

Penguin Bitesize Guides to Better Money Management

Guide #6



Four Key Steps on How to Become Financially Free



What does this even mean? How do we define what “financially free” is?

The best definition we can provide is this – there will be a number or figure which will be the level of wealth you need to reach which will be sufficient for you to live the rest of your life without having to accumulate any more wealth.

If you can hit *that number*, you will be financially free.

In the US, many financial commentators consider this number to typically be around \$5 million. That translates to around £4 million in the UK. Sounds scary? Seems way out of reach?

Well, read on because there are many ways you can tackle this and there are aspects to consider which can change how you may perceive this.

In this bitesize guide we wish to outline four key steps which will help you get to your number, whatever figure that may be.



1

Work Out Your Number

We can help you with this and you will almost certainly need help. **This is a complex calculation.** It involves looking at your finances today and projecting everything into the future, and that future contains endless possibilities. Not just with your own longevity, health, lifestyle, family, and work positions, but also in terms of house prices, inflation, interest rates, investment returns and tax rates.

If you think of these as ‘dials’ on an electronic pad, and your ‘number’ as a moving figure which goes up and down depending on the turn of the dial and each one can be turned up/down quite a bit, you might start to get a mental picture of what we mean.

The way to deal with this is to use the software we have, known as cash flow modelling, that allows us to work together to input your finances into the model, alongside future assumptions, and to move the 'dials' to see how your financial picture changes as these assumptions change.

Then, from the mist, a picture emerges. A picture of your future financial position modelled against many different scenarios. From there, you will be able to calculate your number with confidence.

That number being the point which you reach where your future pathways from thereon are covered, pretty much whatever scenario you draw out. Get to that number, and you can consider yourself – financially free.

Most people have no idea of their number, so it's the best starting point. Once you know your number then you can action step two.

Penguin's advice:

Get a cash flow modelling exercise done. We have the software and expertise to help you work up this picture of your future position.

2

Put in place a plan to get to this number in the shortest possible time frame

The number you come up with in step one could look a little scary (or it might not!)

Whatever that number is, you need to have a plan to get to it. Even if that number is way higher than you can contemplate today as being realistic.

In fact, the more that number looks scary, unrealistic, or mighty ambitious – the more important it becomes to get a plan!

If you think about it, your number (from step one) tells you something about your future pathway. If you are way off that number, or you never get anywhere near it, then you may be predicting, through the crystal ball of the modelling exercise, problems ahead.

Your financial plan must be constructed to get you to your number. Work out, and again we can help you with this, what you need to do. Now, if that contains some 'crazy' elements, then we need to adjust the plan in some way.

Let's say, today, you need to start saving £800 per month for the plan to work and you currently have no excess income over expenditure, then something must give.

If you currently save £0 every month (because you have no excess income), then you can carry on as you are, but don't expect to get to your number anytime soon. Or, in all likelihood, *ever*.

Or you can work out what you need to do to get to £800 per month in regular savings. This could entail getting a second job, changing job, getting a promotion and salary raise, reducing other expenditure, starting your own business, selling something, or some other means towards this end.



The thing is this – don't let your plan be constrained by your current financial position. If you do, you will never effectively move towards your number.

The Financial Plan must be multi-faceted, based on making improvements to your life so you can do the things you need to do, to get to your number, and want to do, to meet your goals.

Like any good plan, this can be broken down into incremental steps.

Penguin's advice:

Work with us to get your Financial Plan into place.



3

Protect Your Number

Let's assume everything goes to plan, you rearrange your life and your finances so you will hit your number and all you that you do from there – works.

That's one scenario, the "everything goes to plan" scenario.

But there will be other scenarios where everything doesn't go to plan, and these will include ones where your plan gets derailed because of ill-health, needing care, or death (relevant to a couple, where one dies 'early').

In these instances, **you must protect your number, by insuring yourself.**

Take out the appropriate insurances and level of cover, so that you are protecting that future pathway.



There are other ways you can protect your plan and your number.

1. Pay as little tax as legally possible, invest in your own development, work with the best advisers and support team, invest with confidence.
2. Ensure you have a Power of Attorney in place, so that if you become incapacitated your financial affairs, your business and your family are all protected.
3. Likewise make sure you have a Will.
4. Finally, consider using trusts to help protect your developing wealth. If your assets and wealth are subject to some form of trust arrangement, then it increases the level of protection. For example, many people lose wealth through the divorce of a family member, a situation which could be avoided if a suitable trust arrangement is in place.

Penguin's advice:

Put all appropriate insurances and legal documents in place to protect yourself from the unexpected from derailing your plan. We can help you to make sure your number is protected.

4

Review your
progress, regularly

The idea of a progress report or review could sound a bit like having a meeting once per year for about half an hour to check everything is 'OK'.

The reality is quite different. Step four, reviewing your progress is probably the most important step.

Calculating your "number" is relatively easy. Putting a plan in place, including all forms of protection – likewise that's not that difficult if you use expert help.

Making your plan work – not so easy.

The execution of the plan to ensure you meet your number is where all the jeopardy lies.

For most people, their number will require really changing their course. Not many achieve financial freedom, so a lot must happen over a long period of time to make this work.

You will need to build your net worth very quickly; you will need to take what you save and reinvest it regularly and see your wealth grow. You may need to make a series of decisions, not just with your money, but life choices, to back all this up.

It's a dynamic process, not one which is set the course and then sit back and enjoy the ride. That's not how moving towards your number works. **Regular reviews are essential.**

Penguin's advice:

Back up your plan with regular reviews and updates to keep the dynamism going to really grow your wealth to that level where you are financially free. Our dynamic financial planning service has built in to it, regular reviews and monitoring to make sure you are moving towards financial freedom.



The most important thing to start with is to get your number. Even if it is a big figure – way out of your current reach – don't let that faze you.

Let's say your number is £3.5 million. Well, that may sound crazy today, but many people bought houses thirty years ago for less than £50,000. Numbers change over time and things grow. The Dow Jones Index at the time of writing (early 2022) is hovering around 34,000, in 1994 it was less than 4,000. Salaries go up, state pensions go up. Your number does not mean you have to hold that figure as cash in the bank, it is a net worth figure projected into the future considering property, savings, lifetime pensions and so on.

With a great plan, you can get there. But you need to start now, so give us a call.

About Penguin Wealth

We are a Cardiff-based Financial Planning firm formed in 2010 by a group of Financial Planners who share the same vision and love for what we do. Our processes, support team and the accreditation we have achieved all reflect our principles and prove that we are best placed to help you live the life you deserve with peace of mind.

Our Mission Statement

Helping People Live their Best Lives, by Making Smarter Financial Decisions.

Core Values

- At Penguin we Commit to our Words, Actions and Results
- Clients' Needs 1st – Always
- Communication is key
- Have Penguin Positivity

Providing the highest standard of advice is at the heart of what we do, and we are always extremely excited to see what we can help you to achieve in the future!

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