

## **FREUD'S SABBATICAL**

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*Charles Freud, a young investment banker realized that he would not be happy in his current professional position for the rest of his life. He needs to set financial goals and analyze his current position against those goals, to determine if he would be able to achieve those goals by staying at his current position, studying further in his field, or changing to a slower paced career. Charles will need to incorporate the increased living costs of being married and having a family into his financial strategy.*

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### **INTRODUCTION**

Charles Freud was staring out at the magnificent landscape of the luscious green and snowy white Austrian Alps as the sun was setting. It was the desktop background on his computer. Unfortunately he was in his office in London, staring at his computer screen on a Wednesday morning. As a 25 year old investment banker Charles had worked 80 hours the previous week on this very same computer. Charles was becoming tired and worn out by the heavy workload, and had only held his current position for 8 months. Although investment banking was handsomely rewarding Charles on a financial front, working 80 hour weeks had become an exhausting experience. Charles had reached a point where he was starting to wonder whether the handsome salary was worth his soul.

### **HANDSOME EARNINGS**

Remuneration was the main factor that made Charles initially decide to go into investment banking. As a junior investment banker, in his first year as a formal employee Charles received an annual salary of \$75,000. In addition he was on track to qualify for a \$15,000 bonus at year end. This was already a high salary, even in the very expensive city of London. But for Charles the most enticing part of this job's remuneration was still to come. With only 5 years' experience and professional qualifications such as Chartered Financial Analyst (CFA) most bankers in London were earning around \$180,000 per annum, and bonuses of \$90,000. If Charles decided to stick to his job and completed further studies he could be earning a staggering total remuneration of \$270,000 per annum by the time he was 30. This made the possible decision to change careers so much more

difficult. It was a tough decision to make. On the one hand these earnings could give Charles the opportunity to live the kind of life he had always dreamed of, but on the other hand Charles would have to work punishing hours, he would have to further his studies to qualify as a Chartered Financial Analyst (CFA), and his effective tax rate would increase from 20% to 45% along with the salary increases.

Charles' employer had agreed to pay 50% of Charles' tuition bill if he decided to undertake the CFA program. But CFA was still an expensive program to undertake. Even with his employer paying 50%, Charles would still have to fork out approximately \$500 to register for each of the three CFA exams, and buy the course materials over a two year period. In addition, if Charles wanted to use third party study materials, which everyone at his bank regarded as essential, he would have to pay another \$750 per exam for the materials. Charles would also have to find approximately 350 hours of study time in between his busy schedule.

The tremendous stress, workload and cost of the investment banking industry often pushed Charles to the point of fantasizing about a change in career. Charles enjoyed working with numbers, but would ideally like to do so in an environment with less stress. He imagined himself moving out of London to a small town and finding work at a small auditing and tax firm. Charles would not have trouble finding a job in an auditing firm, and could easily get an annual salary of \$30,000 per annum. It would be a significant pay cut, and it could mean giving up on his hope of taking sabbaticals throughout his life, but at least in the short term he would be able to spend time on what he valued.

### **HOPES AND DREAMS**

Charles had a strong Jewish upbringing which bestowed in him a strong love for the old Jewish custom of Shmita. From a young age Charles had been told stories from the Torah about the God of Israel mandating that each seventh year in the seven-year agricultural cycle should be observed as a year of Sabbath. It was a practice that was still observed by certain members of Charles' family to a certain degree. However, very few of them had been lucky enough to take a strict year of Sabbath that involved completely putting their jobs on hold to focus on other areas of life for an entire year. In today's terms, a Shmita was basically a sabbatical year, and Charles was falling more in love with the idea after every 80 hour week. Ideally Charles would want to take a year off every seventh year, to focus on family and find spiritual enrichment. This would require a large savings fund and intricate financial planning. Charles reasoned that even if he couldn't take a full sabbatical every seventh year of his life, that he would at least want to take one in 7 years, to spend time with his family during its forming years. A family he still had to build.

