Achieving **F**inancial **I**ndependence

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CHAPTER ONE

ACHIEVING FINANCIAL INDEPENDENCE

Have you dreamed about living a life where you are financially independent, where you control your financial destiny and no one has claim to your financial resources? Achieving a life where you are the master of your financial future and you are able to live off the proceeds of your investments, without the necessity to work another day in your life, is a great place to aspire to reach. It is a place where you no longer need to work every day because you have to; everything you choose to do, you do because you want to. There is a whole new spectrum of opportunities, which is open up to you.

Achieving financial independence is simply a case of consistently ensuring that your income exceeds your expenditure, over a long enough period, until you accumulate sufficient assets, which will generate sufficient income on their own, to cover all your expected future expenditure. It really is simple, if you are disciplined and you avoid raising your lifestyle, every time you generate more income. The reason so few people ever achieve financial independence, is that they are driven by instant gratification and so as they earn more, they simply raise their lifestyle and waste any opportunity to invest and grow their assets.

Financial independence is possible. Unfortunately, it is often never achieved - much like all of our goals and dreams - because we don't desire it enough, believe it is possible, or work hard enough for it. Just as detrimental, we become comfortable with mediocrity, allow others to dictate our decisions, become unwilling to put in the effort required to achieve our dreams, and never learn and implement the necessary steps that result in financial independence, time freedom, passive income, and our full potential being realized. Desiring financial independence is perhaps the first step; but we also need to change our thinking and learn how to not only achieve it, but be willing to put in the work necessary to obtain it.

Financial independence is the ultimate frugal goal, but what does it mean really? There are three definitions for financial independence. They are:

1. Not relying on others to pay your bills

2. Freedom from all debt

3. Freedom from having to work for income

I tend to regard financial independence as a combination of the three; and so, for me, financial independence is not something that is easily gained. I don't rely on others to pay my bills, but I'm still socking away money to reach a point where I don't have to work to live. Where are you at in your quest for financial freedom? What have done to get there?

At times dealing with bills, earnings, expenses and other aspects of money create challenges for many people. Some people struggle to get by, in fact, there are so many who would have been super-successful but for their inability to handle and tame money but, I tell you, you can master money. If you do not know how to make, manage and multiply money with peace of mind, you cannot claim to be successful in life if you are not financially successful because you need money to fuel your other goals in life, be it marital success, business success, health success, academic success etc.

I want to offer you a few simple pieces of advice to allow you to start moving down the path towards financial independence. The advice I am going to offer is not earth shattering or something you are going to see for the first time in your life. All of the advice is common sense and something you have always known about, but is most certainly not something you have made common practice.

Action Idea

Eliminate all the debt you have, excluding debt that you have leveraged to purchase investment properties, as a matter of urgency. If you are carrying huge credit card debt, you need to make eliminating this a top priority. Explore all the expenditure you have and slash every one as ruthlessly as possible. You must put yourself on a spending freeze, until your credit card debt is eliminated. You can never create financial independence if you are constantly trying to catch up on debt. You need to first bring yourself back to zero and then start building from there.

Once you have brought yourself into a position where you are no longer working to finance a lifestyle that is beyond your current level of affordability, the next and obvious step is to create a plan for moving towards financial independence. No plan can ever be effective unless you are clear on what you are attempting to achieve. First decide what type of lifestyle you want to live. This will tell you how much money you will need to earn from your investments to thrive each year?

Example:

If you feel that you would like to live off an annual income of $100 000, then you would need to accumulate about $2 500 000 in income earning assets, to cover inflation and to finance your chosen lifestyle for the rest of your life. I have experimented with a number of complicated formulas for performing this calculation, but after much trial and error, I have realised that a safe and realistic number is found by merely multiplying your annual income needs by a factor of 25.

Once you have clarity about exactly how much money you need, the next step is to go about the business of accumulating sufficient, income earning assets to achieve your goal. The most obvious place to start is with your income. You need to increase your income, without increasing your lifestyle in equal proportion. The simple lesson I want you to take; is work to increase your income, but do not increase your expenditure, until you have achieved financial independence.

As soon as you have eliminated all debt, start to invest a minimum of 10 % of your annual income towards creating financial independence. Fortune magazine stated in one of their publications that millionaires save an average 20 % of their income every year.

Action Idea

Set up an automated system where the proportion of funds you have chosen to invest is automatically diverted into your investments each month. This money must not even enter your normal bank account.

