4 Years into Our 20 Year Journey to a $10,000,000 Net Worth

I've been itching to write this post for some time. I really can't believe it's been four years since I announced publicly that the GYFG household was chasing such an ambitious goal – a $10M net worth in twenty years. I received a lot of doubt at the time, which is understandable, because for most people this is a goal beyond the realm of possibilities – either by circumstance or their own self-limiting beliefs. I get that the income levels required to achieve such a BHAG are insane, but to me, they were never impossible.

I see the world through a different lens. I credit a lot of this ability to The Slight Edge, which taught me how to visualize exponential progress in all aspects of life. This book taught me that the immense power of compounding applies not only to our finances, but also to our health, knowledge, effort, relationships, and more. It's not innate for us mortal beings to be able to extrapolate exponential growth. We have naturally evolved to recognize patterns, but our default programming is to still think in a linear fashion. However, I'm a big believer that our thoughts eventually become our results. So, if you want different results you have to train your brain to think differently.

This is all to say that from an outsider's perspective, I totally understand the low level of confidence that greeted this goal when it was first published. I wasn't surprised at all and had expected people to doubt me. I was actually counting on that skepticism to fuel my ambition to achieve. That's not because I take joy in proving people wrong but instead because I take joy in proving *perceived impossible* as being *possible*. You have to first think big before you can achieve big. Only then will you experience The Magic of Thinking Big.

What Was The Starting Point?

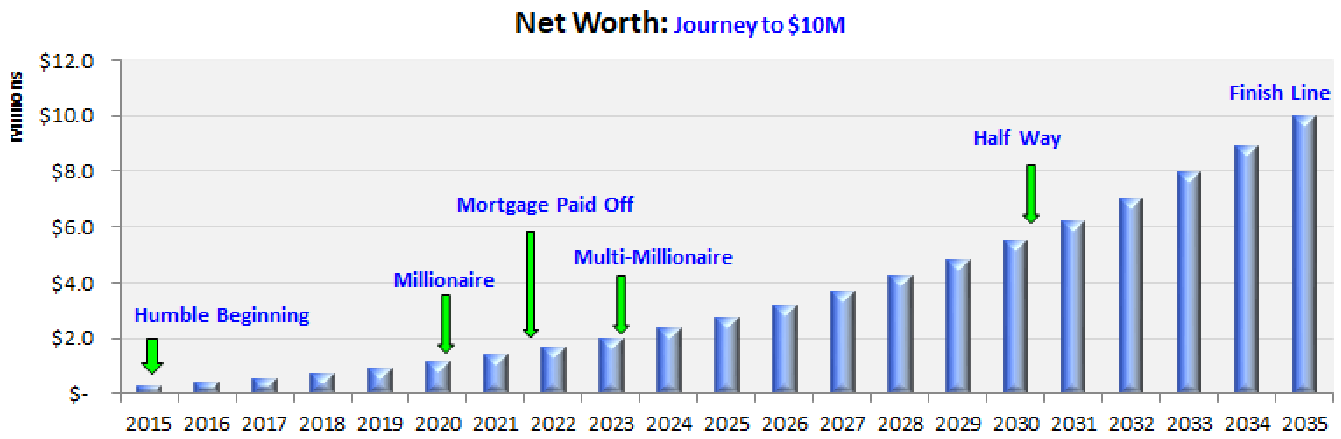
Back in 2015, I had just started the blog about four months prior to publishing the original blueprint to $10M. A lot of my philosophies that I now practice and preach here on the blog were a result of refining a strategy that would allow my wife and I to achieve such a BIG goal. Notably, I realized that I needed to focus on the two big areas that were in my control: earning and saving. I was convinced early on that a high income was the surest path to a high net worth. But I also realized that income did not equal wealth and that a high savings rate needed to be paired with that high income. Thus the law of 50/50 was born, that states we save 50% of all after-tax income which allows us to spend the remaining 50% guilt-free.

Prior to this, we had recently finished 2014 with a net worth of $181,364 (full net worth history here). As we headed into 2015 we had projected our total gross income to be $178,800. **Humble beginnings!** I mean, we only had to increase our net worth by $9,818,636 over the next twenty years (or $490,932 per year on average). We had some serious ground to cover and it needed to happen quickly.

