Getting Burned by FIRE

This month I wanted to talk a bit about FIRE. Not the type with logs that keeps you cozy on cold winter nights. Instead, FIRE stands for Financially Independent Retire Early.

Today, there's a significant movement among folks to save and invest, quit their jobs, "retire," and do it all as quickly as possible. Not the career of old toiling away for 30 years only to walk out the door with a "thank you" and a gold-plated watch for your years of service.

When I mean “retire” fast, I mean *fast*. I mean, quit your job in a decade or less. This is a beautiful goal. After all, I am all for breaking free of "The Man" and living life on your terms. I wrote a book about it and my own experience in doing just that.

While it’s an admirable goal, though, I see a lot of information on the Internet about FIRE that bothers me. First, the story tends to go something like this…

Joe is a computer programmer. He *practically* lives at work. Hour after hour, day after day, Joe types away writing code for some app, major software release, self-driving car, or whatever shiny new technology is all the rage.

Because his company provides lots of benefits, such as giving him free food so that he's chained to his desk and doesn't waste time leaving the office, along with a gym, shower, and foosball table, Joe barely spends any money.

Because Joe makes $100,000 or more a year along with stock options, and he has nothing to spend it on, he saves it.

A lot of it.

Maybe he saves more than 50% *after* taxes. That’s a huge head start in life! Again, this is all very admirable.

One day Joe meets Becky. Becky is also a programmer. Like Joe, she mainly lives at work typing away on a keyboard too. Becky also saves a bunch because she doesn't spend much time outside of the office either. Joe and Becky get married and now are saving beaucoup bucks.

Ten years later, Joe and Becky are burned out. Who would blame them? Programming is a grind. They've now saved up over $1 million or more and possibly even cashed in some stock options. Since they live a relatively frugal lifestyle, they decide to ditch Corporate America and "retire" early.

Adios!

This is a popular story. It’s so popular that a documentary was produced about this movement. It’s called Playing with FIRE.

One problem with the story, though, is that it's a cliffhanger. We do not know how it ends.

Why is that?

Based on what I read and see on the Internet, most people started sometime *after* the last major butt-kicking in the markets, known as "The Great Recession.” The government stepped in with massive bank bailouts, and The Federal Reserve cut interest rates to zilch.

A ton of liquidity flooded the market. Speculators chased risk. There was nowhere to go for stocks but up. Until the COVID scare hit, the market booked records for a bull market run. Even the financial market scare was short-lived in 2020. While the market experienced the swiftest decline ever from an all-time high to a bear market, it also had the fastest rebound—literally weeks. Not years, as is usually the case. Bear markets tend to be a long, tough slog. Bear markets grind most people down. Then when investors give up and throw in the towel, the market rallies—big time.

Mostly, folks like Joe and Becky stuff their money into a broad-based US index fund. They "buy the market." It's easy, and it's cheap. Easy and inexpensive are good. However, the top 10 stocks represent over 27% of the index today. That's what people own. Not "the market." Will Apple, Amazon, or Netflix lead the market over the next ten years?

Possibly. But it usually doesn't happen that way. The world does not revolve around Amazon, Apple, and the S&P 500. To move the needle now, Apple needs to add trillions of dollars to its market value. It could happen. It would also make Apple bigger than most economies in the world by a wide margin.

The leaders of one market cycle are seldom the leaders of the next. So, these folks have never experienced a period of muddling through until the next bull market comes. If you only own stocks, you will have three or four 50% declines over your investing lifetime. It's just ***going*** to happen.

That's part of the reason why the story is unfinished. No one knows how these folks will react when they get their ass kicked. If they are like most humans, the answer is "not good." The most significant allocation ever to stocks by individual investors was right before the Internet Bubble burst. The lowest allocation ever was March 2009, right before a historic bull market that started off the bottom of The Great Recession.

While buying an index fund of US stocks is a great start, they ignore all sorts of other investment opportunities that exist outside of a stock index fund in the US.

