

Automate Wealth Building with the ESI Framework

This doesn't constitute financial advice

@kamranicus

MONEY DESIGN PATTERNS

Elements of reusable
wealth-building

SELF-EMPLOYMENT

2001-2006

FREELANCING / GIG WORK

Clients

Variable income

Short-term projects

RUNNING A BUSINESS

Marketing

Sales

Equity

WORK-STUDY

2006-2010

A way to work part-time where a portion of your tuition is paid down before you graduate

My loans: \$57k

Work-study: \$8k

**Reduced payments and interest (P&I) by
~\$11,000**

TAKING ON STUDENT LOANS

This is an **anti-pattern**. 🔥

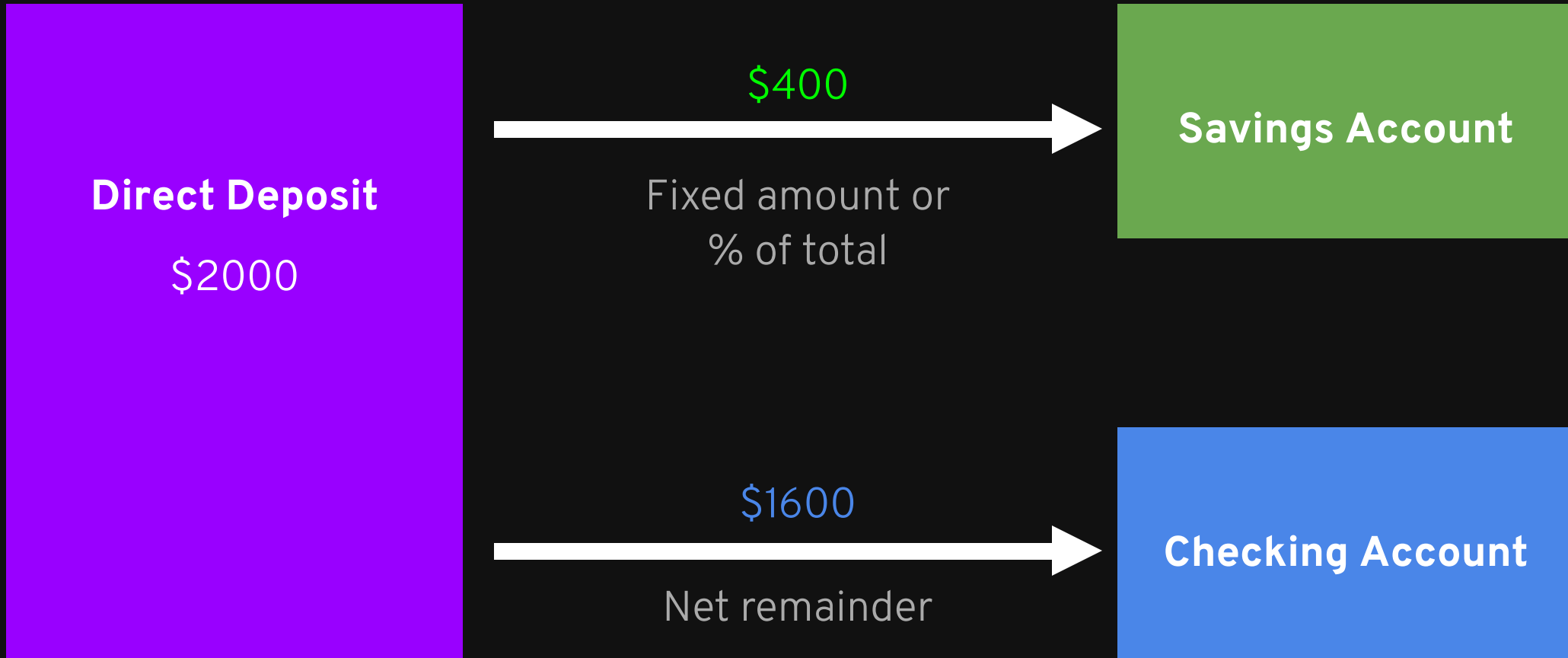
Scholarships and grants

Working within residence halls

AP & PSEO (college credit classes)

DSST & CLEP (college credit exams)

PAY YOURSELF FIRST



PAY YOURSELF FIRST (CONT.)

Sometimes called "reverse budgeting"

Cover expenses with a fixed amount

Reduce temptation to take from savings

💡 Increase amount you give yourself by 10% every raise

401K AUTO CONTRIBUTIONS

Increase contribution by 1% each year

+ 3% match





RENTING

2015

- Fixed or month-to-month
- No mortgage, maintenance or property taxes
- Flexibility for moving

GEOARBITRAGE

Moving to a lower cost-of-living area to lower spending and taxes

- Domestic or international
- 7 states have no income tax
 - Alaska, Florida, Nevada, South Dakota, Tennessee, Texas, Washington, and Wyoming
- Coupled with a high salary, this can make a big difference
- Instead of Paris, we chose Aix-en-Provence

SABBATICAL

An unpaid leave of absence that guarantees you will be able to return to work

- Offered by most Fortune 500 companies
- Usually can take it once every 5-7 years
- Can last up to a year
- Slow travel, summer off, camp in the Boundary Waters
- A "protected" unpaid leave of absence
 - You can always take unprotected leave with approval

FORBEARANCE

Stopping payments to a loan for a fixed period

This is an anti-pattern 🔥

You don't have to make payments, but your loan still builds ***interest*** during this period.

Unless the government decides not to...

