EPISODE 211

[INTRODUCTION]

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FT: Welcome back to So Money, everyone. I'm your host, Farnoosh Torabi.

It's a special week as I've been teasing for several weeks now. We have millionaires next-door and I'm so excited to unleash these five next interviews this week. This is something that I have enlisted your help for over the last several weeks, asking you to either nominate yourself if you're a millionaire next-door, or someone you know who has a net worth of a million dollars or more and lives in a way that doesn't necessarily elude to the fact that they are “millionaires.” Because as we know stereotypically, millionaires have big houses, big cars, take lots of vacations – expensive vacations – buy fancy things, designer this, designer that, but there are several millionaires in this country who got to where they are thanks to hard work, thanks to saving diligently, being very selective about how they allocate their dollars and investing for the long run.

It's generally not a sexy story. I'll be honest, some of the stories this week you're going to hear, there's not a lot of fancy this or sexy that, but they are true stories of how real Americans have made over a million dollars rather quickly, too. Some of these people you're going to hear from retired in their 30's. Today's guest retired at 50. So, we're going to talk about what are the ingredients to becoming a millionaire next door. How do we get there? I was incredibly inspired. I think you will be, too.

Our first guest today is Darrow Kirkpatrick who runs the blog Can I Retire Yet. The answer for Darrow and his wife at least was yes, absolutely. They retire at age 50 and with over a million dollars in the bank. You wouldn't really know it, he has a modest home, he rides his back almost everywhere and when I visited Darrow at his home a few years ago for a story that I was reporting on for Yahoo! News, I don't even think I noticed a television – at least not a working television in his home. Just to paint the picture of who we're really talking about, but trust me, this guy is living the life. He is happy, he is fulfilled, they are enjoying their early retirement and they enjoyed the ride as well. This was not a penny-pinching road to retirement to becoming millionaires next door.

Darrow graduated from the University of Virginia with a degree in Civil Engineering. He started and sold his own business. That was very instrumental in his wealth-building years and after 29 years of programming, designing and managing computer software, Darrow was able to retire, as I said, at the ripe age of 50. How did he do it? We will discuss this in a few seconds, but he attributes a lot of his financial success to hard work, frugality, serious saving and having certain investing strategies. Patience, he says, helped along the way, too.

Additional takeaways from our conversation with Darrow: the very specific calculated way that some recurring costs like your cellphone bill, your gym membership, your cable bill can eat away at your retirement savings. How Darrow was about to retire and then what happen? The market tanked, his portfolio went south. What did he do? And how was he ever going to be able to recoup his losses and by the way sent his son to college the following year? It was a very tumultuous time. How Darrow invests his money? Specifically where, how and the exact allocation. I want to know how much do you have in the stock market Darrow? He tells me very candidly. So without further ado, let's kick it off with our first millionaire next-door, Darrow Kirkpatrick.

[INTERVIEW]

FT: Darrow Kirkpatrick, welcome to So Money, my first millionaire next-door. Very excited to learn how you became a millionaire next door. Welcome to the show.

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DK: Hi, Farnoosh. Great to be here. Thanks.

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FT: Hi, Darrow. We actually met a couple of years ago. I came out to where you were then living in Tennessee, I believe?

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DK: That's right.

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FT: ...at the time. Now you've moved to New Mexico, but we went on to profile you for Yahoo! because you have retired at 50. That was the headline, "Retirement at 50." So many of us just want to retire at 60, or 65 and that's a struggle. You did at 50 and it happens to be that you are also a millionaire – more than a millionaire and you live a very, very, I would say modest lifestyle. You're not like I see the millionaires on TV are portrayed with fancy cars, big homes, diamonds and things like that. But you have a very quality life that's aligned with your values and your wife's values. We're going to talk about that.

I'm on your blog right now, Caniretireyet.com where you talk about those values. I'd like to share those with our listeners, just a few of them.

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DK: Sure.

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FT: "Putting others first, telling the truth kindly, giving more than getting, living simply using less, experimenting, working smarter, being present and letting go except to change." Let's start with perhaps living simply and using less. Would you say this was one of the key aspects to your journey to becoming a millionaire next-door?

