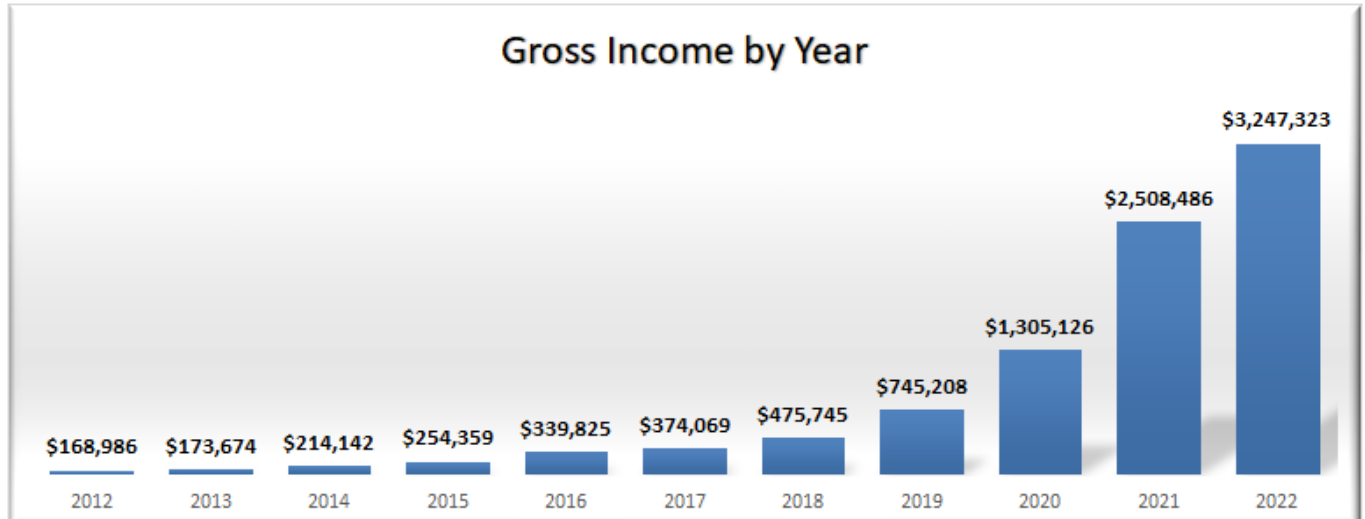


Our Spending Budget is \$500,000 This Year!

WARNING: This post is about to get ridiculous and maybe even border on preposterous. I realize that we have reached a level of finances and spending that is not relatable to the average person but I can't let that stop me from sharing my journey. I've always written under a policy of full transparency and I won't let that stop now.

With that out of the way let's jump into how and why we plan to spend \$500,000 in 2022. First, I must remind everyone that proportional to our income this amount only represents 14%, which is a far lower percentage of income than what the average person spends; we practice [relative frugality](#) and continue to ensure we follow the [law of 50/50](#) at a bare minimum.



I'm aware that this income chart is absolutely ludicrous...I still pinch myself from time to time to make sure I'm not dreaming. Honestly, [I grew up on welfare](#), and six figures was considered an insane amount of money that only "rich people" were able to earn. I was fortunate to blow past my pre-programmed set point and reprogram my mindset to one of abundance and unlimited possibility. That said, I don't go a day without reminding myself where I came from and how grateful I am for my family's financial success.

Although 2022 is a projection, this is what we believe will be our minimum income for 2022 based on known income sources (there could be significant upside from this number). I felt compelled to share the income side of the story in order to provide the right context for our spending but there is other information needed to understand why we have decided to spend such a lofty figure in 2022 when in years past our spending (back to 2015) has ranged between \$115,000 and \$200,000.

There are two main drivers that are responsible for this one-time step-up in spending. This is not a level of spending we plan to continue past this year, and in fact, we fully expect our spending to drop back down to the \$150,000 to \$200,000 range in 2023.