401K LOAN

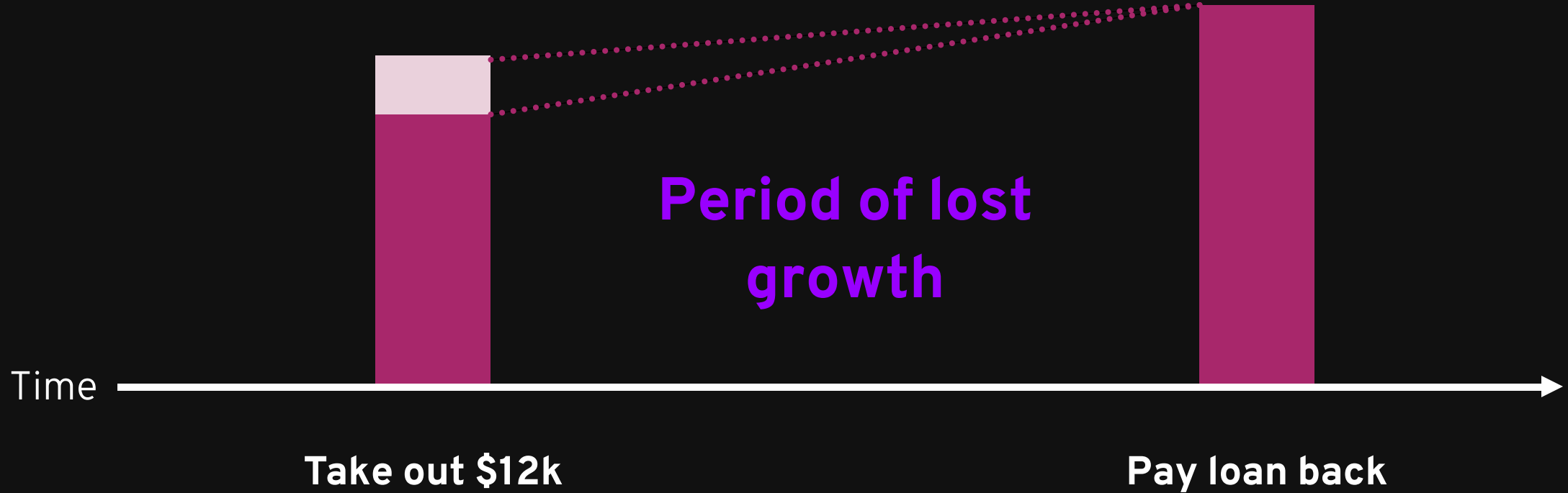
This is an anti-pattern 🔥

No 10% penalty like an early withdrawal

You can borrow 50% or \$50,000 (whichever is less)

It can be transferred immediately without approval

But you lose out on future growth



Ask your plan advisor!

JOB HOPPING

Raise your base salary to new market rates

Raise your base salary by 10+%

Negotiate better benefits like vacation time

Leverage your network for referrals

FLEXIBLE WORK ARRANGEMENTS

Work on a different calendar schedule, remotely,
or less than 40 hours a week

Working at a school, you get summers off

32 hours a week is still full-time (10 weeks off)

Work from a different city (or country!)

HOME OWNERSHIP

Buy a primary residence and build equity

Can be an anti-pattern 🔥

Buying a primary residence is **not an investment**

Plan for 3% annual maintenance

Putting more than 20% down will eliminate PMI

The 80s represented a major semantic version in construction techniques

HOUSE HACKING

Rent out rooms/units to pay for your mortgage

Buy a duplex or multi-plex, rent out units

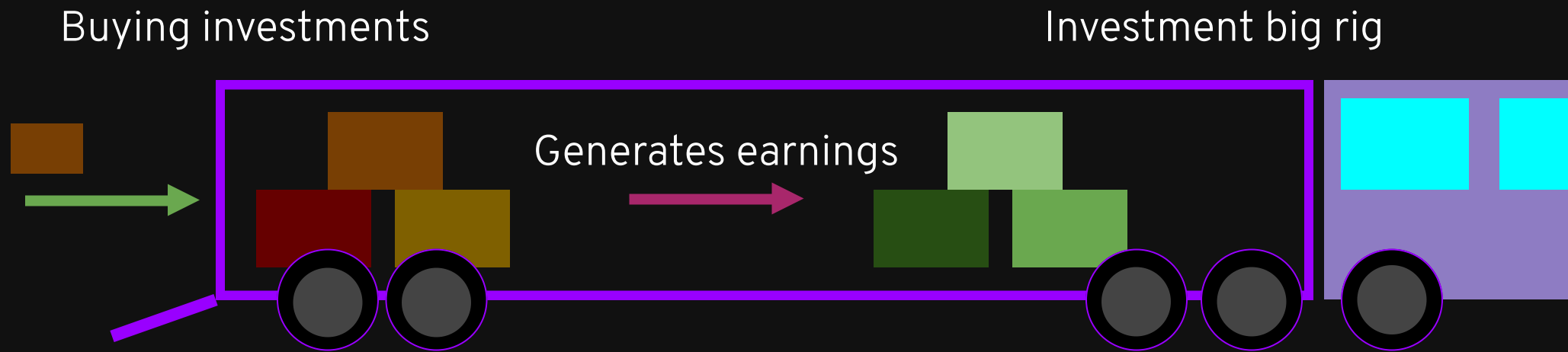
Have a friend live with you and pay rent

Pay your mortgage and live for free

Requires special tax handling as a rental

INDIVIDUAL RETIREMENT ACCOUNT (IRA)

