



3 Invaluable Money Lessons From an Early Retiree

Description

I recently had the chance to have lunch with my old friend Jim.

Besides being smart, funny, and looking 10 years younger than his 47 years, Jim has one other big thing going for him. A couple of years ago, just after he turned 45, he decided to hang up his proverbial skates for good, choosing to retire.

There's nothing really remarkable about Jim. He lives in an average house. He has a wife and two daughters. He never went to college and became an electrician instead. He never made big money or got stock options or won the lottery. He didn't even open up his own business, choosing to work for the man his entire working career.

And yet Jim retired after just 25 years in the workforce with over \$1 million in liquid assets.

How did Jim do it? It wasn't as hard as you think.

Frugality

Jim's wife is constantly bugs him about being cheap. If there's a way to save money, Jim has it figured out.

My favourite Jim frugality story is when he excitedly told me he was going to make his own laundry detergent. Jim was already smart enough to use only a quarter of the recommended usage when he washed his clothes, but that wasn't enough for him. He figured he could save a good \$20 or \$25 per year, and stick it to big laundry in the process.

I'm not going to lie. I made fun of Jim.

Jim has no problem spending money on the things he values. If he doesn't care, he cuts relentlessly—including making his own version of laundry soap. That's the kind of frugality I can really get behind.

Save save save

One of the reasons why Jim ended up in a small Albertan town was because he was attracted to the low cost of living. He was able to buy a reasonable house in the early 1990s for \$90,000, or about twice his income.

He then paid off the house aggressively; remember, interest rates were close to 8% back then. He then invested heavily in the stock market, focusing on individual dividend-paying stocks and avoiding mutual funds, which had become very popular. Even back then, Jim realized how fees eroded his wealth.

Jim's family was able to save so aggressively because he made the decision early on to bank his entire paycheck and live on his wife's salary. He told himself if he was ever short, he could just pull a little cash from savings to cover it. It happened sometimes, but hardly ever.

Invest smart

Jim wasn't too interested in chasing sexy stocks. He preferred the tried and true.

Take one of his first investments, **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)). Even in the 1990s, Jim was tired of his bank charging him fees, and he knew it was easy to make money when you borrowed at 4% and lent it back out at 8%.

The banking business is a little different today, but not much. Bank of Nova Scotia has expanded internationally. Interest rates have fallen. And divisions like wealth management and capital markets are increasingly important to the bottom line. Still, including reinvested dividends, Jim's investment increased 14.7% per year over the last 20 years.

Or, to put it another way, a \$10,000 investment made in 1996 would be worth \$157,315 today.

Jim also bought shares in **Shaw Communications Inc.** ([TSX:SJR.B](#))([NYSE:SJR](#)) when it acquired his local cable operator. He liked the pricing power, the predictable revenue, and customer stickiness, figuring the cable business was a good one.

Over the last 20 years, his investment has sure paid off. Shaw shares are up 16.7% annually, including reinvested dividends. That's enough to turn a \$10,000 investment in 1996 into something worth \$220,314 today.

The bottom line

Jim likens his early retirement journey to a marathon. At the beginning of the race, doing 26 miles seems daunting. But if you look at it as 26 separate miles, doing a mile at a time isn't so bad. That attitude combined with his savings rate, frugality, and smart investing made Jim a man to be considerably envied.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:SJR (Shaw Communications Inc.)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:SJR.B (Shaw Communications)

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