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DK: Yes, absolutely. I think that's a key ingredient and it shows up in a lot of the other stories I hear, too. It's a joyful thing. It's not something you force yourself to do, but I'm just grateful that we're happy with less and living simply and enjoying some of the free things in life.

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FT: Why do you think you're a millionaire next-door-type?

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DK: Well, it's partly that ingredient. It's appreciating smaller footprint lifestyle. It's also having some sort of skill that's highly rewarded in the world. So, I was an engineer – a software engineer – so it's very helpful to work at it from both ends to have some sort of career skill that results in you getting paid well, and then also having modest taste and not spending everything that comes in.

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FT: What's your taste like? What do you mean by modest taste?

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DK: The really big items that sink a lot of people are frankly houses and cars. Those things were not ever very important to us. We love being outdoors, we do lots of camping, hiking, biking, climbing and those things don't cost a lot to be happy doing.

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FT: Becoming a millionaire is not something that happens overnight or that happens without consciousness and effort. At what point did you and your wife decide that you wanted to reach this achievement sooner than later and what changes did you make to your spending to achieve this?

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DK: I would say it was probably our mid-30s that it became pretty obvious, we were making more than we were spending and we valued our free time more than the money and the things. So we started getting focused on really saving on how to invest well and I would say we made a conscious decision not to wretch up our lifestyle because that was the time frame I started to have some success and I was involved in some small started companies. They started doing well, there were some acquisitions, more money showed up and we made pretty conscious decisions to not upgrade our house. We just kept living where we've been living, not getting into high-end vehicles and sock away bonuses and learn how to invest it well.

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FT: What makes you happy? How do you spend your money to live a lifestyle that is in-line with your values and brings you happiness?

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DK: When we do spend money, it tends to be in tools and things, maybe some inexpensive travel, gear for doing things outdoors, visiting people – relationships with other people are very important – it does not tend to be for us in things like bigger houses, more furnishings, nicer vehicles, more vehicles. That stuff doesn't bring us happiness.

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FT: All right, let's get into some of the more specifics of being a millionaire next-door. Tell me how much did you save percentage-wise, how did you save that money or invest that money and your number one tip for somebody who wants to achieve this milestone?

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DK: All right. I don't have the precise numbers, but I've made around $100,000 annually if you average it out over my whole career. We saved about a third of that in my high-earning years. I always maxed out my company 401(k)s, we got all the matching that they offered, but then we did quite a bit of saving outside of that in taxable accounts. So when I retire, we wound up having about half our assets in sheltered accounts and half in taxable accounts.

I went with very simple passive index investing, I had to learn some lessons the hard way. The actively trading got me nowhere and actually left me worst off when I started generally. A very simple portfolio, less than 10 mutual funds, very low cost and sticking with it through thick and thin. I kept investing through the .com bust, through the great recession – I actually doubled some of my retirement contributions during that time. Just sticking with the plan no matter what's going on in the outside world.

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FT: I think that's really key. A lot of people who were nearing retirement at the time of the .com bubble bursting and later the mortgage crisis, the housing collapse and the financial collapse of I guess 2008-2009, some people, their instinct was to get out, pull all their money out and it was really to their detriment because had they stayed with the market's ups and downs and the volatility, a few years later within two or three years, they would have perhaps recoup their losses. I think that's a huge takeaway.

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DK: Yes, definitely. It's a funny metaphor. I do a lot of rock climbing and there are times in climbing you can't go down. The only way out is go to up and I felt the same way during that, that if I bailed out, I was not going to be able to retire early. I was going to hurt myself financially. So the only route was to stay in even though it was unpleasant at the time.

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FT: I like that, the only way out is to keep going up. It's a good metaphor.

You also along the way sent a child to college. Share that strategy with us because so many of us grapple with, it's a choice we feel or we have to choose between our own retirement or sending our child to school or college. How did you afford both of those things so well?

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DK: Well, that is a really critical trade-off and you don't want to have regrets when it's all over. Retiring early was a big goal of mine, but an even more important goal was raising our son well and providing for him. The way it worked out for us, we actually wound up spending a fair amount on his early education. We felt that's what he really needed, so he wound up going to private middle in high school and it was clear to us at that time that we needed to take on that expense. It was the best thing for him. He really benefited from that quality of education.

