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Bad Habits

The path to financial independence is fairly straight forward for some but terribly difficult for others. However, on closer inspection, those who find it difficult are often nothing but the product of bad financial habits. Thomas C. Corley, a certified public accountant and certified financial planner, spent five years studying millionaires and gathered his insights in multiple books, including "Change Your Habits, Change Your Life." According to Corley, there are seven bad habits that ***won't*** *lead to wealth.*

Habits are daily, often unconscious, behaviours that either contribute to or inhibit our success.

Corley interviewed 233 people with at least $160,000 (roughly R2.4 million) in annual gross income and $3.2 million (roughly R48.5 million) in net assets, 177 of whom were self-made. He also interviewed 128 Americans with $35,000 (roughly R530,000) or less in annual gross income and $5,000 (roughly R75,000) or less in liquid assets.

Through these conversations and further analysis, he was able to identify two types of habits: those that helped people build wealth ("rich habits"), and those that worked against them. The latter habits have the power to cause financial, emotional, and mental destruction in a person's life, he says. To achieve success, one must identify these habits and replace them.

"Adopting one rich habit has the effect of eliminating many poor habits. That's why the rich habits are so powerful. Each one you adopt is like a double or triple in baseball," he writes.

Below are seven habits that won't lead to wealth, according to Corley.

1. Overspending

You simply can't get rich spending more money than you make, whether it's buying a car or house you can barely afford or racking up a credit-card bill.

"Ninety-five percent of the poor in my study did not save and most accumulated debt to subsidize their standard of living," Corley wrote. True wealth comes from saving and investing a portion of what you earn, no matter the size of your salary.

2. Reading only for entertainment, or not at all

Reading with intention is a top habit of millionaires.

In Corley's study, 92% of people with minimal assets did not read to learn. "Success requires growth. That growth comes from reading and educating yourself on a daily basis," he writes.

3. Toxic relationships

It's hard to sever ties with people who may be holding you back. But if you're serious about setting yourself up for a rich future, it has to be done, Corley says.

He found that only 4% of the low-income people he studied associated with "success-minded" people.

"You are only going to succeed in life if you surround yourself with the right type of people," he writes. That is to say, people who are encouraging, positive, curious, and helpful.

4. A single stream of income

Many of us rely on one job to make money, but that's not how future millionaires operate.

Sixty-five percent of the rich people in Corley's study had at least three different streams of income set up prior to making their first $1 million. This not only supercharges earning potential, it acts as a safety net against job loss.

"Poor people have one income stream. Their eggs are all in one basket," Corley writes.

5. Engaging in negative self talk

"I'm not smart or educated enough." "It's not my fault." "Life is a struggle."

These are examples of negative self-talk, Corley writes. These internal conversations fill us with doubt and act as a directive for our actions.

"When you allow negativity to rule your thoughts, you are programming your brain for failure," he writes. "You'll have no chance in life at breaking out of your current financial or life circumstances. These negative thoughts will become beliefs that act like computer programs."

6. Having no plan

You don't need resources beyond your own imagination and determination to make a plan for the future. The plan - what you want to accomplish and where you want to be in 10, 15, or 20 years - is the first step to achieving any type of success, especially financial success.

"Ninety-five percent of the poor in my study had no life plan," Corley writes. "Without a blueprint, without long-term goals, we are like leaves on a fall day, floating in the air aimlessly."

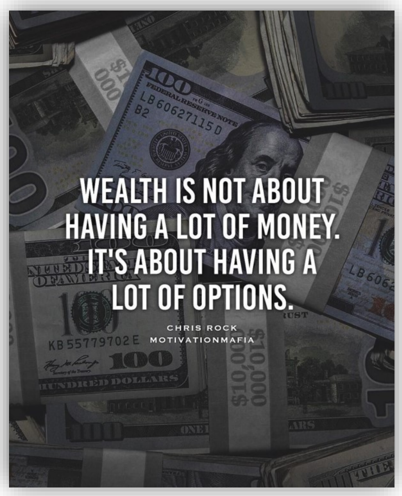
7. An unhealthy lifestyle

Unhealthy lifestyle habits - like excessive drinking, unhealthy eating, and minimal exercise - don't lead to wealth, according to Corley.

