

Fresh Invest: Playing with FIRE

Season 2, Episode 12 Transcript

Alex Lieberman, Co-founder and Executive Chairman of Morning Brew Hey, there. I'm Alex Lieberman, co-founder and executive chairman of Morning Brew. This is Fresh Invest, your favorite investing podcast from Fidelity Investments and powered by Morning Brew. Today, we're going to talk about a personal finance movement that should not be confused with the catastrophic music festival in the Bahamas a couple of years ago. We're talking about the FIRE movement — and that's FIRE with an "I," not a "Y" — just got to be clear about that.

Alex Last week, Roberta and I set the table by talking about compounding interest, how incredible it really is, and how you can put it to work for you. Today, we'll carry those lessons over to a personal finance movement called FIRE. That's an acronym for financial independence, retire early. Basically, adherents to this movement adopt extreme saving and investing habits. Some with the goal of retiring super-early — like 40 or 45 early. Probably sounds pretty good to a lot of you.

Alex But keep in mind that to accomplish that early retirement, FIRE movement people put aside at least 50% of their income. That's right — 50% is the floor, not the ceiling. Some of them even save up to 80%. If you have a lot of questions about how they do that, I'm right there with you. And I'm going to get some answers from Fidelity professional, Roberta.

Alex Roberta, welcome back to the show.

Roberta King, VP, Branch Leader at Fidelity Investments Thank you, Alex. So good to be back. Thanks for having me.

Alex So for those of you that didn't listen to the last episode, first of all, what are you doing? Listen to the last episode. But just to reintroduce yourself, could you tell our listeners a little bit about who you are and what you do at Fidelity?

Roberta Yes, I'm Roberta King, and I'm also a dream-maker. My official title is VP, Branch Leader, and what I get to spend my time doing is leading and supporting one of our many local teams of investment professionals who really help our clients realize their own dreams with their life's savings.

Alex Awesome. So you are dream-maker, aka VP Branch Leader. To kick off this conversation about the FIRE movement, could you just sum it up briefly? The financial independence part and then the retire early part? What does this all mean?

Roberta Absolutely. So financial independence. First piece is really about having the ability to live the life you desire without having to work in the traditional sense of work. And then that second piece is retiring early. So most people wait to retire until they reach their 60s or beyond. But with FIRE, the goal is to end traditional work really decades earlier, as you mentioned as we opened.

Alex OK. So, I'm sure a lot of people listening to this episode are like, OK, Roberta, this sounds great in principle, but how do you actually pull this off by 45? How is this actually really realistic? So can you just talk through just kind of, like, the typical things that someone who is part of the FIRE movement would do to be able to retire by, say, 45 instead of 65 or 70?

Roberta I've got a few thoughts on that. So first, consumerism. That's a really easy target. Spending less will allow you to save more. For example, I know some of you out there have seen this show devoted completely to people that are really happy, living in really, really tiny houses. And maybe a tiny home isn't for you. But there are probably some other costs that you can remove from your living expenses once you've really set your mind against your long-term goal of retiring early.

Roberta The next thing to think about is really investing what you've saved. So moving beyond just putting it under your mattress, give your money the opportunity to make money for you by the time you retire. So, couple of things to consider within that idea is asset location. So what that means is, balance using tax-advantaged accounts, so you don't have to pay taxes, those are considered retirement accounts, or taxable accounts, a traditional brokerage account. The reason why you want to consider both of these is to balance the benefit of that tax-deferred growth with access or liquidity as well.

Roberta Another thought is seeking multiple income streams, or even having passive income streams, some call it a side hustle. Even a small amount that you can add to your income can really grow and add up over time.

Roberta And then I'll leave you with this thought in this question, Alex, which is a tool to help you project how to get there. We use our financial analysis software called Planning and Guidance Center. Our financial advisors use this with clients every day in our branch locations, but it's also available for free to clients online. And I would consider putting in what you've saved and you can play out scenarios for your retirement.

Alex Awesome. So, you've brought us down to reality of, like, OK, it's actually possible to retire by 45 if you do certain things. You know, everything from putting money in tax-advantaged accounts to having a side hustle and an ancillary revenue stream coming in outside of just your day-to-day job. But some people listening this may be, like, OK, this sounds like a ton of work, and I love the concept of having financial freedom by 45, but I'm not about to spend all of my time in a tiny home. How can people pull this off without going full throttle?

Roberta Absolutely. And it is a commitment. But what is really cool and one of the most powerful attributes of the FIRE movement is intentional reflection, number one. So it's taking a moment to reassess what you really want out of life, and it doesn't have to be the life that your parents had or the ones that your parents dreamed about, or even dreamed about for you, or what's projected to us by the media.

Roberta It really is all about what is truly happiness for you. And then there's plenty of space between the time, or the age, of 45 — 40 to 65, 70. There's a lot of time in there. So you can make a shift and invest in a way that you can target a different age. You know, what makes sense for you and your goals.