The Original Blueprint Summary

Annual Income Increase	$ 20,000
Savings Rate	50%
Annual Rate of Return	8.9%

				Net Worth			
Check Point	Age	Income	Contributions	Start	End	YoY % Growth	
2015	28	178,800	89,400	181,364	286,833	58.2%	Humble Beginning
2016	29	198,800	99,400	286,833	411,647	43.5%	
2017	30	218,800	109,400	411,647	557,519	35.4%	
2018	31	238,800	119,400	557,519	726,316	30.3%	
2019	32	258,800	129,400	726,316	920,069	26.7%	
2020	33	278,800	139,400	920,069	1,140,988	24.0%	Millionaire
2021	34	298,800	149,400	1,140,988	1,391,481	22.0%	
2022	35	318,800	159,400	1,391,481	1,674,168	20.3%	
2023	36	338,800	169,400	1,674,168	1,991,902	19.0%	Multi-Millionaire
2024	37	358,800	179,400	1,991,902	2,347,787	17.9%	
2025	38	378,800	189,400	2,347,787	2,745,204	16.9%	
2026	39	398,800	199,400	2,745,204	3,187,833	16.1%	
2027	40	418,800	209,400	3,187,833	3,679,679	15.4%	
2028	41	438,800	219,400	3,679,679	4,225,103	14.8%	
2029	42	458,800	229,400	4,225,103	4,828,853	14.3%	
2030	43	478,800	239,400	4,828,853	5,496,096	13.8%	Half Way
2031	44	498,800	249,400	5,496,096	6,232,457	13.4%	
2032	45	518,800	259,400	6,232,457	7,044,061	13.0%	
2033	46	538,800	269,400	7,044,061	7,937,574	12.7%	
2034	47	558,800	279,400	7,937,574	8,920,254	12.4%	
2035	48	578,800	289,400	8,920,254	10,000,000	12.1%	Finish Line
Totals		7,954,800	3,977,400		10,000,000		



This plan was based on three major assumptions:

(1) Achieving a gross savings rate of 50%.

(2) Increasing our gross income by $20,000 every year.

(3) Earning an 8.9% compound return.

This blueprint was far from perfect when it was first constructed. Two of the three assumptions have proved to be too aggressive (#1 and #3), while the income assumption ended up being very conservative. The model and the assumptions have been refined over the past four years (and will continue to be refined and tweaked over the final 16). I originally entered our starting net worth incorrectly in the first pass (having made January 2015 the starting net worth rather than December 2014 – the real starting point). The mistake was not material (only a $10K difference) but has since been updated in the above summary.

The real magic of putting a long term plan like this together is not that you get every assumption right. That is impossible. The magic is in planting the seeds in your subconscious to start working on ways to get you to your desired destination. **You have to think big before you can achieve big!** This kind of plan opens your mind to recognize opportunities it wouldn't have known to look for previously.

None of us can really control the returns we earn on our savings and investments and we realized this early on. So, we got very aggressive in growing our income and savings rate – as you will soon see below.

