

EPISODE 300

[SPONSOR MESSAGE]

[0:00:34]

FT: Creating opportunities by starting your own business is one of the most empowering things you can do for yourself. However, it can also be overwhelming at times. The secret to getting more done isn't about finding more time, but rather finding the right tools. Our friends at FreshBooks couldn't agree more!

FreshBooks has created an amazingly simply invoicing tool designed for small business owners who need to focus on their work, not their paperwork. Oh, and invoicing is only the start! FreshBooks lets you know instantly when your client has viewed your invoice, and even imports your expenses directly from your business chequing account. Get ready to say "goodbye" to searching for receipts when it comes to tax time.

If you do have questions, just contact the award-winning FreshBooks support team and get help from real live humans, no phone tree, no "let me escalate that", just helpful service at the drop of a hat. To try FreshBooks for free for 30 days, just go to FreshBooks.com/somoney and enter "So Money" in the "How did you hear about us?" section.

[INTRO MESSAGE]

[0:01:38]

FT: Welcome back to So Money everyone. Thanks for joining me! I'm your host Farnoosh Torabi. Well ahead of introducing today's wonderful guest I have to quickly share with you the charity fund raiser and competition that's going to be going on all month here at So Money, the entire month of November, in tandem with a charity fund raiser/competition going on with Joe Saul-Sehy's podcast, Stacking Benjamins.

To tell us all about that, I brought on Joe and Joe, here you go, take the mic, you invited me on to this little fund raiser of yours and I am excited but also a little nervous.

[0:02:14]

JS: Farnoosh, I'm way excited that we're doing this together, we can raise a bunch of money for charity. And I love this, at the end of the year with Thanksgiving, for people in the United States, we end the month of November with Thanksgiving. And I thought, "What a great way for our community to help another community that might need it."

So we are going to be raising money for the Texas 4,000, which is a 4,000 mile bike ride that University of Texas students take to raise money for cancer research and cancer related causes. I know that they give a lot of money the M.D. Anderson Hospital, one of the premier cancer treatment clinics in the United States, in Houston Texas and then they also give it to worthwhile research or facilities around the nation.

We're going to be raising money at Stackingbenjamins.com/texas4000. It's cool because our organization Farnoosh, has a lot in terms of where the money goes, a lot in common with who you're raising money for. Talk about that for a minute?

[0:03:13]

FT: Yes! Well thank you that was a nice transition. So I have chosen, your team here at So Money has chosen the largest student-run philanthropy in the world near and dear to my heart as well because I was a part of this when I was in college. It's the Penn State IFC Pan Hellenic Dance Marathon. It's affectionately known as THON and it's a yearlong effort to raise money and awareness for the fight against pediatric cancer.

It's raised over \$125 million for the Four Diamonds Fund at Penn State, Hershey Children's Hospital. Next year's THON, 2016 is what we are fund raising for now and that will be taking place February 19th through the 21st. It's a 46 hour dance marathon, I did it and I survived. It was life altering but of course it's for an amazing, tremendous, and important cause.

Thon.org/somoney is where you can go to contribute. I know it's high season for canning and this is a way to join in on the fun, anything you can do, know that it will be well spent. Over 95% of funds go to the families.

[0:04:22]

JS: That's so great. And the rider that we're riding for, who is riding in the Texas 4,000, her name is Shelby Schreiber, her father was a single dad raising her Farnoosh and when she was in high school, he started feeling bad. Went to the doctor, it turned out he had terminal cancer and he passed away when she was just in high school.

Here she is without a dad and now she decided she's going to ride this 4,000 mile bike ride in honor of him. They spend no money on the bike ride. All the food along the way, all the housing along the way has donated too. So I love these organizations but, Stackingbenjamins.com/texas4000 and I hope together we can raise a lot of money.

[0:04:58]

FT: I think we will. Thanks Joe.

[0:04:59]

JS: Thank you.

[ASK FARNOOSH]

[0:05:04]

FT: Welcome back to So Money everyone. Another Friday edition, Black Friday edition of Ask Farnoosh and joining me, I couldn't think of anybody more fun to celebrate, to ring in the unofficial kick off to the shopping season, what am I saying? Black Friday is — stay home people. I hope you are listening to this in your PJ's at home not when you're at the mall.

