Your Money or Your Life

What’s in it for me? Achieve Financial Independence and retire early.

If you were held at gunpoint and had to choose between handing over your money or risking your life, chances are, you’d hand over your wallet. But when it comes to the daily grind, most of us unconsciously prioritize our money over our lives. We’re stuck in a cycle of earning money from our jobs in order to buy things we don’t need, and sacrifice our true priorities in the process. In these blinks, you’ll learn about the path to Financial Independence – the ability to decide how to spend your time without relying on paid employment. Along the way, you’ll see your financial history with clarity, liberate yourself from your preexisting attitudes about money, and develop new financial habits that will melt away your debt and enable you to retire early if you choose. In these blinks, you’ll learn

which simple tool can help you gain control over your finances; how to calculate the time it will take you to retire; and where to invest your savings.

Make peace with your financial past by visualizing your earnings and calculating your net worth.

If you’re like most people, you probably have no idea how much money has cumulatively passed through your life. In order to get a grip on your finances, you need to come to terms with your financial history. That’s why the first step in transforming your relationship with money and reaching Financial Independence is to make peace with your financial past. Calculating the money that’s entered your life will help you gain a clear picture of your financial history and your relationship with money. Maybe you’ve always felt like you’ve had financial security – but that’s just because you’ve been supported by other people. Or maybe you’ve felt like you’ve never earned much, but are actually underestimating your past income. In any case, understanding your history with money can help you shift your perspective on how much you might earn in the future. The key message here is: Make peace with your financial past by visualizing your earnings and calculating your net worth. To begin, calculate the sum total of your gross income across your lifetime. This amount should include everything from your first paycheck to the most recent penny you earned. If you don’t know where to start, you can use records from the Social Security Administration, bank statements, or even old résumés to help you recall your year-by-year earnings. Make sure you adjust the amount to reflect unreported earnings like gifts from family members, cash prizes, or money earned under the table. The goal is for the calculation to be as honest and accurate as possible. Once you’ve calculated your life earnings, the second step in making peace with your financial past is to determine the amount of money left in your life today: your net worth. Calculate your net worth by creating a personal balance sheet which tracks your assets and liabilities. Your liquid assets are anything that can be converted into cash. This includes things like money in your savings and checking accounts, stocks and bonds at the current market value, or even spare change in your glove compartment. Your fixed assets are everything you own, from major possessions like your car or house to items that could be sold at a garage sale. Next, calculate your liabilities, which are any debts, loans, or outstanding bills. Subtract this amount from the combined value of your assets to determine your net worth.

Calculate your real hourly wage, and track your money.

Each of us has fewer than nine thousand hours a year – many of which are spent sleeping. It's no question that time is our most precious resource. So when you get up and go to work in the morning, you're giving more than just your time in exchange for a paycheck. You're giving your life energy. In other words, when you spend money, you're essentially trading your life energy. If you want to transform your relationship with money, you'll need to challenge your assumptions about what you earn and spend. That way, you can reserve your life energy for the things you truly care about. So step two of the program is to get in touch with your present situation by calculating your real hourly wage and tracking your money. The key message here is: Calculate your real hourly wage, and track your money. In order to identify your life-energy-to-earnings ratio, calculate your real hourly wage by determining the actual amount of time and money that goes into maintaining your job. Start by making a table with three columns. Label the first column weekly hours, the second column earnings, and the third column dollars earned per hour. Next, add in the details based on your job. For example, if 40 hours per week nets you $1,000, then you earn $25 per hour. Now it's time to account for any adjustments. If you commute to work, include the time your journey takes as well as related expenses like gas, tolls, or public transportation fees. Calculate the money you put into buying clothes for your job and the time you spend shopping, getting dressed, or shaving for work. List the extra time and funds put into meals, including coffee breaks and takeout when you're too exhausted or busy to cook. You should also include time or expenses incurred from job-related illnesses or even entertainment you use to decompress after work. Going back to your table, add all the additional time to your weekly hours column. Next, subtract your expenses from your weekly earnings listed in the second column. Finally, calculate your real hourly wage. Now that you know your real hourly wage, you'll have a better idea of how much life energy your spending is worth. In order to truly understand your spending habits, start keeping track of every penny that comes into or out of your life. By becoming aware of your spending habits, you can make decisions about spending based on reality rather than what you think you spend.