Make the decision today to be wealthy. Start to act responsibly and completely believe that you can create the level of wealth you desire. Now all that is required is for you to take action daily to turn your dreams into reality. Your mind set, attitude and thoughts determine how your future will turn out; choose all three very wisely from this moment on.

As long as we stay focused and disciplined, I believe there is no reason why we can't achieve financial independence while working from home.

There are a multitude of opportunities available, which makes it quite a challenge to choose the right opportunity.

Start by doing some self investigation. What are your interests? What is your passion? Now look for an opportunity that involves your interest or your passion. When you do what you are passionate about, it doesn't even feel like work anymore.

Once you established that, it is time to start looking for the right opportunity.

Take your time and do some proper investigation. With the majority of HONEST business opportunities today, you will find you have to pay a little bit of money to get started. Do not be discouraged by this. As long as you are confident that you get value for whatever money you spend. Do not pay a company any fee to work for them. If you do any work, you must BE PAID. However, if you do invest money, and receive value in return, such as software needed to do the job, or to get proper training in order to get yourself properly equipped, it can be to your advantage.

Make sure that the company will provide you with a decent guarantee. This will enable you to spend some time and make sure that it is what you expected it to be.

Test their customer support. Do they answer your questions to your satisfaction?

Do they live up to their promises? You need to get results as long as you follow their system, then you know you have a successful business system. Beware of just being busy without really achieving any results.

If you want to make money online and you know exactly what you are passionate about, you can also look at affiliate programs. There are numerous affiliate programs with excellent income potential available on the internet that you can join for free.

Talking about "free". There is a lot of information available on the internet for free. A lot of this is junk. Unfortunately there are a lot of scams out there. But don't shoot everything down that you can get when you can get it for free. I have learned a lot from free information available from reliable people on the internet.

Investigate, test, compare. Use your discretion. It is not too long before you can quickly distinguish between a scam and good quality information or programs.

Financial independence should ordinary be one of the most interesting subjects to many young folks but the reality is the opposite. You may disagree with me but wait a minute. The subject itself attracts the interest of everybody but it is only few that do things that align with the topic or subject.

Let me explain. If you have peers who are really earning good income and don't have any sort of savings, would you rightly say that their present actions will lead them to financial independence? Some of them will know when the latest cars came out and will be among the very first to ride in such cars while you take to invest your monies in profit yielding ventures and still move about in your older car.

One of the things we don't always seem to remember is that as long as we are alive, we must grow old, and in old age, we wouldn't be able to work as hard as we are doing today, so our income will diminish or completely vanish if we don't plan for such period of our lives.

The best ways of achieving financial independence is by trying to increase your income and drastically reducing your expenditure. But in the examples we gave above, those that are buying the latest cars were still earning as much as they did while increasing the amount they expend on automobile purchases.

It even becomes more confusing when you add up the fact they would be paying lots of interest in the loans used to acquire such unnecessary cars. I am an advocate of the good life but that wouldn't let me encourage you to start spending more than you are earning all in the name of having a good life. Count me out.

For financial independence to become your reality, you must be disciplined in your saving and ensure that you don't spend money impulsively. Adequate budget on the things that are absolutely necessary is your best bet. Postpone or completely discard those that are optional.

If you have cheaper ways of satisfying certain needs, by all means take up the option. Get the items that will be useful for you and not those that would be used to impress your friends or neighbors. Your best friend is you, so get the things that will ensure that you have an impressive future without regrets. If you are living at a place that takes so much as rent, why can't you move over to a country side apartment where you can have the same good life at reduce rate? Eliminate any credit that carries high interest and be careful not to get entangled in them again.

One of the surest ways of ensuring one’s financial independence after taking care of savings is to figure out how to start earning more. This will accelerate your stride toward financial freedom if you manage it consistently well.

You can enhance your job capabilities by going in for more training so that you can get a higher earning job. You may also keep your present job and start a home-based business by the side for increased income.

CHAPTER TWO

ALL YOU NEED TO ACHIEVE FINANCIAL INDEPENDENCE

Some people would dream of getting rich quickly, whereas others do not mind taking it one step at a time. But what do they have in common? They all want to get rich!

In actual fact, wealth is not measured by how much you have in your savings; but rather, it is measured by your ability to upkeep and take full control over your personal income and expenditure. Having a million dollars in your pocket is not a guarantee that you will be rich for life. You would need to master the art of maintaining the million dollars in your pocket. That is the ultimate that determines your wealth status and how long that status can be preserved.

Everyone wants to live a debt-free and financially secured life, and if possible, we would not want to have to slog and sweat our way just to earn that income for the month. In other words, we should work towards financial independence.

