



Focusing on Your Personal Financial Independence

NCPA 2024 Annual Convention and Expo
Columbus, Ohio

Speaker



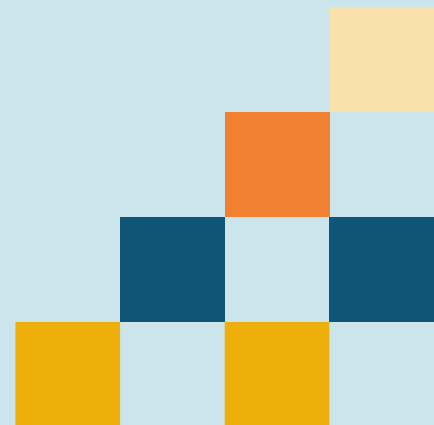
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Your Financial Pharmacist

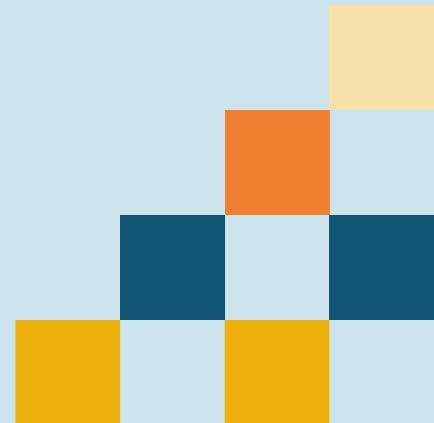
Disclosure Statement

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Pharmacist and Technician Learning Objectives

1. Discuss barriers to financial independence and tactics to overcome them.
2. Calculate your personal FI number.
3. Review various investment strategies to utilize when pursuing personal financial independence.



Disclaimer

The information in this session is provided to you for your informational purposes only and is not intended to provide, and should not be relied on for, investment or any other advice. It should not be construed as a solicitation or offer to buy or sell any investment or related financial products.

We urge attendees to consult with a financial advisor with respect to any investment. Opinions and analyses expressed herein are solely those of Your Financial Pharmacist and constitute judgments as of the date of the presentation. Such information may contain forward-looking statements, which are not intended to be guarantees of future events. Actual results could differ materially from those anticipated in the forward-looking statements.



What are your KPIs?

- How do you define success?
- Are you measuring these variables?
- How often do you track and review this information?
- What decisions do you make with this data?



Photo credit: Jamie Street. Available royalty free at unsplash.com

Example Personal Financial KPIs

- Net worth
- Investing in “a rich life”
- Annual list of goals
- Nest egg
- Distribution of nest egg

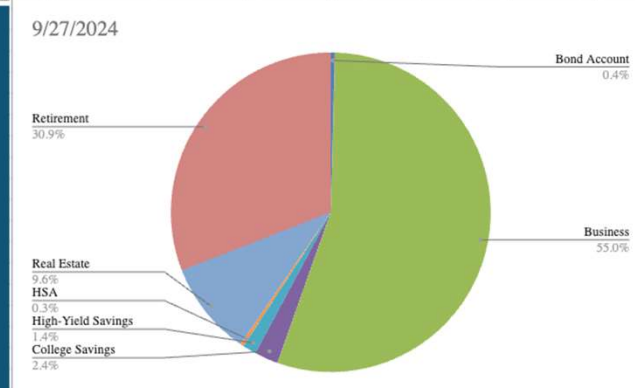
Reference: Tim Ulbrich personal tracking sheets (for illustration purposes only)

Net Worth Tracking Sheet

File Edit View Insert Format Data Tools Extensions Help

75% | \$ % .0 .00 123 | Defaul... | - 10 + | B I U A

Category	Account Type	Jan 2024	Feb 2024	Mar 2024	Apr 2024	May 2024	June 2024
Emergency Fund (I-Bond Treasury Direct)	Bond Account						
Altruist	Brokerage						
YFP Equity (50% Ownership)	Business						
YFP Tax Equity (50% Ownership)	Business						
YFP Ventures LLC (50% Ownership)	Business						
\$29 - Sam	College Savings						
\$29 - Everett	College Savings						
\$29 - Levi	College Savings						
\$29 - Bennett	College Savings						
CIT Bank	High-Yield Savings						
Emergency Fund (Ally)	High-Yield Savings						
Alliant Savings	High-Yield Savings						
WPCU Savings	High-Yield Savings						
Personal Loan	Hard Money Lending (HML)						
HSA - Lively (invested in TDAI)	Health Savings Account (HSA)						
Coinbase	Brokerage						
Home (Value)	Real Estate						
Home (Mortgage)	Real Estate						
Office (Value - 50% Ownership)	Real Estate						
Office (Mortgage - 50% Liability)	Real Estate						
Roth 401(k) - Guideline	Retirement Account						
Jess Roth IRA	Retirement Account						
Tim Roth IRA	Retirement Account						
Tim IRA	Retirement Account						
Net worth		\$0	\$0	\$0	\$0	\$0	\$0
Δ from previous (\$)							
Δ from previous (%)							



“One of the reasons millionaires are economically successful is that they think differently.”

