

# The FIRE Movement Explained

## What is FIRE and why is it so popular among the under 40 generation?

*From time to time we write on a topic that we think is provocative or has general interest. The FIRE Movement qualifies. Some will see it as naïve and impractical, while for others it's gospel. Please enjoy the piece that follows as a discussion starter should you hear the FIRE expression and wish to engage in a spirited debate on either side.*

If you live or work with a person in their 20s or 30s, there's a good chance that you might have heard some interesting catchphrases lately: "Your money or your life," "Live below your means," "Go where it's cheap" or "Retire before your parents!"

Or perhaps you heard people talking about "5x savings" or "40 or bust?"

These are all colorful shorthands used by the often passionate adherents of the "Financial Independence, Retire Early," or FIRE, movement.

FIRE is a distinctly different approach to how many young people are planning their financial and personal journeys through life. As the name suggests, the goal of FIRE is to achieve sustainable financial independence, sooner rather than later, and then to "retire" to a life of greater freedom and choice, with fewer commitments and obligations.

FIRE is based on the simple idea that the purpose of life is to focus on experiences more than accumulation. FIRE enthusiasts are, in fact, bringing new meaning to the old adage "work to live, not live to work."

There are several different strains of philosophy and practice within the FIRE movement, and its belief system resists finite rules, but the forces behind FIRE are the result of the lived experiences and hard-earned attitudes of many Millennials (coming of age in the '00s) and Generation Z (coming of age in the current decade). These include:

- The likelihood that Millennials and Gen Z will be the first generations with a lower standard of

living than their parents and will miss out on the social safety net that is fast disappearing;

- The uncertainty brought on by the Great Recession, a defining event which for many is a constant warning that financial stability can be ephemeral;
- The decline in trust of institutions, including large corporations, which are widely seen as more stifling and less fulfilling career options, compared to work that provides more meaning and purpose and promotes more freedom of choice;
- The backlash against relentless consumerism and the pressure to buy more than one can responsibly consume or can possibly need;
- The reality of climate change, and the fears that the natural environment will forever determine where you can live and where safely go.

FIRE embraces a number of counter-culture values that are similar to those embraced by the Woodstock generation — a reflexive pushback against the "Establishment," strong interest in eco-friendly habits and practices, a concern for society and, *pari passu*, a desire for individual fulfillment, rather than status seeking. Where FIRE adherents differ from their Woodstock parents, however, is in their full embrace of high-income generating careers — for the first several decades of their working life — and an early and consistent focus on becoming a sophisticated investor and building a robust portfolio. FIRE is as much about practical and financially rigorous pursuits as it is about aspirational and idealistic values.

Many observers trace the origins of FIRE to a seminal text from 1992, "Your Money or Your Life," written by Vicki Robin and Joe Dominguez. While tapping into a strain of self-sufficiency that has always been part of American life, Robin and Dominguez were prescient about the growing interest in lowering consumption and seeking greater satisfactions from life outside the rat race.

A key part of the early-FIRE thinking revealed by Robin and Dominguez was the desire for more control over people's life and time. Robin and Dominguez diagnosed the root cause of many problems as people's relationship with money, which can warp life choices and cause a low-grade, but constant sense of worry, even for those who are advancing in income and career/life prospects. According to Robin and Dominguez, attitudes and behaviors about money are shaped by "dominant story tellers," such as the media and corporations, who put consumerism above "learning, self-discovery and connection."

Cut to the 21st century, and you can see how the foundational ideas of Robin and Dominguez have received a major boost by a political and economic climate that causes many young people to be apprehensive about the future. These people are actively searching for ways to take more control over their lives.

The FIRE movement starts with "financial independence," which is more about achieving peace of mind rather than hitting a specific financial target, and continues on to "retire early," which does not mean "stop working" as much as it does "do something that matters." To understand FIRE best, it's helpful to break down these two components and how they are expressed in goals and behaviors.

## **Financial Independence (FI)**

FI assumes that most people can save a lot more money than they do, and that by saving aggressively, they can accelerate the normal financial lifecycle of accumulation (typically what you do in your 20s-50s), preservation (in your 60s) and distribution (upon retirement). A key FI rule of thumb is to save up to 70% of after-tax income vs. the typical 15% recommended by many advisors, and to do so by dramatically cutting discretionary spending. Achieving an average 70% savings rate will enable "retirement," or the end of a phase of aggressive accumulation, when most people are in their early- to mid-40s.