Investment "vehicles" that have different features



Taxes and withdrawal rules differ based on IRA

ROTH AS AN EMERGENCY FUND

Let your Roth be an emergency vehicle 🚑

Maximum contribution \$6,000 per year (2022)

Penalty on withdrawing *earnings*

Exception for first-time homebuyers

Could be an anti-pattern 🔥

**I had contributed \$5400 since 2012.
So I found my \$5,000.**

FINANCIAL INDEPENDENCE (FI)

INVEST

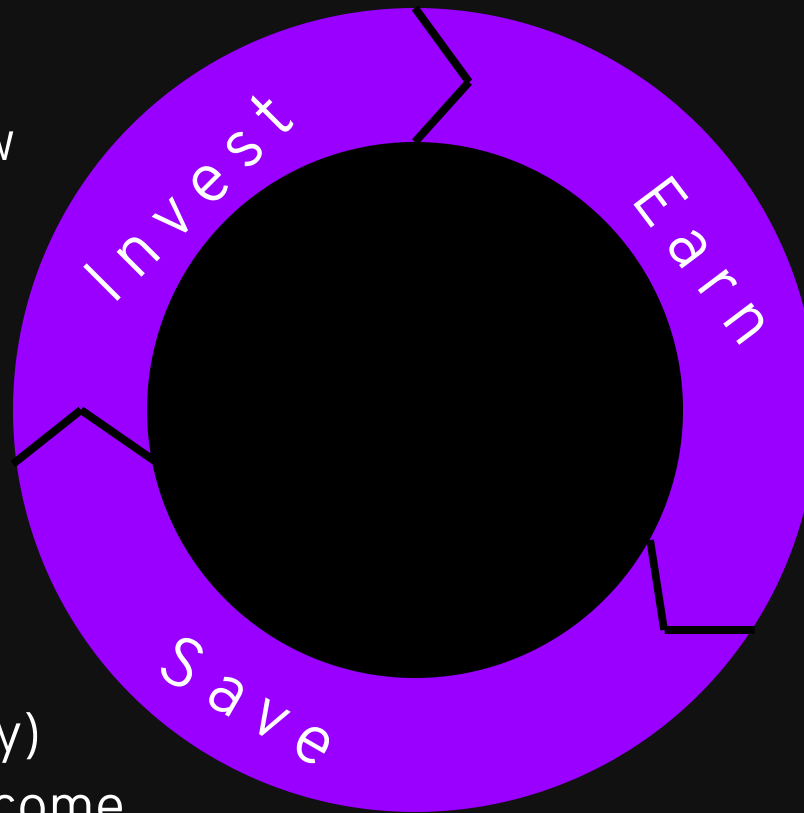
Stash those savings
into things that grow
over time

EARN

Earn money by
working or through
other means

SAVE

Save a (healthy)
portion of your income



HOUSE OF FI

Biking

Renting

DIY

Couponing

Cooking

Buy Used

Geoarbitrage

Meal Planning

House Hacking

Pay-Yourself-First

Brokerage

IRAs

401k, 403b, 457b, TSP

HSA

Money Market

Stocks

Indexes

Bonds

Real Estate

Employee

Side Gig

Freelance

Owner

Landlord

W-2

1099

Royalties

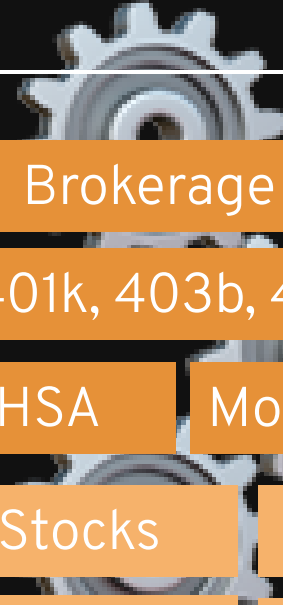
Rental

Your Life

Earning

Saving

Investing



You earn \$100,000 per year

Taxes: \$25,000

You take home \$75,000 after taxes

Savings: \$20,000

Your lifestyle costs \$55,000 per year

4% RULE OF THUMB

Expenses: \$55,000 per year

x 25

Inverse of 4% ($100/4 = 25$)

