Financial Checklist

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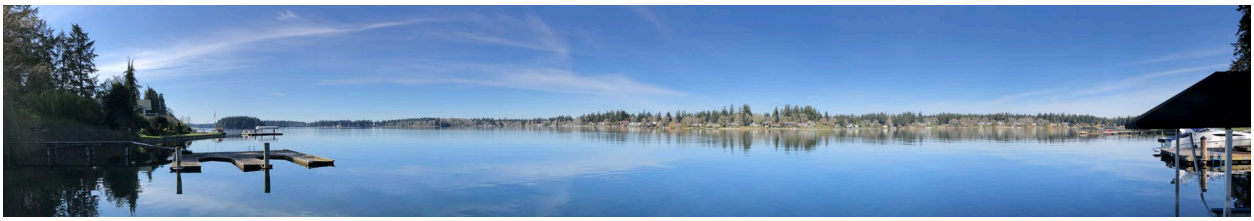
This checklist was made to help my kids with their journey to financial independence. This is a supplement to *The Good Life* slides found at the website tobylee.net then the finance tab. You are supposed to get yourself a certified financial planner who is a fiduciary to give you appropriate advice. I am not qualified to give good or bad financial advice. But I read a lot and have compiled the best advice I could find from various sources.



Checklist

Step 1 essentials

- ☐ **Save 3-6 months emergency fund in a high yield savings account**
- ☐ **Pay off (avoid) all high interest debt (credit cards, payday loans)**
- ☐ **Contribute to retirement fund to get full match from employer**

This emergency fund will hold enough money to cover 3-6 months of expenses all saved in a high yield savings account. This is to cover unexpected events that can really crush your finances and get you in trouble. It will help cover the car breaking down, job layoffs, and major medical expenses so you don't have to resort to high interest debt.

High interest debt like credit cards (19-30% annual interest), payday loans (390% annual interest), and loan sharks (illegal 500-1000% interest plus your kidney) making building wealth challenging if not impossible. One hopes to earn 10% annual return on the S&P 500 mutual funds, and these rackets really get you. This debt usually grows faster than you can build wealth.

Employers often (but do not always) have a match for retirement money contributed by the employee, with a maximum match of 4-5% of the employee's salary which is really free money. A company that provides a match will contribute dollar for dollar what you contribute up to the limit. If the limit is 5% and you contribute 5% of your salary then the company adds an *additional* 5% into your account for free. If you put in 1% the company would match only 1%. If you put in $0, you don't get any free money. Get the free money. You are allowed to contribute more than the match; the company just doesn't match the extra. Make sure that you are investing in some mutual fund with the money put in your retirement account. Don't let it sit in cash. Most people will choose a targeted retirement fund which is fine.



Step 2 basic

☐ **Look at *The Good Life* slides to learn about investing**
☐ **Open your own personal brokerage account**
☐ **Automatically invest at least 10-15% of gross (pre-tax) income**

I'm pretty happy with *The Good Life* slides that are found at the website tobylee.net then the finance tab then toby the good life. It goes though why you want to invest, the power of compound interest, asset classes (including the risks and returns), how to read a mutual fund prospectus, and this checklist presented in a different way.

Open your own personal brokerage account to contribute post-tax money. Opening a brokerage account is not complex or scary; it is just like opening a bank account. You sign up, give them your information (including things like your social security number for tax purposes), and then can transfer money into the account to invest. I use Vanguard which is focused on low costs for the client. It allows for regular automatic purchases that get taken out of my checking account every week. You can choose every other week, every month, or probably every day. Other brokerage accounts include Fidelity, Charles Schwab, SoFi, Merrill Lynch, and many others.

Most financial advisors suggest investing 15% of your gross (pre-tax) salary in order to plan for a happy retirement in the far future. This would include retirement as well as non-retirement money. Most workers no longer get a pension for retirement years. Who knows what will happen to Social Security. You should start your investing and retirement planning by contributing to your work retirement. Then you add even more money to your own personal, post-tax brokerage account—make sure to set up automatic investments by choosing an amount that you can live with that goes to your brokerage account every week or every 2 weeks. You can start off slowly and gently. You *must* choose a mutual fund or exchange traded fund (ETF) to buy with the money you transfer automatically. Transferring money to sit in cash is not investing. The base mutual fund most people choose is an S&P 500 mutual fund. I have money transferred every week so it is a smaller amount more frequently which I hardly notice rather than doing it once a month.



Step 3 advanced

- ☐ **Continue homework including reading the finance books**
- ☐ **Increase regular contributions with each pay raise**
- ☐ **Pay off student loans**
- ☐ **Review investments every year**
- ☐ **Assess asset allocation—more aggressive while younger**

I highly recommend spending some time reading financial books. Many of the ones I suggest will recommend the same things—automatically investing regularly, living below your means, not comparing yourself with others, and spending money on things that are truly important to you. You can find my updated reading list at the website tobylee.net then the finance tab then the *reading list* header. I would suggest reading the books in order that is listed.