There's always a bull market *somewhere*. It may not be in the S&P 500. Given the run in US stocks over the past 10-12 years, there are better bets elsewhere for higher future returns.

The number of new brokerage accounts opened up last year exceeded 10 million. According to the FINRA Foundation, 38% of those who opened accounts in 2020 did not previously own a taxable account.

These less experienced investors will possibly act differently than every generation of humans before them, which typically buy high and sell low. Possibly.

The other concern I have is the idea of "hacking." A hack is a new way of doing something cleverly.

However, just because the Internet deems something "hacking" doesn't mean it's a new-new thing and an innovation. I have seen in the FIRE movement adherents buying up real estate, living on the property, and…wait for it…renting out other parts of the property to generate cash flow.

This is house "hacking."

Then they take some of that additional cash flow…and buy another property! This isn't "hacking." It's called building a real estate portfolio and becoming a landlord. The problem is there are some *wild* assumptions about what the future holds for these properties.

For example, what happens when someone doesn't pay their rent? Or what happens when the tenants bash the hell out of the walls and throw the microwave out the window. You know, the usual stuff when you rent to random folks!

I vividly remember when I graduated college and started my career on Wall Street. Even back in the late 1990's real estate prices in New York City were insane. So, I rented an apartment in Hoboken, NJ. At the time, my rent was more than one entire 2-week paycheck. It was painful. After about three months, the lady who was the receptionist at the office told me her sister was moving out, and there was a room available. For 75% less than my rent!

If only I could figure out how to break my lease, I would all of a sudden be flush with cash. I could afford to buy a meal out or go on a date. So, I called up the landlord, and I asked nicely to get out of the lease. You do catch more flies with honey than vinegar because, to my surprise, he let me out of the lease without any penalty.

He told me why. He owned 26 apartments. I was the *only* person that paid him on time each month. That has stuck with me nearly 24 years later. Imagine having to run around banging on doors (doors you own) to collect rent from people who are late in satisfying a contract. Worse yet, to have to do it 25 out of 26 times?!

Lastly, many of these people aren't "retired." They just run websites or lifestyle blogs. They do affiliate marketing for credit cards and kitchen tools. They travel and take selfies.

Taking selfies is still work. It's just not computer programming!

While I think the idea of FIRE is compelling, I am just skeptical many of these folks will survive a single, protracted scary period in the markets and economy.

My best guess is that these newer entrants into the market will act just like folks in the past and dump stocks at the first sign of big trouble. The next bear market could be especially vicious because of the mass exodus.