You must have \$1,375,000 **invested**

with an ~88% chance of never running out of money

4% RULE OF THUMB

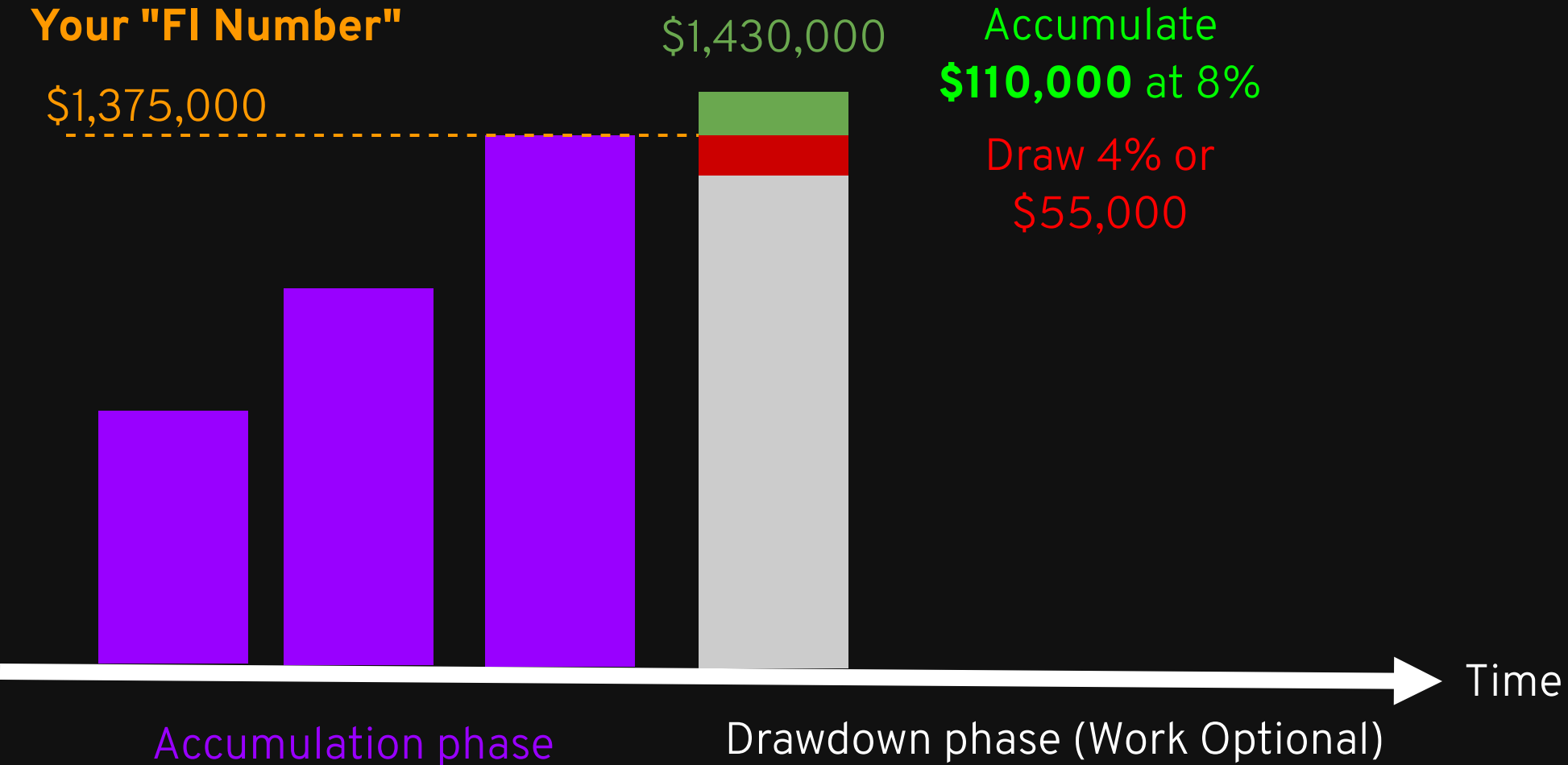
Your "FI Number"

\$1,375,000

\$1,430,000

Accumulate
\$110,000 at 8%

Draw 4% or
\$55,000



SAFE WITHDRAWAL RATE

Expenses: \$55,000 per year

x 30.7

Inverse of 3.25% ($100/3.25 = 30.7$)

You must have \$1,688,500 **invested**

to have a 98% chance of never running out of money

SAVINGS RATE

How much you save vs. take-home dictates how long you "must" work

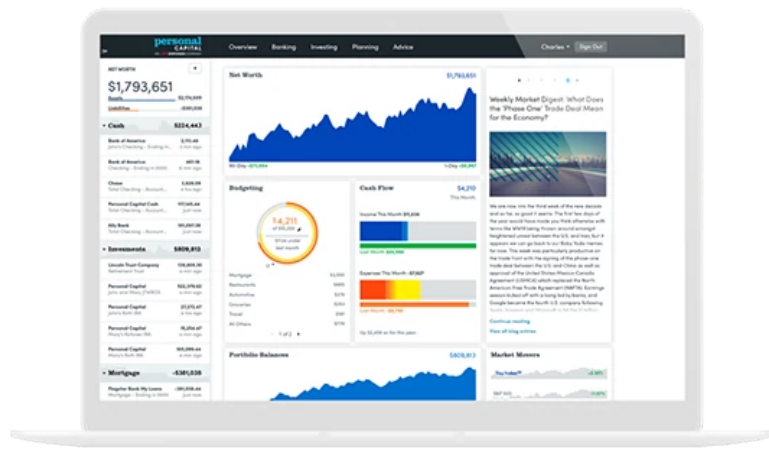
You save (& invest) \$20,000 per year

You take home \$75,000 after taxes

$$\text{\$20,000} / \text{\$75,000} =$$

26% savings rate

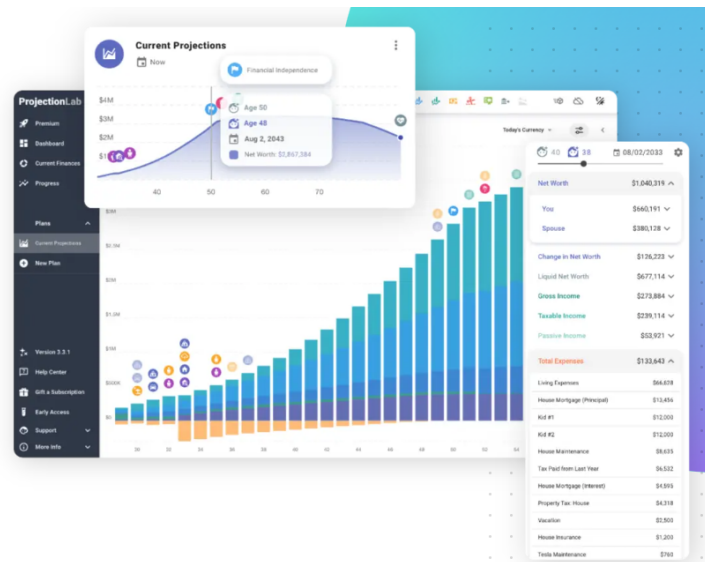
[https://networthify.com/calculator/earlyretirement?
income=100000&initialBalance=0&expenses=95000&annualPct=8&withdrawalRate=4](https://networthify.com/calculator/earlyretirement?income=100000&initialBalance=0&expenses=95000&annualPct=8&withdrawalRate=4)



