Twitter Thread by 10-K Diver

10-K Diver
@10kdiver

Get a cup of coffee.

Let's kickstart 2022!

To that end, here are 22 key concepts to help you appreciate and achieve Financial Independence.

Concept #1.

What is Financial Independence?

It's a state of *self-sufficiency*. It's when you have enough money, and enough income-producing assets, that you and your family can live comfortably for the rest of your lives -- WITHOUT needing a job.

Concept #2.

Financial Independence is not really about spending MONEY how we like -- although, to an extent, that becomes possible.

It's about being FREE to spend our TIME how we like.

From Morgan Housel's wonderful book, The Psychology of Money :

Freedom

Controlling your time is the highest dividend money pays.

The highest form of wealth is the ability to wake up every morning and say, “I can do whatever I want today.”

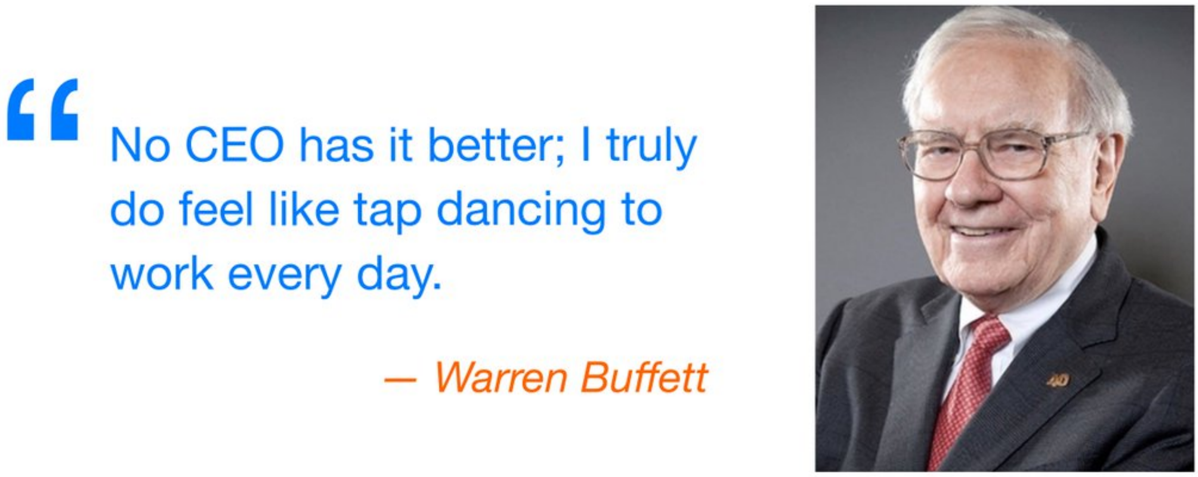
People want to become wealthier to make them happier. Happiness is a complicated subject because everyone’s different. But if there’s a common denominator in happiness—a universal fuel of joy—it’s that people want to control their lives.

The ability to do what you want, when you want, with who you want, for as long as you want, is priceless. It is the highest dividend money pays.

Concept #3.

Financial Independence is not really about quitting our jobs and retiring from work -- although that's possible.

It's about being FREE to pursue *whatever* kind of work we find most fulfilling. Things we love to do. Things the world benefits from. Etc.



Concept #4.

For most of us, the path to Financial Independence consists of:

- Starting Early,

- Saving Diligently, and
- Investing Responsibly.

Here's an inspiring story of a janitor who amassed an $8M fortune by following this very playbook:

Again from Morgan Housel's book, The Psychology of Money:

My favorite Wikipedia entry begins: "Ronald James Read was an American philanthropist, investor, janitor, and gas station attendant."

Ronald Read was born in rural Vermont. He was the first person in his family to graduate high school, made all the more impressive by the fact that he hitchhiked to campus each day.

For those who knew Ronald Read, there wasn't much else worth mentioning. His life was about as low key as they come.

Read fixed cars at a gas station for 25 years and swept floors at JCPenney for 17 years. He bought a two-bedroom house for $12,000 at age 38 and lived there for the rest of his life. He was widowed at age 50 and never remarried. A friend recalled that his main hobby was chopping firewood.

Read died in 2014, age 92. Which is when the humble rural janitor made international headlines.

