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Stealth Wealth and the FIRE Movement

It never pays to underestimate the younger generation. Today’s 20- and 30-yea- olds have come up with a new movement with the potential to change life as we know it - the Financial Independence/Retire Early, or FIRE, movement. The idea is relatively simple - save like crazy so you can retire early. It requires forgoing material goods, such as the house, new cars and latest electronis; living frugally and finding work that will generate the biggest paycheck. Rather than wait until your late 60s to have the time to live the way you want, retirement begins in one’s 40s and 50s at the peak of one’s potential health, energy and mental capacity.

Rather than focusing on a career one is passionate about, regardless of the paycheck, the idea is to buy oneself the freedom to spend more time doing what one is passionate about in the relatively near future without worrying about money.

Given enough discipline to stick with frugality and saving every dollar one can, is there a downside to FIRE? The biggest challenge may be the need to withstand significant criticism of one’s life when a person retires early. Explains one early retiree, “It really brings the 'haters' out of the woodwork.” This in turn is creating a new stealth wealth trend, made easier given the early retiree’s habit of a frugal lifestyle.

In today’s political environment, FIRE makes a lot of sense. If you accept that taxes may well be at their lowest level we will ever see again, given the growing burden of social welfare programs, underfunded public pension plans and the spending objectives of a new generation of liberal legislators, take home pay as a percent of earnings may be at a long-term high. Better to optimize earnings now than later when taxes take a bigger bite. Saving that pay like crazy could also be one of the best investments one will ever make. Most early retirees tend to develop sideline activities that produce some income, reducing reliance on savings to meet living expenses and giving assets a longer investment horizon.

What could go wrong? Fortunately, most people are unlikely to have the discipline to stick with a FIRE lifestyle, otherwise the cost to society could become very interesting. If too many young workers retire early who will pay the taxes necessary to support welfare programs and fund public employee pensions? With too many frugal FIRE advocates, consumer spending would be impacted, reducing economic growth with all of its accompanying side effects. On the positive side, who knows what all that time and energy might create if not consumed by the need to report to work every day?

As trends go, FIRE will be a very interesting one to follow, both as an observer and a participant.

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