First and foremost, we ought to comprehend the true meaning of financial independence. Many a times, people would perceive the terminology as the ability to work for money and support oneself, without having to receive financial support from another party, particularly parents and guardians.

But you would be surprised to learn that the true definition of financial independence is the ability to earn income at your own pace and the way you wish to. In other words, you can choose the type of lifestyle you want to live, like enjoying flexible working hours or working from home, and yet still stay financially stable.

So if you have reached the stage where you have the freedom to decide how you want to earn your income and control your personal finances without any constraints, you are said to be financially independent. Believe it or not, if you study the techniques to it thoroughly, you can achieve it even before turning 50!

Enticing, isn't it? So why not plan for it from now?

FINANCIAL INDEPENDENCE - TIPS ON HOW TO ACHIEVE IT.

Here are some effective tips to guide you in your plans to achieve financial independence:

1. Simplify your life

Avoid getting yourself tied up with situations that could cause restrains to your finances eventually. You can do so by giving yourself ample time to decide on the biggest issues in your life, like marriage, job and where to live. Take marriage for instance! If you only began realizing that your marriage is a mistake months or years after your solemnization, you would have to resort to filing a divorce, which could cost you a certain sum. Wouldn't it be infuriating to know that that sum of money has been used up for a calamity when it can be used for you to attain a more luxurious life?

2. Reflect on the things that are most precious to you and that you cannot afford to live without. Think about your health, your children's education, your dream job, and most of all, the quality time that should be set aside for your loved ones and for yourself. You should ponder on this during your youth. Cut down on those exorbitant products that will not be helpful for you and your family in the long run, and accumulate as much savings as possible. You will find that later in life, you can provide all the things that would be worth your money and would make you and your loved ones happy, like a TV set, a car and a vacation.

3) Never Fall Victim to the Typical Employee Mentality

Stop thinking in terms of 9-5, manager and employee, weekends and holidays off, that is not my job or responsibility, etc. Doing more than you are paid to do will not only result in success on the job, but will undoubtedly carry over into other aspects of your life. But if you continually trade time for money, believe that job security is actually security, become content with mediocrity and being average, do just enough to keep your job, and actually think that a pay raise or promotion is the solution to your problems... then the only real hope you have is that your pension will have sufficient funds to keep you alive after you've given 40+ years of your life to a company. And by all standards, that is not my definition of financial independence (or happiness).

4) Pensions... Not a Recipe for Financial Independence

I find it ironic that our culture successfully convinces us that our family's financial future will be taken care of by handing over our money to unknown (and often greedy) investors and companies who essentially are only interested in making a dime now - not in 40 years. And yet, what is more surprising is the masses of people who actually believe that financial independence is obtained by devoting (a better word would probably be enduring) 40+ years of our lives to a company, and think that a pension will be the solution to their retirement and financial problems. Anyone who has ever achieved financial freedom has independently created it themselves, took risks, and was extremely proactive - never did these people depend upon a company or a retirement account to fully reach their goal.

5) Leaving Your Job to Start a Business is Actually Not the Answer

Realizing that a job, being an employee, and trading time for money will not produce financial independence is the first necessary change in mentality we must obtain. However, do not fall victim to the thought that being the boss, starting or running your own company, or even being an entrepreneur is the solution. Financial independence is not defined by having more power or larger pay checks - it is measured by time freedom, no financial worries, being the manager and investor and not the boss, and especially creating passive income. The goal is not to become the boss, the goal is to be the owner and hire a boss to do the work. The goal is to not earn more to be able to spend more, but take the excess money and buy appreciating assets that make you money.

6) Passive Income is the Key

Job security is not the same as financial security. Independence within your job is not even similar to financial independence. And trading time and effort for money is the exact opposite approach as making money work for you. The goal in all of your pursuits, and the key to actually achieving financial independence (hopefully long before the age of 65) is to take every extra dime and invest it into assets that actually make you money on a continual monthly basis. Whether it is cash flow from properties, interest from accounts, or even profits from the work of others from your own businesses - the goal is to create and buy assets that continually bring in a monthly passive income.

7) Change Your Mentality About Retirement

Our culture's unfortunate perception of retirement entails working hard for 40+ years, trading our time for money in hopes of promotions and pay raises, trusting complete strangers to manage our retirement accounts, and sacrificing pleasure now in hopes of living our dreams in years to come. Truthfully, I want nothing to do with this type of retirement. And because of this, I am thus willing to put in whatever effort is necessary, take risks, change my mentality, and learn and implement the principles that will result in financial independence - long before I reach the age of 65.