But anyway, it is Black Friday. It is a tradition, a retail tradition and I will be the first to admit that I have fallen for the sales in the past and I'm going to ask my guest, Brittney Castro to come on down Brittney.

[0:05:37]

BC: Well, it's like the Price is Right here.

[0:05:39]

FT: Welcome to So Money.

[0:05:42]

BC: Thank you.

[0:05:42]

FT: What's your Black Friday tradition?

[0:05:44]

BC: You would probably approve in the financial sense because I have actually never done a Black Friday anything.

[0:05:53]

FT: Nothing? Not even like?

[0:05:55]

BC: No, not even online. I'm just not that person. I've never been into it. I'm the person who goes to the outlet and buys things full price because of course, nothing for sale is catching my eye. I want the full price item so I'm the worst when it comes to this kind of stuff.

[0:06:13]

FT: Well, and I'm sure this is something that you share with your clients. Brittney the way, Brittney Castro has been on the show. She's a friend of So Money and she runs Financially Wise Women and check her out Financiallywisewomen.com. You're based on California, you help largely, well, women as the title would suggest and we have a lot of questions today about retirement. Is this something that you find in your client work that is just top of mind or something that you try to make top of mind?

[0:06:46]

BC: You know it's interesting because my clients are usually in their 30's and 40's. So I think the retirement goal is always important of course but they also are a lot of times concerned just about even before retirement. How do they maximize their income, save more or budget better.

[0:07:06]

FT: Buy a house.

[0:07:07]

BC: Pay down their debt, buy a house and you know retirement is always obviously that long term goal we all have to work on but I would say with the clientele I work with it's a little bit less heavy with that discussion and more of the priority is on the short term foundational pieces of their financial plan.

[0:07:28]

FT: Well, many of the questions we got for today have to do with retirement as it turns out and we'll start with Elizabeth and she says she's a new listener. Welcome to the show Elizabeth! Hope you'll be a long time listener soon enough. She says that she's an attorney and she has been focusing on paying down student loans over the past six years. They've seem to perhaps be haunting her at this point.

She says she's going to be getting a year end bonus soon and trying to decide how to best utilize it. She asks:

E: "Should I live off my bonus and try to increase my 401(k) contributions this year and next? Should I pay off another student loan or put the money towards a down payment?"

[0:08:10]

FT: She says she's torn between these options and says that she thinks rationally she should focus on paying down the higher interest loans since her remaining loans are between 2.12 and 3 1/4 percentage interest rate. She wants to buy a house next year though and she knows interest rates are going up. She right now puts about 12% of her income into her 401(k), what do we think?

Well, I don't think that this bonus should go towards just one thing. I don't know how much of a bonus it is. It sounds like it's enough were she's got some money to play with here. I would say, try to put a little bit more towards the student loans and save for the house. The 401(k) sounds like she's doing a pretty decent job with that. 12% is better than average and even better than what some people advocate of 10%. I think in the 401(k) department, she's probably doing a great job and if she has the goal of buying a home, this is cash that now she can really work with.

[0:09:18]

BC: I agree. I like how you started, which is probably allocating the bonus towards a few different things and I remember from one of our previous callers, we can't forget about the bonus taxes because that is such a damper to the bonus in general.

[0:09:36]

FT: It's such a wet blanket. It's like 40% at least.

[0:09:40]

BC: It is and it's horrible because you think, "Oh I'm going to get this amazing bonus," and then by the time you get it, half of it is gone for taxes so we can't forget that, first and foremost. And then after that, I usually do a rule of three. Divide it three ways and figure out maybe increase your contributions to 401(k) so you're maxing that out every year. That would be a solid thing to do. Another third you can take and put down toward a high interest rate debt.

Then the other third, you can put towards your home funds whether that's like in some sort of high yield savings account or if it's something like that, like a money market. That way, you're giving a little bit to each goal but obviously, if you're more focused on that home in the next six months or something, you might decide to put more of it or the home goal to really get your down payment down. Again, it's kind of dependent on where you are with these goals but the rule of three is pretty good to follow.

[0:10:43]

FT: Yeah and I will just say that if your goal is to buy a home, one of the considerations of what the banks will want to make is what's your debt to credit ratio, basically how much money do you have in the bank? And I think if you can pay down those loans even more before you apply for a mortgage that will put you in a better position to then earn the better interest rate and qualify for a better financing.