"Poor health habits create detrimental luck," he writes. "This is a type of luck that is a byproduct of poor habits, poor behavior, and bad decision making."

Choose a substitute for your bad habit.

You need to have a plan ahead of time for how you will respond when you face the stress or boredom that prompts your bad habit. What are you going to do when you get the urge to smoke? (Example: breathing exercises instead.) What are you going to do when Facebook is calling to you to procrastinate? (Example: write one sentence for work.) Whatever it is and whatever you're dealing with, you need to have a plan for what you will do instead of your bad habit.



While money has its perks, perhaps the greatest things that can be afforded by it are time and freedom. Chris Rock, one of the great comedians of our time, did not initially grow up with a lot of options: coming from the working class. He dropped out of school, and worked a chain of menial jobs at fast food restaurants before getting handed his big break. Taking the options best suited for him and working hard to foster his talent and career, he slowly rose up the ranks and caught more opportunities – but it wasn't until the mid '90s that he became the nationally acclaimed comedian that he is today. If all he wanted was money, it's unclear if he would have achieved such high status. However, the opportunity to chase dream roles, expand the genre and to do the work that makes one happy – now that is true wealth.

Some like it hot

The dream of financial independence is one that many have but few seem to achieve. However, there is a growing interest in a movement, advocated by Peter Adeney, called FIRE (Financial Independence, Retire Early) in which its followers adhere to certain habits, behaviours and methodology advised by Adeney...and it works! You can do it too.

"Mr Money Mustache, may seem like a mystical and impossible role model, but his only superpower is his ability not to buy things," said Peter Adeney.

The name Peter Adeney might not necessarily spark a flicker of recognition, but his blog persona, Mr Money Mustache, is renowned, even beyond the US, where this Canadian now lives. When Adeney was interviewed on the Tim Ferriss Show podcast early in 2017, his website had reached 23 million different people since its inception in 2011.

Why are so many hanging on his every word? Adeney certainly does write engagingly about money and happiness, but the initial draw for many readers is the compelling fact that he retired at the age of 30, in 2005.

On the blog, he shares the formula, which has been summarised as follows: live frugally + save a substantial proportion of your income + invest your savings wisely = financial independence long before standard retirement age.

