

Living Below Your Means by Expanding Them

In the early stages of your financial journey it probably makes sense to be expensed focused as you work to build a solid financial foundation. But I caution you to resist the temptation to fall trap to the extreme frugality path to wealth. It works for some people, and that is great, but most of us just are not wired for that kind of optimization.

Many of you reading this are not going to find much joy or success trying to cut your expenses to the bone, all in the name of financial freedom. You will never hear me preach about giving up the \$4/day latte. Nor will you ever see a post about coupons or how to reuse your paper towels.

I have written about it before so I won't belabor it again here. But I will simply remind you that [there is a natural floor to how much you can cut your expenses](#). You also seriously risk crossing the line between being frugal and just plain cheap. When your primary focus is around what you can't spend money on, your brain automatically shifts into a state of scarcity.

YOU want to be in a mindset of **ABUNDANCE!**

On the flip side of the coin there is no ceiling to the amount of income you can earn. As they say **"the sky is the limit."**

I am not trying to belittle the importance of being frugal, it is an excellent trait to possess, and one that is absolutely necessary in building wealth. I think that we can all agree that the **"secret"** to becoming wealthy is to live below your means...**this simply translates into spending less than you make.**

This post is written to show you that there are two ways to achieve living below your means by way of being **"frugal"**:

Expensed Based Frugality – The first approach is already taken care from

many in the personal finance blogging world. This is the most popular form of frugality and is one that focuses on keeping your expenses as low as possible. Don't eat out. Don't spend money on those lattes. Don't take extravagant vacations. Don't buy name brand products. Use coupons. Live like a college student. Reuse your toilet paper (okay too far). Etc.

OR

Income/Creative Based Frugality - I often like to refer to the second approach as "**relative frugality**." In this second approach to frugality the focus is on the income side of the equation. You still need to be prudent about your spending (i.e. don't spend money that doesn't bring you joy). But by focusing on increasing your income you can significantly decrease the % that spending makes of your total income, while at the same time increasing your savings rate. The creative piece comes in to play when you find ways to reduce your expenses that actually maintain or elevate your lifestyle (examples to follow below).

Why do I call it relative frugality?

Let's say **YOU** make \$200,000/year after taxes and Johnny Frugal makes \$40,000 after taxes. If you spend \$100,000 and invest/save \$100,000 every year, then you have a savings rate of 50% (the [law of 50/50](#) in practice). Johnny on the other hand spends \$20,000 and invests/saves \$20,000 in income.

Most would call Johnny super frugal, based on the fact that he lives on just \$20,000/year. And many others would think of you as a spend thrift.

However, they would be missing the point. Relative to your income you are just as frugal as Johnny Frugal. Yet your lifestyles are oceans apart.

I am sure Einstein would have said "everything is relative kids."

Focus on the Income and the Savings will come

I mentioned earlier that you still need to be prudent when it comes to your expenses. The idea is to allow increases in your income to naturally increase your

savings rate. Keep the idea of relative frugality top of mind. Whether you choose the expense based or income based frugality there is still some form of delayed gratification you will need to choose.

However, with the income approach you can make allowances for some lifestyle inflation. **I give you the green light!**

A 50% savings rate is your first major milestone down this path. Why 50% you may ask?

At a 50% savings rate you are working 1 year, while at the same time, for every year you work you're putting away 1 year in the bank if you will (before any kind of investment gains).

Remember that with the relative frugality approach (i.e the income based approach to frugality), **the more you make the more you get to spend guilt free**. When you were making \$50,000/year net of taxes you got to spend \$25,000/year. Now you're making \$100,000...great, you get to now enjoy \$50,000/year.

Once you start earning over \$250,000/year I strongly encourage you to try increasing the savings rate up a few notches to work towards a 75% savings rate over time. Once you get to this point you will be trading one year of work for 3 years in the bank. But that is a post for another day (actually I already published one while back [here](#)).

How do you know this is the right approach for you?

- You like eating out at restaurants (even fancy ones from time to time).
- You like staying in nice hotels when you're on vacation.
- You like getting your daily mocha frap with double whip and 100 pumps of caramel at Starbucks.
- You like to spend money on hot yoga or Cross-fit (my current addictions).
- You are not and have [no desire to be a DIY](#) guy/gal and would rather pay someone to get the job done right and on the first try.
- **You enjoy the finer things in life! And they cost money...**
- **AND you still want to reach financial independence.**

So, how do you live below your means by expanding them?