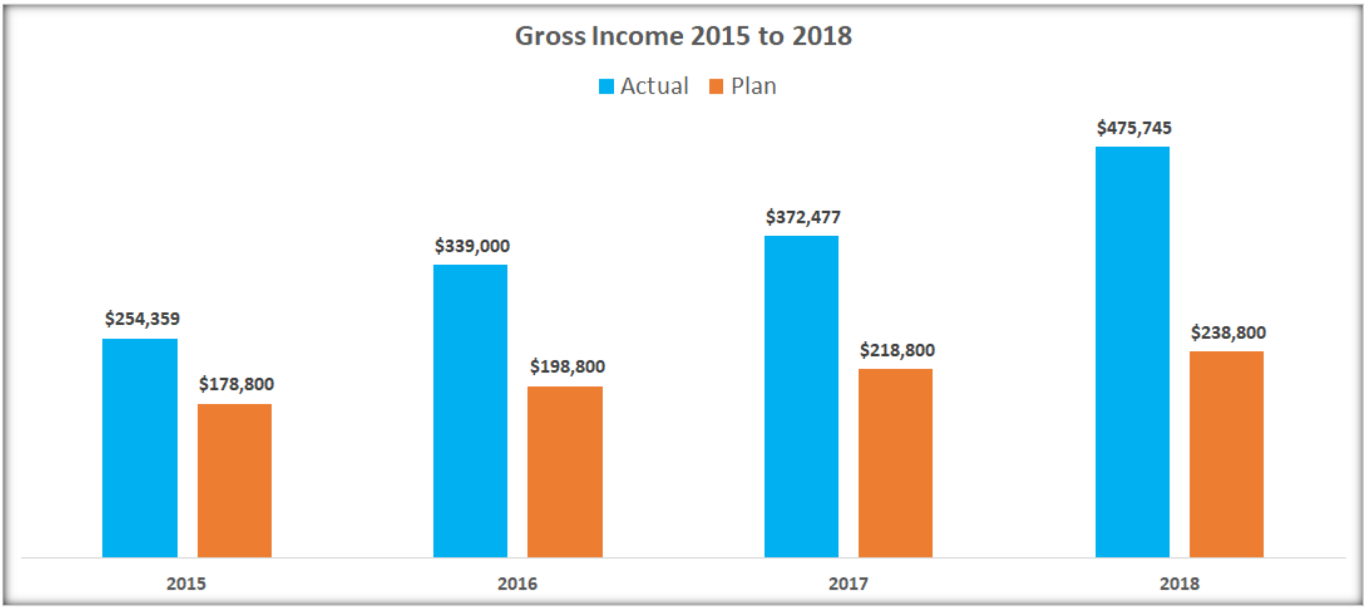
Four Years Later

Four years represents 20% of the time allotted to achieve our $10M goal. Yet, as you will see we have only reached the 10% milestone. Our net worth finished 2018 at $1,012,865. But we are not concerned because we have built momentum that will soon go exponential. We are moving closer to the inflection point where the gains from our investments will outpace our contributions. I've argued for some time that your savings rate is most important in the early years of your financial journey because the magic of compounding takes about a decade before you really start experiencing its full force. And it only gets stronger with time.

The first $1M in net worth will take you the longest time to achieve. Each successive $1M ~~should~~ will take less and less time. My wife and I graduated from college in 2008, which is the year I start the clock for our first $1M in net worth. So, it took us ten years from graduating college before we hit our first $1M in net worth. I estimate that the next $1M milestone will happen in 3-4 years. And the next will only take 2-3 years. And so on…

Let's take a look at how our actual performance compares against the original plan for some key metrics and then we will take a look at the refined model that will guide us over the remaining 16 years.

Gross Income Actual vs. Plan



I significantly underestimated our ability to increase our earnings so rapidly. The increases in our income from year to year have exceeded – and continue to exceed – our wildest expectations. If you look back up at the original assumption, we assumed that we would be able to increase our income by $20,000 per year. We blew that assumption out of the water!

Here are the favorable variances we realized over the past four years vs. the plan:

2015 = $75,559

2016 = $140,200

2017 = $153,677

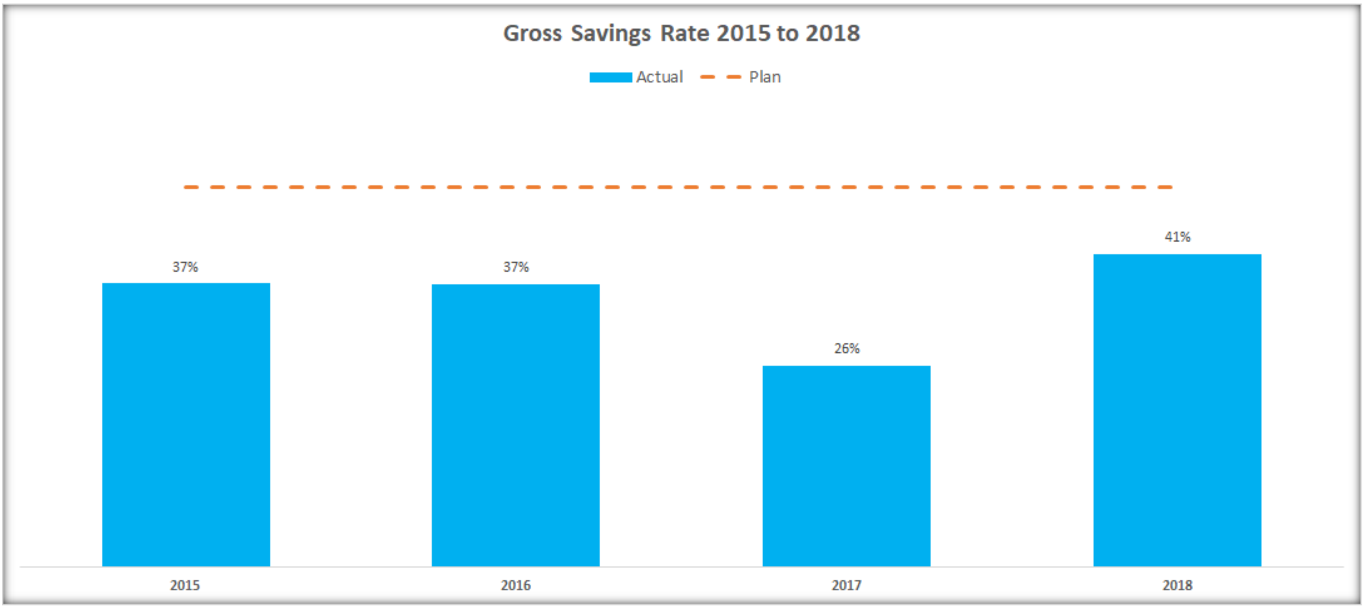
2018 = $236,945

Cumulative = $606,381 ($1,441,581 Actual vs. $835,200 Plan)