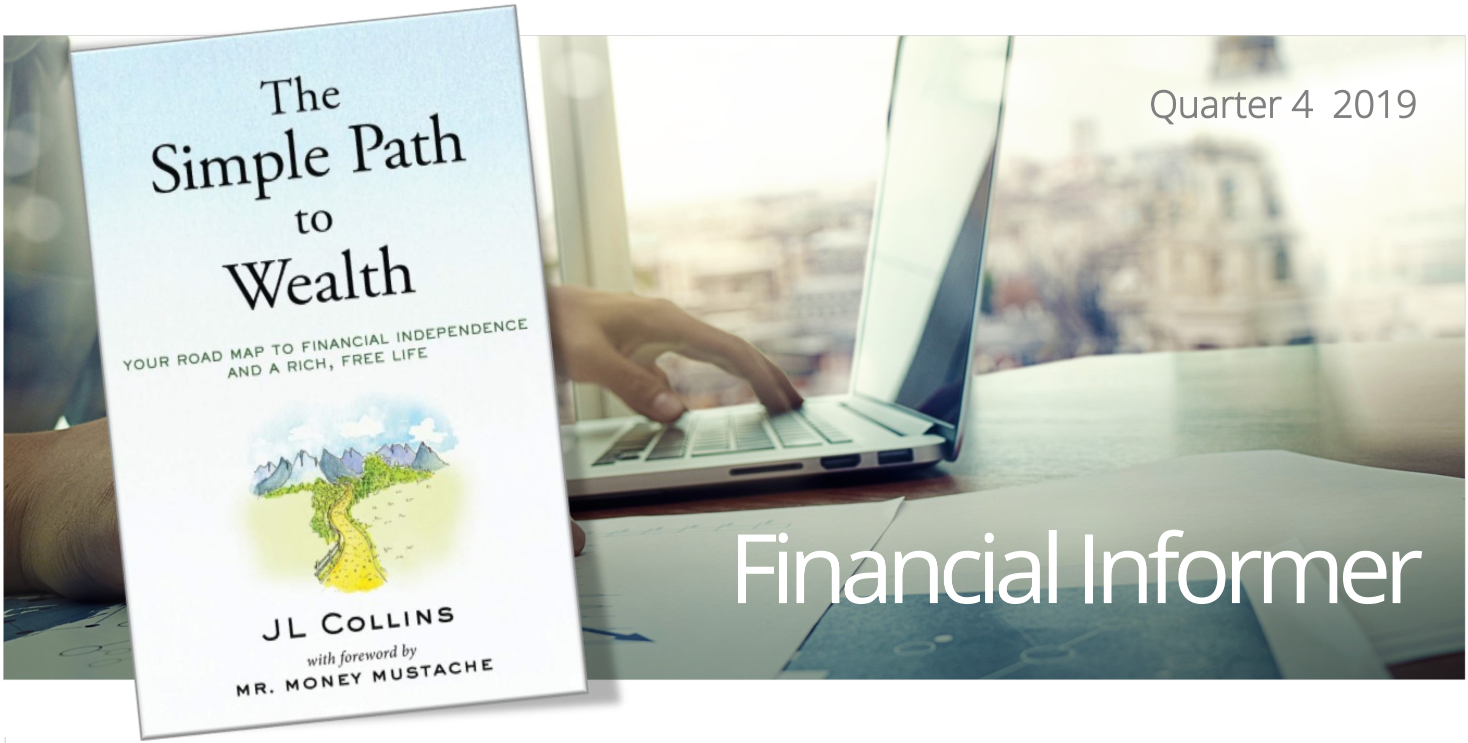
"Ah, but, but, but..." you say, "I really love working! I don't want to retire early." Or, the far more likely response, "I just don't earn enough to save," said Adeney. For some of us, this may be true. However, Adeney points to what he sees as the crux of the matter during the podcast interview: "consumer insanity". He suggests that the result of our hyper-consumption is that we have to work more than necessary.

So what alternative does he advocate? On his blog, he argues that 'cutting your spending rate is much more powerful than increasing your income' – and not just because you then have more money left to save each month, but also because it lowers the amount you actually need to live on.

On FIRE

Many others share this vision: a large, informal, mostly online movement goes by the acronym FIRE: Financial Independence, Retire Early. There are books on the topic (such as Your Money or Your Life by Vicki Robin, which predates the current wave), and a host of blogs and podcasts.

And then there's the documentary, Playing with FIRE, which follows Scott Rieckens, his wife, Taylor, and their toddler, as they try to find their way towards financial independence. (It was set to be released in the US sometime after March, and in other coun-



tries thereafter.) Rieckens persuaded his wife to give the FIRE lifestyle a go after hearing Ferriss podcast with Adeney. He said that he was so fortunate to have stumbled upon the idea that he felt compelled to share it, hence the documentary.

Financial independence is not necessarily tied to giving up work. Jim Collins, another luminary in the movement, and author of The Simple Path to Wealth: Your road map to financial independence and a rich, free life, says that, for him, it was never about retirement. "I like working and I've enjoyed my career. It's about having options. It's about being able to say 'no'. It's about having enough to say no".

He retells his favourite parable, which encapsulates the thinking:

"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 minister (in his fine robes) takes pity on the thin, 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".