- Thomas Stanley, PhD; *The Millionaire Next Door*

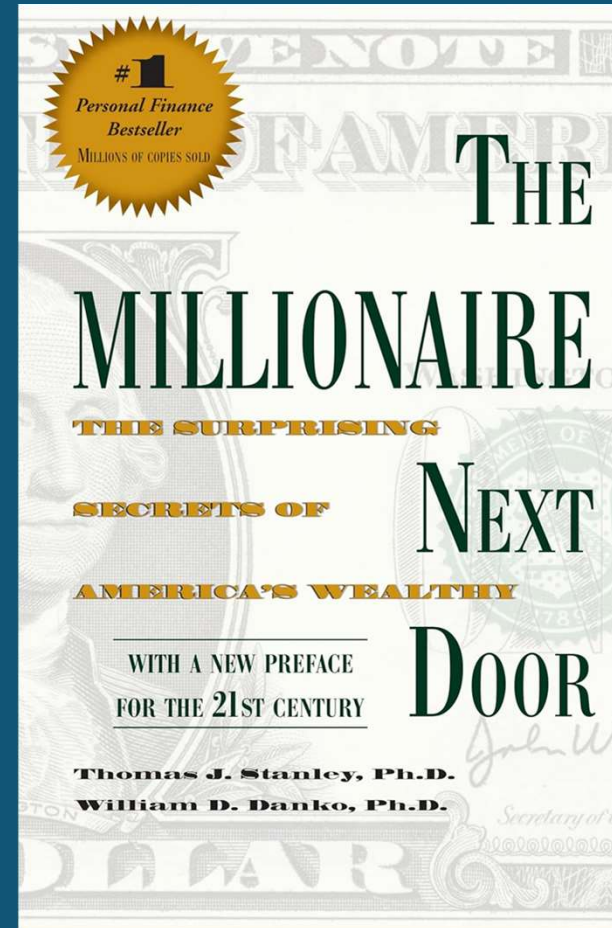


Photo credit: The Millionaire Next Door; Amazon.com

Expected Net Worth (ENW)

(Age x Gross Annual Income) / 10

- 45 yo w/ \$140k/year
- ENW = \$630,000
- Top 25% = \$1.26M
(2x ENW)

