

The IMPACT factorTM

$$fs=m(t+i+p)^{(c+a)^{}}$$

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Liam Croke is one of the most trusted and expert names in independent personal financial planning advice in Ireland today.

Before co-founding Harmonics Financial with John Fitzgerald, Liam held several management positions with leading financial service providers in Ireland for some 25 years. Liam provides one to one personal financial planning for executives in leading corporates and facilitates group workshops in all areas of personal financial planning for staff.

Liam is also the brainchild behind the new award winning on line financial education portal for employees, My|Money. He is a published author on personal finances, contributes regularly on national TV, radio and newspaper. He has been invited to present to the Oireachtas Joint Committee on Social and Family Affairs – the only person to have been asked to contribute where he was not representing a particular group or organisation.

The IMPACT factor

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What's the secret to a successful financial life?

This is something I've been giving quite a lot of thought to in recent months.

I guess how you measure and define success will be different for everyone. For some it will be the accumulation of as much money as they can, and the balance in their various accounts will determine whether they've been successful or not. Others are less interested and if they're at breakeven every month, that's success for them.

Being clear about what financial success means to you is important though. It can't be just an arbitrary thing, it has to mean something.

You can't be vague, you need to know what you want, so you can measure progress against, which will ultimately determine whether you've been successful or not.

And because everyone is different, it's been difficult putting this formulae together, because how do you satisfy everyone, if their definition of financial success is different?

My definition and yours won't be the same, as it should be, but I think what we have to do, to get to whatever our end point is, should be more or less the same regardless of what success means to each of us. Which could be retiring at 50 and having a passive source of income of €100,000 per year or having an emergency fund of 3 months of income saved or becoming mortgage free at a particular age.

So, I've been on a quest of sorts, searching for that magic formulae, that when applied and followed, will deliver success for everyone.

And is it really magic at all? I think we're led to believe it is, and that there's some secret to financial success. But perhaps there's nothing magical at all, there's no real secret, it's just a simple formula that anyone can follow very easily, and can be used without regard to income levels, social status, how smart someone is, their profession, education etc.

I've been looking for help, so I've been reading quite a lot about success formulas, and I found one that was interesting, and I liked. And it came from Sir Matt Busby the great Manchester United manager. His formulae for success, which he built his team around was:

Talent + Effort + Intelligence = League Title.

He followed it, and United won the league in 1952, 1956, 1957, 1965 and 1967. He also won 2 FA cups and the European Cup in 1968.

And after many hours googling trying to find out what others have been saying, specifically about money and personal finance, unfortunately, I didn't find much.

But let me tell you what I did find.

One formula for financial success that I came across stated this:

Financial success = the balanced application of financial leadership with financial management activities.

I’m not really sure what that meant, so I continued searching.

Another one I found claimed that if you followed it, you would have a 1 in 13 chance of becoming a millionaire and it was virtually guaranteeing you success, and it was:

Hard work x frugal living x smart decisions = financial success

It didn’t elaborate much on what they meant by hard work, or smart decisions, but this formula is first off incredibly patronising, and obviously has no connection with people, otherwise there’d be many more millionaires in the world, than there are.

And unfortunately, the self-help industry has become hugely profitable because it sells the dream of rapid wealth with minimal effort.

I discovered other formulas and the adjectives they kept using were guaranteeing, easy, simple and we all know, financial success is far from easy or simple.

An example of this was one website I found which said it had a ridiculously easy formulae which would guarantee financial success and it was:

Spend less than you earn + invest the difference = financial success.

And they weren’t wrong, it was ridiculous.

It’s not that the principals were wrong i.e. spending less and investing the difference are excellent principals to follow and important, but they don’t guarantee financial success. If the solution was this simple, why is much of the world living pay cheque to pay cheque and are one financial problem away from being in serious trouble.

If, for example all you can spend is €200 less than you earn each month because of your mortgage, childcare, food, clothing etc. and you invest that amount over 25 years, assuming a net return after charges of 2%, where inflation runs at an average of 1% per year, you’ll have €61,141.78 in your account in 2045.

I don’t think you could call that financial success. I mean you personally saved €60,000 but it’s only gone up in value by €1,141.78 over those 25 years. That’s an annual increase of €45.67.

And that’s not to underestimate the amount you saved, its excellent, and if you’re goal was to accumulate €61,141.78 over 25 years, then you’ve been successful.

When I was putting these numbers together, it got me thinking about other factors that may have been, just as important as the amount you are able to save.

For example, in this instance, I wondered how much effort did this person put in each month? Could they have saved more than €200?

What about personal development? What did they do to improve themselves and their income earning ability over those 25 years, which might have led to them saving more?

How resilient were they if things got tough and their income dropped? Would they have continued to find a way to save that money?

