FIRE Starter: Advice on Saving & Investing in Your 20s [Part 2]

Zach is back with Part Two of his nine actionable tips for saving, investing, and growing wealth in your 20s. If you missed Part One, take a moment to get caught up, and then come back to read Part Two. The information in this series could change the rest of your life if you follow it.

A Quick Reminder of Why I Started This Series

*For the astute observer, you will notice that I have added three new series to the blog: LateFIRE, FIRE Starter, and Chasing FIRE. Notice a theme? They all capitalize on the explosion – one might say the COMBUSTION – in the FIRE (financial independence retire early) movement. But let's set the record straight: on the GYFG blog, "FIRE" is defined in a slightly different way, as I see it meaning Financial Independence / Recreational Employment. That's because I am after **freedom,** not a typical retirement, and see myself working forever. But once I hit my number, my employment will represent my recreational choice.*

At 32, I find myself on the older end of the millenials' age range, which in 2018 is 22-37, according to the Pew Research Center. Guys like Zach have got me thinking that there is a younger part of my generation that may not be able to relate to where I am in life personally. Thus the decision to bring on Zach as a regular GYFG contributor, to reach those younger millenials. He will be writing about earning, investing, and saving money in your 20s. At 24, with a net worth in excess of $100,000 and an income approaching six figures, he is more than qualified. Believe me when I say there is always someone younger and better than you out there, and Zach is putting my own 24-year-old self to shame. I share that only to say that I wish I had been reading people like Zach when I was in my early 20s.

Without further delay, I figuratively pass the mic – take it away, Zach!

This is a continuation of the nine actionable tips for savings, investing, and growing wealth in your 20s.

Tips 1-3

4. Outside of your day job, become a voracious learner.

Listen to podcasts, read books, and consume content by people who are further along the financial path than yourself.

A few of my favorite podcasts include:

How I Built This
Invest Like the Best
Afford Anything Podcast
The Tim Ferriss Show
The RV Entrepreneur
The Mad Fientist

Listening to podcasts is the easiest way to eavesdrop on two smart people talking to each other. It's a great way to hear from people who have had more experiences in business, investing, and life in general than yourself and it gives you an opportunity to learn from the mistakes that others have made without actually making those mistakes yourself.

Reading books and blogs is another effective way to soak up knowledge from people who have more experience and more wisdom than yourself.

As you grow your tree of knowledge, apply what you learn. Some examples of how I have done so in my own life:

Once I discovered the math that explains why index funds are so hard to beat, I stopped trading individual stocks and instead invested in stock market index funds.

Once I read *The Slight Edge* and discovered the effectiveness of daily habits, I developed my own daily writing habit for my personal blog. This has lead to a blogging income stream of $1,000+ per month for me.

Once I figured out that side hustles were a great way to increase my monthly income, I pursued stats tutoring. In a single month I was able to earn over $1,000 from tutoring other college students in introductory stats courses.

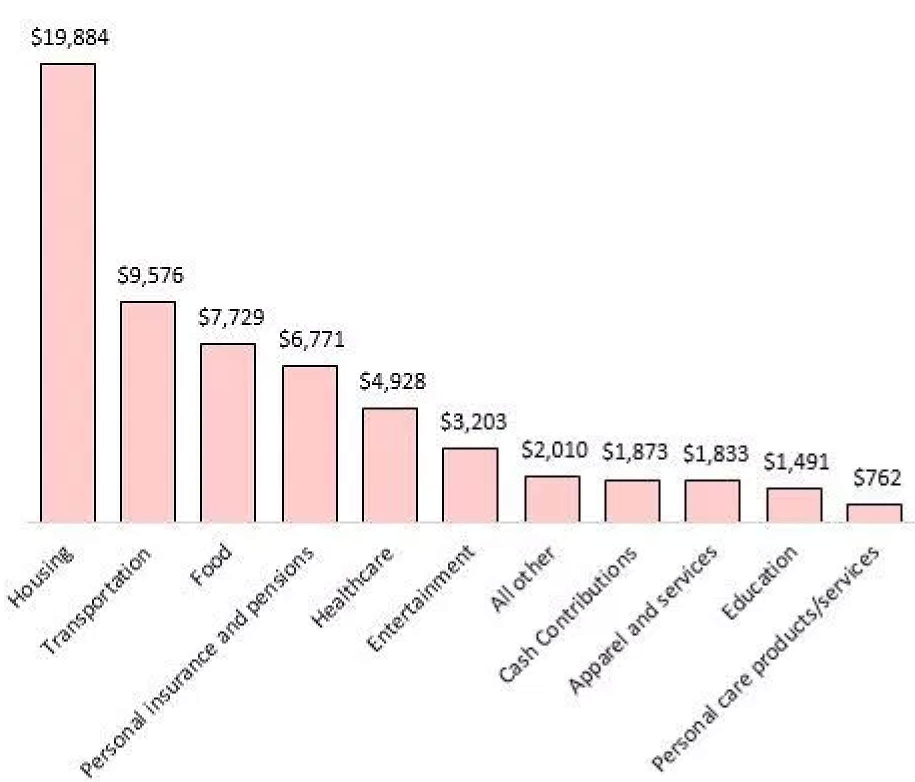
Before you can become wealthy, you first must learn how to attract money. You have to develop the right knowledge and skill set that other people are willing to pay you money for. Then, once you have that knowledge and skill set, you must apply it. This is what will allow you to increase your overall income.