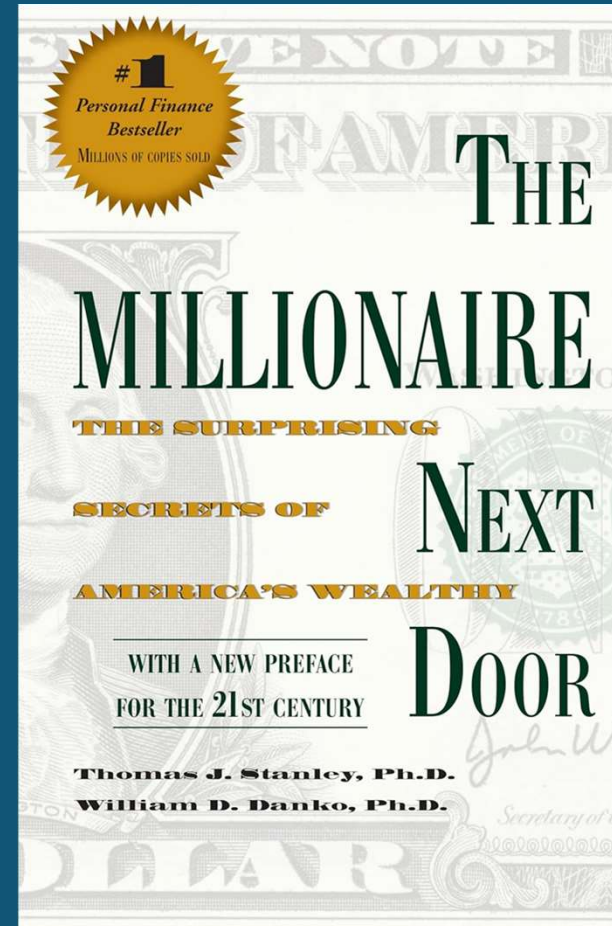


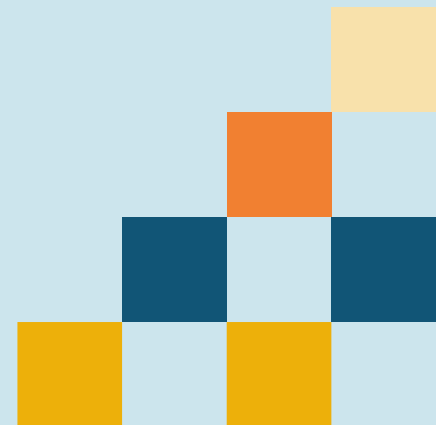
Photo credit: The Millionaire Next Door; Amazon.com

Financial Independence (FI) Overview

What defines FI?

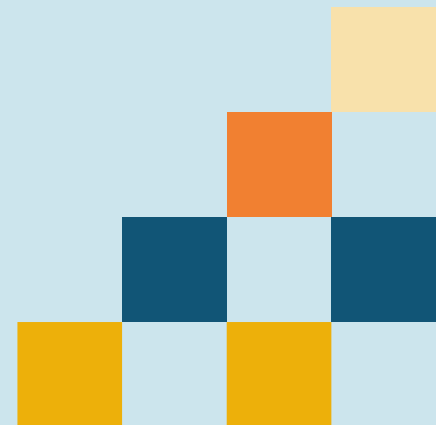
When your savings/assets can produce a 'paycheck' such that you are no longer dependent on:

- income from an employer
- income from the business
- financial assistance from an outside source



Why Focus on FI?

- Craft the kind of life you want to live knowing that the financial side of things is taken care of
- To remove financial dependence from work
- To be ready for the unknowns
- To be in a position to give
- Option of early retirement
- Play more offense with the business



Common FI Barriers & Uncertainties

Barriers

- Debt
- Income
- Alignment w/ spouse or significant other
- Savings rate

Uncertainties

- Health insurance
- LTC expenses
- Market uncertainty
- Timing of withdrawal (sequence of return risk, inflation, etc.)
- Availability of assets w/o penalty



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Jan 13, 2012 162 comments

The Shockingly Simple Math Behind Early Retirement



This is the blog post that shows you how to be wealthy enough to retire in ten years.

Here at Mr. Money Mustache, we talk about all sorts of fancy stuff like investment fundamentals, lifestyle changes that save money, entrepreneurial ideas that help you make money, and philosophy that allows you to make these changes a positive thing instead of a sacrifice.

In addition, the Internet presents us with retirement calculators, competing opinions from a million financial advisors and financial doomsayers, unpredictable inflation, and a wide distribution of income and spending patterns between readers.

I reviewed my own path to age-30 retirement in "[A brief History of the 'Stash'](#)", then I did a hypothetical calculation using two average teacher salaries to show how long it would take them to retire in "[The Race to Retirement – Revisited](#)".

Because of this torrent of information, people tend to become overwhelmed and sav things like.

CONNECT

WELCOME NEW READERS!

Take a look around. If you think you are hardcore enough to handle Maximum Mustache, feel free to [start at the first article](#) and read your way up to the present using the links at the bottom of each article.

For more casual sampling, have a look at this [complete list of all posts](#) since the beginning of time or download the [mobile app](#). Go ahead and click on any titles that intrigue you, and I hope to see you around here more often.

Savings Rate (Percent)	Working Years Until Retirement
5	66
10	51
15	43
20	37
25	32
30	28
35	25
40	22
45	19
50	17
55	14.5
60	12.5
65	10.5
70	8.5
75	7
80	5.5
85	4
90	Under 3
95	Under 2
100	Zero

Reference: <https://www.mrmoneymustache.com/2012/01/13/the-shockingly-simple-math-behind-early-retirement/>

Calculating Your FI Number

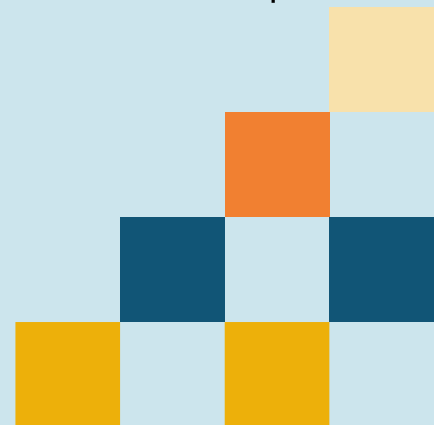
What is an FI Number?

