

The Simple Path *to* Wealth



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JL COLLINS

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Praise for *The Simple Path to Wealth*

“In the dark, bewildering, trap-infested jungle of misinformation and opaque riddles that is the world of investment, JL Collins is the fatherly wizard on the side of the path, offering a simple map, warm words of encouragement, and the tools to forge your way through with confidence. You’ll never find a wiser advisor with a bigger heart.”

—Malachi Rempen, filmmaker,
cartoonist, author, and self-described
ruffian

“It’s rare to find a book that truly changes your life, but JL Collins’s commonsense explanations allowed me to see clearly what was previously so muddled. All the stress and indecision I previously felt with investing has melted away, and for the first time, I feel 100% confident in my strategy. I am forever in his debt and have become an evangelist for his approach.

“If you’re serious about your financial life, you need to read this book!”

—Brad Barrett, CPA, founder and host of
the *Choose FI* podcast

“*The Simple Path to Wealth* provides a refreshingly unique and approachable take on investing. It’s not only about reaching financial freedom; it’s about building a better life. It’s not about finding the next hot thing. It’s about sticking to the small number of time-tested principles that actually work and anyone can implement. If you’re looking for a way to use your money purposefully and intelligently to create a life you enjoy, this is it.”

—Matt Becker, founder, Mom and Dad
Money

“This is the START HERE book I recommend to everyone interested in investing. An amazing overview of everything you need to know, this is easily the best foundational investing book available. If you’re thinking of investing, this book will radically increase your confidence. If you’re

already an investor, this book will help you optimize your investing strategy to get better results. These simple principles are astoundingly effective. I followed his guidance and went from zero to a six-figure investment portfolio in less than five years.”

—Hahna Kane Latonick, bestselling author, *Master Your Money: Stop Yearning, Start Earning*

“JL Collins is the consummate expert on sane, rational investing methodology, and he has a knack for explaining the underpinnings of the stock market in a straightforward, approachable manner. Collins’s writing is thorough, informative, and best of all—effective. Most importantly, he’s one of the rare financial experts who isn’t trying to sell you something or rip you off.”

—Mrs. Frugalwoods

“Hey, millennials, listen up. *The Simple Path to Wealth* is an essential addition to your financial library. Sure, you could probably figure this out on your own, but why reinvent the wheel? It’s everything you should’ve been taught about investing and finances in high school. With funny personal anecdotes and a ton of valuable lessons, you can’t afford to not buy this book!”

—Gwen, founder, *Fiery Millennials*

“JL Collins’s blog is where I send those wanting to learn about effective investing. Now, in this book, he has managed to take all the confusing investing knowledge of our age and condense and clarify it into something anyone can understand. Despite the simplicity of the message, the outcome is powerful: the most effective investing strategy one can implement, whether beginner or expert!”

—Joe Olson, *Adventuring Along*; chief moderator, *Mr. Money Mustache*

“Investing doesn’t have to be difficult. In fact, it’s much better when it’s not, and the people who try to make it complicated are often the ones hoping to move your money into their pockets. *The Simple Path to Wealth*

contains everything you need to know to become a successful investor, so read it and ignore all the other nonsense, and one day you'll have more money than you know what to do with!"

—The Mad Fientist

"Personally, I don't follow the strategy laid out in Collins's book. But then, I have spent years of work and study developing and managing my own. For those who don't want to do this, I'd recommend this book. If your goal is financial independence, you're going to need strategies that are optimal for your skills, talents, and temperament. Those in *The Simple Path to Wealth* will serve you well."

—Jacob Lund Fisker, *Early Retirement Extreme*

"JL takes a topic that is often complex and sometimes intimidating and shares it in a way that anybody can understand. Finally, there is a book I can recommend that explains how to become wealthy in a way that is both easy to understand and easy to implement."

—Jeremy Jacobson, *Go Curry Cracker*

"Whenever I think about writing anything on investing, I recall JL Collins's insight and logical advice in *The Simple Path to Wealth*, marvel at its brilliance, then dramatically pluck a piece of paper from my typewriter, crumble it in resignation, and go learn another recipe from my mom. I cannot improve upon the best."

—Anita Dhake, *The Power of Thrift*

"JL Collins has the gift of making boring financial concepts funny and interesting. He makes complicated subjects simple and easy to understand. *The Simple Path to Wealth* is the first book I recommend to people curious about financial independence."

—Mike Moyer, Mike and Lauren TV
(YouTube)

"There are loads of books on investing. This is the one to get. It is smart, thorough, and accurate—and sometimes even funny. It is no understatement

to say that his principles changed the way I invest and made me wealthier in the process.”

—Mr. 1500 Days

“*The Simple Path to Wealth* is really about choosing a lifestyle—one that embraces a simple three-step philosophy that will change the way you view life and how you live it: spend less than you earn, invest wisely, and avoid debt. The book includes simple parables that untangle unnecessary complexity and show how the power of compound interest can provide you with the wealth of freedom. The writing is straightforward and colloquial, and powerful points are highlighted in a way that is easy to grasp. Reading this book can be a wise investment in your future, as well as a clear reminder of what is really important in life.”

—T. Mullen, Roundwood Press

“Based on JL Collins’s excellent blog *Stock Series*, this book deserves to become a ‘go-to’ resource for investors. He cuts through all the spin, complexity, and jargon of Wall Street and makes investing simple enough for anyone to manage their own portfolio. Crucially, JL Collins covers the mental and emotional aspects of investing as well as the technical aspects, which is rare among investment writers.”

—The Escape Artist

“JL enjoys a financially independent lifestyle while sharing money and life lessons through his blog. His *Stock Series* introduced passive index investing to a wide audience. Now you can get the same wisdom, distilled in book form. JL tells you how to avoid common investing fears, misperceptions, and mistakes. He teaches about diversification, asset classes, asset allocation, and the best way to use retirement plans. This is a simple, proven path to investment success from a guy who actually did it. If you’re new to investing, don’t miss this crash course in the essentials!”

—Darrow Kirkpatrick, *Can I Retire Yet?*

“As small business owners, our biggest fear is always about how we plan for retirement. Collins removes the mystery and nonsense surrounding investing. We feel much more confident about how we invest our money.

We love our business, but love even more that work is becoming a choice, not a requirement.”

—Jay Dedman and Ryanne Hodson,
Scavenger Life

“I came of age in the midst of the Great Recession. Like many of my peers, I developed an unhealthy fear of the market. By the time I finally realized investing was one of the best ways to build wealth while beating inflation, I had no idea how to do it. Then I started reading JL Collins. This book makes one of the most overwhelming financial tasks not just simple but exciting. While time has taught us that the market doesn’t always go up in a perpetually straight line, Collins has taught us how to invest so the ups and downs don’t hurt so badly. And he’s taught us how to do it without getting a headache.”

—Brynne Conroy, *Femme Frugality*

“A brilliant collection of practical, personal finance advice that produces extraordinary results for your financial happiness. JL Collins has a knack for fact-driven investment ideas that you can learn from to strengthen your financial muscle. A masterful must-read for anyone who expects financial peace.”

—Shilpan, *Street Smart Finance*

“This book should be required reading for any new investor! In it, you’ll find comprehensive investing information, along with some neat tips and interesting twists to help make the most of your money. The JL Collins commonsense approach to building wealth makes it easy for anyone to be successful.”

—Mindy Jensen, *Bigger Pockets*

The Simple Path to Wealth

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Also by JL Collins

How I Lost Money in Real Estate Before It Was Fashionable: A Cautionary Tale

Pathfinders: Extraordinary Stories of People like You on the Quest for Financial Independence—and How to Join Them

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The Simple Path to Wealth

Your Road Map to Financial Independence and a
Rich, Free Life

JL Collins



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First Draft, an imprint of Authors Equity
1123 Broadway, Suite 1008
New York, New York 10010

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Cover Design by Carol Chu
Cover Illustration by Trisha Ray
Interior adapted from Mary Jaracz's design of original edition

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First published in 2016.
Revised and expanded edition published in 2025 by Authors Equity.

Library of Congress Control Number: 2025930312
Print ISBN 9798893310474
Ebook ISBN 9798893310856

Version 250311

www.thesimplepathtowealth.com
www.authorsequity.com

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This book is dedicated to my daughter Jessica, for whom it is written and who inspired me to write it. And to my readers, whose questions and comments over the years helped me more fully understand what those aspiring to financial independence want and need to know.

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Start Here

The ideas, concepts, and everything else in this book are my opinions based on what has worked for me and what has kicked me in the ass. The approach may not continue to work for me, and it may not work for you.

While I hope the book answers some of your questions and provides valuable guidance, I cannot possibly know the full details of any reader's personal situation or needs. At some points in this book, I've cited various laws and regulations and used specific numbers for things like the expense ratios of mutual funds, tax brackets, limits on contributions to investment accounts, and the like. While to the best of my knowledge, these were all accurate at the time of updating this edition of the book, they may well have changed by the time you read it. As they are used primarily to illustrate the broader concepts I am presenting, this shouldn't matter much. However, if you find for your situation or even just for your own curiosity it does, by all means, take the time to look up the most current rules and numbers for yourself.

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Foreword

There's no shortage of stuff you really should be learning in this world, and no shortage of books about exactly that same stuff. Every bit of knowledge you could ever hope for is already waiting right there in a book somewhere. Or a whole shelf of books. Heck, you could probably fill an entire underground parking garage with all the books that have been written on the subject of investing alone and still find more pouring out onto the ground when you climb back out.

The problem is that most of those books are boring, and you end up setting them down with a bookmark somewhere around page 25, never to return. Even with the best of skills and intentions, I find that the writers of most books about stock investing cannot seem to get it right. They drag it out painfully or write paragraphs so dry and dense that you find yourself rereading the same passage over and over for half an hour while your mind wanders off to more interesting pastures.

JL Collins takes this old style of investment book writing and disregards it completely. He creates the stuff that your mind wants to run to when it is tired of reading about stocks. Instead of esoteric equations about measuring a stock's *alpha* and comparing it to its *beta*, he compares the entire stock market to a large mug of *beer* and explains why it's still worth buying even when it comes along with an unpredictable quantity of foam.

He lights up the campfire and just starts telling stories, and if those stories just happen to be about exactly what you wanted to learn in the first place, your new knowledge is a happy side effect.

This is exactly what happened in real life a few years ago, when JL started writing a series of blog posts about good investing. I read them all as they came out, and they were so good I started referring my own readers to them. The readers liked them so much, they referred others. Their numbers reached the thousands, then the hundreds of thousands.

Word kept spreading about the *Stock Series* (and still does to this day) because it is something people actually enjoy reading. Sure, the author has

the technical chops and demonstrates them well in his own enviable financial life. But readers don't keep coming back just to bask in technical wizardry—they are there to enjoy the fire and hear a good story.

I think that amazing response is what motivated JL to rewrite and expand his great *Stock Series* into this even better book. *The Simple Path to Wealth* is a revolutionary book on stock investing (and good finance in general) because you'll actually read it, enjoy it, and then be able to immediately put the lessons profitably into action with your own money.

You'll be relieved to hear that you can be very successful by holding only a single Vanguard fund over your entire lifetime. You can branch out and get a little fancier if you like, but there is nothing to lose—and everything to gain—by keeping things as simple as you can.

Although very few people actually follow it, I have found that the road to a wealthy life really is simple and quite enjoyable to follow, so it only makes sense that a book about it should have those same fine traits. This one does.

Peter Adeney
a.k.a. Mr. Money Mustache
Colorado, June 2016

A Parable: The Monk and the Minister

Two close boyhood friends grow up and go their separate ways. One becomes a humble monk, the other a rich and powerful minister to the king.

Years later they meet. As they catch up, the portly minister (in his fine robes) takes pity on the thin and shabby monk. Seeking to help, he says,

“You know, if you could learn to cater to the king, you wouldn’t have to live on rice and beans.”

To which the monk replies,

“If you could learn to live on rice and beans, you wouldn’t have to cater to the king.”

Most of us fall somewhere between the two. As for me, it is better to be closer to the monk.

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The Simple Path to Wealth

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Beginnings

If you reach for a star, you might not get one. But you won't come up with a handful of mud either.

—Leo Burnett

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How We Got Here

What you hold in your hands is a revised edition of a book, which itself grew out of my blog, which in turn grew out of a series of letters I wrote to Jessica, my then-teenage daughter. These letters concerned various things—mostly money and investing—she was not quite yet ready to hear.

Since money is the single most powerful tool we have for navigating this complex world we've created, understanding it is critical. If you choose to master it, money becomes a wonderful servant. If you don't, it will surely master you.

"But Dad," my little girl once said to me, "I know money is important. I just don't want to spend my life thinking about it."

For me this was eye-opening. I love this stuff. But most people have better things to do with their precious time than think about money. They have bridges to build, diseases to cure, treaties to negotiate, mountains to climb, technologies to create, children to teach, businesses to open and build.

Unfortunately, this benign neglect of things financial leaves you open to the charlatans of the financial world. The people who make investing endlessly complex because the more complex it is, the more profitable it is for them and the more expensive for us. We are then forced into their waiting arms.

Here's an important truth: Complex investment instruments exist only to profit those who create and sell them. Further, not only are they more costly to the investor; they are less effective.

There are three key principles that have persisted from those letters, through the blog, and now in both editions of this book:

1. Spend less than you earn.
2. Invest the surplus.
3. Avoid debt.

As I advised my daughter from the beginning: Follow these and you'll wind up rich, and not just in money.

We will cover these principles in depth over the course of the pages ahead. Before we do, it may be helpful to know more about where I'm coming from.

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My Story: It Has Never Been About Retirement

For me, the pursuit of financial independence has never been about retirement. I like working, and I've enjoyed my career. It's been about having options. It's been about being able to say no. It's been about having "F-You Money" and the freedom it provides.

I started working when I was thirteen (even earlier if you count selling flyswatters door-to-door and collecting pop bottles from the side of the road for the deposits). For the most part, I've enjoyed work, and I've always loved being paid.

From the beginning, I was a natural saver. Watching my money grow was intoxicating. I've never been sure how this started. It might be hardwired into my genes. It might be my mother seducing me with the image of the red convertible I'd be able to buy when I turned sixteen, though that was not to be.

My father's health failed before that birthday and, shortly thereafter, so did his business. My savings went to pay for college, and I learned that it is a fiscally insecure world. Convertibles came later. To this day, it stuns me to read about some middle-aged guy laid off from his job of twenty years and almost instantly broke. How does anyone let that happen? It is the result of failing to master money.

Long before I heard the term, I knew I wanted F-You Money. If memory serves, the phrase originates in James Clavell's novel *Noble House*, and from the moment I read it, I had a tangible goal with an unforgettable name.

In the novel, a young woman is on a quest to secure her own F-You Money. By this, she means enough money to be completely free of the demands of others and able to do exactly what she wants with her life and time. She's after ten million—far more than it takes to reach simple financial independence. At least for me. It helps to have a bit of the monk inside.

The other thing I quickly figured out is that financial independence is at least as much about being able to live modestly as it is about cash, as our

opening parable describes.

Unlike in the novel, for me, “enough” F-You Money isn’t necessarily enough to live on for the rest of your life. Sometimes it’s only just enough to step to the side for a while. I first had mine at age twenty-five when I’d managed to save the princely sum of \$5,000, achieved after working two years at \$10,000 per year.

It was my first “professional” job, and it had taken me two long postcollege years supporting myself doing minimum wage grunt work to find it. But I wanted to travel. I wanted to spend a few months bumming around Europe. I went to my boss and asked for four months of unpaid leave. Such a thing was unheard of in those days. He said no.

Back then, I assumed working relationships weren’t negotiable. You asked. Your employer decided and answered. Done.

I went home and spent a week or so thinking about it. In the end, as much as I liked the job, and as tough as I assumed finding another would be, I resigned. I wanted to go to Europe. Then a funny thing happened. My boss said, “Don’t do anything rash. Let me talk to the owner.”

When the dust settled, we agreed on a six-week leave, which I spent riding my bicycle around Ireland and Wales.

While I might not have initially realized such things could be negotiated, I learned quickly enough. I also asked for and received a month of annual vacation going forward. That got me to Greece the following year. My eyes were opened. F-You Money not only paid for the trip; it bought me room to negotiate. I’d never be a slave again.

Since then, I’ve quit jobs four more times and have been kicked to the curb once. I’ve sat on the sidelines for as little as three months and for as long as five years. I’ve done it to change careers, to focus on buying a business, to travel, and—the time it wasn’t my call—with no plan at all.

My daughter was born during one of these, ahem, unpaid leaves. These things happen when you have time on your hands. Now an adult, she has grown up with anything from Dad working eighteen-hour days and constantly away from home to Dad sleeping late and lounging around. But she always knew that I was doing, for the most part, exactly what I wanted to do at the time.

I like to think that these experiences taught her the value of having money and the joy of work when you aren't effectively shackled to it.

When she was about two, her mom went back to school. This was during my business-buying phase, and I had lots of free time.

While Mom was at the university in the evenings, my daughter and I spent endless hours watching *The Lion King* over and over. And over. I've probably seen that movie more times than all other movies combined. We still laugh remembering the teacup towers and Lincoln Log cabins we built. These hours were the foundation of the relationship we've grown to cherish.

Even though I didn't have a paycheck coming in at the time, we also decided my wife should quit her job to become a stay-at-home mom. While she liked the idea, this was a very tough call for her. Like me, she'd been working since childhood and loved it. She felt that without a job, she wouldn't be contributing.

"We have F-You Money," I said. "We don't care about fancy cars or a bigger house. If you kept working, what could we possibly buy with the money that would have more value than you being home with our daughter?"

Put in those terms, the choice was easy. She quit. It was far and away the best "purchase" we ever made. Of course, this also meant we had no working income. However, for the three years we both weren't working, our net worth actually grew. It was the first time we fully realized we had moved beyond just having F-You Money. We had become financially independent.

As for me, I failed in finding a business to buy, but the search morphed into consulting work, and a couple of years into that, a client hired me for more money than I'd been making at the job I'd left years earlier. Such is the price of failure in the United States.

When we moved to New Hampshire, my wife volunteered at our daughter's grammar school library. Their hours, of course, matched perfectly. After a couple of years, the school offered her a paid gig. It wasn't the corporate job she'd been used to, but it was also stress-free and fun. She never looked back.

For the most part, over the decades we've been married, at least one of us has been working. That handily solved the tough problem of health insurance. During the early 1990s, when we had an overlapping employer-less few years, we bought a high-deductible, catastrophic health plan. It was too long ago to remember the details, and they likely wouldn't apply today anyway. But that's what we'd have sought out again if my wife had decided to hang it up before we became eligible for Medicare.

As I'll detail later in the book, and as its title implies, our investments are the soul of simplicity.

You'll also see I'm not a fan of the "multiple income stream" school of investing. Simple is, in my book (pun intended), better. So we have no cattle, gold, annuities, crypto, or the like.

When I quit work in 2011 and we fully settled into our financial independence, we still had a couple of leftover investments from earlier times. These represented the last remnants of the many investing mistakes I've made over the years. Now in retirement, we've burned those up first, as we needed the cash. They mostly revolved around the idea that I could pick investments that would outperform the basic stock index. It took me far too long to accept just how impossibly difficult a task that is. Three things saved us:

1. Our unwavering 50% savings rate.
2. Avoiding debt. We've never even had a car payment.
3. Finally embracing the indexing lessons Jack Bogle—the founder of the Vanguard Group and the inventor of index funds—perfected decades ago.

Looking back, what is striking to me is how many mistakes I've made along the way. Yet those three simple things got us to where we wanted to be. That should be encouraging to anyone out there who has also made poor choices along the way and who is ready to change.

When my journey began, I knew no one else following such a path. I had no idea where it would or could lead. I had no one to tell me stock picking was a sucker's game or that swinging for the fences isn't needed to reach financial independence. That last point alone would have saved me the

\$50,000 of my money Mariah International (a gold-mining penny stock) burned through while failing and failing to make me rich.

So now I'm (again) retired, and it feels great. I love not having to keep regular hours. I can stay up till four a.m. and sleep till noon. Or I can get up at four thirty and watch the sun rise. I can hang around home or disappear for months at a time, far afield. I post on my blog when the spirit moves me, and I might even get another book or two written. Or I can just sit on the porch with a cup of coffee and read the books others have written.

One of my very few regrets is that I spent far too much time worrying about how things might work out. It's a huge waste, but it is a bit hardwired into me. Don't do it.

The older I get, the more I hold each day precious. I've become steadily more relentless in purging from my life things, activities, and people that no longer add value while seeking out and adding those that do.

It's a big, beautiful world out there. Money is a small part of it. But F-You Money buys you the freedom, resources, and time to explore it on your own terms. Retired or not. Enjoy your journey.

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Things Change; the Principles Remain

Putting together this revised edition has provided an opportunity to reflect on this past decade since *The Simple Path to Wealth* was initially published.

First, on the personal front, one of the greatest points of joy for me has been working with my daughter on this revision. This started, after all, with our conversations when she was a young child, and it was driven by my fear that by pushing too hard too soon, I had managed to turn her off to all things financial. It was very gratifying to see it come full circle as we collaborated on this new edition.

I am frequently asked if she came to embrace the concepts here. I am more than a little relieved to report she has. After all, for me, this has all been about trying to persuade only one person. Her work on this revision not only helped and made it more fun; it showed how deeply she has come to understand and embrace The Path. Indeed, now in her early thirties, she is closing in on her own financial independence.

Even so, she still likes to tease me, saying, “You know, Dad, if I had listened to you when I was young, there would be no blog, no Chautauquas, no books—nobody would want to interview you, and Authors Equity wouldn’t be publishing this new edition.”

A second question I am frequently asked is, Do the principles in this book still work? Absolutely.

The approach here is one designed for decades. Assuming a long, healthy life, my daughter will have been following it for seventy or eighty years, and then so will her heirs. While this revision carries many updates and some new material, the principles remain exactly the same.

While this second question always amuses me a bit, the concern is understandable. The world has been filled with turmoil since this book was first published. Inflation returned, driving interest rates higher. We’ve lived through the first global pandemic in a hundred years and the resulting market crash. New, sometimes scary technologies are here. New ways to

speculate, like Bitcoin and meme stocks, are touted. We have global warming and new wars.

While the rate of change *feels* new, it really isn't: The world has always felt unsettled in the moment. The specifics might change, but the turmoil is a constant. In that sense, the last decade has the same feel to me as the six I lived through before.

So what does all this mean for us investors? Well, in the half century I have been investing (1975–2025), through all these challenges, the S&P 500 has risen at an average rate of 12.2% per year.¹ Breathtaking, and we'll talk more about this in these pages.

So yes, a lot can happen in ten years. But on reflection, I'm more convinced than ever that these principles, which we'll go into throughout the rest of this book, continue to hold true.

The Simple Path to Wealth is designed to stand the test of time. It has served those who follow it, like my daughter, extremely well these past ten years. It would have served me equally well during my fifty years of investing if only I'd been smart enough to come up with it in 1975. No one can know the future, but this is the best way I know to face it financially. It is what my daughter and I both do.

It didn't come easy. What is so simple and clear to me now, I personally had to learn the hard way, and it took decades. Those initial letters to my daughter, then my blog, and now this book are all my efforts to share with her what works, where the minefields lie, and how simple it all can and should be. My hope is that with these principles, her path will continue to be smoother, her missteps fewer, and her own financial freedom will come sooner and with fewer tears.

Now that you've picked up this book, my hope is the same for you. So let's get started.

¹ Calculator A: <https://dqydj.net/sp-500-return-calculator/>.

Important Note on Projections

Throughout this book, you will find various “what if” scenarios. Creating these involved selecting from the many investment projection calculators freely available online and then selecting the parameters to enter. By definition, this means these scenarios are *only* for the purpose of making or demonstrating a point. While the inputs are accurate, the results are not a prediction of what the future will hold, nor can they be.

In each case, I refer you to one of three calculators:

Calculator A, S&P 500 Return Calculator with Dividend Reinvestment:
<https://dqydj.net/sp-500-return-calculator/>

- This is the one to use when you just want to know the S&P 500 returns for a particular period.
- After entering the dates you’re interested in, just click “Calculate” to see the data.

Calculator B, S&P 500 Periodic Reinvestment Calculator (with Dividends): <https://dqydj.net/sp-500-dividend-reinvestment-and-periodic-investment-calculator/>

- This one lets you see the impact of regularly investing any given amount.
- To use it the way I do, (1) enter your dates, your starting amount, and the amount of your ongoing investment, (2) click “Keep It Constant,” (3) click “Advanced,” (4) click “Ignore Taxes” and “Ignore Fees,” then (5) click “Calculate.”

Calculator C, a basic investment calculator:
<https://www.calculator.net/investment-calculator.html>

- This one allows you to see the results of entering various investment amounts, time periods, expected rates of return, and additional contribution amounts and when to make them.

- Always start with the “End Amount” tab clicked. Then just enter your inputs and click “Calculate.”

In running the scenarios you’ll find, I chose the following:

- To select “Dividends Reinvested” because this is typically what investors do (and should do) while investing to build their wealth.
- To ignore inflation (too unpredictable), taxes (too variable between individuals), and fees (also variable and, if you choose the index funds I recommend, minimal).
- In scenarios with initial and/or recurring investments, I chose to invest at the beginning of the month or year.

If you want to see what the numbers look like for you and to see the impact of changing any of these variables, I encourage you to visit the calculators and run the numbers with your own specifications.

In the original edition of this book (written in 2015), I referred to a forty-year period starting in January 1975. I picked it for these reasons:

- It is a nice, solid multidecade period, and this book advocates investing for the long term.
- 1975 is the year Jack Bogle founded Vanguard (he followed the next year by launching the world’s first index fund), and this book advocates investing in index funds.
- 1975 happens to be the year I started investing—not that this matters to you.

As it happens, from January 1975 to January 2015, using the parameters indicated above, the market returned an average of 11.9% per year. The actual returns for any given year were all over the place. But when the dust settled, over that forty-year period, the average was 11.9%.

That was a breathtaking number, so I braced myself when checking the returns for this new edition. After all, we’d endured a pandemic, the 34% market crash it triggered, and a bear market drop of 22% for 2022. But through all that and over this almost half century, from January 1975 to December 2024, the market averaged an annual return of 12.2%.

Already, I can hear the naysayers howling: From January 2000 to January 2009, the market wasn't returning anything near 12.2%. True enough. Returns then were an ugly -3.8% with dividends reinvested. But that time frame encompassed one of the very worst investment periods of the last hundred years.

During one of the best, January 1982–January 2000, returns blew past 12.2%, averaging around 18.5% per year. From January 2009 until January 2015, the return was 17.7% per year. More recently, from January 2019 to December 2024 (the most recent period as of this writing), it was 17%.

The fact is, in any given year, it is exceedingly rare that the market will deliver any specific return. Moreover, the average market return will vary dramatically depending on exactly what period you choose to measure.

So this left me with a bit of a dilemma. The real, actual average annual return for the last five decades had been 12.2%. But—and let me be absolutely clear about this—*in no way should this be used as an expected return going forward.*

I am *not* for a moment suggesting that you can count on 12.2% annual returns when planning for your future.

The idea that someone might think I am gave me serious pause. So I considered using a different time span. But given the variables above, that would only project a different percentage equally unlikely to hold going forward.

Using the same time span but with different parameters was an option. Those results look like this:

- Without reinvesting dividends: 9.25%
- Without reinvesting dividends + inflation: 5.38%
- Reinvesting dividends + inflation: 8.25%

But for the reasons mentioned above, these seemed even less useful, even if less shocking.

I briefly considered just using a random percentage that seemed reasonable—say 8%. Indeed, as you'll see, I do use 8% in a couple of

illustrations. It is commonly said the market returns between 8% and 12% annually, and for those cases, using the lower end of that range seemed most reasonable. But still, that's just pulling a number out of the air—and who is to say what's “reasonable”?

In the end, for my first edition of this book, I mostly went with the breathtaking 11.9% and, for this new edition, the equally breathtaking 12.2%. As they say, it is what it is. But again,

I am *not* for a moment suggesting that you can count on 11.9% or 12.2% or any particular annual return percentage when planning for your future.

We are only doing a bit of “what if” analysis here to explore the possibilities. If 11.9% or 12.2% strikes you as too high—or too modest—you can run the numbers using the percentage or time period that seems most reasonable to you.

Whatever you choose, it won't be what happens each year, even if it turns out to be reasonably correct in measuring the decades. Nobody can predict the future precisely, and that's something to remember any time you are looking at exercises such as these.

Finally, because it's so important, I'm going to repeat here what I included in my disclaimer at the beginning about the impact of changes over time. Throughout the book, I've cited various laws and regulations and used specific numbers for things like the expense ratios of mutual funds, tax brackets, limits on contributions to investment accounts, and the like. While these were all accurate at the time of updating this edition of the book, they may well have changed by the time you read it. As they are used primarily to illustrate the broader concepts I am presenting, this shouldn't matter much. However, if you find that for your situation or even just for your own curiosity it does, by all means, take the time to look up the most current rules and numbers for yourself.

Now we can get started.

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Part I

Orientation

The tide is high but I'm holding on.

—Blondie

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Chapter 1

Debt: The Unacceptable Burden

A couple of years after I was out of college, I got my first credit card. They were tougher to come by in those days. Not like now, when my unemployed pet poodle has his own line of credit.

The first month, I racked up about \$300 or so. When the bill came, there was each charge listed by vendor, with the total at the bottom. In the upper right-hand corner, there was a box with a dollar sign in it and a blank space beside it. Under this, in bold letters, it read, “Minimum payment due: \$10.”

I could hardly believe my eyes. I get to buy \$300 worth of stuff, and they only require me to pay them back \$10 a month? And I can still buy more? Wow! This is awesome!

But still, in the back of my mind, I could hear my father’s voice: “If it sounds too good to be true, it is.” Not “it could be” or “it might be.” It is.

Fortunately, my older sister was sitting nearby. She pointed out the fine print. The part about them planning to charge me 18% interest on the \$290 they were hoping I’d let ride. What? Did these people think I was stupid!?

As a matter of fact, they did. It was nothing personal. They think the same of all of us. And unfortunately, all too frequently, they’re not wrong.

Pause for a moment and take a look at the people around you, literally and figuratively. What you’ll often see, if you scratch the surface just a bit, is an unquestioning acceptance of the single most dangerous obstacle to building wealth: Debt.

For marketers, it is a powerful tool. It allows them to sell their products and services far more easily—and for far more money—than if it didn’t exist.

Do you think the average cost of a new car would be pushing \$50,000 without E-Z financing? Or that a private college education would cost around \$200,000 if it were not for readily available student loans? Think again.

Not surprisingly, debt has been promoted and largely embraced as a perfectly normal part of life. Indeed, it is hard to argue against the fact that this has become “normal.” As of late 2024, Americans carried a total debt burden of almost \$18 trillion (up from \$12 trillion in 2015, when I wrote the first edition of this book):

~\$12.6 trillion in home mortgages

~\$1.6 trillion in student loans

~\$3.7 trillion in other consumer loans such as credit card debt and auto loans

By the time you read this, these numbers will undoubtedly be higher. And most disturbingly, almost no one you know will see this as a problem. In fact, most will see it as their ticket into the “good life.”

But let’s be clear. This book is about guiding you toward financial independence. It is about buying your financial freedom. It is about helping you become wealthy and putting you in control of your financial destiny.

Look around at those people again. Most will never achieve this, and their acceptance of debt is the single biggest reason why.

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.

The idea that many (indeed most) people seem to happily bury themselves in debt is so beyond my understanding it is hard to imagine how, let alone why, the downsides would need to be explained. But here are a few:

- Your lifestyle is diminished. Set aside any aspirations for financial freedom. Even if your goal is to live the maximum consumer lifestyle, the more debt you carry, the more of your income is devoured by interest payments. A (sometimes huge) portion of your income has already been spent.
- You are enslaved to whatever source of income you have. Your debt needs to be serviced. Your practical ability to make choices congruent

with your values and long-term goals is seriously constrained.

- Your stress levels build. It feels as if you are being buried alive. The emotional and psychological effects of being saddled with debt are real and dangerous.
- You endure the same type of negative emotions experienced by any addict: shame, guilt, loneliness, and above all, helplessness. The fact that it's a prison of your own making makes it all the more difficult.
- Your options can become so narrowed and your stress levels so high, you risk turning to self-destructive patterns that only reinforce the dependence on spending. Drinking, perhaps, or smoking. Or ironically, shopping and still more spending. It's a dangerous, self-perpetuating cycle.
- Your debt tends to focus your attention on the past, present, and future exclusively in the worst possible way. You become fixated on your past mistakes, your present pain, and the disaster looming ahead.
- Your brain tends to shut down on the subject with the vague hope it will all resolve itself in some magical way and in the magical time of later. Living with debt becomes hardwired in your financial attitudes, habits, and values.

OK, but what do I do about the debt I have?

While the mantra here is “Avoid debt at all costs,” if you already have it, it is worth considering if paying it off ahead of schedule is the best use of your capital. In today's environment, here's my rough guideline:

If your interest rate is . . .

- Less than 3%: Pay it off slowly and route the money to your investments instead.
- Between 3% and 5%: Do whatever feels most comfortable. Either put the money to debt payment or investments.
- More than 5%: Pay it off ASAP.

But this is just looking at the numbers. There is a lot to be said for focusing on just getting it out of your life and moving on. Especially if keeping your

debt under control has been a problem for you.

OK, I'm gonna pay it off! What now?

Countless articles and books have been written about ridding yourself of debt. If after reading this chapter you feel you need more guidance and help, by all means embrace them. But be careful not to let the pursuit of the *methods* get in the way of the *doing*. The truth is, there is no easy way. But it is pretty simple.

Here's what I'd do:

- Make a list of all your debts.
- Eliminate all nonessential spending, and I mean all of it. Those routine \$5 coffees, \$30 dinners, and \$15 cocktails add up. This is what will free up the money you need to pour on the debt flames that are burning up your life. The more you pour, the sooner you stop burning.
- Rank your debts by interest rate.
- Pay the minimum required on all your debts, and then focus the rest of your available money on the one with the highest interest rate first.
- Once you've blown that one away, move on to the second highest and right on down the list.
- Once you're done, send me a note and let me know. I'll be raising my glass in a kudos salute to you!

Here's what I would *not* do:

- I would *not* pay for a service to help. This only adds to your costs, and such credit counseling services have no magic formulas or techniques to make this less painful. You, and only you, can do the work.
- I would *not* worry about trying to consolidate your loans into one place, not even for a lower interest rate. You are going to pay these puppies off fast and hard. Once they're gone, your interest rate will be *zero*. That's your goal, not merely taking your rate from 18% to 12%. Focus your time and attention there rather than on exploring clever strategies.

- I would *not* pay off the smaller loans first for the psychological boost. I know this is a key part of at least one popular strategy, and if it makes you more likely to stay the course, so be it. But as you'll learn reading further in this book, I'm not a fan of such crutches. Better to adapt yourself and your attitudes to the numbers than to adapt the strategies to your psychological comfort levels.

In short, nothing fancy. Just do the work and get it done.

This is not going to be easy. Simple, yes. Easy, no.

It will require you to rather dramatically adjust your lifestyle and spending to free up the money you need to direct toward your debt.

It will require serious discipline to stay the course over the months (maybe years) it will take to eliminate your debt.

But here's the good news, and it really is *awesomely* good:

Once you've ingrained that lower-spending lifestyle and made diverting the excess cash to your debt your path, you will have also created exactly the platform required to begin building your financial independence.

With the debt gone, you need only shift the money to investments.

Where once you had the satisfaction of watching your debt diminish, you'll now have the joy of watching your wealth build.

Waste no time. Debt is a crisis that needs immediate attention. If you are currently in debt, paying it off is your top priority. Nothing else is more important.

Look again at those people around you. For most, debt is simply a part of life. But it doesn't have to be for you.

You weren't born to be a slave.

A few cautionary words on “good debt”

Occasionally, you will hear the term “good debt.” Be very cautious when you do. Let's briefly look at the three most common types.

Business loans

Some (but not all) businesses routinely borrow money for any number of reasons: asset acquisition, inventory financing, and expansion to name a few. Used wisely, such debt can move a business forward and provide greater returns.

But debt is always a dangerous tool, and the history of commerce is littered with failed companies ruined by the debt they took on.

Astutely dealing with such debt is beyond the scope of this book, other than to say those who use it successfully do so with great care.

Mortgage loans

Taking on a mortgage to buy a house is the classic definition of “good debt.” But don’t be so sure.

The easy availability of mortgage loans tempts far too many into buying houses they don’t need or that are far more expensive than prudent. Shamefully, this overspending is often encouraged by real estate agents and mortgage brokers.

If your goal is financial independence, it is also to hold as little debt as possible. This means you’ll seek *the least house to meet your needs rather than the most house you can technically afford*.

Remember, the more house you buy, the greater its cost. Not just in higher mortgage payments, but also in higher real estate taxes, insurance, utilities, maintenance and repairs, landscaping, remodeling, furnishing, and opportunity costs on all the money tied up as you build equity. To name a few.

More house also means more stuff to maintain and fill it. The more and greater things you allow in your life, the more of your time, money, and life energy they demand.

Houses are an expensive indulgence, not an investment. That’s OK if and when the time for such an indulgence comes. I’ve owned them myself. But don’t let yourself be blinded by the idea that owning one is necessary, always financially sound, and automatically justifies taking on this “good debt.”