Okay, Dylan says:

D: "Hey Farnoosh, listen to your show daily. I'm 31, I live in San Francisco, I make \$40,000 a year, which is my highest salary I've earned to date. I have no debt, no car payments, no kids. It's taken blood, sweat and tears to save \$35,000 in cash..."

[0:11:31]

FT: Wow, that's impressive!

[0:11:32]

D: "...and \$20,000 in my 401(k). While I'm proud of my accomplishments, I can't help but feel that I'll never have enough to buy a house in my home town. They go for four to \$500,000. I'm in a stable relationship but we don't mix finances. After a few career changes in my 20's, I've settled on a career that fulfills me and has good earning potential. I want to increase my salary with a promotion in the coming months but in the meantime, I make \$40,000. So aside from saving money like Mr. Money Mustache who saves like 50% of his income, who's been on the show, is there anything else I should do to be reaching my goals?"

[0:12:10]

FT: I don't know. I don't want to burst your bubble Dylan but buying a home is one thing and if that's your goal, I don't want to kill that but four to \$500,000 making \$40,000 a year, you can't do that.

[0:12:25]

BC: That's going to be hard.

[0:12:27]

FT: Well, it's not only going to be hard but who's going to give you the loan? I don't know if any hopefully no bank is going to give you a loan for \$350,000. Well, that's assuming you have a down payment of 50 or so. I just think that if you want to buy a home, you have to maybe lower your expectations. If you want to do it in the near term, you're saying that your income is going to go up and I hope it will.

If your income doubles in the next couple of years, if you get closer to six figures, then I think somewhere, even though I think 500 is too high even if you're making a \$100,000 a year, maybe you're looking at 350 or 400. It's just one of those calculations that the math doesn't lie and at the end of the day, you still need to eat and you need to put gas in your car. And if you're going to be house rich, cash poor, that's no way to live.

I think you either have to make a ton more money or lower your expectations about the kind of home you can afford and there are a lot of homes that are way lower than \$400,000 but it may mean going out of your target area. What do you think? This is something that I feel like we're stuck on this principle sometimes of having to be a home owner whatever it takes but sometimes, practicality goes out the window.

[0:13:41]

BC: Yes and you know, there's nothing wrong with renting if that's what you have to do based on your income level and other goals that you have. I think this idea of the American Dream to buy a home and do it as soon as possible, we've really seen the results of that.

It wasn't too long ago when the housing bubble hit and it devastated people financially and I think we can't ignore the fact that yeah, it would be great to own a home but renting is not a waste of money if that's what you can afford at this time and it allows you to still live the life and save for your other goals that you're working on.

So I agree because if you're looking at a 400 to \$500,000 home, even if you get a 30 year fixed at 5% interest rate, which is the kind of calculations you want to run to be conservative, that's 2 to \$2,500 per month in a mortgage, just mortgage alone.

[0:14:39]

FT: Wow.

[0:14:39]

BC: That's not including property taxes, maybe HOA, I don't know if you can get a single family residence for that price in San Francisco? PMI, there is a lot of costs that could make a difference to own a home.

[0:14:58]

FT: The other way you can look at this and I'm not advising this but if you wanted to run the numbers with you and your partner going in on buying this home together. Combining your incomes, combining your financial profiles, applying for the mortgage together maybe that will put you in a higher bracket in terms of what you can qualify for, but then you have to make the consideration, "I'm in this with someone else and do I really want that?"

If you're not mixing your finances right now that tells me maybe you're not comfortable mixing your finances on even a small level which is bank accounts and maybe your credit card. Now you're talking mortgage and that's a whole different ball game. So I just want to put that out there too that maybe if the day comes and you feel comfortable doing that, that is probably the only way outside of making more money on your own that you could then get yourself into a position where you can technically be qualifying for homes of that size but that's a personal question for you to figure out.

I'm not advising that but I am trying to figure out how to make this work for you Dylan. I don't want to be a party pooper but I'd hate for you to buy this home somehow and then end up being miserable because of the payment. I mean you just did the math, that's going to be more than half of \$40,000 a year, \$2,500 a month. That's you're whole paycheck going to your mortgage.