How about their willingness to learn about new investment products during those 25 years? Were they just on auto pilot, saving into the same account year after year, ignoring accounts that could have yielded better returns?

And did they improve their financial knowledge during all those years of saving? So, would have being more focused, more intelligent, more resilient, more committed, improved the outcome, and if so, by how much?

My instinct was that they would, so I set about proving this theory.

And, it was important that I monetize some of the characteristics I’m going to refer to, because they can be abstract. What does, being committed really mean? How much more value add can it create in Euros & Cents, than someone who isn’t so committed?

Before, I moved forward with assigning numbers, I had to build a formulae and I tried to make it as simple as I could. And after pouring over many permutations, and thinking about what the shared characteristics of financially successful people I’ve encountered are, I came up with the following:

$FS = M (T + I + P) ^ (C+A) ^$

And the letters stand for:

- FS*** = Financial Success
- M*** = Money
- T*** = Time
- I*** = Intelligence
- P*** = Personal Development
- C*** = Commitment
- A*** = Action

If you rearrange the letters, they can be compacted into the acronym IMPACT, which might help remember the principles I’ve chosen.

I struggled with leaving focus, effort, and resilience out of the formulae, but they would just complicate things, and make the formulae look far too complicated, and anyway, crampift is less memorable than impact.

I specifically chose these variables because I’ve seen the impact they’ve had on peoples’ finances over the years.

And interesting to note, they are all things we have control over.

We control our intelligence, our commitment, our action, our personal development etc.

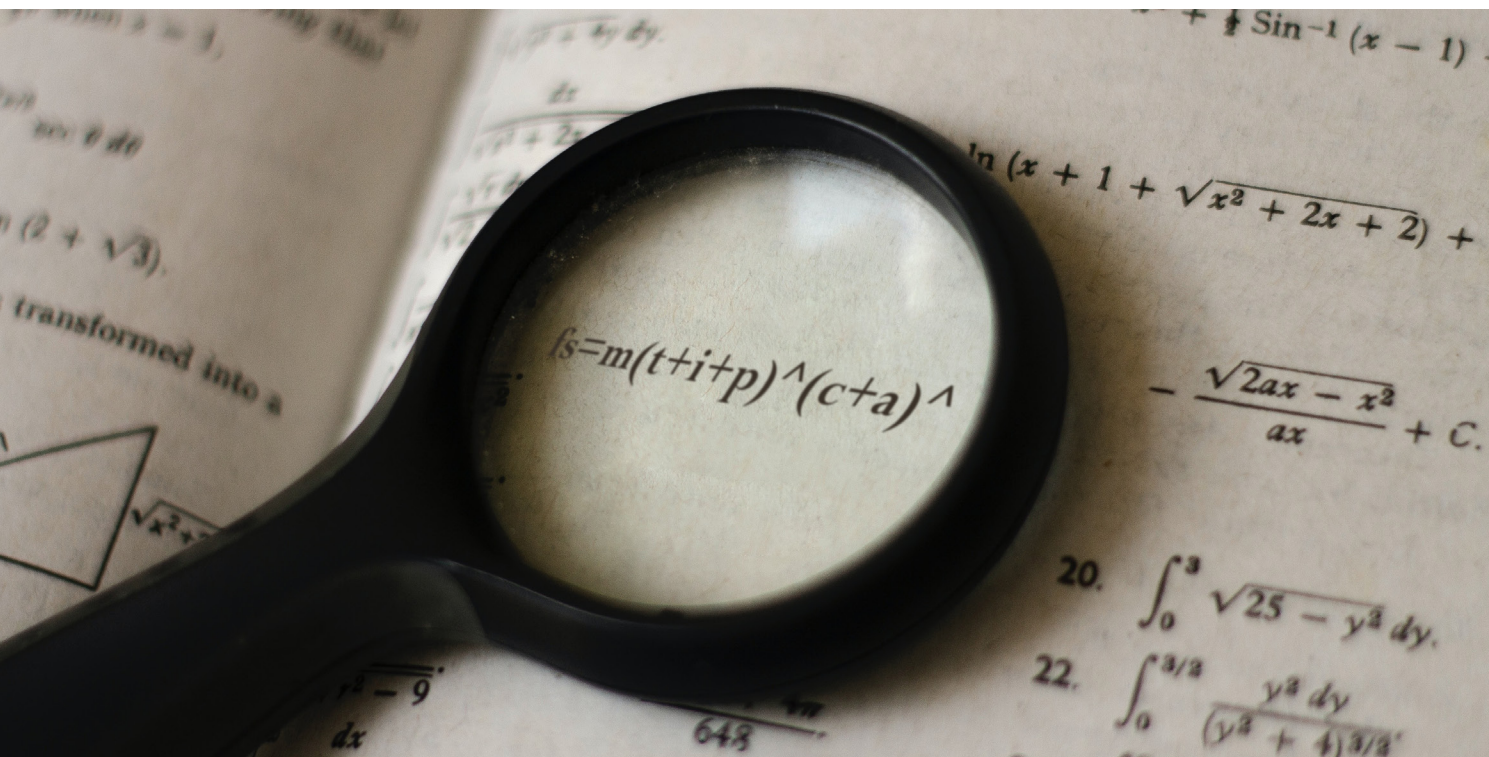
And any of these factors by themselves don't increase your rate of success. Having a high financial IQ doesn't count for much, if the portion of your income you've set aside for savings is low. Having a high income won't guarantee success if your time frame is small, or you don't stick to the plan.