Student loans

When I was in college at the University of Illinois from 1968 to '72, the total annual cost was \$1,200. This \$1,200 covered everything: tuition, books, rent, food, and even a little entertainment.

Each twelve-week summer, I worked taking down diseased elm trees. I was paid \$20 a day over a six-day week. I saved \$100 a week and by fall had the \$1,200 needed for the school year.

Of course, I lived in one room of a dilapidated old house that should have been condemned. White rice and ketchup served as dinner two or three times a week.

Fast-forward to 2010 to '14, my daughter's college years. The all-in yearly cost averaged \$40,000 at the University of Rhode Island, also a state school. New York University, her other option, would have run approximately \$60,000 per year. And if she'd headed to URI in 2024 instead, it would have been about \$54,000; students entering NYU in 2024 faced about \$87,000. As a former colleague of mine once said, that's like buying a new BMW, driving it for a year, and throwing it away. Then buying another. For four consecutive years.

Inflation certainly played a role. Using the CPI (consumer price index), what cost \$1 in January 1970 took \$8.35 to buy in December 2024.¹ An eightfold increase.

In the same time period, one year of all-in costs at my alma mater went from \$1,200 to \$55,322. A forty-six-fold increase.

Make no mistake: Easily obtained student loans have flooded the system with money. Universities have been and continue to be on a building boom. Fancier prices require fancier settings.

The average salary of a university president in 1970 was around \$25–30,000. Today it ranges widely, with a few around \$100,000, many more in the multi-hundred-thousands, and some running into the millions.

Not only has this driven up the cost of everything college related; it has effectively eliminated the option of living cheaply.

That ramshackle house I lived in? Torn down to make way for fancy new dorms.

Eat in on rice and ketchup? No worries, my friends did the same. It was a source of pride. Today, it would be a source of embarrassment as all your student loan–funded pals go out for sushi.

Moreover, one of the more unfortunate results of spiraling college costs and debt is the way it has warped the very concept of higher education. Rather than the pursuit of learning and culture, it has become the pursuit of job training in an effort to secure employment that will justify the astounding cost and debt incurred.

Even successfully applied, this shackles young people to jobs long after the appeal has faded. Youth should be spent exploring—building and expanding one’s horizons—not grinding away in chains.

Here’s the real kicker: Unlike other kinds of debt, as truly awful as they are, you can never walk away from your student loans. They survive bankruptcy. They will follow you to your grave. Your wages, and even Social Security, can be garnished to pay them.

No wonder banks are falling all over themselves to issue this debt.

I am a firm believer in personal responsibility and that debts freely taken on should be faithfully repaid. But the ethics of encouraging 17- and 18-year-olds—who likely have little financial savvy—to almost automatically accept this burden gives me serious pause.

We are creating a generation of indentured servants. It’s hard to see the ethics or benefits in that.

¹ https://www.bls.gov/data/inflation_calculator.htm.

Chapter 2

Why You Need F-You Money

Shortly after 9/11, my company kicked me to the curb.

Six months earlier, our division president had taken me to a congratulatory lunch for a record-breaking year. We were growing explosively and embarrassingly profitable. Over a bottle of fine wine, we discussed my very bright future.

It was the best job I'd ever had. We had a great team, great leadership, great fun, and I made great money. I had just cashed a bonus check for more than I had ever made in a single year before.

A year later, my little girl and I were sitting on the couch watching a news broadcast. The concerned news crew was filming people standing in a depression-era-style bread line. They were, the reporter said, the newly poor, suffering from job loss in the dismal economy. I was still unemployed and licking my wounds.

"Daddy," said my then-eight-year-old, "are we poor?" She was gravely concerned.

"No," I said. "We're just fine."

"But you don't have a job," she said. She was thinking, I'm sure, "Just like those poor jobless souls on the TV." Who even thought she knew what a job was?

"That's no problem, honey. We have money that's working for us instead."

That's what I said, but what I was thinking was, "This was exactly why I worked so hard to be sure I had F-You Money." In fact, I'd been working on it long before I heard the term.

I may not have known at first what it was called, but I knew what it was and why it was important. There are many things money can buy, but the

most valuable of all is freedom—freedom to do what you want and to work for whom you respect.

Those who live paycheck to paycheck are slaves. Those who carry debt are slaves with even stouter shackles. Don't think for a moment that their masters aren't aware of it.

As already described, I first accumulated the modest amount of F-You Money I needed to negotiate extra vacation time two years into my first professional job. By 1989, the amount and the freedom it provided had grown substantially. Not enough to retire, perhaps, but easily enough to say “F you” if needed.

The timing was fortunate. I wanted to take some time off to pursue business acquisitions. When one morning I found myself and my boss in the office hallway screaming at each other, it occurred to me that perhaps the time had come.

I may not have owned a Mercedes, but I owned my freedom. Freedom to choose when to leave a job and freedom from worry when the choice wasn't mine.

Good thing. It turned out I was unemployed for three full years after 9/11. I'm really lousy at job hunting.

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Chapter 3

Can Everyone Really Retire a Millionaire?

“I wonder if it would actually be possible for every single person to retire a millionaire?”

That very provocative question was posed on my blog a few years back. It’s been rattling around in my brain ever since.

The short answer is a qualified “Yes!” It is possible for every middle-class wage earner to retire a millionaire. Though it’s never going to happen, and that’s not because the numbers don’t work.

The numbers tell us that compounded over time, it actually takes very little money invested to grow to \$1,000,000.

If you’d started in January 1975 by investing \$12,000 in the S&P 500 stocks and only further invested the dividends, you’d have passed the million-dollar mark in June 2014. If you’d let it ride, by the end of 2024, you’d have had \$3,803,384.¹

Don’t have \$12,000 lying around? That’s OK. If you started in January 1975 and invested \$130 per month (\$1,560 a year), you’d have passed a million in November 2014 and have \$3,552,096 by the end of 2024.

Kicking it up an extra \$20 to \$150 per month—or \$1,800 a year—would have gotten you over \$4 million by the end of 2024. Your million plus a nice vacation home and a new Tesla and Corvette to tool around in.

If you think about it, this is pretty amazing considering all the financial turmoil of the past half century. However, it’s important to know that compounding takes time, so it helps to start young.

Of course, a million dollars is a very arbitrary goal. Perhaps the better question is, Can everybody achieve financial independence?

On blogs like *Early Retirement Extreme* and *Mr. Money Mustache*, you’ll find countless stories of people with modest incomes who by way of frugal living and dedicated savings get there in a remarkably short time. For

example, if you can live on \$7,000 per year, as the author of *Early Retirement Extreme* contentedly did for a period, \$175,000 gets it done figuring an annual withdrawal rate of 4% (see Chapter 29).

On the other hand, I remember having lunch with a friend of mine in 1995 shortly before Christmas. He'd just gotten his annual bonus: \$800,000 (\$1,644,847 adjusted for inflation in 2024²). He spent the lunch complaining that it simply wasn't possible to make ends meet with just a lousy *eight-hundred-thousand-dollar* year-end bonus. Somewhat stunningly, listening to him list his expenses, he was right. He was burning through more than \$175,000 (\$359,810 in 2024) every three months. Financial independence was a distant dream for him.

Money is a very relative thing. Right now, I have roughly \$200 in my wallet. For some (very wealthy) people out there, \$20,000 has less relative value to their net worth. For (even wealthier) others, it's \$200,000. For still others (the vast number of very poor people in the world), \$200 might be more than they'll see in an entire year.

Being independently wealthy is every bit as much about limiting needs as it is about how much money you have. It has less to do with how much you earn—high-income earners often go broke, while low-income earners get there—than what you value. Money can buy many things, none of which is more important than your financial independence. Here's the simple formula:

Spend less than you earn—Invest the surplus—Avoid debt.

As we already discussed, do only this and you'll wind up rich, not just in money. But if your lifestyle matches or exceeds your income, you forfeit your hopes of financial independence.

Let's consider an example. Suppose you make \$50,000 per year and you decide you want to be financially independent. Using some of the lifestyle tips from the blogs mentioned earlier, you'd want to organize your life in such a fashion as to live on \$25,000 annually. Two important things would immediately happen. You'd have reduced your needs and created a source of cash with which to invest. Now let's use our calculators to play with some scenarios.

Assuming you'll be financially independent when you can live on 4% of your net worth each year, you'll need \$625,000 ($\$625,000 \times 4\% = \$25,000$). Investing your \$25,000 each year (we'd invest in VTSAX—Vanguard Total Stock Market Index Fund) and assuming the market's 12.2% annual return over the last half century, you will be more than there (\$674,402) in eleven years.³

However, as we discussed at the very beginning of this book, we really shouldn't count on 12.2% annual returns going forward. Certainly it is possible, as history shows, but what happens if we are more conservative? Let's assume a more modest 8% annual return. That gets us to \$648,364 in thirteen years. Not too shabby.

At this point suppose you say, "OK, I'm done with saving, and I'm going to double my spending to my full earned \$50,000 from now on. But I'll leave my \$674,402 nest egg alone." In ten short years, it will have grown to over \$2.13 million (over \$1.45 million if you assume 8%) without you having to add a single dime. That amount yields about \$85,200 a year at a 4% withdrawal rate (\$58,000 with \$1.45 million). You can now not only quit working; you can give yourself a (rather substantial) raise.

For the sake of simplicity, I've ignored taxes at this point. However, I've also assumed you'll never see an increase in income. Plus, I've tossed in VTSAX and 4% withdrawal rates. Don't worry, we'll look at those in depth a bit later. For now, we're just doing a bit of "what if" analysis to help you see that your money can buy you something far more valuable than stuff.

Unfortunately, few will ever even see this as an option. There are pervasive and powerful marketing forces at work seeking to obscure the idea that such a choice exists. We are relentlessly bombarded with messages telling us that we absolutely need the latest trinket and that we simply must have the most fashionable of currently trending trash. We're told that if you don't have the money, no problem. That's what credit cards and payday loans are for.

It is this thinking that makes it so hard for most people to see that it is possible to reach a million-dollar net worth on an income of \$50,000. This is not some evil conspiracy at work. It is simply business pursuing its own needs. But it is deadly to your wealth.

The science behind the art of this persuasion is truly impressive, and the financial stakes are huge. The lines between *need* and *want* are continually

and intentionally blurred. Many years ago, a pal of mine bought a new video camera. It was the best of the best, and he was filming every moment of his young son's life. In a burst of enthusiasm, he said, "You know, you just can't raise a child properly without one of these!"

Ah, no. Actually, you can. In fact, billions of children have been raised over the course of human history without ever having been videotaped. And horrific as it may sound, many still are today. Including my own.

You don't have to go far to meet someone who will tell you about all the things they can't live without. You likely know your share of people like this. But if you want to be wealthy—by both controlling your needs and expanding your assets—it pays to reexamine and question those beliefs.

1 All projections on this page were made using Calculator B: <https://dqydj.net/sp-500-dividend-reinvestment-and-periodic-investment-calculator/>.

2 http://www.bls.gov/data/inflation_calculator.htm.

3 Calculator C: <https://www.calculator.net/investment-calculator.html>.

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Chapter 4

How to Think About Money

Level I: It's not just about spending

Get yourself a nice, crisp one of these:



Now prop it up on the table in front of you and give some thought as to what it means to you. For instance:

1. You might think about what you could buy with it right now. One hundred dollars could buy dinner for two, depending on the restaurant. A good pair of sneakers. Three-quarters of a tank of gas for your big-ass pick-'em-up truck. A bag of groceries. Maybe a nice sweater? I dunno. I don't buy much stuff, so this is hard for me. I did once buy a \$119 L.L. Bean bed for my dog. It went back. He wouldn't sleep in it.
2. You might think, "Mmmm . . . I could invest this money." Historically, the stock market returns somewhere between 8% and 12% a year on

average. I could spend that each year and still always have my \$100 earning more for me.

3. You might think, “But inflation and market drops are a concern. I’ll invest my \$100 but only spend 4% a year.” Any extra earnings I’ll reinvest so my \$100 grows and the money it throws off keeps pace with inflation.
4. You might think, “I’ll invest this money, and I’ll reinvest what it earns and then reinvest what that earns, and years from now, after the power of compounding has worked its magic, I’ll think about spending it.”

You can probably come up with other variations, but looking at these, it’s easy to see that one view will keep you poor, one will get you into the middle class, one will take that a step further, and the last will make you rich.

Consider Mike Tyson

Mr. Tyson was one of the most intimidating and formidable boxers of all time. Few have mastered the “sweet science” (boxing) better. The “dismal science” (economics)—not so much. After earning some \$300,000,000, he wound up bankrupt. A lifestyle reputed to cost \$400,000 a month didn’t help. And as is always the case with the suddenly wealthy and financially unaware, I suspect sharks looking to bite off chunks of that fortune for themselves rapidly surrounded him. But the root of the problem is that at the time, he understood money only in terms of buying stuff.

I don’t mean to pick on Mr. Tyson. (I’m not NUTS after all.) In this attitude toward money, he is not alone. The world is filled with athletes, performers, lawyers, doctors, business executives, and the like who have been showered with money that all too often immediately flowed right off them and into the pockets of others. In a sense, they never really had a chance. They never learned how to think about money.

It’s not hard. 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. Once you begin to do this, you’ll start to see that

when you spend money, not only is that money gone forever; the money it might have earned is gone as well. And so on.

Clearly, none of this is to say we should never spend money. Rather, it is to fully understand the implications when we do. Consider buying a car for \$25,000.

Even the least financially sophisticated person should see that once you buy the car, you no longer have the twenty-five grand. I sure hope so, anyway.

However, distressingly, it appears that most people don't understand that in choosing to lease or borrow money to buy their car, they are basically saying, "Geez. I don't want to pay *twenty-five thousand dollars* for this car. I want to pay much, much more."

Level II: Consider opportunity costs

What you might not have considered, and what I'd like you to look at now, is the concept that even if you pay in cash, that car is going to cost you far more than \$25,000. There is an opportunity cost to no longer having that money available to work for you. *Opportunity cost* is simply what you give up when you commit your money to one thing (like a car) over another (like an investment), and it's easy to quantify.

All you need to do is select a proxy for how the money could be invested and earning for you should you choose not to spend it. Since I'll be constantly talking about (and explaining) VTSAX (Vanguard Total Stock Market Index Fund) later in the book, let's use that.

For now, all you need to know is that VTSAX is a total stock market index fund, and as such, it mirrors the market's average returns of 8%–12% annually. As our proxy, it gives us a tangible number to use as our opportunity cost. Let's use the lower end of the range: 8%.

At the end of the first year, you would have missed out on the \$2,000 your \$25,000 could have earned at 8%. But in year two, you're missing out on the money your initial \$25,000 would have earned and what the \$2,000 of first-year earnings would have earned: $(\$25,000 + \$2,000) * 8\% = \$2,160$. In year three, you're missing out on \$2,333: $(\$25,000 + \$2,000 +$

\$2,160) * 8%. So by the end of the ten years, your \$25,000 car is actually up to \$53,973 (assuming you'd earn 8% per year compounded annually).

Should you not already be depressed enough about all this, remember that the \$25,000 is gone forever and so are those lost earnings year after year with no end. At the end of the day, it's one expensive damn car.

You have probably heard of "the magic of compounding." In short, the idea is that the money you save earns interest. That interest then earns interest itself. This causes a snowball effect as you earn interest on a bigger and bigger pool of money. Like a snowball, it starts small, but as it rolls along, it soon begins to grow in a rather spectacular fashion. It's a beautiful thing.

Think of opportunity cost as its evil twin.

One of the beauties of being financially independent is that by definition, you have enough money such that the power of compounding is greater than the opportunity cost of what you spend. Once you have your F-You Money, all you need to do is make sure you continue to reinvest to outpace inflation and keep your spending below the level your stash can replenish.

If you are not yet financially independent and you see this as an attractive goal, you'll be well served to look at your spending through the prism of opportunity cost.

Level III: How to think about your investments

Warren Buffett is rather famously quoted as saying the following:

Rule #1: Never lose money.

Rule #2: Never forget rule #1.

Unfortunately, too many people take this at face value and leap to the conclusion that Mr. Buffett has found a magical way to dance in and out of the market, avoiding the inevitable drops. This is not true, and in fact, he is on record speaking to the folly of trying: "The Dow started the last century at 66 and ended at 11,400. How could you lose money during a period like that? A lot of people did because they tried to dance in and out."¹

The truth is that during the crash of 2008–9, Buffett “lost” about 25 billion dollars, cutting his fortune from 62 billion to 37 billion. (That left over 37 billion being the reason I was wandering around at the time irritating friends by saying, “Gee. I only wish I could have lost 25 billion!”)

Like the rest of us, Buffett was unable to time the market, and in fact, knowing market timing to be a fool’s errand, he didn’t even try.

But unlike many others, Buffett didn’t panic and sell. He knew that such events are to be expected. In fact, he continued to invest as the sharp decline offered new opportunities. When the market recovered, as it always does, so did his fortune. So did the fortunes of all who stayed the course. That’s why I put “lost” in quotes.

Now, there are likely many reasons Mr. Buffett didn’t panic as that \$25 billion and all the potential it represented slipped away. Having \$37 billion left surely helped. Though another clue is in how he thinks about the money in his investments.

Mr. Buffett talks in terms of owning the businesses in which he invests. Sometimes he owns them in part—as shares—and sometimes in their entirety. When the share price of one of his businesses drops, what he knows on a deep emotional level is that he still owns precisely the same amount of that company. As long as the company is sound, the fluctuations in its stock price are fairly inconsequential. They will rise and fall in the short term, but good companies earn real money along the way, and in doing so, their value rises relentlessly over time.

We can learn to think in this same way. Again, let’s use VTSAX in exploring this idea.

Suppose yesterday you said, “Mmm. This idea of owning VTSAX makes sense to me. I’m gonna get me some.” And having said that, you sent Vanguard a check for \$10,000. At yesterday’s close, the price of VTSAX was \$141.03. Your \$10,000 bought you 70.9 shares.

If VTSAX shares are trading at \$145 per share a week from now, you might say, “Mmm. My \$10,000 is now worth \$10,281. Yippee. Mr. Collins sure is smart.”

If, however, the shares are trading at \$137 per share a week from now, you might say, “Damn. My \$10,000 is now only worth \$9,713. That Collins guy is a bum.”

That's the typical way average investors look at their holdings. As little slips of paper or, more accurately in this day and age, little bits of data that go up or down in value. If that's all they are, drops in the price on any given day can be very, very scary.

But there is a better, more accurate, and more profitable way. Take a few moments to understand what you really own.

At \$145 per share or at \$137 per share, you still own the same 70.9 shares of VTSAX. That in turn means you own a piece of virtually every publicly traded company in the US—roughly 3,600 the last time I checked.

Once you truly understand this, you'll begin to realize that in owning VTSAX, you are tying your financial future to that same large, diverse group of companies based in the most powerful, wealthiest, and most influential country on the planet. These companies are filled with hardworking people focused on prospering in the changing world around them and dealing with all the uncertainties it can create.

Some of these companies will fail, losing 100% of their value. Actually, they don't even have to fail and lose all of their value to fall off the index. Just dropping below a certain size, or what's called "market cap," will be enough.

As those fall away, they are replaced by other newer and more vital firms. Some will succeed in a spectacular fashion, growing 200%, 300%, 1,000%, 10,000%, or more. There is no upside limit. As some stars fade, new ones are always on the rise. This is what makes the index—and by extension VTSAX—what I like to call "self-cleansing."

If I were to seek absolute security (a very different thing than the smooth ride most mistake for safety), I'd hold 100% in VTSAX and spend only the ~1.25% dividend it throws off.

Nothing is ever completely certain, but I can't think of a surer bet than this.

We live in a complex world, and the most useful and powerful tool for navigating it is money. It is essential to learn to use it. And that starts with learning how to think about it. It is never too late.

Oh, and somebody please send Mr. Tyson a copy of this book. It's not too late for him either.

¹ Warren Buffet, “Buy American. I Am,” *New York Times*, October 16, 2008.

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Chapter 5

Investing in a Raging Bull (or Bear) Market

As of December 2024, the S&P 500 stood at about 6,000, up sharply from its March 2009 low of 677. This is the very definition of a raging bull market. Whether you are considering investing a new chunk of cash that has come your way, or you're thinking about selling and sitting on the sidelines for a while, it is times like these that test your core investing principles and beliefs.

Here are some of mine:

- It is simply not possible to time the market, regardless of all the heavily credentialed gurus on CNBC and the like who claim they can.
- The market is the most powerful wealth-building tool of all time.
- The market always goes up, and it is always a wild and rocky ride along the way.
- Since we can't predict these swings, we need to toughen up mentally and ride them out.
- I want my money working as hard as possible, as soon as possible.

For novice investors, it is very difficult not to look at past market swings and think, "If only!" If only I had sold when it was up. If only I had bought when it was down. But wishing doesn't make it so.

Since I launched my blog in 2011, the market has been on one of its great secular bull runs, coming off one of its great bear crashes. As I write, in mid-January 2025, the market is up 386% since 2011, and that is right through the 2020 COVID crash and the 2022 bear market.

On a fairly regular basis, I get questions and concerns like these:

“Is *now* a good time to invest, right before a possible stock market crash?”

“A lot of people seem to think a stock market crash is just around the corner.”

“I fear I’m entering at the wrong time.”

“I’m afraid I’m investing right before a stock market crash . . .”

“My fear had held me off for months, but I feel because I’m holding off, I’m losing out.”

“I just want to get off to a good start, not a bad one.”

“Maybe I should wait until after the crash, so I don’t lose a chunk of money.”

“Should I just hold off until after a crash so I can make the most of my money?”

“I’m just so fearful, since I’m so new to this . . .”

If the market happened to be plunging into one of its periodic bear cycles, these questions, and the psychology, would be much the same: “Should I wait until the market has bottomed out and then invest?”

This is all about fear and greed, the two major emotions that drive investors.

Fear is perfectly understandable. Nobody wants to lose money. But until you master it, such fear will be deadly to your wealth. It will prevent you from investing. Once you are invested, it will cause you to flee in a panic for the exits every time the market drops. And drop—repeatedly on its relentless march upward—it will. The curse of fear is that it will drive you to panic and sell when you should be holding. The market is volatile. Crashes, pullbacks, and corrections are all absolutely normal. None of them are the end of the world, and none are even the end of the market’s relentless rise. *They are all, each and every one, expected parts of the process.*

Inevitably, as we’ll discuss in Part II, there is a major market crash coming and another after that. Over the decades you’ll be investing, countless smaller corrections and pullbacks will occur as well. Learning to live with this reality is critical to successful investing over the long term.

And successful investing is, by definition, long-term. Any investing done short-term is, by definition, speculation.

Therefore, if we know a crash is coming, why not wait to invest? Or, if currently invested, why not sell, wait till the fall, and then go back in? The answer is simply because we don't know when the crash will occur or end. Nobody does.

Don't believe me? Think you can? Test yourself here: <http://qz.com/487013>.

You may have heard that a lot of people think a stock market crash is just around the corner. That's certainly true, but there are also lots of people who say we are just at the beginning of this boom and we will never see the S&P this low again. Every day, heavily credentialed experts are predicting a market crash. At the same time, equally credentialed experts are predicting a boom. Who's right? Beats me. Both are predicting the future, and nobody can do that reliably.

So why all the predictions? Simply because booms and busts are exciting! Get it right and your Wall Street / television reputation is made! Predicting them equals ratings, especially if the predictions are extreme. Predict the Dow, currently at around 43,000, soaring to 60,000 or crashing to 20,000, and people perk up. There is big money to be made doing this—for the gurus and cable TV shows, anyway.

For serious investors, however, all of this is useless and distracting noise. Worse, if you pay attention to it, it is positively dangerous to your wealth. And your sanity.



The Dow Jones Industrial Average 1915–2024

History can help, but only on the broadest of scales. You see it in the chart above. The stock market always goes up. There are powerful reasons why. I can say—with almost absolute certainty—that twenty years from now, the market will be higher than it is today. I'd even say with a high degree of confidence that ten years out, it will also be higher. One hundred nine years of market history bears this out.

However, this says nothing as to what the next few days, weeks, months, or even years will bring.

Here's the problem. There is simply no way to know where in time we are.

Take another look at that chart. Could we be at a moment similar to January 2000, when the market peaked and went on to lose almost half of its value? Or in July 2007, when it did the same? Sure, it is easy to see that pattern in retrospect.

Or could that pattern have run its course, and now we find ourselves in a period more like the time the Dow passed 1,000 or 5,000 or 10,000 or 20,000 or 30,000? Where each level was left in the dust, never to be seen again? Beats me.

What we do know is that each of these milestones was surpassed at times like today when people were every bit as convinced that the market was too high and ready for a crash.

With that said, let's assume we do know that right now, at 6,000, the S&P 500 is at a peak and about to crash. Maybe a magic genie has told us so.

Clearly, we'll sell (or at least not buy). But now what? We want the gains only the market can deliver. So we want back in at some point. But when? Is this a 10% pullback? If so, we'll want to buy at 5,400 or so.

What if it's a 20% decline, the official definition of a bear market? Then we don't want to buy until around 4,800.

But what if we do that and it turns out this is a crash?! Damn! In that case, we should have waited until it dropped 50%, all the way down to 3,000 or so. Where's that pesky genie when we *really* need him?

The point is that to play this market-timing game well even once, you need to be right twice: First, you need to call the high. Then you need to call the low. And you must be able to do this repeatedly. The world is filled with sad investors who got the first right and then sat on the sidelines while the market recovered and marched right on past its old high.

Market timing is an unwinnable game over time. How can I be so sure? Simple:

The person who could reliably do this would be far richer than Warren Buffett and twice as lionized.

Nothing, and I mean nothing, would be more profitable than this ability. That's what makes it so seductive. That's why gurus constantly claim they can do it, even if only a tiny bit. Nobody can. Not really. Not in any consistently useful way. Believing in Santa Claus is more profitable. Breeding unicorns is more likely.

But I don't care that this timing can't be done. Using the following illustration, let's demonstrate what I'd care about if I were you.

Let's assume you are 30 years old. You have some sixty or seventy investing years ahead. I'd look at that chart and note that some sixty years ago, on the first trading day of 1965, the Dow opened at 869. On January 2, 2025, it opened at 42,660. That's through sixty years of domestic and global turmoil and financial disasters (including 2000–2009, one of the all-time worst stretches in market history capped off by a crash second only to the Great Depression), just like the ones sure to come over the next sixty years.

Or just consider the last twenty-year history of the S&P 500. In January 2005, it was around 1,211. In January 2025, it opened at 5,869. And that includes not only the 2000 and 2008 crashes but also the one at the beginning of the COVID pandemic.

This is where the real magic is found. The stock market's wealth-building power over time is nothing short of breathtaking.

But so is the ride along the way. Whether you invest today or sometime in the future, I guarantee your wealth will be cut in half more than once over those sixty years. You'll suffer many other setbacks as well. It is never fun, but it is the process—and the price—you and everybody else must pay to enjoy the benefits.

Thus, the question is not “Should I invest in stocks now?” Rather, it is “Should I invest in stocks at all?”

Until you can come to terms with the harsh facts above, the answer is no. Until you can be absolutely certain that you can watch your wealth get cut in half and still stay the course, the answer is no. Until you are comfortable with the risks that come with the rewards you seek, the answer is no.

In the end, only you can decide.

Fortunately, investing doesn't have to be an all-or-nothing proposition. If you are willing to give up some performance, there are ways to smooth out the ride a bit. It is done with asset allocation, which we'll discuss in Chapter 14.

Note

In referencing the market's performance in this chapter, you may have noticed I jump between using the Dow and the S&P as the indexes. I prefer the S&P because it is broader and therefore a bit more precise. But the Dow

goes back further in history and is more useful (and available) for the long view. If you overlay their charts over time, they track together with remarkable consistency, making them, for our purposes, indistinguishable.

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Part II

How to Harness the World's Most Powerful Wealth-Building Tool

Simplicity is the keynote of all true elegance.

—Coco Chanel

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Chapter 6

There's a Major Market Crash Coming!!!! And Even Famous Economists Can't Save You

One day a few years back, I found myself feeling a bit testy. I had just finished an article in a popular money magazine, which, in and of itself, was enough to make me testy.

This particular article featured an interview with a famous economist and finance professor at an equally famous and prestigious university. There were impressive photos of the good professor looking serious and imposing.¹

To begin Part II of our financial journey together, I'm going to tell you some of what he said and why he's wrong. It is typical of the "common wisdom" you'll come across outside this book, and in exploring it together, we'll touch on some key subjects we'll examine in detail in later chapters.

Oh, and that major market crash that's coming? Don't worry. I'm also going to tell you why it doesn't matter.

First, in fairness to the famous economist, I have no quarrel with most of his ideas. Where I do, it is possible the good folks at the magazine didn't quite get it right. Perhaps they simply didn't place the emphasis correctly. Maybe someday this economist and I will have a few laughs over a cup of coffee about it. Or not.

In the interview, the professor contends that the long-held theory of efficient markets—which says existing share prices almost instantly incorporate and reflect all relevant information—is morphing into what he calls the "adaptive markets hypothesis." The idea is that with new trading technologies, the market has become faster moving and more volatile. That means greater risk. True enough, and so far, so good.

But he goes on to say this means "buy and hold investing doesn't work anymore." The magazine interviewer then points out—and good for him—

that even during the “lost decade” of the 2000s, the buy-and-hold strategy of stock investing would have returned 4%.

The professor responds, “Think about how that person earned 4%. He lost 30%, saw a big bounce back, and so on, and the compound rate of return . . . was 4%. But most investors did not wait for the dust to settle. After the first 25% loss, they probably reduced their holdings, and only got partway back in after the market somewhat recovered. It’s human behavior.”

Hold the bloody phone! Correct premise, wrong conclusion. We’ll come back to this in a moment.

Magazine: So what choice do I have instead?

Professor: We’re in an awkward period of our industry where we haven’t developed good alternatives. Your best bet is to hold a variety of mutual funds that have relatively low fees and try to manage the volatility within a reasonable range. You should be diversified not just with stocks and bonds but across the entire spectrum of investment opportunities: stocks, bonds, currencies, commodities, and domestically and internationally.

Magazine: Does the government have a role in preventing these crises?

Professor: It’s not possible to prevent financial crises.

In the online comments for the article, a reader named Patrick nailed the flaw: “So, markets are efficient except when they’re not. And buy and hold doesn’t work because most people don’t stick to it at the wrong time. OK wisdom, but is this news?” Gold star, Patrick.

Worse still is the professor’s recommendation to hold “the entire spectrum of investment opportunities.” This is his solution to dealing with the new investing world his “adaptive markets hypothesis” implies?

Seems odd, since he contends “buy and hold” no longer works, to suggest investors buy and hold nearly every asset class imaginable. Huh?

Let’s accept the professor’s premise that markets have gotten more volatile and will likely stay that way. I’m not sure I buy it, but OK, he’s the credentialed economist. We can also agree that the typical investor is prone

to panic and poor decision-making, especially when all the cable news gurus are lining up on window ledges. We certainly agree that it is not possible to prevent financial crises. More are headed our way.

So the question that matters most is, How do we best deal with it?

The professor (and many like him) says,

Treat the symptoms.

He defaults to the all-too-common canard of broad asset allocation. He would have us invest in everything and hope a couple of those puppies pull through. To do this properly would require a ton of work. You would need to understand all the various asset classes, decide what percentage to hold of each, and choose how to own them. Once you did that, you'd need to track them, rebalancing as necessary.

The result of all this effort is to guarantee subpar performance over time while offering the slim hope of increased security. I am reminded of the quote “Those who would trade liberty for security deserve neither.”

I say,

Toughen up, cupcake, and cure your bad behavior.

This means you must recognize the counterproductive psychology that causes bad investment decisions—such as panic selling—and correct it in yourself. In doing so, your investments will be far simpler and your results far stronger.

To start, you need to understand a few things about the stock market:

1. Market crashes are to be expected.

What happened in 2008 was not something unheard of. It has happened before, and it will happen again. And again. In the fifty-odd years I've been investing, we've had the following:

- The great recession of 1974–75.
- The massive inflation of the late 1970s and early 1980s. Raise your hand if you remember WIN (Whip Inflation Now) buttons.

Mortgage rates were pushing 20%. You could buy ten-year Treasury notes paying 15% or more.

- The now infamous 1979 *BusinessWeek* cover “The Death of Equities,” which, as it turned out, marked the coming of the greatest bull market of all time.
- The crash of 1987, including Black Monday, the biggest one-day drop in history.
- The recession of the early 1990s.
- The tech crash of the late 1990s.
- 9/11, the worst attack on US soil since Pearl Harbor.
- That little dust-up in 2008.
- The COVID crash of 2020, which put the economy on ice and triggered a 14.7% unemployment rate, the highest since the Great Depression, in April of that year.²

2. The market always recovers. Always. And if someday it really doesn't, no investment will be safe, and none of this financial stuff will matter anyway.

In 1974, the Dow closed at 616. By December 2024, it was well over 42,000. Over that fifty-year period it grew, with dividends reinvested, at an annualized rate of 12.2%.³ If you had invested \$1,000 at the end of 1974 and just let it ride, it would have grown to \$344,319 as 2025 dawned.⁴ An impressive result through all those disasters above.

All you would have had to do was toughen up and let it ride. Take a moment and let that sink in.

Everybody makes money when the market is rising. But what determines whether it will make you wealthy or leave you bleeding on the side of the road is what you do during the times it is collapsing.

3. The market always goes up. Always. Bet no one's told you that before. But it's true. Understand this is not to say it is a smooth ride. It's not. It is most often a wild and rocky road. But it always, and I mean always, goes up. Not every year. Not every month. Not every week and

certainly not every day. But take a moment, and look again at the chart of the stock market in the last chapter. The trend is relentlessly, through disaster after disaster, up.

4. The market is the single best-performing investment class over time, bar none.
5. The next ten, twenty, thirty, forty, fifty years will have just as many collapses, recessions, and disasters as in the past. Like the good professor says, it's not possible to prevent them. Every time this happens, your investments will take a hit. Every time, it will be scary as hell. Every time, all the smart guys will be screaming, "Sell!!" And every time, only those few with enough nerve will stay the course and prosper.
6. This is why you have to toughen up, learn to ignore the noise, and ride out the storm, adding *still more* money to your investments as you go.
7. To be strong enough to stay the course, you need to know these bad things are coming—not only intellectually but on an emotional level as well. You need to know this deep in your gut. They will happen. They will hurt. But like blizzards in winter, they should never be a surprise. And unless you panic, they won't matter.
8. There's a major market crash coming!! And there'll be another after that!! What wonderful buying opportunities they'll be.

I tell my daughter that during her sixty-odd years of being an investor, she can expect to see 2008-level financial meltdowns every twenty-five years or so. That's two or three of these economic "end of the world" events coming her way—and yours. Smaller collapses will occur even more often.

The thing is, they are never the end of the world. They are part of the process. So is all the panic that surrounds them. Don't worry. The world isn't going to end on our watch. It is hubris to think it will.

Of course, over those same years, she's going to see several major bull markets as well. Some will rage beyond all reason, along with the hype that

will surround them.

When those occur, the financial media will declare, “This time it’s different,” with all the same confidence as when they claimed the end had come. In this, too, they will be wrong.

In the next few chapters, we’ll discuss why the market always goes up, and I’ll tell you exactly how to invest at each stage of your life, wind up rich, and stay that way. You won’t believe how simple it is. But yer gonna have to be tough.

- 1 https://money.cnn.com/2012/03/02/pf/efficient_market.moneymag/index.htm. Professor Andrew Lo later published a book that explains his theories in greater depth than the article format would have allowed: *Adaptive Markets: Evolution at the Speed of Thought* (Princeton University Press, 2017).
- 2 <https://www.bls.gov/opub/ted/2020/unemployment-rate-rises-to-record-high-14-point-7-percent-in-april-2020.html>.
- 3 Calculator A: <https://dqydj.net/sp-500-return-calculator/>.
- 4 Calculator B: <https://dqydj.net/sp-500-dividend-reinvestment-and-periodic-investment-calculator/>.

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Chapter 7

The Market Always Goes Up

In 1987, on what was later to be called Black Monday, I called my broker at the end of a very busy day. Remember that this was when we all still had stockbrokers. When we were in the dark ages before cell phones, personal computers, the internet, and online trading.

“Hi, Bob,” I said cheerfully. “How’s it going?”

There was a long silent pause. “You’re kidding,” he said. “Right?” He sounded dreadful.

“Kidding about what?”

“JL, we’ve just had the biggest meltdown in history. Customers have been screaming at me all day. It’s a panic. The market is down over 500 points. Over 22%.”

That was the point at which I joined the rest of the planet in being absolutely stunned. It is hard to describe just what this was like. Not even the Great Depression had seen a day like this one. Nor have we since. Truly, it looked like the end of the financial world.

A week or so later, *Time* magazine featured a cover with huge type declaring,

THE CRASH

After a wild week on Wall Street, the world is different

Of course, in this, they were completely wrong. Crashes, even huge ones like this, are a normal part of the process.

Like any educated investor, I knew that the market was volatile. I knew that on its relentless march upward, there could and would be sharp drops, corrections, and bear markets. I knew that the best course was to hold firm and not panic. But this? This was a whole 'nother frame of reference.