As you get raises and bonuses at work, try to increase the contributions to investments to at least keep up with the 10-15% of gross income recommendation if not more. I hope you were doing fine the week before your raise, so the raise is just extra money. If you are able to invest the extra money from your raises and bonuses rather than have lifestyle creep then you will be in an even more comfortable position in the future financially and/or get to your financial independence goal faster.

Student loans do not go away even in bankruptcy. Get rid of this debt.

Make sure you are happy and comfortable with your asset allocation. Check to see what you are invested in 1-2 times a year to see if you need to make adjustments. The usual standard advice is a targeted date retirement fund in work retirement money and a S&P 500 mutual fund for the extra personal money which should yield 7-10% annual return depending on how much of each you have. I have been more aggressive with S&P growth funds (if available) for retirement and much more in technology funds (VGT) for personal money which since 2013 has given me an average return of 17.7% annually—a much higher return with a riskier asset allocation. With a more aggressive allocation I see my money doubling much faster than with standard investing advice. So even in really bad years like in 2022 when my investments and thus net worth took a huge 30% beating—worse than the market overall—I find that my recovery the next year was equally huge and my overall returns have made up for any market downturns. But that's me.



Step 4 black belt

- ☐ **Pay off (avoid) car loans**
- ☐ **Pay off mortgage (if you own)**
- ☐ **No debt**
- ☐ **Learn more about how financial markets work to follow trends**
- ☐ **Take care of your health**
- ☐ **Plan for future retirement**

Getting rid of debt as you invest is a black belt move. There are a number of opinions on "good debt" such as student loans (education increases your earning potential) and a mortgage (your home value generally increases over time so it is an appreciating asset) versus "bad debt" such as car loans (a depreciating asset since the car loses value every day you own it) and credit cards (high interest rate) as well as many strategies on paying down the debt. But in my mind, ultimately the goal by retirement is not to have *any* debt.

You should not count on taking money out of your retirement account early as there is a penalty. After you invest for some time, I hope you will notice that your returns in your taxable accounts will be a potential source of extra money. If you invest aggressively enough and your investments grow enough, you will be able to use the investment returns to pay down debt or even buy big ticket items with cash. While not always possible, if you can avoid touching the principal but just take out gains (when you need to) then you will keep on growing your wealth. And if you don't take anything out but instead continue to reinvest the gains then you will really take advantage of compounding which is what will make you financially independent and make work optional. I really believe that you cannot build wealth by working or saving alone; you need to invest to have your efforts compound.

I regularly listen to Marketplace and read CNBC news to understand what is going on with the financial markets and the economy. I learn about the forces driving the economy whether it is the internet, artificial intelligence, pandemics, war and other conflicts, interest rates, or government policies.

Take care of your health. It is more important than a bit more money in your investment account. Eat healthy, exercise, make social connections. And with all this you will (I hope) have a not comfortable but wonderful retirement. I have a health link on my website tobylee.net then the finance tab.



Milestones

growing wealth

- ☐ Not changing long-term strategy even with market downturns
- ☐ Contributing for 1-2 years regularly and seeing the growth
- ☐ One year of your salary in retirement and brokerage accounts
- ☐ $100,000 in retirement and brokerage accounts
- ☐ Ten times your salary in retirement and brokerage accounts
- ☐ $1 million in retirement and brokerage accounts
- ☐ Investment returns in one year greater than the salary you earn
- ☐ 25 times expenses in retirement and brokerage accounts
- ☐ Work is optional

NOT CHANGING STRATEGY AND REGULAR CONTRIBUTIONS. If you invest consistently for a long enough time, you will be hitting these milestones on the way to financial independence. Not changing your long-term strategy is just leaving your automatic investments on auto-pilot—set it up once and let it keep on doing it regardless of market conditions. This is called dollar cost averaging. If the stock market is good then you will buy fewer shares of your mutual fund, and if the stock market is terrible then you will end up with more discounted shares. But you will automatically save and invest before you even realize the money is not there to spend. And after a year or two, you can see that the money in the account is larger (I hope) though there is a chance that the money shrinks if the stock market goes down during that period of time. But the possibility of decreasing value is why over the long-term you and every investor *expects and demands* a higher rate of return than a safer bond or savings interest rate. More risk demands a higher return. And over time it has historically been a winning strategy.

ONE YEAR OF YOUR SALARY. You should hit one time your salary in your retirement and brokerage accounts in about 7 years if you regularly put aside 15% of your gross (pre-tax) income every paycheck because 7 x 15% is 105%. That is without counting investment growth. It is maybe faster to hit this goal than 7 years if your investments return a healthy number. If you get an average 10% return and invest 15% of your gross income, it will take less than 6 years to accumulate enough to equal one year of your salary.