Driver #1: We bought and moved into our dream home. When we bought our previous home eight years ago (2014) we did so with the intention of trading up one more time. We actually started looking at properties in 2018 and even empty land as we considered building from scratch. The problem was that we compared every home and its view to that of my in-law's property in wine country - where we ultimately wanted to end up. None of the houses came close to the quality, style, and view. Simultaneously, my in-laws had begun thinking about retirement and the need to downsize but hated the idea of selling the house they built 32 years ago, and had expressed interest in wanting to keep in in the family.

My wife and I talked about it and then floated the idea of us buying the property and them moving into the guest house as they transitioned to retirement and into a smaller space. They were thrilled at the idea of remaining on the property (with three generations) and the house staying in the family. This was in the summer of 2018 and it was an ongoing conversation until we made it official in early 2020 before the pandemic broke out by agreeing on the valuation (\$1.6M) and putting 25% down in the form of a convertible note - just in case they changed their mind we wanted them to have an out. I tend to be the go-to guy when it comes to everything financial and they had shared their goals with me so I set up a very unique structure where we would only buy 50% of the property and they would continue to own 50%, with our 50% interest locked in at a purchase price of \$800,000.

The initial 25% we put down went to pay off a 2nd mortgage that was on the property and the remaining 25% was a 1st mortgage that we didn't assume until we started to remodel the property in late 2021 to prepare for our

planned January 2022 move-in date (we ended up moving in 12/28/21).

Driver #2: We made a decision to pay for a lot of help and convenience in 2022. House cleaners came once a week to our prior home and that hasn't changed but the weekly cost has increased because we moved from a 3,300 square foot house to a 5,400 square foot house. We welcomed our second child in August of 2021 and made the decision to hire a full-time nanny (actually two that split the day for a total of 54 hours a week). We continue to have our almost-four-year-old in daycare.

Forecast Spending for 2022 through 2024

Below is the forecast I recently pulled together that really falls into nine major expense buckets. I provide 2023 and 2024 to show that we fully anticipate our spending to normalize to a much lower amount as some of the one-time expenses fall off. I'm not a huge fan of locking us into a lot of recurring expenses, which is why you will notice that almost 50% of our spending in the outer years really falls into the discretionary bucket (travel, entertainment, other discretionary).

	Forecast 2022	Forecast 2023	Forecast 2024
Expenses			
<i>Childcare</i>	\$82,112	\$29,520	\$18,120
<i>House Cleaning</i>	\$8,640	\$9,072	\$9,526
<i>Old House Mortgage, HOA, Taxes, Insurance</i>	\$6,221	\$0	\$0
<i>New House Mortgage, HOA, Taxes, Insurance</i>	\$21,580	\$14,300	\$15,015
<i>Home Improvement</i>	\$291,647	\$0	\$0
<i>Groceries</i>	\$12,000	\$12,600	\$13,230
<i>Travel, Entertainment, Other Discretionary</i>	\$56,800	\$76,800	\$80,640
<i>Auto (Insurance, Gas, Maint.)</i>	\$6,000	\$6,300	\$6,615
<i>Utilities (water, electric, gas, etc.)</i>	\$15,000	\$9,000	\$9,450
Total Spending	\$500,000	\$157,592	\$152,596

Let's review each of the nine major expense categories for 2022 starting with the largest and working our way down to the smallest.

#1 Home Improvement (\$291,647) - We budgeted \$400,000 in improvements to the house on top of the \$800,000 that we agreed to pay for our 50% stake. The reason we are not budgeting for this amount in 2022 is that we started making improvements in late 2020. There is a laundry list of improvements that we are making:

- HVAC (\$57,000) **[Completed]**- the entire system needed to be replaced as it was 30 years old and barely limping along.
- Full Kitchen Remodel (\$65,000) **[Completed]** - We're lucky that my father-in-law is a contractor and didn't charge us for his labor, otherwise this would have been twice as expensive. That said, I did end up buying him an e-foil board as a thank you...and I got myself one as well so we have something fun we can do together.
- Paint (\$12,500) **[Completed]** - Entire inside and outside of the house needed to be painted. We had actually expected to spend double this amount but a friend of a friend was young, hungry, and really talented.
- New Garage Doors (\$10,000) **[Waiting for Quote]** - This is an estimate for two new garage doors and operators.
- Home Gym / Wellness (\$12,000) **[50% Complete]** - You could argue that the Bathroom Remodel should be included here and you wouldn't be wrong but it is broken out as its own item (as is the pool). We always imagined having all the amenities you can get at a really good spa paired with an epic home gym. The good news is that we already had some of the pieces to get this started. When we are done, the home gym will have all of the following: Squat Rack (PRX Performance - allows for squats, bench press, dips, pulley system, pull-up bar, etc), Select Tech Bowflex weights, Reverse Hyper, Rowing Machine, Stationary Bike, TV for guided workouts, Sonos Speakers for music, Ice Barrel for Cold Plunge, Sauna, and gym floor with a couple of mirrors.
- Pool Remodel (\$100,000) **[In Progress]** - As I mentioned, the pool was never permitted so we are taking care of that, but while we are at it we are adding a hot tub and re-doing the pool deck. We are also adding bi-fold or accordion-style doors that will lead from the family room/kitchen out to the pool. This estimate also includes the new patio furniture that we have already ordered. The pool itself needs to be refinished as well.
- Outdoor Kitchen (\$40,000) **[Not Started]** - There is currently an outdoor bbq but we are going to add a range, pizza oven, sink, and overhead cover to make this usable rain or shine.
- Bathroom Remodel (\$20,000) **[Not Started]** - We are converting our guest

bathroom to a Steam Room Shower.

- Furnishings & Other Misc. (\$30,400) - This is a catch-all for anything not covered in the other major buckets. For example, we had to buy chairs, a dining room table, two bed frames, and a coffee table.
- Replace and Upgrade two fireplaces (\$20,000) **[Not Started]** - The fireplaces are tired and ready to be replaced and so we want to take this opportunity to put in larger units and update the tile work to something more modern.
- Solar & Batteries (\$60,000 > \$18,100 net of tax credits and rebates) **[Under Contract - Deposits Made]** - We have actually been under contract since November of 2020 but hit a snag on pulling permits because the pool we have was never permitted so we have been working through that process. The good news is that we have a pool contractor involved and we are very close to having this done so we can get this installed. We will get the 26.5% tax credit (\$15,900 in savings) as well as the State of California rebate for the batteries (\$26,000). So the real cost of this net of those two items is \$18,100 (we expect a ~4 year pay back on this).
- New Gate Operators (\$15,000) **[Completed]** - We have two entries to the property. One goes to the guest house where my father-in-law lives (my mother-in-law passed in 2021) and the other to the main house that we live in. These have built-in video calling and can be opened remotely from our phones.

Sub-Total = \$441,900

Tax Credits & Rebates = (\$41,900)

Total = \$400,000

#2 Childcare (\$82,112) - We have our son in daycare (~\$12K/year) and have committed to a nanny (\$70K) for 2022 for our now six-month-old daughter. We had trouble finding a reliable nanny when we first started looking in late 2021 so eventually, we decided to go through an agency. Although that added \$7,500 to the annual cost we are very happy with the two nannies that now split the day for us. One nanny is with us from 8am to 2pm and the other takes the 2pm to 6pm shift.

In addition to taking care of our daughter, they cook, do light housekeeping (laundry, dishes, sweeping, picking up kid's rooms), and run to the store for us as needed. We also get a date night every week, which is so good for our relationship

and mental health. We also get one weekend a month that allows Mrs. GYFG and me to get away for a night or two – we have our first trip planned in early March.

This is a very large expense but we are grateful for the help and for the ability to afford it. We did make it very clear to the nannies that this was only a year-long position and that we would be putting our daughter in daycare after the year was up.

This expense will drop by more than \$50,000 in 2023 when we have both kids in daycare and only need additional childcare for our weekly date nights and occasional weekend getaways. It will drop even more in 2024 when our son goes to school (yep, good ole FREE public school).