Let's move on and talk about Andrea's question. She says and again, another 401(k) question, she and her colleagues — she is speaking on behalf of her tribe, she says:

A: "My colleagues and I are looking for some 401(k) roll over guidance! We've got similar backgrounds."

[0:16:50]

FT: Here is our situation: she has a 401(k) split into a Roth and a normal 401(k), a traditional 401(k). She has it from her former employer. Her new employer has a 401K(k) option with Fidelity, her old one was with Vanguard, but it has fewer options so she's hesitant to roll it over.

[0:17:10]

A: "Would it make sense to convert the Vanguard account to Roth RIA and then restart my 401(k) with the new company? Can I wait and see how the new account performs and decide later? I wasn't sure if there are any roll over time limits. Thanks and keep on rocking."

[0:17:26]

FT: And she says:

A: "Love this week's wellness oriented interviews."

[0:17:30]

FT: Well, thank you. Last week I had, coincidentally, a couple of wellness guests and afterwards I was like, "Oh did I just do a lot of wellness overload this week?" But I guess people liked it. So she has a good question. I think primarily, she's not sure and until she figures out what to do, she wants to know if there's a time limit as far as when she can do the roll over. And I think that the one thing that she needs to do is just read the fine print, like I said, that depends right? There might be a roll over limit in which the 401(k) just automatically becomes an IRA, it's happened to me.

[0:18:07]

BC: Has it? Normally, I haven't dealt with issues of the time limit on client's old 401(k) account. There is something though, it's the 401(k) account balance is less than a certain amount, usually \$5,000 and then they could just distribute the funds to you directly.

[0:18:27]

FT: Right, that's a really good point because then you're dealing with taxes.

[0:18:32]

BC: And then it's taxable, but most employers, I mean quite frankly and all the clients I've worked with, it takes a long time for employers to process paperwork in general. So usually, you can get in there before any of these things actually happen with your decision as to how you want to roll it over but I've never had a client run into any time limit. Like they tried to do it and now they can.

I mean it's your money, you just have to be aware that it is really wise when you leave a company to roll it over so you don't forget about it. You don't stop managing it appropriately and then you just can roll it into an IRA or something where you can monitor and keep the investment healthy moving forward.

[0:19:21]

FT: I think she's also concerned about the new 401(k) not having as many bells and whistles. And so is that something to consider too? I mean maybe the grass isn't greener or your new employer as far as the 401(k) goes so you're better off perhaps just keeping the money where it is. Although I know there is advantages to just having everything under one roof. So how do you reconcile that?

[0:19:43]

BC: Yeah, well I would say that if she's moving to Fidelity, it's not necessarily the company, it's the mutual fund options that they list are available for you. If the new company is using Fidelity for their 401(k) provider, they might have a list of 10 to 20 mutual fund options that you can choose from.

And you might think, "Oh, this aren't the best mutual funds, so therefore it would be better for me to roll that old Vanguard 401(k) into a Vanguard IRA" or an IRA at some other institution. You

can even do an IRA at Fidelity and just have the mutual fund and investment universe opened up to you because anytime you have an IRA, you just have that many more options available to you. It's not a limited investment lineup that a 401(k) plan does.

So if you're feeling that way, then by all means, I would say it's the same kind of paperwork whether you roll it into your 401(k) or roll it into an IRA. It might be one extra step to do the IRA, but that way you feel good and then I think she mentioned, you can see are they doing overtime. If a year from now you're like, "You know what? It's worth it, I would just want to consolidate it to make it even easier," you can do that at that point.

[0:21:04]

FT: Good advice, yeah and hopefully, she'll be sending this back to her committee.

[0:21:10]

BC: Yeah, I'll like that she has a committee. You know that's great though because a lot of people do this little investment clubs or financial clubs. I think it's such a great idea.

[0:21:19]

FT: Well thanks for clarifying that. Okay, let's move on now to Rebecca. She says:

R: "Hey Farnoosh."

[0:21:24]

FT: And now, she's going to brag about me so I'm going to sound like a total narcissist, but I'm going to say what she said. She said:

R: "First off, I have to tell you how much I love your podcast. It makes my morning drive so much more enjoyable. I love that you are so relatable and positive in your tone."

[0:21:41]

FT: Well thanks Rebecca. Thanks for being so positive in your tone, that made my day. Her question is:

R: “I have been thinking about starting my own business”.