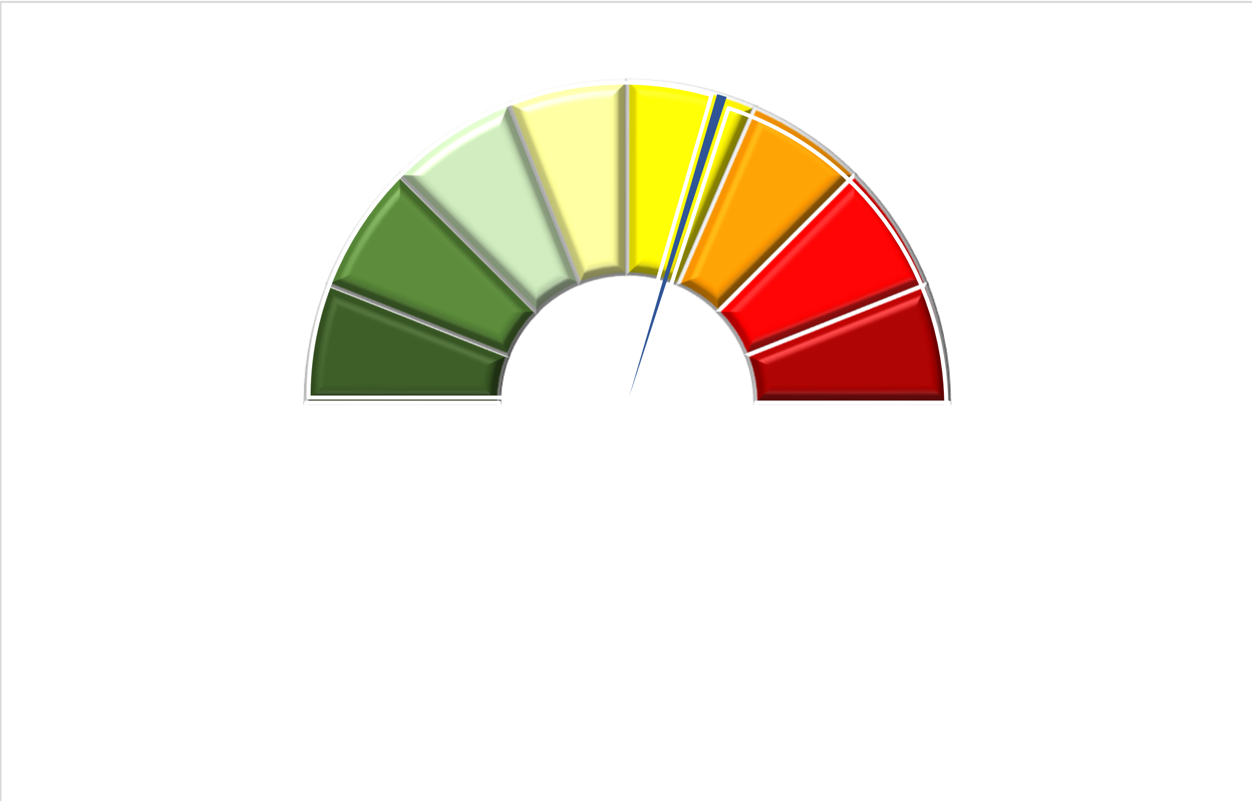
Markets change. Human nature doesn't!!!

Risk-O-Meter

Risk eased up this week, and the *Risk-O-Meter* remains on a buy signal. However, risks are still more significant than average. All of our credit market indicators are flashing warning signs, as is volatility.

The number of bulls continues to decline and has fallen sharply from the level of bullishness from just a couple of months ago. However, the bulls are primarily in "wait and see" mode rather than outright bearish.

Market breadth remains strong in the intermediate term. Most stocks are still in solid trends over the past year. As the market rises, there's been broad participation in the market rallies. Long-term trends are bullish.



However, in the short term, stocks are starting to lag the indexes in increasing amounts. Short-term trends are still bullish, but the weakness is indicating a shift from the last year. The market has increasingly become more of a stock pickers market and less of an indexing market.

