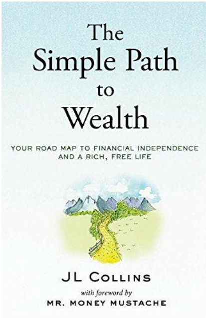

YOUR KINDLE NOTES FOR:

The Simple Path to Wealth: Your road map to financial independence and a rich, free life

by JL Collins, Mr. Money Mustache

Free Kindle instant preview: https://a.co/dSVYyLn

45 Highlights

Highlight (Yellow) | Page 3

When you can live on 4% of your investments per year, you are financially independent.

Highlight (Yellow) | Page 23

If you intend to achieve financial freedom, you are going to have to think differently. It starts by recognizing that debt should not be considered normal. It should be recognized as the vicious, pernicious destroyer of wealth-building potential it truly is. It has no place in your financial life.

Highlight (Yellow) | Page 41

Stop thinking about what your money can buy. Start thinking about what your money can earn. And then think about what the money it earns can earn.

Highlight (Yellow) | Page 93

over periods of 15 to 30 years, the index will outperform 82% to 99% of actively managed funds.

Highlight (Yellow) | Page 98

Bonds are in our portfolio to provide a deflation hedge. Deflation is one of the two big macro risks to your money. Inflation is the other and we hedge against that with our stocks. You'll recall from earlier that deflation occurs when the price of goods spirals downward and inflation occurs when they soar.

Highlight (Yellow) | Page 98

When you buy stock you are buying a part ownership in a company. When you buy bonds you are loaning money to a company or government agency.

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The two key elements of bonds are the interest rate and the term. The interest rate is simply what the bond issuer (the borrower) has agreed to pay the bond buyer (the lender—you, or by extension the fund you own). The term is simply the length of time the money is being lent.

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default is the first risk associated with bonds.

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Interest rate risk is the second risk factor associated with bonds and it is tied to the term of the bond. This risk only comes into play if you decide to sell your bond before the maturity date at the end of its term.

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When interest rates rise, bond prices fall. When interest rates fall, bond prices rise. In either case, if you hold a bond to the end of its term you will, barring default, get exactly what you paid for it.

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The great irony of investing is that the more you watch and fiddle with your holdings the less well you are likely to do.

Highlight (Yellow) | Page 129

Once you leave that employer you can easily roll your investments into an IRA with Vanguard.

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Bogle’s brilliance, for us investors, was to shift the ownership of his new company to the mutual funds it operates. Since we investors own those funds, through our ownership of shares in them, we in effect own Vanguard.

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Vanguard has been structured to operate “at cost.” That is, with the goal of charging only the minimum fees needed to cover the costs of operating the funds.

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assets are not invested in Vanguard. They are invested in the Vanguard mutual funds and, through those, invested in the individual stocks and bonds those funds hold. Even if Vanguard were to implode (a vanishingly small possibility), the underlying investments would remain unaffected. They are separate from Vanguard the company.

Highlight (Yellow) | Page 140

Tax-efficient investments are typically stocks and mutual funds that pay qualified dividends (dividends that receive favorable tax treatment) and avoid paying out taxable capital gains distributions. Such distributions are

> typical of actively managed funds that engage in frequent trading in their portfolios. VTSAX is a classic example of a tax-efficient investment. The dividends it pays are modest and mostly “qualified.” Because trading (buying and selling) in the fund is rare, so too are taxable gains distributions.

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> Investments that are “tax-inefficient” are those that pay interest, non-qualified dividends and those that generate taxable capital gains distributions. These are things like some stock funds, bonds, CDs and REITs (real estate investment trusts). These we want to keep ideally in our tax-advantaged buckets as their payouts are then tax-deferred.

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> Withdrawal strategies to minimize taxes It is worth noting that there are strategies which seek to access this money tax-free, or at least at the lowest possible rate. These involve structuring your earned and investment income so as to fall under the limits the IRS establishes as being tax-free. So while the money you withdraw is legally subject to tax, your tax bracket is such that the actual amount owed is zero.

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> Staying under these limits can also provide the opportunity to shift money tax-free over time from your Traditional IRA to a Roth IRA (this is sometimes called a Roth Conversion Ladder), thus further avoiding taxes when you withdraw and spend it.

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> These are well worth considering if your situation allows for them. You can find details in these posts: From Go Curry Cracker: Never Pay Taxes Again: http://www.gocurrycracker.com/never-pay-taxes-again/ GCC vs. The RMD: http://www.gocurrycracker.com/gcc-vs-rmd/ From The Mad Fientist: Early Retirement Strategies and Roth Conversion: http://jlcollinsnh.com/2013/12/05/stocks-part-xx-early-retirement-withdrawal-strategies-and-roth-conversion-ladders-from-a-mad-fientist/ Traditional IRA vs. Roth IRA - The Final Battle: http://www.madfientist.com/traditional-ira-vs-roth-ira/ Retire even earlier without earning more or spending less: http://www.madfientist.com/retire-even-earlier/

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> Employer-based tax-advantaged buckets These are buckets provided by your employer, such as a 401(k). They select an investment company that then offers a selection of investments from which to choose. Many employers will match your contribution up to a certain amount.