[0:21:50]

FT: Alright, I like this question already.

[0:21:53]

R: “The more I learn about entrepreneurship, the more it appeals to me. I’m 25, a new mom and my husband and I would like to start something together but we don’t know what yet. Any tips on finding a business idea? Also, do you have any resources to help us take sound first steps? Thank you so much for your help and inspiration.”

[0:22:12]

FT: She’s all the way from Ottawa, Ontario. Well, I’m internationally famous, I’m huge in Ottawa.

[0:22:18]

BC: Alright. I love that.

[0:22:20]

FT: You know I remember, I did a lot of interviews back in the day for a column in Entrepreneur Magazine. I was a columnist for Entrepreneur Magazine and part of my job was to interview a lot of small business owners and start up experts and I think the biggest take away that relates to your question as far as “how do I get my big idea” is two things. I think look at your own life and see what’s needed, what do you need that you don’t think there’s a solution for out there?

You mentioned you're a mom, you're married, you're young, very relatable. So you are a very good target market and so you start with your own personal issues, problems or hang ups and then discover what you might do to solve that. And then the next step is to look and see if it's not just you, in fact maybe there is a market for this.

And a lot of times, successful businesses stem from the business owner's, the founders recognizing a hole in their own lives that they wanted to fill and whether it's a widget or a service or a website, that's to be determined but I think that self-reflection is the first step. Just keep a notebook of things or in your phone or however you want to document it, you and your husband and I think that's a good foundation.

It doesn't work for everybody but I think it has worked enough times where it's a good strategy. How about you? I mean you are a business owner Brittney. You identified a need within a bigger market, which is financial services but you really identified the niche and I have to think that it is a personal journey.

[0:24:06]

BC: It was. I love your advice. It was because for me, I had been in the industry about five years and I was 22 years old when I started. So being a young woman in the finance industry I just saw, "Woah this is definitely an interesting environment I'm in." I was a rare breed and I would just talk with a lot of women and clients, even with the couples that I work with and they would just relate with me on a whole different level about money.

And it would always be interesting because we'd be in meetings, I had a senior partner who was a male and at the end of the meeting, the woman would just ask me questions like, "Am I going to be okay?" Or "Is this all going to work?" It was kind of that process over and over again where the women just wanted to be reassured that the plan or whatever they were doing with their money would ultimately help them continue to live their life and reach their goals.

So I saw the need and just being a woman myself, I said, "You know, I think it would be amazing if I could just create a different model to help clients, especially women who are smart and savvy, understand money but without all that pressure or guilt or shame for not knowing up into

this point.” That was my journey into entrepreneurship and starting my own firm, Financially Wise Women.

[0:25:33]

FT: What you just told me is a really compelling story and I think for all entrepreneurs these days especially in the world of Facebook and sharing and social media and everything is so transparent that it’s not even so much about having a unique idea but having a unique story to getting to that idea.

That’s going to attract your customers and your user base, because ultimately what makes you want to buy from one person over the other, sometimes it comes down to, “I just like the other person who brought that product to market. I believe more in their mission and then their story,” so it’s how you package it and share your journey to bringing that product/service to the world.

So don’t be discouraged if you do take my advice and you realize, “Oh, I have this great idea because I have this problem that no one is solving”, you research it and you’re like, “Oh there is three other companies that are doing this.” Don’t let that be your stop sign but rather maybe just an encouraging sign that there is a market for this. Now, it’s just your job to differentiate yourself and I think that’s the next step.

But tell us how it’s going. Tell me if the next six months, you come up with some ideas, write back, tell us what you’re thinking. We’d love to work this out with you and share your journey on So Money. Let’s see here, we’ve got — and you were going to say something. I cut you off Brittney, I think I heard you’re going to say something?

[0:26:50]

BC: Oh, well I was just going to say, one more thing on the financial front when you start a business because it is very exciting to create an idea and start a business but being a business owner myself, it is also challenging to be able to run your business in a way that it efficient for you and the personal goals that you have for yourself financially.

So I would just say if you're a business owner, someone aspiring to launch a business, do some homework and get clear about how much money you need every month to support the lifestyle you want to live and this could just be a simple income calculation maybe based on the amount that you're making today, that is a comfortable amount and you want to replicate that if you launch the business.