2,813,503 Americans died in 2014. Fewer than 4,000 of them had a net worth of over $8 million when they passed away. Ronald Read was one of them.

In his will the former janitor left $2 million to his stepkids and more than $6 million to his local hospital and library.

Those who knew Read were baffled. Where did he get all that money?

It turned out there was no secret. There was no lottery win and no inheritance. Read saved what little he could and invested it in blue chip stocks. Then he waited, for decades on end, as tiny savings compounded into more than $8 million.

That's it. From janitor to philanthropist.

Concept #5.

The importance of Starting Early is often overlooked.

But even if "Starting Early" is not an option, "Starting NOW" is.

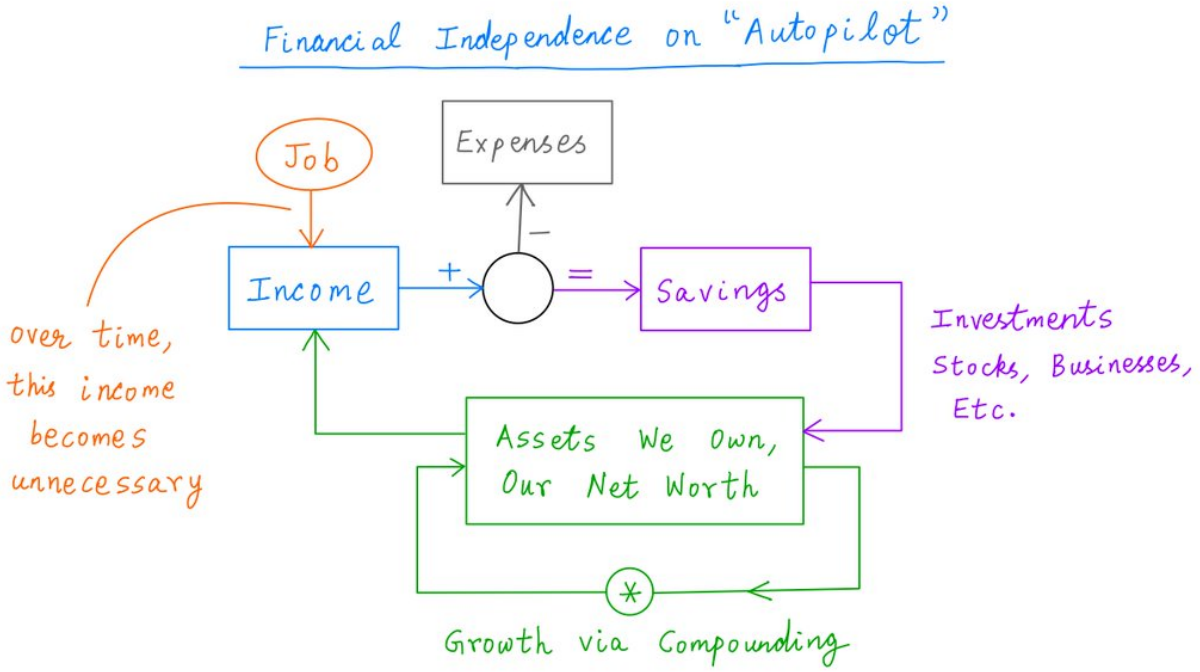
The best time to plant a tree was 20 years ago. The next best time is now.

A journey of a thousand miles begins with a single step.

Concept #6.

With some effort, we can set up a system that guides us towards Financial Independence -- almost via autopilot.

