



4 Steps to Financial Independence: Earn, Save, Invest, and Repeat

Description

Did you know most Canadians stress about their finances? The 2022 FP Canada Financial Stress Index [stated](#) that 38% of Canadians say money is their biggest source of stress. Rising prices are increasing their concerns about long-term financial well-being. You can reduce this stress by following four steps to financial independence.

What is financial independence?

Financial independence is more than having sufficient money to pay for your daily expenses, even if your working income declines or vanishes. It also includes protecting your saved money from inflation, avoiding unnecessary spending, and building wealth. You have to work towards financial independence by putting your money to work. There are four steps to financial independence.

Earn to pay for daily expenses

The first step is to earn money by investing your time and skills in a commercial activity. It can be through a job, a contract, or a business. You can increase your working income by upgrading your skills or expanding your business. But don't burn the candle at both ends. Take time to rest, focus on health and family, and sharpen your knowledge.

Save for emergencies

"Do not save what is left after expending, but spend what is left after saving."
[Warren Buffett](#)

While you should focus on growing earnings, you should also focus on saving. Save as much as you can in your early years. One form of saving is repaying your loans early, as it will reduce your interest expense. Your fixed-income deposits won't earn as much interest income as you pay interest on a loan.

Keep your expenses to a minimum and avoid loans as much as possible. You can save on fixed income and bonds. But these savings can't fight inflation or make you richer in the future. Hence, put six months to a year worth of your salary in liquid bonds and fixed deposits for emergencies. And invest the rest of the savings in building capital.

Invest to build financial capital that can beat inflation

This is the step where many new investors make mistakes and back off before they build financial capital. The stock market is volatile, and the buying logic is simple. You cannot create wealth by buying popular stocks. These stocks have already reached their growth. You need to invest in value stocks that might fall in the short term but grow significantly in the long term.

For that, you need to invest in future growth trends. Ask yourself where you will spend your money 10 years from now, and then study the fundamentals of those companies. Growth is qualitative. By the time it appears in numbers, the alpha is diluted or lost.

For instance, **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) stock was not so popular during the pandemic and fell below \$20 — its lowest level in 15 years. But it's a stock that recovers when oil demand recovers. After bottoming out in November 2020, the stock surged more than 230% (\$1,000 invested became \$3,300) by July 2022. Suncor is now one of the most popular stocks on the [Toronto Stock Exchange](#). Buying the stock in the current market won't help generate wealth. But you can buy it for dividend income.

Wealth-generation stocks are the ones with significant growth in the long term but are currently not so popular. One such stock is **Magna International** ([TSX:MG](#))([NYSE:MGA](#)), which has dropped 25% year to date. This automotive component supplier has the potential to tap the electric vehicle and autonomous vehicle momentum. The stock is not very popular because of chip supply shocks and a slowdown in automotive sales. By the time growth starts reflecting in numbers, it would be too late to book your spot in high growth.

Repeat

Investing might bring both profits and losses. You don't need to make money on all your stocks. You need one or two outliers that can cover your losses from other stocks and grow your money enough to make you wealthy. To achieve financial independence, earn more, save more, invest regularly, and repeat.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:MG (Magna International Inc.)
4. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. pujatayal

Category

1. Investing
2. Stocks for Beginners

Date

2025/08/20

Date Created

2022/08/29

Author

pujatayal

default watermark

default watermark