Then when it came time to look at college, we said, "Hey, you're a great student. You got the resources. You either need to go to public university or get yourself a scholarship." He actually wound up doing both. He got a large scholarship to a public school and we chipped in, but he really carry the lion share of it. It was a team effort, but I think the early years are the most important if you invest and develop your child, then they're going to be able to take care of themselves later on.

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FT: All right, so when you got to be 50 – you don't have to tell us exactly how much you had in the bank, but how did you know it was enough?

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DK: Well, I kind of had a hobby for retirement calculators. I've written a lot of reviews on them, so I ran a lot of retirement calculators. I also did some of my own back of the envelope calculations and I was reading everything I get my hands on at that time. I knew that at that time the golden rule was kind of this 4% rule. I knew we were comfortably in there, around that withdrawal rate on what we have saved and projecting things out, it look like we're going to be fine and additionally, I was young enough. I still intended to do some sort of work as kind of a safety valve, but it wasn't going to be required and the blog came along and has provided a little income as well on top.

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FT: So what are you guys doing now? What are you up to? How has retirement been?

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DK: Well, it's awesome. Since relocating, we've caught up on a lot of our bucket-list items. We've spent a lot of time in the mountains, we love to do that. So, lots of hiking, lots of overnight trips and climbing. Additionally, I've been working a way at this blog and that has been kind of a dream come true. I've always enjoyed writing, but it was never my career. I got my first book out, I write several times a month in the blog, its got thousands of subscribers, lots of traffic and lots of great feedback. So, that's kind of my creative outlet for helping other people and producing a little retirement income on the side.

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FT: I'd love to ask some So Money questions. I know your wife is a fan of the show and we're trying to convert you now. We have talked in depth about your journey so far and your steps to earning that first million and more – what's your philosophy on money? What's your financial philosophy?

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DK: Well, I guess one very simple approach would be to live below your means and invest the difference wisely. Optimize the few things in life that really are important to you. Spend there by all means, but don't follow the crowd and spend on everything because you can't optimize everything.

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FT: Did you ever feel that you had any pressure to spend in a way that was not aligned with your values? I think that sometimes, our environment can mislead us to spending ways that we don't really want to spend, but we do because it's a way to be similar and be accepted. Has where you lived and who you surrounded yourself with helped you become the millionaires next door?

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DK: Yes. I think in general, yes. My closest friends all share similar philosophy or at least respect it. So there was never any push back from the people that I'm closest to. But certainly the culture around us and sending our son to a private school, you can imagine a lot of the families there are very well-off. There were pressures that we saw during his growing up years in terms of other people's lifestyles and we sometimes had to draw the line and just say, “We don't things that way. That's not what we value.”

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FT: You have a blog so you're not exactly living this secret life.

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DK: No.

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FT: But what do your family and friends think of your exceptional financial achievements?

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DK: Well, that's a good question. You don't always hear directly. I get questions, I know people respect the fact that, “Yes, he did it so he must know something.” So I get some interesting questions from people on how and what they should do with their money. I think people appreciate how great it must be to have the freedom to do what you want to do every morning when you get up. We try to be prudent. We're really grateful for what we've accomplished, we try not to brag about it, but I do talk about some of the facts and what we did to get here on the blog and I hope it's helpful to people.

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FT: What would you say is your greatest money memory growing up?

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DK: My greatest money memory? Wow. Well I'd have to point to my parents. There's no question that most of my philosophy comes from them. Even though they weren't as explicit about it, they lived a very prudent lifestyle, we were military families, we didn't have lots of money to throw around. They didn't spend for show, they made us kids work, we got allowances and they really optimized the things that were important to them in life and it generally didn't involve money or big showy things.

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FT: What did you do with your allowance when you were a kid?

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DK: Wow, that's a good question. Well, I know I had some savings – maybe a few thousand dollars socked away by the time I went to college, so I must have saved some of it, but I bet I spend a lot of it on outdoor gear and backpacking gear and such, some of the same things I enjoy spending money on. But nothing terribly expensive.