South Africans on FIRE

Believe it or not, some South Africans are working towards or have even achieved this state. Patrick McKay is "there" – financially independent! He works in IT and writes a blog advocating financial freedom and frugality on his website, The Investor Challenge. Some examples of his posts are, "How much difference would it make driving a luxury car vs a cheaper car?" and "This couple is retiring at 36 and 46, here's how they did it". (The couple in question, Andre and Lisa, are off travelling the world at present.)

McKay describes financial independence as "the ultimate freedom". Even as a young kid in the '80s, McKay remembers calculating that if his parents sold their house and cars, they'd be able to earn thousands a month in interest. "Of course, back then I thought thousands was enough for a family of four, and I had no idea about inflation," said McKay. His family set a good example financially.

"My grandmother was the main breadwinner in her household. As a music teacher, she was not a big earner, yet she managed to save up to buy enough rental properties to live off," said McKay.

Right from the outset of his working life, McKay saved and invested as much as possible, aiming to attain financial independence as quickly as he could. McKay said, "I was 37 when I hit this milestone, but I'm different to most in that I don't plan on cutting my spending post retirement – I'd like to spend more on travel – so my goal was higher. I passed that one last year [at the age of 40] – and then backtracked again with the markets".

So has he readjusted his retirement status accordingly? He said, "I've never actually considered myself retired, but I do consider myself financially independent. That hasn't changed with the 20 percent drop. I 'lost' around eight years' worth of living expenses in that period but I was thrilled".