PersonalCapital.com



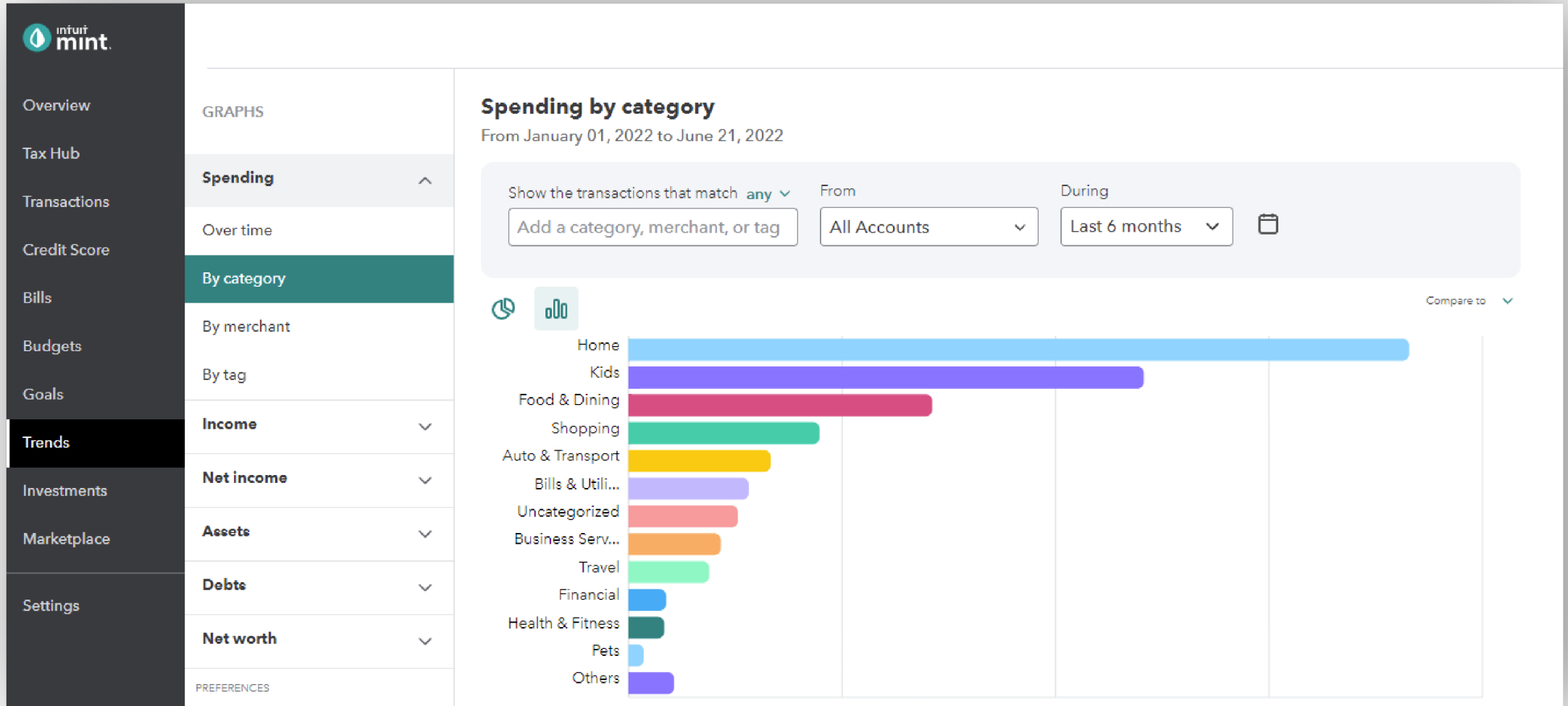
YouNeedABudget.com



ProjectionLab.com



TillerHQ.com



MORTGAGE HACKS

Reduce payments & interest

Paid bi-weekly which shortens life of the loan

Refinanced to a lower rate

Removed mortgage insurance (PMI)


Be careful refinancing (anti-pattern alert) 🔥

SNOWBALL AND AVALANCHE METHODS




Pay down debt with two methods


TWO METHODS FOR TACKLING DEBT

There are 2 common ways to approach tackling debt:






SNOWBALL
(focuses on total debt size as a priority)

-  Make minimum payments on each debt monthly
-  Make extra payments on the smallest loan
-  When paid off, move to the next highest loan debt



AVALANCHE
(focuses on highest interest as a priority)

-  Make minimum payments on each debt monthly
-  Make extra payments on the highest interest rate loan
-  When paid off, move to the next debt with the highest interest rate

CHILDCARE HACKS

You have to get creative...