5. Aim to minimize the "big three" expenses of housing, transportation, and food.

For most people, the biggest three monthly expenses are housing, transportation, and food. The 2017 Consumer Expenditure Report confirms this. Here's a breakdown of spending for the average U.S. household in 2017:

Category	Average annual spend	% Total annual spend
Housing	$ 19,884	33%
Transportation	$ 9,576	16%
Food	$ 7,729	13%
Personal insurance and pensions	$ 6,771	11%
Healthcare	$ 4,928	8%
Entertainment	$ 3,203	5%
All other	$ 2,010	3%
Cash Contributions	$ 1,873	3%
Apparel and services	$ 1,833	3%
Education	$ 1,491	2%
Personal care products/services	$ 762	1%
Avg annual expenditure	$ 60,060	100%
source: *2017 Consumer Expenditure Report, U.S. Bureau of Labor Statistics*		

Here's a visual look at these numbers:



Notice how spending on housing, transportation, and food alone accounts for 62% of total spending. This is why, for most people, the way to drastically reduce spending is to minimize these big three expenses.

In particular, understanding human psychology can help you minimize housing and transportation expenses without sacrificing well-being. Research shows that people tend to become accustomed to new things in their life quite quickly.

Bigger houses and newer cars bring a boost in happiness, but only for a short while. Over time, they become normal. This is known as *hedonic adaptation*.

This is why the best way to reduce housing and transportation costs is to live in a place that just suits your needs and drive an affordable car. You will become used to both your house and your car quickly, no matter how big or new they may be. And since these two expenses alone account for half of your total spending, you'll be able to drastically reduce your spending without sacrificing your well-being.

To reduce the third big expense of food, it helps to develop a cooking habit. Personally I meal-prep my lunches on Sundays for the week ahead so I can easily pack my lunch at least four out of five days each week at work. Most nights I cook dinner, too. This simple approach helps me keep my food expenses decently low.

Consider the average person who could cut spending in the big three categories by just 20%, i.e., instead of spending $19,884 on housing they instead spend 20% less ($15,907), and the same with transportation and food:

Category	Average annual spend	Average annuals spend with 20% reduction in "big three" expenses
Housing	$ 19,884	$ 15,907
Transportation	$ 9,576	$ 7,661
Food	$ 7,729	$ 6,183
Personal insurance and pensions	$ 6,771	$ 6,771
Healthcare	$ 4,928	$ 4,928
Entertainment	$ 3,203	$ 3,203
All other	$ 2,010	$ 2,010
Cash Contributions	$ 1,873	$ 1,873
Apparel and services	$ 1,833	$ 1,833
Education	$ 1,491	$ 1,491
Personal care products/services	$ 762	$ 762
Avg annual expenditure	$ 60,060	$ 52,622

They would be able to reduce their yearly spending by over 12% *even if they kept their spending the same in every other category*.

The lesson here is simple: If you can get a grip on these “big three” expenses, you can’t help but significantly reduce your monthly spending.

6. As a rule of thumb, spending on experiences will make you happier than spending on material possessions.

In your 20s, the way to get the most out of your spending is to focus on acquiring experiences, not material possessions.

In particular, there are seven reasons why experiences lead to more happiness than possessions:

1. A possession is a potential pleasure, but an experience is an active enjoyment.
2. Possessions are predictable, but experiences are full of surprises.
3. Possessions break, but memories keep getting better over time.
4. Possessions cost money, but many experiences are free (As Mr. Money Mustache once said, "**Nature-based leisure activities often come with a very low price tag, especially when done close to home**.")
5. Possessions do not satisfy our deepest needs, but the right experiences do.
6. Products invite comparisons, but experiences stand apart.
7. We are the sum of our experiences, not our possessions.

I can personally testify that two of my favorite memories from college were the study abroad trips I took to Costa Rica and Japan, two incredible experiences that I'll likely always remember. These two trips alone brought more joy than any watch, pair of shoes, or new clothing I ever bought.

In addition, research shows that experiences tend to get better with time. In an academic paper titled *Experientialism, Materialism, and Happiness*, professor Leaf Van Boven from the University of Colorado writes,

> "*Experiences are often like this. They often give us pleasure in retrospect—in the memories we revisit and in the stories we tell—even when they were unpleasant at the time. As one forgets the incidental annoyances and distractions that detract from the momentary enjoyment of an experience, one memory of an experience can be sharpened, leveled, and 'spun' so that the experience seems better in retrospect than it actually was."*

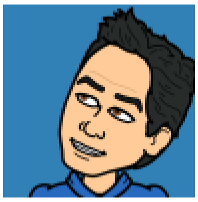
He goes on to share why experiences are almost always more rewarding than possessions:

> *Previous research indicates that materialistic aspirations are negatively associated with happiness and psychological health. Recent research extends these findings by demonstrating that allocating discretionary resources toward life experiences makes people happier than allocating discretionary resources toward material possessions.*
>
> *Respondents to various surveys have indicated that purchases made with the intention of acquiring life experiences make them happier than purchases made with the intention of acquiring material possessions. Thinking about experiential purchases has also been shown to produce more positive feelings than thinking about material purchases.*
>
> *Other studies suggest that experiential purchases make people happier because*

> *they are more open to positive reinterpretations, are more resistant to disadvantageous comparisons, and foster successful social relationships more than material purchases.*

It's inevitable that you'll spend some money in your 20s. Just know that money spent on experiences will tend to bring more happiness and satisfaction than money spent on material possessions.

To be continued…



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