Coach Yourself to

Financial Independence

A 3-Pillar Framework

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What is Financial Independence?

Financial independence is having enough income or wealth to cover all living expenses, for many years ahead, without needing to rely on traditional employment. It's about having the freedom to make choices about life and work, without being constrained by financial pressures.

It’s important that everyone develops their own perspective of what financial independence means to them. This is key to define individual financial goals and plan the most appropriate course of action to take to achieve them.

Can Everyone Really Achieve Financial Independence?

Financial independence is a goal within everyone’s reach. With discipline and consistency, anyone can achieve it. This guide offers you simple tools that can be used when making key decisions to support your path to financial independence.

A 3-Pillar Framework to Financial Independence

At the highest level, the road to financial independence can be broken into 3 pillars:

1. **PLAN**
2. **PROTECT**
3. **GROW**

These pillars are not necessarily sequential and each covers a number of best practices, as broken down below. By following them, and – very importantly – doing them consistently over time, financial independence is within everyone’s reach.

Pillar 1: PLAN – Lay your financial foundations

This pillar all about laying strong foundations to ensure that activities undertaken under pillars 2 and 3 yield the greatest benefits. Important elements to consider here are:

- **Set clear financial goals**
    - Define what financial independence means to you
    - Define your short-term, medium-term and long-term financial goals

- **Make a budget and stick to it**
    - Track your income and expenses every month. This is especially important if money is tight
    - Allocate your budget in advance towards spending, saving, and investing
    - Revisit your budget regularly as things change
    - Live below your means and avoid 'lifestyle inflation' as your income grows
    - Prioritise your essential spend ('needs') over your discretionary spend ('wants')
    - An example allocation of monthly income that meets the principles above is: 70% spend / 20% invest / 10% save. Allocate the vast majority of your spend to your 'needs'
    - You can flex these proportions up and down over time depending on your circumstances as they change. For example, if you are starting to build your emergency fund (see Pillar 2), consider increasing the proportion of your income that goes into savings. The key is to try and stay true to these core principles.

Pillar 2: PROTECT – Shelter yourself from negative outcomes

This pillar is about making decisions to protect your financial future. Elements to consider here are:

- **Build an emergency fund**
    - Set money aside to spend on urgent matters, to cover for unexpected costs, or to draw from when you experience a temporary reduction in income
    - A general rule of thumb is to have 6-months' worth of outgoings (ordinary and extraordinary expenses) as the minimum size of your emergency fund. If you are particularly risk-averse, consider increasing the size of your emergency fund further (e.g. 9-12 months)
    - Use what you don't spend from your monthly income (10% in the example above, or more if you can) to build up your emergency fund up to the desired size. Once you have, redirect those 10% of savings into investments (see Pillar 3)
    - Make sure your emergency fund sits in high interest-paying savings account, to reduce the eroding impact of inflation on the value of money. You will need to shop around regularly to ensure you continue to earn a competitive rate

- **Get rid of unnecessary debt**
    - Pay off unnecessary debt, such as high interest credit card debt, car loans, personal loans, etc. so that you can start a virtuous cycle of spending less than you earn, to enable saving and investing to accelerate

- **Buy your home**
    - Get a mortgage to buy your home if that meets your lifestyle objectives. For the vast majority of people buying the home they live in will be a sound financial decision. Advantages of buying a home are: i) having to pay a mortgage off forces you to develop a saving mindset; ii) the real value of a mortgage gets eroded by inflation over time, thus the real cost of the debt you need to pay off keeps getting lower; iii) in the long term, owning your home protects your future living standards, as you won't have to pay a substantial amount of your income or pension towards rental costs later in life

- **Insure what matters most to you**
    - Consider buying insurance to protect you and your family from unexpected events. This can include, for example: life, critical illness, income protection insurance

Pillar 3: MAINTAIN + GROW – Increase your wealth over time

This pillar is about taking action to maintain and expand your wealth over time. Elements to consider here are:

- **Invest in yourself**
    - Expand your knowledge to stay relevant, learn new things, and give yourself the best chances to get better and better at what you do, and in so doing to keep growing your income

- **Invest in the stock market**
    - Invest in the stock market with a long-term horizon in mind, to achieve inflation-beating returns. You can do this, for example, through your pension wrapper, other tax efficient investment vehicles, and/or by setting up an investment account
    - A solid strategy to achieve above-inflation returns is to invest in a global equity index tracker fund over the course of many years, ideally decades. Use what you don't spend from your monthly income (20% in the example above, or more if you can) to regularly invest and build a larger and larger pot
    - For example, if you invested $100 a month in the S&P500 starting at 25 years old, by the time you turned 65 your total contributions ($48,000) would have grown to about $640,000, assuming an average nominal annual growth of 10% (which is what the S&P500 has returned on average every year over the past century or so)

- **Take bigger risks with a small proportion of your investments**
    - Use a small proportion of your wealth (for example 10% or any other amount you are comfortable with, as long as it does not risk jeopardising your growth phase) to take bigger risks, such: i) start your own business; ii) invest in property; iii) buy concentrated positions in the stock market (individual equities, initial public offerings, venture capital funds, …)
    - This approach does not guarantee success but if it doesn't work it won't have a negative impact on your wealth long-term. If it does work, it has the potential to generate outsized returns and materially accelerate your wealth growth rate
    - None of these risks should be a bet: you will increase the chances of any of these decisions to work if you first develop adequate knowledge of the areas you are taking risks into

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