- The amount you'll need invested in a conventional investment portfolio (stocks and bonds) to **probably** consider yourself FI
- Derived from the **4% rule**
- Based off research into **safe withdrawal rates** for retirees
 - William Bengen's research
 - Trinity Study
- Represents the amount you'd need for a portfolio to survive long-term in the worst scenarios **observed in the past**



How is it calculated?

- Using 4% as a safe withdrawal rate, a FI number is generally calculated as **25x annual expenses** (taxes included)
- FI number is the inverse of chosen withdrawal rate
- If annual expenses (taxes included) = \$200,000, the FI number = \$5M
- \$5M x 4% withdrawal rate = \$200,000



A good starting point...

More detailed analysis is necessary...

- Nest egg calculation
- Tax considerations
- Not all buckets are created equal

Inputs		
Current age		45
Target retirement age		62 <small>Typically between ages 55-72.</small>
Work life expectancy (WLE)		17
Life expectancy		95 <small>Typically plan between age 90-100.</small>
Retired life expectancy (RLE)		33
Current retirement savings		\$750,000
Current income		\$130,000
Wage replacement ratio (WRR)		80% <small>Typically between 60%-80%.</small>
Assumptions		
Asset allocation (accumulation)		70/30 -
Inflation assumption (accumulation)		4.00% <small>Inflation based on historical rates of inflation.</small>
Nominal rate of return (accumulation)		8.20% <small>Returns based on historical rates of return.</small>
Real rate of return (accumulation)		4.04%
Asset allocation (withdrawal)		40/60 -
Inflation assumption (withdrawal)		4.00% <small>Inflation based on historical rates of inflation.</small>
Nominal rate of return (withdrawal)		6.40% <small>Returns based on historical rates of return.</small>
Real rate of return (withdrawal)		2.31%
Need		
Total annual need		\$104,000
Annual Social Security benefit		\$12,000
Pension benefit		\$0
Your annual need		\$92,000
Annual need (FV)		\$179,207
Amount needed at retirement age		\$4,202,771

Reference: YFP Nest Egg Calculator
(for illustration purposes only)

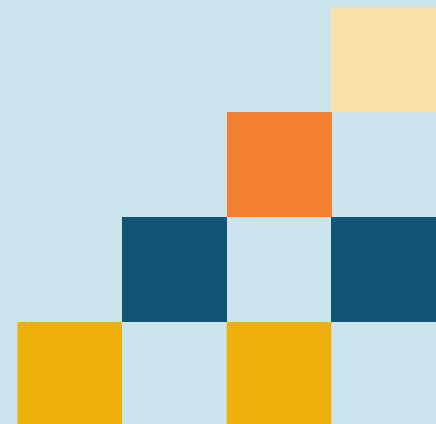
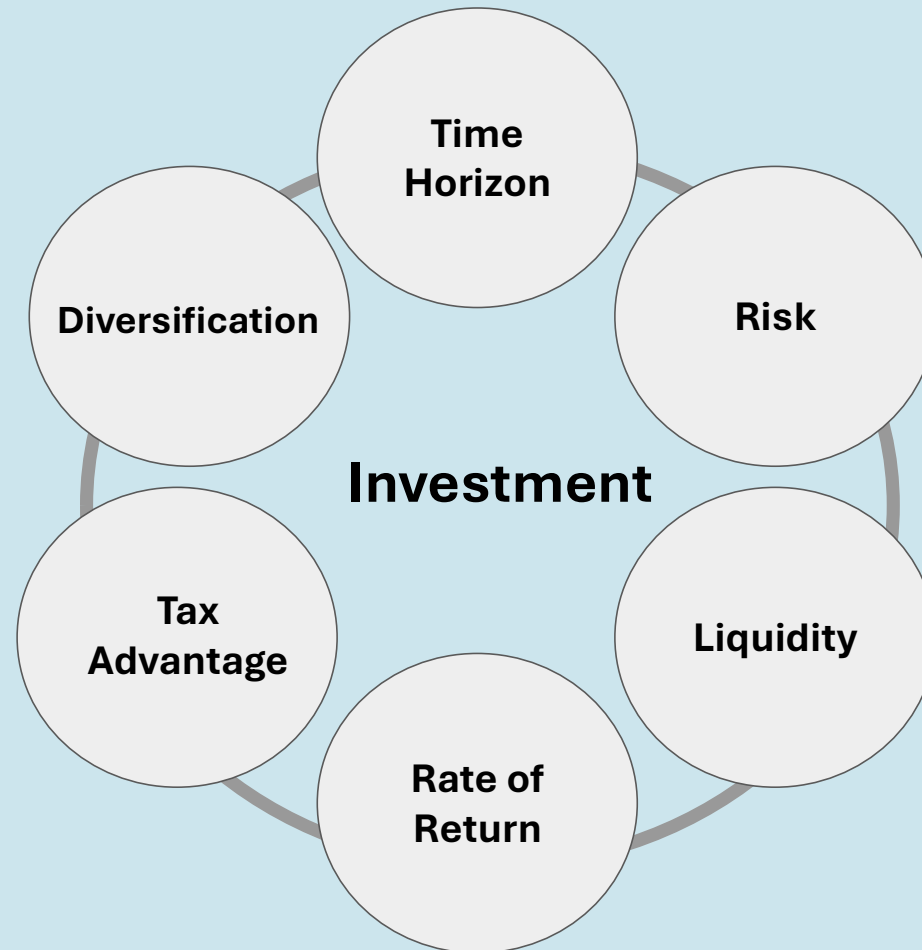
Not all buckets are created equal...