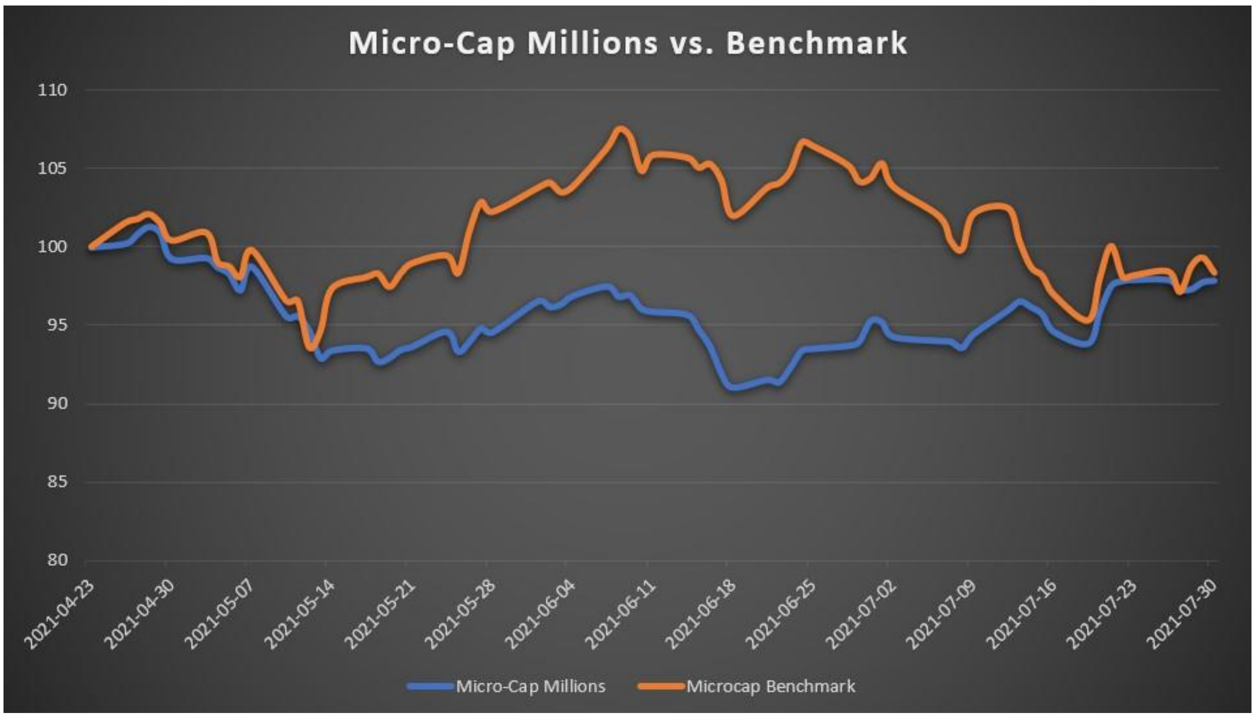
From here, it would likely take a 7% decline to trigger a “sell” signal on the *Risk-O-Meter*, depending on how quickly that decline was to happen.

Micro-Cap Millions

The strategy was flattish this week and remains roughly in line with the benchmark since this newsletter started in May.

Interestingly, there are **no new trades in either strategy this week.** Typically, each strategy makes about one trade each week. The past couple of weeks have represented an unusual period of calm. The lack of trading activity has likely helped performance as some of the laggards rebounded.

Here's the performance chart for *Micro-Cap Millions*.