People think they have to have a high income if they want to become financially successful, and that's just not the case. I encounter people all the time whose incomes are very high, but they neglect to work on their personal development, they don't take action with any surplus monies they have, they never seek to improve their financial IQ, and if they commit to a plan, they don't stick to it and take the easy way out all too quickly and easily.

So, money in itself doesn't get the job done. It doesn't count for anything unless you're using it wisely and apportioning the correct amount towards your various outgoings and staying within the agreed limits in each category.

And when you begin using money in conjunction with time, intelligence, personal development, action and commitment and you add the value of all of these variables together, they can either speed up or slow down your rate of success. Individually they can act as accelerators, but when combined together, they can turn you into a financial powerhouse.

And I have very good reasons why I chose each of these variables, and I'm going to tell you them now.



“So, money in itself doesn't get the job done. It doesn't count for anything unless you're using it wisely and apportioning the correct amount towards your various outgoings and staying within the agreed limits in each category.”

Money

$$fs=M(t+i+p)^{(c+a)}$$

Like it or not, money can help create opportunities in our lives, which is why it's the multiplier that makes up my formula.

There's no escaping the fact that money impacts our quality of life and often determines how happy or unhappy we are. I'm reminded of the quote from David Copperfield by Charles Dickens, which says, annual income twenty pounds, annual expenditure nineteen shillings and six pence, result happiness. Annual income twenty pounds, annual expenditure twenty pounds and six, result misery.

So, money is absolutely vital, and your number needs to be a positive one. Probably not the most astounding insight you've ever heard but know this; the more money you have at your disposal, the bigger your multiplier is.

The reason why the amount of money you have at your disposal is such a big deal, is because it magnifies the other variables, all of which are the exponents of the formula, which act as accelerators to achieving financial success. The bigger each of the numbers are, the faster you become financially successful.

For sure, you need a minimum level of income to survive. But the amount above it, is going to be used to achieve financial success. Which is why the gap between your income and outgoings is so important.

Time

$$fs=m(T+i+p)^{(c+a)}$$

Time and money are inextricably linked.

Money and time are resources but because time is finite, it's a more valuable resource. We can make more money, but we can't make more time.

And time and money share many similarities and understanding how we can make the most of both can lead toward some very positive results. And on the flip side, the opposite is also true.

Warren Buffett knows how valuable time is, and in an interview with Charlie Rose, he said of time "that It's the only thing you can't buy. I mean, I can buy anything I want, basically, but I can't buy time."

Time does a number of things but the most important one, is the compounding effect it has on the amount you save every month.

It's quite obvious, the more time you have at your disposal, the more money you can accumulate. And if you were in any doubt about how important it is, let me run some numbers by you which are indisputable.

Let's assume someone is saving €200 per month, earning an annual return of 5% over a 25 year period.

If they were offered an extra 10%, that could be applied to the amount they save, their annual return or time, what 10% would create the biggest impact on their final fund value?

Here are the results:

1. Savings – an extra 10% means that €200 now becomes €220 @ 5% x 25 years = **€131,558**
2. Return – an extra 10% means that 5% now becomes @ 5.5% x 25 years @ €200 pm = **€128,996**
3. Time – an extra 10% means 25 years now becomes 27.5 years @ €200 x 5% = **€149,044**

Time is the big winner of the three variables, but unfortunately people delay starting a pension or saving because they think they can catch up at a later date by increasing the amount they contribute each month or by trying to get better returns – **BIG MISTAKE**.

The biggest risk to your future self is time. Trust me on this.

Leaving it until you're 55 to begin figuring out how much income you need in retirement could be too late. If a large deficit exists, you won't have the time or resources to make up the difference, and there's not much you can do about it. And because you ignored the importance of time, you can now look forward to a life of having to continue to work in perpetuity just to maintain a basic standard of living.

Time is the secret shortcut to increasing wealth, because it means those small amounts you save have more time to grow and multiply, and what started off the size of a tennis ball grows into a massive snowball.