Work an academic schedule

Take kids out of daycare

Use a Daycare FSA account to pay

Buy clothing "Lots" on Facebook

Put birth expenses on a travel rewards card to get
sign-on bonus and pay for a family vacation 😊

MEAL PLANNING

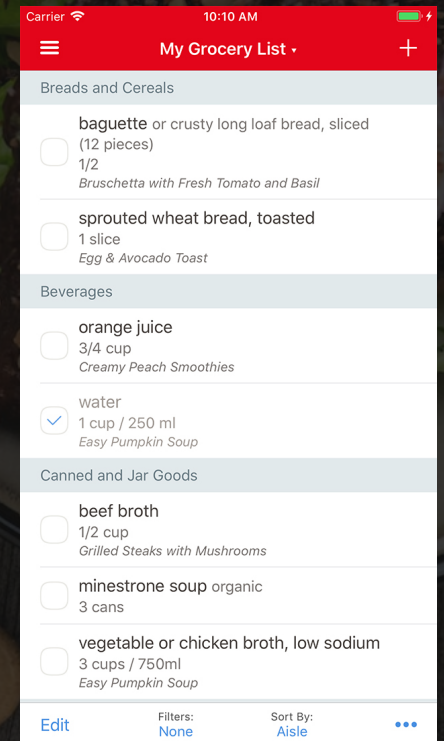
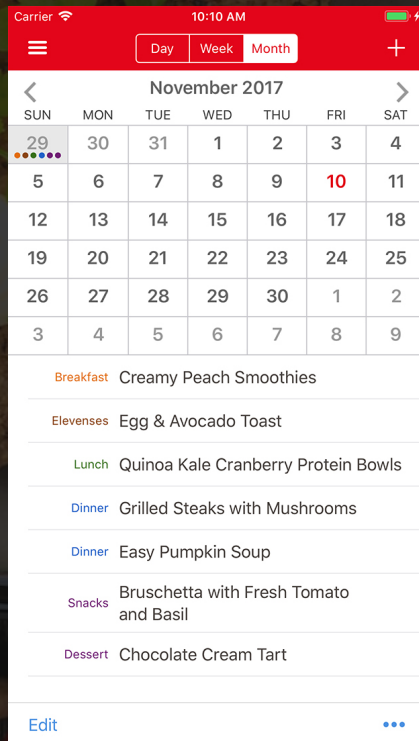
Planning meals in advance and optimizing groceries

Reduce food expenses with leftovers

Optimize scheduling (weekly or monthly)

Optimize price-per-serving

We use Paprika Recipe Manager (iOS/Android)



BILL OPTIMIZATION

Replace equivalent services or reduce bills
through negotiation

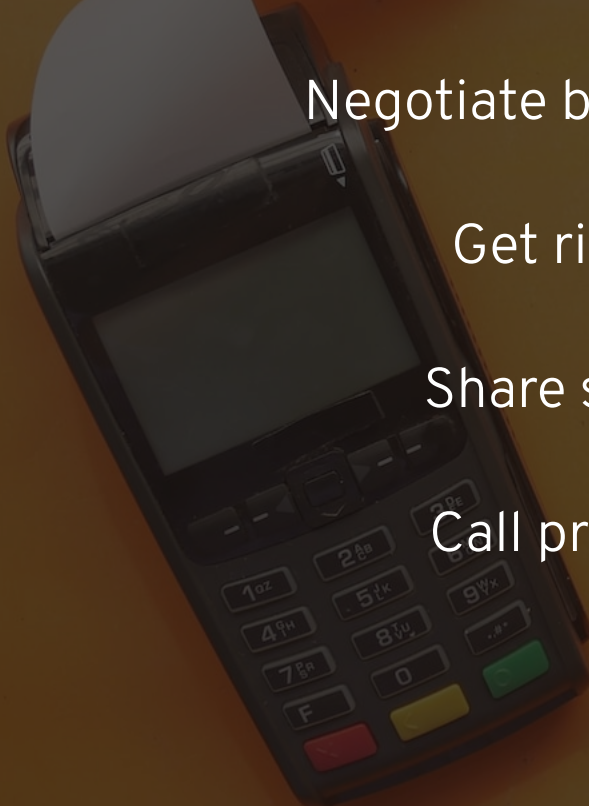
Equal service for less (e.g. Verizon to Mint)

Negotiate bills or use a service like Billshark

Get rid of services you don't use

Share services with friends/family

Call providers for different quotes



THE MONTHLY FEE OF 173

A rule of thumb when thinking about how much
a subscription *actually* costs you

monthly expense x 173 =
cost compounded at 8% over 10 years

BUDGETING

Monthly savings: **\$2,136**

x 173

10-year savings: **\$369,528**

(or, my 3,000 sq. ft. house)

(or, 7 years of living in France without working)



INDEX INVESTING

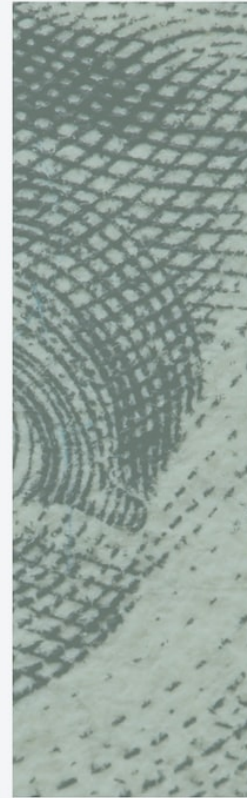
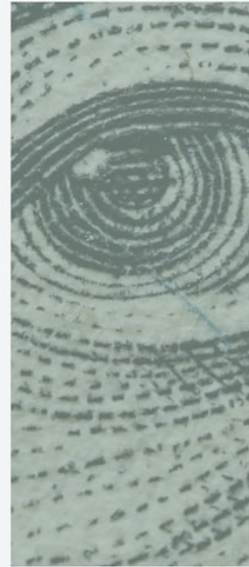
Broad-based index funds allow you to invest in tiny slices of many companies that represent the market.