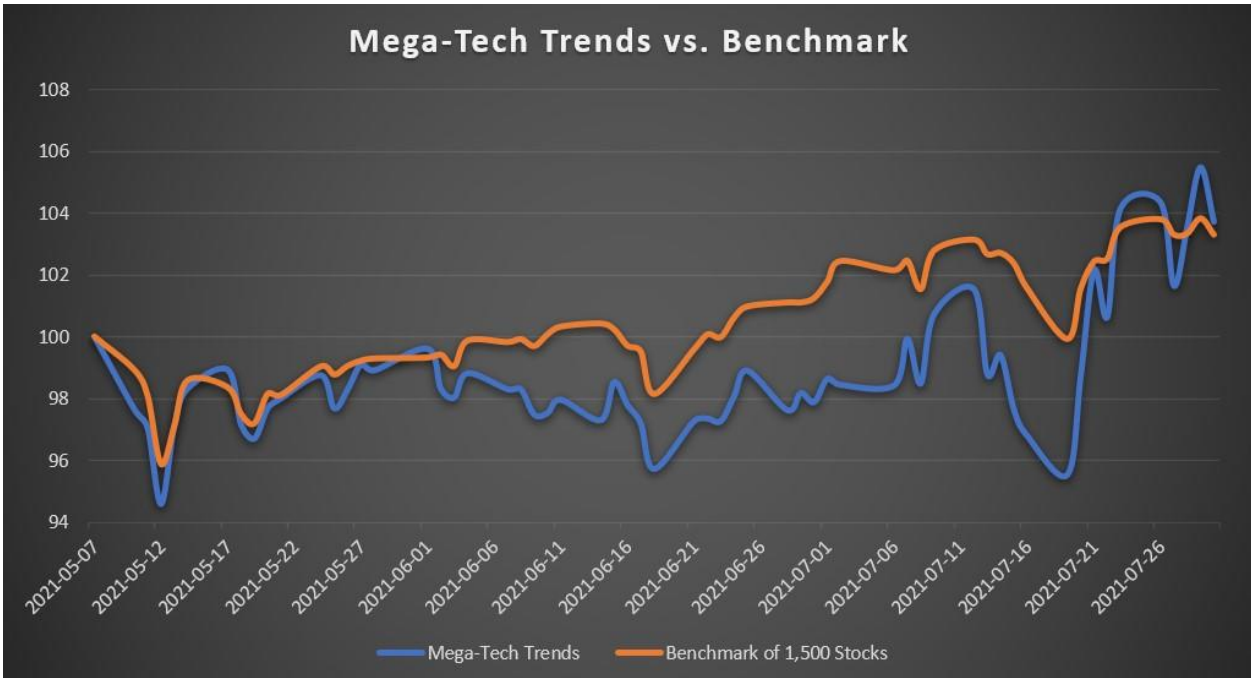


Here's the portfolio for this week:

CRAI	CRA International, Inc.
CRD.A	Crawford & Company Class A
DLHC	DLH Holdings Corp.
FEIM	Frequency Electronics, Inc.
HMTV	Hemisphere Media Group, Inc.
IHC	Independence Holding Company
ISDR	Issuer Direct Corp.
MGIC	Magic Software Enterprises Ltd.
TAIT	Taitron Components, Inc.
WSTG	Wayside Technology Group

Mega-Tech Trends

Mega-Tech Trends pulled in a bit relative to the market. That's to be expected after a massive rally in recent weeks. A bit of cooling off is normal after such a big move.



Here is the current portfolio:

AMEH	Apollo Medical Holdings, Inc.
BCOR	Blucora Inc.
BDC	Belden, Inc.
HRC	Hill-Rom Holdings, Inc.
IT	Gartner, Inc.
JBL	Jabil, Inc.
KFY	Korn Ferry
LFUS	Littlefuse, Inc.
MKSI	MKS Instruments
XRAY	Dentsply Sirona Inc.

The Forensic Accounting Stock Tracker (FAST)

Below are the top and bottom 50 stocks in the FAST model for August 2021. The model is updated monthly.

How to Use FAST™

There are several ways to use FAST™ in your investing process.

Among them:

• Individual stock selection -- FAST™ can help you analyze individual stocks and narrow your investment opportunities down to the highest earnings quality equities.

• Options Trades – FAST™ is built around identifying companies with the highest opportunities or risks to generate earnings results that exceed or fall short of investor expectations. Stocks tend to have more volatility around earnings releases. Using options on high/low ranked FAST stocks may improve returns or hedging opportunities by betting on stocks that may exceed or fall short of analysts' and investors' expectations.

• Building an Entire Portfolio – While FAST™ ranks stocks in order of earnings quality, there may ultimately be little difference between the #1 and #22 ranked stock, for example. Buying an entire basket of the top 25 or 50 stocks may provide a diversified portfolio with similar underlying characteristics, namely strong earnings quality, reasonable valuations, and expectations that could lead to upward revisions in the coming quarters.

Forensic Accounting Stock Tracker
"CSI For Your Stock Portfolio"