I held tight for three or four months. Stocks continued to drift ever lower. I knew this was normal, but unfortunately, I knew it only on an intellectual level. I hadn't yet learned it deep enough in my gut. Finally, I lost my nerve and sold.

I just wasn't tough enough. The day when I sold it was, if not the absolute bottom, close enough to it as not to matter. Then of course and as always, the market again began its inevitable climb. The market always goes up.

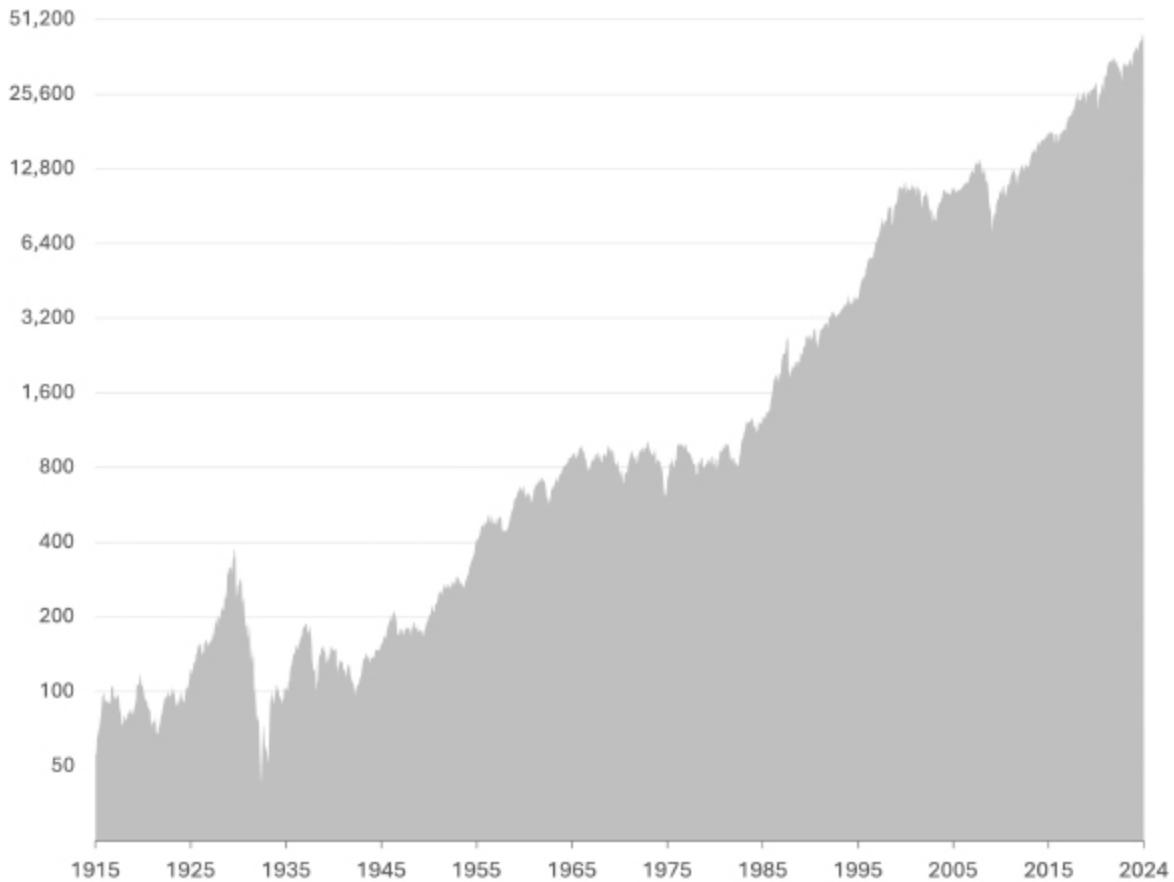
It took a year or so for me to regain my nerve and get back in. By then it had passed its pre-Black Monday high. I had managed to lock in my losses and pay a premium for a seat back at the table. It was expensive. It was stupid. It was an embarrassing failure of nerve. I just wasn't tough enough.

But I am now. My mistake of '87 taught me exactly how to weather all the future storms that came rolling in, including the Class 5 financial hurricane of 2008. It taught me to be tough, and ultimately, it made me far more money than the admittedly expensive education cost.

As one of my blog readers put it, "We've stayed the course, with a side dish of panic."

It's a great line, and staying the course is always served with a side dish of panic. That's why ya gotta be tough.

Here's our chart of the stock market's history again:



The Dow Jones Industrial Average 1915–2024

Can you find my 1987 blip? It's there and easy to spot, but not quite so scary in context. Take a moment and let this chart sink in. You should notice three things:

1. Through disaster after disaster, the market always makes its way higher over time.
2. It's a wild ride along the way.
3. There is a Big Ugly Event.

Let's talk about the good news first. We'll tackle those other points later.

To understand why the market always goes up, we need to look a bit more closely at what the market actually is.

Publicly traded companies are companies that issue stock that can be purchased by individuals and organizations. When you buy stock in a

company, you own a piece of that business. The stock market is made up of all the companies that are publicly traded.

The chart above represents the DJIA (Dow Jones Industrial Average). We are looking at the DJIA because it is the only group of stocks created as a proxy for the entire stock market going back this far. Way back in 1896, a guy named Charles Dow selected twelve stocks from leading American industries to create his index. Today, the DJIA is made up of thirty large American companies.

But now let's shift away from the DJIA Index, which I only introduced for its long historical perspective, to a more useful and comprehensive index: the CRSP US Total Market Index.

Don't let that technical-sounding name scare you. For our purposes here, all you need to understand is that it is an index of virtually every publicly traded company in the US. More importantly, it is the index that Vanguard currently uses to model their Total Stock Market Index Fund (VTSAX). By design they are almost precisely the same. Since we can invest in VTSAX, going forward, I'll be using it as our proxy for the stock market overall. Last time I checked here in 2025 (and this will vary), VTSAX held about 3,600 companies. This means that in owning VTSAX, you own a piece of all these businesses.

In 1976, Jack Bogle, the founder of the Vanguard Group, launched the world's first index fund. It tracked the S&P 500 index, allowing investors to own the largest five hundred or so companies in the US in one low-cost fund. It instantly became the single best tool for taking advantage of the market's relentless climb.

Then in 1992, Vanguard created the Total Stock Market Index Fund, and investors could own in this one fund not just the five hundred largest US companies but virtually the entire US stock market.

Now a quick note about something that can be confusing. Vanguard Total Stock Market Index Fund comes in multiple varieties: VTSAX, VTI, and a couple of others. We'll talk about why and how these vary a bit later. But what is important to understand now is that they each hold exactly the same portfolio created using that CRSP index. Essentially, they are the same. VTSAX is the one I personally own, and that's why I'm using it here.

So now we know what the stock market actually is, and we can see from the chart that it always goes up. Let's take a moment to consider, How can

this be? There are two basic reasons.

1. The market is self-cleansing

Take a look at the thirty DJIA stocks. Care to guess how many of the original twelve are still in it? When I wrote the first edition of this book in 2015, I could say just one: General Electric. But since then, it too has fallen away. Today, not a single one remains. In fact, most of today's thirty companies didn't exist when Mr. Dow originally crafted his list. Most of the originals have come and gone or morphed into something new. This is a key point: The market is not stagnant. Companies routinely fade away and are replaced with new blood.

The same is true of VTSAX. It holds almost every publicly traded company in the US stock market. Now picture all 3,600 of these companies along a classic bell curve graph that describes their annual stock performance.



Generic Bell Curve Graph

Those few at the left will be the worst performing. Those few to the right, the best. All those between are at various points of performance.

What is the worst possible performance a bad stock can deliver? It can lose 100% of its value and have its stock price drop to zero. Then, of course, it disappears, never to be heard from again.

Now let's consider the right side of the curve. What is the best performance a stock can deliver? 100% return? Certainly that's possible. But so is 200%, 300%, 1,000%, 10,000%, or more. There is no upside limit. The net result is a powerful upward bias.

We could model all 3,600 stocks in VTSAX this way, and we'd find that as some stars fade, new companies launch, grow, prosper, and go public. This process of the new replacing the dead and dying is what makes the market (and VTSAX as its proxy) *self-cleansing*.

But note, this only works with broad-based index funds. Once "professional management" starts trying to beat the system, all bets are off. They can (and most often do) make things much worse, and they always charge more fees to do so. We'll talk a bit more about this in a later chapter.

2. Owning stock is owning a part of living, breathing, dynamic companies, each striving to succeed

To appreciate why the stock market relentlessly rises requires an understanding of what we actually own with VTSAX. We own—quite literally—a piece of virtually every publicly traded company in the US.

Stocks are not just little slips of traded paper. When you own stock, you own a piece of a business. These are companies filled with people working endlessly to expand and serve their customer bases. They are competing in an unforgiving environment that rewards those who can make it happen and discards those who can't. It is this intense dynamic that makes stocks and the companies they represent the most powerful and successful investment class in history.

So now we have this wonderful wealth-building tool that relentlessly marches upward but—and this is a major “but”—that causes many people to actually lose money in the market: Boy, howdy, it's a wild and unsettling ride. Plus, there's that Big Ugly Event. We'll talk about those next.

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Chapter 8

Why Most People Lose Money in the Market

In the preceding chapter, I presented to you a very rosy view of the stock market and its wealth-building potential. Everything I wrote is true. But this too is true:

Most people lose money in the stock market.

Here's why.

1. We think we can time the market

While stepping out when it is high and back in when it is low sounds enormously appealing, it is almost impossible to do. The reality is that we usually buy high and sell low, panicking when times are tough and buying when the market is soaring.

This applies to all of us. It is the way humans are hardwired. Over the past thirty-odd years, an array of academic papers has appeared investigating the psychology of investors. The results aren't pretty: Seems we are psychologically unsuited to prosper in a volatile market. The details of this research are beyond the scope of this book. What is important is that it takes an act of will, awareness, and effort to understand, accept, and then change this destructive behavior.

Here's a sobering fact: The vast majority of investors in mutual funds actually manage to get worse returns from their funds than the funds themselves generate and report. Let that little nugget sink in for a moment. How can this be? Our psychology is such that we can't help trying to "time" the market. We tend to jump in and out, almost always at the wrong times.

2. We believe we can pick individual stocks

You can't pick winning stocks. Don't feel bad. I can't either. Nor can the overwhelming majority of professionals in the business. The fact that this ability is so rare is the key reason why the very few who apparently can are so famous.

Oh, sure. Occasionally we can, and oh my, what a heady feeling it is when it works. It is incredibly seductive. Picking a stock that soars is an intense and addictive high. The media is filled with "winning" strategies that feed on this delusion.

I am not immune to the attraction. Back in 2011, I thought I had spotted a trend and, as it happened, made 19% in four months on the five stocks I chose. (Sigh. I still have this addiction.) That's almost 60% annualized, while the market was flat for the year. That's spectacular, if I do say so myself. It is also impossible to do year after year. It's a great rush but a very poor foundation upon which to try to build wealth.

Even slightly beating the index year after year is incredibly difficult. Only a handful of investors have been able to modestly beat it over time. Doing so makes them superstars. That's why Warren Buffett, Michael Price, and Peter Lynch are household names. That's why I don't let my occasional win go to my head. That's why I let index funds do the heavy lifting in my portfolio.

3. We believe we can pick winning mutual fund managers

Actively managed stock mutual funds (funds run by professional managers, as opposed to index funds) are a huge and highly profitable business. Profitable—that is, for the companies that run them. For their investors? Not so much.

So profitable that there are actually more mutual funds out there than there are stocks. As of 2024, there are approximately seven thousand mutual funds operating in the US. In contrast, there are only about four thousand publicly traded stocks in the US. Yeah, I'm amazed too. Further, about 7% of funds fail *each year*. At that rate, more than half will fold during the next decade.

With so much money at stake, investment companies are forever launching new funds while burying the ones that flounder. The financial media is filled with stories of winning managers and funds and is dependent on their advertising support. Past records are analyzed. Managers are interviewed. Companies like Morningstar are built around researching and ranking funds.

But the fact is, few fund managers will beat the index over time. A 2023 study by Dimensional Fund Advisors analyzed US-domiciled mutual funds and exchange-traded funds over a twenty-year period ending in 2022.¹ The study found that only 17% of equity funds both survived and outperformed their benchmarks. In other words, 83% of equity funds failed to outperform the unmanaged index. But 100% of them charged their clients high fees to try.

While we can clearly see those that succeeded now, there is no predicting which funds will be in that rarefied 17% going forward. Every fund prospectus carries this phrase: “Past performance is no guarantee of future results.” It is the most ignored sentence in the whole document. It is also the most accurate.

Other academic studies suggest that when looking at longer time periods, even an outperformance rate of 17% is wildly optimistic. A study published in the *Journal of Financial Economics* in 2022 (“Mutual Fund Performance at Long Horizons” by Professors Hendrik Bessembinder, Michael J. Cooper, and Feng Zhang²) found that the longer you look at returns (like comparing one-year versus ten-year performance), the fewer mutual funds beat the market index. In other words, while some funds might look good in the short term, most do worse than the index over longer periods. Even funds that seem to be “winning” month to month sometimes end up losing to the market over longer periods.

Repeatedly over the past twenty years (starting with Professors Brad M. Barber and Terrance Odean in the *Journal of Finance* in 2000), studies have shown that not only do the vast majority of active traders underperform the market, but *the more frequently they trade, the worse they do*.

With this terrible track record, you might wonder how it is that so many fund companies run ads that claim most, if not all, of their funds have outperformed the market. With so much money at stake, it is not surprising that they have their tricks. One is simply to selectively choose a time frame

for measurement that happens to work in their favor. Another just takes advantage of all those dead and dying funds.

Mutual fund companies launch new funds all the time. Random chance is enough to predict a few will do well, at least for a while. Those that don't are quietly closed and the assets folded into something doing better. The bad fund disappears, and the company can continue to claim its funds are all stars. Cute.

There's a lot of money to be made with actively managed funds. Just not by the investors.

4. We focus on the foam

Imagine you've been reading this book on a nice warm summer's afternoon. Richly deserving of a reward, you crack open a bottle of your favorite brew and pour it into a nice, chilled glass.

If you've done this before, you know that if you carefully pour it down the side, you'll wind up with a glass filled mostly with beer and a small foam head. Pour it fast and down the center, and you can easily have a glass with a little beer filled mostly with foam.

Imagine now that someone else has poured it for you, out of sight and into a dark mug you can't see through. You have no way of knowing how much is beer and how much is foam. That's the stock market.

See, the stock market is really two related but very different things:

It is the beer: The actual operating businesses of which we can own a part.

It is the foam: The traded pieces of paper that furiously rise and fall in price from moment to moment. This is the market of CNBC. This is the market of the daily stock market report. This is the market people are talking about when they liken Wall Street to Las Vegas. This is the market of the daily, weekly, monthly, and yearly volatility that drives the average investor out the window and onto the ledge. This is the market that, if you are smart and want to build wealth over time, you will absolutely ignore.

When you look at the daily price of a given stock, it is very hard to know how much is foam. This is why a company can plummet in value one day and soar the next. This is why CNBC routinely features experts, each impressively credentialed, confidently predicting where the market is going next—while consistently contradicting one another. It is all those traders competing to guess how much beer and how much foam are actually in the glass at any particular moment.

While this makes for great drama and television, for our purposes, it is only the beer that matters. It is the beer that is the real operating money-making underlying businesses, beneath all that foam and froth, that over time drives the market ever higher.

Understand too that what the media wants from these commentators is drama. Nobody is going to sit glued to their TV while some rational person talks about long-term investing. But get somebody to promise the Dow is going to soar by year's end or, better yet, is on the verge of careening into the abyss, and brother, you've got ratings!

But it's all just so much foam, fluff, and noise. It doesn't matter to us. We're in it for the beer!

1 https://www.allodium.com/images/pdf/2023_DFA-Fund-Landscape-Report.pdf.

2 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4096205.

Chapter 9

The Big Ugly Event

So far, we've seen that the stock market is a wonderful wealth-building tool that moves relentlessly upward. Vanguard Total Stock Market Index Fund (VTSAX) is the only tool we need to access it.

But we've also seen that it is extremely volatile, it crashes routinely, and most people lose money due to their psychological tendencies. Still, if we toughen up, ride out the turbulence, and show a little humility regarding our investing acumen, this is the surest path to riches.

Except . . .



The Dow Jones Industrial Average 1915–2024

There, in 1929, is the Big Ugly Event: the Mother of all Stock Market Crashes and the beginning of the Great Depression. Over a two-year period, stocks plunged from 391 to 41, losing 90% of their value along the way. Should you have been unlucky enough to have invested at the peak, your portfolio wouldn't have fully recovered until the mid-1950s, twenty-six years later. Yikes. That's enough to try the toughest investor.

If you had been buying stocks on margin (that is, with money borrowed from your broker), as was all too common at the time, you would have been completely wiped out. Many speculators were. Fortunes were lost overnight. Never buy stocks on margin.

So what to do? Does the possibility of another Big Ugly Event blow a big enough hole in this idea of "Toughen up and ride out the storms" to make it useless? The answer to that has everything to do with your tolerance for risk and your desire to build wealth. There are ways to mitigate the risk, and we'll talk about them later.

For now, let's step back and consider a few key points regarding the Big Ugly:

1. It would have taken an investor of exceptionally bad luck—one who had bought their entire portfolio precisely at the 1929 peak—to have borne the full weight of the crash.

Suppose instead you had invested in 1926–27. Looking at our chart, this is about halfway up on the climb to the peak. Many, many people were entering the market in these years. Certainly, they were destined to lose all their gains, and yet ten years later, had they held on, they'd be back in positive territory. Although another rough stretch was coming.

Suppose you'd bought at the earlier peak in 1920. You would have taken an immediate hit and recovered five years later. From the collapse in '29, you'd be back even by 1936. Seven years.

The point is that any given start would have yielded a different outcome and one not as severe as the widely quoted 90% loss, peak to bottom.

2. Suppose you were just out of school and beginning your career in 1929. Assuming you were in the fortunate 75% that kept their jobs, you would have had decades of opportunities to buy stocks at bargain prices. Ironically, *a crash at the beginning of your investing life is a gift*. In fact, any pullback in stock prices is a gift while you are in the process of accumulating your wealth. It allows you to buy more shares for your dollars—on sale, if you will.
3. Suppose in 1929 you were retired with a million dollars. By 1932 your portfolio was down 90%, to \$100,000. A terrible hit for sure. But remember, the Depression was a deflationary event. That means the prices of goods and services fell dramatically, along with those of stocks. And that means your \$100,000, while no longer a million, now had far more buying power than that same amount did precrash. Plus, it was poised to grow rather sharply from this low.

4. The Big Ugly Event has happened only once in the whole history of the Dow, which dates back to 1896. Some even argue that with the controls put in place since 1929, it is unlikely we ever will experience an event like that again. While we can't be sure of that, we can all agree this was an extremely rare event.
5. In 2008 we came right to the edge of the abyss—closer, I think, than most folks fully appreciate—but we didn't tumble over. This I find encouraging.

What is not so encouraging is that a deflationary depression like that of 1929 is only one of the two possible economic disasters that can destroy wealth on a major scale.

The other is hyperinflation.

Here in the US, we haven't had to deal with this monster since the Revolutionary War way back in 1776. But it destroyed Zimbabwe's economy as recently as 2008. Hungary had the worst case of it in history when in July 1946, the peak inflation rate reached 41.9 *quadrillion* percent, and many credit the German hyperinflation of the 1920s with ushering the Nazis to power in the 1930s.

Hyperinflation is very bad news—every bit as destructive as deflation—and it is exactly what it sounds like: inflation running out of control.

A little inflation can be a very healthy thing for an economy. It allows for prices and wages to expand. It keeps the economic wheels greased and running smoothly. It is the antidote to looming deflationary depressions.

In a deflationary environment, delayed buying decisions are rewarded. If you were considering a new house in 2009–13, you would have noticed that prices were dropping, along with mortgage interest rates. Recognizing you could get both for less later, you waited. If enough potential buyers joined you, demand would drop, pulling prices and rates down further. Delay is rewarded and action is punished. Too much of this and the market slips into a deadly spiral of crashing prices.

But during periods of inflation, anything you want to buy will cost more tomorrow than today. You have an incentive to buy that house (or car or appliance or loaf of bread) today and beat the price increase. Delay is punished with higher prices later, and action now is rewarded. Buyers

become ever more motivated. Sellers become ever more reluctant. Too much of this and the market slips into a deadly spiral of increasingly worthless currency people are desperate to exchange for goods.

Governments love a little inflation. They can add money to the system, keep the economy humming, and not have to raise taxes or cut spending to do it. In fact, it is sometimes called “the hidden tax” because it erodes the buying power of our currency. It also allows debtors, like the government, to pay back their creditors with “cheaper dollars.”

The good news for our VTSAX wealth-building strategy (which we’ll discuss in depth in the next few chapters) is that stocks are a pretty good inflation hedge. As we’ve discussed, in owning stocks, we own businesses. These businesses have assets and create products. Their value rises with inflation, providing a hedge against the falling value of the currency. This is especially true in times of low to moderate inflation.

The decision every investor must make is how much risk to accept in the wealth-building process. Looking at the past one hundred-plus years, you have to ask yourself whether it makes sense to focus on the Big Ugly or to invest in the relentless rise that has dominated history.

None of this is to say that Big Ugly Events are not very scary and destructive things. But they are rare, and in the context of our overriding approach (spend less than you earn—invest the surplus—avoid debt), they are survivable.

In the next few chapters, we’ll look at specific investments to build and protect your wealth. As I promised in Part I, you won’t believe how simple it is.

Chapter 10

Keeping It Simple: Considerations and Tools

Simple is good. Simple is easier. Simple is more profitable.

That's a key mantra of this book, and what I'm going to share with you in these next couple of chapters is the soul of simplicity. With it, you'll learn all you need to know to produce better investment results than at least 83% (per the study referenced in Chapter 8) of the professionals and active amateurs out there. It will take almost none of your time, and you can focus on all the other things that make your life rich and beautiful.

How can this be? Isn't investing complicated? Don't I need professionals to guide me?

No and no.

Since the days of Babylon, people have been coming up with investments, mostly to sell to other people. There is a strong financial incentive to make these investments complex and mysterious.

But the simple truth is this: The more complex an investment, the less likely it is to be profitable. Index funds outperform actively managed funds in large part simply because actively managed funds require expensive active managers. Not only are they prone to making investing mistakes; their fees are a continual performance drag on the portfolio.

But they are very profitable for the companies that run them and, as such, are heavily promoted. Of course, those profits and promotional costs arise from all those juicy fees that come directly out of your pocket.

Not only do you not need complex investments for success; they actually work against you. At best, they are costly. At worst, they are a cesspool of swindlers. They are not worth your time. We can do better.

Here's all you are going to need: three considerations and three tools.

The three considerations

You'll want to consider the following:

1. In what stage of your investing life are you? The wealth accumulation stage or the wealth preservation stage? Or perhaps a blend of the two?
2. What level of risk do you find acceptable?
3. Is your investment horizon long-term or short-term?

As you've surely noticed, these three are closely linked. Your level of risk will vary with your investment horizon. Both will tilt the direction of your investing stage. All three will be linked to your current employment and future plans. Only you can make these decisions, but let me offer a couple of guiding thoughts.

Safety is a bit of an illusion

There is no risk-free investment. Once you begin to accumulate wealth, risk is a fact of life. You can't avoid it; you only get to choose what kind. Don't let anyone tell you differently. If you bury your cash in the backyard (or in an FDIC insured bank account) and dig it up twenty years from now, you'll still have the same amount of money. Maybe even a little more, depending on your interest rate (around 4.5% now in 2025). But even modest inflation levels will have drastically reduced its spending power. If you invest in stocks, you'll likely outpace inflation and build wealth, but you'll have to endure a volatile ride.

Your stage is not necessarily linked to your age

The wealth accumulation stage comes while you are working, saving, and adding money to your investments. The wealth preservation stage comes once your earned income slows or ends. Your investments are then left to grow and/or are called upon to provide income for you.

You might be planning to retire early. You might be worried about your job. You might be taking a sabbatical. You might be accepting a lower-paid position to follow a dream. You might be launching a new business. You

might be returning to the workforce after several years of retirement. Your life stages may well shift several times over the course of your life. Your investment stage can easily shift with them.

F-You Money is critical

If you don't yet have yours, I suggest you start building it now. It is never too late to start. Be persistent. Life is uncertain. The job you love today can disappear tomorrow. Remember that nothing money can buy is more important than your fiscal freedom. In this modern world of ours, no tool is more important.

Don't be too quick to think short-term

Most of us are, or should be, long-term investors. The typical investment advisor's rule of thumb is as follows: Subtract your age from 100 (or more aggressively, 120). The result is the percentage of your portfolio that should be in stocks. A 60-year-old should, by this calculation, have 40% (or 60%) in stocks and 60% (or 40%) in conservative, wealth-preserving bonds. Nonsense.

Here's the problem. Even modest inflation destroys the value of bonds over time, and bonds can't offer the compensating growth potential of stocks.

If you are just starting out at age 20, you are looking at perhaps eighty years of investing. Maybe even a century if life expectancies continue to increase. Even at 60, in good health, you could easily be looking at another thirty years. That's long-term in my book.

Perhaps you have a younger spouse. Or maybe you want to leave some money to your kids, grandkids, or a charity. All will have their own long-term horizons.

The three tools

Once you've sorted through your three considerations, you are ready to build your portfolio, and you'll need only these three tools to do it. See, I

promised this would be simple!

1. Stocks: VTSAX (Vanguard Total Stock Market Index Fund). Stocks provide the best returns over time and serve as our inflation hedge. This is our core wealth-building tool. (See Chapter 17 for variants of this same fund.)
2. Bonds: VBTLX (Vanguard Total Bond Market Index Fund). Bonds provide income, tend to smooth out the rough ride of stocks, and serve as our deflation hedge.
3. Cash: Cash is good to have around to cover routine expenses and to meet emergencies. Cash is also king during times of deflation. The more prices drop, the more your cash can buy. But when prices rise (inflation), its value steadily erodes. In these days of low interest rates, idle cash doesn't have much earning potential. I suggest you keep as little as possible on hand, consistent with your needs and comfort level.

Typically, money market funds pay slightly more than bank savings accounts, but not always. And while money markets are considered to be extremely safe, they don't offer the FDIC insurance (up to \$250,000) found with bank accounts.

At various times, we've kept our cash in our local bank or in our online bank. But normally, I slightly prefer the money market option, and at the moment here in 2025, ours is in Vanguard's VMRXX (Vanguard Cash Reserves Federal Money Market Fund).

So that's it. Three simple tools. Two index mutual funds and a money market and/or bank account. A wealth-builder, an inflation hedge, a deflation hedge, and cash for daily needs and emergencies. As promised, the combination is low cost, effective, diversified, and simple.

You can fine-tune your allocation in each investment to meet your own personal considerations. Want a smoother ride? Willing to accept a lower long-term return and slower wealth accumulation? Just increase the percentage in VBTLX and/or cash. Want maximum growth potential? Hold more in VTSAX.

In the coming chapters, we'll talk about index funds and bonds. Then we'll explore a couple of specific strategies and portfolios to get you started and take a look at how to select the asset allocation best suited to your needs and temperament.

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Chapter 11

Index Funds Are Really Just for Lazy People, Right?

Ah, no. Index investing is for people who want the best possible results.

Over the past couple of years, some of my investing ideas have drawn comments from other writers. While honored, I've noticed that even those folks seeking to compliment me sometimes frame my position on index funds as sound advice, but only for average people who don't want to work very hard at investing. The idea being that with a little more effort and smarts in the selection of individual stocks and/or actively managed funds, more diligent folks can do better.

Rubbish!

Back in Chapter 7, I introduced you to Jack Bogle, who passed away in 2019 at age 89. For my money (pun intended), no one did more for the individual investor than Mr. Bogle. From launching Vanguard and its unique structure that benefits shareholders to creating index funds, he was a titan in the financial industry, an investing saint, and a personal hero.

Toward the end of his life, here's what he had to say about successfully besting the market: "I've been in this business 61 years and I can't do it. I've never met anybody who can do it. I've never met anybody who's met anybody who can do it."

Neither have I.

This reality is something he had recognized decades earlier while working on his thesis as a student, and his decades in the business only served to confirm it. Namely, buying all the stocks in the market index reliably and consistently outperforms professional management, especially when taking costs into consideration.

The basic concept of indexing is that since the odds of selecting stocks that outperform are vanishingly small, better results will be achieved by

buying every stock in a given index. This idea fundamentally challenged and threatened the rationale behind paying high fees to Wall Street professionals. Not surprisingly, the pushback was swift and harsh. Mr. Bogle was roundly ridiculed at the time and in some quarters still is.

But increasingly over the decades since his launch of the first index fund in 1976, the validity of Bogle's idea has been repeatedly confirmed.

The harsh truth is, I can't pick winning individual stocks, and you can't either. Nor can the vast majority who claim they can. It is extraordinarily difficult, expensive, and a fool's errand. Having the humility to accept this will do wonders for your ability to accumulate wealth.

There is even a school of thought that suggests superstar investors—think Warren Buffett, Peter Lynch, and Michael Price—are simply lucky. Even for a hardcore indexer like me, that is tough to wrap my head around. Yet the research suggests that only 1% of the very top tier of money managers outperform, and on the rare occasion they do, it is hard to distinguish skill from luck.

So if this is the case, why do so many still resist the idea of indexing? I think there is a lot of psychology behind it. These are a few of the reasons that occur to me:

1. It is a challenge for smart people to accept that they can't outperform an index that simply buys everything. It seems it should be so easy to spot the good companies and avoid the bad. It's not. This was my personal hang-up, and I wasted years and many thousands of dollars in the vain pursuit of outperformance.

Consider that in the 1960s, the US government was seriously considering (it never happened) the forced breakup of General Motors. GM was deemed so dominant and powerful that no other car company could compete. This is the same GM that survives today only by the grace of a huge bailout in 2008 by that same government. On the other hand, back in the 1990s, the smart money was betting Apple might not survive. As of this writing, it is the largest company in the world as measured by market capitalization. Today's stars are tomorrow's wrecks. Today's fallen are tomorrow's exciting turnarounds.

2. To buy the index is to accept the market's "average" return. People have trouble accepting the idea of themselves or anything in their life as average.

But in this context, the word *average* is mostly misunderstood. Rather than meaning index fund returns are at the midpoint, the word *average* here means the combined performance of all the stocks in an index.

Professional money managers are measured against how well they do against this return. As we've seen, in any given year, most underperform their target index. Indeed, over periods of fifteen to thirty years, the index will outperform 83% or more of actively managed funds.

This means that just buying a total stock market index fund like VTSAX guarantees you'll be in the top performance tier. Year after year. Not bad for accepting "average." I can live (and prosper) with that kind of average.

3. The financial media is filled with stories of individuals and professionals who have outperformed the index for a year or two or three. Or of those who, in very rare cases (like Buffett), have outperformed over time. (I cringe at the often-touted suggestion to just do what Buffett does. As if!) It's exciting storytelling, and after all, the companies that employ the heroes of these stories are often advertisers. Or prospective advertisers.

But investing is a long-term game. You'll have no better luck picking and switching winning managers than winning stocks over the decades.

4. People underestimate the drag of costs to investing.

Paying fund and/or advisor fees of 1%–2% seems low, especially in a good year. But make no mistake, these annual fees are a devil's ball and chain on your wealth. As a point of reference, the average mutual fund ER (expense ratio: the fee funds charge investors) as of 2023 was ~0.59%, and the average index fund ER was 0.11%.¹ The ER for VTSAX is 0.04%. As Bogle says, performance comes and goes, but

expenses are always there, year after year. After year. Compounded over time, the amount lost is breathtaking.

Consider this: Once you begin living on the returns from your portfolio, you'll be able to spend roughly 4% of your assets per year. (We'll explore this 4% concept in Part IV.) If 0.59% of your money is going to management fees, that is 14.75% of your income.

5. People want quick results, excitement, and bragging rights. They want the thrill of victory and to boast about their stock that tripled or their fund that beat the S&P 500. Letting an index work its magic over the years isn't very exciting. It is only very profitable.

As for me, I seek my excitement elsewhere and let indexing do the heavy lifting of my wealth-building.

6. Finally—and perhaps most influentially—there is a huge business dedicated to selling advice and brokering trades to people who can be persuaded they have what it takes to outperform. Money managers, mutual fund companies, financial advisors, stock analysts, newsletters, blogs, and brokers all want their hands in your pocket. Billions are at stake, and the drumbeat marketing the idea of outperformance is relentless. In short: We are brainwashed.

Indexing threatens the huge fees money managers and their lot routinely collect. They thrive on enabling your belief in the vain quest for the alluring siren of outperformance. It is no wonder these managers disparage indexing at every turn.

Many years ago, I had a martial arts instructor who was talking about effective street fighting. On the subject of high kicks, he had this to say: “Before you decide to use kicking techniques on the street, ask yourself this question: ‘Am I Bruce Lee?’ If the answer is ‘no,’ keep your feet on the ground.” Good advice when you're playing for keeps.

As cool and effective as kicks look in the movies, tournaments, and the dojo, on the street they are very high risk. Unless you are both very skilled *and* significantly more skilled than your opponent (something unknowable in street fighting or investing), fancy techniques are likely to leave you

exposed and vulnerable. *Even*, and this is critical, *if you've had success with them before*.

So too with investing. Before you start trying to pick individual stocks and/or fund managers, ask yourself this simple question: "Am I Warren Buffett?" If the answer is "no," keep your feet firmly on the ground with indexing.

Let me take a moment to be absolutely clear. I don't favor indexing just because it is easier, although it is. Or because it is simpler, although it is that too. I favor it because it is more effective and more powerful in building wealth than the alternatives.

I'd happily put in more effort for more return. More effort for less return? Not so much.

¹ <https://www.morningstar.com/lp/annual-us-fund-fee-study-at>.

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Chapter 12

Bonds

So far, we've spent a fair amount of time looking at the stock market—stocks and the index funds we'll use to invest in them. Makes sense. They will serve as our wealth-building tool and will most likely be the largest part of our holdings.

But at various times, we'll be adding bonds to the mix to smooth the ride, add a bit of income, and provide a deflation hedge. Let's take a closer look.

Bonds are, in a sense, the more steady and reliable cousins to stocks. Or so it seems. But as we'll see, bonds are not as risk-free as many believe.

The challenge is that the subject of bonds is a BIG topic. The details are endless, and most are unlikely to be of interest to the readers of this book. Heck, they're not all that interesting to me. Yet unless you are comfortable just taking my word for it, you might want to know what these things are and why they've found their way into our portfolio.

But how much information is enough? Beats me. So here's what we'll do. In this chapter, I'll talk about bonds in stages. Once you've read enough to be comfortable owning the things (or not), you can just stop reading. If you get to the chapter's end and you want more, entire volumes have been written on the subject that can take you further.

Stage 1

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. Yin and yang.

Bonds also tend to be less volatile than stocks, and they serve to make our investment road a bit smoother.

Bonds pay interest, providing us with an income flow.

Sometimes the interest is tax-free, for example:

1. Municipal bond interest is exempt from federal income tax and the income tax of the state in which the bonds are issued.
2. US Treasury bonds are exempt from state and local taxes.

Stage 2

So what are bonds, and how do they differ from stocks?

In the simplest terms: 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.

Since deflation occurs when the price of stuff falls, when the money you've lent is paid back, it has more purchasing power. Your money buys more stuff than when you lent it. This increase in value helps offset the losses deflation will bring to your other assets.

In times of inflation prices rise, and so money owed to you loses value. When you get paid back, your cash buys less stuff. Then it is better to own assets, like stocks, that rise in value with inflation.

Stage 3

Since we own our bonds in VBTLX—Vanguard Total Bond Index Fund—most of the risks in owning individual bonds go away. At last count (this fluctuates a bit), the fund holds 11,277 bonds. All are investment grade (top quality) and none rated lower than Baa (see Stage 4). This reduces default risk. The fund holds bonds of widely differing maturity dates, mitigating the interest rate risk. The fund holds bonds across a broad range of terms, reducing inflation risk.

In the next stages we'll talk more about these risks, but what's important to understand at this point is this: If you are going to hold bonds, holding them in an index fund is the way to go. Very few individual investors opt to buy individual bonds, with US treasuries being the main exception, along with bank CDs, which act like bonds.

Stage 4

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. If you were to buy a \$1,000 bond at a 10% interest rate with a ten-year term from XYZ company, each year, XYZ would pay you \$100 in interest (10% of \$1,000) for a total of \$1,000 over the life of the bond (\$100 a year $\times$ ten years).¹ If you hold the bond until the end of the ten-year term, it reaches its maturity date, and the bond issuer is obligated to pay back your original \$1,000 investment. The only thing you have to worry about is the possibility of XYZ defaulting and not paying you back.

Default is the first risk associated with bonds. To help investors evaluate the risk in any company or government bond, various rating agencies evaluate their creditworthiness. They use a scale ranging from AAA on down to D, kinda like high school. The lower the rating, the higher the risk. The higher the risk, the harder it is to find people to buy your bonds. The harder it is to find people to buy your bonds, the more interest you have to pay to attract them. Investors expect to be paid more interest when they accept more risk.

