

Can These Good Times Last Forever? What Happens If The Music Stops?

Most people who know me well would likely describe me as a super optimist and that's the way I prefer to live life. The alternative is to be a Negative Nancy and the energy drain to you and everyone else around you is exhausting.

I tend to believe that **OPTIMISM** actually **CREATES ENERGY, EXCITEMENT, and PASSION**. I would go as far as saying that optimism is the path to happiness and fulfillment in life.

On the flip-side of the coin, **PESSIMISM** is the **ULTIMATE DESTROYER** of all the good things in this life. Therefore, pessimism is the path to depression and disappointment.

What path would **YOU** rather be on? The key thing to realize is that the **CHOICE** is yours to make.

If you choose the former (to be an optimist like I do) over the latter, it doesn't mean you won't have your pessimistic moments. We all need to be a little pessimistic at times. It's important to acknowledge from time to time, that the world is not all rainbows and butterflies.

There are bad things that happen in the world.

There is risk.

And no one is immune to inevitable bad luck.

That said, as an optimist, this **pessimistic thinking should only consume 1% of your energy at most**. You should acknowledge the downside, prepare with a contingency plan, and then move back to building your wildest dreams.

Like every post, these words are a reflection of my own personal thoughts (and worries), and today I embrace the pessimist within to address the following concerns (from a financial perspective of course):

Will the good times last?

Look, the GYFG household has had an incredible run over the last 8+ years. We entered the workforce near the bottom of the worst financial recession our generation has ever experienced. So, one could argue that there was asymmetrical upside on the horizon. This has been true for us:

- Our net worth has increased **from minus \$300,000 (in 2009) to a positive \$542,000** (as of March 2017).
- Our income has increased from a combined **\$90,000 to a whopping \$440,000** ([projected 2017](#)) in about 8 years.
- I was able to **go from Financial Analyst to C-Suite Executive** in that same time period. Actually in 2014 I was still a Senior Analyst and only 3 years later I carry a fancy C-Suite title.
- Mrs. GYFG went from a corporate **employee to next generation owner/operator** of the family business and has tripled her income in the process.
- We have created a **passive income stream of \$27,000/year** (at end of 2016; and growing).
- We have a **house with 30% equity** and are on [track to have it paid off in the next 3-5 years](#).
- We have an **investment property with 35% equity**, which at the depths of the financial crisis, was under water by more than \$150,000.
- We [own a nice chunk of equity in a privately held company](#) (the one I work for).
- We are **able to save 50%+ of our after-tax income**.
- And the list goes on and on.

These are all things I am grateful for, but they are also so good that I wonder if this trend can last. I wonder what would happen in the next recession, as we all know **it will eventually come**, but no one knows when or how bad it will be.

Over the long-term I'm confident that the good times will last, but I just want to take a moment to be grateful for what has gone so well to date.

Am I late to the party?

We are 8+ years into this incredible bull market in stocks. Back in late 2013, I started to move out of stocks and into cash, outside of 2015, I have unperformed the S&P 500 (the index I benchmark to). On average for the past 3 years, I have only been about 50% invested, leaving at least \$50,000 to \$100,000 in gains on the table.

In spite of this, we have still been able to grow our net worth at a compounded rate of 85% for the past 5 years (2012 to 2016). And we have had a reversal of about \$842K since the bottom of the market in March of 2009 when our net worth was negative \$300K (not too shabby).

I tell you all this, because coming into 2017, I started to feel pressure to put more money to work in the stock market. I think it was a little bit of **FOMO** setting in after being under-invested for the past couple of years.

But then I realized that because we built and sat on so much cash we were able to take advantage of things we otherwise would not have been able to. One example is [the \\$105,000 check](#) we wrote to take advantage of acquiring an equity stake in the company I work for. [Or the \\$33,000 check](#) we wrote in January in order to get my brother the help he needed. Or recently being able to transfer \$50,000 from idle cash in a traditional IRA to a [Self Directed IRA with PeerStreet](#).

It also ignores other investments we have made outside of the stock market.

We have also built up \$217,000 in equity through debt pay down and appreciation in our house and investment condo. Oh, and the decision to install [Solar, which came with a 22% IRR](#).