I’m currently projecting an income of around $500,000 for 2019, which, if achieved, will put our income about 13 years ahead of schedule (projected in year 17 of the initial 20-year plan).

I think this GIF says it all!

Gross Savings Rate Actual vs. Plan

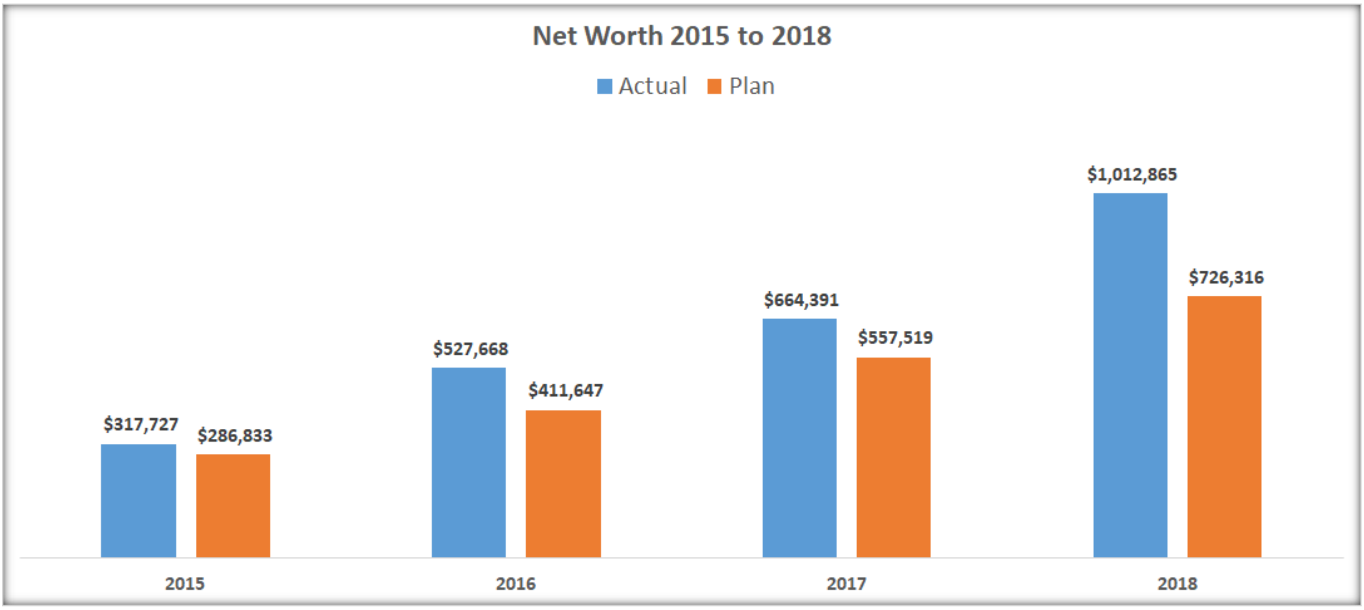


For those that have been following along for some time, you know that the savings rate I share in my monthly financial reports is actually my after-tax savings rate. Although I track both, I share the after-tax number because I feel it is more relatable for people since everyone's tax situation is different. I also hadn't really contemplated taxes much when I put this plan together. My thought at the time was that taxes were a non-controllable assumption. That said, I should have realized that at the income levels I had projected, and with the majority of the income early on coming in the form of earned income, taxes were going to take a big bite out of the gross income.

Due to this lack of foresight, you can see that we have significantly underachieved our original goal of saving 50% of our gross income. Although 2018 was a step in the right direction, I think the only way we are going to ever get to a 50% pre-tax savings rate is by diversifying more of our income to more tax-favorable tax streams, i.e., income not taxed at ordinary income rates (long term investment gains and qualified dividends) or income streams with lots of tax shields (rental real estate is the only one I'm currently aware of).