So default risk is also the first factor in determining how much interest your bond will pay you. As a buyer of bonds, the more risk you are willing to accept, the higher the interest you'll receive.

Stage 5

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. Here's why:

When you decide to sell your bond, you must offer it to buyers on what is called the "secondary market." Using our example above, these buyers might offer more than the \$1,000 you paid, or less. It depends on how interest rates have changed since your purchase. If rates have gone up, the value of your bond will have gone down. If rates have gone down, the value of your bond will have gone up. Confusing, no? Look at it this way:

You decide to sell your bond from our example above. You paid \$1,000 and are earning 10%/\$100 per year. Now, let's say interest rates have risen to 15% and I have \$1,000 to invest. Since I can buy a bond that will pay me \$150 per year, clearly, I'm not going to be willing to pay you \$1,000 for your bond that only pays \$100. Nobody would, and you'd be stuck. Fortunately, however, the secondary bond market (where bonds are traded after they have been originally issued) will calculate exactly what lower price your bond is worth based on the current 15% interest rate. You might not like the price, but at least you'll be able to sell.

But if interest rates drop, the roles reverse. If instead of 10%, they fall to 5%, my \$1,000 will only buy me a bond paying \$50 per year. Since yours pays \$100, clearly it is worth more than the \$1,000 you paid. Again, should you wish to sell, the bond market will calculate exactly what your higher price will be.

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.

Stage 6

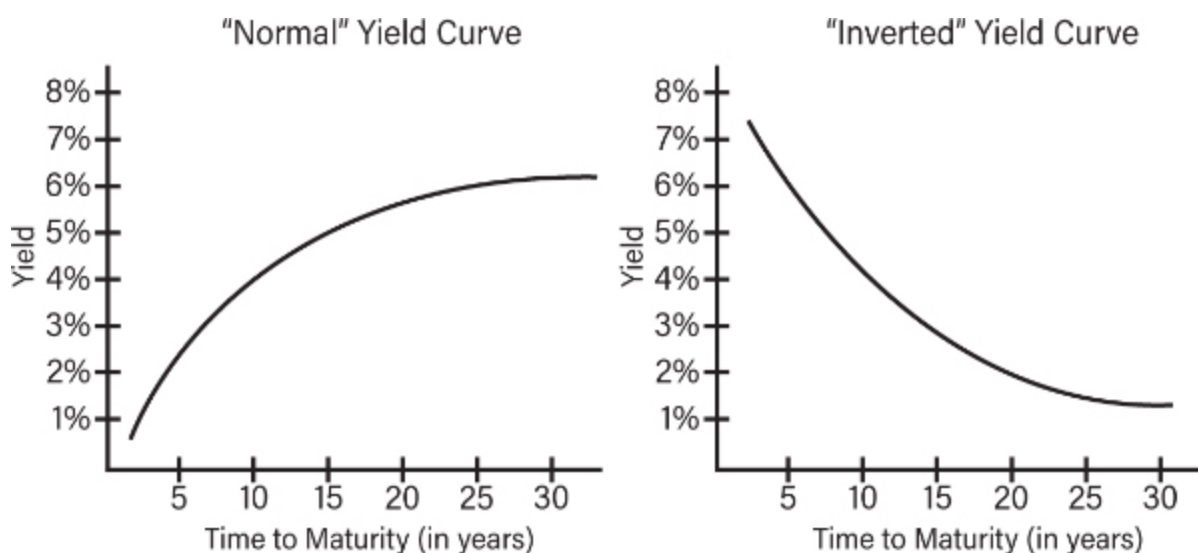
As you've likely guessed, the length of the term of a bond is our third risk factor, and it also helps determine the interest rate paid. The longer a bond's term, the more likely interest rates will change significantly before it matures, and that means greater risk. While each bond is priced individually, there are three bond term groupings: short, medium, and long. For example, with US Treasury securities (the bonds our federal government issues), we have the following:

Bills—Short-term bonds of 1–5-year terms

Notes—Midterm bonds of 6–12-year terms

Bonds—Long-term bonds of 12-plus-year terms

Generally speaking, short-term bonds pay less interest, as they are seen as having less risk, since your money is tied up for a shorter period of time. Accordingly, long-term bonds are seen as having higher risk and pay more.



If you are a bond analyst, you'll graph this on a chart and create what is called a *yield curve*. The chart on the left is fairly typical. The greater the difference between short-, mid-, and long-term rates, the steeper the curve. This difference varies, and sometimes things get so wacky that short-term rates become higher than long-term rates. The chart for this event produces the wonderfully named *inverted yield curve*, and it sets the hearts of bond analysts all aflutter. You can see what that looks like in the chart on the right.

Stage 7

Inflation is the biggest risk to your bonds. As we've discussed, inflation occurs when the cost of goods is rising. When you lend your money by buying bonds, during periods of inflation, when you get it back, it will buy less stuff. Your money is worth less. A big factor in determining the interest rate paid on a bond is the anticipated inflation rate. Since some inflation is almost always present in a healthy economy, long-term bonds are sure to be affected. That's a key reason they typically pay more interest. So when we get an inverted yield curve and short-term rates are higher than long-term rates, investors are anticipating low inflation or even deflation.

Stage 8

Here are a few other risks:

Credit downgrades: Remember those rating agencies we discussed earlier? Maybe you bought a bond from a company rated AAA. This is the risk that sometime after you buy, the company gets in trouble and those agencies downgrade its rating. The value of your bond goes down with it.

Callable bonds: Some bonds are “callable,” meaning that the bond issuer can pay them off before the maturity date. They give you your money back and stop paying interest. Of course, they would only do this when interest rates are falling and they can borrow money more cheaply elsewhere. As you now know, when rates fall, the value of your bond goes up. But if it gets called, poof! There goes your nice gain.

Liquidity risk: Some companies are just not all that popular, and that goes for their bonds as well. Liquidity risk refers to the possibility that when you want to sell, few buyers will be interested. Few buyers = lower prices.

All of these risks are nicely mitigated simply by owning a broad-based bond index fund. That’s why VBTLX is our choice.

Stage 9

Municipal bonds are bonds issued by governments and government agencies at the state and local levels. Typically, these fund public works projects like schools, airports, sewer systems, and the like.

While offering lower interest rates than corporate bonds, they have the advantage of being exempt from federal income taxes. They are also generally exempt from state income taxes for the state in which they are issued. This makes them appealing to folks in high income tax brackets, especially if they live in a high income tax state. It also makes them less expensive in interest payments for the governments that issue them.

Vanguard has several funds devoted to municipal bonds, including several focused on specific states.

Stage 10

There are precisely a gazillion different types of bonds. Basically, they come from national governments, state and local governments, government agencies, and companies. Term length, interest rates, and payment terms are limited only by the imagination of the buyers, sellers, and regulators. But since this is *The Simple Path to Wealth*, we can comfortably end this discussion here.

¹ Interest rates are currently lower than 10%; I'm using this rate to make the math simpler.

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Chapter 13

Portfolio Ideas to Build and Keep Your Wealth

We've spent these last few chapters getting to know the lay of the land, if you will. Now let's turn our attention to the fun stuff. How, exactly, can we use what we've learned so far to build and keep our wealth? I'm going to give you two portfolios, each using the tools (funds) we've discussed.

First, I'll show you exactly what I told my daughter when she was a teenager. She couldn't have cared less about investing, and with this simple approach, she didn't have to. All she needed to do was to keep adding to the pot and let it ride. Years from now she'll wake up rich. Along the way, each year she'll outperform over 83% of the more actively engaged investors out there. We'll call this the Wealth Accumulation Portfolio.

Then I'll share with you what my wife and I do as the retired couple we are. We'll call that one the Wealth Preservation Portfolio.

Your personal situation is likely different from our family's. But using these two as parameters, and after reviewing your personal "considerations" as we discussed in Chapter 10, you should be able to fashion these tools into something that works for you.

The Wealth Accumulation Portfolio

This is what I've created for my daughter and what I tell her as to why.

Here's the thing: If you want to survive and prosper as an investor, you have two choices. You can follow the typical advice we examined in Chapter 6 and seek out broad diversification with extensive asset allocations. Your hope is this will smooth the ride, even as it reduces your long-term returns.

Screw that! You're young, aggressive, and here to build wealth. You're out to build your pot of F-You Money ASAP. You're going to focus on the

best-performing asset class in history: stocks. You're going to "get your mind right," toughen up, and learn to ride out the storms.

You've heard the expression "Don't keep all your eggs in one basket."

You've likely also heard the variation "Keep all your eggs in one basket and watch that basket very closely."

Forget it. Here's what your kindly old Uncle JL says:

Put all your eggs in one basket and forget about it.

The great irony of investing is that the more you watch and fiddle with your holdings, the less well you are likely to do. Fill your basket, add as much as you can along the way, and ignore it the rest of the time. You'll likely wake up rich.

Here's the basket: VTSAX. No surprise here if you've been paying attention so far. This is the total stock market index fund that holds virtually every publicly traded company in the US. That means you'll be owning a part of about 3,600 businesses across the country, making it a very big and diverse basket. The fact that it is a low-cost index fund keeps more of your money working for you.

Owning 100% stocks like this is considered a very aggressive investment allocation. It is aggressive, and in this wealth accumulation phase, you should be. You have decades ahead, and you'll be adding new money as you go. Market ups and downs don't matter because you'll avoid panic and stay the course. If anything, you recognize drops as the "stocks-on-sale" buying opportunities they are. Perhaps forty years from now (or whenever you are living on your portfolio), you might want to add a bond index fund to smooth the ride. Worry about that then.

At this point, I can see the financial gurus of the world gathering feathers and heating up the tar. So let me explain.

Previously, we explored the idea that financial crises are just part of the landscape, and the best results come from simply riding them out. You can't predict them, and you can't time them. Over your investing career, you'll experience many of them. But if you are mentally tough enough, you can simply ignore them.

So now if we agree that we can “get our minds right,” what shall we choose for riding out the storm? Clearly we want the best-performing asset class we can find. Just as clearly, that’s stocks. If you look at all asset classes from bonds to real estate to gold to farmland to art to racehorses to whatever, stocks provide the best performance over time. Nothing else even comes close.

Let’s take a moment to review why this is true. Stocks are not just little slips of traded paper. When you own stock, you own a piece of a business. These are companies filled with people working relentlessly to expand and serve their customer bases. They are competing in an unforgiving environment that rewards those who can make it happen and discards those who can’t. It is this intense dynamic that makes stocks and the companies they represent the most powerful and successful investment class in history.

Because VTSAX is an index fund, we don’t even have to worry about which companies will succeed and which will fail. As we’ve seen, it is “self-cleansing.” The failures fall away, and the winners can grow endlessly.

Study after study shows that a portfolio of 100% stocks—which is what VTSAX gives you—provides the greatest return over time. However, if you are not tough enough to stay the course or if you get scared and bail when the storms are raging, you are going to drown. But that’s a psychological failure, not a downside of this asset class.

As an aside, there are studies that indicate holding a 10%–25% position in bonds with 75%–90% stocks will actually very slightly outperform a position holding 100% stocks. It is also slightly less volatile. If you want to go that route and take on the slightly more complicated process of periodically rebalancing to maintain the allocation, you’ll get no argument from me.

Could it really be this easy? Yep. I started investing in 1975. At the time, VTSAX had yet to be created, but from then until the fall of 2024, the S&P 500 index produced an annualized growth rate of 12.2%.¹ (A notch *higher* than the 11.9% return from my first forty years and the first edition of this book. Remarkably, this occurred even with the pandemic of 2019–23 and the –34% crash it triggered in 2020.) Just \$2,400 a year (\$200 per month) invested and left to ride would have grown to more than \$5 million by the end of 2024.² Over that same period, a one-time lump sum investment of \$10,000 would have become more than \$3 million. This despite all the

panics and collapses and recessions and disasters we've endured during the past half century.

Unfortunately, I wasn't smart enough at the time to do it. But this is *The Simple Path to Wealth* I created for my then-teenager: Put all your eggs into one large and diverse basket, add more whenever you can, and forget about it. The more you add, the faster you'll get there. Job done.

The Wealth Preservation Portfolio

But wait, you say, I'm at or nearing retirement. I've built my wealth. Now I want to hang on to it. Or maybe I'm just not comfortable with the volatility of an all—or mostly—stock portfolio. I want a smoother ride. What then?

Yeah, me too. When I was nearing my own retirement, I expanded beyond just VTSAX. Hold on now, this is going to get really complicated. You're going to have to add another index fund. Oh my!

We now enter the world of asset allocation, and this will require slightly more of our time. With two funds in play, we'll want to decide how much to allocate to each. Then once a year or so, we'll want to rebalance to keep the allocations where we want them. It's going to take a couple of hours once a year. You can handle it.

As we know, a portfolio composed of 100% stocks is perfect for those who can handle the ride, who are adding new money to their investments, and who take the long view. But it's not for everybody. Maybe you don't want to deal with this level of volatility. Maybe a bit more peace of mind is required. As you get older, you might want to smooth the ride a bit, even at the cost of lower overall returns. You want to sleep at night.

Now that I'm kinda, sorta retired and we are financially independent, me too. My wife and I hold some other stuff in our portfolio. But not much. Here it is:

~**75% Stocks:** VTSAX (Vanguard Total Stock Market Index Fund). Still our core holding for all the reasons we've discussed.

~**20% Bonds:** VBTLX (Vanguard Total Bond Market Index Fund).

Bonds provide some income, tend to smooth out the rough ride of stocks, and are a deflation hedge.

~5% Cash: VMRXX (Vanguard Cash Reserves Federal Money Market Fund).

You can fine-tune these allocations to your own personal considerations. Want a smoother ride? Willing to accept a potentially lower long-term return and slower wealth accumulation? Just increase the percentage in VBTLX. Comfortable with volatility? Want more growth? Add more to VTSAX.

Now that we've introduced this idea of asset allocation, we'll explore it a bit more next.

1 Calculator A: <https://dqydj.net/sp-500-return-calculator/>.

2 Calculator B: <https://dqydj.net/sp-500-dividend-reinvestment-and-periodic-investment-calculator/>.

[OceanofPDF.com](https://www.oceanofpdf.com/)

Chapter 14

Selecting Your Asset Allocation

Life is balance and choice. Add more of this, lose a little of that. When it comes to investing, that balance and choice are informed by your temperament and goals.

Financial geeks like me are the aberration. Sane people don't want to be bothered. My daughter helped me understand this at about the same time I was finally understanding that the most effective investing is also the simplest.

Complex and expensive investments are not only unnecessary; they also underperform. Fiddling with your investments almost always leads to worse results. Making a few sound choices and letting them run is the essence of success and the soul of *The Simple Path to Wealth*.

Having read this book so far, you already know this. You also know that with simplicity as our guide, we look at our investing lives in two broad stages (wealth accumulation and wealth preservation) and use just two funds (VTSAX and VBTLX).

The wealth accumulation stage is when you are working and have earned income to save and invest. For this stage, I favor 100% stocks, and VTSAX is the fund I prefer. If financial independence is your goal, your savings rate in these years should be high. As you invest that money each month, it serves to smooth out the market's wild ride.

You enter the wealth preservation stage once you step away from your job and regular paychecks and begin living on income from your investments. At this point, I recommend adding bonds to the portfolio. Like the fresh cash you were investing while working, bonds help smooth the ride.

Of course, in the real world, the divisions might not always be so clear. You might find yourself making some money in retirement. Or over the years you might move from one stage to the other and back again more than

once. You might leave a high-paying job to work for less at something you love. In my own career, there were many times I chose to step away from working for months or even years at a time. Each time changed my stage.

Using this framework of two stages and two funds, you have all the tools you need to find your own balance. In determining that balance, you'll also want to consider two additional factors: how much effort you are willing to apply and your risk tolerance.

Effort

For the wealth accumulation stage, an allocation of 100% stocks using VTSAX is the soul of simplicity. But as we've seen, some studies suggest that adding a small percentage of bonds—say 10%–25%—actually outperforms 100% stocks. You can see this effect by playing with the various calculators found on the internet. As you do, you'll notice that adding much beyond 25% bonds begins to hurt results.

Remember that these studies are not carved in stone, and all calculators rely on making certain assumptions about the future. The difference in projected results between 100% stocks and an 80/20 mix of stocks and bonds is tiny. How those results actually unfold over the decades is likely to be equally close, and the ultimate winner is basically unpredictable. For this reason, and favoring simplicity, I recommend 100% stocks using VTSAX.

That said, if you are willing to do a bit more work, you could slightly smooth out the wild ride and possibly outperform over time by adding 10%–25% in bonds. If you do, about once a year, you will want to rebalance your funds to maintain your chosen allocation. You might also want to rebalance any time the market makes a major move (20%+) up or down. This means you will sell shares in whichever asset class has performed better and buy shares in the one that has lagged.

Ideally you will do this in a tax-advantaged account like an IRA or 401(k) (we'll be talking about those shortly) so you don't have to pay tax on any capital gains. Having to pay capital gains taxes would be a major drawback and another reason to focus on holding just VTSAX. This rebalancing is simple and can be done online with Vanguard or most other investment firms. It should only take a couple of hours a year. But like changing the oil in your car, it is critical that you actually do it.

If you are unsure you'll remember to rebalance or simply don't want to be bothered, TRFs (target retirement funds) are a fine option. These allow you to choose your allocation, and then they will automatically rebalance for you. They cost a bit more than the simple index funds you'd use doing it yourself—you are paying for that extra service—but they are still low-cost. We'll discuss them in more detail in Chapter 16.

Risk factors

Temperament. This is your personal ability to handle risk. Only you can decide, and if ever there was a time to be brutally honest with yourself, this is it.

Flexibility. How willing and able are you to adjust your spending? Can you tighten your belt if needed? Are you willing to move to a less expensive part of the country? Of the world? Are you able to return to work? Create additional sources of income? The more rigid your lifestyle requirements, the less risk you can handle.

How much do you have? As we'll discuss in Part IV, the basic 4% rule is a good guideline for deciding how much income your assets can reasonably be expected to provide over time. If you need every penny of that just to make ends meet, your ability to handle risk drops. If, on the other hand, you are spending 4% but a big chunk of it goes toward optional hobbies like travel, you can handle more risk.

After considering effort and risk, here are some questions you'll want to consider.

When should I make the shift into bonds?

This is very much a function of your tolerance for risk and your personal situation.

For the smoothest transition, you might start slowly shifting into your bond allocation five or ten years before you are fully retired. Especially if you have a fixed date firmly in mind.

But if you are flexible as to your retirement date and more risk tolerant, you might stay fully in stocks right up until you make the change. In doing

so, the stronger potential of stocks could get you there sooner. But if the market moves against you, you'll have to be willing to push your retirement date back a bit.

Of course, any time you shift between the accumulation and preservation stages, you'll want to reassess and possibly adjust your allocation.

Balance and choice. Yin and yang.

Does age matter?

Overall, I prefer to divide our investment stages by life stages rather than using the more typical tool of age.

This is an acknowledgment of the fact that people are living longer and much more diverse lives these days. Especially the readers of this book. Some folks are retiring very early. Others are retiring from higher-paid positions into lower-paid work that more closely reflects their values and interests. Still others, like I did, are stepping in and out of work as it suits them, their stages fluidly shifting.

So age seems not to matter, at least not as much as it once did.

With that said, age does begin to limit your options as it advances. Age discrimination is a very real thing, especially in the corporate world. As you get older, you may not have all the same options readily available as you had in your youth. If your life journey involves stepping away from highly paid work occasionally, you'll do well to consider this.

Further, as you age, you steadily have less time for the compounding growth of your investments to work and to recover from market plunges.

Both these considerations will influence your risk profile, and you might well want to consider adding bonds a bit earlier if that's the case.

Is there an optimal time of year to rebalance?

Not really. I've yet to see any credible research indicating a particular time of year works best. Even if someone were to figure it out, once known, everybody would rush to it, negating the effect.

I do suggest avoiding the very end/beginning of the year. It is a popular time for rebalancing, and many are engaged in tax selling and new buying. I

prefer to avoid the possible short-term market distortions this might cause. Personally, we rebalance once a year on my wife's birthday. Random and easy to remember.

I have some of my investments in tax-advantaged accounts and some in regular accounts. How can I rebalance across those?

This can be cumbersome, and you'll just have to work with what you have. While it is best to hold bonds in tax-advantaged accounts, it does complicate rebalancing.

First, you should be considering all your investments as a whole when figuring your allocation.

Next, as a rule, it is better to buy and sell in tax-advantaged accounts to avoid creating taxable events. I recommend this unless you happen to have capital losses in a given year. Then it is best to take them in your taxable accounts when possible.

For instance, you might own VTSAX in both an IRA and a taxable account. Should you need to sell to rebalance that year, sell in the taxable account to capture the loss. You can deduct it against any other gain you happen to have, including any capital gain distributions. You can also deduct up to \$3,000 against your earned income. Any loss leftover you can carry forward to use in future years.

(But be careful not to buy more VTSAX in your IRA, or any other of your investment accounts, within thirty days of selling. If you do, the IRS will consider this a "wash sale" and your tax loss would be negated.)

Does more frequent reallocation improve performance?

Investment firms that provide the service contend that reallocation improves performance over time, but I'm not sure I buy the premise. If anything, my tilt is in the opposite direction. Which aligns me with Jack Bogle.

Mr. Bogle points to research Vanguard has done comparing stock and bond portfolios that were annually rebalanced and those not rebalanced at all. The results showed the rebalanced portfolios outperformed but by a margin so slight it could be attributed to noise as much as the strategy. His conclusion: “Rebalancing is a personal choice, not a choice that statistics can validate. There’s certainly nothing the matter with doing it (although I don’t do it myself), but also no reason to slavishly worry about small changes in the equity ratio.”

We still rebalance annually, but were I to make a change, it would be to not bother with it at all.

There you have it: the considerations you’ll need to review and the tools you’ll need to use to create the asset allocation that best fits your situation.

Now why in the world haven’t I included international funds in the mix like most every other writer on investing? We’ll look at that next.

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Chapter 15

International Funds

As we've discussed, most advisors recommend far more funds and asset classes than the two I've suggested. Indeed, as we've seen—scared witless after the 2008–9 market implosion—many would now have us invest in everything in the hope a couple pull through. Doing this properly would require a ton of work understanding the asset classes, deciding on percentages for each, choosing how to own them, rebalancing, and tracking. All for what will likely be subpar performance.

Still, even for some who accept the advantages of simplicity, my two-fund Wealth Preservation Portfolio seems incomplete. The readers of my blog are an astute bunch, and the missing asset class they ask about most frequently is international stocks.

Since almost every other allocation you come across will include an international component, why doesn't our Simple Path? There are three reasons: added risk, added expense, and "We've got it covered."

1. Added risk

Currency risk. When you own international companies, they trade in the currency of their home country. Since those currencies fluctuate against the US dollar, with international funds, there is this additional dimension of risk.

Accounting risk. Few countries—especially in emerging markets—offer the transparent accounting standards required here in the US. Even here, companies like Enron occasionally cook their books and blow up on their investors. The weaker the regulatory structure in place, the greater the risk involved.

2. Added expense

VT SAX has a 0.04% expense ratio for rock-bottom costs. While cheaper than comparable funds, even low-cost Vanguard international funds have expense ratios at least twice that level.

3. We've got it covered

The key reasons cited for holding international funds are to avoid being dependent on the US economy and to have exposure to the growth potential of world asset classes not correlated with the US market. But we've got those covered.

Looking at the first, the five hundred largest stocks in the US make up about 80% of VT SAX. The largest of these five hundred are all international businesses, many of which generate 50% or more of their sales and profits overseas. Companies like Apple, Microsoft, Nvidia, Google, Exxon/Mobil, Berkshire Hathaway, Caterpillar, Coca-Cola, and Ford, to name a few.

Since these companies provide solid access to the growth of world markets—while filtering out most of the additional risk—I don't feel the need to invest further in international-specific funds.

The second frequently cited reason is the expectation that the performance of international markets will not be correlated with that of the US. That is to say, when one is up, the other might be down. The idea is that having them as part of your asset allocation helps smooth the ride and offers the prospect of enhanced returns through reallocations. The problem is, as world economies become ever more closely knit together, this variation in the performance of their markets fades. While there will always be exceptions due to geopolitical events, world markets are becoming increasingly more correlated.

(Since writing the previous paragraph in 2015, the US market has sharply outperformed the rest of the world. While this has been great for the results of my no-international-fund approach these past ten years, it does make me wrong in my assertion that the variation between markets will fade. So far, anyway. I still think that is where we are headed, but if you think otherwise, recent history supports your case.)

That's my take. Your worldview, however, may lead you to a different conclusion. If it does—and you feel the need for even more international exposure than that embedded in VTSAX—our friends at Vanguard have some excellent options.

- VFWAX: FTSE All-World Ex-US Index Fund (expense ratio 0.11%)
- VTIAAX: Total International Stock Index Fund (expense ratio 0.12%)

Both of these invest everywhere in the world except the US, which you'll have covered with VTSAX.

If you prefer to keep things as simple as possible, at a bit higher cost than those funds combined with VTSAX, you might look at this:

- VTWAX: Total World Stock Index Fund (expense ratio 0.10%)

This fund invests all over the world, including a roughly 60% allocation in the US. With it, you no longer even need to hold VTSAX.

While I don't feel the need for international funds, for those who do, I don't strongly oppose holding them. Just be sure you understand what you already own in VTSAX and the cost in fees and additional risks these funds entail.

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Chapter 16

TRFs: The Simplest Path to Wealth of All

OK, you've read this far, and while the Wealth Accumulation Portfolio requires only one fund (VTSAX) and no effort, as you shift into the Wealth Preservation Portfolio, that requires adding one more fund (VBTLX). So you're thinking, "Aww man. Two funds? And I gotta rebalance them every year? That's too much to keep track of!" Maybe you are even thinking, "I get what he's saying in the last chapter, but I'd still like some international exposure in my portfolio."

I hear your pain. You need the simplest of all possible paths. You need to be able to buy just one fund and own it till your dying day. Any asset allocation crap should be handled for you. You have bridges to build, nations to run, great art to create, diseases to cure, businesses to start, beaches to sit on. I'm here for you, bunkie.

More importantly, Vanguard is as well, with a series of twelve TRFs (target retirement funds). For that matter, so are other mutual fund companies, but as you know, Vanguard is the primo choice around these parts, so we'll be talking about their TRFs. If your 401(k) or similar plan offers only one of the others, what is said here (excepting expense ratio costs) still applies.

If you visit Vanguard online, you'll see that these twelve funds range from Target Retirement 2020 to Target Retirement 2070, plus one for those already in retirement at age 72 and above. The idea is that you simply pick the year you plan to retire and find the appropriate fund. Other than adding as much as you can to it over the years and arranging for withdrawal payments when the time comes, there is nothing else you need ever do. It's a beautiful and elegant solution.

Let's peek under the hood.

Each of these target retirement funds is what is known as a "fund of funds." This just means that the fund holds several other funds, each with

different investment objectives. In the case of Vanguard, the funds held are all low-cost index funds. As you know by now, that's a very good thing.

The TRFs ranging from 2020 to 2070 each hold only four funds:

- Total Stock Market Index Fund
- Total Bond Market Index Fund
- Total International Stock Market Index Fund
- Total International Bond Market Index Fund

To those four funds, the TR 2020 and 2025 funds add:

- Short-Term Inflation-Protected Securities Index Fund

As the years roll by and the chosen retirement date approaches, the funds will automatically adjust the balance held, becoming steadily more conservative and less volatile over time. You needn't do a thing.

The expense ratios are currently 0.08%. Not quite as low as a basic index fund like VTSAX (.04%), but very good considering the extra simplicity these offer.

What are the shortcomings?

Some people say the funds get too conservative too soon. Others complain that they are too aggressive for too long. For my money, I think Vanguard gets it pretty close to spot-on. Maybe a bit conservative for me personally, but then I'm on the aggressive side. This is easy to adjust for. If you want a more conservative (greater percentage of bonds) approach, choose a date before your actual retirement. The earlier the date, the more conservative the asset allocation. If you want more aggressive (greater percentage of stocks), just pick a later date.

Other fund companies use differing allocations for different retirement dates. If those are what's offered in your 401(k) or 403(b) plan, you'll need to take a look and decide accordingly. But the same principles apply.

Given these benefits and relatively low costs, I am comfortable recommending TRFs. They are an excellent choice for many (maybe even most) people. They will certainly outperform the vast majority of active-management investment strategies over time.

But I do have a slight preference for the approaches described in the earlier chapters. Here's why:

- The expense ratios are even lower than those of the TRFs.
- The TRFs all hold the Total International Stock Market Index Fund.
While this is an excellent fund, as we discussed in Chapter 15, I don't feel the need for additional international coverage beyond that found in the Vanguard Total Stock Market Index Fund (VTSAX).
- With separate funds, I can keep my bonds in my tax-advantaged bucket, protecting the dividends and interest from taxes. If you decide to own TRFs, they too are best held in a tax-advantaged bucket.

Where are you likely to find target retirement funds?

Target retirement funds have become very popular as options in the 401(k) and 403(b) retirement plans offered by employers. The idea is most people really have very little interest in investing. Overall, this is sound thinking, and TRFs provide an effective, simple, and well-balanced "one-decision" solution. Plus, because such retirement plans are tax-sheltered, the interest from the bonds and the dividends from the stocks go untaxed. Of course, other than those held in Roth 401(k) or Roth IRA accounts, when money is withdrawn in retirement, taxes will be due.

What should you do?

If your company's retirement plan offers TRFs from Vanguard or low-cost equivalents from another fund company, they are well worth your consideration.

If you want a portfolio that's as simple as possible and still effective, TRFs are for you. They have *The Simple Path to Wealth's* stamp of approval.

Chapter 17

What If You Can't Buy VTSAX? Or Even Vanguard?

Throughout this book I've recommended two specific mutual funds:

- VTSAX (Vanguard Total Stock Market Index Fund)
- VBTLX (Vanguard Total Bond Market Index Fund)

These are the funds I own myself. They have rock-bottom expense ratios but also require a minimum investment of \$3,000.

While these funds best fit my needs, they might not fit yours. Perhaps you are just starting out and the \$3,000 minimum is too steep. Or maybe they are not offered in your 401(k) plan.

While the total stock and total bond market index funds you find at other brokerages are also fine, Vanguard is also the only investment company I recommend or use. We'll explore why in the following chapter. But maybe Vanguard itself is hard to access in the country where you live or in the 401(k) you are offered.

Not to worry. In this chapter, we'll explore some alternatives.

Variations on the funds

The first thing to understand is that VTSAX or VBTLX are each only one fund that holds the Total Stock Market Index and Total Bond Market Index portfolios, respectively. It is the portfolios that matter, and Vanguard offers each in other flavors. For example, the exact same portfolio held by VTSAX can be found in five other funds, or what Vanguard calls "classes." Below I list them followed by their expense ratios and required minimum investment.

The first two are for us individual investors:

- VTSAX 0.04%/\$3,000
- ETF: VTI 0.03%

An ETF is an exchange-traded fund; you can buy these in any amount you want, just like a stock. Note the expense ratio is just 0.03% and there is no required minimum investment. A word of caution: When buying or selling ETFs, just like a stock, commissions and/or spreads are frequently involved. These added costs can offset the savings in the expense ratio unless you have access to free trading.

These next three are “Institutional Shares,” and you might find them in your 401(k) or other employer-sponsored retirement plan:

- VITSX: 0.03%/\$5,000,000
- VSMPX: 0.02%/\$100,000,000
- VSTSX: 0.01%/\$5,000,000,000

So when I recommend VTSAX, you can substitute any of these if that's what is available and/or if one of the others better meets your needs. The important thing is that you are buying the Vanguard Total Stock Market Index portfolio.

Similar variations can be found for VBTLX and its Total Bond Market Index portfolio. If you visit Vanguard online and search for VBTLX, you'll find the home page for the fund. At the very top, under the fund name, you'll find a link to the ETF version.

When Vanguard isn't an option in your employer's tax-advantaged plan

Vanguard has a very active institutional business serving 401(k) programs and the like. But it very well may not be a part of yours. However, even if your tax-advantaged, employer-offered plan doesn't offer Vanguard, you should still participate, certainly at least up to the amount needed to capture

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

So without Vanguard in your plan, the question becomes how to select the best option, which by now you know is a low-cost total stock and/or bond index fund.

The good news is that—due to the competitive pressure from Vanguard—nearly every other major mutual fund company now offers low-cost index funds. Just like the variations you can find in Vanguard of VTSAX, you can in all probability find a reasonable alternative in your 401(k). Here's what you are looking for:

1. A low-cost index fund.
2. For tax-advantaged funds you'll be holding for decades, I slightly prefer a total stock market index fund, but an S&P 500 index fund is just fine.
3. You can also look for a total bond market index fund if your needs or preferences call for it. Most plans will also offer these.
4. TRFs (target retirement funds) are frequently offered in 401(k) plans, and these can be an excellent choice. But look closely at the fees. They are always higher than those for index funds, sometimes by a lot. For instance, the TRFs from Vanguard have a 0.08% expense ratio, as compared to 0.04% for VTSAX. Those from other firms can run much higher.

For my international readers

If you live outside the US, Vanguard and its funds may or may not be available. Vanguard is growing rapidly and is now available in many countries outside the US. You can check out the list at <https://global.vanguard.com>.

If Vanguard simply is not an option, then in your fund search you'll want to follow the same guidelines as described above for tax-advantaged plans.

Also, when I talk about VTSAX or any total stock market index fund, these are indexes that mirror the US stock market. As I explained in Chapter

15, this is all those of us in the US really need. But you might find it difficult to access such a US-centric fund.

No worries. Take a look at a global fund like VTWAX (Vanguard Total World Stock Index Fund Admiral Shares). This is an index fund that invests all over the globe. In some ways I like it even better than my beloved VTSAX. I don't recommend it as a replacement only because of its relatively steep expense ratio (.10%) and because VTSAX covers international pretty well for the reasons I describe in Chapter 15.

If you are inclined to go this route, you might consider the lower-cost ETF version, VT (Vanguard Total World Stock ETF). Ordinarily, I tend to avoid ETFs because of the possibility of sales commissions and/or spreads, but since the expense ratio on VT is 0.07% vs. 0.10%, it is worth exploring. Just be careful of the trading costs when you buy it.

One final caution. Be sure that whatever global fund you choose includes the US market. It is a huge chunk of the world economy, and you can't afford not to own a part of it. Many "international" funds—especially those offered by US-based firms like Vanguard—are "ex-US stocks," meaning they do not include US-based stocks. The reason is that they are designed to supplement the holdings of investors already in the US market with VTSAX and the like. That makes sense but likely doesn't suit your needs as an investor outside the US.

The bottom line

If I didn't have access to those two specific funds (VTSAX and VBTLX) or to the even lower expense ratio institutional versions, I'd look for the Vanguard variations that delivered the same Vanguard stock and bond index portfolios.

If I didn't have access to Vanguard, I'd look for similar low-cost funds from whatever sound investment company was available.

And if the future offered me the chance, I'd roll my holdings into Vanguard as soon as I could.

Chapter 18

What Is It About Vanguard?

If you've read this far, you know I am a strong proponent of investing in Vanguard index funds. Indeed, unless you have no choice (as discussed in Chapter 17), my strong suggestion is that you deal only with Vanguard.

Understandably, such a bold recommendation is going to raise some questions. In this chapter, we'll address the four most common.

1. What makes Vanguard so special?

When Jack Bogle founded Vanguard in 1975, he did so with a structure that remains unique in the investment world. Vanguard is client owned, and it is operated at cost. Sounds good, but what does it actually mean?

As an investor in Vanguard funds, your interests and those of Vanguard are precisely the same. The reason is simple. The Vanguard funds—and by extension, the investors in those funds—are the owners of Vanguard.

By way of contrast, every other investment company has two masters to serve: the company owners and the investors in their funds. The needs of each are not always, or even commonly, aligned.

To understand the difference, let's look at how other investment companies (most companies, in fact) are structured. Basically, there are two options:

- They can be owned privately, as in a family business. Fidelity Investments is an example.
- They can be publicly traded and owned by shareholders. T. Rowe Price is an example.

In both cases, the owners understandably expect a return on their investment. This return comes from the profits each company generates in

operating its individual mutual funds. The profits are what's left over after the costs of operating the funds are accounted for—things like salaries, rent, supplies, and the like.

Serving the shareholders in their mutual funds is simply a means to generate this revenue to pay the bills and create the profit that pays the owners. This revenue comes from the operating fees charged to shareholders in each of their individual funds.

When you own a mutual fund through Fidelity, T. Rowe Price, or any investment company other than Vanguard, you are paying both for the operational costs of your fund and for a profit that goes to the owners of your fund company.

If I am an owner of Fidelity or T. Rowe Price, I want the fees and resulting profits to be as high as possible. If I am a shareholder in one of their funds, I want those fees to be as low as possible. Guess what? The fees are set as high as possible.

To be clear, there is nothing inherently wrong with this model. In fact, it is the way most companies operate.

When you buy an iPhone, built into the price are all the costs of designing, manufacturing, shipping, and retailing that phone to you, along with a profit for the shareholders of Apple. Apple sets the iPhone price as high as possible, consistent with its costs, its profit expectations, and the goal of selling as many as can be made. An investment company does the same.