Intelligence

$$fs=m(t+I+p)^{(c+a)}$$

Many people believe all things related to personal finances are complicated. And that can be from reading books, newspapers, listening to people on the radio, watching TV etc. It all seems very technical and difficult to grasp what's being said, and they think becoming financially successful requires knowledge and a skill set that is beyond them (In reality any financial concept worth knowing about can easily be understood by anyone who has a basic understanding of leaving certificate pass maths)

So, they don't even make an attempt to learn and understand how they can improve their finances. And unfortunately, the problem is not because of a lack of understanding about what's being said, the problem could be the person they're listening to or reading, and their inability to communicate in a way that's understandable.

If that is an obstacle to improving your financial intelligence, you've got to move beyond these people you encounter. And always remember, what you're trying to achieve has been accomplished before by someone else, who started off just like you. But they were willing to learn, and so must you. You must educate yourself.

This is how Elon Musk and Warren Buffet started out, and despite both being at the very top of their respective industries, they haven't stopped trying to improve their intelligence.

And you don't have to be any kind of maths genius to put it to work in your everyday life. The majority of financially successful people I encounter don't use complex math formulas, but they do understand how numbers can work for and against them.

There are plenty of financial platforms which are useful, and are easy to understand, and there are resources like books, webinars, podcasts etc. that will help improve your knowledge and they'll tell you what others did, which is often referred to as OPE – Other Peoples Experiences.

You just need to seek them out and then apply your newfound knowledge to your own finances. And it might be as simple as reading Tony Robbins book, Money: Master The Game, or following someone like the Motley Fool on Twitter or subscribing to publications like Kiplinger, or Moneywise in the UK.

There are lots of financial advisory courses that are free, and access to financial coaches isn't a barrier either, because technology has done away with that. There are no excuses anymore for not improving your financial intelligence, because the information available is so vast, and there is no excuse for ever ending this quest for knowledge either.

You could always seek out a mentor or a trusted adviser who will help you sift through the mountains of information that exists, and they'll tell you what you need to know, and that might come in the form of a weekly email or text, telling you about something important you should know about.

And maybe math just isn't your thing, and you might find all things related to money, tedious and boring. But whether you like it or not, you need to work on increasing your financial knowledge, because it's as important as your income. If you don't learn or improve your financial knowledge until late in life, it may be too late, and I'm not sure you'll be able to achieve those financial goals you set yourself. And you don't have to have a PhD or have an IQ of 160 to succeed financially. Anyone with normal intelligence can, but you need to work at it, nonetheless.

“Always remember, what you’re trying to achieve has been accomplished before by someone else, who started off just like you. But they were willing to learn, and so must you.”

Personal Development

$$fs=m(t+i+P)^{(c+a)^{}}$$

Your career is where most people get the vast majority of their income from, which is why you need to never stop focusing on it, and your personal development, so you can maximise your earning potential.

When you invest in your future, you are taking ownership of your life.

Even a small change to how you work and what you do, can make a big difference. Bringing an extra value add to an employer above what's expected and making yourself more valuable to them and more attractive to others, can increase the amount you earn, which can result in hundreds of thousands of extra income earned over your lifetime.

And there is only so much you can reduce your outgoings by. There is a floor to how much you can spend, but there is no limit to the amount you can earn, none. And that's why you need to always focus on personal development. You need to widen the gap between your outgoings and income, and that means you need to earn more.

You need to keep up with industry trends and know what the future looks like because you need to be part of it and not be left behind. So, you've got to be proactive and not reactive, network more, learn new skills and always having that end goal in mind will give you the motivation to keep going.

Commitment

$$fs=m(t+i+p)^{(C+a)^{}}$$

There will be times when things get tough, an unexpected bill comes in, an income shock occurs, the cost of borrowing increases etc. and instinctively people look for solutions and pressing the pause button on their financial plan can be the easy option.

And maybe it is the only option, but I would caution them against moving too quickly either, because it will impact their finances. They have to resist the temptation to solve their problem too quickly because if they do, it will throw everything they're striving towards off track.

It's easy to stop overpaying on your mortgage, easy to cut back on pension contributions, easy to stop saving into your emergency fund, but before you consider doing any of these things, look at other ways you can save money that doesn't impact your long term plan.

Those that do, achieve financial success, they just do.

What I've discovered, and why I have included commitment in my formula, is that success happens when you overcome obstacles and power through the dips, and there will be dips.

JFK's father, Mr. Joseph P. Kennedy, said, **when the going gets tough, the tough get going**, and what he meant by this is when a situation arises that's difficult, strong people will work harder to meet the challenge, and that's exactly what financially successful people do, they push through and stick to the plan.

Action

$$fs=m(t+i+p)^{(c+A)^{}}$$

All the optimism and goal-setting in the world does you no good without Action.

And as Amelia Earhart once said, **the most effective way to do it, is to do it.**

Action is where the rubber meets the road. It's one thing knowing what to do, and it's something else entirely to get it done.

Too many people wait until the time is right.

I'll wait until I get a higher paying job, I'll start next month, I'll wait until the kids are older etc.