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FT: So do you think this is in your DNA? Are your other family members similar to you in a way that they look at money, and spend and save?

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DK: Not necessarily. I guess part of it is DNA, but part of it is personality and just individual experience and taste. It may be a little hard to predict who's going to wind up taking this path.

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FT: Okay, I always ask this of my guest and your wife might know this because she tunes in. Financial failure, Darrow. I know that this is a show glorifying the millionaires next-door, they lived on everything right with their money. However, along the way maybe you did experience a failure that was a lesson learned. Can you share one with us?

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DK: Absolutely. Fortunately I can say it was small amounts of money because that's how you want to fail. You want to do it early with small amounts and not later when it really counts. But I got sucked down the active trading path early on, I tried buying and selling some stocks during the .com boom, but I was doing it with a few thousand dollars. I remember watching some stock quadruple. “Wow, I must be really smart to have bought something that quadrupled.” Then I watched it go all the way back down and I think I sold it under $100 on it or something.

I learned that way that actively buying and selling wasn't how you wanted to build wealth over the long haul.

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FT: Can you share where specifically you invest? Maybe not the name of the fund, or index funds, ETFs, things like that nature?

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DK: Sure. Well, there are several posts in my blog about my portfolio. So about once a year, I'll just document my entire portfolio. It's very simple, it doesn't change very often. But 3/4 or 4/5 of it is with Vanguard Funds, with this broad index-based world cost funds. I own some big balance funds like Vanguard Wellesley Income. They're kind of old-fashioned, but they're very inexpensive, and very stable and reliable. Again, every once a year I'll do a post about that on my blog for people who are interested.

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FT: And now that you are in your 50's, what's your investment mix like? Are you still relatively active with equities or have you taken it down a notch?

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DK: Well, I've been fairly conservative for the last decade and that was part of why we did well, is because I had a very high allocation. The bonds are relatively high and bonds did very well through the 2000s. So I've always been around 50/50 stocks and bonds. Maybe, I hear are more conservative right now, I think we're more like 45% stocks. That allocation is worth really well for me. It's just been a nice, balanced, stable kind of allocation that still has gotten some growth because of the stocks. It's not a one-size fits-all. Everyone going to have to decide on their own risk level, but that's worked very well for me over the long haul.

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FT: Okay. Let's talk success. What is your So Money moment? A pinnacle of financial success for you and your family that you just remember this and you refer to this sometimes when you want to feel good?

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DK: Well I guess I would have to say retiring early. Realizing finally that yes, we're really financially independent, we can do whatever we want in life and it's a function of the fact that we don't need a lot, that we've lived modestly and also we've saved a great deal, and just getting to that point where we could write our own ticket and do whatever we wanted. I think that was a great feeling.

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FT: Number one financial habit. What's a good millionaire next-door money habit, Darrow, that you practice regularly with consciousness, that helps to keep your finances healthy?

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DK: Sure. I've written about watching out for recurring expenses and I think that's a really critical thing. Anytime you commit to a monthly expense – whether it's a mortgage, or a rent, or a car payment, or a gym membership, magazine subscription, you name it, but you need about 300 times that amount in an account or an investment to pay for that expense over retirement. It's better to think of those recurring expenses as a really big number that you've got to save instead of some monthly bill and if you take on to many of those, you're basically lacking in a lifestyle that you've got to support. It's not that they're all bad, it's just you want to be very conscious about taking on any regular expense.

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FT: How did you come up with x300?

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DK: That comes from the old 4% rule, which might even be a little too liberal, but it's good enough for our purposes. So that 4% rule, if you invert that, you need 25 times at any given amount saved up to provide for that and retirement, and then monthly expense or 12 months in a year. So 12x25 is 300. That's where that multiplier comes from.

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FT: What have you given up because of this calculation that was really a wake-up call for you?

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DK: The cheap side magazines – I'm sorry we haven't supported any magazines in decades. It was a lot of money that I needed to have on the bank to pay for those and a lot of extra work to read them. That's a simple one. A big one would be mortgage. We did not live in a big fancy house, it was a medium-priced house, we got paid off in 10 years, so that was a big regular expense that we got rid of as soon as we could.