In this example, I chose Fidelity and T. Rowe Price not to pick on them. Both are excellent operations with some fine mutual funds on offer. But because they must generate profit for their owners, both are at a distinct cost disadvantage to Vanguard. As are all other investment companies.

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.

With Vanguard, any profits generated by the fees we pay would find their way back into our pockets. Since this would be a somewhat silly and roundabout process and, more importantly, since it would potentially be a taxable event, 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.

What does this translate into in the real world?

Such fees are reported as “expense ratios” (ERs). The average ER at Vanguard is 0.08%. Across the industry, the average actively managed mutual fund ER as reported in 2023 was 0.59%, and the average index fund ER was 0.11%.¹ Now this might not sound like much, but over time, the difference is immense, and it is one of the key reasons Vanguard enjoys a performance as well as a cost advantage.

With Vanguard, you own your mutual funds and, through them, Vanguard itself. Your interests and those of Vanguard are precisely the same. This is a rare and beautiful thing, unique in the world of investing.

2. Why are you comfortable holding all your assets with one company?

The answer is simple: It is because my assets are not invested in Vanguard. They are invested in the Vanguard mutual funds and, through those, 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*. As with all investments, these carry risk, but none of that risk is directly tied to Vanguard.

Now this can start to get very complex, and for the very few of you who care, there’s lots of further information you can easily search. For our purposes here, what’s important to know is the following: You are not investing in Vanguard itself; you are investing in one or more of the mutual funds it manages.

- The Vanguard mutual funds are held as separate entities. Their assets are separate from Vanguard, each carrying their own fraud insurance bonds and their own respective board of directors charged with keeping an eye on things. In a very real sense, each is a separate company operated independently but under the umbrella of Vanguard.

- No one at Vanguard has access to your money, and therefore no one at Vanguard can make off with it.
- Vanguard is regulated by the Securities and Exchange Commission.

All of this, by the way, is also true of other mutual fund investment companies, like Fidelity and T. Rowe Price. Those offered in your 401(k) are, in all likelihood, just fine too.

If you have an employer-sponsored retirement plan, like a 401(k), that doesn't offer Vanguard funds, by all means invest in it anyway. As we'll discuss in Chapter 19, the tax deferral and any company match contributions make these plans attractive even with subpar fund choices and high fees.

3. What if Vanguard gets nuked?

OK, let's be clear. If the world had ended on December 21, 2012, as the Mayan calendar suggested it might, everything you had invested in Vanguard (or elsewhere) would have gone up in smoke. But, of course, that didn't happen.

If a giant meteor slams into Earth, setting the world on fire, followed by a nuclear winter, your investments are toast.

If space aliens arrive and enslave us all—unless you bought human feedlot futures—it's gonna mess up your portfolio.

But these are unlikely and beyond our control, not to mention the scope of this book.

That said, lesser disasters can and do happen. Vanguard is based in Malvern, Pennsylvania. What if, God forbid, Malvern is nuked in a terrorist attack? What about a cyberattack? Hurricane? Power outage? Global pandemic?

Every major company and institution is aware of these dangers, and each has created a disaster recovery plan. Vanguard has one of the most comprehensive. The company is spread across multiple locations. Its data is held in multiple and redundant systems. If you care to, you can check out its complete plan on its site.

However, if you are expecting a planet- or even just a civilization-ending event, Vanguard's not for you. But then, no investments really are. You're already stocking your underground shelter with canned goods and weapons. Short of that, you can sleep just fine with your assets at Vanguard. I do.

4. Am I on the take?

This book is such a strong proponent of Vanguard, it is reasonable to ask if I am on the take.

Nope. Vanguard does not pay me in any fashion whatsoever.

¹ <https://www.morningstar.com/lp/annual-us-fund-fee-study-at>.

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Chapter 19

The 401(k), 403(b), TSP, IRA, and Roth Buckets

So far, in Part II, we've examined the market and looked at some sample portfolios built from the two key index funds I favor and TRFs (target retirement funds). Those funds are what we call investments.

But in our complex world, we must next consider where to hold these investments. That is, which investments go in which buckets? It is important to understand that 401(k)s, IRAs, and the like are *not* investments themselves. Rather, think of them as the buckets that hold the investments we choose. Broadly speaking, there are two types of buckets:

1. Ordinary buckets
2. Tax-advantaged buckets

Now at this point, I must apologize to my international readers. These next three chapters are about to become very US-centric. I am completely ignorant of the tax situation and/or possible tax-advantaged buckets of other countries. My guess is that, at least for Western-style democracies, there are many similarities. Most modern economies recognize the value of investing and seek to encourage it. Hopefully, it will be possible for you to extrapolate the information here into something relevant to where you live. If not, feel free to skip ahead.

Here in the US, the government taxes dividends, interest, and capital gains, but it has also created several tax-advantaged buckets to encourage retirement savings. While well intentioned, this has created a whole new level of complexity. Volumes have been written about each of these and the strategies now associated with them. Clearly, we haven't the time or space to review them all. But hopefully, I can provide a simple explanation of each, along with some considerations to ponder.

The ordinary bucket is where we hold investments that are not part of any tax-advantaged plan. It is, in a sense, no bucket at all. This is where everything would go were there no taxes on investment returns and no opportunities to defer them. We would just own what we own.

This is where we'll want to put investments that are already "tax-efficient." 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 (Vanguard Total Stock Market Index Fund) 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.

Investments that are "tax-inefficient" are those that pay interest, nonqualified 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.

Let's look at our three investments and consider where they might fit:

Stocks: VTSAX currently pays around a 1.25% dividend, and most of the gain we seek is in capital appreciation. It is tax-efficient, and we can use our ordinary bucket. However, since this will be a large portion of our total holdings and since any investment can benefit from the tax-advantaged bucket, we will also hold it in our tax-advantaged buckets.

Bonds: VBTLX (Vanguard Total Bond Market Index Fund). Bonds are all about interest payments, and other than tax-exempt municipal bonds, they go into our tax-advantaged bucket.

Cash: This is also all about interest, but more importantly, it is all about ready access for immediate needs. It goes into our ordinary bucket.

None of this is carved in stone. There may be exceptions. Proper allocation should trump bucket choice. Your tax bracket, investment horizon, and the like will color your personal decisions. But the above should give you a basic framework for considering the options.

Before we look at the specifics of IRAs and 401(k)s, this is important to note: None of these tax-advantaged buckets eliminates your tax obligation. They only defer it. Fix this in your brain. We are talking about when, not if, the tax due is paid.

When the time comes to withdraw this money, taxes will be due. So will penalties if you withdraw before age 59½. And depending on your birth year, come age 72, 73, or 75 (except for Roth IRAs and Roth 401(k)s), you will be required to begin withdrawals based on what the actuarial tables say your life expectancy will be. These are called RMDs (required minimum distributions). We'll discuss this in depth in the next chapter.

Don't let this scare you; simply be aware. The benefit of having your investments grow tax-sheltered over the decades is no small thing, and in most cases, you should fund these buckets to the maximum the law permits.

Withdrawal strategies to minimize taxes

It is worth noting that there are strategies that 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.

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.

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”: <https://www.gocurrycracker.com/never-pay-taxes-again/>
- “GCC vs. the RMD”: <https://www.gocurrycracker.com/gcc-vs-rmd/>

From *Mad Fientist*

- “Early Retirement Strategies and Roth Conversion”:
<https://www.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 Best Choice for Early Retirement”: <https://www.madfientist.com/traditional-ira-vs-roth-ira/>
- “How to Access Retirement Funds Early”:
<https://www.madfientist.com/how-to-access-retirement-funds-early/>
- “Retire Even Earlier Without Earning More or Spending Less”:
<https://www.madfientist.com/retire-even-earlier/>

There are many variations of 401(k)-type and IRA-type accounts. We’ll look at the basic types here. The rest are branches from these trees.

Employer-based tax-advantaged buckets

These are buckets provided by employers, 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. The amount you can contribute is capped. As of 2025, the cap is \$23,500 per person per year. Because of catch-up contributions permitted for those 50 and older, there are higher caps by age bracket: \$31,000 for those aged 50 to 59, \$34,750 for 60 to 63, and back down to \$31,000 for 64 or older. You can contribute to more than one plan (if you have access to more than one), but the cap is the total for all together, not for each separately.

In general:

- These are very good things, but not as good as they once were. Unfortunately, many of the investment firms operating these programs have seized upon the opportunity to laden them with excessive fees. This is outrageous and offensive, but the advantage of having your

investments grow tax-free is not to be missed. Hold your nose and max out your contributions. I always did.

- Any employer match is an exceptionally good thing. This is free money. Contribute at least enough to capture the full match.
- Unless Vanguard happens to be the investment company your employer has chosen, you may not have access to Vanguard funds. That's OK.
- Many 401(k) plans will have at least one index fund option. Scan the list of funds offered for the ones with the lowest ER (expense ratio). That's where you'll find the index funds, if any.
- When you leave your employer, you can roll your 401(k) into an IRA, preserving its tax advantage. Some employers will also let you continue to hold your 401(k) in their plan. I've always rolled mine over. It gives you more control and greater investment choices and allows you to escape those ugly fees.
- You can contribute to both a 401(k) and a Roth 401(k), but the total must fall within the annual contribution caps.

401(k)- and 403(b)-type plans

- Contributions you make are deductible from your income for tax purposes.
- When you withdraw your money, it is treated as ordinary income and taxed accordingly.
- Generally, money withdrawn before age 59½ is subject to a 10% penalty on top of the regular income tax.
- Depending on the year you were born, after age 72, 73, or 75, your money is subject to RMDs.

Roth 401(k) and Roth 403(b) plans

- These are more widely available, now offered by more than 90% of plans. It is worth comparing these bullet points to those of the Roth IRA we'll discuss shortly.
- Contributions you make are *not* deductible from your income for tax purposes.
- All earnings on your investments are tax-free.
- Provided the account has been open for at least five years, all withdrawals after age 59½ are tax-free.
- As of 2024, there are no RMDs.
- There is no income limit for participating.

TSPs (thrift savings plans)

These are retirement plans for federal employees, including military personnel. Think of them as a 401(k), but better.

Unlike the fee-heavy cesspool too many 401(k) plans have become, a TSP offers a nice—but not overwhelming—selection of very low-cost index funds.

Looking at the government's chart of TSP ERs going back to 1999, these have ranged from a low of 0.015% in 2007 to a high of 0.102% in 2003. The reason for the variation, to quote the government website, is that “the TSP expense ratio represents the amount that participants' investment returns were reduced by TSP administrative expenses, net of forfeitures.”

Even at their worst, these are very low ERs—often lower even than Vanguard index funds, and that's low! Good deal.

There are five basic TSP funds:

- The C fund replicates the S&P 500 index.
- The S fund replicates a small- and mid-cap index.
- The F fund is a bond index.
- The I fund is an international stock index fund.

- The G fund holds a nonmarketable short-term US Treasury security unique to TSPs.

Own both the C and the S in about a 75/25 balance and you've basically got VTSAX. Personally, I wouldn't bother. I'd just hold the C fund and be done with it.

In addition, there are the L funds. These are Lifecycle funds made up of the other five held in various allocations designed for a particular time horizon. L funds are very much like the TRFs we discussed in Chapter 16.

TSPs are a no-brainer. If you are fortunate enough to have access to them, max them out. And in this one case, because of the ultralow fees, I wouldn't roll them into an IRA once you leave your job.

Individually based tax-advantaged buckets: IRAs

IRAs are buckets you hold on your own in addition to and separate from any employer-sponsored 401(k)-type plans you may have. You have complete control in selecting the investment company and the investments for your IRA. This means you also control costs and can avoid those companies and investments that charge excessive fees. Mine are all with Vanguard.

You can only fund these with "earned income" or money you roll over from an employer-based plan. Typically, earned income is money you are paid for the work you do.

There are three types of IRAs. For 2025, the total contribution cap is \$7,000 per year or \$8,000 for those aged 50 and older. Note: This is in addition to the money you can contribute to your employer-based plan.

As with the 401(k) and Roth 401(k), you can contribute to both an IRA and a Roth IRA, but again, the total must fall within the IRA annual contribution caps.

Deductible and Roth IRAs both have income restrictions for participation. Nondeductible IRAs do not. These income limits change year to year and vary according to tax filing status and employer plan coverage.

Deductible IRA

- Contributions you make are deductible from your income for tax purposes.
- Deductibility is phased out over certain income levels.
- All earnings on your investments are tax-deferred.
- Taxes are due when you withdraw your money and are taxed as ordinary income.
- Generally, money withdrawn before age 59½ is subject to a 10% penalty, plus any regular income tax due.
- Depending on the year you were born, after age 72, 73, or 75, your money is subject to RMDs.

Nondeductible IRA

- Contributions you make are *not* deductible from your income for tax purposes.
- There are no income limits for participating.
- All earnings on your investments are tax-deferred.
- Taxes are due on any dividends, interest, or capital gains earned when you withdraw your money.
- Taxes are not due on your original contributions. Since these contributions were made with “after-tax” money, they have already been taxed.
- Those last two points mean extra recordkeeping and complexity in figuring your tax due when the time comes.
- Generally, money withdrawn before age 59½ is subject to a 10% penalty, plus any regular income tax due.
- Depending on the year you were born, after age 72, 73, or 75, your money is subject to RMDs.

Roth IRA

- Contributions you make are *not* deductible from your income for tax purposes.

- Eligibility to contribute is phased out over certain income levels.
- All earnings on your investments grow tax-free.
- All withdrawals after age 59½ are tax-free, provided the account has been open at least five years.
- You can withdraw your original contributions anytime, tax- and penalty-free.
- You can withdraw contributions that are conversions from regular IRAs after five years, tax- and penalty-free.
- You can withdraw up to \$10,000 (a lifetime limit) to fund a first-time home purchase or to pay for college-related expenses for yourself and/or your children (though if you're under 59½ and haven't met the five-year rule, taxes may apply).
- There is no RMD.

In short, these can be summarized like this:

- 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.
- Roth 401(k): No immediate tax benefit, tax-free growth, and no taxes due on withdrawal.
- 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.
- Nondeductible 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.
- Roth IRA: No immediate tax benefit, tax-free growth, and no taxes due on withdrawal. A better nondeductible IRA, if you will. But eligibility phases out over certain income limits.

Now, if you've been paying attention, you might be thinking, "Holy cow! This Roth IRA is looking like one very sweet deal." In fact, it is even looking like it violates what Collins told us to fix in our minds earlier:

“None of these eliminates your tax obligations. They only defer them.” True enough, but as with many things in life, there is a catch.

While the money you contribute to your Roth does indeed grow tax-free and remains tax-free on withdrawal, you have to contribute “after-tax” money—that is, money upon which you’ve already paid tax. This can be easy to overlook but is a very real consideration.

Look at it this way: Suppose you want to fund your IRA this year with \$5,000 and you are in the 22% tax bracket. To fully fund your deductible IRA, all you need is \$5,000 because, since it is deductible, you don’t need any money to pay the taxes due on it.

But with a Roth, you’d need \$6,410 in order to have \$5,000 left to provide the funding: \$1,410 to pay the 22% tax due. That \$1,410 is now gone forever, and so is all the money it could have earned for you compounding over the years.

Were you to fund your deductible IRA instead of your Roth, you’d still have this \$1,410, which then could be invested in a taxable account. Of course, it is subject to your 22% tax bracket. After paying taxes on it, you’d have \$1,100 left to invest ($\$1,410 \times 0.78 = \$1,100$).

Curious as to what that might look like? Recalling that the average annual return on the S&P 500 for the fifty years starting in 1975 was 12.2%:¹

\$1,100 invested each year
for 30 years @ 12.2% = **\$344,402**²

Of course, if you fail to invest the tax savings, you’ll lose this advantage, and the Roth would have been the better choice.

It can be very emotionally satisfying to fund a Roth, pay the taxes now, and be done with them. But it might not be the optimal financial strategy.

Because I’m the suspicious type, and the long-term tax advantages of a Roth are so attractive, I start thinking about what might go wrong—especially since these are such long-term investments, and the government can and does change the rules seemingly on a whim. Two potential threats occur to me:

1. The government could simply change the rules and declare money in Roth IRAs taxable. But this is unlikely. Roth IRAs have become so popular and are held by so many people; this seems more and more politically risky.
2. More likely, the government could find an alternative way to tax the money. Increasingly in the US, there is talk of establishing a national sales tax or added value tax. While both may have merit—especially as a substitute for the income tax—these would effectively tax any Roth money as it was spent.

With all this in mind, here is my basic hierarchy for deploying investment money:

1. Fund 401(k)-type plans to the full employer match, if any.
2. Fully fund a Roth if your income is low enough that you are paying little or no income tax.
3. Once your income tax rate rises, fully fund a deductible IRA rather than the Roth.
4. Keep the Roth you started and just let it grow.
5. Finish funding the 401(k)-type plan to the max.
6. Consider funding a nondeductible IRA if your income is such that you cannot contribute to a deductible IRA or Roth IRA.
7. Fund your taxable account with any money left.

Let's finish this chapter with the recommendation that, whenever possible, you roll your 401(k)/403(b) (but not your TSP) accounts into your personal IRA. Usually this will be when you leave your employer. As we've already seen, employer plans are all too frequently laden with excessive fees, and your investment choices are limited. In your IRA, you have far more control.

Personally, I was always slightly paranoid about having my employers involved in my investments any longer than I had to. The moment I could roll my 401(k) into my own IRA, I did.

One final note: We've touched a bit on tax laws in this chapter. While the numbers and information are current as of this writing, should you be

reading this book a few years after publication, they are sure to have changed. The basic principles should hold up for some time, but you should look up the specific numbers that are applicable for the year in which you are reading.

1 Calculator A: <https://dqydj.net/sp-500-return-calculator/>.

2 Calculator C: <https://www.calculator.net/investment-calculator.html>.

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Chapter 20

RMDs: The Ugly Surprise at the End of the Tax-Deferred Rainbow

Someday, if all goes well, you'll wake up to find you've reached the ripe old age of 75. Hopefully in good health, you'll rise from bed, stretch, and greet the new day, happy to be alive. You've worked hard, saved, and invested, and now you are contentedly wealthy and secure. Since you've diligently maxed out your tax-advantaged accounts, much of your wealth might well be in those, tax-deferred for all these years. On this day, if you haven't already, you'll begin to fully appreciate the "deferred" part of that phrase—because your Uncle Sam is waiting for his cut, and he figures he's waited long enough.

Except for the Roth IRA, all of the tax-advantaged buckets discussed in Chapter 19 have RMDs (required minimum distributions) as part of the deal. These begin at age 72 if you were born before 1951, 73 if you were born between 1951 and 1959, or 75 for those born in 1960 and later. Basically, this is the Feds saying, "OK. We've been patient, but now, pay us our money!" Fair enough. But for the readers of this book who are building wealth over the decades, there may well be a very large amount of money in these accounts when the time comes. Pulling it out in the required amounts on the government's time schedule could easily push you into the very highest tax brackets.

Make no mistake, once you come of age, these withdrawals from your IRAs, 401(k)s, 403(b)s, and the like are no longer optional. Fail to take your full distribution and you'll be hit with a steep penalty. Fail to withdraw enough and the government will take 50% of however much your shortfall is. That's right: *They will take half of your money.* This is not something you want to overlook.

The good news is that if you hold your accounts with a company like Vanguard, it will make setting up and taking these distributions easy and

automatic, if not painless. It will calculate the correct amount and transfer it to your bank, money market, taxable fund, or just about any place else you choose and on the schedule you choose. Just be sure to get the full RMD required each year out of the tax-advantaged account on time.

Just how bad a hit will this be? Well, there are any number of calculators online that allow you to plug in your exact numbers for an accurate read of your situation. Vanguard has its own, but so do companies like Fidelity and T. Rowe Price. To give you an idea of what the damage might be, I plugged into this one: <https://www.calculator.net/rmd-calculator.html>.

You'll be asked your birth year, the year of your RMD, the amount of money in your account as of a certain date, and an estimated rate of return. I chose 1960; 2026; \$1,000,000; and 8%. No, those are not my real numbers. In a flash, the calculator gave me the results year by year.

Year	RMD	Age	Balance
2035	\$75,574	75	\$1,932,264
2040	\$109,904	80	\$2,287,767
2045	\$157,577	85	\$2,565,355
2050	\$217,563	90	\$2,649,044
2055	\$279,072	95	\$2,403,365

The good news is that even with these substantial withdrawals, the total value of the account will continue to grow. But as we've discussed before, these are estimated projections. The market might do better or worse than 8%, and it most certainly won't deliver 8% reliably each year on schedule.

The bad news is, not only do we have to pay tax on these withdrawals; the amounts could push us into a higher tax bracket. This, of course, will

depend on how much income you have rolling in from your other investments, Social Security, pensions, and the like.

To give you a frame of reference, here are the tax brackets for those married and filing jointly in 2025:

10%: \$0 to \$23,850

12%: \$23,851 to \$96,950

22%: \$96,951 to \$206,700

24%: \$206,701 to 394,600

32%: \$394,601 to \$501,050

35%: \$501,051 to \$751,600

37%: \$751,601 or more

Based on this, we can see that even with no other income, by age 90, our taxpayer's RMD of \$217,563 will put them in the 24% tax bracket even without considering any other income from sources like Social Security, pensions, or dividends. And that's based on starting with only \$1,000,000. Many readers applying the principles in this book starting in their twenties, thirties, and forties can easily expect to have several multiples of that by the time they reach their RMDs at age 75.

Something that is important to note here—which confuses many people—is that this doesn't mean they pay 24% of the full \$217,563 in taxes. Rather, they pay 24% only on the amount over the \$206,701 threshold of the bracket. The rest is taxed at the lower brackets. Should their other income bump them over the threshold for the 32% bracket by, say, \$1, they will only pay 32% in tax on that \$1.

If you think of the RMD as the last money added, it is the money taxed at the highest rates. For instance, if they have \$206,700 in other income, taking them right up to the 24% bracket line, any amount of RMD will be taxed at 24% or more.

All of this is before any other deductions and exemptions. Those serve to reduce your taxable income. While looking at all the possible variations is a discussion beyond the scope of this book, we can consider an example. For 2025, a married couple gets a standard deduction of \$30,000. In effect, this

means they don't reach the 22% bracket until their AGI (adjusted gross income) reaches \$126,951 ($\$126,951 - \$30,000 = \$96,951$).

So is there anything to be done? Possibly.

Assuming when you retire your tax bracket drops, you have a window of opportunity between that moment and age 75. Let's consider the example of a couple who retires at 65 years old, using the numbers above. They have a ten-year window until 75 to reduce their 401(k)/IRA holdings. They are married and filing jointly. For 2025:

- The 12% tax bracket is good up to \$96,950.
- The standard deduction is good for \$30,000.
- Add this together and they can have up to \$126,950 in income before they get pushed into the 22% bracket.

If their income is below \$126,950, they might seriously consider moving the difference out of their IRA and/or 401(k) and taking the 12% tax hit. 12% is a low rate and worth locking in, especially given that ten years from now, their tax bracket could be twice that or more. It's true they lose the money they pay in taxes and what it could have earned—as we saw with the Roth versus deductible IRA discussion in the last chapter—but we are now only talking about ten years instead of decades of lost growth. So if they have \$50,000 in taxable income, they could withdraw \$76,950 for a total of \$126,950. They could put this \$76,950 in their Roth or their ordinary bucket investments or just spend it. Rolling it into a Roth would be my suggestion and is in fact what I am personally doing.

You don't have to wait until you are 75 or even until you are fully retired to do this. Anytime you step away from paid work and your income drops, this is a strategy to consider. However, remember the further away from age 75 you are, the more time you give up during which the money you pay in tax today could have been earning for you over the years.

There is no one solution. If as you approach age 75 your 401(k)/IRA amounts are low, you can just leave them alone. If they are very high, however, starting to pull them out even at a 22% tax rate might make sense. The key is to be aware of this looming RMD hit so that, as much as possible, you can take it on your own terms.

Once again, in this chapter, we've touched a bit on tax laws, and the information is current as of 2025. By the time you are reading this book, the laws may well have changed. Be sure to look up the specific numbers that are applicable for the year in which you are reading.

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Chapter 21

HSAs: More Than Just a Way to Pay Your Medical Bills

The world of health care here in the US continues to evolve, with one result being an increase in the number of people on high-deductible health insurance plans. These plans basically allow you to “self-insure” for part of your health-care costs in exchange for lower premiums. In the past, most health insurance plans came with very low deductibles and paid for almost every medical cost beyond them. Those were the good old days.

As medical costs have skyrocketed, so have the insurance premiums required to provide such comprehensive coverage. Now, by having the insured shoulder some of the risk, the high-deductible plans are able to offer insurance against catastrophic illness and injury at more affordable rates. In exchange, the insured is responsible for paying the first medical bills out of pocket each year, typically \$5,000–\$10,000. To make this a bit more affordable and attractive, HSAs (health savings accounts) were created to help handle these out-of-pocket expenses.

Basically, an HSA is like an IRA for your medical bills, and it creates some very interesting opportunities. With an HSA, as of 2025, you can set aside up to \$4,300 for an individual and \$8,550 for a family each year. If you are 55 or older, you can add another \$1,000 to each of those.

Like an IRA, you can fund this account with pre-tax money. You can open an HSA regardless of your income or other tax-advantaged accounts to which you might also be contributing. Here are some key points:

- Your contributions are tax deductible.
- You must be covered with a high-deductible health insurance plan to have an HSA.
- If you use a payroll deduction plan through your employer, your contribution is also free of Social Security and Medicare taxes.

- You can withdraw the money to pay qualified medical expenses anytime, tax- and penalty-free.
- Any money you don't spend is carried forward to be used whenever you need it.
- Qualified medical expenses include dental and vision, things often not part of health-care insurance plans these days.
- You can use your HSA to pay the health-care costs of your spouse and dependents, even if they are not covered by your insurance plan.
- If you withdraw the money for reasons other than to pay for medical expenses, it is subject to tax and a 20% penalty—unless you are age 65 or over or you become permanently disabled, in which case you'll owe only the tax due.
- When you die, your spouse will inherit your HSA, with all the same benefits.
- For heirs other than spouses, it reverts to ordinary income and is taxed accordingly.

This is also a good moment to point out that while HSAs are often confused with FSAs (flexible spending accounts), they are not at all the same. The key difference is that with an FSA, any money you don't spend in the year you fund the account is forfeited. The money in your HSA, and anything it earns, remains yours until you use it.

What we have here is a very useful tool, and one well worth funding for those who have access to it. But as promised above and as might be said on a late-night TV infomercial: “Wait, there's more!”

Some additional key points:

- You are not required to pay your medical bills with your HSA.
- If you choose, you can pay your medical bills out of pocket and just let your HSA grow.
- As long as you save your medical receipts, you can withdraw money from your HSA tax- and penalty-free anytime to cover them, even years later.
- Those who plan to use this money to pay current medical bills are best served (as with all money you plan to spend in the short term) keeping

it in an FDIC-insured savings account.

- You can choose to invest your HSA anywhere, such as in index funds like VTSAX (Vanguard Total Stock Market Index Fund).
- Once you reach the age of 65, you can withdraw your HSA for any purpose penalty-free, although you will owe taxes on the withdrawal unless you use it for medical expenses.

As we sit back and ponder all this, an interesting option occurs. Suppose we fully funded our HSA and invested the money in low-cost index funds. Then we'd pay our actual medical expenses out of pocket, carefully saving our receipts, while letting the HSA grow and compound tax-free over the decades.

In effect, we'd have a Roth IRA in the sense that withdrawals are tax-free and a regular IRA in the sense that we get to deduct our contributions to it. The best of both worlds.

If we ever needed the money for medical expenses, it would still be there. But if not, it would grow tax-free to a potentially much larger amount. When we were ready, we would pull out our receipts and reimburse ourselves tax-free from our HSA, leaving any balance for future use. Should we be fortunate enough to remain healthy, after age 65, we would be able to take it out to spend as we please, just as with our IRA and 401(k) accounts, paying only the taxes then due.

And how about those nasty required minimum distributions discussed in the last chapter? Well, so far, the law has been silent on this point. It could go either way. Keep your fingers crossed.

The bottom line is that anyone using a high-deductible insurance plan should fund an HSA. The benefits are simply too good to ignore.

Once you do, you can then choose to turn it into an exceptionally powerful investment tool. I suggest you do.

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Chapter 22

A Couple of Case Studies

So far, we've discussed concepts and strategies to create your own simple path to wealth. For those of you reading who are just starting out, this should be perfectly easy to implement. But most of you are already somewhere along your path. Perhaps you've made some mistakes and hold some investments you wish you had never made. Perhaps you hold too many different assets and realize now it doesn't have to be that complex. Regardless, you already have things in place that need to be considered. How, you might be asking, can I implement these ideas in the real world?

Clearly, I have no way of answering that for each reader who picks up this book. But in this chapter, I'll share with you two real-life reader case studies drawn from my blog.

The first case, which I'm attributing to "Dave," is the story of someone in his twenties just starting down his investment path. This case appeared in the first edition of the book, and for the purposes of this updated edition, *it is important to note this is a time capsule*. While the principles illustrated are still valid, the specifics (such as contribution limits) are of that time.

The second is my pal "Tom's" story, and as the title indicates, it is a look at what happens when everything financial goes wrong. It is a tale of multiple divorces, homeownership fails, foreclosure, bankruptcy, and being in the hands of the wrong investment manager. It is also the story of one of the happiest guys I know.

In both cases, I've shared their original words but also taken the liberty of editing for clarity and length.

Case 1: Dave's story—putting the Simple Path into action

I'm 26 and have recently graduated from college and decided to get my financial life in order. Luckily, I was able to find a great job and have no debt. I am working on saving up my emergency fund (roughly 24% of my income is going into it), and now I'm focusing my efforts on investments.

My grandparents seeded an investment fund for all of their grandchildren when each was born. It has been managed by a financial advisor for years, and your posts have confirmed my thoughts that I can do better. It currently has around \$35,000 in it in twelve different mutual funds.

My grandmother doesn't remember the exact amount that started my account. Whenever a new grandchild was born, she would put in a starting amount equal to what was in the older children's accounts. The earliest record is from 1994. At the start of that year, there was approximately \$6,700 in the account, and \$1,000 was added by my grandparents each year until it hit around \$25,000. In 1994, the funds were half stocks and half bonds (my grandfather grew up during the Great Depression and didn't fully trust stocks).

My employer offers a 403(b) plan, and they match contributions up to 2.5%. Currently, I put 3% of my income into this. Vanguard Total Stock Market Index Fund (VTSAX) is one of the available options.

I make \$70,000 per year before taxes. Right now, I'm saving 24% of my pay. My goal is to keep it at 20% or more, but I realize I might have to drop to 15% if other commitments arise. I haven't really thought about when I want to retire. It would be great to retire early, but I have not officially set that goal.

I think I'm also going to do a Roth IRA on my own.

What is your suggestion for getting rid of my financial manager and all the mutual funds and buying into VTSAX? I don't fully understand the tax implications that are involved in that. Correct me if I'm wrong, but \$5,500 would go into the Roth and the rest into a traditional account. Is it OK to have the investments in my 403(b) and Roth IRA and my regular account in VTSAX?

What is the best way to contribute to my funds? After I get my emergency fund built up and my money transferred to Vanguard, I will have around \$1,000 per month. Do I put that in each month or wait to put in larger amounts? I have heard of dollar cost averaging but haven't looked into it.

Thanks for your advice and time.

The beginning of my response to Dave

“Before we get started, some congratulations are in order. No, not for you. For your grandparents!! They deserve big-time, major-league kudos. Please tell them I said so.

“The fact that they have provided this seed capital for you and their other grandchildren tells me several things. They have resources, and that means they are fiscally responsible and effective in their own lives. They are generous. And, considering your questions and plans, clearly they have passed this on to their descendants. If you haven't already, take them out to dinner and raise a toast in their honor. If you already have, do it again.”

Looking at Dave's situation, we have a great base upon which to build

1. \$35,000 in capital.
2. \$70,000 salary, and he is saving 24%, or \$16,800, annually.
3. He wants to target saving about 20% going forward, or \$14,000. As you'll see, I'll try to persuade him to increase that.
4. He's landed a good job with an employer (a university) that provides a 403(b) retirement plan.
5. Zero debt.
6. He's not sure about retirement yet—no surprise at age 26—but he recognizes the importance of F-You Money.
7. He wants to know how to contribute to his investments going forward and about dollar cost averaging.

Let's talk first about which investment to choose.

Fortunately, his employer's benefits plan offers Vanguard as an option. He is leaning toward VTSAX, and that idea is spot on. In fact, this is where we'll put all of his investments. He is in the wealth accumulation phase of his life, and it's the right tool for the job.

In Chapter 17, we learned there are two options to owning this fund portfolio: Admiral Shares, with a \$3,000 minimum buy-in, and VTI, an ETF (exchange-traded fund), with no minimum. As we've seen, this one fund provides a portfolio of virtually every publicly traded company in the US. Since many of these have extensive international operations, he'll also have international market exposure. With this one investment, he'll have broad diversification in the most powerful wealth-building asset of all: stocks. This allocation of 100% stocks is considered very aggressive, and that's what we want for this phase. But be warned, as you know from reading the previous chapters, he can expect a wild and gut-wrenching ride. At 26, he has decades ahead to stick to the plan, keep investing, and tough it out.

At some point, he'll start thinking about retirement. That retirement might not come until he's 65, or maybe he'll choose to implement it when he has F-You Money around age 35 or so. Whenever the time comes, as he approaches that phase, he'll want to consider diversifying into bonds. But right now, in the wealth accumulation phase, stocks are where his money belongs, and VTSAX is how best to own them.

Next, let's look at the various investment buckets available to him and discuss how to allocate his VTSAX investment among them. You'll recall that these buckets are where we hold the investments we choose. In order of desirability, the buckets are:

1. His 403(b) employer plan. Since he works for a university, he has a 403(b) plan rather than the 401(k) plans common in private industry. He plans to contribute 3% of his salary, which will be tax-deferred, and his employer matches 2.5%. That's free money! That makes this option 1.
2. Deductible IRA. This is very much like his employer plan in that his contributions are deductible and its earnings are tax-deferred. The important advantage, however, is that he has full control over his

investment choice and is not limited to those in his plan. He will open his IRA with Vanguard and will choose VTSAX.

Since his 403(b) options are excellent, this matters less in his case. But in many employer-based plans, the choices available are not optimal. If you have such a plan, use the guidelines provided in Chapter 19 to find the option that most closely matches a total stock market index fund or an S&P 500 index fund. Most plans have versions of these. Fund it up to the maximum of any company match. Then turn to your personal IRA. Once that's fully funded, turn again to your employer plan up to the maximum.

He should try to fund the maximum annual IRA contribution limit (\$5,500 in 2016) as close to the limit as possible. The tax advantages are too sweet to leave behind.

3. Back to his 403(b). He is allowed (in 2016) to contribute up to \$18,000 each year to his 403(b), and at 3%, he has only put in \$2,100 so far. That leaves \$15,900 in potential contributions.

Since he is only planning to save approximately 20%/\$14,000 of his income, he should contribute another \$6,400 to his 403(b): $\$2,100 + \$5,500 + \$6,400 = \$14,000$. But as I said, we are going to try to persuade him to save more.

Instead, he could max out his 403(b) plan by adding \$15,900 to the \$2,100 he is already contributing for the employer match, for a total of \$18,000. Add to this the \$5,500 going into his IRA and the total is \$23,500. That's a savings rate of about 33.57%.

At this point, it is worth noting that I am calculating these savings rates based on his pre-tax income. Some would argue that using post-tax income is better, as that is what he actually has available to spend. But taxes are very complex, and the post-tax income generated from any specific pre-tax income is likely to vary widely. Using pre-tax is just simpler, and because it tends to encourage saving greater dollar amounts, it is more in keeping with the ethic of this book.

For anyone serious about achieving financial independence, taking full advantage of all your tax-deferred opportunities is a must. And doing so starts to get you into a respectable savings rate. But there is no reason to stop here.

4. Ordinary bucket. This is where we put regular investments made outside any tax-advantaged buckets. He'll pay taxes on the dividends and capital gains distributions each year, but unlike tax-advantaged accounts, the money is available anytime with no penalty. This is where his \$35,000 spread across multiple mutual funds is now. When he moves it to VTSAX, that will still be the case.

Once he sells the twelve funds he currently owns—assuming they have appreciated in value—he'll owe a capital gains tax. Given this relatively small amount of money and the fact that capital gains taxes are low (as of 2016), this is nothing to lose sleep over. However, were the amount significantly higher, this decision would become more complex. In such a case, it would require a thoughtful analysis of the investments currently held and their costs balanced against the tax liability.

So here is where we are: His savings rate is currently 24% as he builds an emergency fund, and he plans to reduce this to 20%. Compared to the average American, these numbers are excellent. Compared to where he wants to be, he should consider doing more. A 50% savings rate is my suggestion, but others more committed to having F-You Money commonly reach for 70%–80%.

He is already stepping out of the norm by being debt-free, saving, and investing. He is employed, young, and childless. Never will he be in a stronger position to take it to the next level. At the very least, he should avoid “lifestyle inflation” by pledging that any salary increases will go toward his investments. If he does this now, in the future, his problem will be how to spend all the money his money earns for him.

OK, with all that under our belt, let's run some numbers and look at a couple of options, with their specifics.