#3 Travel, Entertainment, Other Discretionary (\$56,800) – We like to rent nice houses and stay at nice hotels. We don't expect to hop on any airplanes this year but hope that is in our not too distant future. This also includes all other discretionary spending for things like eating out at restaurants vs. cooking at home, shopping for clothes, gifts for others, etc. In 2023 and beyond, we expect this to be our largest expense category.

#4 New House (\$21,580) – As we have allowed for lifestyle inflation in our long-term plan we have always been careful and diligent to not lock ourselves into an expensive lifestyle with lots of fixed costs. Besides putting 25% down in early 2020, we have and will continue to pay cash for all the improvements, and by the end of March 2022, we will have closed on the sale of our old home and used those proceeds to wipe out the \$400,000 mortgage that we assumed on the property.

This move will make the property free and clear and we will once again be 100% debt-free as we had achieved in the summer of 2018 when we paid off our mortgage for the first time. Some of you may be shaking your head about locking up \$1.2M of cash into this property, especially when money is so cheap. I hear you and I completely understand the math but choose to ignore it in favor of peace of mind and ultimate optionality.

Note: the house was professionally valued at \$1.6M when we signed our formal

agreement – yes, we made it all official. Today, only two years later, the house is worth somewhere between \$2.4M and \$3M. The way we structured the deal the property taxes didn't reset and with no debt the carrying cost of a house and property this big is minimal – property taxes, homeowner's insurance, and regular maintenance (luckily my father-in-law is the resident contractor and comes with the deal).

#5 Utilities (\$15,000) – This will cover electricity (soon to mostly be free from the sun once solar and batteries are installed), water (which is much cheaper than I expected due to the efficiency of the drip system and agricultural pricing, since we grow avocados and lemons), propane, and waste management (trash and sewer).

Note: I'm probably light here in the outer years because I forgot to include a pool maintenance person and water will certainly be more expensive in the summer months. My father-in-law takes care of the help that keeps the property maintained (there are about 100 avocado trees, a dozen citrus trees, apple trees, and plenty of other landscaping to take care of on the five-acre property). I won't know until the end of the year but this might actually be more like \$15,000 per year in 2023 and beyond.

#6 Groceries (\$12,000) – We now have a family of four to feed. We eat most of our meals at home. We buy organic and try to stay away from processed foods as best we can – although we are not perfect by any means.

#7 House Cleaning (\$8,640) – We've had house cleaning for years now and it has been worth every penny. Mrs. GYFG and I work plenty and want to spend the time we are not working with our kids and the things that bring us joy around the house. Our cleaners come weekly and this lifts a huge burden off of us vs. spending our nights and weekends trying to keep the place clean.

#8 Auto (\$6,000) - Our cars are fully paid for and we really only spend money on gas, insurance, and regular maintenance. Most of this expense falls on Mrs. GYFG's car since I drive very little working from home full-time since 2019.

Note: Since I haven't been tracking our expenses for a couple of years now, I wouldn't be surprised if I'm short here by \$2,000 to \$4,000 per year.

#9 Old House (\$6,221) - The house is currently in escrow with an expected close date of mid-March. It was a good house and we've doubled our money on it after eight years of ownership.

Note: we will be killing two mortgages at the close of escrow on our old home, freeing up almost \$50,000 a year in cash flow.

As you can see after a detailed review of the expenses, there are certain areas that are total estimates, and rather than going back to adjust the forecast I shared at the top of the post, I prefer to just call out where I think I'm light. That said, I think overall we are directionally correct with puts and takes across the categories (within a margin of error of +/- 10%).

Although we are going to be pretty spendy in 2022, somewhere in the neighborhood of \$300,000 to \$340,000 is what I would consider as one-time non-recurring expenses, some of which will actually be saving us money in the long run. The end goal is to make the property so nice that we never really have to leave - it's like living in a resort with no checkout date!



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](#)