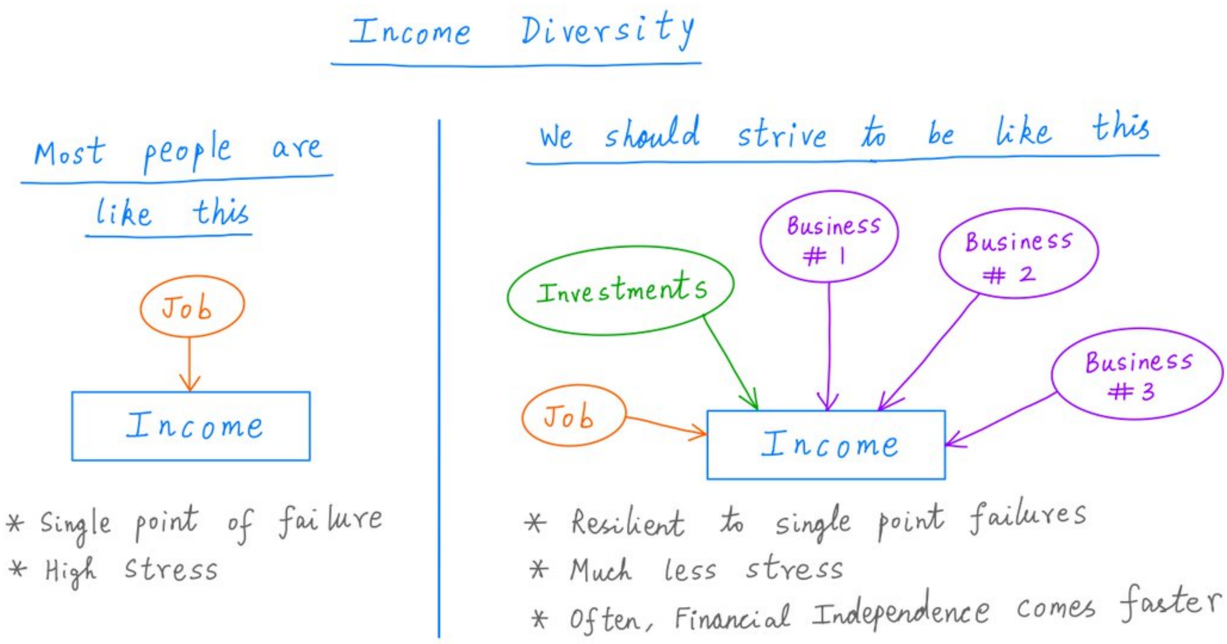
We spend less than we make. We invest the difference intelligently. We let time and compounding take care of the rest.



Concept #7.

Every part of this autopilot system -- income, expenses, savings, investments -- can be optimized.

One of the best ways to optimize "Income" is to cultivate multiple diverse income streams. This creates resilience, reduces stress, etc.

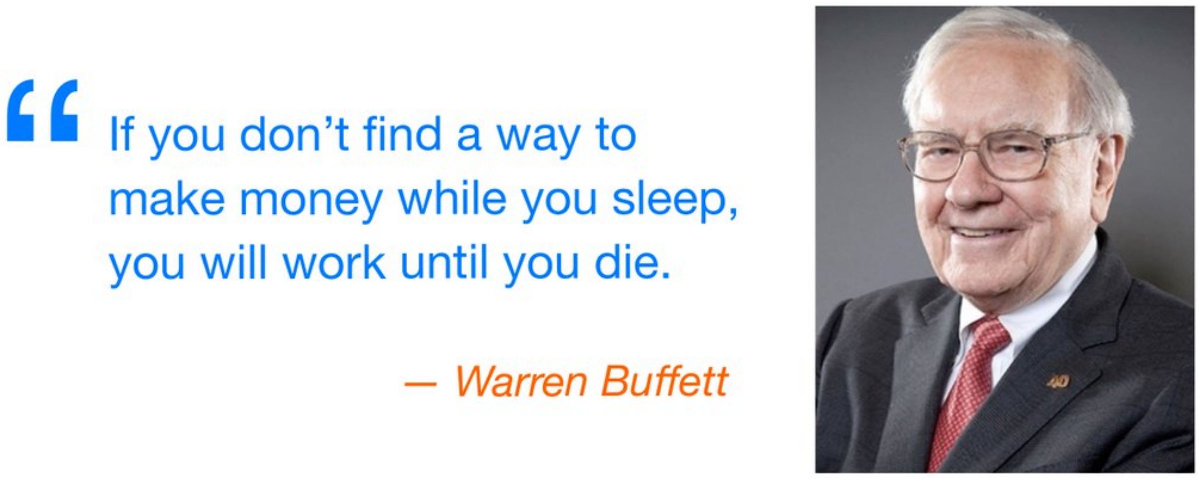


Concept #8.

It's hard for most of us to become Financially Independent on just a salary.

We have to find *leverage* -- ie, ONE TIME effort on our part that keeps paying us FOR LIFE.

Business ownership -- either outright or via stocks -- is the way to go.



Concept #9.

Frugality is a virtue. We should strive to keep our expenses modest relative to our income.

Frugality is NOT cheapness.