Option 1: 24% savings rate

We'll forget about reducing this to 20%, as doing so doesn't get him where he wants to be.

He starts with the \$35,000 from his grandparents and moves it immediately into VTSAX, paying the capital gains tax, if any. As we've

seen, the average market return of the past forty years (1975–2015) has been approximately 11.9% annually.¹ At that rate, his money doubles about every six years. By the time he is 62 (in thirty-six years), it will have doubled nearly six times over. A quick calculation shows he'll have over \$2,000,000 *without adding a single penny*. By the time he is 68, it will double again to about \$3,900,000.² That's the power of compounding. Did I mention he should take his grandparents to dinner?

If you add to it as you go along, as he's going to, the results become even more dramatic. Using his current savings rate of 24%, he'll have \$16,800 of his \$70,000 salary to invest each year.

His 403(b) gets 2.5% of his salary to capture the match, but he's contributing 3%. That's \$2,100 per year. (His employer will add 2.5%—another \$1,750—but that's in addition to his 24%/\$16,800 investment money.) This will go into VTSAX, as his plan offers it. If it did not, the money would go into the choice his plan offered that most closely resembles VTSAX.

His deductible IRA gets \$5,500. That can move to VTSAX, since it's over \$3,000.

Between the 403(b) and the IRA, we've accounted for \$7,600 of his \$16,800. For the remaining \$9,200, we'll return to the 403(b) and put it there.

Don't let this three-step process confuse you. It is only to walk through the selections in order of attractiveness. Once he's done that, the actual implementation would be simply:

1. Fund the 403(b) with \$11,300 (\$2,100 + \$9,200).
2. Fund the IRA to the maximum of \$5,500.

Option 2: 50% savings rate

Now let's see what happens if we can persuade him to get a little more serious about saving and investing. Again, he starts with the \$35,000 from his grandparents, but now we have another \$35,000 (50% of \$70,000) each year to invest from his salary.

As before, his 403(b) plan gets 3% of his \$70,000 salary—\$2,100—and his employer matches 2.5%.

His deductible IRA investing in VTSAX also still gets the maximum contribution allowed, \$5,500.

So between the 403(b) and the IRA, we've again accounted for \$7,600 but are now leaving \$27,400 to invest. With this, we can take full advantage of the 403(b) by contributing \$15,900 more. Add this to the \$2,100 he contributed to get the match and he's reached the maximum annual limit of \$18,000. And he still has \$11,500 left over:

$$\$35,000 - \$2,100 - \$5,500 - \$15,900 = \$11,500$$

We'll add this \$11,500 to VTSAX in the ordinary bucket and build on the \$35,000 seed capital his grandparents so generously provided.

With option 2, it is not hard to see how much more powerfully his wealth will grow. He is taking full advantage of all the tax-advantaged plans available and is building wealth outside them that he can access anytime without penalty.

Of course, this requires that he organize his life in such a fashion as to live on the remaining \$35,000. For some readers, this might appear appallingly low; for others, extravagantly high. Either way, it is certainly doable. It is simply a matter of choice and priorities and how much he values financial freedom.

Here's a fun fact (remember this is from 2016): An income of \$35,000 puts you in the top 0.81% of world incomes. Congratulations 1%er!

Finally, let's talk briefly about how these contributions will happen.

Like most people, he'll be investing as his money is earned. He'll be doing this with his 403(b), IRA, and any additional money he adds to his ordinary bucket VTSAX account initially funded with the \$35,000.

This is in effect a form of dollar cost averaging (DCA)—that is, investing chunks of money evenly over time. DCA is something we'll discuss in depth in Chapter 26.

The beauty of his 403(b) account is that once he sets it up, the contributions will happen automatically. The IRA and ordinary bucket VTSAX accounts will require him to expend a bit more effort. He'll either

have to remember to add to them regularly—just like paying one’s bills—or he can set them up with Vanguard to have the money automatically transfer. Automatic’s what I’d do. It is easier and makes it more likely he’ll stay the course.

There you have it. If he follows this simple path, he’ll have F-You Money before he knows it and working will become optional. By the time he reaches his grandparents’ age, he will be well able to provide seed money accounts for his own grandkids, continuing the cycle. Around then, he might also consider learning “how to give like a billionaire,” which we’ll discuss in Chapter 32.

Case 2: Tom’s story—what it looks like when everything financial goes wrong

A couple of months back, I was walking the dog on a beautiful fall afternoon. As I sat on a bench enjoying the sun, it occurred to me it had been a very long time since I had spoken with my pal Tom. So I called him, expecting, as usually happens when I call anyone, to end up in voicemail.

But answer Tom did, barking his last name into the phone by way of greeting and sounding every bit the crusty Marine he once was (and by Marine standards still is).

Tom’s an interesting fellow. A hard-living, gun-collecting, Catholic, lifelong-liberal-Democrat Marine. A man of faith. He’s a tough guy in the best sense of the term, relentlessly cheerful, and there’s not a complainypants bone in his body. He was a former customer of mine back in the mid-1990s, and we’ve been friends ever since. I like my friends eclectic.

Now in his mid-sixties, Tom’s had a robust life, filled to the brim with experiences. He’s the kind of guy who, like me, sometimes feels the need to tell people in power to go F-themselves. Unlike me, Tom’s willing to do it without having F-You Money. Working without a net, you might say.

There on the phone, he told me he had just lost his house to foreclosure, gone through bankruptcy, and almost lost his treasured antique gun collection to the court before scraping together the cash to buy it back. He was laughing while he told me all this. That’s Tom. But the fact that he was

also in the process of moving in with his gorgeous Swedish girlfriend probably didn't hurt.

Tom's story, in his own words (with people and company names disguised and edited for length):

1947 to 1969

I grew up at home with my brother and our parents, who were strict Catholics, children of the Depression—to say we were repressed is probably an understatement. We were taught to save. I started to work at 13 in a retreat house refectory. I saved every dime in a local savings and loan. It was cool to watch the deposits build up little by little. I went to a Catholic grade school and an all-boys Catholic high school. Both cost money.

In 1965, I started at Wayne State University. I had some help from my folks but paid for books, transportation, lunches, etc. myself. I lived at home and commuted.

I worked every summer as well, stashing money away for the next school year. I dated, hung out with friends, and had an active, fun college experience even though it wasn't at the ivy-covered walls of a major university away from home. I thought it, at the time, to be, well, normal.

In 1968, I bought my dad's used 1965 VW for \$500. I finally had "wheels." When I graduated, I had \$2,000 in that savings and loan.

Two months after graduation, I got married to my little Irish lass, Bridget. In September, I reported to active duty at the Basic School, USMC Training Center in Quantico, Virginia. Life was good, and I was finally on my own.

1969 to 1992: The Bridget years

After living that restrictive life with my parents, I was free at last, and Bridget was pregnant. I was going to be a father.

I started to want things my parents would never let me have. A brand-new Pioneer sound center complete with amp, turntable,

reel-to-reel cassette player, top-of-the-line speakers, etc. Found an old oak rolltop desk I liked for \$300, etc. The \$2,000 melted away.

I joined the Marine Corps and became an officer with a regular paycheck of \$5,000/year. Savings somehow didn't seem too critical, retirement was twenty, thirty, forty years away. I might not live that long.

Pretty soon, we had two daughters, and we were living paycheck to paycheck. Credit was easy to get and easier to use. We started to build up a little debt, not much, but a grand or two. It didn't seem like any big deal.

I got out of the Corps in 1973 and got a great job with A-corp for \$12,000/yr. I bought a house in Detroit for \$20,000.

In 1976, I got promoted to field development manager, which would mean moving to Chicago. I wasn't sure about leaving our friends and family. I went to Mass one Sunday and prayed to the Lord to ask if this was right for my young family. The usher interrupted my prayer, tapped me on the shoulder, and asked if my wife and I would take the offering up at the Offertory. I took that as a sign, as a yes.

We sold the house in Detroit for \$18,000 (buying high and selling low), but we still had a little debt. We just couldn't seem to pay those damn cards off completely every month. I did sign up for payroll savings. Our new house in Naperville, Illinois, cost twice as much as our house in Detroit had, \$40,000, so the monthly mortgage payment was twice as much, and obviously, I wasn't earning twice as much. I had to commute into the loop every day, but it was a great community, right in the old part of town.

Costs were increasing while income wasn't. We felt we had to "keep up" after work, in the neighborhood, with kid stuff, etc. My payroll savings were about 5% of my income, maybe 6%. Bridget decided to go back to school, so I had my first college tuition to pay for.

In 1979 or 1980, I left A-corp to work as an office manager for B-corp for like \$35,000, more than a \$10,000 jump from what I

was making at A-corp. It sounded like a good deal, except it only lasted for a year when I had conflict with the two owners; this was my first setback.

I scrambled, and A-corp took me back as an advertising/sales promotion manager at \$27,500. They even bridged my time, so I didn't lose my ability for vesting. They were more faithful to me than I had been to them.

In 1983, a couple of months short of my tenth anniversary at A-corp (and vesting), I was pursued and wooed by C-corp in Bridgeport, Connecticut. They treated me like a king, Bridget and I loved the area, the job was a new challenge, and it seemed like the right thing to do. I even had another sign from God that it was the right move: a rainbow this time.

We sold the house in Naperville for \$60,000, an improvement this time, which we put right into a house for \$85,000 in Newtown, Connecticut, with a \$20,000 down payment.

Two and a half years later, C-corp went bankrupt due to asbestos litigation. Bummer. But then I got a call from a friend who worked at D-corp about an opening as a VP at D-corp working on the C-corp business, based back in Detroit. Off we went.

This time, we bought a home in upscale Birmingham, Michigan, for \$120,000. Bridget now had a job at Z-corp as an auditor. D-corp helped get her transferred to Detroit as well. We were on our way.

Two jobs, nearly \$90,000/yr. Wow! At first, things went well: The girls graduated from high school and went off to good colleges. But work was hard, my wife and I hardly saw each other, and we now had two college educations to pay for. Both my parents died within two years of each other.

In 1990, Bridget asked for a divorce. After the dust cleared, I still had a job, but we had to sell the house, and we didn't get much more than we'd paid for it. After the settlement and the lawyers' fees, I walked away with about \$24,000 left in my personal nest egg.

I put that money in four diverse money market funds and let 'em alone. I met someone new at work: Jennifer, twenty-three years my junior. We fell in love and moved in together, to a house I rented. Life was good again.

But things weren't going well at work, and eventually I quit. Jennifer and I loaded up an '89 Jeep Cherokee and set off to see the back roads of America. We traveled all of 1992, camping and backpacking. I would do it all again.

1992 to 2012

After the wonderful year off together, I found a job with an old buddy rep-ing auto parts and pickup truck bedliners in Baltimore. Jennifer and I got married; bought a row house in Towson, Maryland; settled in; and had a son. All seemed well, until my boss said he couldn't afford me and my \$30,000/yr. salary anymore.

I found a new job at a little ad agency in Winchester, Virginia, for \$40,000/yr. and sold the house in Towson and rented one near work—good move, because that job only lasted a year.

Along the way, I had been cashing in my money market funds one at a time to pay for our living expenses, down payments, and so on.

In 1995, I found a great new job in Ohio at E-corp calling on an old client from my RR corp days. I felt this was going to last, so I bought a nice house in Cuyahoga Falls, and that's where our second son was born. I earned a \$20,000 bonus in 1996, had money in the bank, and paid off credit cards. My only worry, since I was now 50, was thinking about eventual retirement.

We were happy until 1997, when I realized I couldn't stand my boss and the owner of U-corp anymore. I started looking again. Guess who wanted me back in Detroit? Good old D. Off we go, one more time. Motown, here we come. We bought a house in 1998 in Milford, one that would turn out to be the longest place I ever lived continuously. I used what was left of the E-corp bonus as the down payment. Everybody was making money, and life

was good. Jennifer stayed at home and raised the boys until 2002 or so, when she went back to college. Another tuition, but we weren't worried. We refinanced our house, which had been appreciating.

A buddy became president at H-corp and recruited me to join his team as a VP, an honor and more money, or at least it was for two years, until he got canned, along with all "his people." Out of work for two years.

When I left G-corp and went over to F-corp, I had taken around \$40,000 in 401(k) money, and I managed to add another \$50–\$60,000 to that, and I invested it with a money manager for one of the big investment companies. In a couple of years, he lost about \$80,000. That hurt. He kept telling me it was just a blip in the market; it would come back (e-boom and bust time period). Anyway, easy come, easy go. Thanks for the professional advice.

Now 55 with a young wife, two sons, and no nest egg, we were spending money I'd set aside for retirement.

After my two-year hunt, guess where my new job was? Back at G-corp, but this time as a lowly account supervisor. I was being punished, but I worked hard and helped build the business. They finally promoted me to VP again in 2003, making \$80,000/year, plenty to cover my \$1,400/year mortgage and help Jennifer through school.

Jennifer graduated in 2006, and guess what? She filed for divorce. She took half of what I had in my 401(k), and I bought her out of her half of the house. Plus there were lawyers to pay. Life got kinda sucky.

To make things worse, in 2008, the bubble burst. C-corp went bankrupt and fired all their vendors. Now I was 61, and no one wants or needs a 61-year-old account man. Already saddled with debt, I got deeper in. The house depreciated. I couldn't sell it.

I hung in with part-time jobs and unemployment insurance until 2012, when the answer hit the proud old Marine officer: I had to file for Chapter 7.

I took my Social Security at 62, since I couldn't wait until 65. I collected a small VA benefit of \$132/month for hearing loss from my Marine years. I also had a \$400/month pension from RR.

Present Day: The Astrid years

This brings me up to my present life. I fell in love again, with Astrid, and found a part-time job at a museum and historical farm as a historical presenter. Life is good again. Since I don't have money, I have learned not to worry about it.

I have my health (and VA health benefits), great friends and relatives, wonderful kids and grandkids, a job I love that gets me outside and provides plenty of exercise, a roof over my head, and a woman who loves me. What else do I need?

I make about \$2,500/month with my part-time job, my VA benefit, my pension, and my Social Security. I'm a lucky guy.

After all of this, here's what I'd say are the rules I live by:

1. Seek the truth; there is a lot of deception in the world.
Learn to find out what is true and what is false. It takes some effort, but it's worth it.
2. Get outside every day, breathe fresh air, and get some exercise, even if it's just a nice long walk.
3. Look everyone in the eyes when you talk to them; it will instill trust in both parties, and you will learn to read others' responses.
4. Tell the ones you love (family and partner) that you love them.
5. Simplify, simplify; Thoreau was right. We sure can't take all this stuff with us.
6. Work at a job you love and put your all into your work.
That being said, don't take your work home with you.
Take time to unwind.
7. Eat healthy, have a drink daily, but don't overdo either.
8. Be thankful for the things money can't buy.

My take on Tom's story (not that he asked)

What we have here is a talented guy with solid contacts and strong career performance who found himself without a chair when the music stopped, and he was past the age employers prefer. Add in a couple of expensive divorces, multiple kids, a disastrous run with a money manager, the market implosion of 2008, and growing debt and you have a guy reaching the finish line just as his financial world collapses around him. It's enough to drive a man to drink.

Or not.

Where in many such a run would trigger an intense wallow in the complainypants mud pit, in Tom it simply rolls off his shoulders as he cheerfully moves on. Tom knows he has what is truly important in life: "my health, great friends and relatives, wonderful kids and grandkids, a job I love that gets me outside and provides plenty of exercise, a roof over my head, and a woman who loves me."

My guess is he has all those things because of his attitude. Tom's a guy you want around—as a friend, as an employee, and at least in the case of the beautiful Astrid, as a lover.

He's had a full and varied life. A life that accumulated a little pension, a bit of VA comp, and Social Security. Along the way, he's learned that stuff just ain't that important. And once you no longer value stuff, the good life just ain't that pricey.

This is something to think about the next time you are worried about the 4% rule working out or having gotten a late start on retirement planning. By all means, plan, save, and invest for your future. But keep in mind mental toughness, the ability to roll with the punches, and lifestyle flexibility are where true security lies.

Note

If you are interested in the original expanded versions of these case studies or a few other ones, you'll find them on my blog.

1 Calculator A: <https://dqydj.net/sp-500-return-calculator/>.

2 Calculator C: <https://www.calculator.net/investment-calculator.html>.

Chapter 23

Why I Don't Like Investment Advisors

Managing other people's money is a very big business and, for those who engage in it, a very lucrative one.

Since investing and managing money is highly intimidating for many folks, there is also an apparent need. This financial stuff just all seems so complex, it is not surprising that many people welcome the idea of turning it over to a professional who will, hopefully, get better results.

Unfortunately, most advisors *don't* get better results. Investing only seems complex because the financial industry goes to great lengths to make it *seem* complex. Indeed, many investments *are* complex. But as you now already understand, not only are simple index investments easier; *they are more effective*.

Advisors are expensive at best and will rob you at worst. Don't believe me? Google Bernie Madoff. If you choose to seek advice, seek it cautiously and never give up control. It's your money, and no one will care for it better than you. Many will try hard to make it theirs. Don't let it happen.

When I say investment advisors, I am also referring to money managers, investment managers, brokers, insurance salespeople (who often masquerade as financial planners), and the like. Any and all who make their money managing yours.

Now, I'm sure there are many honest, diligent, hardworking advisors who selflessly put their clients' needs ahead of their own. Actually, I am not at all sure about that. But just in case, I put it out there in fairness to the few.

Here's the problem:

1. By design, structurally, an advisor's interests and those of their clients are in opposition. There is far more money to be made selling complex fee-laden investments than there is in simple, low-cost, efficient ones. To do what's best for the client requires the advisor to do what is not

best for themselves. It takes a rare and saintly person to behave this way. Money management seems not to be the calling of the rare and saintly.

2. Well-intentioned but bad advice is endemic in this field. Advisors who put their clients' interests ahead of their own are, to steal a phrase from Joe Lansdale in his novel *Edge of Dark Water*, "rarer than baptized rattlesnakes." And then you've got to find one who is actually any good.
3. Advisors are drawn not to the best investments but to those that pay the highest commissions and management fees. Indeed, often they are compelled by their firms to sell these types of investments. Such investments are, by definition, expensive to buy and own. And investments that are expensive to buy and own are, by definition, poor investments.
4. Not surprisingly, a field that provides access to people's life savings is a magnet for con men, thieves, and grifters.

Let's take a look at how investment advisors earn their money and how each method works against you. Remember now, here we are talking about those who are legitimate rather than the outright crooks. Generally, there are three ways:

1. Commissions

The advisor is paid each time you buy or sell an investment. These commissions in the investment world are called "loads."

It's not hard to see the potential for abuse here, and the conflict of interest is stark. There is no "load" (commission) charged to buy a Vanguard fund. But American Funds, among others, charges a princely load: typically, around 5.75% at the lower investment levels, and it goes directly into the advisor's pocket. This means that if you have \$10,000 to invest, only \$9,425 actually goes to work for you. The other \$575 is his. Mmmm. Wonder which he'll recommend?

Some funds offer a 1% recurring management fee to the advisors who sell them. That means you get to pay a commission not only once but every year for as long as you hold the fund. No surprise advisors favor these too. Often this fee *and* a load are found in the same investment.

Further, since these funds are most often actively managed, they carry a high expense ratio (ER) and are mostly doomed to underperform the simple low-cost index funds we can so easily buy on our own.

Consider how all this can add up. Take a 5.75% load, combined with a 1% management fee, along with an ER of, say, 0.75% and you've given up 7.5% of your capital right from the start. That's money you not only lose forever, but you also lose all the money it could have earned for you over the decades. Compare that with the 0.04% ER of VTSAX (Vanguard Total Stock Market Index Fund). Holy crap!

Insurance investments are some of the highest commission payers. This makes them perhaps the most aggressively recommended products advisors offer and certainly among the most costly to you. Annuities and whole/universal life insurance carry commissions as high as 10%. Worse, these commissions are buried in the investment, so you never see them. How such fraud is legal I can't say. But it is.

Hedge funds and private investments all make their salespeople wealthy, along with the operators. Investors? Maybe. Sometimes. Nah, not so much.

Remember Bernie Madoff? People literally *begged* him to take their money. His credentials were impeccable. His track record too. Only the "best" investment advisors could get you in. Mr. Madoff paid them handsomely to do so. As did their clients. Oops.

If all this weren't enough, if you're not paying attention, there is more money to be mined at your expense by "churning" your account. Churning refers to the frequent buying and selling of investments to generate commissions. It is illegal. But it is also easily disguised, principally as "adjusting your asset allocation."

2. The AUM (assets under management) model

With the rampant abuse of the commission model, in recent years, charging flat management fees has grown in popularity. These fees are typically 1%–

2% of the client's total assets, and this approach is presented as more objective and "professional." But there are snakes in this grass as well.

First, 1%–2% annually is a *huge* drag on the growth of your wealth and on your income once you are living off it. Investment returns are precious, and under this model, your advisor is skimming the absolute cream.

Suppose you have a nest egg of \$100,000. That's about the minimum needed to interest an advisor. Let's further suppose you invest it for twenty years and earn 12.2% per year, which as we've seen is the average annual return since 1975. You end up with \$999,671.¹ Not bad. Now suppose you give up 2% of these annual gains to a management fee. Your net return is now 10.2%, and after twenty years, that yields \$697,641. That's a whopping \$302,030 less. Yikes! You not only give up the 2% each year, but you also give up all the money that money would have earned compounding for you over the twenty-year period. Let me hammer this point home—it's a very big deal.

Second, we still have the problem of a conflict of interest. With the AUM model, it is not as pervasive as with the commission model, but it's still there. Maybe you are considering paying off your \$200,000 mortgage. Or perhaps you're thinking about whether to contribute \$200,000 to your kid's college education so they can avoid going into debt. Often advisors will advise against either of these courses. For you, depending on your situation, that may be good or bad advice. For your advisor, it is the only advice that preserves the \$2,000 to \$4,000 in annual fees that \$200,000 puts in their pocket.

Third, the vast, vast majority of advisors are destined to cost you still more money as they underperform the market. The actively managed funds they tend to choose woefully underperform the index. You won't know for twenty years or so if you got lucky enough to pick one of the exceedingly rare ones that don't.

3. Hourly fees

Many advisors tend to dislike this model, pointing out that it often limits the time a client is willing to spend with them. That's true as far as it goes, but it is also true that it takes a lot of hours to equal the money that can be made in commissions and annual fees.

They also point out that clients are less likely to object to commissions and fees because they tend not to notice these being skimmed off the top. Paying an hourly rate—even when it is more cost-effective—requires writing out the check and actually seeing the money leave your hands. That’s uncomfortable for the clients, and that means less money for the advisor. Not such a bad thing for the clients, seems to me.

That said, if you really need advice, this is the most straightforward way to pay for it. But pay for it you will. Rates of \$200–\$400+ per hour are not uncommon. You are less likely to be cheated, but you still won’t know if the advice itself is good or bad for your financial health.

4. Some combination of 1, 2, and 3

If your advisor is using this last option, likely it is not for your benefit.

So what’s my advice on picking a good advisor? Beats me. Doing so is probably even more difficult than picking winning stocks or actively managed mutual funds.

Advisors are only as good as the investments they recommend. Since those are mostly actively managed funds—as opposed to the index funds this book suggests—how often do those outperform?

As we saw in Chapter 8, very rarely. You’ll recall the research shows only 17% outperform in any given year, and looking at a thirty-year period, that drops to less than 1%. Statistically speaking, that’s a rounding error, just so much noise.

This is what your highly paid advisor is selling you.

If you are a novice investor, you have two choices:

1. You can learn to pick an advisor.
2. You can learn to pick your investments.

Both require effort and time. But the second not only provides better results, it is the easier and less expensive path. Hopefully this book is showing the way. The great irony of successful investing is that simple is cheaper and more profitable. Complicated investments only benefit the people and companies that sell them.

Remember that nobody will care for your money better than you will. With less effort than choosing an advisor, you can learn to manage your money yourself, with far less cost and better results.

¹ Calculator C: <https://www.calculator.net/investment-calculator.html>.

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Part III

Magic Beans

Wisdom comes from experience. Experience is often a result of lack of wisdom.

—Terry Pratchett

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Chapter 24

Jack Bogle and the Bashing of Index Funds

While no one ever has, if someone were to ask me what single thing has most impeded the growth of my personal wealth, the answer would be my stubborn rejection of the concept of indexing for an embarrassingly long number of years. Indeed, when I hear the arguments against it, it is my own voice in my head I hear. I made them all too often and far too long.

So why is it that the concept of indexing meets with such resistance in some quarters? First, a little background.

Jack Bogle founded the Vanguard Group in 1974. He is the creator of the modern low-cost index fund and my personal hero. If you aspire to be wealthy and financially independent, he should be yours as well.

Before Mr. Bogle, the financial industry was set up almost exclusively to enrich those selling financial products at the expense of their customers. It mostly still is.

Then Mr. Bogle came along and exposed industry stock picking and advice as worthless at best, harmful at worst, and always an expensive drag on the growth of your wealth. Not surprisingly, Wall Street howled in protest and vilified him incessantly.

Mr. Bogle responded by creating the first S&P 500 index fund. The wails and gnashing of teeth continued even as Bogle's new fund went on to prove his theories in the real world.

As the years rolled on and the evidence piled ever higher, Mr. Bogle's critics began to soften their voices; mostly, I'd guess, because they had begun to sound pretty silly. Other fund companies, realizing that people were becoming ever less willing to accept high fees for questionable performance, even began to offer their own low-cost index funds in an effort to keep their customers from walking out the door. Personally, I've never believed their hearts were in it, and for that reason, my money stays at Vanguard.

The basic concept behind Vanguard is that an investment firm's interests should be aligned with those of its investors. This was a stunning idea at the time. As we discussed in Chapter 18, Vanguard has a unique ownership structure: The company is owned by its funds, and the funds are in turn owned by the fund shareholders. Vanguard has no outside owners or shareholders to satisfy. This means their interests will remain inextricably linked with the interests of everyday investors.

The basic concept behind indexing is that since the odds of selecting stocks that outperform are so very small, better results will be achieved by buying every stock in a given index. This was soundly ridiculed at the time, and in some quarters, it still is.

But increasingly over the past four decades, the truth of Bogle's idea has been repeatedly confirmed. With that confirmation, the amount of money invested in index funds has continued to gain share. Even Warren Buffett, perhaps history's most successful stock picker, has gone on record as recommending indexing, specifically for his wife's trust once he has passed.

In the Berkshire Hathaway 2013 annual shareholder letter, Buffett writes, "My advice . . . could not be more simple: Put 10% of the cash in short-term government bonds and 90% in a very low-cost S&P 500 index fund. (I suggest Vanguard's.) I believe the trust's long-term results from this policy will be superior to those attained by most investors—whether pension funds, institutions or individuals—who employ high-fee managers."

So with all this evidence piling up, why, then, do some still bash the concept? As we saw in Chapter 11, basically it boils down to human greed, psychology, and money.

In short, there is too much money to be made and too much weakness in human psychology for actively managed funds and managers to ever go away. In fact, even with the growing acceptance of indexing, there are still about seven thousand mutual funds being offered as of this writing. To put this in perspective, there are only about four thousand publicly traded US companies for them to invest in. Yes, you read that correctly. As we saw in Part II, there are more stock mutual funds out there than there are stocks for them to buy.

Wall Street is endlessly creating new products and schemes to sell you, even as they systematically and quietly close those that have failed (which

serves to make their track record seem better). But make no mistake, the objective is always to line their pockets, not yours.

My advice: Use the index funds and the company Mr. Bogle created and keep what is yours.

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Chapter 25

Why I Can't Pick Winning Stocks and You Can't Either

Don't feel bad. As we've seen, most professionals can't either.

Indexing versus active management is always a fascinating debate—at least for us stock geeks with nothing better to do. Over the decades, I've been on both sides of it. For a very long time, I laughed at the indexers. I made all of the arguments, and then some. After all, if you just avoided the obvious dogs, you'd do better than average, right? As we saw in the last chapter, it's not that easy. But in the summer of 1989, I was still convinced I could win this game.

On a flight back from a business trip, I happened to sit next to a guy who worked for an investment research firm. By the time the flight landed, he had suggested I should join them and, at my request, had offered three stock tips. I picked one at random and bought it. Over the next several weeks, I watched it triple, and by the end of that time, I had taken a major pay cut to join the firm in a major mid-career change. Who cared about the salary? The real money would be in the information flow.

There I was, surrounded by the exceedingly bright analysts this firm employed. Each focused on one, maybe two industries and within those industries perhaps six to ten companies and their stocks. More than one had been honored in the trade press as “Analyst of the Year” for their work. These were folks at the top of their game.

They knew each of these industries and the companies in them, inside and out. They knew the top executives. They knew the middle managers and the frontline people. They knew the customers. They knew the suppliers. They knew the receptionists. They spoke to them all weekly. Sometimes daily.

They still didn't get critical information before anyone else (that's insider trading and foolproof, but illegal). But they did know exactly when and

how such information would be released. Of course, so did every other competent analyst around the world. Any new information was reflected in the stock price within seconds.

They issued reports for which our institutional investor clients paid dearly. And yet accurately predicting stock performance remained frustratingly elusive.

If you've worked in a major corporation, it is not hard to see why. The CEO and CFO work with internal forecasts created by their teams. The process looks something like this:

Salespeople are required to forecast what their customers will spend. Since these buys are rarely locked in far in advance and can be canceled at any time, nothing is truly certain. Add to this all the pending business that may or may not come to fruition, and basically you are asking the field salesperson to predict the future. Typically, they are not clairvoyant. So, of course, they take a guess.

These guesses get passed on to their managers, who are also not clairvoyant and who now have their own forecasts and decisions to make. Do I take these sales forecasts at face value? Do I adjust them based on knowing Suzy is an optimist and Harry always sees dark clouds? So, of course, they too take a guess and pass it on to the next layer of management.

So it goes until all these guesses on the inherently unknowable future are consolidated into the nicely packaged budget/forecast binders presented to top management. More often than not, after one look, they'll say, "This is unacceptable. We can't present this forecast to Wall Street. We need more positive results. Go back and revise these numbers." Back down the chain it goes—maybe multiple times, and each time, the numbers get pushed a bit further from reality.

Predicting the future is a dicey proposition for even the most gifted psychics, and they are not burdened with this process.

Suddenly, my enormous stock-picking hubris was clear. Somehow reading a few books and 10-K annual reports was going to give me an edge? Over not only the professional analysts who lived and breathed this stuff all day every day, but also the executives who run the companies in question? I could succeed where they could not?

Suddenly I realized why even rock star fund managers find it almost impossible to best the simple index over time. And why more fortunes have been created brokering trades than making them.

I cringe at the oft-made suggestion that an investor can read a few books on valuing stocks and go on to replicate Buffett's results. Perhaps the best of these is *The Intelligent Investor*, written by Buffett's mentor, Benjamin Graham. It is a great book, and if stock analysis interests you, by all means take the time to read it.

But remember that when Graham wrote it in 1949, Jack Bogle's first index fund was still twenty-five years away. Even actively managed mutual funds were few and far between. Analyzing and choosing individual stocks then was a far more necessary and useful skill. But as early as the 1950s, Mr. Graham was warming to the concept of indexing, and by the mid-1970s, in interviews, he was fully embracing its value.

The idea that individuals can readily outperform the market is, to steal a phrase from my dad, horse hockey. Dangerous horse hockey at that.

People have been trying for decades, and yet there is still only one Warren Buffett. Think about it this way:

Remember Muhammad Ali? He was the Warren Buffett of boxing in his day. You and I could have followed his training regimen, maybe even engaged Angelo Dundee to show us the ropes. We could have gotten in top shape, done all our homework, learned the "sweet science." And after all that effort, would you climb in the ring with Joe Frazier or George Foreman or Sonny Liston?

Not me. I'm no Ali. Or Warren. Neither are you. (Unless, of course, you are, in which case: Thanks for picking up my book!)

Having read the last chapter, you know what Warren Buffett recommends for individual investors: low-cost, broad-based index funds. Graham, were he still alive, would too.

If you choose to try to best the averages, God bless and Godspeed. You may well be smarter and more talented than I. You are most certainly likely

to be better looking. I'll look for your name along with Warren's in the not-too-distant future.

I extend the same to all those folks I've met in Las Vegas who assure me they have bested the house. I listen, gaze up at the billion-dollar casinos, and reflect on how many smarter, more talented, and better-looking people there are than me.

A little humility goes a long way in saving your ass and your cash.

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Chapter 26

Why I Don't Like Dollar Cost Averaging

At some point in your life, you may find yourself in the happy dilemma of having a large chunk of cash to invest. An inheritance perhaps, or maybe money from the sale of another asset. Whatever the source, investing it all at once will seem a scary thing, as we discussed in Chapter 5.

If the market is in one of its raging bull phases and setting new records each day, it will seem wildly overpriced. If it is plunging, you'll be afraid to invest not knowing how much further the fall will be. You risk wringing your hands waiting for some clarity, and as you know having read this far, that will never come.

The most commonly recommended solution is to “dollar cost average” (DCA) your way slowly into the market. The idea being that should the market tank, you will have spared yourself some pain. I'm not a fan and shortly will explain why, but first, let's look at exactly what DCA is.

When you dollar cost average into an investment, you take your chunk of money, divide it into equal parts, and then invest those parts at specific times over an extended period of time.

Let's suppose you have \$120,000 and you want to invest in VTSAX (Vanguard Total Stock Market Index Fund). Now having read this book so far, you know the market is volatile. It can and sometimes does plunge dramatically. And you know, therefore, that this could happen the day after you invest your \$120,000, and while unlikely, that would make for a very miserable day indeed. So instead of investing all at once, you decide to DCA and thus eliminate this risk. Here's how it works.

First, you select a time period over which to deploy your \$120,000—let's say the next twelve months. Then you divide your money by twelve, and each month, you invest \$10,000. That way, if the market plunges right after your first investment, you'll have eleven more investing periods that might be better. Sounds great, right?

Well, it does eliminate the risk of investing all at once, but the problem is that it only works as long as the market drops and the average cost of your shares over the twelve-month investment period remains below the cost of the shares the day you started. Should the market rise, you'll come out behind. You are trading one risk (the market drops after you buy) with another (the market continues to rise while you DCA, meaning you'll pay more for your shares). So which risk is more likely?

Assuming you were paying attention while reading Parts I and II, you know that the market always goes up but that it is a wild ride. The other thing you know is that it goes up more often than it goes down. Consider that between 1975 and 2024, the market was up forty-one out of fifty years.¹ That's 82% of the time.

At this point, you are probably beginning to see why I'm not a DCA fan, but let's list the reasons anyway:

1. By dollar cost averaging, you are betting that the market will drop, saving yourself some pain. For any given year, the odds of this happening are only ~18%.
2. But the market is about 82% more likely to rise, in which case you will have spared yourself some *gain*. With each new invested portion, you'll be paying more for your shares.
3. When you DCA, you are basically saying the market is too high to invest all at once. In other words, you have strayed into the murky world of market timing. Which, as we've discussed, is a loser's game.
4. DCAing screws with your asset allocation. In the beginning, you will be holding an outsized allocation of cash sitting on the sidelines waiting to be deployed. That's OK if that's your allocation strategy. But if not, you need to understand that in choosing to DCA, you've changed your allocation in a deep and fundamental way.
5. When choosing to DCA, you must also choose the time horizon. Since the market tends to rise over time, if you choose a long horizon, say over a year, you increase the risk of paying more for your shares while

you are investing. If you choose a shorter period of time, you reduce the value of using DCA in the first place.

6. Finally, once you reach the end of your DCA period and are fully invested, you run the same risk of the market plunging the day after you are done.

What to do instead?

Well, if you've followed the strategies outlined in Part II, you already know whether you are in the wealth accumulation or wealth preservation phase.

If you are in the wealth accumulation phase, you are aggressively investing a large percentage of your income each month. In a sense, this regular investing from your income is a form of unavoidable dollar cost averaging, and it does serve to smooth the ride. But the big difference is you'll be doing it for many years or even decades to come. And, of course, you don't have the lump sum option.

But you are putting your money to work as soon as you get it in order to have it working for you as long as possible. I'd do the same with any lump sum that came my way.

If you are in the wealth preservation stage, you have an asset allocation that includes bonds to smooth the ride. In this case, invest your lump sum according to your allocation and let that allocation mitigate the risk.

If you are just too nervous to follow this advice and the thought of the market dropping shortly after you invest your money will keep you up at night, go ahead and DCA. It won't be the end of the world.

But it will mean that you've adjusted your investing to your psychology rather than the other way around.

¹ <https://www.slickcharts.com/sp500/returns>.

Chapter 27

How to Be a Stock Market Guru and Get on CNBC

Back in the day, Louis Rukeyser hosted a PBS program called *Wall Street Week* each Friday evening. Watching it was an end-of-the-week ritual for me.

He'd open with a commentary on the follies and foibles of the previous market week and then turn to a rotating panel of three Wall Street gurus for their take. Two of my favorites were Abby Joseph Cohen, a relentless bull, and Marty Zweig, who was always "deeply worried about this market."

Each guest was impeccably credentialed, and Rukeyser made it a point to deftly schedule those who would each week present opposing views as to the market's condition and direction. Sometimes one would even prove right.