This writing exercise has helped me to realize that we haven't been that idle, instead we have been **PURPOSEFUL** and **OPPORTUNISTIC** with our hard-earned cash. Stocks didn't and still don't intrigue us as an investment to go all in at the moment. We think there will be better prices on the horizon.

So, no, I don't think I'm late to the party. But I do think it would be a mistake to start putting a lot of capital to work in equities at the moment. I would rather work to build up the cash war chest over the next 12-18 months.

Operating costs vs disposable spending.

Frankly, the current euphoria in the market has me cautiously optimistic, as my gut tells me we are in for a potential **Frozen Twinkie** situation. You may be wondering what a Frozen Twinkie situation is, so let me explain.

It's when someone hands you what appears to be a regular, chemically engineered, and delicious fake food known as a Twinkie. You bite into it with excitement and joy, only to find out that it was completely frozen in the middle, causing you to chip your tooth.

Because I get the feeling that the good times may have a speed bump in the near future, in addition to addressing everything above, I also felt compelled to look at our spending from a minimum monthly perspective. I actually had this conversation with my wife and accidentally freaked her out a bit, but I explained to her that I wanted us to be prepared with a contingency plan to cut way back in the event of a major blow to our current standard of living.

After spending time reviewing our expenses for 2016, I came up with the following minimum expenditure:

Expenses	Monthly	Annual
Home Mortgage	1,897	22,759
HOA	84	1,008
Condo Mortgage	1,103	13,240
COA	265	3,180
Internet	60	720
Cell Phone	92	1,104
Car Insurance	215	2,580
Yard Man	35	420
Hot Tub Maint.	40	480
Fuel	250	3,000
SoCal Gas	35	420
Trash	80	960
Water (Condo)	45	540
Yoga	65	780
LA Fitness	35	420
Simply Kneaded	79	948
Massage Envy	79	948
Audible	15	180
Groceries	600	7,200
Health Insurance	450	5,400
Dog Food	125	1,500
Showtime	10	120
Hulu	10	120
SoCal Edison	10	120
Water (home)	80	960
Wine Club	40	480
Arise Africa	100	1,200
100 Women that C	33	400
Lupita Cleaning	40	480
Pandora	5	60
Timeshare	63	760
Oil Changes	27	320
Blog	58	690
Total	6,125	73,497

If you glance down to the bottom of the expense list, you will notice that I am saying that our minimum monthly expenditure currently stands at \$6,125/month or \$73,497/year. What this doesn't include is the rental income we receive for our investment condo netted against the mortgage and association fees.

I did that intentionally since I was trying to capture a worst-case scenario. If you apply that credit of \$1,350/month in rental income, then our minimum monthly expenditure is more like \$4,775. Regardless of whether we use the adjusted number or not, both figures are significantly lower than our actual spending in 2016 and projected spending in 2017 (by at least 50%).

In fact, if either of us were to lose our job, we would be more than able to pay our bills and pay for the bare necessities. As you look at the list, you could even argue that there are still discretionary expenses that could be pulled out to lower this even further, and I wouldn't argue with you (I'm talking to you wine club, yoga, LA Fitness, Audible, Massage Envy, Simply Kneaded, Showtime, Hulu, House Cleaning, Hot Tub Maint, Charitable Givings, etc).

Intuitively I knew this to be the case, but the real question is if something like this did happen, how long would it take us to adjust our lifestyle? In theory, I think I could/would make the switch overnight if we were to suddenly lose one of our incomes, but I have witnessed others in the real world taking much longer to adjust.

After laying these thoughts out in a somewhat organized fashion (very loosely used), my concerns are much less than when I started this exercise. At this point I think we have taken more than adequate steps to build a solid financial foundation.

Although we might spend \$10,000 to \$12,000 a month, we have left plenty of slack in the system to reign that in. In fact, we do plan to reduce our spending over the next 3-6 months to get our cash stack back up to \$50,000 before the start of summer.

Now you can return to your normal Optimistic programming. We apologize for the interruption.

Onward & Upward!

Do you need to address any of these concerns so you can continue building your dreams? Do you consider yourself to be an optimist or a pessimist? Do you have a contingency plan? Do you ever feel like things are too good and that the shoe is about to drop?

- 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](#)