

Three Key Levers to Wealth Building: Earn|Save|Invest

The “**Golden Rule**” to building wealth is to **spend less than you earn and invest the difference wisely**. Embedded in the rule are three levers that drive the wealth equation and ultimately determine not only the level of wealth you build but also the speed at which you can ultimately achieve financial freedom.

Those three levers are:

(1) EARN: I’ve always believed that **a high income is the fastest path to a high net worth**. The day I decided to focus most of my effort on the earning portion of the equation is the day I transitioned **from a scarcity mindset to one of abundance**. There is a natural floor in how much you cut your expenses but the sky is the limit when it comes to earning.

(2) SAVE: It’s a high income paired with a high savings rate that really accelerates the rate at which you build net worth. You can be a really high earner, but **if you spend all you earn, there is no wealth building** – you are just living paycheck to paycheck no matter the size of the income. Mrs. GFYG and I have always been natural savers but the day we aligned to adopt the Law of 50/50, was the day we really found our wealth building stride. **It’s clear and balanced: you save 50% of your after-tax income and and you spend the remaining 50% guilt free - easy and simple!**

(3) INVEST: You have to put what you don’t spend to work to harness the power of compounding – **investing the difference wisely**.

I have recently been trying to re-rate myself on these different levers and as I shared in [my interview for the ESI Money blog](#), I still see investing as my weakest. I’ve over-indexed on earning and saving. On a scale of 1 to 10, I would give myself a 9 on both (I’d like to give myself a 10 but there is always room for improvement), but when it comes to investing I would give myself a 5.

“The best investors are not investors. They are entrepreneurs that never sold.” – Nick Sleep

I’ve always struggled with adopting the “forever” holding period (sorry Warren & Charlie), and I think that’s because, as humans, we don’t get the luxury of being around forever. I also failed the Nick Sleep quote above as I not only sold my business, I built it with the full intention of selling it. It was always intended to be a wealth accelerator.

Quick Aside, Courtesy of Author Todd Tresidder:

Nobody builds wealth without leverage.

You won’t get wealthy by trading time for money and you can’t do it all yourself.

Building wealth requires you to work smarter rather than harder by applying the following principles of leverage:

- **Financial Leverage:** Other people’s money so that you are not limited by your own pocketbook.
- **Time Leverage:** Other people’s time so that you are not limited to 24 hours in a day.
- **Systems and Technology Leverage:** Other people’s systems and technology so that you can get more done with less effort.
- **Marketing Leverage:** Other people’s magazines, newsletters, radio shows, and databases so that you can communicate to millions with no more effort than is required to communicate one-on-one.
- **Network Leverage:** Other people’s resources and connections so that you can expand beyond your own.
- **Knowledge Leverage:** Other people’s talents, expertise, and experience so that you can utilize greater knowledge than you will ever personally possess.

Leverage allows you to build more wealth than you could ever achieve

alone by utilizing resources that extend beyond your own. It allows you to grow wealth without being restricted by your personal limitations.

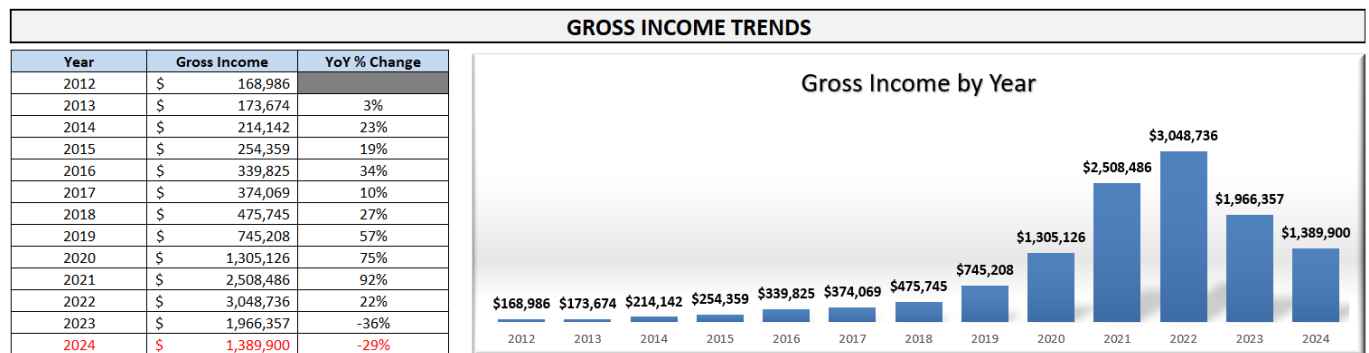
Leverage is the principle that separates those who successfully attain wealth from those who don't. It's just that simple.

If you aren't using leverage then you are working harder than you should to earn less than you deserve — and that isn't going to make you wealthy.

Todd Tresidder, [Financial Mentor](#)

EARN

I think the record speaks for itself – see below table and chart. There is always going to be someone that is doing better but I'm proud of what we have been able to accomplish from an earning standpoint.



We graduated from college in May of 2008, starting our careers during the lows of the Great Financial Crisis. Our combined income out of school was \$90,000 per year (the chart above starts the year we officially combined finances after getting married). Income has been falling since peaking in 2022 as expected but there is a high probability that 2025 could set a new record high.

In the early days, we were certainly more willing to trade more time for dollars, but these days it's more important for us to trade dollars for time. In reality, you don't get paid for time, you get paid for the value that you create. When you have little skill and experience, the easiest way to add more value is by devoting more time.

As you gain experience and skills, it becomes easier to add value more efficiently (less time). If you're smart you start pulling on some of those levers mentioned in the "quick aside" above – you don't have to use all of them, but using even some can benefit you greatly.

The goal over time should be to transition from a wealth building strategy based on your own personal labor to one based on capital...magnified by the six levers above.