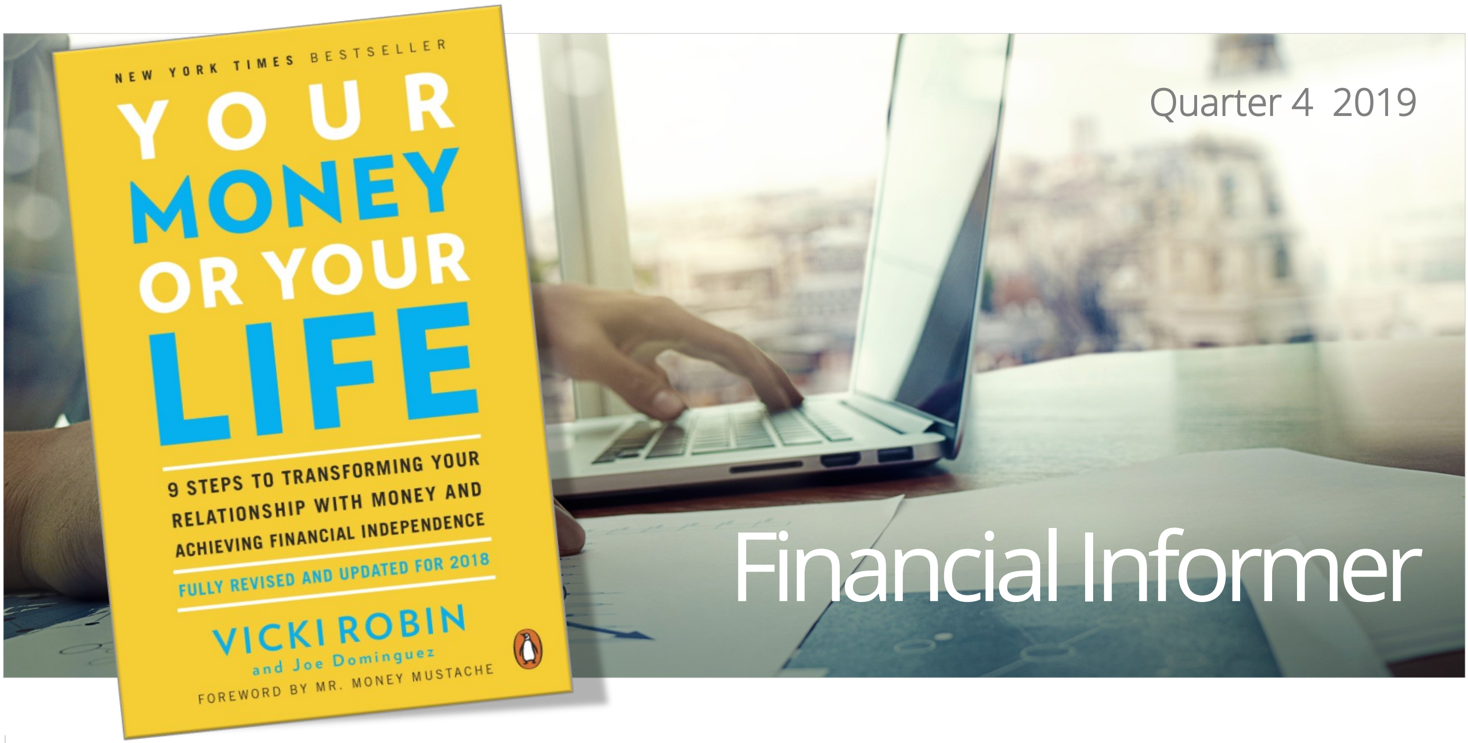
Financial Freedom

"I'm still working, so I'm able to keep investing and take advantage of discounted prices," said McKay.

Imagine the moment when you realise that you are financially free. McKay marked it by taking a screenshot of the figures on his phone, then headed for the gym. The real celebration came a little later, during his annual performance review at work. He said, "When you don't have to worry about the consequences, this gives you the upper hand, as JL Collins, one of the bloggers I think highly of, explains really well. I didn't have to pretend that I was enthusiastic about climbing the corporate ladder when I just want to be a technical person, as I now am. It went extremely well, which led to 2018 being my favourite year at work so far".

McKay's job takes him round the world, flying drones. Last year, he and a friend were chosen for emergency response training in Germany: simulations of "abusive border guards, angry mobs, currency crashes, assassinations, exploding toilets and much more".

McKay said, "I totally loved it". McKay also went on work trips to Kenya, Niger, Malawi, Madagascar, Lesotho, Tanzania, Mozambique, and within South Africa. "With all that, I don't think I would have enjoyed the year nearly as much if I wasn't working."



Brendan Dale, also an IT guy (a software development engineer), is behind the Take Charge of Your Money blog. At 40-something, he is working towards financial freedom. "I definitely see myself retiring early, but my definition of retirement is not about sitting at home, pottering around the garden, but about taking control of my time – doing what I want, when I want. If I then chose to freelance for a month or two, that income would just be for extra 'fun' money," said Dale.

Before he found out that FIRE was a 'real thing'. Dale's desire to be financially independent and to work when he chose to was already incubating: he had taken three mini retirements of three to 12 months, during which he either travelled or did voluntary work. Once he started his blog, though, he realised that many others shared his mindset.

Dale said that working towards financial independence is potentially easier if you have greater disposable income. He said "However, many folk live beyond their means, including those earning high salaries. You can achieve FIRE on a modest salary too. If you're willing to make the necessary sacrifices now, and remain focused on your goals, you'll find that it's not that hard; it just takes time".

Yet another local tech specialist on the path to financial freedom is the Stealthy Wealth blogger, who works as an embedded software engineer. He's aiming to retire in 2030, at 45, and is a couple of years along on his 15-year trajectory. If you're interested, follow his progress on his FIRE tracker, a graphical representation of the value of his investments. While he keeps his identity under wraps, his readers have organised their own gatherings in Johannesburg, Durban and Cape Town.

Stealth Wealth

One of the triggers came at the end of 2015, when his wife fell pregnant. "There is nothing quite like the imminent arrival of a child to make you relook your priorities and to focus on the belief that there has to be a better way of doing things than nine-to-five for 40 years".