8) Recognize What Keeps You from Achieving Financial Independence

There are multiple reasons why people do not achieve their dreams and goals in life, but they all can essentially be summarized into three categories: fear, mediocrity, and inaction. Do you fear taking risks, and possibly failing? Do you fear because you think you lack the necessary knowledge or abilities to be successful? Are you content with mediocrity and being average? Is 'just getting by' or 'that's good enough' or 'it's not worth it' common thoughts (and thus actions)? Are you unwilling to put in the effort required to achieve success? If so, then financial independence most certainly will be forfeited, and the result may be a good life - but good is the enemy of great!

9) Being Rich is Not the Same as Being Financially Independent

True wealth is not determined by the size of a bank account, the house we live in, or the car we drive. True wealth is a state of mind more than it is an actual dollar figure. The individual who has no financial worries or obligations, has assets and employees working for them, has created a continual monthly passive income, and has resources sufficient to create time freedom and be in a position to help others - this is true wealth (regardless of how much income or profits are actually made). Comparatively, the individual who makes millions of dollars and drives the fanciest car and lives in the greatest mansion, is actually not wealthy at all if their expenditures exceed their income, they are trading time for money, they live in fear of their debts, their lives display being 'rich' only to keep up with the 'jones', they are entrenched in the 'rat race' in the hope that the next promotion will produce more time freedom (which never happens), and most importantly - they have no continual monthly residual income. Financial independence should be the goal - not being rich.

10) Understand That it is Achieved by Implementing the Laws of Success

As essential as all the principles above are, the reality is that no goal or dream in life is ever achieved unless and until we implement the laws that are foundational to all success. We must first desire financial independence, believe it is possible, have faith that we are capable of achieving it, change our mentality (as described above) and think big, overcome our fears and doubts, work hard every day in pursuit of our goal, and never quit until it is accomplished.

NEVER accept a deal or sign a contract with anything that is offered by a door-to-door salesman or through the phone, and refrain from being bonded with anything that requires you to pay up service charges every month. Do not waste your money on them. You should attain a debt-free life by the age of 50 to 60. Hence, do not sign up for too many credit cards or anything that will get you in debt, and target yourself to settle your debts, other than housing debts, by the age of 40.

Make it a habit to save, especially when you have reached a middle age, and educate your children to save as well, because if you can save up as a family, life would be so much more secure for you and for them too. One thing for sure about financial independence is that it is viable by everyone from all walks of life.

CHAPTER THREE

ACHIEVE FINANCIAL INDEPENDENCE - DO YOU HAVE THE GUTS? SIMPLE STEPS TO DETERMINE THE TRUTH

You want to achieve financial Independence but do not know where to begin? Maybe you have a few pieces to the puzzle but do not know how to put the total plan together to manifest results.

There are exact formulas to achieve financial independence. Yes you can manifest your dreams, but you can't get there overnight, and you can't get there without setting goals, making sacrifices and obtaining specialized knowledge.

The formula below is specialized knowledge that each person who has achieved financial independence possesses. Follow these steps to get started.

1. Go get some paper, something to write with and calculate out how much money you require. Write the total at the top of a page.

2. Next, list all of your assets. Include all of your possessions, your skills, your knowledge, your contacts and your passions.

3. Dream up every means you are able to use your assets to earn money. Then, create a list of any combining assets that produce income.

4. Choose a method that is proven. No need to recreate the wheel to achieve financial independence.

5. Affirm that other people would compensate you for the product or service.

6. If all the signs are good, trial run the idea in the real world prior to committing a great deal of time or energy to the idea.

7. Once the idea is for sure to work, then and only then ought you commit substantial time and money into the project.

8. If you cannot form a viable income source, construct a plan to increase your assets.

9. Once you give birth to a plan you are for sure will work, work with persistence, patience and faith to make it happen.

10. Once one steady source of income has been created, seek an additional source by duplicating these steps.

If you want to achieve financial Independence, it is easy once you know the correct formula to use. In other words, there is a science to getting rich.

CHAPTER FOUR

THE SECRETS OF FINANCIAL INDEPENDENCE

Understanding these basic stages of the financial life cycle is useful in applying the seven secrets of financial independence -- are we ready?

Simple Secret #1: Fund Your Future First!

Fund your Future First! What this means, in a nutshell, is to always save 10% of your earned income. Indeed the most important thing you can teach your child, after they understand that they should not eat money, is to put aside 10% - a dime on every dollar - of everything they earn. Funding your future first also means reinvesting your investment earnings until you are financially independent. A corollary of this secret is that the money you save when you are young is worth much more than money saved at a later age. This is because of the miracle of compounding.