In order of importance, I think that **earning is #1 because without an income there is no savings, and without savings there is no investment.** It's like *The Slight Edge* philosophy says, "you can start with almost nothing." It says *almost* nothing because **zero** compounded by any rate of return is still zero.

SAVE

Between earning and saving, **this is the lever you have the most control over.** It is **critically important that you create a gap between what you earn and what you spend** (savings) if you want a shot at achieving financial freedom. The earlier you develop the saving muscle the better. It's very unlikely that you will start by saving 50% of your income when you start your financial journey, but by working towards that diligently, you can get there.

It took us about seven years to grow into that savings rate and eventually exceed it. Our original goal was to save 50% of our after-tax income; eventually we were saving 50%+ of our gross income, which has led to a 70-80% after-tax savings rate in some years.

I've even argued that **saving is the most important variable in the wealth building equation.** Besides being the most controllable variable, it will be the thing that provides the most meaningful results early on because compounding, although amazingly powerful, takes years to showcase its magic.

Let me explain. Assume you earn \$60,000 per year (after tax) and you set a goal of saving 20% (or \$12,000) of your annual income. Now, let's assume that you invested all \$12,000 in the S&P 500 that earned 8%. To keep this example simple, we are going to pretend the entire sum was invested in the beginning of the year, which means it appreciated \$960 – your investment balance is now \$12,960.

It's great that your money grew without any additional effort on your side but it's

easy to see that the appreciation from investment gains is only a fraction of what you contributed through savings. In the early years of your wealth building journey, saving is a much more powerful force than the compound gains from investing.

(Note: your tax minimization strategy can make a huge impact on what you ultimately save.)

That is not to say to ignore investing all together.

INVEST

This is an area that needs work and focus. In the early days we were focused on the things we had the most control over: earning and saving. We set a goal to be mortgage-free after buying our first house at 28. By 32 we were mortgage-free. We were not optimizing for financial gain but instead for peace of mind and optionality. We let cash stack up without concern to the corrosive effects of inflation or the opportunity cost of doing so.

This afforded us the confidence to be aggressive in our careers and make a few large (calculated) bets. The first was when we took 20% of our net worth to buy stock in my employer at the time, which ultimately was a 5X when we cashed out. It also provided the security I wanted for our family in order to have the confidence to go and scratch my entrepreneurial itch, which has been responsible for 90% of our current \$12M net worth.

When I think about investing, there is how you invest your money, and there is how you invest your time. Both are critically important but not always differentiated in the wealth building equation.

My best investment by far has been building my own business. Financially, the initial investment was a measly \$267.42 without another dollar out of my own pocket as the business self-funded from that point forward. The last calculation I did showed a ~2,000% compounded return. Although I've since sold the business, I did roll some of my proceeds into the acquiring company that is still growing robustly – in fact, what I rolled over has already doubled in value. So for me, this story isn't done yet.

The second best investment was in the employer I had prior to going off on my own (the one whose stock I mentioned above that returned 5X). These two meaningful

investments account for **95% of our net worth - two investments**. I remember reading that Warren Buffet attributed the Berkshire track record to 12-15 investments over the last 60 years.

And here I am giving myself a 5 out of 10 score. The reason is that although I'm incredibly pleased with these results, I think we could do a much better job with how we invest the capital that we have generated from these two life-changing investments. There are two places where I over-indexed and with the benefit of hindsight would have done things differently.

1. Private Investments. Excluding the equity I rolled from selling my business, I allocated more than I would have with the benefit of hindsight. It created more complexity in our financial lives and today I find myself tracking down far too many K-1s. I also invested an inappropriate size into some of these private investments, which we have since grown into. When I was building the business I favored private investments for the illiquidity and the forced discipline it brought. That said, today I favor liquidity and simplicity. I won't know for sure, but I think that investing in low cost ETFs will prove to be a better decision from a total return standpoint. Outside of being in an operator role I have no edge in making private investments and I don't want bravado misallocating my families hard-earned wealth.

2. Being Too Conservative with Cash. I've held onto far too much cash in the form of treasuries for the last couple of years. The silver lining is that the interest rate earned on treasuries has been much higher than was possible when we were in a zero interest rate economy. I recently used the Schwab portfolio analysis tool to see how my portfolio has performed vs. the S&P 500 for 2023 through 2024 which shows I've earned about 50% of the compound return with about 20% of the volatility...I'm happy the risk was lower but not at the expense of half the upside. We can do better and we can stomach more volatility in trade for higher returns.

I am now working through a multi-year plan to simplify and optimize. I'm no Warren Buffet when it comes to investment selection (I'm self-aware enough to realize that) and so I am slowly moving the majority of our liquid net worth into a diversified and fully automated portfolio of low cost ETFs. Once complete, I would feel comfortable increasing my score to a 7 out of 10, comparing apples to apples in the sense that I'm performing diligently on a well-thought out strategy. It may not be flashy, but we are satisfied with it, and anticipate longterm wins.

With decades of investment horizon left, I am transitioning to passively invest the majority of our liquid net worth into index funds. Because I'm no Warren Buffet, I won't complicate things there or expect our huge wins in that arena. Instead, I anticipate that my big gains will likely come from companies I am actively involved in as an operator where I'm an insider and in a position to influence the outcome - this is where I believe my edge lies.

In a way, I'm saying that when it comes to **capital** allocation, I'll settle for a 7 out of 10 as my best. But I will aim to be a world class investor when it comes to how I invest and allocate my **time** - that's my wheelhouse, and an arena I can aim to score myself a 9 out of 10 on!!!

How would you score yourself on each of the three main wealth building levers? Do you agree that the order of importance is Earn, Save, and then Invest?

- 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](#)

