3 Ways Canadian Millennials Can Retire Early

Description

The financial independence, retire early (FIRE) movement has taken Canadian millennials by storm. Recently, more and more people are orienting their lifestyle and finances toward strategies that maximize their savings and minimize spending, with the goal of retiring far earlier than traditionally planned at 65.

Since then, the movement has diverged into a variety of different subsets, each characterized by subtleties in investing, savings, spending, and lifestyle philosophies. Today, we will be covering the three main types of FIRE: regular, lean, and fat, and explain their strategies and characteristics.

The vanilla option

Keeping it simple is a great philosophy, and the regular FIRE variant sticks to this as closely as possible. Adherents of regular FIRE aim to retire early and live off the income from a well-diversified portfolio of investment assets accumulated throughout their pre-FIRE careers.

Typically, this involves aggressively saving and investing consistently during your earning years into growth stocks, dividend stocks, fixed income, real estate, and other assets. Alongside this, you would aim to slash your discretionary spending to the bone, essentially dumping all disposable income into your investments after reasonable living expenses are paid for.

The endgame? Quitting your job anywhere from age 35-50 and living comfortably off a steady stream of income from your portfolio. Most regular FIRE advocates adhere to the 4% rule for a safe withdrawal rate, or a portfolio size of at least 25 times your estimated annual living expenses during the FIRE phase.

Slimming down

As its name would suggest, lean FIRE is simply regular FIRE on a tighter budget. This makes it suitable for individuals with a shorter time horizon, fewer expenses, lower cost of living, etc. The goal here is still an early retirement and financial independence, but with fewer expenses and portfolio size than regular FIRE.

Lean FIRE requires a more frugal, almost minimalist lifestyle. Because your portfolio size is smaller, you have to be more careful with managing expenses, keeping unnecessary costs down, and keeping your nest egg safe from excess volatility and losses. If you're not attached to a luxurious lifestyle, or simply want to FIRE as soon as possible, lean FIRE can be an excellent strategy.

If I had to put it to a number, I would say that lean FIRE is for those looking to retire early and live off a gross income of less than $40,000 a year, although your mileage may vary. Keep in mind that your costs in lean FIRE are still affected by inflation even if you adhered to a minimalist mindset. Your portfolio must be able to outpace this.

Fattening up

While lean FIRE encourages frugality and minimalism, fat FIRE aims to accommodate larger budgets and expenses. Adherents of fat FIRE will typically aim for an annual gross income of up to $80,000 or more, with significantly higher disposable income available for the finer things in life.

People aiming for fat FIRE desire a more luxurious standard of living during their FIRE years. Travel, dining out, recreation, and other forms of discretionary spending drive their need for a larger portfolio. To achieve this, fat FIRE adherents employ more aggressive investing strategies and risky assets, seeking to put their investments in high-growth portfolios, and sometimes even use leverage.

A fat FIRE portfolio must be large enough to not only accommodate increased withdrawal rates but also minimize the chances of large draw-downs that could prematurely end the fat FIRE lifestyle. To that extent, fat FIRE adherents will often employ a lifecycle investing strategy, taking on excess risk early in their lives when their investment horizon is long and earning potential is high, and then de-risking as their portfolio grows and they approach fat FIRE.

The Foolish takeaway

Is FIRE right for you? And if so, which version is the best option? For many Canadian millennials, the answer will depend on their life goals, current financial circumstances, and time horizon.

Someone in their 20s with high earning potential may be able to aggressively save and invest for a fat FIRE goal. Someone in their 40s with a decent nest egg and a desire to quit the rat race earlier might be able to pull off a lean FIRE if they live a more frugal lifestyle.

Regardless of which one you chose, one takeaway from all three variants that everyone should follow is the FIRE philosophy: saving aggressively, investing consistently, and living within your means. Adhering to these principles will set you up for success in your personal finances, regardless of whether or not you pursue FIRE.

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