Because there's hardly any management, they have very low fees.

TIME VALUE OF MONEY

Money today is worth more than money tomorrow because of its potential earning capacity.

TIME ►

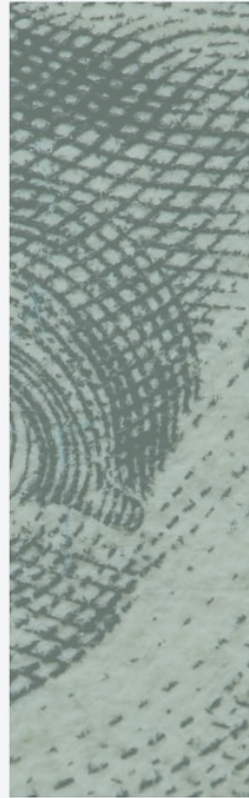


▲
WEALTH

COMPOUND INTEREST

Money makes money, and that money makes money.

TIME ►



▲
WEALTH

INDEX FLAVORS

Total Stock Market Index

Thousands of companies, representative of the market as a whole (VTSAX, VTI, FSKAX)

Large Cap Index

Like the S&P 500, top companies by market cap (VOO, FXAIX)

Socially Responsible Indexes

Subset of the total market that meets certain guidelines for environmental or social practices

ASSETS

Stuff you can buy that makes money

Stocks/bonds

- Index funds
- Individual stocks
- Treasury bonds

Real Estate

- Investment property
- Renting out a room
- Land / farmland
- REITs

Business

- Owner + operator
- Equity
- Royalties
- Products

Energy

- Solar on your house
- Solar farms / co-op
- Wind turbine

Others

- Peer-to-peer lending
- Crypto???
- Metals???

PASSIVE INCOME

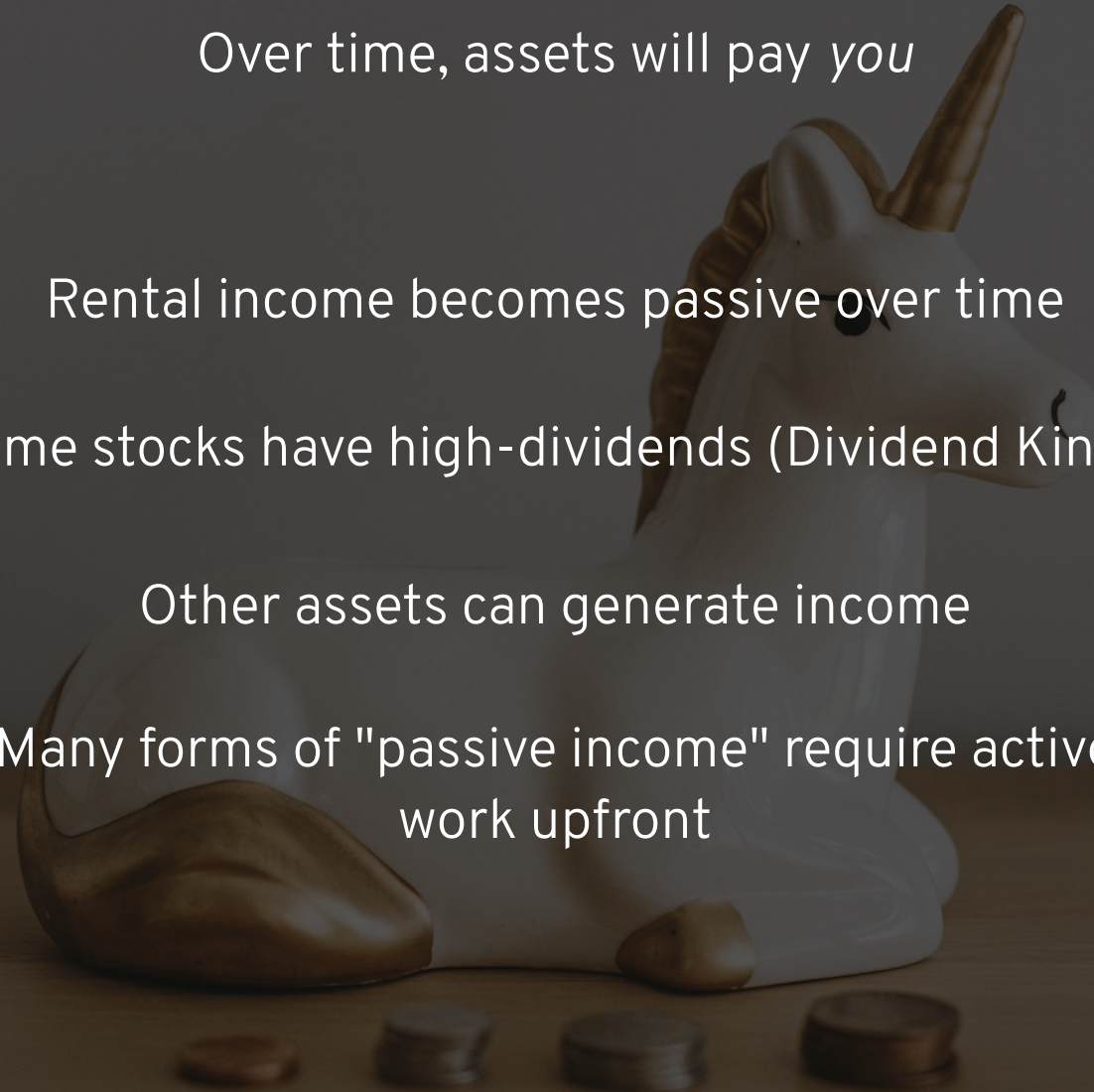
Over time, assets will pay *you*

Rental income becomes passive over time

Some stocks have high-dividends (Dividend Kings)