Rank	Rank Change	Ticker	Stock Name	Overall Rank	Buybacks	Earnings Quality	Momentum	Sentiment
Column1	Column2	Column3	Column4	Column5	Column6	Column7	Column8	Column9
1	90	AAPL	Apple Inc	A+	A	A	A-	A
2	0	JCI	Johnson Controls International Plc	A+	A-	A-	A	A+
3	10	NSC	Norfolk Southern Corp	A+	A-	A+	B	A
4	3	MANH	Manhattan Associates Inc	A+	B	A	A-	A
5	29	UNP	Union Pacific Corp	A+	A	A	B-	A+
6	11	PYPL	PayPal Holdings Inc	A+	B	A-	A+	A
7	19	MTD	Mettler-Toledo International Inc	A+	A-	A+	B	A
8	3	ODFL	Old Dominion Freight Line Inc	A+	B+	A+	B	A
9	21	A	Agilent Technologies Inc	A+	A-	B+	B+	A
10	34	CTAS	Cintas Corp	A+	B	A	A-	B+
11	-5	KSU	Kansas City Southern	A+	A	A+	A	C+
12	13	AMAT	Applied Materials Inc.	A+	B	B+	A+	A
13	29	SMTC	Semtech Corp	A+	B+	A-	A-	B+
14	151	TPX	Tempur Sealy International Inc	A+	A	C+	A	A
15	6	UNH	Unitedhealth Group Inc	A+	B	A+	B-	A+
16	55	SWKS	Skyworks Solutions Inc	A+	B+	B	A-	A+
17	53	CROX	Crocs Inc	A+	A+	A	A	C
18	18	MSCI	MSCI Inc	A+	B	A+	B-	A
19	74	AYI	Acuity Brands Inc.	A+	A+	A-	B	B
20	-19	LRCX	Lam Research Corp	A+	A-	A	A	B-
21	78	INFO	IHS Markit Ltd	A+	B-	A	A-	A
22	68	INTU	Intuit Inc.	A+	B-	A-	B+	A+
23	-11	PH	Parker-Hannifin Corp	A+	B-	B	A	A+
24	50	TROW	T. Rowe Price Group Inc	A+	B+	A	B+	B
25	-11	TEL	TE Connectivity Ltd	A+	B-	A	B	A
26	11	CSX	CSX Corp	A+	A-	A	C+	A
27	-11	TTEC	TTEC Holdings Inc	A+	C	A-	A+	A
28	27	MEDP	Medpace Holdings Inc	A+	B+	B	B+	A
29	49	MSFT	Microsoft Corp	A+	B+	A	B-	A
30	-2	CDNS	Cadence Design Systems Inc	A+	B+	B+	B-	A+
31	48	ADBE	Adobe Inc	A+	B	A-	B-	A
32	21	LSCC	Lattice Semiconductor Corp	A+	B-	A	A+	B
33	156	AEIS	Advanced Energy Industries Inc.	A+	C+	A+	A	B
34	-15	PWR	Quanta Services Inc.	A+	B-	B	A	A-
35	-17	REX	Rex American Resources Corp	A+	A	B+	C	A+
36	-32	KLAC	KLA Corp	A+	B	A+	B+	B-
37	-14	NUS	Nu Skin Enterprises Inc.	A+	A	C+	A+	B
38	20	ACN	Accenture PLC	A+	B	B+	B-	A+
39	8	NLOK	NortonLifeLock Inc	A+	A-	B	B+	B+
40	9	QRVO	Qorvo Inc	A+	A-	B	A	B
41	-31	VVV	Valvoline Inc	A+	B+	A	A	C
42	3	VRTS	Virtus Investment Partners Inc	A+	B+	C	A+	A-
43	-19	TT	Trane Technologies plc	A+	B	A-	B	A-
44	7	ZBRA	Zebra Technologies Corp.	A+	C	A-	A	A-
45	-10	LOW	Lowe's Cos Inc	A+	A	B-	A	B-
46	17	MDLZ	Mondelez International Inc	A+	A-	A	D+	A
47	351	ARI	Apollo Commercial Real Estate Finance Inc	A+	A	A	A-	C-
48	-39	SXI	Standex International Corp	A+	B+	A-	C+	A
49	328	SWK	Stanley Black & Decker Inc	A+	A-	B-	A	B
50	18	AMG	Affiliated Managers Group Inc.	A+	A+	C+	B-	A