One thing that is interesting to note is that of the additional $606,381 that we earned above and beyond the plan, only $133,058 was saved (at the 50% goal, we should have saved $300K). A big chunk of those expenditures went to taxes and the remaining was spent on who knows what (I do track it all, but I won't get into it here – you get the point).

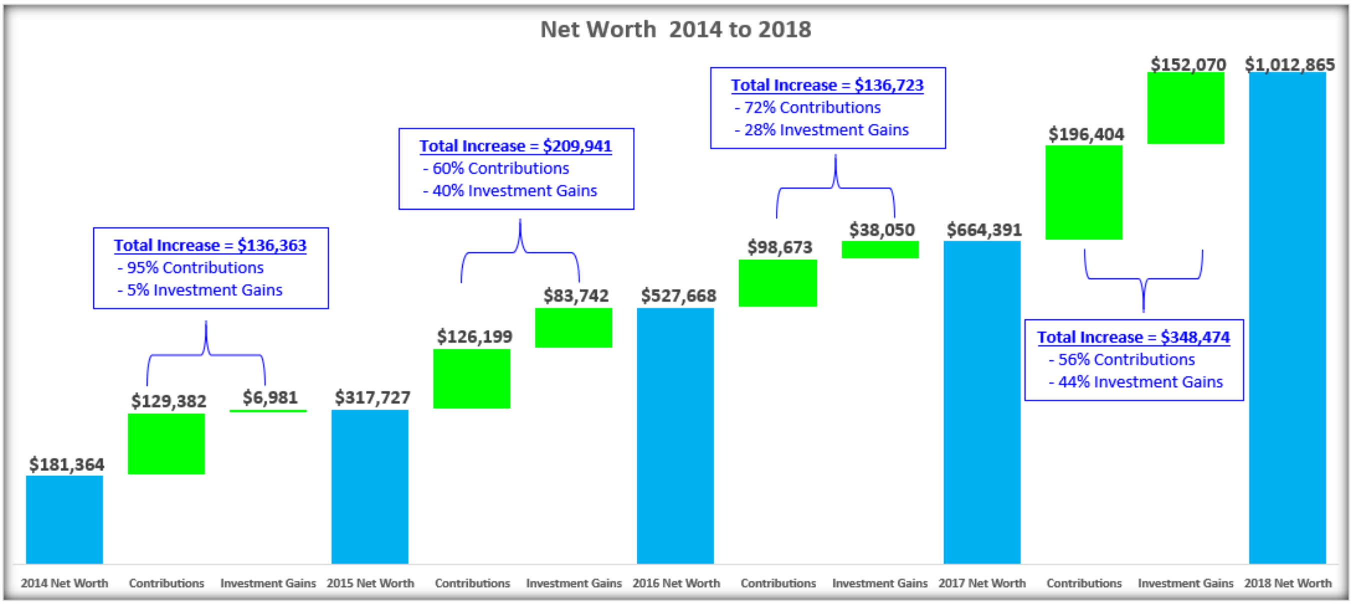
Net Worth Actual vs. Plan



The primary driver in growing our net worth faster than planned is income. Our ending net worth of $1,012,865 in 2018 is currently 39.5% ahead of plan ($726,316). I've already pointed out that we missed our 50% gross savings rate goal and although I don't have the data, I don't think we have earned an 8.9% compounded rate on our investments. However, our investment gains have been larger in absolute dollar terms because we were able to put more money to work a lot sooner than originally projected.

I want to spend a bit more time dissecting the sources of our net worth growth from year to year in the next chart below.

Net Worth Growth By Source



(I love any excuse to put together a nice waterfall chart. To me, they are such an aesthetically pleasing visual.) I've tried to provide a simple picture that easily identifies the growth in net worth from year to year and how much growth came from contributions (savings) and how much came from gains (dividends, interest, 401K match, or appreciation of assets). I added in the annotations on the chart to provide a little more explanation that may not be easily conveyed in the chart alone. I'm pretty pleased with the outcome and I hope you are too.

I think this chart reiterates how important a role savings have played in the growth of our net worth over the last four years. Overall, **savings have accounted for 66% of the growth** over the four year period.

A few things/anomalies to point out:

(1) The $129,382 increase from contributions in 2015 includes $34,450 related to a late-add of our cars in our net worth calculation. This may seem odd but I didn't want it to be included in the investment gains and I didn't want to include a third bucket for a one-time occurrence. So, instead, I thought I would just point it out to you. Also, I decided to include cars in the net worth calculation in order to ensure they shrank as an overall percentage of our net worth. You can see that based on 2015 ending net worth, they accounted for 10.8%. Today, they account for less than 2% (ending value for cars in 2018 was $19,000).