If you wait, all that happens is that you get older, and we know time is a key component of my financial success formulae. So, the time to apply what you've learned i.e. how much surplus income you create etc. is now.

If you want to move from your current reality to a new one, you can't wait for it to happen, you've got to make it happen, and taking action and following through is one of the most important decisions you'll ever make, again trust me when I say this.

Otherwise you'll fall into what's known as the Law of Diminishing Intent, which states:

The longer you wait to do something you know you should do now, the greater the chances are you'll never actually do it.

The backbone for success will always be a clear vision of what you want to achieve. And realizing that each action you take is a small victory, and each accomplishment is another step closer to making that big breakthrough, and that's what separates the actions takers from the action talkers.

“*The most effective way to do it, is to do it.*”

Crunching the Numbers

Okay, I thought I had the bones of a good formulae, so my next steps were applying a weighting to each of the characteristics and then testing the formula.

And when I did, I wanted to look at what would happen to two fictional 30 year olds, one who applied the IMPACT formula and one who didn't, and let me tell you, the difference between both is staggering.

Before, I do let me very briefly tell you about the weighing system, I used.

When it came to money, I applied a number that was based on the monthly budgeting 50/30/20 rule. And the important number of this rule is 20, which is 20% of your income is going to be applied to savings, investments, acceleration of debt etc.

Depending on the threshold you fall under, you receive a number which is going to be your multiplier number. The higher the amount you had available for savings, the higher the number.

For example, if you only had 5% of your income available, because the remainder was spent on must haves and wants, the number you receive is lower than someone who saves 10%, and I think that's only fair, right? And I applied the same principles to each of the other categories.

For example, if you were constantly improving your financial intelligence by reading, attending seminars, you had sought out a financial mentor etc. you received the top score, and if you did nothing to improve your knowledge, you received a negative rating.

If you have a plan in place and were committed and sticking to it, you receive a particular score, and if you've put part of your financial plan on pause, you receive a lower score and if you have no plan in place, your score is negative.

I applied the same parameters to action, personal development and time where I used a grading system with each, and depending on where you were in each, determined what score could be applied to my formula.

The measurement I created was that anyone who scored greater than 1, was going to be financially successful. And anyone less than 1, wasn't.

So, I can pretty much tell anyone, if they are interested, and they have 2 mins to spare what their financial success number is. By using the formula, it gives them a great indication as to whether they will be financially successful or not.

And if they're not, the formulae will identify what areas they needed to work on i.e. someone could have great commitment and intelligence but if they're not earning enough, they're going to struggle, so they need to (a) look at ways of increasing what money they have available now and (b) work on their personal development so they are constantly increasing the amount they earn.

Improve these areas, and they will soar past 1, and they'll be on their way to achieving whatever success for them is, from a financial perspective.

And when I was assigning different values to the various components of IMPACT, what jumped off the page at me, was the impact a negative number can have on your chances of success. When that happens, it can destroy your efforts.

So, you could have a good income, are committed to your finances, you're working on your personal development, have time on your side, but if you're doing nothing but talking about how much you'd like your finances to be better, and you're not taking any action whatsoever, when I apply this negative score to your equation, it will show that financially you're going nowhere.

It shouldn't take the output of a formula to confirm this, because if people are truthful with themselves, they'll know this anyway, but at least my formula highlights the area or areas that's holding them back and magnifies how big an impact they are having on their finances.

What I think is great about the formula, is the change that can happen, and one people will see, if they work on those areas that are holding them back. They're probably not the ones' they'd have thought about themselves and didn't realise how important they were. But now they do, and they can take focused action to correct them, and they won't have to wonder anymore, what it is they're doing wrong.

With every other financial formula, I came across, they couldn't possibly tell people what they were doing wrong. If people are working hard, saving as much as they can, why are they not millionaires like the formula promised them they would be.

And there's no apportioning blame to these types of formulas, either they can't be wrong, because there's nothing to hold them accountable against. So, the individual thinks it must be their fault, it's something they're doing wrong. But they're trying their best and doing what the formula is telling them to do, but they're still making no progress, so they just give up, which is terrible.

You can't just say work hard and leave it at that. Equally, you can't say, be committed because there are different levels of commitment and you have to know which one you fall under. You can't use generic terms and believe they can be applied to everyone and leave it at that. That's ineffective because there's no connection to each individual and what their individual circumstances are.

A formula has to produce a value, for it to have any meaning, which is why I applied a weighting system and applied different scores to each component of the formula, because we all have different time lines, different levels of income, different levels of intelligence and that matters, of course it does.

“A formula has to produce a value, for it to have any meaning, which is why I applied a weighting system and applied different scores to each component of the formula, because we all have different time lines, different levels of income, different levels of intelligence and that matters, right?”