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Column1	Column2	Column3	Column4	Column5	Column6	Column7	Column8	Column9
1	-8	EZPW	EZCORP Inc	D-	D+	D-	D-	D
2	-1	TGI	Triumph Group Inc.	F	F	D-	C-	D-
3	-19	CNSL	Consolidated Communications Holdings Inc	F	F	F	B	D-
4	-1450	SLQT	SelectQuote Inc	F	F	D+	F	D+
5	-69	RYN	Rayonier Inc.	F	D-	D-	D+	D-
6	6	EBS	Emergent BioSolutions Inc	F	D-	D+	D-	D-
7	6	OXY	Occidental Petroleum Corp	F	D	D-	D	D-
8	-34	OGS	ONE Gas Inc	F	D-	F	D-	C
9	-10	NKTR	Nektar Therapeutics	F	D-	D+	F	D-
10	-39	T	AT&T Inc	F	D-	D-	D-	D+
11	-9	UDR	UDR Inc	F	D-	C-	D-	F
12	-54	NOV	NOV Inc	F	C	D-	D-	D-
13	4	CSR	Centrespace	F	D-	D	D-	D-
14	-113	EXEL	Exelixis Inc	F	D-	C-	D-	D-
15	-7	FSP	Franklin Street Properties Corp	F	C	D-	F	D-
16	-1	CXW	CoreCivic Inc	F	C+	D-	F	D-
17	17	HA	Hawaiian Holdings Inc	F	D-	F	B-	D-
18	-38	SWX	Southwest Gas Holdings Inc	F	D-	D-	F	C-
19	-9	AAOI	Applied Optoelectronics Inc	F	F	C+	D-	F
20	1	MAC	Macerich Co (The)	F	F	D	D+	F
21	-34	AVA	Avista Corp	F	D-	D+	D-	D-
22	-58	EIX	Edison International	F	D-	D-	D-	D+
23	-5	KEX	Kirby Corp	F	D+	D-	D-	D-
24	3	SPPI	Spectrum Pharmaceuticals Inc	F	F	C-	D-	D-
25	-27	CCL	Carnival Corporation & Plc	F	F	D+	D	F
26	-6	HR	Healthcare Realty Trust Inc	F	D-	D+	D-	D-
27	4	OSUR	OraSure Technologies Inc	F	F	C-	D-	F
28	-5	DEA	Easterly Government Properties Inc	F	D-	C-	F	D-
29	-18	AMPH	Amphastar Pharmaceuticals Inc	F	D-	D-	D-	D-
30	-5	CNK	Cinemark Holdings Inc	F	D-	D-	D+	F
31	-106	CRS	Carpenter Technology Corp	F	D-	D-	D	D-
32	-6	TRHC	Tabula Rasa HealthCare Inc	F	D-	D	D-	D-
33	-36	UIHC	United Insurance Holdings Corp	F	C	F	F	D-
34	-34	SR	Spire Inc	F	D-	D	D-	D-
35	-45	JBLU	JetBlue Airways Corp	F	F	F	D+	D-
36	1	PARR	Par Pacific Holdings Inc	F	D-	D-	D-	D-
37	-2	COTY	Coty Inc	F	F	D-	D	D-
38	-2	NCLH	Norwegian Cruise Line Holdings Ltd	F	F	D-	D	D-
39	-11	CNP	CenterPoint Energy Inc.	F	D-	D-	D-	D-
40	-2	RGA	Reinsurance Group of America Inc.	F	D-	F	D-	D-
41	-2	TDS	Telephone and Data Systems Inc.	F	F	D-	D-	D-
42	-20	IVR	Invesco Mortgage Capital Inc	F	F	D-	D	F
43	0	ENTA	Enanta Pharmaceuticals Inc	F	D-	D-	F	F
44	-3	UAL	United Airlines Holdings Inc	F	F	F	D-	D-
45	3	ARR	Armour Residential REIT Inc	F	F	D-	D-	D-
46	-1	VNO	Vornado Realty Trust	F	D-	D-	D-	D-
47	-5	AAL	American Airlines Group Inc	F	F	F	D-	D-
48	-4	VSAT	ViaSat Inc.	F	D-	D-	D-	D-
49	-3	CHRS	Coherus BioSciences Inc	F	D-	F	F	F
50	-3	KAR	KAR Auction Services Inc	F	F	D-	D-	D-

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