(2) I use investment gains loosely to also include the increased value of our

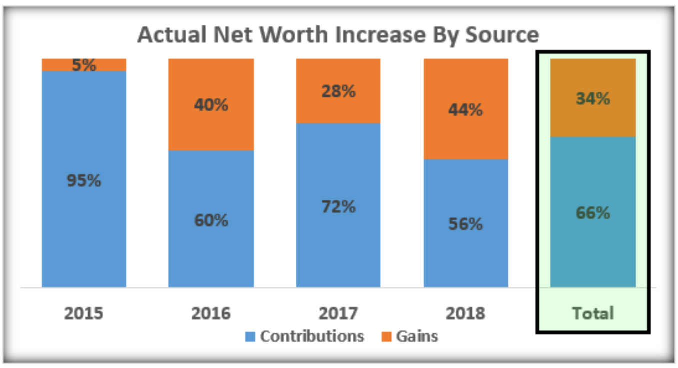
primary residence, which I know many would not classify as an investment. Nonetheless, it is an asset that does fluctuate in value and this is how I'm capturing it.

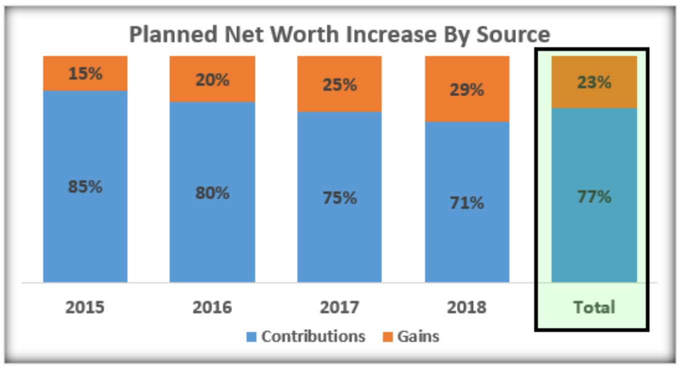
(3) A large majority of the $83,742 in investment gains in 2016 were driven by appreciating real estate values on the two properties we owned at the time. We have since sold our investment condo and are down to one property – our primary residence.

(4) The investment increase of $152,070 in 2018 was largely driven by an increase in value in [the stock I own in the company I work for] (about $129K increase in 2018).

Net Worth Gains – Contributions vs. Investment Gains

Before we move onto the refined blueprint for the next 16 years I would like to first evaluate the planned sources vs. what happened in reality. In the prior chart I provided the gains by source in absolute dollars but now I want to take a look at what the plan called for each source in percentage terms.