Around that time, they made the last payment on her car, which meant that they had money left over each month. "I wanted to use that money to get us ahead, rather than it just disappearing into the void. Then everything came together when I stumbled across an American blog called Mr Money Mustache". When Stealthy read that Adeney had retired at 30, he was inspired.

On the blog, he came across the four-percent rule, which gave him a way of calculating how much money he would need to stop working and live off his investments. "This was the first time I had come across a concrete retirement number I could shoot for."

Stealthy believes that the industry standard that you need 75 percent of your final salary to retire on is "wishy washy". His reasoning? "It focuses on your income, but the amount you need in retirement has little to do with your income, and everything to do with your expenses. Also, you have no idea how your salary will change over time," said Stealthy.

However, investment returns have been less than encouraging – and Stealthy's graph clearly shows the discrepancy between his projected and actual returns. If this pattern continues, would he regret attempting to attain FIRE?

"No regrets," said Stealthy. Anyone investing more than 'normal' will always be better off, and that goes for when market returns are good, as well as when they are poor.

Number Crunching

In his blog post titled 'The Shockingly Simple Math Behind Early Retirement', Adeney points out that the time it takes before you can afford to retire depends on your savings rate, as a percentage of your take-home pay. When the returns on your investments exceed your living expenses, you are ready to retire. Of course, the rate at which you draw on your investment has to be sustainable, over your life span.

Specifically, Adeney told Ferriss: "If you have a handle on your annual spending and you know how much you need to live on, all you need to do is save up 25 times that amount … in conservative investments. That's enough to fund you with passive income with a high degree of safety for the

rest of your life".

Adeney's assumptions

Your investments earn a return of five percent after inflation while you're saving for retirement; and

You generally draw no more than a "safe withdrawal rate" of four percent of your investments after you retire.

The four percent rule

This is the safe withdrawal rate that the FIRE movement generally works on – and it's not a number they snatched from the ether. In Beyond the 4 percent Rule: The Science of Retirement Portfolios that Last a Lifetime, Abraham Okusanya writes that the safe withdrawal rate, or Safemax, is the highest withdrawal rate, as a percentage of the initial portfolio, adjusted for inflation each year, that a retiree can use without depleting the portfolio within her or his lifetime. Okusanya is founder of UK investment and retirement research consultancy, FinalytiQ, and creator and chief executive of Timelineapp.co, an app for illustrating sustainable withdrawal strategies in retirement portfolios.

He explains that the so-called 'four-percent rule' was established in 1994 by engineer-turned-financial-planner, William Bengen. Using historical market data, Bengen modelled every successive 30-year period from 1926, ending in 1992. (It's 30 years, because that is the outer limit of life expectancy of a retiree aged 65.) So the first would have been 1926–1955, and the last, 1963–1992. Notably, these periods took in some exceptionally adverse economic periods, such as the Great Depression. Bengen found that the safe withdrawal rate, even in the worst-case scenario, was four percent.

Okusanya describes Bengen's safe withdrawal rate as "an incredible piece of work". "However, he points out that, among other issues, it does not take the impact of fees or any asset allocation besides an equal split between US equities and bonds into account, nor does it consider that retirees do not spend a set amount of money over their entire retirement," said Okusanya.

"If you change anything about these assumptions, you don't get four percent," cautioned Okusanya. "Bengen made these points in his paper, but a lot of people ignore that and hang onto the four-percent rule as if it's Newton's Fourth Law of Motion. It's a robust framework, but we need to adapt it to the context of each individual."

In addition, Bengen's findings were based on the US market. Dr Wade Pfau, a US professor of retirement income, questioned whether this was applicable to other countries. He looked at sustainable withdrawal rates using 109 years of financial market data for 17 developed market countries. "From an international perspective," he concluded, "a four-percent real withdrawal rate is surprisingly risky". It would have been "safe" in only four of the 17 countries. And even then, he adds, the even split between equities and bonds would have failed at some point in every one of those countries.

