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Three paths to financial abundance

Common advice, common results

I shake my head when I hear most "experts" talk about getting ahead. Their advice is almost always the same: "reduce your spending to the bare minimum. Maximize the amount you save. Invest in good mutual funds for the long haul."

Every once in a while you hear someone who focuses on increasing your income. Most of the time it is based on working harder and longer. Often it includes being more productive.

Don't get me wrong, it isn't bad advice. For 80% of Americans, it is a step in the right direction. Considering the rampant abuse of credit cards, it is their path to salvation.

"There are two ways to increase your wealth. Increase your means or decrease your wants. The best is to do both at the same time."

Benjamin Franklin

Path 1

This is the most common path you see personal finance guru's advise. This is what you hear from the frugal blogger community. It is 90% of the help Dave Ramsey and Suze Orman give.

The concept is basic: reduce your expenses below your income. Interest and penalties are unnecessary expenses, so they must be eliminated.

While this is the foundation for personal finance, it is missing a key element to build wealth. By itself it leads to a safe and stable life of mediocrity. Yes, you can become a millionaire by using this path. It just won't happen until you are too old to enjoy it. And how much will your nest egg be worth? By then a million dollars will be the equivalent of \$700k. While this is a good chunk of money, it leads to a lower middle class retirement. Not the golden watch we all dream of!

Path 2

Ahh, this path is riddled with scams and charlatans. Don't worry about expenses, increase your means. On the surface this sounds great. Keep enjoying the latte. Drive cars you can't afford. Live in a house that is too big for your income. Trust that you will make enough to pay it all.

There are some real experts that tell you to focus on increasing your income. Michael Masterson is one. Robert Kiyosaki is another, though his status as "expert" is questioned by many. Most of their focus is on increasing your pay or starting a side business.

This road has major flaws.

- First, if you can't manage your finances at \$30k/year, it will just be magnified at \$300k. This is a fact and has been proven in study after study. The typical person's expenses increase *faster* than their income. What was a financial problem at \$30k becomes a downright crisis as the income increases.
- Living within your means is safety. Your financial security is inversely proportional to your debt. For the non-math majors, that means that as you decrease your debt, your life becomes more secure and stress free.
- Dollar for dollar, decreasing expenses results in more free cash than increasing income. This is due to income taxes.
- The second path is littered with get rich quick schemes. There are legitimate businesses out there. Some of the advice is good. 97% is bunk.
- If you do find or build a legitimate business, you need more than just income. You also need expense control and budgeting. Hmm...Doesn't that sound like personal finance?
- There is truth to the belief that material things get in the way. They clutter your life. They increase your expenses. They are an emotional drain. I'm not saying we should live like monks. We should just be careful what we bring into our lives.

Path 3

This is Benjamin Franklin's path. Decrease your expenses. Increase your income. This is the best of both worlds.

Dave Ramsey (and similar experts) touch on this, but often it is to help get you out of debt. "Take a second job to speed up your debt repayment" is their mantra. That is great to get you out of a bind, but is not a long term solution. You work 40 hours a week at your day job. You do 20+ hours as a pizza delivery guy. That doesn't leave you any time for family and fun. Once you are out of debt, this is not the way to lead a rich and balanced life.

There may be many ways to bring in more money, but I find two to be most effective.:

1. **Earn more at you job:** What are you doing to earn a raise or promotion? Your compensation is based on your contribution. You must first increase your contribution if you want more pay. And remember, the training you receive while on the clock is to do your current job. It is the time you spend *after work* that will help you get ahead. Another thing to consider is whether your pay is appropriate for your industry. Often you find that other companies are paying more for your skills. If so, you have the justification to ask for a raise or find another job. For more info on job hunting, check out my post [11 Steps to the Job of Your Dreams](#).
2. **Start a side business:** My advice is to practice what Michael Masterson calls chicken entrepreneurship. Start a small business on the side. Stick to an industry you know well. Stick to your existing skills. Find a niche and identify their needs. Build your business around filling those needs. Start on a shoestring to minimize your risk. This topic is far too in depth to be discussed in this post, so look for it in the near future.

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