Categorize your monthly spending.

Now that you've collected the information about your financial history and real hourly wage, it's time to begin taking a step toward implementing some changes. But don't worry – you won't need to put together a budget. While a budget can be a useful tool for planning, it leaves little room for nuance. If a budget's not the answer, what is? It's simple: you need to understand exactly how you spend your money. Step three is to categorize your monthly spending. Group your expenses in ways that make the most sense to you. The key message here is: Categorize your monthly spending. Say you want to track your food expenses. Depending on your unique lifestyle, you could create subcategories such as "meals for guests," "too tired to cook," or "snacking." By tracking the precise categories of your spending, you might realize that your occasional restaurant meal has developed into a full-blown, expensive habit. Also create subcategories to track your spending for things like housing, transportation, and entertainment. Once you've itemized your spending categories, create a monthly tabulation that lists your subcategories. At the bottom of the table, include a section to list your income – with individual lines for any paychecks, bonuses, interest, or other earnings that might factor in. After you've entered your monthly transactions into each category, subtract your total spending from your total income to find out your monthly savings. You might be surprised to see how much money has gone to a specific subcategory – for instance, beauty products. But your surprise will probably have worn off by the time you find yourself in another beauty store. So here's where the real magic of the program comes into play. In order to find out how much of your life energy each subcategory costs, divide the money you spend on any given subcategory by your real hourly wage calculated in step two. Say you spend $80 on magazines that you tend not to read, and your real hourly wage is $10. The discovery that you spent eight hours of your life energy to make the purchase might make you reconsider the next time you pass a magazine stand!

Evaluate the money spent in your subcategories.

Using a journal, take a moment to reflect on what you would do if you didn't have to work. When you were growing up, what did you want to be? If you only had one more year to live, how would you spend your life? Did you always want to write a book but now find yourself copywriting for a living? Remember, no dream is too big. And by making minor adjustments to your spending, you'll be on your way to realizing it. That takes us to the fourth step in the program: evaluating your spending by asking yourself three questions. The key message here is: Evaluate the money spent in your subcategories. Look at the monthly tabulation from Step 3 – does the life energy you spent on each of your subcategories correspond to the fulfillment and satisfaction you received? In some subcategories, you might find that you experienced so much fulfillment that you'd even consider increasing the expenditure of life energy. If that's the case, mark the subcategory with a plus sign. For subcategories in which you experienced little to no fulfillment, mark a minus sign. If the expense feels neutral, mark it zero. By objectively analyzing your spending, you might find that you're skimping on subcategories that bring you value while overspending on addictive habits – like buying shoes you hardly wear. Second, does your expenditure of life energy align with your life purpose and values? Say you spent 25 hours of life energy on eating out last month. You might find that this reflects your value for social time or delicious food; you feel comfortable with the expenditure. Or maybe you recognize that this expense is a result of a bad habit or peer pressure; it doesn't align with your values or life purpose. Once again, mark each subcategory with a plus, minus, or zero to indicate your evaluation. Finally, how would you change your spending habits if you had Financial Independence and didn't have to earn a living? Would you buy more or less clothes? Spend more or less on gas? In many cases, you might find that you're spending more money because of your job than you would otherwise.

Make a wall chart to track your progress.

Congratulations! You’re halfway through the path to Financial Independence. But if you’ve followed any program in the past, you’ll know that a major part of the challenge is staying on track. To guarantee continued progress toward your financial goals, you’ll need to ensure that your new system is a habit rather than a choice. A great way to instill a new habit is to make yourself accountable to someone else. You might consider sharing the results of financial progress with a friend or a family member. But ultimately, the most important trick for continued success is to track your progress. That brings us to step five in the program: charting your progress with a graph of your income and expenses. The key message here is: Make a wall chart to track your progress. On a large sheet of paper, draw a graph that you can hang on your wall to track your monthly income and expenses. The vertical axis represents money, and the horizontal access represents time measured in months. When creating increments on the vertical axis, start with 0 and leave enough room for your income to double. The horizontal axis access should track your progress for five to ten years. At the end of each month, use two different colors to track your monthly expenses and your monthly income. Then, connect the points to the previous month’s entry. Over the months and years, you’ll be able to identify patterns and see your progress toward your financial goals. While it might be tempting to create a chart on your computer, having the chart on your wall will serve as a constant reminder to stick to your program. Take Elaine H., a computer programmer who felt stuck in her job. By taking part in the program, Elaine realized that she was spending more than she was earning. So she set up a wall chart and resolved to stop buying clothes and eating out for one month. Sure enough, the next month her expenses were substantially below her income. But after falling back into her old habits, it wasn't long before her expenses had risen again. Seeing the dip on the chart, Elaine was determined to make sustainable changes. She moved to a house that had a lower rent and was closer to work – which decreased her gas bill by 60 percent. She also cut her restaurant bill by more than half just by cooking most of the time. Within four months, Elaine was debt-free and on a sustainable path to Financial Independence.