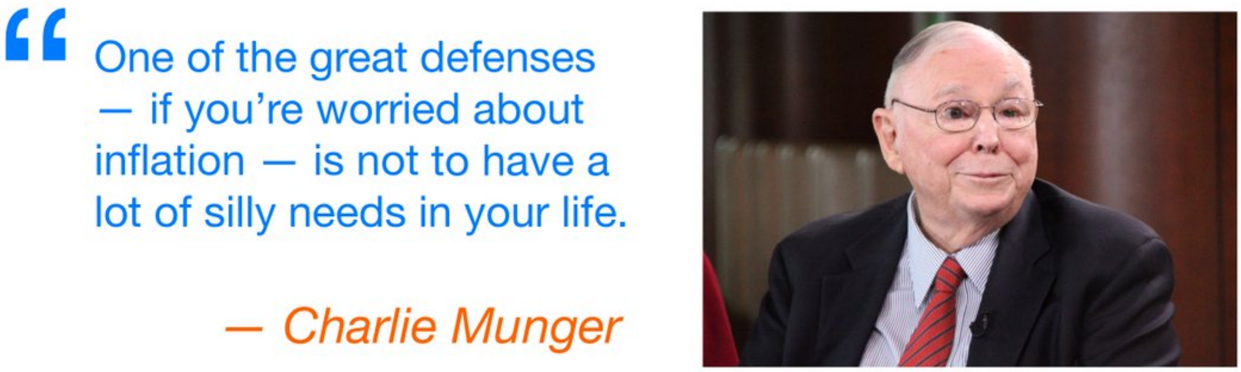
Frugal people want *value* for money. Cheap people just don't want to spend money.

Frugal people can be generous. Cheap people seldom are.

Concept #10.

Saving a high proportion of our income is a great hedge against inflation.

The less we need to buy, the less worried we are when prices go up.



Concept #11.

A dollar saved can be MORE than a dollar earned.

For example, if our marginal tax rate is 30%, $1 saved is about $1.43 earned.

“ Saving is a hedge against life’s inevitable ability to surprise the hell out of you at the worst possible moment.

