The Steps To Financial Independence

CICCARELLI
ADVISORY SERVICES, INC.

Family Focused Wealth Management

The Steps to Financial Independence

Make a serious commitment

Money is not important to a happy and successful life as long as you have it. Financial independence is when income from investments provides the cash flow to satisfy your economic needs and continues to grow capital to overcome future inflation. If you follow the guidelines outlined in the **"The Steps to Financial Independence"** you should be able to develop considerable assets in ten to twenty years. *The management of assets is a serious responsibility and needs a firm commitment.*

The Steps to Financial Independence

Make Yourself Valuable

This takes several key ingredients. A formal education is an asset. However, without on-the-job experience and a desire to continue to acquire knowledge, this asset is often wasted. Intellect without knowledge is a handicap to making good decisions. Develop an alertness to every experience in your daily routine and become a passionate reader. Travel experiences are a necessity. Never, ever think that you know it all! A successful analyst once said, when he was researching a company, one of his greatest sources of information was the local barber. Keep an open mind to all information and learn to do your homework before you make important decisions.

Always Spend Less Than You Earn

Unfortunately credit cards and other easy credit cause most people to overspend. Know how much you earn after taxes and then put five to ten percent away to invest. If you receive a windfall or gift, put fifty percent away to invest. The earlier in life you develop these habits, the more years you have for your investment income to compound. One day, the income or cash flow from investments will overtake your earned income and you will be financially independent.

Invest

Start with a money market account that pays a favorable short term interest rate, and then regularly transfer funds into an investment that is suitable to your goals. A good long term plan would include other investments after you have built up a basic foundation of assets. Opportunities abound when you are capable of writing the check. Stay away from get rich quick schemes. Remember the race between the turtle and the rabbit. Do not look for unrealistic returns.

Know and Understand the Tax System

Earned income is taxed at much higher rates than investment income. First of all, Social Security and Medicare deductions come out of the first dollar of earned income and they are substantial. Earned income is taxed when earned, investment assets "paper profits" are not taxed until sold. Assets held over twelve months receive favorable tax status. These are called long term capital gains. Cash flow from qualified dividends also receives favorable tax status. Many available investments defer taxes for many years, allowing for the build-up of a considerable nest egg. If you own your home for at least two of the past five years, and are married filing jointly, you may qualify for tax forgiveness for federal tax purposes on up to a $500,000 profit. Your adviser can give you the details.

Listen carefully to the tax changes that affect your cash flow and assets. Make sure your financial adviser is tax knowledgeable.

Understand the Effects of Interest Rates, Inflation and Currency Exchange Rates On Your Investments

These can always be your friends or your enemies, depending on how or where you invest. A two percent increase on a four percent investment is a fifty percent increase in earnings. Be aware that any cash flow should be put to work.

Listen to the global economy and keep an eye on whether the U.S. dollar is rising or falling relative to other country currencies. There are indexes published daily that measure this.

Regarding inflation, your calculation of costs should be monitored relative to your personal financials. Use the government calculations only as additional information. Learn to prioritize which of your expenses are subject to major increases and plan accordingly – long term!

Do Not Become Emotionally Attached to Any Investment

Losses are a part of investment procedure and as long as your gains exceed your losses by a decent margin, they are not a problem. Risk involves knowing how to take a loss and when. Many financial advisers say that the greatest losses are to those that do nothing. The more you do your homework, the more knowledgeable you become and the less of an impact losses will be. Expect to take some losses, and use them wisely in your tax planning. Investors should be aware that there are risks inherent in all investments, such as fluctuations in investment principal. With any investment vehicle, past performance is not a guarantee of future results. Investment strategies, including asset allocation, do not assure a profit and cannot protect against losses in a declining market.

Have Patience and Keep an Open Mind

Short term “get rich schemes” seldom work. Ownership of assets is subject to emotions that have a short-term impact on supply and demand factors. These are impossible to anticipate and can play havoc with your investment attitude. If you make long term decisions based on facts and invest regularly, you have the potential advantage of dollar cost averaging. Have your adviser explain how this may work for you. Avoid investments that promise unrealistic returns.

Own

Generally, ownership of assets keeps up with inflation. Developing your net worth takes time. If your net worth increases, it becomes easier to take advantage of economic opportunities and to spread your ownership to various other asset classes. Once a year, create a balance sheet showing your assets and liabilities to measure your performance.

Develop Staying Power

Always build a base of liquid assets that can cover short term emergencies so that you are not forced to sell long term holdings at current market.

Listen to Everyone and Make Your Own Decisions

Following the crowds and investing in last year's winners are not a good reason to act. Do your homework. Become knowledgeable regarding the philosophies and basics of investment management and think long term. Develop a relationship with a qualified financial adviser who is up to date on the financial markets and taxes, and who is willing to spend time with you.

Reinvest Your Earnings; Understand the Time Value of Money

Ask your adviser to explain the rule of 72* used in calculating compounded rates of return over time. Use money market and interest paying bank or credit union accounts to give you a return on cash flow. Many retirement accounts are funded by this extra return. Stay away from high interest credit cards. The more time you have to reach your financial goals, the easier it is to achieve success.

Retirement

The word retire should be changed to "having flexibility of time," and the myth that you retire at age 65 should go by the way of the dinosaur. When cash flow from your investments more than covers your economic needs, you have total power over critical lifetime decisions. You can decide what to do with your life!

However, having assets is a responsibility, and setting up your estate will take some help from your financial adviser and a qualified estate attorney.

A complete and detailed inventory of assets and liabilities is critical to determine what cash flow is necessary for your annual expenses and what legal steps you should take to avoid estate taxes and help reduce income tax liabilities.

Your financial adviser will help you document the information necessary for the estate attorney to draft such things as health powers, durable power of attorney, wills and trusts (revocable and irrevocable).

The best quality of life starts at 50 and health becomes a priority to a continued quality of life. Annual physicals are a must. Good diet habits and physical activity should be a requirement.

Simplify your life and enjoy following your life-long dreams. By the way, anybody who tells you that you need less income when you retire has not yet experienced retirement.

*The rule of 72 does not guarantee investment results or function as a predictor of how your investment will perform. It is simply an approximation of the impact a targeted rate of return would have. Investments are subject to fluctuating returns and there can never be a guarantee that any investment will double in value.

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