Consciously lower or eliminate your expenses.

These days, the notion of being frugal might seem unappealing or dated. Modern consumer culture has conditioned us to believe that more is more. But from the ancient writings of Plato and Socrates to American historical figures such as Benjamin Franklin, Robert Frost, and Ralph Waldo Emerson, being frugal was considered a virtue. And if you want to become financially independent, you’ll need to get comfortable with the term. In essence, frugality is about enjoying what you have. If you own ten dresses and enjoy wearing them over the years – great! But if you’re a compulsive shopper and are simply addicted to buying dresses that are hanging unworn in your closet, it might be time to lower that expense. While you’ve now gained awareness on your financial past and present, step six of the program is to consciously reduce your monthly spending. The key message here is: Consciously lower or eliminate your expenses. Consciously lowering or eliminating your spending is about intelligently using your life energy. There are a number of ways to minimize your spending. The most obvious is to avoid shopping. If you don’t go into stores, you won’t be tempted to impulse buy. To reduce the temptation to shop online, unsubscribe from promotional emails, be aware of marketing on social media, and develop a general habit of buying only what you need. But reducing your spending doesn’t mean you have to become a bargain junkie. Instead of buying the cheapest available option, you might opt for an item that's more durable. If you purchase a $40 tool that lasts for ten years instead of a $30 tool that lasts for five, you'll save $20 over time. Invest in single items that can serve multiple purposes – buy one heavy-duty pot instead of a rice cooker, spaghetti cooker, and a Crock-pot. Sometimes, there will be subcategories you don't want to eliminate from your life. Here's where you can get creative. Take Harry, who was evaluating whether to end his house cleaning and gardening services in order to reduce his expenses. Harry wasn't prepared to do the housework himself. So he converted his family's largely unused dining room into a studio apartment. He then sublet the room to a couple in exchange for yard and house work. Harry was happy to have this work done by someone else, and the couple found a way to eliminate the high costs of housing.

Value your life energy by increasing your income.

The 40-hour workweek is a modern, Western concept. During the Industrial Revolution, new manufacturing processes gave rise to a division between the workday and leisure time. Working conditions became so severe that workers eventually fought to establish a shorter workweek. But instead of being a time for rest, leisure became seen as a time to learn how to become a more productive worker. Then, during the Great Depression, free time became associated with unemployment. This Depression-era attitude continues to echo through Western society today. Our society's workaholic lifestyle is so bad that in recent years, efforts like the "Take Back Your Time" campaign have gained momentum in challenging our view toward work. The key message here is: Value your life energy by increasing your income. Society wants us to believe that we need to work 40 hours each week to be fully contributing members. But, in truth, the fundamental purpose of having a job is to get paid. Benefits such as community, growth potential, or recognition can all be achieved outside of traditional employment. So it's about time we start reconsidering how we spend our life energy. The seventh step to transforming your relationship with money and achieving Financial Independence is about valuing your life energy and increasing your income. Consider this: Is the life energy you're currently putting into your job a fair exchange for what you're receiving in return? Whether you're saving up to go to grad school, support your family, or get out of debt, seeking the highest possible pay in line with your health and integrity isn't about wanting more money just for the sake of it. It's about working toward a sustainable future. If you need $2,500 to cover your expenses, you could double your income by earning $50 an hour as a contractor instead of staying put at your $25 per hour desk job. In some cases, increasing your income might mean working more hours in the short term. While Rosemary enjoyed her job as the director of a retirement home, her true passions were traveling, writing, and environmental activism. Rosemary knew that finding a higher paid job would possibly bring more stress that distracted her from her goals. So she got a side job working for a small audio distribution company in the evenings and on the weekends. While she was working more than 40 hours a week, the knowledge that she was working toward her goal of Financial Independence kept her motivated.