His commentaries, questions, and comments were always delivered with a wink, a smile, and great good humor. Tragically, he passed away in 2006, and the current generation of investors is left without his insights and wisdom.

The key thing his program and its parade of guests taught me is that, at any given time, some expert is predicting any possible future that could conceivably happen. Since all bases are covered, someone is bound to be right. When they are, their good luck will be interpreted as wisdom and insight. If their prediction happened to be dramatic enough, it could also lead to fame and fortune.

Every January, Rukeyser would have each of his guests predict the market's high, low, and ending points for the year. I forget his exact line, but after the predictions were in, he'd say something like, "With the understanding that even these experts could be wrong, there you have it." And he'd wink into the camera.

Come the following December, he'd salute those who'd come closest and chide the goats. All great fun, if not taken seriously. I'd even indulge in making my own annual predictions but never seriously and never with the idea of using them to get on TV. Even if I turned out to be spot on, mine wouldn't get me interviewed on CNBC. Not dramatic enough. But then, that's not my ambition. If it is yours, however, here's (with my own knowing wink) how:

Step 1: Make a prediction for a huge short-term swing in the market. Up or down doesn't matter. But down is easier and scarier. Scarier will get you more play if you're right.

Step 2: Document the time and date you made it.

Step 3: When it doesn't happen, wait a bit.

Step 4: Repeat steps 1–3 until one day you're right.

Step 5: Issue press release: "Market Plunges!!!, just as [insert your name here] recently predicted."

Step 6: Clear your schedule for media interviews.

Step 7: Send me my 15% agent's fee of your newfound wealth.

Be sure not to issue your press release until events prove you right.

Oh, and keep in mind that once your guru status is established, you'll be expected to be able to repeat it. For months—maybe years—everything you say will be noted. Each misstep will be gleefully documented until you slip from view, humiliated and discredited. But also rich if you've played your moment in the sun well.

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Chapter 28

You, Too, Can Be Conned

Not too long ago, I made an enemy.

She is the widow of an old friend. Before he died, I promised to try to look out for her a bit.

During a conversation, she said I made her feel small. She said I made her feel stupid. There were tears. I'm very likely guilty on both counts. I'm not always tactful. But hopefully, I saved her \$2,000,000.

Her husband died a while back. Over the years, he worked hard and had accumulated the aforementioned wealth. He loved his wife dearly and knew he would very likely leave her a widow. The money was an act of love. He wanted to be sure she would be financially secure.

But he also knew three things that scared him to no end:

1. His wife believed in the proverbial “free lunch.” That is, she was always open to come-ons. Free cell phones were an example. Every time their cell phone contract expired, the provider offered a “free” cell phone, which she proudly grabbed. Somehow, she seemed to miss the two-year contract it locked them into, over and over again. While small potatoes, it was a bad sign.
2. The world is filled with predators looking for people precisely like her.
3. Money and this belief in the “free lunch” attract them like sharks to bloody chum.

It was this topic of the “free lunch” that set me off and brought her to tears. I was trying to gently coax her into appreciating the risk financial predators pose. She is a very bright woman and seemed to understand. But then she said, “Don't worry. I can't be conned.”

“With that, you have,” I said (and by this point, my voice, I fear, was raised), “just violated the first rule of not being conned!”

Make no mistake: You *can* be conned. So can I.

Here's one scam I came across many years ago. Fortunately, I read about it. In those days, I might well have taken the bait. It went like this:

One day you receive a letter, or maybe these days an email. In it, an investment advisor introduces himself and offers you a stock tip. For example, ABC Corp is going to dramatically rise in price over the next week or two. Don't invest, he cautions, without doing your homework. But his "proprietary metrics" are pointing to this one as a strong buy.

You're no fool, but you decide to maybe keep an eye on it. Just to see. You don't want to miss a good thing. Sure enough, it sharply spikes up. You could have made 50%, 60%, or even 100% on your money in just a couple of days. Damn. Then letter 2 arrives.

This one says BCD Corp is poised to take a sharp fall. Our metrics, it says, say short (shorting is a way to sell stock you don't own on a bet it will decline in price) this stock. You are a careful investor. Again, you decide to watch and see, although with a keener interest now.

Sure enough, this one collapses as predicted. Had you acted, big profits would have been yours.

Letter 3 arrives. Then 4, 5, and maybe even 6. Each is dead-on. The stock rises or falls exactly as predicted. Maybe you even took a chance and profited from one or two. By now, it is hard not to be impressed.

Then you get an invitation to dinner at one of your area's finer restaurants. You and a handful of other "executive-level investors" are invited to an informal meeting with Mr. Hasn't-Missed-One-Yet. He'll be discussing his proprietary investment metrics and how they've made him rich.

At dinner, Mr. Hasn't-Missed-One-Yet is soft-spoken. He is warm, kind, and concerned. He has all the trappings of wealth, but in a tasteful, understated fashion. Charts and graphs are presented. The exact investment approach is unclear; but then it is proprietary. This is to be expected. Oh—and barely mentioned in passing—it just so happens a couple of slots remain open in his latest investment pool. There is certainly no obligation, but, of course, "based on our

experience,” they will be snapped up by tomorrow. So if you are interested . . .

Like all magic, it is of course a trick. Can you spot it? If you can, and this is the first you’ve come across it, you are sharper than I. But don’t get cocky. If not this one, another will arrive and fly under your radar. It can happen to you. Fail to understand this and it inevitably will. That’s the first rule. Here’s the full set:

Rule 1: Everybody can be conned. Certainly, stupid people are marks. But so are the exceptionally bright. The moment you start to think that it can’t happen to you, you’ve become a most attractive target. The easiest victims are those who think they are too smart, too knowledgeable to be taken. This means you, bucko.

Rule 2: You are likely to be conned in an area of your expertise. The reason is simple: targeting and ego. When con men pick a scam, they look for people to whom it will naturally appeal. Those are people in the field. People feel secure and safe in those areas they know well. They believe they will be too smart to be caught unawares. Smart people know the areas they don’t know and tend to be far more cautious there. Many of Bernie Madoff’s victims were financial professionals.

Rule 3: Con men (and women) don’t look like con men. This isn’t the movies. They’re not going to have slouch hats pulled low over their shifty eyes. Successful con men look like the safest, most trustworthy, honest, stable, comforting people imaginable. You won’t see them coming. Or rather, you will, and you’ll be warmly welcoming them.

Rule 4: *Almost* all of what they say will be true. The best, most effective lies are surrounded by truth. Buried in it. The con, the thing that will leave you broke and with a real reason to cry, is carefully hidden. It is deep in the proverbial fine print.

Rule 5: If it looks too good to be true, it is. There is no free lunch. Not ever. Your mama taught you this. She was right. Listen to your mama.

With that said, not all cons are clever. An email from a Nigerian stranger offering you, random old you, millions to accept his money transfer should be obvious. Right?

The stranger knocking on your door and offering cut-rate home repairs because they “just happen to be working in the neighborhood,” but only if you pay in cash up front, is a con man. You know this. Right?

Those are the kinds of simple cons my friend’s wife was thinking about, and she’s right. She is much too smart to fall for them. But those aren’t what had her husband worried. It is the clever scammers of the world who seek out the smart, the rich, and the lonely.

If you have not already done so, have these conversations with your own spouse or partner. Don’t leave it to a tactless (although honest) friend of the family like me.

Given the actuarial tables and her good genes, my own wife will likely also outlive me by a couple of decades. Since I handle our investments, we have this conversation on a regular basis. We review what we own and why. Fortunately, she understands the principles and their importance.

As an aside, this is one more reason I’m a fan of index funds. I want to leave her with a simple portfolio she can leave on autopilot.

So far, these discussions haven’t led to my making an enemy of her. Yet. I think.

Oh, and here’s how Mr. Hasn’t-Missed-One-Yet did it: It is an inverted pyramid. He starts by selecting a very volatile stock, and he sends out a thousand letters. Half predict it will rise and half that it will fall. The 500 that got the correct prediction get letter 2 with a different volatile stock. The 250 that now have two correct predictions get letter 3, and so on. By letter 6, you have fifteen or sixteen marks who have gotten six letters in a row with your infallibly accurate predictions. Most will be begging by then to be taken.

Part IV

What to Do When You Get There

Money frees you from doing things you dislike. Since I dislike doing nearly everything, money is handy.

—Groucho Marx

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Chapter 29

Withdrawal Rates: How Much Can I Spend?

4%. Maybe more.

So you've followed the simple path big three:

1. You've avoided debt.
2. You've spent less than you've earned.
3. You've invested the surplus.

Now you're sitting on your assets and wondering just how much you can spend each year and not run out. This could be stressful, but it really should be fun. You might even be cheeky enough to ask, "What percent of his own assets does JL spend?" We'll get to that.

You don't have to have read far in the retirement literature to have come across the "4% rule." Unlike most common advice, this one holds up to our beady-eyed scrutiny pretty well, even though it is really very little understood.

Turns out, it took a rocket scientist to come up with it.

After running his family's business until it was sold in 1987, William P. Bengen (MIT BS in aeronautics and astronautics) moved to California to launch Bengen Financial Services, a fee-only practice. Since, as you know from Chapter 23, fee-only is best for the clients, Mr. Bengen was one of the good guys in the field.

In 1994, he published his research into market returns and withdrawal rates over a seventy-five-year period. It was in this paper he presented evidence as to what a safe withdrawal rate might be.

Interestingly, he never called it a "rule"; he actually suggested 4.2%, and he considered this very conservative. I agree, and further research backs this

up.

In 1998, Philip L. Cooley, Carl M. Hubbard, and Daniel T. Walz, three professors of finance at Trinity University in San Antonio, sat down and ran a bunch of numbers. Basically, they asked what would happen at various withdrawal percentage rates to various portfolios, each with a different mix of stocks and bonds, over thirty-year periods depending on what year the withdrawals were started. They ran their scenarios both adjusting withdrawal levels for inflation and not adjusting the withdrawal. Whew. Then they updated it in 2009.

Out of the scores of options in the study, the financial media seized on just one of these models: the 4% withdrawal rate, 50/50 stock/bond portfolio, adjusted for inflation. Turns out, 96% of the time, at the end of thirty 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. In fact, it failed in only two of the fifty-five starting years measured: 1965 and 1966. Other than those two years, not only did it work, but many times, the remaining money in the portfolio had grown to spectacular levels.

Think about that for a moment.

What that last line means is that in most cases, the people owning these portfolios could have taken out 5%, 6%, 7% per year and done just fine. In fact, if you gave up the inflationary increases and took 7% each year, you would have done just fine 85% of the time. Most of the time, taking only 4% meant at the end of your days, you left buckets of money on the table for your (all too often ungrateful) heirs. Great news, were that your goal. Also great news if you anticipate living on your portfolio for longer than thirty years.

But the financial media believes that most people don't like to think too hard. By reporting the results at 4%, they could report on just about a sure thing. Roll it down to 3%, and we have as sure a thing as we'll ever see short of death and taxes. And that's giving yourself annual inflation increases.

While 1965 and 1966 were the last and only two years where 4% failed, remember that more recent start years have not yet had their own thirty-year measurable runs. My guess is that if you began your own withdrawals in 2007 and the early part of 2008 just prior to the collapse, you will have hit

upon two more years in which the 4% plan is destined to fail. You'll want to scale back. On the other hand, if you started with 4% of your portfolio's value as of the March 2009 bottom, you're very likely golden.

If you are curious, here's an overview of the Trinity Study you can read for yourself:
<https://www.financialplanningassociation.org/article/journal/APR11-portfolio-success-rates-where-draw-line>.

If you open the link and review the study, you'll see it has four tables. Tables 1 and 2 look at how various portfolios performed over time and at various withdrawal rates. Tables 3 and 4 tell us how much money remains in the portfolios after thirty years have passed. The difference between them is that Tables 2 and 4 assume the dollar withdrawal amount is adjusted each year to account for inflation.

Looking at Table 1 and at the fifty-fifty mix with a 4% withdrawal rate, you see you have a 100% chance of your portfolio surviving thirty years.

Table 2 tells you that if you take those same parameters but give yourself inflation raises, your portfolio's chance of survival drops to 96%. Makes sense, no?

Tables 3 and 4 tell you how much money remains in the portfolios after thirty years have passed, and this, to me, is really compelling stuff. Again, Table 3 assumes a straight percentage withdrawal, and Table 4 assumes giving yourself inflation raises. Let's take a look at some examples.

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 thirty 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

From Table 4 (with inflation-adjusted withdrawals)

- 100% stocks = \$10,075,000

- 75% stocks / 25% bonds = \$5,968,000
- 50% stocks / 50% bonds = \$2,971,000

In summary

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

- Stray much further out than 7% and your future will include dining on dog food.
- Stocks are critical to a portfolio's survival rate.
- If you absolutely, positively want a sure thing and your yearly inflation raises, keep your withdrawal rate under 4%. And hold 75% stocks / 25% bonds.
- Give up those yearly inflation raises, and you can push up toward 6% with a 50% stock / 50% bond mix.
- In fact, the authors of the study suggest you can withdraw up to 7% as long as you remain alert and flexible. That is, if the market takes a huge dive, cut back on your withdrawals and spending until it recovers.

This is very powerful stuff, and it should give you a lot to feel warm and fuzzy about as you follow *The Simple Path to Wealth*.

As you look over these tables, one thing that should become very clear is just how powerful and necessary stocks are in building and preserving your wealth. This is why they hold center stage in *The Simple Path to Wealth*.

What is likely less obvious—but every bit as important—is the critical importance of using low-cost index funds to build your portfolio. When you start paying 1%–2% fees to active mutual fund managers and/or investment advisors, all these cheerful assumptions wind up in the trash heap. Wade Pfau, professor of retirement income at the American College for Financial Services and one of the most respected observers of the Trinity Study, says it best: “For an example of this, the 50–50 portfolio over 30 years with 4% inflation-adjusted withdrawals had a 96% success rate without fees, 84% success rate with 1% fees, and 65% success rate with 2% fees.”

In other words, using the Trinity Study projections with portfolios built from anything other than low-cost index funds is invalid.

So now to answer that question we alluded to earlier: What withdrawal percentage do I personally use in my retirement? I confess I pay so little attention, it took a few moments to figure it out, and even once I did, it wasn't exact. But my best guess is in the early years, it ran somewhere north of 5%. This casual approach may surprise you. But there are mitigating circumstances:

1. I had a kid in college. That is a huge annual expense, but as of the spring of 2014, it had gone away. During her college years, the money for it was figured into my net worth, but it was also earmarked as "spent."
2. After my retirement, my wife and I accelerated our travels, and the related spending spiked sharply. Not to be morbid, but at my age, I am more worried about running out of time than money. If the market were to tank in a major way, this would be an easy expense to adjust.
3. Once my wife turned 66 and I reached age 70, we had two nice new income streams come online in the form of Social Security.
4. Most importantly, I know I'm well under the 6%–7% level that requires close attention.
5. Given the above, going forward, my guess is it will drop to under 4%.

Within that 3%–7% range, the key to choosing your own rate has less to do with the numbers than with your personal flexibility. If as needed you can readily adjust your living expenses, find work to supplement your passive income, and/or are willing and able to comfortably relocate to less expensive places, you will have a far more secure retirement no matter what rate you choose. Happier too, I'd guess.

If you are locked into certain income needs, are unwilling or unable to ever work again, and have roots that go too deep to ever seek out greener pastures, you'll need to be much more careful. Personally, I'd work on adjusting those attitudes. But that's just me.

4% is only a guide. Sensible flexibility is what provides security.

Chapter 30

How Do I Pull My 4%?

At some point—if you have been following the simple path described in this book—you will be able to choose to have your assets pay the bills rather than your labor.

How quickly you reach this point will have much to do with your savings rate and how much cash flow you require. In any event, your assets will have reached the point where by providing ~4%, as discussed in the last chapter, they can cover all your financial needs. Or said another way, your assets now equal twenty-five times your annual spending.

Having left your employment, you will have rolled any employer-based retirement plans, such as a 401(k), into your IRA, and the investments themselves will be split between stocks and bonds held in the allocation that best matches your personal risk profile. Ideally, these will be in Vanguard's low-cost index funds: VTSAX (Vanguard Total Stock Market Index Fund) for stocks and VBTLX (Vanguard Total Bond Market Index Fund) for bonds.

As we discussed in Chapter 19, these two funds will be in your tax-advantaged and ordinary (taxable) buckets. By this time, you will have pared these down to just three: IRA, Roth IRA, and taxable. My suggestion—and personal portfolio—is to hold them as follows:

- VBTLX in the IRA, as it is tax-inefficient.
- VTSAX in the Roth IRA because this is the last money I would spend and the money most likely to be left to my heirs. Roths are an attractive asset to leave upon your death, and since this is my most long-term money, the growth prospects of VTSAX make it the preferred investment here.
- VTSAX also goes into the taxable account because, of the two funds, it is more tax-efficient.

- VTSAX is also held in our regular IRAs, as even it can benefit from tax deferral.

As you can see, if you are single, you will actually have four fund accounts—VBTLX in your IRA and VTSAX held in all three places: Roth, IRA, and taxable. If you are married, your allocation might look something like ours.

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 checking accounts and in our money market fund, Vanguard Cash Reserves Federal Money Market Fund (VMRXX).

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.

It is also very possible that even if you've embraced the simple path in this book, you still have other investments. If these are in your tax-advantaged accounts, you've likely rolled them tax-free into Vanguard. But if they are in taxable accounts, the prospect of a hefty capital gains tax might have persuaded you to hold on to them. When I retired, we also had some of these “cats and dogs,” mostly in the form of individual stocks I had yet to break the habit of playing with.

At this point, the discussion risks becoming a bit complex. There is almost an endless array of ways you might withdraw the ~4% you'll be spending from your investments. So let's start with the mechanics of how this works, and then I'll share with you some guiding principles and exactly

what we are doing and why. From there, you should have the tools you need to form your own strategies.

Mechanics

If you hold your assets with Vanguard or any similar firm, the mechanics of withdrawing your money could not be easier. With a phone call or a few clicks online, you can instruct them to:

- Transfer a set amount of money from any of your investments on whatever schedule you choose: weekly, monthly, quarterly, or annually.
- Transfer any capital gains distributions and/or dividends and interest as they are paid.
- You can log on to their website and transfer money with a few clicks anytime.
- Or any combination of these.

This money can be transferred to your checking account or anywhere else you choose. The process couldn't be much easier, and a phone call to Vanguard—and likely almost any other firm—will get you friendly and helpful assistance in walking through it all the first time.

Principles

Next, let's look at some of the guiding principles behind the approach we use.

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

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.

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.

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

Fifth, while I am now well into having to take my RMDs (required minimum distributions), for the ten years before you have to take yours, you should move as much as you can from your regular IRAs to your Roths, consistent with remaining in the 12% tax bracket. You'll recall this strategy from our discussion on RMDs in Chapter 20.

Sixth, once you begin taking your RMDs, these withdrawals will replace those you had been taking from your taxable account. The taxable account will then be left to grow again.

Pulling the 4% in action

1. First, we think about the noninvestment income we still have coming in. Even once you are “retired,” if you are actively engaged in life, you might well also be actively engaged in things that create some cash flow. We are no longer in a savings mode, but this earned money is what gets spent first. And to the extent it does, it allows us to draw less from our investments and allows them in turn still more time to grow.
2. Remember those “cats and dogs” I had left over in our taxable accounts? Upon entering retirement, those were the first assets we spent down. We started with the ugliest ones first. While you may or may not choose to follow the rest of our plan, if you have such remnants left in your own portfolio, I strongly suggest this is how you off-load them. Do it slowly, as needed, to minimize the capital gains taxes. Of course, if you have a capital loss in any of them, you can dump them immediately. You can then also sell some of your winners, using this capital loss to offset those gains. You can use up to \$3,000 per year of these losses to offset your earned income. Any tax loss you can't use, you can carry forward for use in future years.

3. Once those were exhausted, we shifted to drawing on our taxable VTSAX account. We continued to draw on this account until we reached those pesky RMDs.
4. Since the taxable VTSAX account is only a part of our total, the amounts we were withdrawing each year far exceeded 4% of the amount in it. The key is to look at the withdrawals not in terms of the percent they represent of this one account but rather in the context of the entire portfolio.
5. We could have set up regular transfers from the taxable VTSAX as described above, but we didn't. Instead, my wife (who handles all our day-to-day finances) simply logged on to Vanguard and transferred whatever she needed whenever she noticed the checking account getting low.
6. This withdrawal approach may seem a bit haphazard, and I guess it is. But as explained in the last chapter, we don't feel the need to obsess over staying precisely within the 4% rule.
7. Instead, we keep a simple spreadsheet and log in our expenses by category as they occur. This allows us to see where the money is going and to think about where we might cut should the market plunge and the need arise.
8. Before reaching RMDs, each year I'd calculate what income we have, and—consistent with remaining in the 12% tax bracket—I'd shift as much as I could from our regular IRAs to our Roths. This was in preparation for the coming RMDs. When that time came, I wanted our regular IRA balances to be as low as possible.
9. Once we started taking RMDs, we stopped withdrawing from our taxable account and let it alone to grow once more. Instead, we started living on the RMDs that now must be pulled from our IRAs under the threat of a 50% penalty.

10. While I was certain the money in our taxable account would last until we reached the RMDs, if it had run out, we'd have simply begun drawing money from our IRAs ahead of the RMDs. In essence, this would be the money I had been shifting into the Roths. And, again, I'd strive to keep what we withdrew consistent with staying in the 12% tax bracket.
11. Despite my efforts to lower the amounts in our regular IRAs, the RMDs—once we were both forced to take them—will likely soon exceed our spending needs. At this point, we will reinvest the excess in VTSAX in our taxable account.

There you have it. While you could, you don't have to follow this exactly. You are free to adapt what works best for your situation and temperament.

For instance, if the idea of touching your principal goes against your grain and you want to spend only what your investments earn, you can instruct your investment firm to:

- Transfer all your dividends, interest, and capital gain distributions into your checking account as they are paid.
- Since all these together will likely total less than that ~4% level, should the need arise, you could occasionally log on and simply transfer some more money by instructing that a few shares be sold.
- Or have your dividends, interest, and capital gains transferred as they are paid and schedule transfers from your taxable account on a regular basis to bring the total up to ~4%.

For example, if you had \$1,000,000 at the end of 2024 in your portfolio allocated 75/25 stocks and bonds:

- At 4%, your withdrawals equal \$40,000.
- Your \$750,000 in VTSAX currently earns ~1.25% dividend, or \$9,375.
- Your \$250,000 in VBTLX currently earns ~3.5% interest, or \$8,750.
- That totals \$18,125, and if that's all you need, you're done.

- But if you want the full \$40,000, the remaining \$21,875 you'd withdraw by selling shares from your taxable account. Taken monthly, it would be ~\$1,823.

This seems overly cumbersome to me, and I present it only to illustrate how someone focused on living on only their investment income might approach things.

Here's what I would not do

I would *not* set up a 4% annual withdrawal plan and forget about it.

As we saw in the last chapter, 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.

It made for a great academic study, and it is heartening that in all but a couple of cases, the portfolios survived just fine for thirty years. In fact, most of the time, they grew enormously even with the withdrawals taking place.

Setting aside that in a couple of the scenarios this approach would leave you penniless, in the vast majority of cases it produced vast fortunes. Assuming you neither want to be penniless nor miss out on enjoying the extra bounty your assets will likely create, you'll want to pay attention as the years roll by.

This is why I think it is nuts to just set up a 4% withdrawal schedule and let it run regardless of what happens in the real world. If markets plunge and cut my portfolio in half, you can bet I'll be adjusting my spending. If I was working and got a 50% salary cut, I would, of course, do the same. So would you.

By the same token, in good times, I might choose to spend a bit more than 4% knowing the market is climbing and that provides a strong wind at my back.

Either way, once a year, I'll reassess. The ideal time is when we are adjusting our asset allocation to stay on track. For us, that's on my wife's

birthday or whenever the market has had a 20%+ move, up or down.

True financial security—and enjoying the full potential of your wealth—can only be found in this flexibility. As the winds change, so will my withdrawals. I suggest the same for you.

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Chapter 31

Social Security: How Secure and When to Take It

Back in the early 1980s, I remember railing against Social Security to my mother, who was on it. She'd grown up with the specter of little old ladies living on cat food. That was a real possibility when she was a girl and the elderly were the poorest group in America. I explained to her that if my two sisters and I were let off the SS hook, we could not only give her more than her monthly check; we'd have extra left to feather our own nests. She wasn't buying it.

And I wasn't buying it either. I never figured Social Security would be there for me. All my financial planning has been based on the idea that if it wasn't, no problem. If it was, that would be a pleasant surprise. Well, surprise! Now we're collecting, and a surprisingly hefty amount at that. Considering what we've paid in and assuming we live long enough, it turns out to be a pretty sweet deal. I hadn't counted on the power of the AARP, perhaps the most formidable lobby in history.

Social Security was born in 1935 during the depths of the Great Depression. Those hard times devastated almost everybody, but none more perhaps than the elderly who were no longer able to work even in the unlikely event work might be found. Many were literally living on cat food, if that could be had.

Back in those days, life expectancies were considerably lower. Figuring this can be tricky, as the biggest reducer of average life expectancy is deaths in childhood. But if we look at the life expectancies of people who have survived to the age of 20, we get a more useful number. In 1935, for men the average was around 65, for women about 68. Since then, life expectancy in the US has continued to expand. As of 2022, according to the Centers for Disease Control and Prevention, it is now approximately 75 for men and 80 for women.

From those numbers, it's easy to see that setting the age to collect Social Security at 65 was a pretty good bet for the system. All workers would pay in, but relatively few would live long enough to collect, and those who did would only collect for a few years. This worked so well in fact (with some fairly minor adjustments along the way) that the surplus reached \$2.9 trillion by 2020.¹ But now the wheel has turned. The huge baby boom generation that has been paying in these surpluses is now well into retirement. In addition, they are living a whole lot longer. Going forward, if nothing changes, the system will be paying out more than it takes in. It looks like this:

- 1935–2020: Annual surpluses build and peak, ending up totaling ~\$2.9 trillion.
- 2021: Annual payroll taxes fall short of the annual payouts. But the ~2.4% interest on the \$2.9 trillion helps cover the gap.
- 2024: The interest payments are no longer enough to make up the payout difference, and the surplus drops to \$2.8 trillion.
- 2035: The surplus is gone.
- After 2035: The payroll taxes then collected will only be enough to cover ~83% of the benefits then scheduled to be paid out.

Where exactly is this \$2.8 trillion?

The surplus is commonly referred to as the Trust Fund, and it is held in US Treasury bonds. This as of 2024, by the way, is 7.8% of the roughly \$36 trillion US debt. In a real sense, we owe it to ourselves. In fact, about 21% (\$7.3 trillion) of our \$36 trillion debt is owed to ourselves in this fashion: Social Security, Medicare, and the balance in military and civil service retirement programs. Only \$1.13 trillion / 3% is owed to Japan and \$775 billion / 2% to China.

Does this \$2.8 trillion really even exist?

You've probably heard scary talk that this Trust Fund doesn't really exist—that the government has already spent the money. Well, yes and no.

There is no “lockbox” somewhere stuffed with \$100,000 bills. (These were printed in 1934 and commonly called Gold Certificates. Woodrow Wilson was the portrait on them. They were only used by the government for official transactions between Federal Reserve banks and were never available to the public.)

The Trust Fund is in a whole bunch of US Treasury bonds.

To answer the question “Is the money really there?” you need to understand a bit about what these bonds are and how they work.

Any time any entity sells a bond, it is to raise money it intends to spend. The bond and its interest are then paid back with future revenues. As it happens, US Treasury bonds—what the Trust Fund holds—are considered the safest investments in the world. Backed, as the saying goes, by “the full faith and credit of the United States Government.” Of course, that’s us, the US taxpayers and the same folks owed most of the \$2.8 trillion.

So the US Treasury bonds held by the Trust Fund are real things with real value, just like the US Treasury bonds held by the Chinese, the Japanese, numerous bond and money market funds, and countless numbers of individual investors.

Yeah, but I’d still feel better if they hadn’t spent the money I contributed and if it really was cold hard cash in a lockbox I could draw on.

Well, OK, but cash is a really lousy way to hold money long term. Little by little, inflation destroys its spending power.

It is important to understand that any time you invest money, that money gets spent. If you hold a savings account at your local bank, your money isn’t just sitting in a vault. The bank has lent it out and is earning interest on it. It is not all instantly available.

If that is an unacceptable risk, your alternative is to stuff your cash in your mattress or a safe-deposit box. Had the government done that, the Trust Fund would now be overflowing with currency—that is, pieces of paper money backed by, you guessed it, “the full faith and credit of the United States Government.”

At least the Treasury bonds pay interest.

When should I begin taking the money?

Once you reach age 62, you can begin receiving Social Security. The catch is, the sooner you start, the smaller your checks. The longer you delay (up until age 70), the bigger the checks. Of course, the longer you delay, the fewer the years you'll be collecting.

Countless articles have been written about strategies attempting to answer the question as to when to begin receiving benefits. All kinds of fancy, sometimes complex strategies are described. I've read a bunch, and my view is, in the end, it's really pretty simple: Since the government actuarial tables are as good as they get, the payments are pretty much spot on with the odds. Here's what, in order, you have to ask yourself:

1. When do I need the money? If you genuinely need the money right now, nothing else matters. But each month you delay, your monthly check gets bigger.
2. Do you think Social Security will collapse and stop paying? If you believe this, clearly you'll want to collect while the collecting is good. For what it's worth, I happen to think you're wrong, and I'll explain why further on.
3. How long are you going to live? The longer you live, the more advantageous delaying is. The break-even point between age 62 and 66 is around age 84. That is, if you live longer than 84, you will collect more in total by delaying your benefit until past age 66. If you think you'll die before 84, you might want to take the money sooner. Unless . . .
4. You are married, and you were the higher-earning spouse. Then you also want to consider how long your spouse will live. If your spouse is likely to outlive you, upon your passing, they will be able to trade in their lower Social Security payments for your bigger checks.

For example, my wife and I are both in good health. But looking at family histories, and because women usually outlive men, my best guess is that she'll survive me. I figure I'm good to maybe 85. Were I alone, I'd start drawing ASAP. But she could easily see 95 or 100. When I die, she'll have the option of switching from her benefit to mine. Since mine will be larger, that's what she'll do. To maximize that check for her, I delayed taking my benefit until I turned 70. She started hers at 66.

Another thing worth considering: As we reach advanced age, our mental acuity diminishes. Managing our investments becomes harder. We become more reliant on others. At that point, a reliable monthly government check has more value than just the dollars.

Of course, there's no way to know what the future really holds. The best we can do is play the odds.

But Social Security is doomed! I'm taking mine ASAP.

There are those who choose to take their benefits the moment they turn 62, even though the amount is reduced. Some simply need the money right now and have no choice. But others are acting out of fear. They believe Social Security will collapse in their lifetime, and they want to get what they can while they can. I'm not worried. If you are 55 or older, you'll collect every dime. Here's why:

1. Social Security is backed by the most powerful lobby in history: AARP.
2. Seniors are an increasing proportion of the population.
3. Seniors vote.
4. This is why all the possible solutions being suggested thus far affect only those under age 55.

Well, that's all well and good, but I'm under age 55! What about me?

For anyone 55 and over, Social Security has turned out to be a pretty great deal. But my generation and the generations older are likely the last that will enjoy such lofty benefits. The system is in trouble, and clearly, changes will have to be made. For those under 55 today, the deal is likely to be a lot less sweet:

1. You can expect to get 100% of any promised benefits, but the promises will be smaller.
2. It will cost you more. Income caps (the amount of your income subject to Social Security tax) will continue to be raised. In 2015, the cap was \$118,500. For 2025, it has been set at \$176,100, a 49% increase. This trend will continue.
3. The “full retirement age” will continue to rise. It used to be 65. For me, it’s 66. For anybody born in 1960 or later, it is 67. Those ages will continue to rise.
4. Benefits may become “means tested”—that is, based on your need rather than what you paid in.
5. Congress will continue to tinker, and in the end, Social Security will still be there, even if diminished.

So is Social Security a good deal?

Well, it kinda depends. For the fiscally responsible types reading this book, probably not. If you took that 7.65% of your income (6.2% for Social Security plus 1.45% for Medicare) you are compelled to contribute, along with the same amount your employer is compelled to kick in (as of 2025), and invested it over the decades using the strategies presented here, you’d likely be far, far ahead. Plus your money would be in your hands and not subject to the whims of the government. But that’s just the few of us.

I’m realistic enough to know most people are goofs with their money. Without Social Security, many would be back to living on cat food. Not only would the rest of us have to read about their sad plight, something much more draconian than Social Security might well be implemented to remedy the situation. So yes, for most people, it will turn out to be a good deal. And probably for society as a whole. But not for you. Or me.

My recommendation

Plan your financial future assuming Social Security will *not* be there for you. Live below your means, invest the surplus, avoid debt, and accumulate F-You Money. Be independent, financially and otherwise. If/when Social Security comes through, enjoy.

Want to know where you personally stand with Social Security right now?

Go here: <https://ssa.gov/myaccount/>. This is the Social Security website, and once you create an account for yourself, you'll be able to track where you stand. You'll also be able to check and make sure that the record of your earnings is accurate. This is very important, as the size of your checks will be in part determined by how much you earned over the years.

¹ https://www.ssa.gov/oact/TR/2021/II_B_cyoper.html?.

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Chapter 32

How to Give like a Billionaire

I know what you're thinking. For some time now, you've been wondering what exactly Mrs. Collins and I have in common with Bill and Melinda Gates. Here it is:

We both have charitable foundations.

Now you're thinking, "I knew it! JL is a billionaire!" In this, you'd be, sadly I must say, mistaken. More monk than minister, I'm afraid. We don't even have a fancy Gates-like building to house ours in.

We've talked a lot about investing and building your own F-You Money but virtually nothing on, well, spending it. Since we personally don't much care for owning things, I've not much to say. We like to travel. We do spend on that. Sending our daughter to college was money well spent, as she so thoroughly embraced the experience.

But the money we've spent that has provided us with the most pure personal pleasure is that we've been privileged to give away.

In fact, I can specifically pinpoint the \$1,200 that has given us one of the most satisfactory returns of all. I hesitate to tell this story, as it will be easy to read it as bragging when it's only meant to illustrate a point. I hope you take it in that spirit.

Many years ago, we attended a charitable auction held by the Catholic grammar school our daughter then attended. We had always been impressed with the teachers and the Mother Superior who ran the place.

One of our favorite local restaurants was called Parker's, after the chef who owned it. On this occasion, Parker had donated for auction a gourmet dinner for ten. On the spur of the moment, we decided to win it and gift it to the school's teachers.

Bidding was spirited, but as the amounts reached the actual cost of dinner for ten at Parker's, the competition dropped off. At around \$1,200, we were the winners.

When I gifted it to the Mother Superior, I also gave her two obligations. First, she would have to choose which ten—of the fifteen total—teachers would get to go. Second, she herself would have to attend. See, we knew this Mother Superior and needed to head off her selfless ways.

When word spread, a couple of very interesting things happened. Parker himself stepped up and expanded his donation to dinner for fifteen so everyone got to go. Another bidder offered to foot the bill for the wine.

Well, you know what happens when you mix fine food, wine, and Catholic school teachers. Let's just say, a good time was had by all, and leave it at that . . .

In addition to personal pleasure, one of the benefits of charitable giving is the tax deduction. Of course, to gain this benefit, you must itemize your deductions on your tax return. For instance, if you are married and filing jointly, you are allowed a standard deduction of \$30,000 as of 2025. Should you have less than that in itemized deductions, you are better off taking the standard deduction and saving yourself the effort.

A number of years ago, it occurred to me that two life changes were coming down the pike that would affect my personal tax situation. We were planning to sell our house, and I was planning to retire. Without the house and its associated deductible costs, we'd no longer be itemizing. Upon retiring, I'd be in a lower tax bracket. Both these things would lower the tax advantage of charitable giving. The solution:

The JJ Collins Charitable Fund

You already know I'm a huge fan of Vanguard. So it should be no surprise that in setting up our foundation, we used the Vanguard Charitable Endowment Program. Here's why:

- You don't have to be a billionaire. You can open your own foundation with as little as \$25,000. Fancy building not included.
- You get the tax deduction in the year you fund your foundation. So I got to take the tax benefits when they mattered most to me.
- If you have stocks, mutual funds, or other assets that have appreciated in value, you can move these directly into your charitable foundation. You get the tax deduction for their full market value, and you don't

have to pay any capital gains taxes on the gain. Double tax win and more money for your charities.

- If you are faced with the required minimum distributions we discussed in Chapter 20, you can roll all or part of a tax-advantaged account directly into your charitable foundation tax-free.
- You can choose a variety of investment options so your donation grows tax-free while waiting for you to allocate it.
- You decide which charities receive your money, how much (\$500 minimum), and when. You can set this up to happen automatically.
- You can add more money (\$5,000 minimum) to your foundation whenever you choose. (If your balance falls below \$25,000, you will be charged an annual \$250 account maintenance fee.)
- Because it is run through Vanguard, expenses are rock bottom.
- Now I can tell unwanted solicitors, “We only give through our foundation. Please send us your written proposal.” We’ve gotten exactly zero proposals.
- It keeps our personal names off the lists some charities sell to other solicitors.