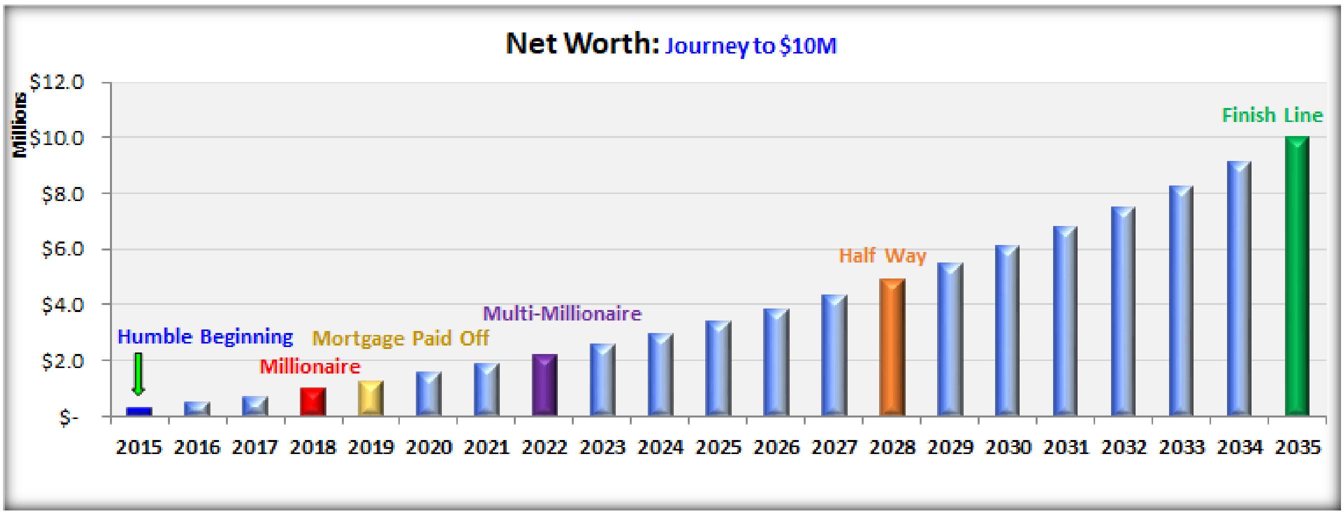


It looks like I got the trend right in that contributions have for the most part made up less and less of our overall gains in net worth. I suspect this will be lumpy in any given year but that the trend will continue to be made up of less gains (in percentage terms) coming from contributions and more coming from investment gains with each passing year. I do expect that there will likely be an inevitable down period that causes a year or several years to be composed of 100% contributions (or something close to it). I also expect net worth to decrease in at some point, which would cause a negative percentage from the gains side of the equation but we can deal with that when it comes.

Updated Blueprint for the Next 16 Years

Annual Income Increase	$ 20,000
Gross Savings Rate	40%
Annual Rate of Return	6.2%

				Net Worth			
Check Point	Age	Income	Contributions	Start	End	YoY % Growth	
2015	28	254,359	94,932	181,364	317,727	75.2%	Humble Beginning
2016	29	339,000	126,199	317,727	527,668	66.1%	
2017	30	372,477	98,673	527,668	664,391	25.9%	
2018	31	475,745	196,404	664,391	1,012,865	52.5%	Millionaire
2019	**32**	**495,745**	**198,298**	**1,012,865**	**1,273,740**	**25.8%**	
2020	33	515,745	206,298	1,273,740	1,558,732	22.4%	
2021	34	535,745	214,298	1,558,732	1,869,332	19.9%	
2022	35	555,745	222,298	1,869,332	2,207,121	18.1%	Multi-Millionaire
2023	36	575,745	230,298	2,207,121	2,573,779	16.6%	
2024	37	595,745	238,298	2,573,779	2,971,090	15.4%	
2025	38	615,745	246,298	2,971,090	3,400,948	14.5%	
2026	39	635,745	254,298	3,400,948	3,865,363	13.7%	
2027	40	655,745	262,298	3,865,363	4,366,471	13.0%	
2028	41	675,745	270,298	4,366,471	4,906,538	12.4%	Half Way
2029	42	695,745	278,298	4,906,538	5,487,971	11.9%	
2030	43	715,745	286,298	5,487,971	6,113,326	11.4%	
2031	44	735,745	294,298	6,113,326	6,785,317	11.0%	
2032	45	755,745	302,298	6,785,317	7,506,825	10.6%	
2033	46	775,745	310,298	7,506,825	8,280,910	10.3%	
2034	47	795,745	318,298	8,280,910	9,110,818	10.0%	
2035	48	815,745	326,298	9,110,818	10,000,000	9.8%	Finish Line
Totals		**12,589,251**	**5,035,701**		**10,000,000**		



Every year I make a copy of the model and update the projections with actuals (which is what you see through 2018 in the above image). I then use the annual rate of return as the “plug” in order to goal-seek the ending value back to $10M. Until now, this has been the only variable I have fiddled with from year to year. In this updated model that I’m sharing above, I have also modified the gross savings rate by decreasing it from 50% down to a more realistic 40%. I have held the assumption that we will continue to be able to increase our gross income by $20,000 per year. In fact, I think this assumption becomes easier and easier, the more our income grows.