Other assets can generate income

Many forms of "passive income" require active work upfront



TAX-DEFERRED VEHICLE

You pay taxes *later* when you unload everything
at your future tax rate



Usually a penalty if withdrawn before certain time



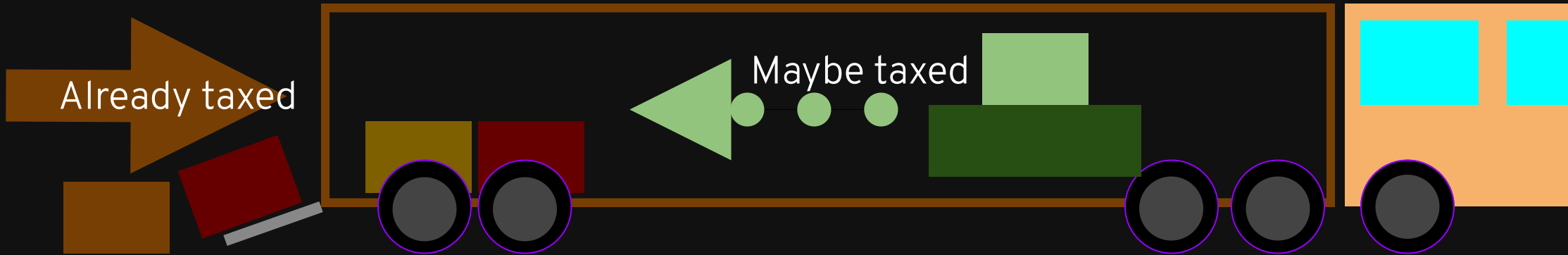
Examples: 401k, 403b, TSA, Traditional IRA

AFTER-TAX VEHICLE

You load with after-tax money and may not pay taxes again



Sometimes a penalty for early withdrawal



Examples: Roth IRA / Roth 401k (Tax-free growth),
Taxable Brokerage (Taxed on gains)

VEHICLE RULES OF THUMB

General guidelines for developers

If you expect to be earning more, prefer Roth IRA

It's usually good to max-out tax-deferred accounts

Tax-deferred accounts lower taxable income

INVESTING IN 3 STEPS

For your own IRAs or taxable brokerage accounts

1. Open an account at a brokerage firm (Vanguard, Fidelity, Schwab, etc.)

2. Transfer funds (settlement)

3. Buy an investment

**Don't forget
this!**



INVESTING IN 4 STEPS

For your own IRAs or taxable brokerage accounts

4. **BONUS:** Set up automatic investments every 2 weeks

Invest into	Amount	Frequency
VANGUARD TOTAL STOCK MARKET INDEX ADMIRAL CL	\$250.00	Every two weeks
Next scheduled investment 06/27/2022		

THE HSA SUPERPOWER

Pay out-of-pocket instead of reimbursing yourself

You contribute pre-tax dollars (for a family, max is \$7,000 per year)

Balance can be invested (usually after \$2,000)

Those investments grow over time

After age 65, you can **pay yourself back tax-free for all those out-of-pocket expenses** *and* you can withdraw the rest of the funds like a traditional IRA.

HSAS ARE SUPER IRAS



THE 457B SUPERPOWER

Offered *in addition to* her 403b (\$22,500 limit)

Treated separately by the IRS, doubling the limit (\$45,000)

Tax-free growth like a 403b, 401k, etc.

No early withdrawal penalties after you leave employer

OPTIMIZING FOR TIME AND MONEY

Developers have options for not trading time for money

Well-paying tech jobs with unlimited PTO

Solo consultants (expertise-based businesses)

Build a SaaS business

Info products (books, courses, etc.)

OPTIMIZING FOR TIME AND MONEY

The Shield of F U Money

Save up enough to say F U to your job

Fund gap time off like sabbaticals

Take time off to experiment

Fund an entire lifestyle change

TAKING SUMMERS OFF

Whole family at home

Slow travel and vacations

Time for side projects

Time for DIY and home renovations

And I did it again! 😈 Except this time...

I SAID F U, I QUIT

By design

Summers off

Solo consulting

Growing my SaaS business

Making more courses

"Rather than listen to the siren songs from investment managers, investors—large and small—should instead read Jack Bogle's *The Little Book of Common Sense Investing*."

—WARREN BUFFETT

THE LITTLE BOOK
of
COMMON SENSE
INVESTING

*The Only Way to Guarantee
Your Fair Share of Stock Market Returns*

10th ANNIVERSARY EDITION | UPDATED & REVISED


JOHN C. BOGLE

Founder and former chairman of the Vanguard Group

Found

esting

JOHN C. BOGLE



Sharing tips to get you closer to F U Money plus learnings
from my own journey at

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Cheers,
Kamran Ayub

I wish you the best on your own financial journey.