This post would be kind of useless if I didn't at least provide you with some ideas for expanding your means (i.e your income or other creative solutions). Although this section will be primarily on ways to expand your means in the income department, there will also be a *few examples of ways to reduce your expenses without reducing your lifestyle* (meaning you get to have your cake and eat it too). We're not exactly cutting expenses, instead we are finding creative ways to eliminate them without sacrificing your standard of living (and hopefully even elevating it).

I know I'm crossing paths a little bit here, but that's the benefit of having a personal blog...you get to make up the rules.

Here are a few things that I have done over the last 2 years:

Moved to Lower Cost of Living Area - [in post #3](#) (you probably were not reading this blog back then...sad face), I talked about how I hated my 6-figure job, and memorialized the steps I was taking to give myself more options. At the time we were spending \$3,000/month in rent for a luxury apartment in a high rise in the OC. Yes, the famous OC! So, we moved an hour from the OC and traded the \$3000/month rent for a \$2,215/month house (includes mortgage, HOA, and property taxes). After tax benefits our **savings are about \$1,100/month**.

I know what you are thinking...you moved to a lower cost of living, so now your income opportunities will be lower, or you will replace the savings with commuting costs. And there you would be wrong!

We ditched the Commute - My wife quit her job and went to work for her mom before we made the move and was spending \$500/month on gas and tolls. The move allowed here to ditch the commute, since work was now only 6 miles from the house. **This saved us \$500/month**.

Paid off Student & Car Loans - Moving allowed us to buy a house that was 3X the size of anything we were saving for in the OC, for less than half the money. This left us extra funds to pay off my student loans. We also then had the ability to pay off my wife's car loan that freed up more money. **This saved us \$600/month**.

Notice how a simple move **allowed us to save \$2,200/month**, and we didn't have to cut anything out of our lives. Obviously we kept the car we just paid off. I kept

the degree I earned after paying off the student loans. We still have a roof over our head (with 3,300 sqft on a quarter acre vs. the 1,100 sqft apartment). We didn't have to stop going out to eat...which by the way we were already spending about \$1,400/month on eating out...and that hasn't changed much, just look at our last [financial report](#).

But what about the earning potential on the job front?

First, my wife was already working in the area and commuting from the OC before we made the move. So, there was not hit to compensation there, actually her decision to go work for her mom was very strategic as the earning potential was much higher than where she was working (and that has worked out very well over the past 15 months, as she has been killing it). Although she initially took a pay cut of about \$20,000/year...she has now almost tripled her income, **earning \$5,000/month more than she had before taking the pay cut**. It was short term pain, that we never actually felt.

Changing Jobs/Negotiating your Salary - Believe it or not I was able to find a job that was paying \$10,000/year more than what I was making in the OC. Essentially the same job but with a smaller company. I didn't know if I would stay long, but I thought it would be a good transition job. I didn't love it, but it has turned out really well! Over the past two years that \$10,000/year increase has increased to an income that is \$87,000/year larger than what I was making before we moved. Last [July I saw a few opportunities to take some risks that paid off really well](#) from both a compensation and career stand point. You know what they say "without risk there is no reward." I love my job these days and it is nice to be **raking in an extra \$7,250/month in income**.

This doesn't even contemplate what potential there is for continued increases to compensation with the promotion to the C-Suite at the end of the year.

We Rented out a Room - For the past 24 months (through May of 2016) we had been renting out a room in our house collecting on average about **\$500/month**.

I Started a Consulting Business - [I don't have this business anymore](#). But in the thick of our move I started a business in the digital marketing and analytics space that brought in **\$1,500/month** for all of 2014 (and another \$3,000 in 2015 before closing it down). It was my experiment before launching this blog.

Notary Business - My wife does notaries on the side and makes \$200 per loan signing. On average she earns an additional **\$1,200/month**.

Started a Blog - This blog now produces about **\$550/month** in revenue.

Got Solar - [By going solar I was able to get a tax credit of \\$4,500](#), this is the same as income to me. Worst case we have locked in our current price for electricity, but based on the analysis we will actually earn about a 23% IRR. The best benefit to me was the upfront **\$4,500 tax credit**. Oh, and I have referred 2 others that will be getting solar and will be getting \$500 per referral. I didn't sell them on it, I just shared my experience and showed them how much of a no brainer it was.

Referred a Friend for a Job - I always stay plugged in with recruiters for two reasons. First, I like to keep my pulse on the market and what opportunities are out there, because you never know. Second, just because I am not looking doesn't mean that one of my friends isn't looking. So, I get **\$250-\$500 per referral**.