Safety net for South Africans?

The Financial Sector Conduct Authority has proposed that the drawdown rate on a living annuity be no more than 4.5 percent for a 55-year-old man retiring, and four percent for a woman. For men retiring at 65, the drawdown rate should be no more than 5.5 percent, and five percent for women. At present, the maximum drawdown is 17.5 percent. According to the latest Living Annuities Survey by the Association for Savings and Investment South Africa, policyholders withdrew 6.64 percent, on average, of their capital as income in 2017.

Will I ever retire, let alone early?

No doubt you've heard the National Treasury statistic: only six percent of us are set for a comfortable retirement. Even top earners are unprepared. The Momentum/Unisa Household Net Wealth Index 2017 reported that "Contrary to popular belief, the top household income quintile (top 20 percent) – as a group – is not very wealthy. A lot of households in the top 20 percent do not possess sufficient financial assets/net wealth to retire financially well or to take care of emergency expenses."

Even if financial independence and early retirement is out of the question, there are some embers of FIRE for us – and making any positive adjustments based on the thoughts below will improve our readiness for retirement at 65.

The happiness recession

In his blog, Adeney notes that in the US, "the most materially abundant country in the world, where the cars are the fanciest and the houses are the biggest," happiness levels are below those in many other countries. He found it illuminating to learn the science of hedonic adaptation: several studies have shown that no matter what happens, good or bad, you soon revert to your usual state of happiness. You might be happy when you buy what you want, but understand that that happiness will last for a fleeting moment.

The marriage and money conundrum

It's one thing to set up super-saver goals when you're living solo, but what about when your finances are linked with those of your Significant Other? Dale said that he had become really good at managing his finances, but after getting married he was surprised at how easily money can disappear. "Home maintenance, gardening, holidays, entertaining, family, pets – these add up quickly and it's hard to keep track when you both earn and spend independently," said Dale. So he decided that they needed a joint budget. Dale said, "My partner and I share the goal of reaching FIRE, but we often differ on what it is important to spend money on right now. You have to keep having the awkward, difficult money discussions. And you need to think about how your current financial habits are influencing your future as a couple for better or worse".

McKay and his wife keep their finances separate. "When we first got together, she thought I was quite poor – something to do with the car I was driving and my choice of clothing. She bought me a few things as gifts until I explained that I'm a minimalist and a very big saver!" Over time, they've reached a balance: "I don't comment on her spending, and she doesn't get me gifts. I've become more flexible with our holiday budget, while she's started saving significantly – in fact, at times she has saved more than I have," said McKay.

The pursuit of FIRE is not something you can force on anyone, says Stealthy. "It's a decision each of us needs to make for ourselves," said Stealthy. He feels very fortunate: when he presented the idea of FIRE to his wife, she was immediately fully on board. Stealthy added, "We are both excited by the end goal".

Not only are the most prodigious accumulators of wealth frugal, write researchers Thomas Stanley and William Danko in The Millionaire Next Door: The surprising secrets of America's wealthy, but so too are their partners. In fact, they tended to be even more so.

Flash equals no cash

When Stanley and Danko began studying how people become wealthy, they surveyed people in upscale neighbourhoods. They said, "In time, we discovered something odd. Many people who live in expensive homes and drive luxury cars do not actually have much wealth. Then we discovered something even odder: Many people who have a great deal of wealth do not even live in upscale neighbourhoods".

In their chapter titled "You Aren't What You Drive", the researchers said that 37 percent of the millionaires they surveyed had bought their car second-hand. On the home front, they advise that you opt for a more modest home than the bank tells you you can 'afford' – if you wish to have money to spare to invest.

Stealthy said that focusing on their goal makes a lot of the decisions and sacrifices easier for himself and his wife. "For example, should we get a new car or a bigger house because we can afford it? No, because that means we would be slaves to our jobs for many more years than we need to be – that trade-off doesn't make sense for us," concluded Stealthy.