But I would just say really be clear about the financial part too because I do work with a lot of entrepreneurs and business owners and look, you're dealing with a lot already as a business owner so the more clear you can be about how much money do you need every month and every year from this business to make it profitable to you as well, that pays you enough so you can sustain your life, fund your goals. I think that kind of clarity will help you get to that income level sooner.

And if you are going to launch full force into a business, then you're going to want to also say, "Okay, if I need \$3,000 every month to live my life, am I going to have that in a savings account for the first year or two years until this business is profitable or am I going to take out some sort of loan?" Like what is the game plan for those initial months or years because you don't always start a business and make money from day one. I mean usually it takes a few years to actually turn your business into something that is profitable and you're making the income level that you want. Also just think of those, not to scare you.

[0:28:46]

FT: You just don't quit your day job.

[0:28:48]

BC: Just think through it because honestly, business is — I don't have kids yet, but maybe like having a kid just takes a lot of money and you have to be patient.

[0:29:00]

FT: We're going to wrap here with a question from Samantha who says her stepsister is graduating high school this year. She just got a \$16,000 academic scholarship to a \$30,000 a year school with room and board, great!

[0:29:14]

S: "Wondering if you have any advice on how to find other scholarships?"

[0:29:18]

FT: The best guidance from her guidance counsellor was to "Google it". [Laughter] Oh my gosh, if I got paid to just tell people to Google things, that would be a great job.

[0:29:31]

BC: GTF.

[0:29:32]

FT: Yeah, she goes:

S: "I know I'm projecting here but I don't want her to make the same mistakes that I did. Thank you".

[0:29:39]

FT: Yeah, Google can be a really — I mean in some ways, I love Google. I Google everything of course but I don't use it as my trusted advisor, especially for things like scholarships that can be sensitive because there are scams out there. People that have fake websites protesting that they're going to give you all this money and you just have to give them your name and number and credit card information and people fall for these traps.

So a red flag is, if you apply for a scholarship and the people behind the scholarship want you to give them your personal information, you shouldn't have to give them anything but your name and e-mail. If you're asked to hand over your social security number or your credit card number, then you know that it's not legit.

And some really trusted databases online where you can get scholarship applications, fastweb.com, scholarships.com and also look around your community because sometimes, local businesses have scholarships where her parents work or family members work. There might be scholarships reserved for the family of employees to go to college so that's another resource. I didn't get college scholarships, did you Brittney?

[0:30:52]

BC: No.

[0:30:52]

FT: I should have been more vigilant. Actually, I did get a little scholarship from Penn State, I was a Schreyer Honors Scholar and that was helpful but outside of the school, I just didn't know. I was so consumed by the application.

[0:31:09]

BC: I hear you.

[0:31:10]

FT: If I had to write one more essay, I would have...

[0:31:12]

BC: Yeah, scholarships, I didn't go that route and you know who did though, Ramit Sethi.

[0:31:19]

FT: Yes.

[0:31:19]

BC: I remember he got so many scholarships and I think he even taught a course about how to do it because it's really just learning the system and it is a job in which you have to take time and apply and you are probably going to get denied most of the time just like anything else but I think if you did a numbers game, if you put enough out there, the applications, you would get more than someone who didn't do any of that.

[0:31:44]

FT: Right because for every person that applies for scholarship, there's a 100 I would guess that don't and so it's really a numbers game in some ways so listen to Ramit's podcast episode on So Money. He talks about that a little bit. Also Christina Ellis is a guest I had on the show who earned half a million dollars in scholarship money.

I mean if she can do it, she just really put her mind to it and started early and that helped but I think even if you're a college senior or even if you're in collage, there are applicable scholarships at any stage so it can't hurt to apply.

So thanks for your question. Good luck to your stepsister and I like that you're looking out for her. Thank you Brittney Castro so much for joining us again on this special day, Black Friday 2015.

[0:32:33]

BC: You're welcome. Yeah, see this is what happens on Black Friday, I do podcast with you talking about money.

[0:32:39]

FT: You are being so responsible.

[0:32:42]

BC: One day, I'll get to an actual Black Friday and report back for you.

[0:32:47]

FT: I look forward to it, thank you so much and happy holidays. I hope you are having a good Thanksgiving.

[0:32:52]

BC: Thank you. You too.

[END]