Became a Beachbody Coach - Back in 2011 I got into the best shape of my life using [P90X](#) and [Shakeology](#). I was sharing it so much, that I decided to become a coach (i.e affiliate or independent contractor). Now anytime I recommend them, I send my link to people so that I get a commission for something they were going to buy anyways. I have never made more than **\$2,400 in a year**...but that is more than enough to pay for my own supplements and other fitness related activities.

Purchase Discounted Gift Cards - There is no doubt that we like to spend just as much as we like to save. But when we do spend we always try to get a deal, sometimes that means negotiating the price, because **rule #1 is that the price you see is not the price you pay!** But when that fails, there is a little app we love to use called [Raise](#). They have all kinds of discounted gift cards to restaurants and stores. This app saves us 10-20% depending on the gift card (based on our spending this is \$2,000 to \$6,000 a year in savings). We also have the ability to buy discounted gift cards through our Costco membership.

Kept Insurance Pay Out - Last 4th of July (2015) we went to Vegas for a spur of the moment trip. While we were there a taxi cab side swiped our car when a passenger tried to open the door as we were passing on the right. The damage was minimal, merely a scratch. We got paid \$50 on the spot to wait for the claims adjuster, and when everything was said and done we were cut another check for \$1,150. The parts to fix the door were \$80, the majority of the amount was for the

estimated costs to get the little dent out of the door. I decided I could live with the little dent and pocketed the money.

Windfalls - This one you don't have any control over. But we were fortunate to have had received about **\$25,000 in windfalls** over the last 2 years from various family on my wife's side. We don't plan for them, but they are nice when they come.

Take on Side Jobs - My wife did some business coaching in 2015 and in the process we got close with her coach and her coaches husband. They were starting a new company and needed someone to do some financial modeling for them. That earned me **\$1,000**.

P2P lending - Put your money to work for you to produce more income. This is currently small for us right now, but it is growing. It currently earns about **\$50/month** in interest income.

Invest in a REIT - Some of you may remember the REIT I invested in last year ([Rich Uncles](#)). My initial \$5,000 investment is currently paying about **\$100/quarter** in dividends.

Other ideas we are working on in 2016

Refinance our investment Condo - With current rates we have the ability [to refinance our condo](#) to free up about \$2,400/year in cash flow. (Note: this is on hold until January of 2017)

Refinance our House - Once we have 20% down and by November the foreclosure I had from a mistake in my early 20's will be lifted. Based on that I think we will have the opportunity to refinance into another 5/5 ARM (that would put us 2 years into our current one) and saving a full 1% on our rate, which would equate to an additional \$350/month in free cashflow. This will only allow us to [pay off our house sooner than our goal of 7 years 3 months](#). (Note: at the time I originally wrote this, we had not yet refinanced our house. This is done and [we refinanced into a 3/1 ARM at 2.25%](#), saving us \$439/month)

Add a 3rd property to our portfolio - The goal will be to pick up a 3rd property with positive cash flow in 2016.

Get Promoted - I am currently working my ass off to secure a VP position with the

company I am with. I happen to be in a narrow window of opportunity due to the growth of our company and as long as I can deliver, I should make VP by the end of Summer. This would mean an increase in comp of \$50,000 to \$200,000...depending on how well I negotiate. It will also come with equity (happy days). **(Note: at the time of writing this I was still working towards the VP promotion, which has since turned into a ticket to the C-Suite at the end of the year).**

Well, there you have it. There are tons of ways not listed above that you can expand your means. Get creative. Focus on income and on creative ways to reduce expenses without reducing your lifestyle.

-Gen Y Finance Guy



Gen Y Finance Guy

Hey, I'm Dom - the man behind the cartoon. You'll notice that I sign off as "Gen Y Finance Guy" on all my posts, due to the fact that I write this blog anonymously (at least for now). I like to think of myself as the *Chief Freedom Officer* here of my little corner of the internet. In the real world, I'm a 30-something former C-Suite executive turned entrepreneur turned capital allocator. I am trying to humanize finance by sharing my own journey to Financial Freedom. I believe in total *honesty* and *transparency*. That is why before I ever started blogging, I decided that I would share all of my own [financial stats](#). I do this not to brag, but instead to inspire motivate, and also to hold myself accountable. My goal is to be a beacon of hope, motivation, and inspiration for *you*, the reader, by living life by example and sharing it **all** here on the blog. My sincere hope is that you will be able to learn from me - both from my successes and my failures! [Read More](#)