Alex Awesome. So, and I think, by the way, that last point is a really important one, which is, like, we're not saying you need to retire by 45 for the sake of retiring by 45. If someone is able to practice some of these methods of the FIRE movement in order to do that, amazing. But also, if you're able to retire at any point between 45 and 65, that's still an amazing thing where you're getting back time to spend it however you'd like. And so I think that time is more directional for you to practice prudent financial practices more than the specific age of 45.

Alex So one last part of this is — and I think it's the elephant in the room of this conversation, and I'm sure a lot of people are thinking about this — which is 50% was what we said is the floor that a lot of FIRE practitioners will save in order to retire early. But the issue with this is 50% of some people's income is a lot more than 50% of other people's. So how would you have a conversation with someone who felt like they couldn't live on 50% of their income, but they want to be able to reap the benefits of a FIRE lifestyle?

Roberta Yeah. So it's all about making progress toward independence. So, maybe for you, you're right. Maybe 50-50 isn't realistic, but could it be 60-40, 75-25? You know, what won't work is 100 to zero. So no matter what your income level is, you have to be saving something. You can't live beyond your means is number one.

Roberta I also want to share my first core business belief, which is that money creates options. With less of it, it's more about finding what levers you're willing to pull now for more options later. Are there creative ways you can achieve this? And this really goes back to planning and what's really important to you. So for you, are roommates okay? For some, it's not. Are you willing to live in a lower-cost area? Do you want to learn a new trade that can bring in a higher income later? It's about picking and choosing what you're willing to do or not do. And again, I go back to what I really think is cool about the FIRE movement is really the vision is yours, and you really can create the world and the future that you want for yourself.

Roberta The last really tactical thing I would really stress is it's really important to consider having adequate liquidity. And what I mean by that is savings for emergencies. So when life happens, you're not putting yourself in a situation where you would have to incur potentially high interest rates on debt or make you sell out of a really good investment decision you've made for the long term at an inopportune time because you didn't have any cash to take care of, like, the what ifs that happen in life.

Alex And to me, what sits at the crux of it is you set a vision for yourself, and the FIRE movement is a way to achieve that. But you also shouldn't be sacrificing your happiness and your livelihood today in order to achieve it. Meaning, yes, saving is very important, but if saving 50% isn't feasible for you to live in a way that maintains your happiness and just your sense of a normal life, well, at the end of the day, it's your decisions, it's your vision, and you need to adapt it to what works well for you.

Roberta Exactly.

Alex So one last question from our listeners, again, we always take a question at the end of our episodes. So this Fresh Invest listener asked, "How can I tweak my retirement fund to move my retirement date up a bit?" So let's say we have someone who, rather than retiring at 65, rather than moving it all the way up to 45, they're just like, no, I'd love to retire by 57. What are some tactics for how they could do that?

Roberta So my first thought — I think it bounces off where we finished a few minutes ago — is ensuring you have an adequate safety net. And what that is appropriate for your situation. Liquidity is really important so that if an unfortunate event does happen — because they happen — that's life. But what we don't want to do is actually push back your retirement. So I know the question was about how do I push it up? Well, the first step is to avoid it getting pushed back. [chuckles] And so liquidity helps there.

Roberta The second is thinking about asset location. Are your investments kicking off significant taxable distributions that could be better held in a tax-advantaged account? So just thinking strategically about where are you holding your money so that it can best work for you?

Roberta Another thought is right now, we're in a very low interest rate environment, historically speaking. And so if you do have outstanding debts, can you take advantage of the low interest rates right now — and really think about that so you can save yourself money.

Roberta And lastly — this is so important — if you're planning your retirement with someone else or better yet, does somebody else have the ability to impact your outcome? So, you could be planning with someone, but there might be somebody who's relying on you as well. Make sure you talk with those people in your life because if you don't, they could become a silent assassin unknowingly, and undermine your goal.

Alex So high-level overcommunicate with people who can have an impact on your outcome or on you being able to retire early. Make sure you're maintaining liquidity so things don't push back your retirement. And then more tactically, think about taking advantage of the low interest rate environment we are in today and also where you're actually placing your investments. And if there are opportunities to do so in a more tax-advantaged way.

Alex Roberta, there has been so much knowledge and insight in this conversation around how to learn from some of the principles of the FIRE movement. So thank you so much for your time. I know this has brought a ton of value to Fresh Invest listeners.

Roberta Thank you. I've had a lot of fun doing it with you, Alex.

Alex And to our listeners, thank you so much for listening. I have to say, I really admire the discipline that people in the FIRE movement clearly have. Though, to be honest, I do wonder how they manage when all their friends get married. It would be tough to be a supportive friend on a 50% income. Even if you don't plan on squirreling away half of every paycheck, I hope you got something out of our chat today with Roberta.

Alex We've got a fun topic coming up next on Fresh Invest. We're going to discuss all the different ways to invest, from apps to flesh-and-blood [chuckles] advisors, and how to figure out what works for you. See you then.

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