

FIRE Starter - Why Owning Assets Leads to Wealth & Freedom

You can find all of Zach's previous posts [here](#).

Today, Zach is going to discuss the importance of owning assets to build wealth and achieve freedom. Your worst enemy in your pursuit of Financial Independence is only being able to generate income by trading your time for dollars. This model doesn't work, because in it, as soon as you stop working the money stops flowing. This is why it's so important to create a gap between your income and your spending (that gap is filled with your savings). Remember the golden rule to financial independence is to **spend less than you make and invest the difference wisely**. You invest by acquiring assets, which in turn appreciate in value and produce income passively - your money works for you vs. you working for your money!

I hope you enjoy Zach's latest **FIRE Starter** post below.

First, 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, meaning, as I see it, Financial Independence / Recreational Employment. That's because I am after **freedom**, rather than 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 \$130,000 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.

One of the basic principles taught in *Rich Dad Poor Dad* is that the rich don't trade time for money. They acquire assets that make money for them.

This is such a simple idea, but most people never fully wrap their head around it.

An asset is anything that tends to increase in value over time or pays you money simply for owning it. Some examples are real estate, stocks, bonds, websites, and businesses.

The whole point of owning assets is to have the means to generate income without any active work on your part.

For example, suppose you buy a share of stock for \$100 that pays a 4% annual dividend. This means you will receive \$4 in dividends each year simply for owning the stock. This is a classic example of an asset. All you have to do to earn income from it is simply *own* it.

As you acquire more and more assets, the income that you're able to earn without any active work continues to grow more and more.

A 4% dividend yield on \$100 is only \$4. That's not life-changing.

A 4% dividend yield on \$100,000 is \$4,000. That's a decent chunk of cash, but still not necessarily life-changing.

A 4% dividend yield on \$1 million is \$40,000. That's life-changing for most people.

Transition Away From Trading Time for Money

With each dollar that you invest in assets, you are making the conscious choice to transition away from trading your time for money.

Consider an employee at a company who earns \$60,000 per year post-tax. If this

employee decides to spend all \$60,000 each year without making any investments, they'll need to continue reporting to a job in order to earn an income to put food on their table.

Consider a different employee who works at the same company and who also earns \$60k per year post-tax. If this employee decides to only spend \$40,000 each year and invests \$20,000 each year in stocks, bonds, real estate, websites, or other assets, they'll be able to generate income from these assets *in addition* to the income they earn at their day job.

Now, when you just start out, your assets won't be able to generate enough income to cover all of your lifestyle costs. Over time, though, as you acquire most assets, those assets will ideally be able to generate a big enough chunk of income that it will give you options.

For example, suppose the employee mentioned above invests \$20,000 in the stock market. Perhaps their investments grow by 5% in year one. That's equivalent to \$1,000. Not a life-changing amount.

But suppose they continue to invest diligently for several years until they have \$300,000 invested in the stock market. A 5% return on \$300k is \$15,000.

If this person only lives on \$40k per year that means over one third of the income they need to support themselves can come purely from their investments.

This gives them tremendous flexibility to either transition to a lower-paying less stressful job, pursue an entrepreneurial endeavor, or perhaps just take a gap year from working.

Assets are Like Little Employees

Assets are like little employees who work for you around the clock to help you earn more money.

Personally I own stocks, REITS (real estate investment trusts), and a few websites. Each month, these assets work for me to earn dividends and other forms of income.

My portfolio of stocks (mostly index funds) grows in value *and* pays me dividends on a regular basis.

My basket of REITs pays me dividends as well.

And the articles that I've written on my various websites work hard to help me earn advertisement and affiliate income even when I'm not actively working on the sites.

One of the best feelings in the world is waking up on a Monday morning and discovering new dividends, interest or other cash payments freshly deposited in my bank account after a long weekend of hanging out with friends and family.

Building an Army of Assets

One of the easiest ways to acquire assets is to simply buy them. Once you receive a paycheck from your employer (or however you earn income), simply choose to invest a portion of that paycheck into stocks, bonds, real estate, or some other asset class.

Over time, as you invest more and more, you'll slowly accumulate an army of assets.

Another way to build your army of assets is to *create them* from scratch. An example of this that I've personally pursued is websites. Simply through buying a domain name and hosting plan, and pumping out articles, I've been able to monetize sites and generate over \$1,000+ in extra monthly income.

The best part of all is that if I wanted to sell one of my websites, I could choose to do so. So, not only are websites an income-producing asset, they are also appreciating in value so that I can cash out on them at any time by selling them.

Websites aren't the only examples of assets you can build, though. Consider Dave from [Accidental FIRE](#), who sells graphic designs online. Each month he earns \$300-400 from selling his designs online.

The best part of all is that he only needs to create a design one time, upload it online, and sit back and wait for people to purchase it. As he continues to build up his online inventory, his income will likely continue to increase over time.

Building assets can be a great way to create your own income stream. The one drawback is that it often takes months or even years to see the payoff from building your own assets. But if you're patient and maintain a long-term perspective, this

isn't a problem.

Personally, when I feel impatient and wish that I could earn income faster, I think of this quote from Steven Pressfield in *Tribe of Mentors*, by Tim Ferris:

“I’m 74. Believe me, you’ve got all the time in the world. You’ve got ten lifetimes ahead of you. Don’t worry about your friends “beating” you or “getting somewhere” ahead of you. Get out into the real dirt world and start failing.”

Acquire Assets. Avoid Liabilities.

The simple path to wealth and freedom is through acquiring assets and avoiding liabilities.

Over time, assets tend to increase in value and/or pay out dividends.

Conversely, liabilities tend to decrease in value and require monthly payments. Examples of liabilities include cars, credit card debt, student loan debt, and most material possessions.

Assets put money in your pockets. Liabilities take money out of your pockets.

If you hope to achieve wealth and freedom over the long haul, you should acquire assets and avoid liabilities as much as possible.



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](#)