

THE SIMPLE GUIDE

RETIRE EARLY

A Proven System to Enjoy Life
in Financial Independence



Thomas Walke
Baptiste Wicht

Retire Early: The Simple Guide

**A proven System to enjoy Life
in Financial Independence**

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& Dr. Baptiste Wicht

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Preface

This book belongs to a series of books dealing with subjects such as personal finance, investing in the stock market, retirement planning, and financial independence in a simple and actionable manner. These books introduce you to organizing your finances, letting your money work for you, and successfully building up a fortune. And the books reveal how you can achieve this as simply as possible, without spending a lot of time and at a low cost. That is why I join forces with other authors in writing the books in this series and share our decades of experience with financial issues for your immediate benefit. Thank you for placing your trust in us by buying this book!

This book is about your way to financial independence and early retirement. We'll reveal a simple mechanic and the exact steps to how everyone can do it. You too. It's your step-by-step blueprint based on data-driven strategies.

If you want to

- retire early and escape your ordinary job,
- speed up the date of your retirement party,
- discover how much money you need to stop working,
- make sure your money lasts as long you need it,

then you will find suitable answers in this book. We'll show you the exact steps so that you can put this into practice for you and

your specific situation. The approach that we present here has been adopted worldwide and has also been proven practicable true in our personal situations.

As authors, we'll provide you with all of our broad experience in optimizing personal finances, achieving financial independence, and growing your assets. It is our goal that after reading this book, you won't only understand how to achieve your financial independence but also to adapt the concept and metrics for you and take the first step towards implementation. So that you know who we are, we would like to introduce ourselves briefly.

Thomas Walke has been passionately accompanying people to improve their finances and to align their finances with their goals for many years. Since 2017 he publishes on retirement planning on the website [Smolio.ch](https://smolio.ch). He studied controlling, banking, and capital markets theory and completed his Ph.D. in business science at RWTH Aachen University, Germany.

Baptiste Wicht is one of the most prominent Swiss finance bloggers, known as The Poor Swiss. He has been running the website thepoorswiss.com since 2017, where he publishes transparently and honestly his thoughts, experience, and progress on his journey to financial independence. Baptiste holds a Ph.D. in computer science from the University of Fribourg, Switzerland.

So, if you want to retire before the standard retirement age and live in comfort, then discover how to make this come true and read this book.



Bonus Material

Supplementing to the content of this book and the other books in the “Private Finances” series, we have set up a website for you with bonus material.

As a reader, you get access to tools, calculators, and other content, there. In addition to this book, the bonus material on the website will help you with your finances, which is why we strongly suggest that you register for the newsletter on the website, now. The bonus content is regularly being expanded.

So, take the chance now for your free instant access. With the newsletter, you will be the first to find out about new or updated books in the “Private Finances” series, new bonus material for readers or blog posts, new offers, or upcoming events.

Visit the following website to access the bonus material:

www.privatefinanzen.ch/bonusmaterial

Introduction

«Price is what you pay, value is what you get.»

— Warren Buffet

Many people are starting to question the traditional approach to working until the pension age. Is work and earning money the purpose of life? Or is it only a means to an end? So people wonder, whether or not they can overcome traditional patterns of thought and stop working before standard retirement. Their motivations are manifold. They

- want more spare time in their best years to enjoy a more fulfilling life and travels,
- Mistrust social security systems and believe them less likely to provide the necessary funds to cover retirement,
- search for independence from an ever more demanding and less rewarding job market and want to achieve a position of choice about how much and for which purpose they work.

However, dreaming doesn't help to make plans come true. Dreams are for dreamers. Plans are for doers. But how

- do you know if and when an early retirement works for you?
- can you adequately finance your early retirement?
- do you have an action plan (step-by step)?

To address these questions properly, you need an expert that will answer your questions, introduce you to a proven strategy and navigate you through all the necessary steps to make it happen. *Retire Early: The Simple Guide* will do this job for you.

What you'll learn in this book

This book allows you to pave the way towards your financial independence. In the first part (Chapter 1-3), we'll look at the basics. In the second part of the book (Chapter 4-7), we'll investigate the necessary implementation steps with you. So, you can use this book as a guide to organizing your personal finances to become *financially independent*: you finance your lifestyle from capital market gains on your stocks and end your work career. There will be no need to sell your time to others to finance your lifestyle. This book describes how you can regain control of your time and life to do more things you love. All this is based on and backed by up-to-date hard facts from financial market data gained since 1871 until today. You don't need to buy any software, application, or other fancy stuff to make financial independence come true. It only needs you and your willingness to achieve your goal. We'll show you how and walk you through the process.

