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Have You Ever Heard of the FIRE Movement?



Financial Independence, Retire Early (FIRE) is a financial movement centered on the goal of gaining enough monetary resources to exit the traditional workplace early according to Entrepreneur. It emphasizes aggressive saving and investing to accumulate wealth faster, often involving frugality and alternative income streams. The strategy's goal is to create a passive income sufficient enough to cover living expenses without the need for full-time employment.

There are many reasons people are adopting the FIRE movement:

1. Clarity

If you didn't know the responsibilities of a new job, you wouldn't accept it, right? Financial independence is no different. Therefore, Sabatier's first level of financial freedom is clarity, which is understanding your current financial situation and improving your financial literacy.

Gaining clarity begins with assessing your current financial situation and deciding where you want to go. In order to achieve clarity, follow these simple two steps:

Using Betterment, You Need a Budget, or Personal Capital, you can calculate your net worth. Through these programs, you can connect bank accounts, investment accounts, credit cards, auto loans, mortgages, and student loans. In turn, this should give you a solid idea of where you stand financially.

What about your 'why?'

Well, there's no right or wrong answer. It's really up to you. For some, they'd like to become financially independent so they can travel or spend more time with their families. Regardless, consider your reasons and write them down.

2. Self-Sufficiency

Being solvent or self-sufficient is the next step toward financial independence. To put it another way, you must be able to meet your financial obligations without getting into debt or requiring the assistance of third parties.

The truth is, living on credit will keep you in a dependence phase and one step from disaster. Why? Since a bank isn't like your parents, it will demand repayment.

There is still a possibility to generate financial freedom at this stage, but it is limited. For example, you can invest, review unnecessary expenses, and reduce your electricity usage.

3. Breathing Room

Here, we get a chance to take a breather. After all, if you've ever lived paycheck to paycheck, you know how suffocating it can be.

But what exactly does breathing room mean? Once essential expenses are covered, you have some extra money to invest in stocks or for an emergency fund. In addition, you have more wiggle room to cover unexpected expenses like a big vet bill or home renovations. Then again, you might have a few debts eating up much of your income.

Despite reaching level 3, you may still desire more from life. But those days of living paycheck to paycheck or relying on financial assistance from your parents or credit cards are over.

4. Stability

At Level 4, people have paid off high-interest debt, like credit card debt, and have saved six months' worth of living expenses for emergencies, notes Ryan Ermei for Grow. By building up emergency savings, you ensure that unexpected circumstances won't disrupt your finances.

"At this level, you're not worried if you lose your job or if you have to move to a different city," Sabatier says.

Rather than just factoring in your regular, everyday expenses when calculating how much you should have saved, financial experts recommend thinking about how your finances might look in an uncertain financial future.

"If you have a job loss, you'd make some changes. You'd probably cut your gym membership and get rid of your subscriptions, for instance," Christine Benz, director of personal finance and retirement planning at Morningstar, told Grow. "Think about the bare minimum you'd need to get by."

5. Flexibility

A person who reaches this stage can live with their wealth for at least two years. In this situation, you could think about changing jobs voluntarily or taking a sabbatical year.

Simply put, you have the freedom to organize your life and time according to your preferences and you are not limited to certain environments at work. Obviously, within a limit, which will define the years of financial freedom you enjoy.

Between this stage and the next, it is possible to reach a level of financial independence known as Lean FIRE, which we can translate as "frugal or meager". As a result, you may be able to live off your savings by stopping working. However, your lifestyle will have to change and your expenses will have to be drastically reduced.

6. Financial Independence

While flexibility is great, you can't really kiss your day job goodbye forever. In order to accomplish that, you'd have to become financially independent. When you reach Level 6, your investments generate interest, income, and appreciation for you to sustain yourself.

These people rely on either a sizable investment portfolio that generates interest or a real estate investment that generates rental income.

As you progress through the levels of financial freedom, you'll need to work hard. In this case, you might need to adhere to a strict budget and invest more money. The more time you have after financial independence, the better your chances are.

7. Abundant Wealth

"Every \$1 invested today is worth hours, if not days, of your freedom in the future," Sabatier writes. By investing \$1 every day throughout the year, you would not just have \$365. Sabatier understood that investing your money is the only way to regain control of your finances once he got broke and retired early (all within five years).

Level 6 might have allowed your lifestyle to be sustained by investments. In order to maintain a smooth day, you monitor your peaks and dips carefully.

Once you've reached level 7, you no longer have to worry about finances, and you have more money than you could ever need. The fruits of your labor are at your fingertips, so you can pursue your passions without feeling stressed.

However, how do you manage to pay for the daily necessities? You won't go broke if you stick to the retirement rule of 4% each month from your investment portfolio.

How much money do I need to be financially independent?

Depending on your situation, you need a certain amount to be financially independent. You should consider your current expenses, your desired retirement lifestyle, and your risk tolerance.

In general, however, in order to be financially independent, you need 25 times your annual expenses saved. Known as the "4% rule," this allows you to withdraw 4% of your savings each year without running out of money over the course of a 30-year retirement.

If, for instance, you spend \$50,000 a year, then you need \$1.25 million saved to become financially independent. It may be necessary to save more if you intend to retire early or live a more luxurious lifestyle.

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