\$3,000,000



Investment Strategies & Considerations

Investment Variables

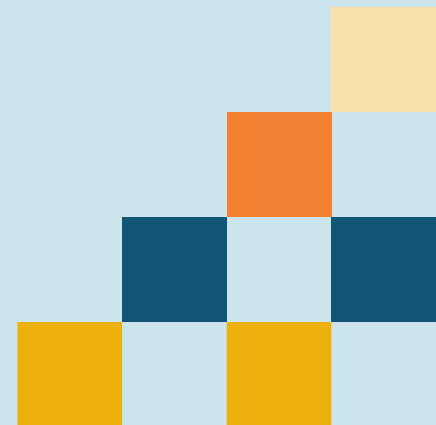


Investing for FI

- No one way to go about it...
 - Paper assets (stocks, bonds, currency)
 - Real estate
 - Business equity
 - Annuities
 - Social Security
- Does not need to be complex
- May not need to be extremely aggressive



Building a
retirement
paycheck

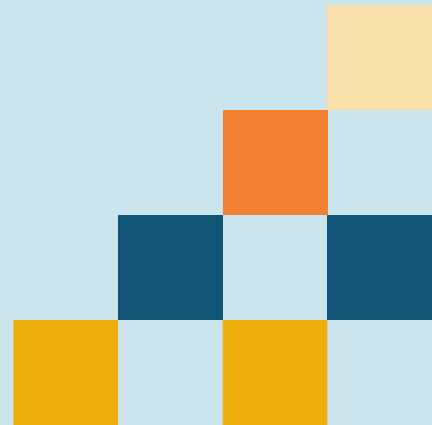


What is your savings rate?

- The amount of your income (as a %) not dedicated to expenses and used for savings
- Higher savings rate implies lower % of expenses
- The primary driver of how long it'll take you to reach FI
- A higher savings rate can ↓ need to seek greater returns and take greater risks