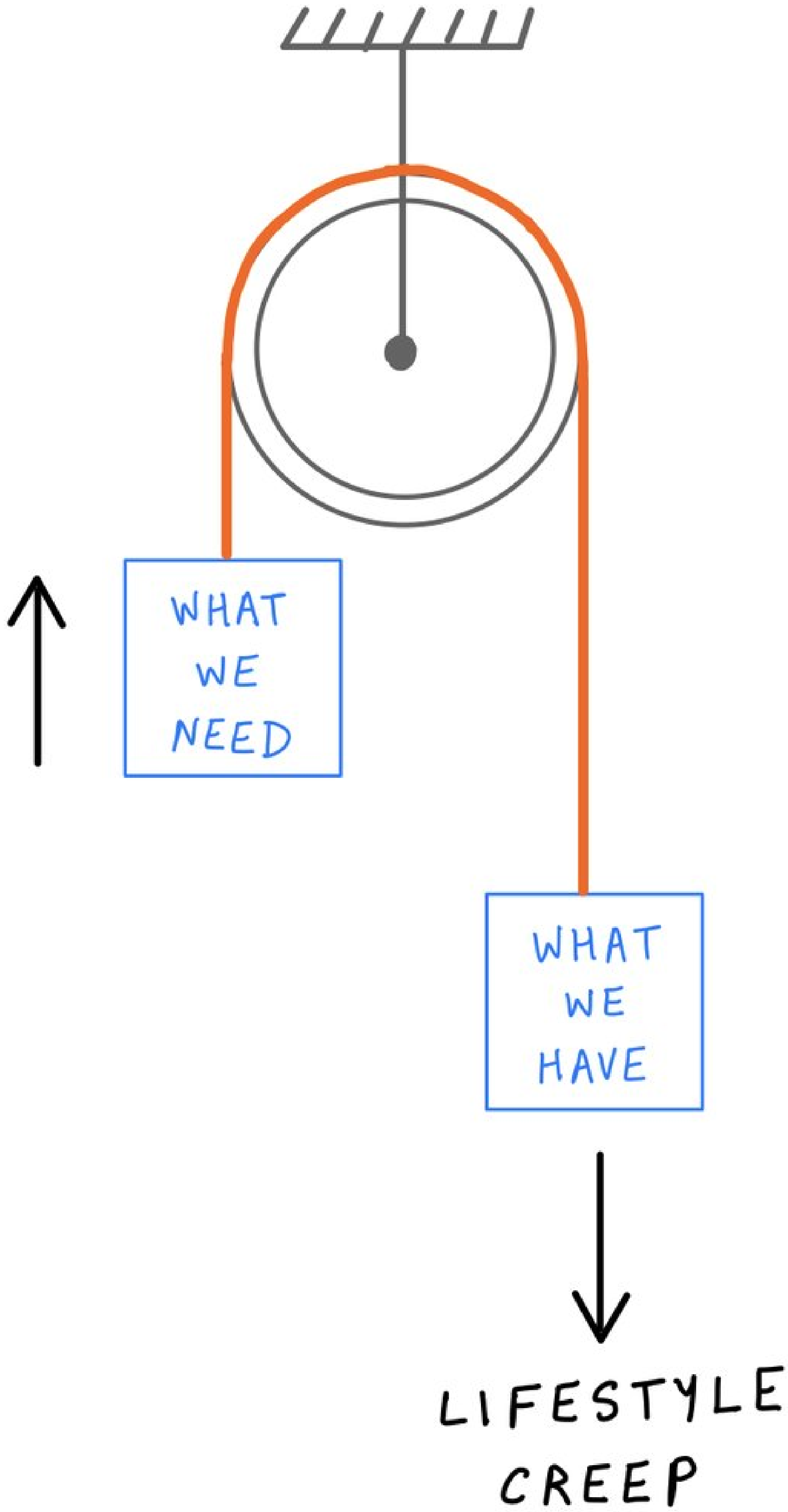
— *Morgan Housel*

Concept #12.

Lifestyle Creep.

As we MAKE more money, we increase our standard of life, and thus SPEND more.

This is a double whammy. The MORE we *spend*, the LESS we have to *invest* and *compound* with. Also, the MORE our portfolio has to provide, so the BIGGER it has to be.

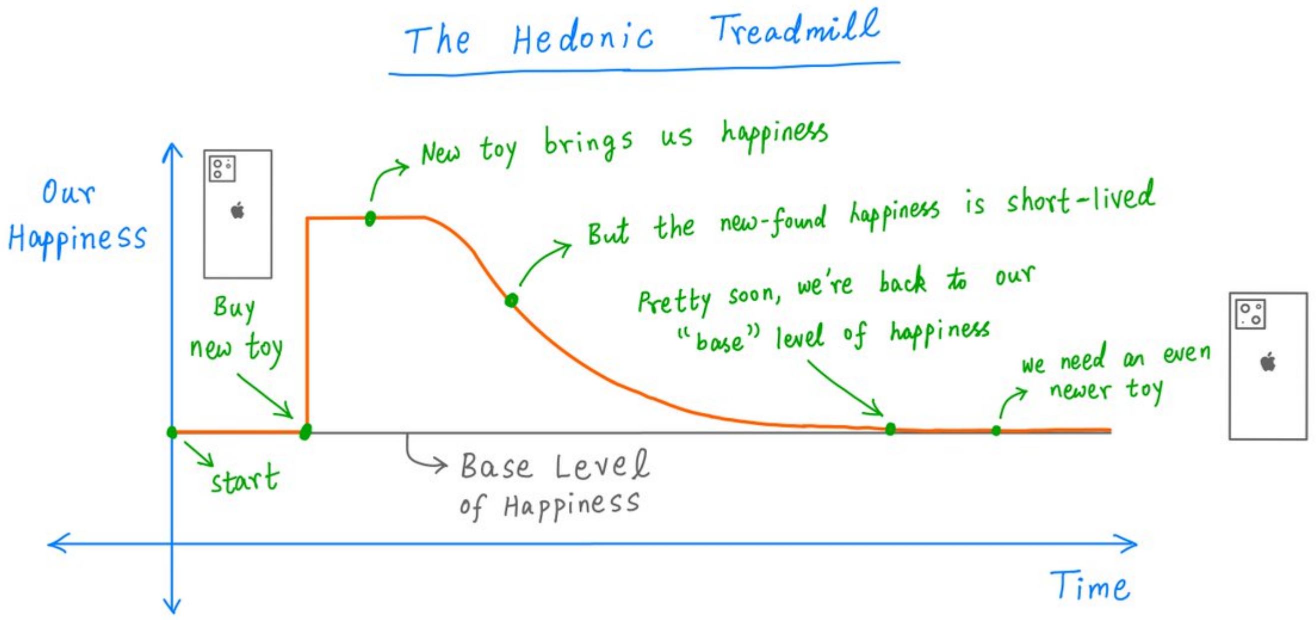

WHAT WE NEED
WHAT WE HAVE
LIFESTYLE CREEP

Concept #13.