How do you cut spending dramatically? FIRE enthusiasts are full of helpful tips that are smartly based on a real understanding of habit and adoption, not mere wish. Among these tips:

- Drive a used car, or do not buy a car (if urban);
- Consider renting, not buying, an apartment or house;
- Make your own meals and bring them to work;
- Cut restaurant expenses by entertaining in your own kitchen;
- Cut the cord and drop cable TV, consume your entertainment online;
- Don't upgrade your cell phone with every new release;
- Use credit card rewards and services such as Airbnb to lower travel costs;
- Avoid debt by paying off credit card balances in full and avoid financial traps such as home equity loans or high-fee online lending;
- Use public libraries and public spaces rather than Starbucks and other stores that result in guilty purchases;
- Stop spending on services you don't really need, including laundry, dry cleaning, housecleaning and landscaping services.

And the list goes on. It's an article of faith among the FIRE community to avoid "lifestyle creep" and to allow too many costly alternatives to frugality to creep into one's monthly budget. There are distinctions made between minimalism and frugality that can be important, but the common thread is a sense of "agency" where you train yourself to make conscious, self-interested choices.

With such cost cutting, the goal of 70% after-tax savings can be realistically achieved and then there is 5x more available that can be invested smartly. FIRE enthusiasts follow many of these investment practices:

- Max out tax-deferred vehicles such as 401k, 403b, IRA, HSA, etc.;
- Invest as much or more in passive investments such as ETFs and no-load mutual funds, to avoid paying high management fees;
- Diversify and take long positions to achieve higher returns;
- Avoid common pitfalls such as: investing heavily in company stock (which can promote complacency and loss aversion), buying only what you know (and thus missing out on many high growth opportunities), or, worst of all, following random stock tips from friends and family

FIRE enthusiasts often have a higher-than-average financial IQ and pride themselves on learning about investing early in life, in many cases long before prior generations did. They are more open to working with financial advisors to take advantage of professional know-how and to have an ally that can help them formulate and stick to a goals-based plan. While they value good advice, they are also good stewards of their overall investment outlay, much less likely to fall for “free trading” platforms or any type of advisor incentives that are not aligned with their financial success.

Lest the FIRE crowd seem frugal to the point of ill humor, you should know that most adherents are positively joyful about what they can achieve with a little thought and practice.

*“I had no idea how much money I was wasting,” said one 26-year-old non-profit manager in a major US city that we spoke with. “With FIRE, I feel like all the power is coming back to me, that no company or advertisement or social media post can shame me or seduce me into spending money that I don’t need to. I get more satisfaction from being frugal because it forces me to be more creative, and more collaborative, in what I do. My friends and I love a bargain and get a kick from watching others waste money. And it’s great to see my investment statement each month. My parents are in awe. They tell me that it took them well into their 40s to figure out how much to invest, and how much to spend, and they’re still not sure if they have it right.”*

The dual income households that are much more common today are certainly enablers of a FIRE approach to life. Two educated professionals with high powered careers can, indeed, generate more income faster than their parents, and can be expected to “bank one salary” fully or in part. Family formation is happening later today, so income generation can continue unabated for between 3-6 years longer, on average, before child care and housing change the budget calculus.

Importantly, raising a child has become a particular focus area for FIRE enthusiasts, who view the traditional model of endless clothing purchases to keep up with growth spurts, or purchase of toys, entertainment and travel, as perfect opportunities to push back on consumerism and find frugal alternatives. In the “circular economy,” clothing is just as likely to be rented, traded or bartered as it is bought, and toys and entertainment are virtual, with an iPad or the equivalent containing multitudes.

If you can achieve a 70% savings and investment rate, then how long do you need to follow that path? How much investment is enough? For the FIRE enthusiast, one important rule of thumb is to accumulate assets until your passive income provides enough for living expenses in perpetuity. Between \$500k and \$2 million in net assets (not counting property) is the rough range for FIRE achievers. And the 4% Rule, which has been used for decades as a retirement benchmark -- plan to use no more than 4% of your total assets each year, through the end of life -- is still a good benchmark under FIRE, though it now has to cover a much longer time frame, upwards of 30-40 years. Your portfolio needs to perform and your budget needs to be rigorously maintained.

### **Retire Early (RE)**

Does the FIRE enthusiast really retire in her 40s? Not exactly. What “Retire Early” really means is living life on one’s own terms rather than leaving the workforce entirely. FIRE encourages people to work hard in their 20s and 30s, especially in demanding careers, so that twenty years of following a prescribed career path can be followed by a lifetime of pursuing experiences and personal challenges. “Work for the man” for a while and then you’ll never have to again.

An experiential approach to life, with total agency and an ability to take risks, is the FIRE payoff. Retirement is an option, but for most, a second career based on chasing your passions and seeking personal fulfillment, is the goal. Depending on your initial career and how far you progressed on the “Financial Independence” side, you might end up with “Fat FIRE” or “Lean FIRE.”