For example, let's say Jane saves $2000 per year for five years starting at 25, and leaves the money invested at 10% until she is 65. John starts saving $2000 per year at age 35, but keeps on saving for thirty years, leaving it invested at 10% also, until he's 65. At age 65, Jane will have more money than John. Keep in mind that if Jane had continued to save $2000 per year, she would end up with over a million dollars! That is the miracle of compounding.

But there is another reason for always saving 10% of your income, even after you have retired. The number one reason that people get into financial difficulty is this: they have established a pattern of living beyond their means. Occasionally someone gets into financial trouble because of medical bills or legal expenses, but even then often these events have the effect of pushing them over the edge because they have been consuming more than they produce. And one of the terrific benefits of always saving 10% is that you are then, by definition, always living within your means. Continuing this practice after retirement means that you will never run out of money and the resulting growth in your nest egg helps offset inflation.

Simple Secret #2: Don't Mortgage your "later" to pay for your "now."

About 15 or 20% of people are over their heads in debt. I'm not talking about the mortgage on your house, because your house will outlast your mortgage. Taking out a 20 year education loan is OK, because your education will last a lifetime. Even taking out a 3 year car loan, if that's the only way you can afford to buy a car, is reasonable. But running credit card balances month after month is not only devastatingly expensive, it is also a sure sign that you are living beyond your means. Using credit to finance a vacation or clothing or groceries means that you are in truth buying something you can't afford. You are trying to be someone you're not. You are not living in integrity with yourself.

Interestingly, I often hear the excuse that "I'm not really spending too much money. I can't afford to save because I have too many bills!" It's as if the bills appeared by spontaneous creation. If you have too many bills, it's because you are spending more than you make. And the only solution is to get rid of the credit cards for at least 6 months.

A corollary of this principle is to never pay more in interest than you are earning on your investments. I usually recommend that people don't pay off their mortgages at an accelerated rate in countries where their mortgage interest is deductible, and unless they are in a very low bracket with very conservative investments, the after tax return on their investments is more than the after-tax cost of their mortgage.

This however does not apply to credit card debt. I always advise that people start saving 10% instead of using the money to pay off their credit cards sooner. This is not logical, I admit. But as Rita Mae Brown said: "If this was a logical world, men would ride side-saddle!" If you are loaded down with credit card debt, the reason you have so much of it is that you are so good at paying it back. The reason you have no savings is that you're not good at saving. The only way to break this cycle is to start saving while you pay off the debt.

Simple Secret #3: Money is a Mind Matter

Living within your means does not necessarily mean spending less. That balance is usually more easily achieved by earning more. Most people here I think would agree that it is easier to earn an extra hundred dollars a month than it is to cut a hundred a month in expenses. Most of us don't live up to our earning potential because of dysfunctional money belief systems. These are some of the most common dysfunctional money beliefs. These beliefs are usually formed in childhood, and are strong subconscious barriers to charging others what we are worth.

One key concept, for example, that is foreign to many self-employed people in the helping professions, is that money is how we value things in this society. In childhood some of us, for various reasons, concluded that if I make money, I am taking it away from someone else and thus making them poor. If you believe this, you will always feel guilty about charging higher fees, and will forever be trying to decide what the "fair" rate is for you to charge. Trust me on this: the fair rate for your services is the highest rate you can possibly charge that enough people will pay to keep you as busy as you want to be.

Moreover, if you charge less than that, i.e. less than the market will bear, your services will be discounted by your clients and they will not get the full value you have to offer. Anyone who has done pro bono work for people knows how often this is true. When others are not charged what a service is worth, they show up late or skip appointments, do not follow through on your advice, and never really get the benefit of your professional advice.

It is not about taking their money away from poor people; it's about them spending their money on what is important to them. Poverty is a state of mind. The lack of money does not cause poverty; it is the poverty mentality that causes or results in a lack of money. Surely our government programs have amply demonstrated over the last 30 years that giving poor people money does not reduce poverty. If you give a poor person $10,000 or $100,000 today, in a year they will likely be poor again because their values are based on a poverty mentality and they spend their money on those things they value. This may be cigarettes or booze or drugs or flashy cars - but the basic dysfunctional belief system of poor people is that money is to spend. With that belief system it is impossible to save money or defer immediate gratification and spend it on things that have a long term payoff, like education.