After reading this book, you can start to make your way to financial independence. If you look for simple answers to complicated questions, this book is for you. It supports you to:

- Get answers to your pressing questions: how much money do you need to retire, how long will it take you to get there?
- profit from a step-by-step blueprint to achieve your goal
- get a proven financial approach to stop working early, adapted to your situation
- receive fact-based strategies to make your money last,
- discover a solid foundation of the mechanics that drive your early retirement engine
- understand why the often used “4% withdrawal rule” is not valid for your early retirement situation

We’ll show you how all of this works together, step-by-step and with simple language, why the method proposed works, and how you can implement it yourself.

In the **first chapter**, we show that retirement before the standard pension age *is* possible. We discuss in detail an influential international study - the so-called “Trinity Study”. You learn about the studies’ main results, such as that it is possible to finance your retirement for periods of up to 30 years. Moreover, we introduce and explain the 4% Rule based on the study results. However, the study also has some shortcomings and misconceptions. You will discover these serious issues and limitations and understand why you can’t simply apply the 4% rule to your specific situation.

The **second chapter** deals with your expenses during retirement. You learn how to estimate your future expenses based on your current spending. If you don’t know your current

spending, we'll introduce two simple ways to come up with them. We share the expense categories that will change the most in retirement compared to your current situation. Furthermore, we explain the impact of inflation on your purchasing power and how you consider it in your retirement planning. Finally, we introduce a simple formula to calculate your *financial independence number*. We also discuss by which levers you can reduce this number. The chapter guides you to compute how much money you'll need to cover your cost of living during retirement.

In the **third chapter**, we address the main limitations of the Trinity Study. We re-run the historical simulations of the Trinity Study with up-to-date financial market data not only for the U.S. but also for Europe and Switzerland. We also address the limitation of limited retirement periods and show how much money you can safely withdraw for 40, 50, or even 60-year retirement periods. Thus, we come up with hard data on how long your money will last. Furthermore, we introduce the key elements to find your *withdrawal rate*. You'll learn about the impact of your age on your withdrawal rate. What's the effect if you're 30, 40, or 50 years old?

With a thorough understanding of the basics, the subsequent chapters guide you towards implementing your plan. Therefore, the **fourth Chapter** unveils how long it will take you to retire. You'll learn all about the relevance of your savings. You'll understand how to calculate your savings rate and its impact on your retirement date. You'll understand that your savings rate matters more than the level of your income. After reading this

chapter, you'll know how to come up with the number of years before your retirement – your countdown to early retirement.

The **fifth chapter** reveals the two levers to retire earlier and how you can activate them in your favor: expenses and income. We also discuss a healthy balance between enjoying life now and earlier retirement coasting.

Chapter six deals with the necessary steps to amass the funds for your financial independence. We guide you to compute your current net worth. Furthermore, we share the simple basics of cost-efficient investing with you to grow your net worth. Depending on the level of risk you're willing to take, we show which returns you can expect from respective sample portfolios based on historical returns for the major markets.

Chapter seven guides you through the process to develop your financial independence action plan step-by-step in a consistent and logical manner. It reconnects to all the chapters to make your journey actionable.

Chapter 8 reflects your insights and helps you stay the course by defining your immediate next steps.

In **the ninth chapter**, you'll find a summary of the book. Discover your direct path to financial independence now. **Let your money work for your dreams and for your future life without work.**

For whom is this book

Do you want to retire before the pension age? You want more available time for activities you enjoy before you get old? Do you look for a proven recipe that works in Europe too? This book shows how it's possible to achieve this. We wrote this book for

- **career starters** that want to develop a plan for a prospering financial future,
- **couples** that search for a way to jointly enjoy their best years in a rich life full of satisfying experiences and explore the world,
- **experienced professionals** that look for an option to check out from the ever-more demanding nine-to-five rat race and want to reach a position of choice,
- **people from middle-class** who have understood that it is better for their retirement to trust in themselves instead of shaky social security systems,
- **young women** who prefer to take their financial future into their own hands instead of following traditional life models, which too often end up in divorces and broken finances,
- **anyone** that would like to calculate his future retirement spending.