Rachel & Emily

(case study)

Okay, it's important I put some numbers together so I could bring this formula to life, where I could monetize the difference between someone who achieved a positive impact score and one who received a negative impact score.

So, my starting point was two 30 year olds, Rachel and Emily.

Both earned €65,000 before taxes each year.

Their net monthly income, after tax amounted to €3,709.

Using the 50/30/20, they each used €1,854 towards must haves i.e. mortgage, rent utilities etc. and €1,113 towards wants i.e. clothes, entertainment, holidays etc. and €742 for savings.

I assumed each just bought a house and took out a mortgage which amounted to 3.5 times their gross annual income and arranged the mortgage over a 35 year term.

From the get go, every aspect of their finances was identical, so I was comparing like with like.

And their definition of financial success was the same, and that was at 55, they wanted to be mortgage free, and have €150,000 in savings. And at 65, they both wanted their pension fund to deliver an income of €3,000 net per month.

That's what I was going to measure success against and that's what I was going to test my formula against.

Let's look at Rachel first.

When I applied the various scores, she achieved in each category, her score was 1.458.

$$2 (0.26 + 0.35 + 0.50) ^ (0.18 + 0.31) = 1.458$$

She scored well on money because she was apportioning 20% of her after tax income towards savings.

She scored high on time, because she was only 30 and had 25 and 35 years to achieve those goals she set.

She scored high on intelligence because she learned what impact overpaying on her mortgage would have on the term and interest paid. She found out how much she needed to have in her fund at 65 that would pay her an income of €3,000 per month. She knew about the benefits of joining her employers share equity program and how she could take advantage of the discount it offered. She knew the type of account she needed to save into each month, that would deliver a good return and help create that €150,000 balance she wanted in her account at 55.

She scored excellent marks on action, because she immediately began overpaying on her mortgage, shortly after she bought her house. Once she knew the amount, she needed in her pension fund, she immediately informed her HR department that she wanted to increase her contributions to her pension plan.

She scored high on commitment because there came a time when, her income was reduced because of C19, and as difficult as it was, she powered on with those pension contributions and those mortgage overpayments. She knew it was only going to be temporary setback, and she wasn't going to allow it, derail her from her long term plan.

And she scored high on personal development. From a career and personal fulfilment perspective she worked on her career. She didn't become complacent with the qualifications she had, and was always learning from others, and was always trying to increase her value to her employer. And when she did, and when her income increased, she applied 50% of whatever that increase was to her pension, and she spent the other 50%.

It wasn't a surprise, therefore that she scored high on my financial success formula.

And what the formula confirmed was the following:

- She will have her mortgage paid off in **24.8 years**, 4 months before her 55th birthday.
- She will have saved **€40,942** in interest payments that would have otherwise gone to her mortgage lender.
- She will have eliminated **124 mortgage repayments** of €875 which total €108,500 which can be re-directed to other areas of her finances when she is 55, or she could choose to earn less each year or reduce the amount of hours she works.
- She would have **€1,444,184** in her pension fund at 65.
- It would pay her **€57,767** gross per year.
- Which is **€3,399** net per month.
- And at 55, she would have **€152,916** in her savings account.

None of the above would have happened, if she hadn't put a plan in place, actioned it quickly and stuck to it. None of it would have happened, if her income didn't increase each year (for the purpose of these calculations I was only factoring in an increase in her salary of 1% per year and applying 50% of the 1% to her pension contributions – the result was quite small i.e. an increase of €78 every month to her pension).

None of it would have happened if she wasn't smart enough to take advantage of overpaying on her mortgage soon after it was drawn down or joining her employers share purchase scheme.

And, all of this happened by the way without her having to breach the 50/30/20 rule either.

She wasn't living on baked beans, she still had more than enough income to have a very comfortable lifestyle. What she was doing, didn't feel restrictive at all.

She wasn't choosing from her present or future self. She was just applying that 20% of her income, nothing more, to those various aspects of her finances and maximising it by way of intelligence, will power, time and earning additional money because she was constantly working on her personal development.

Let's contrast that with Emily.

She scored 0.873 on my formula.

2 (0.26 + 0.18 + 0.19) ^ (-0.07 + -0.24) = 0.873

And whilst it may appear close to 1, it's really not.

She scored well on time, reasonable with intelligence and only okay with personal development but her big let-down was action and commitment. They were negative scores and they were a large reason why she wouldn't achieve her goals.

And it was no surprise that when I compared her against Rachel, the output was significant, which I'm going to highlight, starting with their **mortgage**.

MORTGAGE		
	Rachel Impact Score 1.458	Emily Impact Score 0.873
Total Interest Payments	€99,282	€140,224
Number of months eliminated	113	0
Value of months eliminated	€108,500	€0
Mortgage completed in	24.8 years	35 years
Balance due in 24.8 years	€0	€90,672

And here's an interesting fact, because Rachel was more committed and more intelligent from a mortgage perspective alone, those two factors meant she was 60% better off than Emily which in monetary terms was **€149,442** i.e. less interest payments and months eliminated combined.

