability as there would be with a traditional IRA. This is why we are continuing to move money from the traditional IRA to the Roth.



- **Final Results**

We have been retired for a couple of years now. My wife and I have developed a financial division of labor that has worked well for us for our entire marriage. She is detail oriented, so she takes care of the bills every month, keeps the lights on, so to speak. I am more big picture oriented, and I have taken care of the retirement plan. We do discuss finances on a regular basis, just so we are always on the same page. During the past few years, we have taken trips to Alaska and the Caribbean, several places in the USA, visited family, broke limbs, moved to a new location. Our portfolio has grown, so we are increasing our nest egg in spite of our best efforts to spend it, a fact that will certainly be enjoyed by our kids.

I do feel compelled to explain this to you. All of your financial advisors will be able to give you a retirement plan, and that plan will make assumptions about what will happen to the market and your investments. Their programs are all static, meaning to make those plans they must make assumptions, and those assumptions will generally assume an ever-increasing market. **That will not happen**. Therefore, any plan you make must be ever changing, and must be visited, changed, modified at least once per year. While your advisor will be helpful, there is a rule you MUST keep in mind. No one is as interested in your money as you are. People will tell you they are there to help you, but they are there to help themselves and if they help you in the process, that is a great by product. You must be involved in your money, your retirement, your life. You do you.

Conclusion

There you have it, our story, our successes, our setbacks. This is not a comprehensive guide as to how you should make your fortune. This is simply a guide as to how one family, using W2 salaries, was able to create a retirement plan which seems to be working. I have been pretty blunt about what we did, how we did it. This does not mean what you are currently doing is wrong or inappropriate. From what I have been able to gather, we are doing better than most, although certainly we are not in the top 1% of retirees. We may be in the top 25%, we are certainly not in the ultra-rich. My point here is that if we can do this, if we can make our retirement comfortable, you can certainly improve your situation, you can make your retirement comfortable, you can be successful. I will not promise you will become a millionaire. I can tell you that this plan helped me make my retirement possible and even comfortable, and I think you can do it as well.

Best of luck, and may God bless you and yours

Mike is like a straight shot of whiskey – powerful, strong, and hard to ignore.

Appendix - Checklists

This is a checklist of things you might want to think about at different times in your life. I did not put ages, as different things happen to different people at different ages. But, these are some things you might want to consider at some of life's stages.

Start – Just out of school (University or High School)

- Start your Murphy fund
- Create a household budget
- Create your immediate (1-5) year success goal
- Begin investing, after Murphy fund creation, if possible

Marriage and Family

- Discuss finances and financial goals with your significant other
- Create a joint household budget
- Create joint accounts after marriage
- Create your immediate (1-5) year success goals
- Create your long-term success goals, complete with your net worth graphics. (This will aid you in your planning)
- Maintain your Murphy fund
- Begin investing in 401(K) if offered
- Begin investing in Index Mutual funds for kids college funds or general investments
- Consider buying or renting housing, and the best solution for your family
- Consider life insurance, disability insurance, health insurance
- Be careful of debt, as this can be a time of debt creation

Mid Career

- Discuss finances and financial goals with your significant other
- Update long-term success goals, including retirement plans
- Update your immediate (1-5) year goals
- Update your investment plans and retirement plans every year

- Continue to invest in 401(K), Roth IRAs, or Index Mutual funds as appropriate and available
- If you change jobs, roll your 401(K) accounts, if you have them, into an IRA with a financial advisor. This will allow you to control these funds
- Maintain your Murphy fund
- Update your insurance needs to consider changes
- Invest, invest, invest. These are your prime earning years, and these investment years will benefit you greatly in retirement.
- Be careful of debt, as these years can be a time where debt can increase and create a real drag on your investment and retirement plans

Pre-Retirement years

- Discuss finances and financial goals with your significant other
- Your kids may be out of school or nearly so. These are the 5-10 years before retirement.
- Investing should be your main goal, as this is the final sprint before retirement
- Maintain your Murphy fund
- Watch for opportunities to move money from the 401(K) into a more tax sheltered vehicle, like a Roth IRA.
- Pay off all your debts, if possible, first all credit card debt (highest interest rate) then all car debt, lastly the home mortgage
- Talk with your financial advisor and a tax professional about your upcoming retirement. They will likely give you different answers, as they have different agendas. This is to ensure you understand your retirement accounts and your options
- Continue to chart your net worth

Retirement Years

- Discuss finances and financial goals with your significant other
- There are two areas you must focus on now, retirement income and continued investment

- Income is your big issue. Consider Social Security, health insurance (Medicare if 65 or over, other health insurance if under 65)
- Maintain your Murphy fund
- Decide if you want a guaranteed income from an immediate annuity, or you want to just pull from your retirement accounts, and how much from each. These are your decisions and your comfort level.
- Pay attention to taxes, RMDs, and the IRMAA cliff. These will have major impacts on your retirement income
- Enjoy your retirement and do the things you want to do. Retirement is a time when every day is like a Saturday. You can choose to work, choose to play, choose to travel, choose to do what you want to do. It can be a truly magical time, or a dead time drudgery. Plan for enjoyment!
- You cannot stop investing! Your nest egg should continue to grow, or to at least offset some of your spending. Remember, you want your money to last your entire lifetime, and you have no idea how long that will be
- Consider what, if anything, your financial legacy will be, i.e. what you will leave your kids in terms of inheritance, and what possible tax burden you may be putting on them. This is another reason for moving funds from an IRA to a Roth IRA.
- Continue to chart your net worth