Savings Rate > Returns

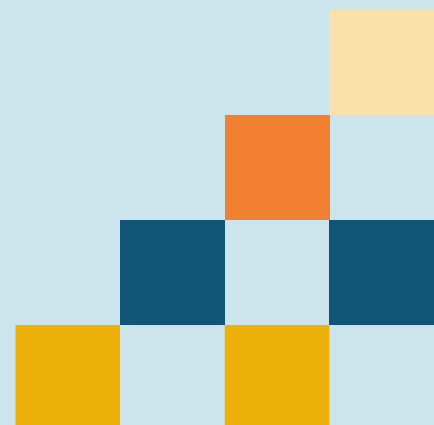
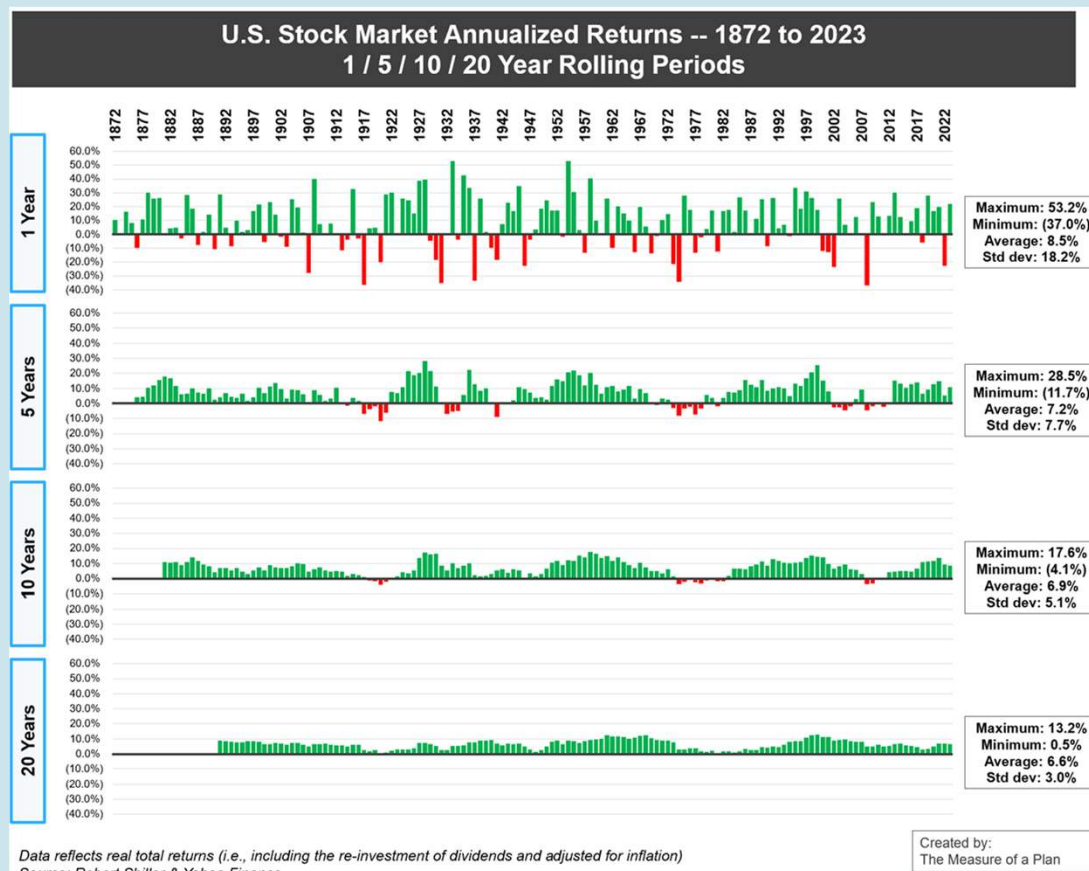


Portfolio wish list...

- Adequate level of return
- Not difficult to implement
- Aligns with risk profile
- Fee efficient
- Long-term view