It had nothing to do with how much they both earned, which remember was the same, and my calculations was that their income was always going to be identical. The difference was one was just smarter and more committed than the other, that's all.

Who would have thought both of these factors could play such a big role in their finances, and would make such a difference, and who would have even identified both factors as being important at all, and even if you did, how could you even monetize them?

But now at least we can, and we can start putting euros and cents on them, where people really can see the impact.

“Because Rachel was more committed and more intelligent from a mortgage perspective alone, those two factors meant she was 60% better off than Emily which in monetary terms was €149,442”

Let me show you what happened to their pension:

PENSION		
	Rachel Impact Score 1.458	Emily Impact Score 0.873
Fund Value at 65	€1,444,184	€989,096
Annual Income	€57,767	€39,563
Net Monthly Income	€3,399	€2,618
Fund Value at 58	€989,086	€679,139

The big difference here when both reached 65 was:

- **Fund value differential - €455,088**
- **Gross Income differential - €18,204**
- **Net monthly differential - €781**

Again, let me repeat, these are two different outcomes, but both had the same opportunities, and started off with exactly the same income, and had the exact same surplus over outgoings available i.e. 20%.

It's just one was smarter and took advantage of tax relief applying to her contributions instead of giving 50% of her income away in taxes and saving into an account earning <1%.

One was more committed than the other and didn't deviate from the plan. One didn't just invest a % of her income and quickly checked the balance ever year and then forgot about it. No, she checked it every month, because she didn't want to leave things to chance.

And one was conscious of how their personal development was a factor in reaching their long term financial goals, because it added to the amount, she could contribute each year.

So, when it comes to pensions, my formula confirms that working on your personal development is really important. And because of it, Rachel would reach a fund value at 58, that would take Emily 6 more years before she'd get to the same amount.

That's 6 more years of working that Emily would have to do, all because she wasn't aware of how important personal development was to her finances.

And I'm being generous with Emily in the above example by the way. Because I've assumed the same annual return with both girls.

But guess what happens if Emily isn't as smart as we think she is and maybe being smart isn't the right term. Maybe, she just chose to ignore her financial intelligence and invested into a fund because she knew no better, and it was just convenient to pick any fund with no real logic behind her choice.

And let's assume her lack of awareness delivered returns of 3%, which is 2% less than Rachels' 5%, not a big difference you might think, but think again, because Emily's fund at 65 becomes **€644,543** which is **€799,641** less than Rachel's.

Emily's lack of financial intelligence is going to cost her €799,641 and she's going to have to work an extra 27 years just to catch up with Rachel.

So, Rachel retires at 58 but Emily has to wait until she's 85 if she wants to have the same money as Rachel, and all because she didn't improve or work on her financial intelligence.

Not being committed enough or working on her personal development was bad enough because from a monetary value, it meant her fund was **46%** less than Rachel's but add in poor knowledge and the gap becomes **124%**.

When I looked at both women from an **investment perspective**, a similar pattern developed.

If both saved **€342** each month (which was the amount left over after pension and mortgage overpayments and was the remainder of the 20% they had allocated from their monthly income to savings) because Rachel paid attention to her financial intelligence, she was going to end up with a much higher end balance, than Emily who paid no attention to what was going on in the financial world.

And this was the reason why she'd achieve a return of 0.50% and Rachel 3%.

The difference to being financially smarter, might not appear to be a deal breaker at 2.5%, but compounded over 25 years' the difference was significant, as shown in the amounts below, and remember their initial goal was to have €150,000 in their account at age 55.

- **Rachel €152,916**
- **Emily €109,310**

Being financially smarter meant Rachel ended up with **40%** more than Emily did, which in monetary terms was **€43,606**.

That's the reason why I included financial intelligence in my formula, it makes a big difference and it is a big deal.

Let's add in commitment to the equation and see what impact that would have.

If Emily wasn't has committed and she didn't save €342 but chose to save €200 instead because she moved €142 into her discretionary spending each month i.e. clothes, entertainment, eating out etc. and some months she didn't save anything at all. And for the purpose of the calculation, let's assume she missed out on 30 of those 300 months of saving, let me show you what she'd end up with and let's put her alongside Rachel again.

- **Rachel €152,916**
- **Emily €55,824**

Now she's going to end up with **173% less** than Rachel. And that's a difference of **€97,092**.

You can see how big an impact intelligence can have on your finances, and when it's combined with commitment, together they can be either very powerful or very destructive.