You neither need to be a financial expert nor have experience with stock market investments. All you need is an eagerness to achieve your goals and the readiness to turn the stock market into your money machine.

Chapter 1

Is it possible to retire early?

«People will be too busy complaining about how it can't be done, rather than figuring out how to do it.»
— *Peter Adeney (aka Mr. Money Moustache)*

What you will learn in this Chapter

In this chapter, you will learn:

- How to use your assets to generate sufficient income to cover your lifestyle and retire early
- A proven strategy to profit from compound interest and withdraw money from your assets
- How to generate sufficient money from your assets to finance your lifestyle

What is early retirement?

Retire Early: The Simple Guide is all about *early retirement*. But what is early retirement? And how can you retire early? Early retirement means retiring earlier than the official retirement age in your country. For instance, at the time of writing, the official retirement age in the United States is 67 years. In Switzerland,

men retire at 65 and women at 64. But you can stop working earlier. So, what's the difference to a standard retirement?

The main difference is how you will sustain your expenses once you are retired. Official retirement age tells you when you will receive social security benefits. Most people rely on these benefits to fund their cost of living in retirement. Without this money, they would not be able to pay for their lifestyle. Most people never consider early retirement because they think it is not possible. Therefore, most people don't save for retirement but rely entirely on their retirement benefits. So, is it even possible to stop working without relying on social security pension benefits? *Retire Early: The Simple Guide* is here to show that, yes, this is indeed possible.

To retire early, you need to amass sufficient capital (often called “principal”) while you work from which you will cover your expenses during retirement. There are two main strategies to fund your retirement needs from the principal¹:

1. Get a steady and regular income from your principal. The best example of this strategy is to invest in real estate property and use the rent you collect to pay your bills during retirement. This strategy never touches your principal.
2. Regularly sell assets from your principal to cover your expenses. The best example of this strategy is to invest your savings in the stock market while you generate income from work before retirement, let the assets grow in value, and sell

¹ We don't consider marrying rich or inheriting money as your merits.

stocks when you need the money during retirement. This strategy withdraws from the principal. At the end of the financing period, your capital could become zero.

In this book, we focus on and elaborate on the second strategy. We are firmly convinced that this strategy works and will display respective simulations in Chapter 3. We accept that this strategy depletes the principal and is hence riskier for the retiree. But since it will require a smaller principal to retire it is more achievable. We also accept that evidence for this strategy is based on historical data and that we cannot be certain what the future will hold. So we can't guarantee that it will work in the future even if our backtesting for the last about 150 years shows that it has always worked. It is further important to note that while our strategy is simple, it is not easy. Retiring early requires dedication.

Who can retire early?

It is also unfortunately true that while possible for everybody, some people will have some advantages to amass the necessary capital for either strategy. High-income earners will find it easier to quickly save enough money for retirement. And highly frugal or penny-pinching people will find it easier to save enough money, even with a lower income. Also, some countries are more suited to such a journey than others. Therefore, while it could take some people less than ten years to retire early, some people will need several decades. But retiring early is not a privilege to high-income earners or penny-pinchers.

Why retire early?

There are many reasons for wanting to do so. The most important reason is **time**. Time is the most limited resource we have. People are generally in their best conditions between their 20s and their 60s. So, for the best period of your life you usually exchange time for money. Retiring earlier lets you reclaim some of this time for yourself.

Another reason, is that a substantial part of the working population **is unsatisfied with their jobs**.² The perspective of retiring makes these people happier and more willing to accept their current situation. Moreover, it gives them the motivation to work towards their goal. If you know you only have ten more years of work to go instead of 40, you may be more motivated to work towards your goal of early retirement.

Finally, the last reason is **you want more choice**. When you can afford to stop working, you are financially independent. This independence means you don't have to rely on your work income to finance your lifestyle. So you *could* stop working without any financial concerns. It's relieving to know that you can quit a job if the circumstances of the job change and you start to suffer (be it a bad boss, tedious tasks, or tasks that are too demanding). It even means the threat of losing your job would not be such a big deal anymore – you don't depend on your employer. You are

² Gallup is one of the world's leading market and opinion research institutes. They regularly poll about job satisfaction. According to the most recent poll (Gallup Inc., 2020), 44% of respondents are not completely satisfied with their job, 11% are somewhat or completely dissatisfied.

more flexible and can also take on other jobs or switch to professional fields in which you earn less but feel it is more suitable or more meaningful. Or you can become self-employed risk-free. In other words, you would get the freedom to change your career to do more fulfilling but maybe less profitable work. Many financially independent people decide to do charity or community work after they retire from their previous work.