One hundred thousand dollars. Hitting $100,000 in your retirement and investment accounts is a huge milestone. If you for some reason decide at that time to stop contributing any more money (which is not a good life choice), you will reach $1 million in about 25 years after that assuming a 10% annualized return (which is the return over the last 30 years for the S&P 500 with dividends reinvested). You are basically taking advantage of compounding. But if you keep on investing (which you should), you will end up with even more money to spend even sooner.

Ten times salary. If you do the math, 15% of your pre-tax income every paycheck invested for 22 years at a 10% annualized rate of return will result in 10 times your salary in 22 years. There are a couple of ways I think of the 10 times salary benchmark. Ten times salary is one general guideline suggested by a number of financial firms for people to retire comfortably at 67 years old (because they get Social Security as well). To me, ten times salary invested is the point when your average annual returns will be approximately equal to your annual salary…forever. And if you don't take the money out but continue to reinvest the gains (which is the common theme), then your investments could grow approximately by your annual salary *or more* every year after this milestone.

One million dollars. The median salary in 2026 in the United States is $65,052 per year overall for all workers and $91,936 for those with a bachelor's degree or higher. After you hit ten times salary you may find yourself quickly approaching or already passing the $1 million milestone. It is just a nice even round number with seven digits. Worth a lobster dinner to celebrate.

Investment returns greater than annual salary. Since you probably hit the 10 times salary milestone, you will very likely discover that your investment returns are greater than your earned salary. Nice feeling. Your investments that you worked so hard to accumulate over the years are now working harder than you. You planted the seed, and now the tree is bearing fruit…like forever.

Twenty-five times expenses. This is the FIRE number (financial independence, retire early). In 1994, William Bengen did an analysis and published a report that if you withdraw 4% of your investment portfolio the first year with withdrawals amounts increasing with inflation, most people will enjoy a 30 year retirement with a 50% bond and 50% stock mix without running out of money. William Bengen recently updated his often cited 4% rule by assuming 65% equities (stocks and usually mutual funds), 30%

bonds, and 5% cash now saying 4.7% is the starting withdrawal rate that can be sustainable and successful.

Those who follow the FIRE (financial independence, retire early) strategy will work towards the 25 times expenses invested then quit working while still young to enjoy life. The 25 times expense number comes out of the Bengen 4% rule (4% x 25 = 100%).

WORK OPTIONAL. Depending on how much you believe in these milestones, a handful of them are goals to reach before stopping work according to some retirement advisors. The ten-time salary goal is recommended by Fidelity Investments for people who are 67 years old (traditional retirement age) with the thought that this amount invested is enough to last you the rest of your life. The FIRE number (25 times annual expenses) is the number that a number of younger investors try to reach in order to retire early. In both these scenarios, the risk is of course, market downturns (when you have to withdraw some money to live), unexpected expenses (major medical illness), and longevity (if you are blessed with a long life you will need more money to keep things going).



Comments

PRE-TAX VERSUS POST-TAX INVESTMENTS. There are a couple options. The traditional retirement fund is pre-tax meaning that you will invest 100% of your money in your 401k, 403b, or individual retirement account with no taxes being paid up front. However, once you start withdrawing you will pay tax on the entire withdrawal amount which counts are regular income so is taxed at the income tax rates. Another option for retirement money is to invest in a Roth account which could be a Roth 401k, Roth 403b, or Roth individual retirement account. The Roth retirement accounts are funded with post-tax money. You will earn your income, pay your taxes, *then* contribute. But because you have already paid taxes once on the Roth retirement account, all your withdrawals will be tax-free. Finally, post-tax investments are your extra personal bucket of wealth that is not part of any retirement account (like my Vanguard account). These investments are funded post-tax. And when you finally sell your stocks or mutual funds or exchange traded funds (ETFs) you will be responsible for paying additional taxes on the gains (the profits). There

are two different capital gains tax rates: short-term capital gains are profits made with investments held less than a year and are taxed at your personal income rate, and long-term capital gains are profits made with investments held longer than a year which are taxed generally at a much lower rate (depending on your income the rates are currently 0%, 15%, or 20%).

Below is an example table of different outcomes between different strategies assuming $1000 one-time initial amount to invest from earned income, 20 years of growth at 10% annual returns, 20% personal income tax rate that never changes during this time, and long-term capital gains rate of 15%.