The other side of this coin is that wealth is also a state of mind. Real wealth is not about how much money you have. Rich people with dysfunctional beliefs think their value is measured by the bottom line of their balance sheet. I have clients worth 2 or 3 times what I'm worth who think of themselves as poor, because there is always someone richer than they are; others with a fraction of my net worth are at least as wealthy as I. Wealth is the result of being properly valued in your society, and being paid accordingly, and then living within your means and saving enough to provide for your future. The key to financial independence is knowing how much is enough.

Simple Secret #4: Money is Money

When we were children, most of us learned some variation of the envelope system of budgeting money. This envelope is your lunch money, this one is for holiday presents, this one is for a new bike or vacation. This is very comforting psychologically since we know that we have planned for our needs. And this may still be useful for some people when budgeting for short term needs, but it is not a useful tactic for investments, which are by definition long term.

I am convinced the idea of setting up separate investments for college planning, retirement planning, nursing home expenses, estate taxes, and other long term objectives was devised by life insurance agents as a way to make people feel guilty about not having enough permanent life insurance. The plain simple reality is that, when you are investing money you should invest it in the most efficient vehicle; when you need money you take it from the most efficient source. It does not make any sense to buy a life insurance policy or a mutual fund for your child, and not be fully funding your retirement. Or to be making extra principal payments on your house and not funding your pension plan to the max. When your kids go to college, you may be able to pay for it out of current earnings, they may get student finance or a scholarship, you might borrow against your pension, take out a home equity loan, or gift them stock to sell at a lower capital gains rate.

Similarly, retired people frequently become preoccupied with the adamant belief that their investments must produce income. Generally it is much more advantageous to structure a portfolio to include investments that provide growth and are tax efficient, like mutual funds, even if they don't provide income. It is easy enough to periodically sell off enough to provide for the desired amount of cash flow, and your portfolio will be more productive and you may be able to cut your taxes substantially.

Simple Secret #5: Be an Investor, Not a Trader

The difference between an investor and a trader is this: the investor invests for the long term; the trader seeks profits by exploiting short-term swings. Traders are full time professionals; they spend all day everyday buying and selling. You cannot win in that game.

Trying to time the market is the worst mistake an investor can make because you give up the biggest advantage the investor has: time. The most frustrating question I get asked is "where do you think the market is headed?" I usually reply "I don't know which way the next 20% move will be, but I do know which direction the next 100% move will go!"

Most of us are aware of the massive restructuring process sweeping across the world today. Fundamental changes are being made in how cars are made, medicine is practiced, and in banking services. These have diverse causes ranging from foreign competition, to government intervention, to computerization. The pension industry is also undergoing a complete restructuring. I believe this was set in motion about 20 years ago with the change in the way pensions are funded.

Employees used to depend on defined benefit pensions - you work for ABC company for 30 or 40 years and you get X amount of pension. Because of the prohibitive cost of these pensions, and the increasing disenfranchising of a mobile work force who don't stay employed at one company for a lifetime, there has been a massive shift to defined contribution pensions. This means it is largely up to you to fund your own pension, so tax deductible pension plans have mushroomed. Along with this there has been a corresponding explosion in awareness and involvement in investments by the average citizen. Because you have to make your own decisions on how your pension is invested, you have learned how mutual funds work, how rates of return are measured, etc.

This has led on the one hand to a marked decline in the traditional commission-based advisor, because now people understand how much commissions they are paying. On the other hand there has been a whole new self-help industry spawned to advise the layman about investments through newsletters, magazines and TV programs. Unfortunately, these sources have a built in bias to emphasizing the short-term activities of the financial markets. A wise investor knows that these short-term moves in the market are only relevant to traders, not to investors.

Of course investors take into account market trends. For an investor to insist he never times the market is like the guy who insists he only reads Playboy for the serious articles. If you try to make a killing in the market, I can assure you: you will lose. The best thing that can happen is that you lose your money on the first trade. The worst thing that can happen is you make money the first time, because then you will think you know what you are doing. As Confucius said, the Gambler is born of his first win. So what if you've made a bundle this year on the market: everyone did! Don't confuse genius with a bull market.

Simple Secret #6: Cover Your Backside -- Diversify.

We have all learned the wisdom of the old adage "Don't put all your eggs in one basket!" It's just that we have a real problem with the practical and inevitable results of that approach in our investments. A well diversified portfolio means you will always have something going up in value, but it means you will also always have an investment going down.

The investor who believes that bonds are the best and only investment for a portfolio, or one who believes that bonds are foolish and only stocks make sense, are both courting very high risk exposure. It is diversification among stocks, bond and real estate, long and short term, UK and foreign that lowers the risk of the total portfolio and enables investors to take risks on individual investments which would be too risky by themselves.