History of the S&P 500



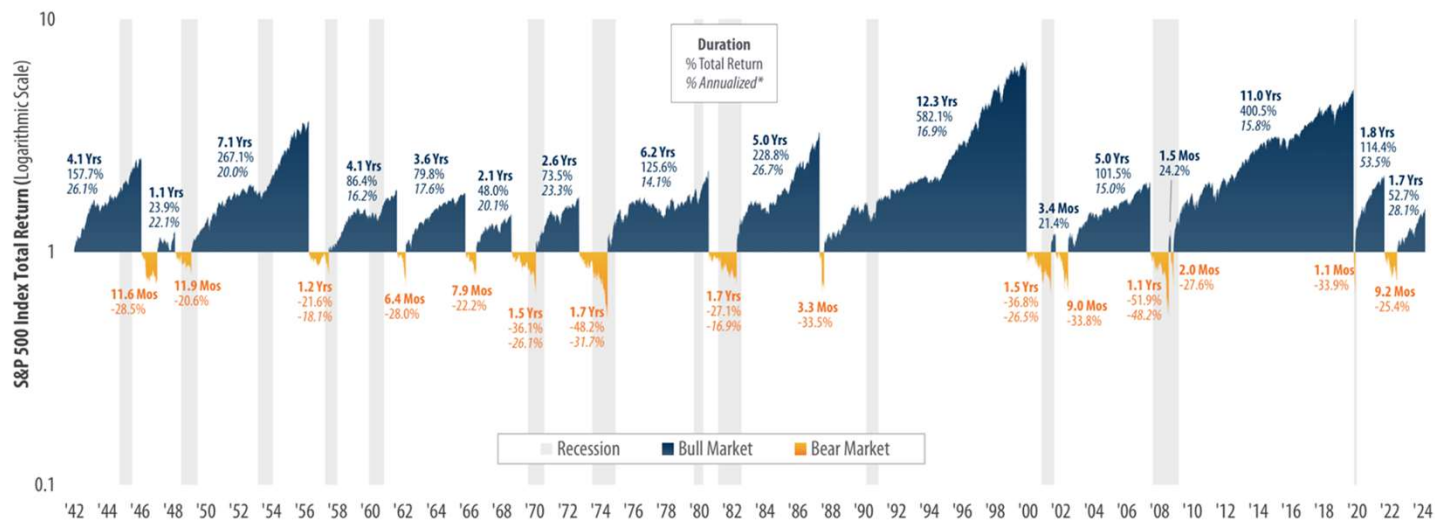
History of U.S. Bear & Bull Markets

Daily Returns Since 1942

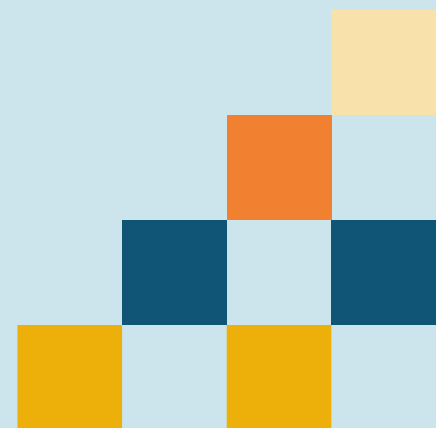


This chart shows daily historical performance of the S&P 500 Index throughout the U.S. Bull and Bear Markets since 1942. We believe looking at the history of the market's expansions and recessions helps to gain a fresh perspective on the benefits of investing for the long-term.

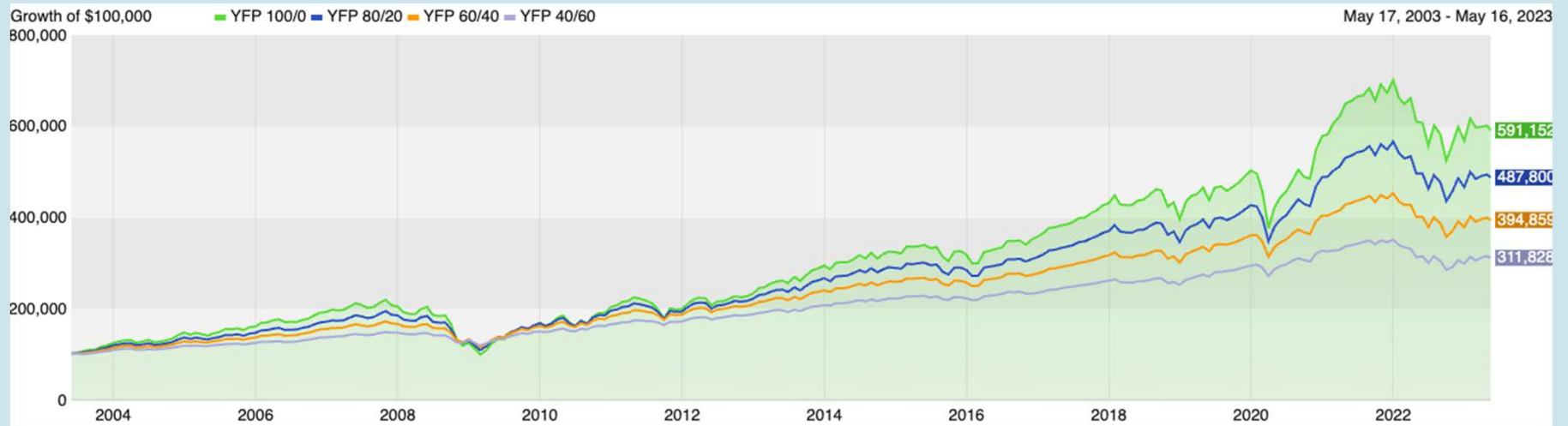
- The average **Bull Market** period lasted 4.3 years with an average cumulative total return of 149.2%.
- The average **Bear Market** period lasted 11.1 months with an average cumulative loss of -31.7%.