- Fat FIRE means that you generated enough investment income to last you for decades. You are now fully open to pursue any set of experiences. You can be a “personal innovator” or a “social entrepreneur,” or an interesting beach bum. Work is largely done, so you are now focused on philanthropy, volunteerism and family. Many Fat FIRE achievers will move to new places, or pursue an itinerant lifestyle, because they have de-accumulated to the point where they can travel freely and put down/pick up roots easily (a key part of FIRE for all its adherents is the ability to live off grid, if desired, and to be a benign presence in the physical environment through greatly reduced consumption of physical goods).
- Lean FIRE means that you can now choose the second career that you always wanted. Your habits of mind and practice have taught you to be

happy and comfortable with less and taking risks does not have a big downside anymore, financially or emotionally. You might still work, but you can now call your own shots; you would not suffer an employer or opportunity that is not satisfying and aligned with your values. The Lean FIRE achiever wants to be maximally productive, but runs her own HR department and decides on her own compensation. There is even an offshoot of Lean FIRE known as “Barista FIRE,” which means that you take a part-time job for good benefits (like Starbucks provides) and then you live your own life on your own time.

*The non-profit manager we profiled earlier says this about “Retire Early”: “I don’t ever really think about retirement, at least not in the way that my parents do. I get great satisfaction working for a major arts company, one with a sizeable endowment and a global audience, but I know that there are so many things I can do with the arts at a smaller level that could bring me as much, or more, satisfaction. I look forward to finding ways to leave my own mark, in a way that I choose. I can create, fundraise, teach, recruit or market from anywhere, so when I’m ready to leave the city and experience a second career, I know I can do that. And maybe I want to do something completely different, who knows where life might lead?”*

*Why retire? Why would anyone sit around and do little to nothing? I think retirement is an old construct, not valid for my generation. People used to sell their souls to achieve what somebody else taught them to crave. My generation wants to experience life, not sit around and think about missed opportunities. My parents are in their 50s and we joke about who might “retire” first. They think retire means stop working. I think retire means moving on from one job to the next new thing.”*

Many casual observers of the FIRE movement mistake cause and effect, thinking that a generational pessimism about the state of the world bequeathed to the young by the Baby Boomers leaves something to be desired. Millennials were famously thought in the

‘00s to suffer from a malaise brought on by technology and economic stress. Gen Z, the first cohort that is truly digital from birth, is often portrayed as living in an artificial world defined by social media.

These observations are misdirected. FIRE enthusiasts are, on average, much savvier about investing and personal finance than prior generations, and they are bullish about the power of technology as a force for good. They pursue goals-based planning and put their financial health on a par with their physical and mental well-being. They are realistic about money and much less likely to fall prey to sketchy investments or to participate in market bubbles. Their investment posture is based on diversified, high quality securities held over a long-time horizon and their financial management is realistic and focused. FIRE is part economic mindfulness and part self-actualization.

*Our non-profit manager says, “The slacker mythology about my generation is so mistaken. We’re not exactly happy with a lot of the problems that we inherited, but we know that we’re on the cusp of a big transformation in how people actually live. Think about FIRE as an early experiment in how people are going to fare in a post-industrial world.”*

Whether FIRE is the future or just a movement for some at a point in time remains to be seen. What’s remarkable, though, is the seriousness with which FIRE enthusiasts take their mission, and the application in real guidelines and practices that promote a greater measure of financial self-sufficiency and more options in one’s career.

While the parallels to the Woodstock generation are strong in terms of values, it is the financial orientation of FIRE that sets its followers apart. The FIRE movement defines a pragmatic pursuit to take responsibility for one’s own future. Anything that takes principles, planning, money and investing seriously and starts creating good habits earlier is on to something.

#### **About 1919 Investment Counsel**

1919 Investment Counsel, LLC is a registered investment advisor. Its mission for 100 years has been to provide counsel and insight that helps families, individuals, and institutions achieve their financial goals. The firm is headquartered in Baltimore and has regional offices across the country in Birmingham, Cincinnati, New York, Philadelphia and San Francisco. 1919 Investment Counsel seeks to consistently deliver an extraordinary client experience through its independent thinking, expertise and personalized service. To learn more, please visit our website at [www.1919ic.com](http://www.1919ic.com). The views expressed are subject to change. Any data cited have been obtained from sources believed to be reliable. The accuracy and completeness of the data cannot be guaranteed. Individuals should consult their tax advisors before acting on any information contained herein.

*The views expressed are subject to change. Any data cited have been obtained from sources believed to be reliable. The accuracy and completeness of data cannot be guaranteed. Performance is no guarantee of future results. Indices are unmanaged, do not reflect fees and expenses, and are not available for direct investment.*