But, how early can you retire? We'll see in the following chapters how you can estimate when you will be able to retire. Of course, the sooner you wish to retire, the more difficult it will be to reach your goal. But there is no perfect age to retire. Many people want to retire between the ages of 40 and 50, but some want to stop working even before their thirties.

Your journey is as individual as you are

Your journey to early retirement is your own. Your journey will be different from that of others. We'll show you opportunities and new perspectives in this book. Of course, you don't have to and shouldn't copy all of this information one-by-one – you will need to adapt our method to your situation. Progress faster, slower, differently. Every one of us lives his individual life and finds his way to happiness. A growing fortune is pure joy for almost everybody, but everyone has their own idea of what to do with more wealth.

Early Retirement is about your choice and your individual freedom. The financial freedom that comes with it lets you do things that people generally regard as risky or unconventional

such as taking on a new job, living abroad, or changing your profession or career to do more fulfilling work.

And it's OK that many people don't want to retire early; there is nothing wrong with that. But if you want to retire early for one of the reasons outlined earlier or for any other reason, surround yourself with like-minded people, continue reading this book, and you will be on your way to early retirement.

Finally, keep in mind that retiring won't solve all your problems. Most early retirees are extremely happy, but some people end up going back to work because they miss something. Like all things, you need to plan what you will do with your early retirement. You could pilot and test your early retirement with a working time reduction.

The Trinity Study: Origin of the 4% Rule

The Trinity Study is an influential research publication from 1998 by three professors at Trinity University in San Antonio, Texas. Originally the publication was titled “Retirement Savings: Choosing a Sustainable Withdrawal Rate”,³ but it quickly became known as “the Trinity Study”. The paper tried to answer an essential question for future retirees: how much money can I extract per year without the risk of running out of money? Or framed differently: If I want to extract a given amount per year

³ (Cooley, Hubbard, & Walz, 1998)

from my portfolio to cover my retirement expenses, is my portfolio likely to finance my spending as long as I live?

The so-called “sustainable withdrawal rate” (SWR) is the answer to this question. A sustainable (or later reduced to “safe”) withdrawal rate in the context of the Trinity study is the percentage of your investments that you can withdraw from your net worth each year that will, with a 95% probability, not exhaust your net worth to zero within the pay-out period.

One of the most notable findings of the study was that a withdrawal rate of 4% for stock-dominated portfolios (75% or 100% stocks) sustains your lifestyle for 30 years with a probability of more than 95%. The famous and often over-simplified 4% rule was born: “Extract no more than 4% from your net worth per year, and your money will last as long as you live”.

Modeling assumptions

To determine a safe withdrawal rate, the Trinity authors created a model. Using their model, they computed the success rates of different investment portfolios for various periods with varying withdrawal rates (from 3% to 12%). The model used historical returns from stocks and bonds from 1926 through 1995.

A withdrawal rate is successful if it did not exhaust the capital after 15, 20, 25, and 30 years, i.e., if the portfolio ended with a positive terminal value. A success rate, therefore, *is a probability*, not a fact. Generally, people consider success rates over 95% to be sustainable or “safe”. But, of course, this assessment depends on your risk capacity.

Main messages

We have condensed the data of the Trinity Study into a graph that makes several vital points quickly visible, see Figure 1. For a retirement period of 30 years, the graph shows, for five portfolios, the probability that you won't run out of money with a chosen withdrawal rate. Or put differently: what is the chance (i.e., the portfolio success rate in %) that you will still have a positive net worth after 30 years of using a certain withdrawal rate?

We can see that the two best portfolios are the 100% stock portfolio and the 75% stock portfolio. If you want a higher withdrawal rate (6% or more), you will need to opt for the 100% stocks. If your goal is a success rate of at least 75%, you can't afford more than a 5% withdrawal rate. If you are more conservative and aim for a 90% success rate, you will need to go with a 4% withdrawal rate. Hence the 4% rule.

