

Debt free living and FIRE, how does it work?

By Karen Miller

The acronym FIRE has been popping up all over finance websites lately, but how does it work? FIRE stands for Financial Independence Retire Early. While this might sound like a pipe dream to most Americans stuck in the work, spend, save-a-little-bit cycle, perhaps it's a trend worth exploring. Can the average, non tech-startup, venture capitalist, actually attain FIRE? Maybe, maybe not. But for the sake of it, let's explore how these FIRE enthusiasts are actually making this dream in to a reality.

1. Eliminate Debt. We've heard it before and we'll hear it again. The first step to financial independence is to pay off debt beginning with high interest loans and credit cards first, and working down from there. To pay off debt, we need to be aware of spending habits and triggers that can prevent us paying down those accounts with the highest balances.
2. Identify spending triggers. Maybe you love sports cars, high end fashion, or extravagant dinners. Whatever your buying habits may be, the FIRE lifestyle requires an overhaul of your spending. Often, those who achieve FIRE are extremely frugal, bike riding, environmentalists who have internalized the habit of saving versus spending, even if they need to blow off steam. Many of the most successful FIRE followers are diligent budgeters and uncompromising savers.

3. Don't buy a new car. While many people might argue that they simply must have their BMW to commute to work, FIRE enthusiasts would say that taking on a car payment is another way of locking in long term debt while buying something you can't actually afford. FIRE experts recommend saving up and buying a reasonable car that gets you around town, without the baggage of a monthly payment. A car should be a strictly practical investment. Haven't we all heard that it loses value the minute we drive it off the lot?

4. Invest in Index Funds. Buying and trading on the NYSE is a gambler's habit according to FIRE adherents. They choose to invest in long term, high interest index funds that create returns that gradually build over many years. By investing a majority of their salary into high interest yielding investment accounts, FIRE enthusiasts are banking on the fact that they will be able to live, albeit frugally, off the interest that they yield from these accounts.

5. Downsize, downsize, downsize. Another key aspect of the FIRE lifestyle is to downsize your overhead. Buy a smaller house so you can pay off your mortgage faster. Get rid of your monthly subscriptions and go to the free library. Ride your bike as opposed to driving. You get it. Take the frugal approach to each and every aspect of your life and watch your money accrue.

While the FIRE lifestyle is probably not for everyone, the trend and the sentiments behind it have caught on, especially in high pressure career fields like tech, medicine, and finance. More and more individuals are choosing to opt out of the rat race by getting their financial house in order.