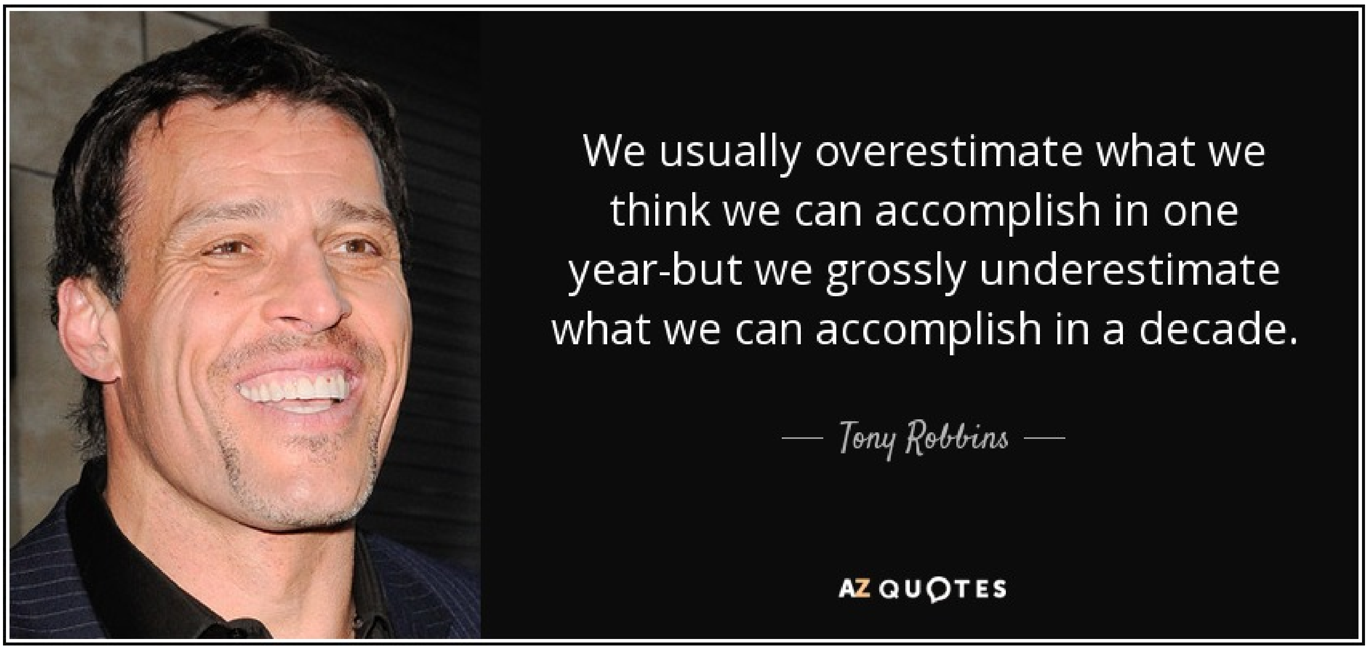
Our revised assumptions for the next 16 years:

> (1) We will continue to be able to increase our income by $20,000 every year (from all sources).
>
> (2) We will save 40% of our pre-tax income. Although I’ve changed this assumption, we will be working hard over the next five years to generate more income from streams with more favorable tax treatment in order to work our way towards a 50% gross savings rate – eventually.
>
> (3) We will earn an annual rate of return of 6.2%. This seems much more achievable than the original 8.9% we had assumed.

With respect to #3 above, I would like to see our income and savings rate improve faster than planned in order to continue to drive this required rate lower and lower from a model perspective. But in an ideal world, we would see all three over-achieve the revised plan.

Although I’m sharing this revised plan, I will always hold myself accountable to the original plan. I probably won’t have another update like this post for another three to five years. I know that anything can happen in a year, so I’m more concerned with the overall trend, realizing that one year does not make a trend. I think it makes sense to take another look at this once our net worth reaches $2,000,000+.

Concluding Thoughts



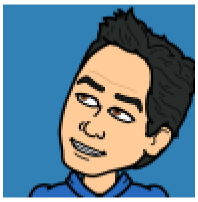
For me, Tony Robbins sums it up well. I had originally read a similar quote attributed to Bill Gates and had that in mind when I first developed this blueprint. Understanding our human nature to underestimate what can happen in a decade is important so that you can compensate for it in your planning. You can capitalize on that knowledge by upgrading your pre-programmed ability to project linearly to being able to project exponentially (visualizing the power of compounding in all facets of life).

Please don't misread this. The results don't happen magically; they happen through taking action consistently over time. Taking daily action for a long enough period of time will allow the power of compounding to kick in. Most people quit way too soon. They quit "inches from riches." But when the going gets tough, the tough keep going: when motivation wanes, discipline reigns.

The exponential lens gives you the tool to see as possible what looks impossible viewed through the linear lens. I believe that linear thinking is what holds people back from going hard enough after their dreams. Here's an example: it took me seven years out of college to start earning $100,000 per year. Let's say I had a goal of earning $350,000 per year. If I had projected this linearly I would have incorrectly concluded that it was going to take me another 17.5 years to get there, if I ever got there at all. But that's not how the math really worked. In this real example, it only took me another four years to increase my compensation from $100,000 to $350,000 per year. **That is the power of compounding!**

I never gave up. I never got discouraged. I kept grinding it out. I knew that every overnight success was ten to twenty years in the making. That's how I know we will hit our goal of $10M. When you take yourself off the linear track and onto the exponential track you had better buckle up because you are in for the ride of your life. You've just received your fast pass – to everything!

– 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