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FT: I'm curious. Did you marked the moment when you crossed the million-dollar threshold? If you remember that moment, where were you? What were you doing? What happened?

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DK: Yes, that was a big deal and I've crossed it twice because I crossed it right before the great recession and that was very difficult to know that we were quite close to retiring, but two issues – one, the market was diving and two, my son I hadn't focused on the college decision. So, we really didn't know how much that was going to cost. I had two really big variables there that I was dealing with right about the time we cross that threshold and I couldn't pull the plug. I had to stay at my job another four years actually after that point. So, the market went way down, we went underneath that million-dollar mark for a year or two and then we came back and crossed it finally for good and I was able to make the decision. We got clarity on the college decision, but it all required patience.

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FT: Absolutely and a devotion. I think again, it's very psychological, it's understandable. People pull out of the market at that point. I was fearful as well, especially if you're approaching retirement like I'm just going to cut my losses now. I don't want to lose any more money, but you had faith.

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DK: It was that climbing metaphor again. I knew if I pulled out, I wouldn't be financially-independent, I wouldn't be able to retire. If I hung in, I had a shot at it. So the only way out was up.

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FT: All right, Darrow. I ask this of all my guest. This is the portion of the interview where they're not questions, they're fill in the blanks mostly.

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DK: Okay.

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FT: First thing that comes to your mind. The key is to not really overthink it.

If I won the lottery tomorrow – you feel maybe you've already won the lottery, but let's talk about hundreds of millions of dollars, power ball money – the first thing I would do is?

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DK: I would definitely do some sort of foundation or charitable foundation focused on a set of issues that were important to me. That's the benefit. We really have everything we need. So if I got extra in that order, I would try to do something big in the world with it.

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FT: The one thing that I spend on that makes my life easier, or better, or both is?

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DK: Dining out. We love to do that.

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FT: See? Even millionaires next-door will dine out.

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DK: Sure.

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FT: But to an extent. You're not going out every night. Right?

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DK: Yes, we have a budget for it actually.

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FT: That's an interesting concept. A millionaire with a budget. People might not think that. That's again, a millionaire next-door quality, “We actually have budgets, people.”

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DK: Yes.

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FT: One of my biggest guilty pleasures that I spend a lot of money on – and this may not apply to you, but I'm very curious. Do you have a guilty pleasure? Something that you spend on just because you enjoy it, you surely enjoy it?

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DK: Well on the small side, chocolate is great. On the big side, I do buy a lot of outdoor gear. That's what we love to do, they're great experiences that it bring so we own really nice stuff and we use it.

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FT: The one thing I wish I had known about money growing up is?

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DK: Probably passive index investing and understanding that keeping your expenses low and staying invested across the whole market for the long term is the best way to build wealth and nobody really discovered that very while until 10 or 15 years ago.

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FT: Right. Even you learned that the hard way like you have shared earlier.

When I donate money, I like to give to _____ because?

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DK: Well, my favorite causes are actually preserving land. I think that has the biggest impact on the environmental questions in the world that are important to me. I believe in putting money into saving land in its natural state. I think that helps everybody in the long run.

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FT: Are there specific organizations that are best for this?

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DK: The nature conservancies are the at the top of my list. Yes.

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FT: Great. Last but not least, I'm Darrow Kirkpatrick, retired at 50, millionaire next-door, I'm So Money because?

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DK: Because I lived on less than I spent and invested the rest wisely.

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FT: Is that really all it takes?

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DK: That's it. Living less than you make and investing it wisely. That's the equation. No one is going to get there without following that equation.

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FT: And now you're enjoying the fruits of your labor in New Mexico. Is that a good place to retire, by the way? Should I put this on the list?

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DK: Yes, I think it's high on the list. It's a beautiful, really unique diverse place with a reasonable cost of living if you play your cards right.

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FT: Darrow, thank you so much for sharing your story. You are our very first millionaire next door this week and you kicked us off well. Thank you so much.

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DK: Thank you, Farnoosh. I'm honored.

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