In addition to the tax advantages this offers, it also plays into some of my personal conclusions regarding charitable giving:

- It is best to concentrate your giving. We have selected just two charities.
- Giving small donations to many charities might be satisfying to you, but it dilutes the impact, and a greater percentage of your gift is eaten up in the processing of it.
- Many small donations also get you on many mailing lists.
- Never give to phone solicitors.
- The more I see a charity advertising, the less likely I am to believe they are focused on delivering my cash to those they claim to serve.
- You need to do your homework. In addition to scams, many charities simply aren’t very efficient in delivering your dollars to those in need.
- Several websites vet charities. I use Charity Navigator.

You don't need a charity to help

There is also something to be said for giving outside the traditional and tax-deductible places. Helping your friends and neighbors directly isn't deductible, but it has immediate benefits all around. This is something I'll be trying to do more of in the coming years, especially since I'm not currently itemizing my deductions.

Finally, while giving is a fine and pleasant thing, no one has an obligation to do so. Anyone who tells you differently is trying to sell you something—most likely the idea of giving to them and/or their pet projects.

As individuals, we only have one obligation to society: to ensure we and our children are not burdens to others. The rest is our personal choice. Make your own and make the world a far more interesting place.

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Afterword

Everything you want is on the other side of fear.

—Jack Canfield

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Chapter 33

My Path for My Kid: The First Ten Years

My daughter is now in her thirties. This is the early life financial path I suggested to her when she was a teenager, but you don't have to be a young adult to implement this plan. If you are older and looking to make a change toward wealth, think of it as a ten-year plan.

- Avoid debt. Nothing is worth paying interest to own.
- Avoid fiscally irresponsible people and certainly don't marry one.
- Spend the next decade or so working your ass off building your career and your professional reputation.
- This is not meant to suggest you must be some sort of office drone. Think of your career in the most expansive of terms. The possibilities are endless.
- Take those low-cost college living skills you've honed and use them to pursue any number of new adventures.
- Don't get trapped by an expanding lifestyle or unwind it if you already are.
- Save and invest at least 50% of your income. Put this in VTSAX (Vanguard Total Stock Market Index Fund) or one of the other options we've discussed in this book.
- Fund any 401(k)-type employer tax-advantaged plan you are offered.
- Fund your Roth IRA when your earnings and the income taxes on them are low.
- Fund your traditional IRA once your earnings and the income taxes on them begin to rise.
- Do this for the next ten years or so and you'll be well on your way to financial independence.

- Save more than 50% and you'll get there sooner. Save less and it will take a bit longer.
- If you get lucky with the market, you'll get there sooner. If not, it will take a bit longer.
- During this accumulation phase, celebrate market drops. While you are in the wealth accumulation phase, these are gifts. Each dollar you invest will buy you more shares.
- But never fall prey to thinking you (or anyone else) can anticipate or time these drops.
- Sometime in your early to mid-thirties (or ten to fifteen years after you start), two things will happen: Your career will be hitting its strongest surge, and you will be closing in on financial independence.
- Once 4% of your assets can cover your expenses, consider yourself financially independent.
- Put another way, financial independence = twenty-five times your annual expenses.
- That is, if you are living on \$60,000, you have reached financial independence with \$1,500,000 invested.
- If, like our friend Mike Tyson used to, you are living on \$400,000 a month / \$4.8 million a year, you're going to need \$120 million.
- As you can see, being financially independent is every bit as much about controlling your needs as it is about building your assets.
- Once you are financially independent, begin living on your investments.
- At the point you become financially independent, you can decide if you are still having fun and want to continue your career or try something new.
- If you keep working, invest 100% of your earnings. You are living on your investments now. This will dramatically accelerate the growth of your assets.
- Note: You don't have to implement these last three points literally. Rather, this is a way to think about your assets and income. Most likely, in executing this concept, you will want to spend from your earned income while keeping your investments intact and adding to them.

- This growth of your assets will, in turn, accelerate the growth of the spendable dollar amount 4% represents.
- As long as you are working, VTSAX can serve all your investing needs. The money you add along the way will smooth the ride.
- Once you decide you are done working, diversify into bonds. The more bonds you add, the smoother the ride but the lower the growth.

Once you've reached financial independence and are able to live on 4% of your holdings, should you so choose, now is the time:

- To begin expanding your lifestyle. Just be sure to keep your spending level at 4% of your holdings.
- To think about giving like a billionaire, as we discussed in Chapter 32.
- To have children, if you plan to. You are still plenty young enough and financially secure, and with financial independence, you can arrange your affairs in such a fashion as to give them the time they deserve.
- To consider buying a house, if you are so inclined. But don't be in a hurry. Houses are not investments; they are expensive indulgences. Buy one only when you can easily afford it and if it provides the lifestyle change you want.

You're young, smart, healthy, and tough. By your thirties, you'll have F-You Money and you should have a blast getting there. Once you've got it, it will continue to expand, as will your personal options. Your future is so bright it hurts my eyes to look at it.

That's what I have told and will continue to tell my daughter, and it has worked out very well.

So if you are also in school or a few years out and want to know what your kindly old Uncle JL suggests, there you have it. Like everything we've discussed, it is all about expanding your opportunities in life.

If you are a bit more seasoned, don't despair. It's never too late. It took me decades to figure this stuff out. Like mine, your road has likely already had more bumps than those who follow this path from the start will endure. But those bumps are in the past. It is your future that matters and that starts, for all of us, right now.

Chapter 34

Tales from the South Pacific

One day many years ago, I was having an especially bad day at work. Late in the afternoon, I called my not-yet-then-but-soon-to-be wife and said, “I’m sick of this crap. Let’s quit our jobs and run away to Tahiti.” I’m not entirely sure I knew where Tahiti was at the time.

She said, “Sounds good. I can get a deal on the airfare.”

Two weeks later, a lovely Tahitian girl was hanging a welcoming lei around my neck, and I was learning I’d need to be careful what I suggested to this woman I had proposed to marry.

Muk

Tahiti is an island in French Polynesia, a collection of islands in the South Pacific, each seemingly more stunning than the last. On one of these, we stayed for a while in a hut built over the crystal clear water.

One morning, lingering over coffee in the outdoor café on the grounds, a trim, athletic fellow came up to our table. He was barefoot and shirtless. He introduced himself as Muk, one of the hotel owners. An obvious American by his accent.

Exceedingly curious, of course, we invited him to join us. Muk is a great conversationalist and storyteller. He began by confessing he had noticed my not-yet-then-wife lounging about the day before and had almost upbraided her for slacking in her duties. She very much looks like a Tahitian.

All very amusing, but not answering my burning question.

“So,” I said, “how exactly does a guy from the US wind up owning a hotel in Tahiti?”

Turns out, Muk and two of his pals had graduated from university somewhere in Michigan in the early 1960s. From there, they moved to

California. Casting about for something to do, one of them noticed a small classified ad offering a pineapple plantation for sale in Tahiti. Dirt cheap. Remember, Tahiti had yet to become a famous tourist destination.

They bought it sight unseen and began packing their bags.

I said, “Did you know anything about pineapple growing?”

“Not a thing,” said Muk.

“Did you grow up on a farm?”

“Nope. We were all city kids.”

“But surely you worked on a farm while going to school?”

“Never even set foot on one.”

They get to Tahiti and go to work on their pineapple plantation. Within a couple of months, it becomes clear why it was dirt cheap. Turns out, you can’t actually make a living growing pineapples in Tahiti. Broke and getting broke, stranded in paradise, they began to wonder about their options. That’s when the local bank in Papeete invites them to a meeting.

Seems down the hill from the plantation on the water is a half-built hotel. The builder has bellied up and given up. Would Muk and his pals, the bank asks, be willing to finish it? Generous terms, of course.

“Wait a second,” I said. “Did you guys have any construction experience?”

“Not a bit.”

“But you’d run a hotel before then, right?”

“Nope.”

“Worked in one?”

“Never. But we had stayed in some occasionally.”

“So why in hell, and I mean this in the most pleasant possible way,” I said, “would a bank gift a half-finished hotel and construction loans to you guys?”

“Their back was against the wall, and we were Americans. Americans had a reputation for getting things done.”

Muk and his pals lived up to that reputation. Despite their lack of experience, they got the hotel finished and operating profitably. Then they went on to build and operate others, including the one where we stayed.

By the time we met, he was rich, barefoot, shirtless, and getting richer. Oh, and living in paradise to boot.

By the way, in writing this back in 2015, I got to wondering about Muk and googled him. Turns out, he'd turned 80 and was going strong. Some of his story details are different from what I recalled and have presented here, but clearly, we weren't the only ones upon whom he made an impression.

But Muk was not the only person in Tahiti we met who had managed to put life together on their own terms.

Over dinner

One evening we wandered down the beach to a little place on the sand for dinner. Out in the bay, there were several beautiful sailboats.

While we were having drinks, a dingy detached from one of the boats and made its way to shore. A couple about our age (late twenties at the time) got out, walked up the sand, and took the table next to us. We got to talking. Soon we were sharing a table and having dinner together. Unfortunately, I have forgotten their names, but I'll never forget their story.

They had sailed over from Los Angeles and were spending four months roaming the South Sea Islands. What, I asked, did they do that allowed for such a thing?

Turns out, this guy had two partners, and the three of them owned two things together: that sailboat and a business in LA. On a rotating basis, two would be in LA running the business while the third would be out playing with the boat.

Clearly, you'd need partners you trusted implicitly, but with that in place, this might be the sweetest deal I've come across. These guys, along with Muk, are great examples of living boldly.

While rare, they are not alone. Over the years, I've come across any number of people embracing life on their own terms. They are intent on breaking the shackles of debt, consumerism, and limiting mindsets and living free. They are filled with ideas and courage.

This freedom, to me, is the single most valuable thing money can buy, and it's why I offer you the strategies in this book.

Chapter 35

Some Final Thoughts on Risk

If you decide to pursue financial freedom, you are going to have to choose to spend your money on investments. Somehow in our culture, this has come to be seen by most people as deprivation. That has never made much sense to me. Personally, there is nothing I'd rather buy or own than F-You Money.

With it, the world's possibilities are endless, and you are faced with the delicious decision as to what to do with your freedom. The only limits are your imagination and your fears.

But while it might not entail deprivation, investing does mean taking on risk.

The investing approach in this book is based on the premise that the stock market always goes up. After all, the Dow Jones Industrial Average started the last century at 68 and ended at 11,497. That was through two world wars, a deflationary depression, bouts of high inflation, and countless smaller wars and fiscal disasters. If you want to be a successful investor in this current century, you need some perspective.

In the first quarter of the twenty-first century, we've seen three market crashes (2000, 2008, and 2020), a couple of bear markets, still more wars, a pandemic, and the return of inflation and rising interest rates after forty years. As of early January 2025, the Dow sits at 42,772. As we've seen earlier in this book, through all this turmoil, the S&P 500 has risen at the blistering annual pace of 12.2% over the last half century.

Some seek absolute security, but it simply doesn't exist.

Can I be sure the US economy is not about to enter a multidecade down cycle? Or something worse? Nope. Is a 4% withdrawal rate always going to be safe? Nope. About 4% of the time, it will come up short and you'll need to adjust.

What about asteroids or super volcanoes or extinction-level viruses or alien invaders or an ice age or the reversal of the magnetic poles or maybe zombies taking us out? Relax. It ain't gonna happen. At least not on our watch.

Earth's been around for some 4.5 billion years. Multicelled life has been running around for about half a billion years or so. Major Armageddon extinction events, like the asteroid that took out the dinosaurs some sixty-five million years ago, have happened about five times. So that's about one every hundred million years or so.

Are we really arrogant enough to think it's going to happen in the geological eyeblink we'll be around? That we'll be the ones to witness it? Not likely.

And if I'm wrong? If any of these life- or even civilization-ending events take place, how we are invested will matter not a single whit.

This is not to say we face no risks. If you have money, you have risk. You don't get to choose not to have risk; you only get to choose what kind. Consider:

- Stocks are considered very risky, and they are certainly volatile in the short term. But go out five to ten years and the odds strongly favor handsome returns. Go out twenty years and you are virtually guaranteed to be made wealthier by owning them. At least if the last 125 tumultuous years are any guide.
- Cash is considered very safe. But every day its spending power is eroded by inflation. Over a few years, this is no big deal, and cash is absolutely where you want to keep any money you plan to spend in the short term. But go out ten to twenty-plus years and it is a very big deal—an almost guaranteed loser.

Perhaps it is more useful to think in terms of not risk but rather volatility. Stocks have far more volatility than cash and in return provide far more wealth-building potential. Cash has little volatility, but you pay for that in the slow erosion of its spending power.

To answer “Which is best?” you must first answer “What are your needs, psychology, and goals?”

We all must play the odds and make our decisions based on the alternatives. But in doing so, we must also realize that fear and risk are often overblown and understand that letting our fear control us carries its own set of risks.

Getting past my own fears has allowed me to avoid panic and ride out financial disasters like the one that occurred in 2008. It has given me my own F-You Money. It has allowed me to indulge in my own somewhat risky passions. This book is designed to help you do the same.

Having come this far, you now have a solid understanding of how investing really works and how to realistically build your wealth. You also now understand that the road can be rocky and that plunges in the market are normal. Armed with this knowledge, such events begin to lose their power to create fear in you, allowing you to avoid panic and stay focused on your goal of building wealth and achieving financial freedom.

The Path is before you. You need only take the first step and begin. Enjoy your journey!

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Tool Kit

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The Punch List

Spend less than you earn

1. Save a portion—I used 50%—of every dollar you earn or that otherwise comes your way. The beauty of a high savings rate is twofold: You learn to live on less even as you have more to invest.
2. You own the things you own, but they in turn own you.
3. Money can buy many things, but nothing more valuable than your freedom.
4. If your lifestyle matches—or God forbid exceeds—your income, you are no more than a gilded slave.
5. Avoid fiscally irresponsible people. Never marry one or otherwise give them access to your money.
6. Life choices are not always about the money, but you should always be clear about the financial impact of the choices you make.

Invest the surplus

7. Invest what you've saved. The greater the percentage of your income you invest, the sooner you'll have F-You Money.
8. The stock market is a powerful wealth-building tool in which you should be investing.
9. Understand that the market and the value of your shares will sometimes drop dramatically. Nobody can predict when market drops will happen, even though the media is filled with those who claim they can.
10. Ignore the drops and buy more shares. This will be much, much harder than you think. People all around you will panic. The news media will be screaming, "Sell, sell, sell!"

11. Avoid investment advisors. Too many have only their own interests at heart.
12. By the time you know enough to pick a good advisor, you know enough to handle your finances yourself. It's your money, and no one will care for it better than you.
13. When you can live on 4% of your investments per year, you are financially independent.

Avoid debt

14. Carrying debt is as appealing as being covered with leeches and has much the same effect. Take out your sharpest knife and start scraping the little bloodsuckers off.

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FAQ

What are the basic rules for the Simple Path to Wealth?

- Spend less than you earn
- Invest the surplus
- Avoid debt

You first laid out this path a decade ago. Is it still valid?

This is a question that always baffles me a bit. If you read this book, you should see that the path I'm suggesting is one you will follow for decades—in the case of my daughter, for example, who started young, for seventy or eighty years, then, hopefully, by her heirs. So yes, it is still valid, and it is designed to remain valid for decades to come.

Could something happen that might render it invalid?

Sure. This Path requires a capitalist economic system. These days, *capitalism* has become a loaded term, but what the word actually means is an economic system that allows individuals to own property and build wealth.

Within this capitalist system, we also need a free market of publicly traded stocks and broad-based, low-cost index funds with which to build our wealth. Without capitalism and these tools, there would be no Simple Path.

What about bonds? They have had a terrible decade. I'm gonna dump 'em!

No question, bonds have had a tough go. As of right now in early 2025, Vanguard reports VBTLX has returned a paltry 1.2% annual average over the past ten years. The most recent five years have been even worse: -0.32%. 2022 had the biggest drop in

history for bonds, and VBTLX took a -13.16% hit in that year alone. But look at my answer to the question above. The Simple Path is for decades, and with it, you are still going to want to hold bonds.

We don't expect bonds to perform well all the time. While not as volatile as stocks, recent years have shown they too have their volatile moments. Still, even with this dismal decade, over the last forty years, bonds have averaged 6.4%, 1.5 times the 4.1% cash delivered.

Suppose we climb into our time machine and travel to March 2009. Stocks have just bottomed out (although no one knew this at the time and most expected further declines) in one of the worst market crashes of all time. It capped off a decade that started with the tech crash of 2000. A decade that returned a dismal -2.72% average per year. A lost decade not unlike that of bonds today. Suppose you looked at that and said, "I've hung on to these terrible stocks for ten years and have gotten nothing but pain. I'm done." And you cashed out.

The 2009 bottom in the S&P 500 was 676.53. At the end of January 2025, as I write, it stands at 6,041. You would have missed one of the greatest bull markets of all time.

Can I use another investment company besides Vanguard?

Yes. See Chapter 17.

Fidelity actually has a total stock market index fund with 0% ER. If I find a similar fund with an even lower ER than VTSAX and Vanguard, can I buy that instead?

Sure, but here's why I don't.

As important as low costs are, there is a point of diminishing returns. The 0.04% of VTSAX against a typical actively managed fund with 0.75% is significant. But 0.04% versus 0.02% or even 0.0%? Not so much.

Low cost is hardwired into Vanguard as a core value. I like that. Other investment firms have come to it by this competitive

pressure, and they came kicking and screaming.

Underpricing Vanguard is a loss-leader strategy designed to get you in the door and hopefully to upsell you into their more expensive offerings.

Offering a fund at a 0.0% ER doesn't mean that fund has no costs of operation. It simply means the holders of that fund aren't paying it. The holders of their other funds with higher ERs are. I have an ethical issue with that.

That said, a total stock market index fund from any other firm is much the same as VTSAX from Vanguard.

See Chapter 18.

Do you still prefer traditional index funds (VTSAX) to their ETF equivalents (VTI)? As expense ratios continue to drop on ETFs, I must admit I've been tempted to make the switch.

Traditionally, I have tended to avoid ETFs because of the possibility of bid/ask spreads and/or sales commissions. But these days, such spreads typically range from ~0.004% to 0.11% of the trade value, which is fairly modest, and they can frequently be bought commission-free.

Their expense ratios can also be lower than the equivalent mutual fund. For instance, VTSAX has an ER of 0.04%. VTI, its ETF version, has an ER of 0.03%.

While I probably won't bother, I can see the appeal of starting with or switching to ETFs, and I certainly wouldn't argue against it.

If you do decide to convert from VTSAX to VTI in your taxable account, and you have capital gains built up in the fund, be sure to have Vanguard help you. They can ensure making the switch is not a taxable event.

What do I do when the stock market crashes?

Ignore panic and noise, and stay the course. If you panic and sell, this Path will leave you bleeding by the side of the road. Periodic

market drops are a perfectly natural part of the process. Enduring them is the price we must pay to reap the rich returns over time.

See Chapter 5.

Why not hoard cash until the market crashes and then buy?

How will you know when the market is done crashing? Down 20%? 30%? 50%? Wait for 90% in the next depression that might never come?

What if you decide to buy when it's down 40% and it hits -39% and heads back up? Or continues down to 60%.

What if it goes up another 50% from here and then drops but only 30%?

Meanwhile your hoarded cash is steadily losing value to inflation.

What do you think of cryptocurrencies?

For the most part so far, cryptocurrencies have been too volatile to serve as actual currency. They are a speculation. That is to say, one buys with the expectation (hope) that someone else will pay more for it in the future—just like gold, artwork, rare coins, classic cars, antiques, and the like.

Sometimes speculations work out very well, like Bitcoin has as of the time of this writing. Like everyone, I wish I'd sold everything else and bought it when it was first issued in 2009. But that could be said of lots of speculative investments at various times. But often these speculations *don't* work out. That's what makes them speculations.

I'm not a speculator. I'm an investor.

What is the difference between a speculator and an investor?

An investor buys assets that have operations that can generate cash and growth—stock in a company or rental real estate, for example. Such things grow in value because of the underlying activities that earn money.

If I only buy through the index, won't I miss out on individual opportunities like meme stocks? My buddy is making a killing, and I feel like I'm missing out.

Yep, you'll be missing out on those.

Meme stocks are by definition speculations. As discussed above, those sometimes work out very well. But more often, they leave you bleeding by the side of the road. You'll also be missing out on this heartbreak.

Good luck to your buddy. The vast majority of those who play this game and win keep playing (it's addictive) and give it all back and then some over time.

Consistently picking winning stocks is breathtakingly difficult. Timing the market even more so. The person who could reliably do that would be far richer than Warren Buffett and twice as lionized.

See Chapter 25.

There are fewer publicly traded stocks on the market than there used to be, and so an index fund such as VTSAX holds fewer companies than it used to. Does this matter?

No, VTSAX still holds plenty of stocks: 3,627 at last count.

Owning VTSAX, you own a piece of virtually every publicly traded company in the United States of America, and everyone from the factory floor to the CEO is working to make you richer.

It seems like ERs have actually gone down further since you started writing about them. Why the good news?

They have, and this is great news. We owe it all to Jack Bogle and the way he built Vanguard to deliver low costs to us investors. This created competitive pressure that has driven other investment firms to lower their costs as well.

The "Magnificent Seven" stocks now account for approximately 33% of the S&P 500. Is this concentration

concerning? Does it make a fund like VTSAX essentially a tech fund? Does it make indexing invalid?

No, no, and no. What you are seeing is a feature, not a bug. The beauty of an index fund like VTSAX is that it is “self-cleansing.” This is a term I coined to describe the process by which the most successful companies become a larger percentage of the portfolio while the less successful fade away. The portfolio is “cap weighted,” which simply means the larger the company, the larger its presence in the fund.

Technology in general and these seven stocks in particular here in 2025 have done extraordinarily well in recent years. Owners of VTSAX have benefited very nicely indeed from this success. But I can remember when energy stocks were the top-performing sector, and financial stocks, and industrial stocks, and consumer discretionary stocks. Entire sectors rise and fall over time. As owners of the fund, we don’t have to care. Whatever rises we will own, and we’ll own more of it the more it rises.

Some people say tech will now always be at the top. Maybe. Maybe not. I don’t know. I don’t care. I don’t have to.

When you first wrote *SPW*, it was a low interest rate / low inflation environment, and now both are higher. How do these changes in the macroeconomic environment impact the *SPW* approach?

They don’t.

Over the decades, many things have changed in the macroeconomic environment. Going forward, they will continue to change. At times, this will cause the market to soar or drop. This is an expected, normal part of the process. Staying the course through this volatility is the price we must pay to reap the long-term benefits. Understanding this is the fabric of my advice and the approach laid out in this book.

What if my company doesn’t offer Vanguard in their 401(k) offerings?

Look for low-cost, broad-based index funds from whatever investment firm is available. You can find these most easily by looking at the list in the column showing their ERs. Track down and find the lowest cost funds. Those will be the index funds you seek.

See Chapter 17.

Should I max out my 401(k)?

Ideally, and certainly at least enough to capture any employer match.

See Chapter 19.

Can I contribute to both a Roth IRA and an IRA?

Yes, but the total contributed to both must fall within the IRA contribution caps (those change each year, so make sure to look up the amount).

See Chapter 19.

How have your views changed throughout the years regarding the necessity of adding an international index fund in a portfolio?

I have never felt the need to own an international stock fund, and I still don't. That said, I have no strong objection to doing so. If you feel the need, you have my blessing. But first, make sure you understand what you own in VTSAX and the additional risks and costs associated with international investing.

The US is the only country with an economy dominant enough to allow for this single-country approach. If I lived elsewhere in the world, I would own a world fund. Perhaps, as the rest of the world continues to grow and prosper, the US will become less dominant. At that point, I might also look to a world fund. However, I don't see this happening in the near future.

See Chapter 15.

What will happen if the US dollar is no longer the reserve currency of the world?

It would diminish the country's economic dominance and make our growing national debt a bigger problem. This would mark a step toward my moving to a world fund. The US could still prosper, so I'd still want it in my portfolio (via that world fund), but I might not want to own it exclusively at that point.

But I don't see this happening anytime soon. There simply is no viable alternative.

What questions would you recommend asking in order to find the right financial advisor for me and my family?

Primarily, I'd want to know how they get paid, how this affects my returns over time, and how this might create conflicts between their best interest and mine. I would also have very specific questions in mind regarding the areas in which I want guidance. Finding an advisor who genuinely puts their clients' interests above their own and who is well versed enough to give sound advice is very difficult. By the time you know enough to vet such people, you might well know enough to not need them.

See Chapter 23.

What are your thoughts on owning property and real estate?

Back when I was young, I fooled around with investment real estate. Some of it worked out very well, and some of it led to my second book: *How I Lost Money in Real Estate Before It Was Fashionable: A Cautionary Tale*. If you choose to read it, you can have some laughs at my expense.

While it can be very profitable, in the end, it was way too much like work for me.

If you invest in real estate, you are taking on a part-time, maybe even full-time, job. This applies even if you plan to hire property managers. You are going to have to find, vet, and manage them. This is fine if it is how you want to spend your time.

If you are comparing real estate investment to the approach in this book, you need to factor in this extra time you will be spending: Simple Path versus real estate and your time. Perhaps, like me, you'd rather spend your time growing your career, developing a side hustle, or just hanging out on the beach.

I make \$XX,XXX a year; where *exactly* should I be putting my money?

That's *exactly* the subject of this book. In short:

- Pay off any debt.
- If you have an employer that offers one, max out your 401(k).
- If you have the opportunity, fund an HSA.
- Fund your IRAs (Roth or traditional, depending on your income, or both).
- Invest any surplus in a taxable account.

This investing stuff feels like a young person's game; I wish I had started years ago. Am I too old now?

This approach takes time, so starting young is definitely an advantage. But here's another, better way to think about it: No matter when you start, if you follow the principles in this book, the journey to financial independence will take about ten to fifteen years, depending largely on your savings rate. So you can be older and still have plenty of runway to work with.

Remember, too, this is a journey, not just a destination. With each dollar you save and invest, you are that much more fiscally strong. Remember the quote from Leo Burnett all the way back at the beginning of this book: "If you reach for a star, you might not get one. But you won't come up with a handful of mud either."

How do I know when I've achieved financial independence?

The math is simple, a balance between the level of your Assets and the level of your Spending: $A \times 4\% = S$. For example, if you

have \$1,000,000 in assets $\times$ 4%, you can spend \$40,000 a year.

You can also approach it from your spending: $S \times 25 = A$. If you spend \$60,000 a year $\times$ 25, you need \$1,500,000 invested.

Of course, the numbers are only part of the conversation. I've met with people who, based on the 4% withdrawal rates, have assets capable of supporting five times the amount they spend each year. They could easily walk away from their earned income and never work again. But they love their jobs and wake up every day and, as Warren Buffett says he does, tap dance their way to work. Reaching financial independence doesn't mean you have to quit a job you love.

But suppose you have a soul-crushing job, need \$50,000 a year, but only have \$1,000,000 invested. My advice? Quit today. \$1,000,000 can support \$50,000 a year at a 5% withdrawal rate. If we look at the Trinity Study in Chapter 29, we see that using a 75/25 stock/bond allocation and withdrawing 5% each year has an 82% success rate over thirty years, even with adjusting for inflation each year. In a soul-crushing job, I'll take those odds.

I'd also ask, if you want to keep your withdrawal at 4%, do you think you could figure out a way over the course of a year to make an extra \$10,000? My guess, if you are reading this book, is yes.

Should I buy a liability insurance policy to protect the wealth I've built?

We do. We max out the liability coverage offered on our home and auto insurance. We also carry an umbrella policy that extends this coverage even further.

Some claim this is unnecessary, and they may be right. I once had an insurance agent tell me he had never seen an umbrella policy used. Still, they are cheap (which is probably an indicator of how rarely they're called upon), and I sleep better at night.

Is your method of earning wealth unrealistic for younger people, seeing as how the world is dramatically different from the USA of the later 1900s?

If anything, the twenty-first century is proving to be the best time in history to build wealth. Never have the tools been better and cheaper and the opportunities greater.

How should my stock/bond allocation change as I get closer to retirement?

See Chapter 14.

In the early chapters of your book, you discuss how buying a car can significantly reduce your potential returns compared to investing. For many people, owning a car is essential for both personal and professional reasons. What advice do you have for managing these substantial purchases responsibly?

That illustration was not meant to suggest you shouldn't own a car; rather, you should understand just how much it really costs. More generally, not all decisions are financial decisions, but you should always understand the financial ramifications. This applies even more so to houses, as they are so much more expensive.

When you are building your wealth, you want to buy the *least* car or house that meets your needs. Once you are wealthy, you can buy whatever you want.

My teen wants to start saving. Where would be the best place to start?

First, congratulations on raising a teen who sees value in saving! Such an early start will have a huge payoff.

Start by discussing their goals for the money. If they are saving to buy a car, for instance, that money should go into a savings account. When my daughter was young, we took her to the local bank branch, introduced her to a banker (who loved this!), and had her explain the various accounts.

If your teen is investing to begin building wealth, VTI is Vanguard Total Stock Market Index Fund ETF. This is the same portfolio as VTSAX. It is trading at the moment, January 2025, around \$299 per share, but at Vanguard, you can start by buying a

fraction of a share for as little as \$1, a far more attainable entry point than the \$3,000 minimum required for VTSAX.

If your teen has earned income of their own, they can open a Roth, which is a great idea. They can contribute up to 100% of what they earn or to the max the law allows, whichever is less.

Interestingly, they don't have to use their own money. You could fund it for them. This is what we did for our daughter, and she still has that Roth growing tax-free to this day.

Should a 22-year-old get a credit card to “build credit”? My daughter insists that it is what all of her friends are doing. I say stay away from credit cards for as long as you can.

I'm with you, and we are probably both wrong.

Credit cards are like chain saws: incredibly powerful and incredibly dangerous tools. In our modern world, learning how to use this tool safely and effectively is very useful. Building credit is part of it, but so is learning how to responsibly spend money. It is best she learns at her young age with you to guide her.

See Chapter 1.

How do I stay motivated to stay on the Simple Path?

This is a tough one for me. Motivation was never an issue. From the very beginning, I knew there was nothing I wanted more than my freedom and that buying financial assets was the way to get there. It never felt like deprivation. I was simply choosing to spend my money on what I wanted most.

The truth is, this path is not for everyone. Most people are likely going to say, “Being financially independent is great, but I'm still going to buy the fancy car I deserve and the biggest house the bank is willing to finance.”

I call this the tyranny of must-haves. *I must have* this car, this house, this private school, this wardrobe, this vacation, this . . . well, the list is endless. The more must-haves in your life, the less likely you are to reach financial independence.

Indeed, unless financial independence is your number-one must-have, this path will be longer, more difficult, and maybe not for you.

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Resources

Unless noted, the online addresses are exactly what you'd expect them to be.

Academic studies

The Trinity Study of portfolio withdrawal rates.

Published as “Portfolio Success Rates: Where to Draw the Line” by Philip L. Cooley, PhD; Carl M. Hubbard, PhD; and Daniel T. Walz, PhD in the April 2011 issue of the *Journal of Financial Planning* and available on their site:

<https://www.financialplanningassociation.org/article/journal/APR11-portfolio-success-rates-where-draw-line>.

Studies documenting the performance of mutual funds relative to stock indexes.

“2023 Fund Landscape Report” by Dimensional Fund Advisors:

https://www.allodium.com/images/pdf/2023_DFA-Fund-Landscape-Report.pdf?

“Trading Is Hazardous to Your Wealth” by Brad Barber, PhD, and Terrance Odean, PhD, published in the April 2000 edition of *The Journal of Finance*:

https://faculty.haas.berkeley.edu/odean/papers%20current%20versions/individual_investor_performance_final.pdf.

Blogs

Early Retirement Extreme

Go Curry Cracker

Mad Scientist

Mr. Money Mustache

JLCollinsNH, where you'll find an archive of my *Stock Series*, other posts, and more case studies

Calculators

Calculator A, Don't Quit Your Day Job's "S&P 500 Return Calculator, with Dividend Reinvestment," <https://dqydj.net/sp-500-return-calculator/>.

Calculator B, Don't Quit Your Day Job's "S&P 500 Periodic Reinvestment Calculator (with Dividends)," <https://dqydj.net/sp-500-dividend-reinvestment-and-periodic-investment-calculator/>.

1. Select "Click to Show Advance."
2. Select "Ignore Taxes" and "Ignore Fees."
3. Set "Capital Gains Tax Rate" to "0."

Calculator C, a basic investment calculator:

<https://www.calculator.net/investment-calculator.html>.

Other

Game to test whether you can beat the market:

<https://qz.com/487013/this-game-will-show-you-just-how-foolish-it-is-to-sell-stocks-right-now>.

See where you are with Social Security: <https://ssa.gov/myaccount>.

Required minimum distribution calculator:

<https://www.calculator.net/rmd-calculator.html>.

Assess a charity: <https://www.charitynavigator.org>.

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Acknowledgments

I am an avid reader. As such, I have read the acknowledgment pages in many books. I've always scoffed. Sure, I'd think to myself, some people might have done a bit to smooth the rough edges, but the real heavy lifting was done by the author, who now is just being nice.

Then I wrote this book.

The original edition of *The Simple Path to Wealth* would never have existed were it not for my editor, Tim Lawrence, and that is no idle or simply kind assertion. His guidance certainly made the finished product far better. But his relentless encouragement, persistence, and faith in the value of and need for the book are what finally dragged me across the finish line.

He even relentlessly forced me to pare down my use of the word *relentless*, of which I am overly fond. But as he is not editing this acknowledgment page, I get to slip it in again thrice more.

For this revised edition, Madeline McIntosh at Authors Equity has taken on the editor mantle, and her work on it has been masterful. Of course, she also lured me into this process saying it would only take “a few updates.” This vague promise morphed into a relentless (number 4!) grind from before Christmas 'til Valentine's Day.

We also lured my daughter Jessica into the project. Her input and suggestions have been spot on. In addition to making this a better book, her contributions showed me how deeply she has embraced my work and how thoroughly she has come to understand it. It is hard to describe how wonderful knowing this is and how gratifying working with her has been.

Hard as it was, we all kept our good humor, had some laughs, and felt the relief of handing the finished revision over to the rest of the Authors Equity team. They picked it up, did their own masterful jobs, and now, along with AE's founding author James Clear, have delivered *The Simple Path to Wealth* to an even larger and expanding readership.

Since the moment I first shared this book as a work in progress, its cover has received rave reviews—so much so that we kept it unchanged in spirit

for this updated edition. When I say designer Carol Chu did a brilliant job, both then and now, I do so without fear of contradiction.

I've always loved the illustration on this book's cover, and it has carried over to this new edition. I've been friends with its creator Trisha Ray dating back to my bicycle trip through Ireland in 1976, when she and her then-fiancé kidnapped me, hauled me up to Galway for a music festival, and then abandoned me on the side of the road to find my own way back. How could we not wind up friends?

Despite all the text additions and massaging done for this new edition, Mary Jaracz's original clean and appealing design adapted to our changes with ease.

As the concepts, opinions, and approaches presented in this book often run counter to the norm, it was especially important to me to get the facts right. So I used three fact-checkers. This included two of the very smartest writers on financial independence out there today: the Mad Fientist, a blogger who is still trying to preserve some of his privacy, and Jeremy Jacobson of the *Go Curry Cracker* blog. The third was Matt Becker, a fee-only financial planner. As you'll read in the book, I'm a fairly harsh critic of the profession and many in it. But Matt is one of the good guys, and his insights and perspective broadened my own. This book is better for it.

As the book came together, I wanted to make sure it "worked" for my target audience. What I needed were people who were smart, who loved reading, and who knew little about personal finance but who were interested enough to read a book on the subject. I also wanted people who didn't know me personally so as to eliminate any bias. My contacts connected me with three: Tom Mullen, Kate Schoedinger, and Brynne Conroy. These three kept me on track, in particular pressing to make sure the concepts were clear for nonfinancial types.

Pete Adeney, a.k.a. Mr. Money Mustache, graciously agreed to write the foreword. Pete is a major force in the world of financial independence and has been a longtime supporter of my blog and investing approach. That was reason enough to ask him; the fact that he readily agreed, and then proceeded to turn out the generous piece that begins this book, is humbling. I owe you, my friend.

This new edition would not exist but for the insights, patience, and wise advice of my ace literary agent Mollie Glick. I had some fairly set ideas

about how this project should unfold, and she built on those for an even better result. We should all have a Mollie at our side.

Writing and then updating this book was a long and sometimes stressful process. The emotional roller coaster had me at times depressed, at times foaming-at-the-mouth raving, and at times giddy with delight. My wife, Jane, endured it all without stabbing me in my sleep. That there is not an award for this is one of the great shortcomings of our civilization.

So here we are. A brand-new edition of *The Simple Path to Wealth*, of which we are all immensely proud. With the help from this incredible team, this book is as good as I am able to make it. Any shortcomings, flaws, or inaccuracies are entirely mine and very likely result from those few moments when I failed to follow their wise counsel.

Thank you for reading it.

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About the Author

An investor in the stock market for five decades, JL Collins has developed a worldwide following through his popular blog (jllcollinsnh.com) and through *The Simple Path to Wealth*, which has sold over a million copies across twenty languages. The blog and the book originated out of letters he wrote to his daughter Jessica.

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