The Hedonic Treadmill.

The world around us is always trying to get us to buy more stuff than we really need.

We can resist this by remembering that, usually, the pleasure we get from buying new stuff is only temporary.



Concept #14.

Mimetic Desire.

Often, we want to buy things because we see *others* around us buying similar things. In this way, we drive each others' wants up, and savings down.

To combat this tendency, we should develop and protect our ability to think independently.

> Man is the creature who does not know what to desire, and he turns to others in order to make up his mind. We desire what others desire because we imitate their desires.
>
> — René Girard

Concept #15.

With interest rates and inflation being where they are, most of us cannot hope to become Financially Independent by saving alone.

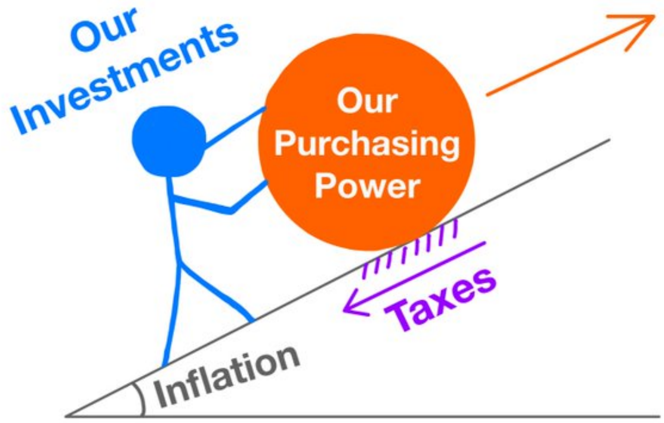
We MUST learn how to *invest*.

Concept #16.

The purpose of investing is NOT just to grow our *money*.

It is to grow our *after tax purchasing power*.

When inflation is a major factor, it pays to think in *purchasing power* terms, rather than in *dollar* terms.



Our *purchasing power* is like a rock on a hill. *Inflation* is the hill's incline. If we do nothing (*i.e., no investing*), our rock is just going to roll downhill (*i.e., our purchasing power will go down over time*). The steeper the incline (*i.e.*, the higher *inflation* gets), the faster our rock (*i.e., purchasing power*) falls.

That's why we need to *invest.* If our *investments* are chosen wisely, they'll not just stop the rock going downhill. They'll actually help drive it *uphill.* That is, our investments will not just *cancel out* the force of inflation; they'll *overcome* it. As a result, our *purchasing power* will *grow* over time.

But of course, rolling a rock uphill means overcoming not just the hill's incline (*i.e., inflation*), but also *friction* against the side of the hill (*i.e., taxes*). So, that's the purpose of investing – to grow our purchasing power over time *despite* the twin forces of taxes and inflation.

Concept #17.

Investing is naturally multi-disciplinary.

Familiarity with a large number of ideas and concepts drawn from different disciplines can be very valuable.

This is Charlie Munger's "latticework of mental models".

Here are 5 sets of models that I recommend:

5 sets of mental models active investors should learn

#1. Business.

How businesses work.

How money flows in and out of businesses.

#2. Accounting.

How to read financial statements.

And the Notes to financial statements.

#3. Basic math / numeracy.

How to estimate the intrinsic value of a business.

What's baked in to the current market price of a business?

How to reason about probabilistic situations, like a portfolio of correlated bets.

#4. Basic financial modeling.

How to predict various possible future outcomes — for a business, and for the owner of a business.

And the rough odds of each of these outcomes.

#5. Psychology.

Know thyself. What kind of investor are we?

What strategies can we stick with?

What biases can hurt us?

Concept #18.

Financial Goal Setting.

When would we consider ourselves Financially Independent? We should think about this, and set appropriate goals/milestones.

One way to do this is via the 4% Rule, the 3% Rule, etc.