Earn income from your investments to achieve Financial Independence.

For many people, the thought of retiring early seems like a privilege reserved for the 1 percent. But a growing movement called FIRE, or Financial Independence Retire Early, reveals otherwise. Supporters of the FIRE movement have gleaned some simple wisdom: if you invest your savings, your money will eventually start earning enough on its own for you to retire and focus on what you truly care about. The trick is to accrue enough monthly investment income. Unlike the income you receive from your job, your monthly investment income is the income that you receive from your capital. This involves any income you didn't have to work for – things like interest, dividends, rental checks, or business profits. The key message here is: Earn income from your investments to achieve Financial Independence. Before you start investing, make sure you have enough money in the bank to cover six months of expenses. This liquid cash is your emergency fund – as well as the money you'll draw from for your monthly spending. Once you have at least six months of liquid cash in your bank account, consider opening a savings account. Now you can start the eighth step in the program: investing and tracking your additional savings. To calculate your monthly investment income, multiply your capital, or your additional savings, by your current long-term interest rate – that's the amount you can expect to acquire from a long-term investment. You can find this number by searching the current 30-year yield of US Treasury bonds via the Wall Street Journal. Next, divide the result by 12. Once you've followed the formula, plot the result as a new line on your wall chart in addition to the lines tracking your income and expenses. Remember, the vertical axis represents your money, while the horizontal access represents time. Your monthly investment income may seem inconsequential when you're starting off. But as your income and expenses become more consistent, you'll eventually be able to predict how much money it will take to reach Financial Independence. Over time, your invested money will mean that the line begins curving upward. Using a light pencil, you can follow this pattern to identify the point at which your monthly investment income exceeds your monthly expenses. This is called your crossover point. For most people, your crossover point will occur when your savings equal 25 times your annual expenses. If your average annual expenses are $36,000, then you'll need $900,000 in assets to reach Financial Independence.

Research and choose your investment options.

Now that you've calculated your crossover point and the reality of reaching Financial Independence has become tangible, you'll need to become an expert in long-term, income-producing investing. Financial planners, unscrupulous brokers, and salespeople will try to influence your decisions on investing while taking a substantial commission. Avoid spending unnecessary fees with such middlemen by empowering yourself to make your own investment decisions! Your investment income might include receiving rent from real estate or royalties from intellectual property, franchises, or natural resources. You could gain capital from selling an investment for an amount more than what you initially invested. But you'll most likely want to focus on earning interest or dividends by investing in bonds, mutual funds, or the stock market. The key message here is: Research and choose your investment options. When the coauthor Joe Dominguez retired at the age of 31 in 1969, he had reached Financial Independence by investing in US Treasury bonds. Over the next decades, high interest rates meant that he and the tens of thousands of people who invested in US Treasury bonds achieved permanent Financial Independence. Since the turn of the millennium, however, interest rates have declined. These days, the majority of FIRE bloggers suggest investing in low-cost index funds. Index funds are exchange-traded funds, or ETFs. These are mutual funds that track the performance of stock or bond market indices. Rather than beating the market or picking and choosing which stocks to invest in, index funds are a passive approach that diversify your investments across a broad portfolio of trading activity. They involve the least amount of risk at low fees – making them a go-to option for anyone on the path to Financial Independence. If you work for a company that offers a retirement plan, like a 401(k), your savings will likely be managed by large brokerage houses that offer mutual funds or bond funds. Consider taking advantage of this; many companies will match whatever investments you contribute. In any case, it’s crucial to learn about all your options before embarking on an investment path. By making educated choices, you’ll ensure that your investments are as sustainable as your new attitude toward how you spend your time and money. You’ll be living more intentionally – even before you reach your financial goals.

Final summary

The key message in these blinks is that: Start your journey to Financial Independence by evaluating your financial history as well as your current financial situation. Transforming your relationship with money is about realizing that the money you earn from your job equates to your life energy. Reduce your spending, increase your income, and invest your savings to retire early, pay off your debt, and achieve your financial goals.