Example of Retirement Accounts versus Post-Tax Accounts

	Traditional	Roth	Post-Tax
Income to invest	$1,000	$1,000	$1,000
Initial balance	$1,000	$800	$800
Final balance	$7,328	$5,862	$5,862
Money in pocket	$5,862	$5,862	$4,982

What you see is that so long as your tax rate stays the same there is no significant difference between a traditional and a Roth retirement plan; however, if you think that your tax bracket will go up over time (because you will become more experienced and earn more money at work), then paying taxes at the lower tax rate now through a Roth makes more sense. If you think that your tax bracket will go down perhaps because you retire and stop working thus making less income, then the traditional retirement plan is better because you could end up in a lower tax bracket when you have to eventually pay your taxes. One of my retired partners told me that if I invested right that my tax bracket will *never* go down even in retirement which is a good goal to have. There are a bunch of other differences you can look into between the traditional and the Roth retirement plans such as required distributions, how assets are passed along to heirs, and other details. But both retirement plans are tax-advantaged, and you will see from the table above that both beat putting money in only a post-tax (taxable) account.

So why would you consider a taxable account? The main reason is flexibility. For the traditional retirement account, there is a 10% penalty for withdrawals before the age of 59½ years old. For the Roth retirement account, you can have penalty-free withdrawal of contributions but gains withdrawn before the age 59½ result in a 10% penalty. There are limits to how much you can contribute to a retirement account. Taxable accounts have no limit to how much you add and have no penalty for withdrawals anytime.

MY SUPER CRAZY AGGRESSIVE STRATEGY. You are supposed to be diversified. The traditional allocation has S&P 500 funds, international funds, and bonds. Concentration in any particular sector means that you will magnify your gains or losses. And heavy concentration to single stocks will make your net worth change significantly based on the fortune or failures of a handful of companies. A traditional allocation including bonds will mean that you will likely never get the average 10% annual returns seen by the S&P 500 in the last 100 years because the bonds will pull down your returns. Bonds are considered safer (particularly US treasury bonds which is considered one of the safest investments because the US is one of the most stable countries in the world) so the returns are lower. If you invest in a higher risk asset you would expect or demand a higher return for taking on the risk. If you invest in a lower risk asset then you won't be able to demand that high return.

For the last 25 years or more it has been the age of technology and information. First there were personal computers. Then there was the internet. Then there was the smart phone. Now there is artificial intelligence. Microsoft, Apple, Google, Netflix, Facebook, and other companies are household names. You might have heard of Nvidia? The largest company in the world right now by market capitalization (number of shares times share price) worth $5.7 trillion? I have been fairly concentrated in technology funds and some technology stocks since I got more sophisticated and aggressive in investing. Technology is what is making the world go round and driving most of total stock market returns right now.

My allocation is 72% technology and 28% of everything else. Most of the everything else I get is from my S&P 500 holdings. If you just look at the S&P 500, 32% of companies are information technology, 13% are financials, 10% are industrials, 10% are health care, 9% are consumer discretionary, etc.

About 45% of my investments are in the Vanguard Information Technology fund (VGT or VITAX) which is pretty similar to Investco QQQ. I have 22% in S&P 500 funds mostly in retirement because that is the most aggressive fund I can choose. I have 15% in more technology shares through individual companies (something you would not want to do unless you were pretty comfortable with investing and/or had extra "play money"). I put almost all of my post-tax money in the information technology sector and all of my retirement in the S&P 500 index fund (rather than a targeted date retirement fund) which has resulted in 17.7% overall annual returns over the last 12 years—higher than the 13-14% for the S&P 500 over the same time period. I usually save and invest 20% of my gross income, but one outstanding year I invested 28% of my gross salary.

SOME MATH. I have some scenarios to encourage you to be more aggressive while younger. As you get older you will want to be less aggressive and safer with your investments because a market crash when you are no longer working is a problem (sequence-of-returns risk). But when you have decades before retirement, occasional market crashes are just a blip on the investment horizon which allows you to buy shares at a discount if you stick with the automatic investment strategy. I am hoping that these tables will encourage more aggressive savings (choosing a higher percentage of gross salary also known as pre-tax salary to put into investments) plus more aggressive investments (more aggressive funds with perhaps more technology which is growing fastest in the last 25 years) to reach one time and ten times salary (two of the milestones). Find a sweet spot for yourself.

Investing 10% of gross salary

Annual rate of return	8%	10%	15%
Years to reach 1x salary	8	8	7
Years to reach 10x salary	29	26	20

Investing 15% of gross salary

Annual rate of return	8%	10%	15%
Years to reach 1x salary	6	6	5
Years to reach 10x salary	24	22	18

Investing 20% of gross salary

Annual rate of return	8%	10%	15%
Years to reach 1x salary	5	5	4
Years to reach 10x salary	21	19	16

Investing 25% of gross salary

Annual rate of return	8%	10%	15%
Years to reach 1x salary	4	4	4
Years to reach 10x salary	19	17	14

Don't get too focused on numbers and forget to live your life—take care of your health, exercise, make social connections, travel, and learn new things.

Love,
Dad