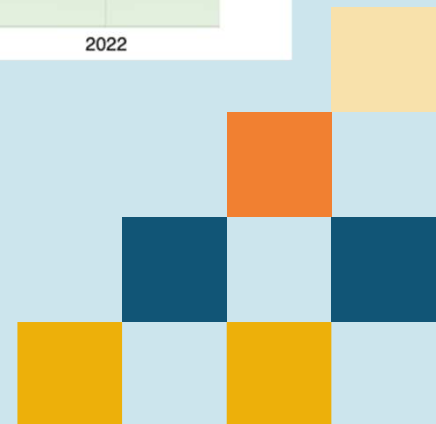
Reference: First Trust Financial Services; Available at <https://www.ftportfolios.com/COMMON/CONTENTFILELOADER.ASPX?CONTENTGUID=4ECFA978-D0BB-4924-92C8-628FF9BFE12D>



What it means in \$\$\$

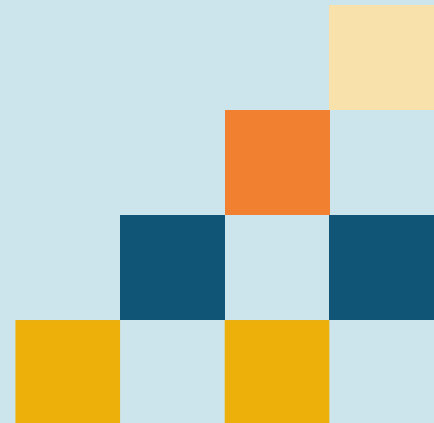


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Risk Tolerance vs. Capacity

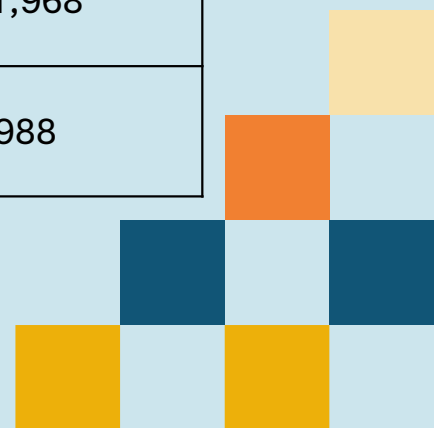
- Asset allocation should align with your individual **risk tolerance** and **risk capacity**
- **Risk Tolerance** = how much risk you're able to stomach
- **Risk Capacity** = how much risk you should take



Don't overlook fund fees

Assumptions: \$100k initial, \$10k/year, 30-year timeline, 7% avg rate of return

	1% Expense Ratio Example	0.5% Expense Ratio	0.1% Expense Ratio
Ending value (gross)	\$1,771,956	\$1,771,956	\$1,771,956
Ending value (net with fees)	\$1,412,366	\$1,581,329	\$1,731,968
Cost of fees	\$359,590	\$190,627	\$39,988



Recommended Resources

- *Die with Zero* by Bill Perkins
- *Your Money or Your Life* by Vicki Robin
- *Money Master the Game* by Tony Robbins
- *Tax Free Wealth* by Tom Wheelwright
- *The Behavioral Investor* by Daniel Crosby

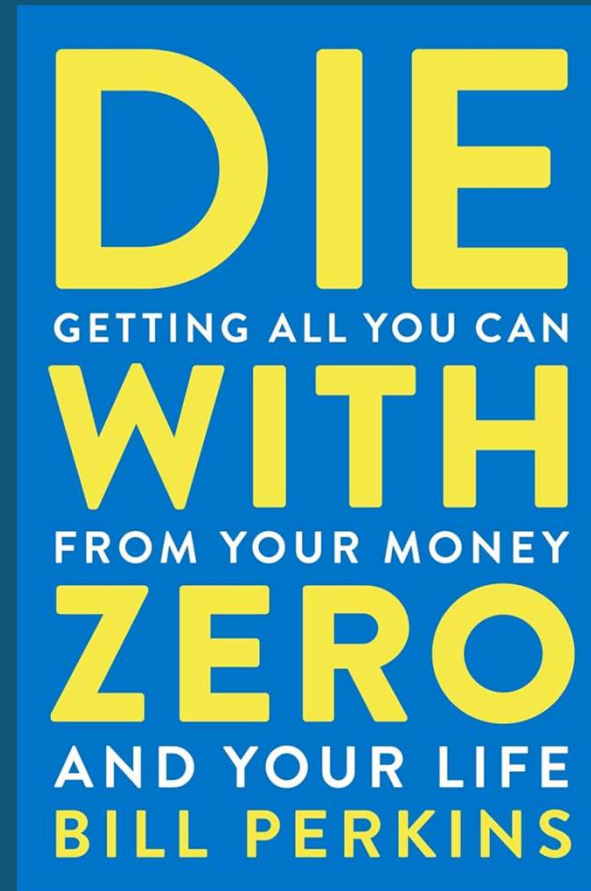


Photo credit: Die With Zero by Bill Perkins; Amazon.com

Questions?



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