I just want to quickly summarise where both women ended up, starting from exactly the same starting point:

Category	Target	Rachel Impact Score 1.458	Emily Impact Score 0.873 (Best Case)	Emily Impact Score 0.873 (Likely Case)
Pension (Annual Income)	€3,300	€3,399	€2,618	€1,868
Mortgage (Age paid off)	55	54.8	65	65
Savings	€150,000	€152,916	€109,310	€55,824

When I calculate the difference between both girls, and where they both end up in terms of pension and investment funds, and the amount of extra mortgage and interest payments made, the differential is:

€1,046,175

Let me write that down in words because I think it's more impactful when you can hear yourself saying it out loud.

One million, and forty six thousand, one hundred and seventy five Euros.

And I can't emphasise enough, and I don't mean to overplay the point, but the above outcomes come from the same starting point, where their net incomes were identical, and only 20% of it was used, and they had the exact same timeline.

But obviously the outcomes are very different, and we knew from the output of the formulae, that this was going to be the case.

“Emily’s lack of financial intelligence is going to cost her €799,641 and she’s going to have to work an extra 27 years just to catch up with Rachel.”

We now know what we didn’t know

So, my formula isn’t a secret, and it’s not magical but what it does show you, is how important the various components of it, are, and what impact each can and will have on your finances. And they’re not abstract things either, where it’s difficult to monetize or put a value on them, my formula can and does.

And what I like most about the formula is that it can identify the areas that have the biggest impact on your future financial success.

It doesn’t just add words together and says that equals financial success. That’s just nonsense.

A value is assigned to each word, a value that is specific to how you connect and interact with it.

If you save more than 20% of your income, you’re going to be assigned a higher score than someone who saves 5%. Obviously, they can’t be the same. Equally, if you have more time to achieve your goals, the score you’re assigned will be higher than someone who is older and has less available years than you.

The outcome of doing this, is the formula can produce a number which can predict with tremendous accuracy, whether you’re going to be financially successful or not.

A score greater than 1 and your chances of success are excellent. And if its less than 1, you need to make adjustments, but we’ll tell you what those adjustments are and why you’re making them.

For example, I ran the formula on a young gentleman named Paul.

He could only save 5% of this income, meaning his multiplier number was going to be small.

He scored high on time, high on intelligence, and reasonably high on action, commitment and personal development, but his score was still < 1.

$$0.75 (0.24 + 0.28 + 0.32) ^ (0.12 + 0.27) = 0.910$$

When I looked at his finances and the amount he had in savings (very low) and the amount of his income that was going towards debt repayments (high) it only confirmed what the formula was telling me, he was struggling.

And he’d continue to struggle if he didn’t work on increasing that gap between his income and outgoings, which also meant eliminating or lowering his loan repayments.

I ran the formula for another person, who was able to save 25% of his income, but he scored negative on action, time and personal development, which meant he wasn’t going to be on the right side of 1 either, despite having high disposable income.

$$2.75 (0.10 + 0.28 + 0.18) ^ (-0.18 + 0.00) = 0.903$$

You can see from the output of this individual, that achieving financial success isn’t all about how much you earn. Of, course it’s important but it’s only one part of the equation.

SUMMARY

What I like about my formula is that regardless of what financial success means to you, it doesn't change, no matter who you are or what you want to achieve. It applies to everyone from the average wage earner, to corporate executives, to entrepreneurs. And it doesn't matter how big or small your financial goal is, the variables that make up the formula remain the same.

The big value add for using the formula, is the change that can happen and one you will see, if you work on the areas that are holding you back, and the formula will show you what they are. And they're probably not the ones' you'd have thought about yourself, or ones you didn't realise would be as important as they are, but now you will, and you can take focused action to correct them, and you won't ever have to wonder again, what it is you're doing wrong.

And making constant improvements to the areas you're doing well on, will only accelerate the achievement of those goals you set yourself. And I think I might amend the values I've assigned to all the factors in the IMPACT formula over time because they shouldn't remain static, but what won't change are the variables that make up the formula, they're going to remain, because I know you need each one of them, if you want to be financially successful.

The reason why I started this journey of trying to find a formula that anyone can use, was an altruistic one i.e. I wanted to help people, because I know the impact finances can have on peoples' lives, good and bad.

I wanted to create something that people were able to understand, and something that at last made sense to them. And I wanted to create something that if used and followed, mightn't guarantee success, but at worst would dramatically improve their odds of achieving, whatever financial success means to them.

I'm hoping you'll use my formula, and I'm hoping you will use the transformational output it will create, and then I'm hoping you'll use it, to design the financial life you want and deserve.

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“I’m hoping you’ll use my formula, and I’m hoping you will use the transformational output it will create, and then I’m hoping you’ll use it, to design the financial life you want and deserve.”

The **IMPACT** factor

$$f_{s=m(t+i+p)}^{(c+a)}$$

The
IMPACT factor

$$f_{s=m(t+i+p)^{(c+a)^{}}}$$

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