For more: https://t.co/FHV5tU9wph

> 1/
>
> Get a cup of coffee.
>
> In this thread, I'll help you work out how much money you need to retire.
>
> — 10-K Diver (@10kdiver) July 25, 2020

Concept #19.

What Gets Measured Gets Fixed.

We need to dedicate some time every now and then to go over our progress towards Financial Independence, make course corrections as necessary, etc.

For example, I try to do a review of my family's finances about once a month.

Concept #20.

We only need to get rich ONCE.

If we're fortunate enough to come close to our goal, we should try to be careful not to lose it all.

That means adequate diversification. Good risk management with a focus on downside protection. Avoiding margin loans. Etc.

Don't turn "short term volatility" into "long term risk"!
(Try to avoid situations where a single turn of bad luck could wipe us out.)

> Over the years, a number of very smart people have learned the hard way that a long string of impressive numbers multiplied by a single zero always equals zero. That is not an equation whose effects I would like to experience personally, and I would like even less to be responsible for imposing its penalties upon others.
>
> — Warren Buffett

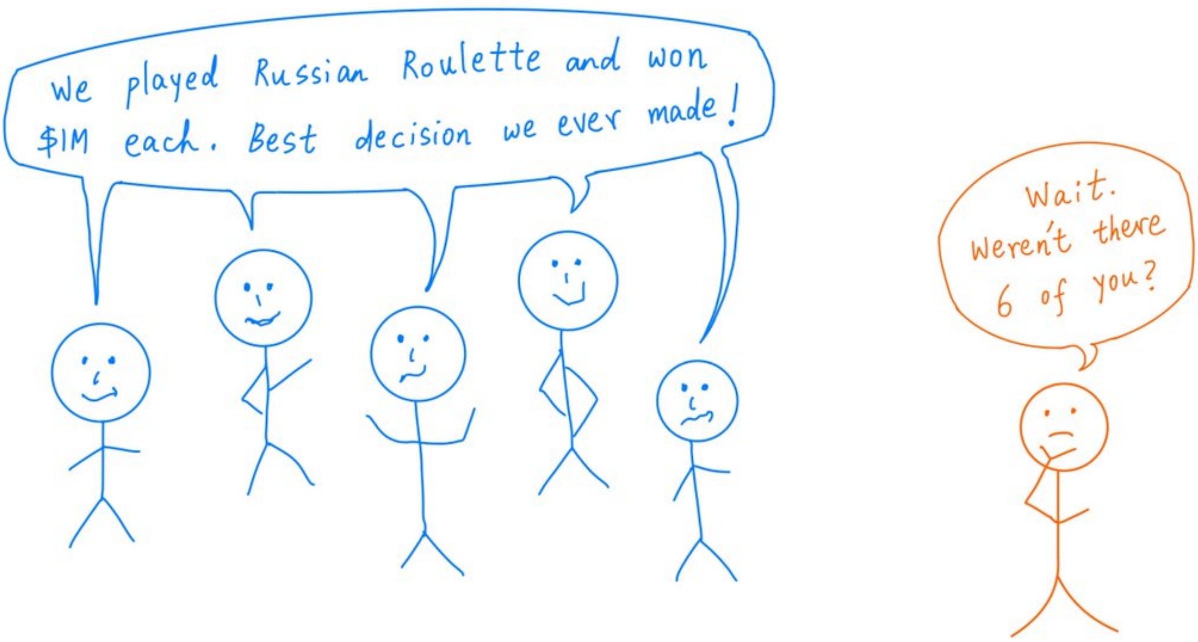
Concept #21.

Survivorship Bias.

As the saying goes, dead men tell no tales.

But alive men and women -- who may have taken huge risks but gotten lucky -- often shout from the rooftops.

Following in their footsteps may be injurious to our financial health.



Concept #22.

Humility.

Luck plays a BIG role in investing. We should acknowledge this when things go well -- and NOT take all the credit for ourselves.

As the saying goes, there are only 2 kinds of investors: those who are humble, and those who will be *humbled* by the market.

So, there you have it. 22 very old concepts to usher in this very new year.

For more, please join me tomorrow (Sun, Jan 02) at 1pm ET on Money Concepts.

We'll discuss some of these concepts in more detail, you can ask questions, etc.

Link: https://t.co/fwHO5990do

Wish you the very best in 2022!

/End