FINCOMMUNICATIONS

All you need to know about investing with FIRE!

What do you think of when you hear the word FIRE? It may conjure up images of blazing flames, or a sensation, such as a whisky lighting a fire in the back of your throat! You could also think of gun fire, or even of being fired in a recessionary economy. All pretty negative stuff apart from the whisky. Read on for the good news about FIRE...

In the investment world, FIRE is an acronym for Financial Independence, Retire Early. It's about maximising your investment rate through reduced spending, greater earnings and wise investment. It's all about financial independence…One of the greatest gifts of all.

Let's explore the cornerstones of FIRE…

Frugal is the new black

Frugality is the new black and instant gratification is a thing of the past. Instead of fixating on all the ways you're depriving yourself, focus instead on the boundless freedom you're buying.

Many financial advisors recommend saving and investing at least 15% of your annual income throughout your career. And the new retirement regulations allow you up to deduct up to 27.5% of your annual income for tax purposes – an even more challenging benchmark. **FIRE investors prefer something like 50%!**

This may sound insane but it's actually a lot easier than you think. Here're a couple of ways to light your FIRE.

1. **Ditch the car obsession**

   Let's face it, we South Africans still love to splurge on cars – despite the recession and the fact that cars remain fairly expensive in SA. Smart people are realising that there's no reason to keep up with the Joneses, and there is a massive reason to wait for combo car ownership between Uber, Google and Tesla where Uber owns the outer vehicle, Google the driverless navigation, and Tesla the engine. The best part? It's predicted to hit Mzansi by 2020!

2. **Forget the mansion**

   The financial planning rule of thumb is that you shouldn't spend more than 30% or your earnings on rent or mortgage payments. Many couples depend on a second income to fund their accommodation – a risky move when it comes to accommodation security. Buying modestly in the first instance, or downscaling once the penny drops, allows you to diversify into other asset classes.

3. Shelve unnecessary data usage

If, like most people, you have an unlimited data cap at home, how much mobile data do you really need? There's only so much joy to be had from watching clever cats on Youtube while you enjoy your daily coffee. (Speaking of which, we all know the evils of the latte effect.)

4. Eat out for celebrations only

When a treat is habitual and frequent, it loses its value and appeal. You can save loads of cash by eating out for special celebrations only. Also, who needs five-course gourmet meals when you can have just as much fun going out for coffee and cake?

5. Shop and eat simply

Chances are your monthly food basket has escalated in cost by at least double the standard inflation rate over the last few years. There's a huge opportunity to save here. Shop carefully, eat simply and be healthy. Once you've got the hang of it, why not extend this philosophy to buying unpackaged food, which is cheaper, fresher and much better for the planet?

6. Give investments as gifts

In our Christmas blogs on gifting, we discussed ways in of using meaningful investments as gifts. We talked about giving your children investment portfolios earmarked for travel and education and we discussed how you can give your spouse the gift of financial independence. When you gift investments, you're saving in the short term *and* you're investing in the future.

7. Bury the credit card

Remember that using a credit card is not investing in your future self. If you're not using it like a debit card (and collecting miles!), you're simply living beyond your means and are a bundle of blackened sticks that will never become a FIRE.

8. Don't speed (or run red robots)

Enough said.

Increase your income

The second important factor in achieving FIRE is to increase your income. This doesn't mean giving up your current job, but it does mean working with real purpose and achieving greater results which enable you to negotiate the raise you need for financial independence.

The other key to increasing your income is to dedicate yourself to constant learning. Both learning on the job and expanding your skillset into other areas will give you much-needed career flexibility.

Invest wisely

This is where unit trusts are the best thing since sliced biltong. They allow you an effortless opportunity to invest in an array of asset classes both locally and overseas. They also include the benefit of compound growth – growth on growth for supercharged results – on the ever-increasing value of your portfolio. It's impossible to overstress what a significant effect this can have on the long-term value of your portfolio.

Investing wisely also means understanding and maximising the benefits of retirement tax breaks. Retirement annuities (which can be underpinned by Prudential's balanced fund) provide the opportunity for tax-free growth within the funds, and are also tax deductible – thus lowering your marginal tax rate and giving you more to save. Tax-free savings accounts also give you the benefit of tax free growth within the fund – another way of escalating growth.

Now it's your turn to get all FIRED up

You'll be more motivated to achieve Financial Independence and Retire Early if you're super aware of the benefits of financial freedom. Embrace frugality as the new black, work to boost your income and invest wisely using unit trusts. Of course, you don't want to take the concept so far that it zaps all the joy out of living, but you do need to prepare for retirement…Which, with a little bit of FIRE, could come a lot sooner than you were expecting…