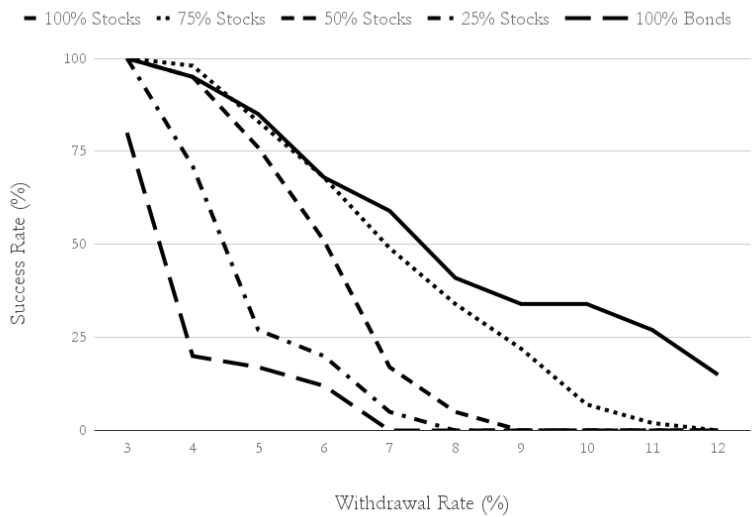


Figure 1: Results of the original Trinity Study

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About the Authors

Thomas Walke is a finance expert, leader, and lecturer. For many years, he has been accompanying people enabling them to get more out of their money.



With majors in Banking, Controlling and Capital Markets Theory, Thomas completed his PhD in Business Science and now has over 25 years of experience, working in the ICT industry as a founder, consultant and leader. He is a partner of Swiss fintech smolio.ch, which supports clients with retirement planning.

As well as his job and business interests, Thomas loves writing and has been blogging for several years now, with more than 50 articles published on the topics of retirement planning, personal finance and investing. Dr. Walke and his family live in Switzerland.

You can find more about him at www.privatefinanzen.ch

Baptiste Wicht is a Swiss software engineer and blogger. For several years, he has been blogging about his findings in personal finance and helping people with different money situations. Over time, he has accumulated historical data on the stock market and wrote several financial independence simulators for his readers.



He is currently on a journey to achieve financial independence and plans to retire before he is 50. But he is just at the beginning of his journey. To get there, he is following the method outlined in this book and saving money every month to invest it in the stock market.

Baptiste started blogging about his journey when he struggled to save more than a few percent of his income. Now, he and his family save 50% of their income by living a frugal lifestyle in Switzerland and increasing their income to be financially independent faster.

You can find more about him at www.thepoorswiss.com

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Mehr Geld zum Leben mit deinem Kontenmodell



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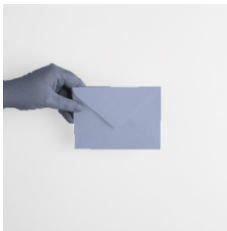


Du möchtest

- mehr aus deinem Geld machen und verstehen, wo es bleibt?
- Spass heute im Leben und doch aus deinen Einnahmen gezielt Vermögen aufbauen?
- Dich im Alltag möglichst wenig um's Geld kümmern?

Dieses Buch zeigt, wie das möglich ist. Du lernst ein einfaches und bewährtes System inklusive aller Umsetzungsschritte kennen, mit dem du jeden Monat automatisch Geld sparen und erfolgreich Vermögen aufbauen kannst.

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RETIRE EARLY THE SIMPLE GUIDE



Thomas Walke is a finance expert, entrepreneur, and lecturer. He has been passionately accompanying people to get more out of their money and optimally align their finances with their goals for many years.



Baptiste Wicht is a Swiss finance blogger. He runs the website The Poor Swiss, where he publishes his thoughts, experience, and progress on his journey to financial independence.

Learn in this guide how your **financial independence and early retirement are possible** and driven by a decent savings rate. We will reveal a simple mechanic and the **exact steps** to how everyone can do it. You, too. This book is for you if you:

- **Want to stop working** before pension age.
- Want **more time for what you enjoy** before you get old.
- Look for a **proven recipe** that works in any country.

You don't need to be a financial expert or have experience with stock market investments. All you need is an eagerness to achieve your goals and readiness to make your money work for you.

Discover your direct path to financial independence. **Let your money work for your dreams and a future without work.**



Bonus material to
the book on
www.PrivateFinanzen.ch