Simple Secret #7: Build on Your Successes

The final secret I have to share with you is to build on your successes. The most critical points in your journey to financial independence come at the transition points, when we move from one stage to another. Sometimes this transition comes as a part of the natural growth process, but often it is the result of some life trauma: a death, divorce, disability or job loss. When beginning each new stage, our goals have to be reevaluated; our belief systems need to be re-examined; our strategies must change. I personally think that it is at these transition points that we, as personal financial advisors, add the most value. Indeed, most new clients come to us when they are in the midst of a transition, or want to be able to move forward.

Frequently for clients, these transition points are marked with anxiety and confusion. They are not sure what they really want, or what they can realistically expect, or how to go about achieving it. I believe that a formal goal setting session is central to this process. It is easy to think that we can rearrange our lives to eliminate all the awful problems we have to deal with. In truth, I have never known this to occur, except perhaps after death. The temptation is to completely break with our past, and start a new business. Or, for the successful entrepreneur, to start another business. We tend to believe that if we are good at one thing we can be good at anything. Or that if we were only our own boss, we would solve all our problems.

What is more likely to happen, however, is that we trade one set of problems for another and discover too late that we were better equipped to deal with our old familiar problems than with our new ones. Or in the case of the person who retires too young, we get rid of our big problems but end up feeling useless and irrelevant and so we make our little problems into big problems.

The key I have found is to build on your past successes, rather than start all over. Look at the strengths you have developed and the knowledge you have acquired and find new ways to utilize those in a new environment. If you want to start a new business that you have never been in before, take 6 months or a year and work for someone else first in that business. At least then you will find out if you even like it, and you can make your mistakes at their expense, plus perhaps learn something from their mistakes - and their strengths.

Most of all, it is important to see these transitions as growth, as whole new opportunities rather than with a sense of foreboding. It is not change that causes the pain; it is the resistance to change that causes pain. Over the years, I have seen people devastated by these transitions; as a matter of fact I have personally botched a few of them myself. But I have also seen new lives take root, blossom with new possibilities and produce tremendous rewards when these transitions are made constructively. And as some of you who know me well can confirm, I have experienced the upside of this growth. These seven secrets delineate the path to facilitate our growth, not to become unbelievably rich, but to have real wealth.

CHAPTER FIVE

REALITIES OF FINANCIAL INDEPENDENCE

Independence is a state of being every living being strives to achieve, and keep forever. From the moment a child sets foot in school, he is made to understand that the knowledge he gains from this point onward is for him to make intelligent use of, to shape his own future. When one lives with his parents, he tends to take a lot of things for granted. Once one starts to earn his own living, he is faced with two diabolical aspects: financial independence; and responsibility. It is not enough to just earn money. A lot of factors crop up when one (sometimes arrogantly) decides to break away from the family and move into his own home.

True, that now he doesn't have to think twice before buying that extra pair shoes; after all, there is no father waiting at home to glare upon the packet in hand. But one does have to think about the electricity bill that is due next week, the phone bill which now seems to be of an astronomical level, the laundry that needs to be picked up and the gas bill that needs to be paid. The money that has been earned after hours of toil seems to trickle down into oblivion. In Economics, we learn that a country grows only through investment. And investment is the direct result of savings. Similarly, in case of an individual, his financial state grows through saving. Parts of this saving can be invested in stocks and bonds. And since emergencies and accidents don't come with trailers before them, security in terms of Medical and other insurances need to be made. Women in India have, for the longest time, been financially dependent on the men: first as a daughter on her father, second as a wife on her husband, and then as a mother on her children. Although this has saved them the worry of earning their own living, it has come with its share of hitches as well. A wife abused by her husband is unable to leave him and sustain herself. Even after divorce, she is at the mercy of her husband for child support.

But with changing times the modern Indian woman knows how to make her own living. The power of money no longer manipulates her life. To live off others brings with it self loathing and ridicule. Therefore, everyone should work towards financial independence

Health is Wealth (take care of yourself)

This may appear immaterial, but is very relevant. Good health ensures that you not only have the physical and psychological vigor to meet and rise above the challenges of your life, it also assures that you shall be there to savor the success of your dreams being fulfilled. So do have periodic check ups with your physician, do regular exercise, and maintain a healthy diet. And start early. The less care you take now, the more difficult it will be to make up for it later.

Define Your Vision

Defining your vision for your work and life is crucial to your success. What do you want? Is it financial independence; being your own boss; greater security for your family; a sound launching platform for your children? Whatever it is, you should always keep your vision in focus.