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> IRAs are buckets you hold on your own in addition to and separate from any employer-sponsored 401(k)-type plans you may have.

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> Deductible and Roth IRAs both have income restrictions for participation. Non-deductible IRAs do not.

Highlight (Yellow) | Page 148

> 401(k)/403(b)/TSP = Immediate tax benefits and tax-free growth. No income limit means the tax deduction for high income earners can be especially attractive. But taxes are due when the money is withdrawn.

Highlight (Yellow) | Page 148

> Roth 401(k) = No immediate tax benefit, tax-free growth and no taxes due on withdrawal.

Highlight (Yellow) | Page 148

> Deductible IRA = Immediate tax benefits and tax-free growth. But taxes are due when the money is withdrawn. Deductibility is phased out over certain income levels.

Highlight (Yellow) | Page 148

> Non-Deductible IRA = No immediate tax benefit, tax-free growth and added complexity. Taxes are due only on the account's earnings when the money is withdrawn. Contributions can be made regardless of income.

Highlight (Yellow) | Page 148

> Roth IRA = No immediate tax benefit, tax-free growth and no taxes due on withdrawal. A better Non-Deductible IRA, if you will. But eligibility phases out over certain income limits.

Highlight (Yellow) | Page 150

> basic hierarchy for deploying investment money: Fund 401(k)-type plans to the full employer match, if any. Fully fund a Roth if your income is low enough that you are paying little or no income tax. Once your income tax rate rises, fully fund a deductible IRA rather than the Roth. Keep the Roth you started and just let it grow. Finish funding the 401(k)-type plan to the max. Consider funding a non-deductible IRA if your income is such that you cannot contribute to a deductible IRA or Roth IRA. Fund your taxable account with any money left.

Highlight (Yellow) | Page 159

> HSAs (Health Savings Accounts) were created to help handle these out-of-pocket expenses. Basically, these are like an IRA for your medical bills

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> you can choose to invest your HSA anywhere. Such as in index funds like VTSAX.

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The basic concept behind indexing is that, since the odds of selecting stocks that outperform is so very small, better results will be achieved by buying every stock in a given index.

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the simple path big three: You’ve avoided debt You’ve spent less than you’ve earned You’ve invested the surplus

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The 4% withdrawal rate, 50/50 stock/bond portfolio, adjusted for inflation. Turns out, 96% of the time, at the end of 30 years such a portfolio remained intact. Put another way, there was just a 4% chance of this strategy failing and leaving you destitute in your old age.

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Withdrawing 3% or less annually is as near a sure bet as anything in this life can be.

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Assuming a 4% withdrawal rate on a portfolio with an initial value of $1,000,000, here’s what you’d have left (median ending value) after 30 years: From Table 3 (without inflation adjusted withdrawals) 100% stocks = $15,610,000 75% stocks/25% bonds = $10,743,000 50% stocks/50% bonds= $7,100,000

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I hold: VTSAX in my Roth and in my regular IRA. Our entire bond allocation in VBTLX in my regular IRA. My wife holds: VTSAX in her Roth and in her regular IRA. Jointly we hold: VTSAX in our taxable account and minimal cash for spending needs in our savings and checking accounts. So together we have two Roths, two IRAs and one taxable account. Across these we have one investment in VBTLX and five in VTSAX. Our allocation is 75/25, VTSAX/VBTLX.

Highlight (Yellow) | Page 222

First, notice that in constructing our 75/25 allocation, we look at all of our funds combined, regardless of where they are held.

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Second, we have all our dividends, interest and capital gains distributions in our tax-advantaged accounts reinvested. I am not captivated by the idea of “living only off the income” (that is, dividends and interest) as many are. Rather, I look toward drawing the ~4% the research has shown a portfolio like mine can support.

Highlight (Yellow) | Page 222

> Third, we have the dividend and capital gains distributions from VTSAX in our taxable account sent directly to our checking account. Since the payment of these is a taxable event, it makes no sense to reinvest them only to turn around and withdraw the equivalent amount of money shortly thereafter.

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> Fourth, I want to let my tax-advantaged investments grow tax-deferred as long as possible.

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> Fifth, as I am within ten years of age 70 1/2, I want to move as much as I can from our regular IRAs to our Roths, consistent with remaining in the 15% tax bracket. You'll recall this strategy from our discussion on RMDs (required minimum distributions) in Chapter 20.

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> Sixth, once we hit age 70 1/2 and are faced with RMDs, these withdrawals will replace those we had been taking from our taxable account. The taxable account will then be left to grow again.

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> For example, if you had $1,000,000 in your portfolio allocated 75/25 stocks and bonds: At 4% your withdrawals equal $40,000 Your $750,000 in VTSAX earns ~2% dividend, or $15,000 Your $250,000 in VBTLX earns ~3% interest, or $7,500 That totals $22,500 and if that's all you need, you're done. But if you want the full $40,000, the remaining $17,500 you'd withdraw by selling shares from your taxable account. Taken monthly it would be ~ $1,500.

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> the Trinity Study set out to determine how much of a portfolio one could spend over decades and still have it survive. Adjusting each year for inflation, withdrawals of 4% annually were found to have a 96% success rate. This became the 4% Rule designed to survive the vast majority of stock downturns so you wouldn't have to worry about market fluctuations in your retirement.