Charles had recently gotten engaged to his High school sweetheart Clare. Clare worked as a volunteer at a children's home in London. She lived in a small apartment above the home for free and received 3 meals a day with the children. Charles had taken to buying small luxuries for Clare and paying for entertainment and other extra expenses. Clare felt called to be a mother, she did not regard herself as a career woman, and decided that she would be a mother to those who are less fortunate, until she could one day have her own children. Charles' parents were smart money managers and had built up savings over a long time. For them it would be a privilege to pay for the wedding of their only child. While Charles was working long hours, Clare was planning their wedding. They had already set a date one year into the future.

Although very exciting, the prospect of marriage added extra stress to Charles' life. He deeply valued family, and also wanted to have children. But he could already foresee how his long hours will adversely affect his relationship with his wife and family. On the other hand, his long hours would pay for the privilege of having a stay at home mom, a good education and a house in a part of the world with very expensive property.

In addition, Charles wanted to give his children the same privilege that his parents gave him. A quality education, without any student loans. Both Charles and Clare highly valued education. Clare dreamed of not only paying for her own child's education, but also that of less fortunate children.

Eventually Charles also wanted to retire, but he reasoned that it was too early to start focusing on retirement, especially while he had to concern himself with paying for a sabbatical, a house, CFA and the education of his future children. Charles had not looked into any kind of insurance apart from the insurance included as part of his vehicle financing, and the rental of his apartment. He knew that these were all mature decisions that he would need to address at point in the near future.

### **CURRENT EXPENSES**

From a young age Charles' parents instilled in him the principles of frugality, and saving. As a matter of principle, Charles lived far below the means of his monthly income, so that he could save, invest and build a strong financial portfolio.

In his first eight months Charles had been able to save up \$1,200. He also planned to save his entire year-end bonus. Charles invested all of these savings in a mutual fund, earning an average interest rate of 14%. This was a volatile fund, and as such it was not very liquid. Charles did not plan to increase his standard of living

if he started to earn more money at work. But once married he will have to support his wife and possibly children as well.

Charles reluctantly wore expensive suits to work every day, and had three suits dry-cleaned every week. He regarded this as a necessary expense, as he needed to project a professional image in his line of work. Under peer pressure from his banking colleagues Charles had also purchased an entry level used Mercedes to commute to work. His colleagues regarded this as a professional expense, and part of projecting a professional image. Charles was not so sure that this was a necessary expense, as London had a very well developed public transport network.

### **FINANCIAL STATEMENT**

As Charles spent most of his day analyzing financial statements, he decided to create financial statements of his own personal financial position. It was time to take a detailed look at himself as an entity, and assess how to strategically structure his life to achieve his vision of a sabbatical, a stay at home mom and an educated family.

| <b>Income Statement</b>      |                |               |
|------------------------------|----------------|---------------|
| <b>Revenue</b>               |                |               |
| Salary                       | \$75,000       |               |
| Bonus                        | 15,000         |               |
| Deductions                   | -16,000        |               |
| Taxes                        | <u>-20,000</u> |               |
| Net Revenue                  |                | \$54,000      |
| <b>Expenses</b>              |                |               |
| Rent                         | 18,000         |               |
| Utilities                    | 2,448          |               |
| Phone & Internet             | 1,800          |               |
| Vehicle Payments & Insurance | 13,677         |               |
| Fuel                         | 2,109          |               |
| Clothing                     | 1,166          |               |
| Dry Cleaning                 | 540            |               |
| Groceries                    | 3,000          |               |
| Dining                       | <u>595</u>     |               |
| Total Expenses               |                | <u>43,335</u> |
| Net Savings                  |                | \$10,665      |

| <b>Balance Sheet</b>                  |               |          |
|---------------------------------------|---------------|----------|
| <b>Assets</b>                         |               |          |
| Cash                                  | \$100         |          |
| Mutual Fund Investments               | 1,000         |          |
| Mercedes Benz                         | <u>16,000</u> |          |
| <b>Total Assets</b>                   |               | \$17,100 |
| <b>Liabilities &amp; Equity</b>       |               |          |
| Vehicle Financing                     | 16,000        |          |
| Surplus                               | <u>1,100</u>  |          |
| <b>Total Liabilities &amp; Equity</b> |               | \$17,100 |