Reinforce the vision and its role in as many ways, and in times of trouble seek guidance and solace from it.

Invest Your Money Wisely

Although your basic income shall be sourced from your current job(s), do not limit yourself to only this. You should try and augment your income by investing your money judiciously and beneficially. You could fund or start a business that you are passionate about; other wise you could invest in safe market options.

Save Your Money

A good way to build a solid financial base is to adopt the old thrifty mentality. Allocate a certain percentage of your income to your savings on a regular basis, and set aside this money every month, every time you receive funds or get paid. A convenient way to avoid the compulsive buying and the trap of budgetary mismanagement is to always remember to pay your savings account first. This cuts off unnecessary expenses while providing for your contingencies as and when they arise. Although the interest given for a savings account is less than some other investments, separately earmarking your savings is the safest option.

Spend Your Money Wisely

Differentiate between your expenses and avoid the extraneous ones. Before any purchase, ask yourself if you really need it. Be true to yourself and your vision "Do I really need that?" Only you can answer this question but you must be true to yourself and your vision of financial independence.

WORKING TO ACHIEVE FINANCIAL INDEPENDENCE

Many of us may speak about financial independence but the question is how many of us actually achieve it? Very few of us actually know how to make a sound plan and even less are able to be discipline to execute the plan. Carefully consider the money management program as it would help you to be financially independent. Any sort of financial planning starts with proper money management. While building on your plan, make sure that you work on two important aspects. Firstly addressing the issue of finding the fund to back your plans and secondly to get the money planned in such a way that your goals are met. This money would help you to hold on to important opportunities. You must be a little taken aback if you realize that every one of us has some kind of money management in us. There are various methods of conducting a sound money management. It is important that you have an organized approach to the plan and make the most out of the money. Be focused to identify your spending so that you know exactly how much to invest. If you set yourself a goal, it would give you a purpose to invest. Your plans may be overlapping therefore be aware of the fact that your goals may be overlapping.

For example your retirement plan may overlap your plan for investment and money management. By now you must have realized that money management is important for the future financial goals. Please stick to a realistic money management plan. Be aware of how you would achieve the funds. Your goals should be specific. Prioritize your goals so that the path becomes easier.

We are often misled by few preconceived notions such as living for the moment. We fail to realize that there is a future that awaits us. It's important to have an organized approach. If you fail to have an organized approach you may find yourself in some kind of trouble. You would have to overpay taxes. You would unnecessarily expose yourself to financial risks. There may be unavailability of funds for your children's higher education. You may be unsure of your old age due to lack of planning.

And just the opposite would be the scenario if you have had an organized money management plan made at the right time. The best outcome of a proper money management is that you are able to deal with both long and short term expenditure.

GOAL SETTING FOR FINANCIAL INDEPENDENCE

The first step you should take while managing your money is to have a financial goal. The New Year is an ideal time that would help you to take some important decisions. This is the time to review your financial goals. Your goals would help you to go through with your finances. You should have something towards which you should work everyday. You should have a planned budget and use these goals that you have set as your map. These financial goals help to motivate you and encourage you to save. Without a proper plan, it is difficult to get anywhere so it is important to be well directed. In case you don't have a financial goal you will never be able to achieve a financial independence. You need to jot down what you need to accomplish. Make a list of things you want. Your list may start with the first step of being debt free; it can be followed by starting a retirement account, saving enough to sponsor a home for oneself and other basic necessities. Let not all these stop you from penning down all that you want and wish to fit in your financial planning. In case you are longing for new furniture or a trip to South America, then include them too. These are money goals that are achievable. Make sure you prioritize your wants.

You should realize that getting out of debt is of top urgency whereas a Europe tour can wait. There are certain goals that we work on consistently, and there are some that wait for certain goals to be accomplished before they can be executed. It is important to set time limitations for the fulfillment of the goals. Let's take for example that there may be about 25 years before you retire so you would want to be debt free in about next 6 years. Sensibly work on your goals. Remember that you are always open to modify them.

Your next step would be to break your goals into short term goals. When we break a large task into smaller steps, it helps us to accomplish them better. It makes the task easier. Let's see how this would work for a getting debt free. We need to do one task at a time. First, we should make a debt master list with all the details of the creditors. Then set up a budget and cut down on unnecessary spending. Call credit card companies and request for lower interest rates. Sell off unnecessary things to pay off one debt at a time. Consistently keep working towards your goal! I will tell you how to become financially independent. Close the doors. Be fearful when others are greedy. Be greedy when others are fearful.