

EPISODE 470

[ASK FARNOOSH]

[0:00:32.5]

FT: Hey, welcome back to So Money everyone, I'm your host Farnoosh Torabi, it is Friday, Ask Farnoosh time. Lots of questions to get to ranging from insurance to how to save, how to get out of debt and everything in between. Hope you're all having a great kick off, hopefully, to your weekend. This week my son Evan, two years old, went off to "school" for the first time. I put school in big quotation marks because it's really like three hours a day of getting in to trouble, playing snack time, nap time. For that it's not inexpensive but it's important for him to I think get out of the house, socialize, learn his ABC's and give all the adults in the house a little bit of a break and it was a good start.

I mean I was concerned about how he was going to transition, would he be upset? They had parents stick around the first couple of days and he could've cared less that I was there, which is a good sign. I'm happy that he's independent and getting out there and not to clingy but as a mom, how could you not cry, right? It's like your child's first day of school. He's only two, I can't believe it. But for all other parents out there who have two year olds and 20 year olds and 30 year olds and every child in between, I don't know how you do it. So that's an update on my end and also excited to say that the October issue of Oprah Magazine is out. Go out, get it.

This issue, we're really proud of it. We did a two page spread on how to find extra work outside your nine to five. Easy work that's enjoyable and there's so many websites out there that we talk about on the show all the time that can help to connect us with many exciting opportunities that end up paying as well from driving your car like an Uber or Lyft, to selling crafts on Etsy to selling jewelry through Stella and Dot, through all sorts of things that you can do on your weekends, evenings and the people that we found for this article, make a minimum of \$500 a month and that's helping them to get out of debt, to save more go on vacations.

So it's an exciting article, I'm excited that Oprah Magazine wanted this kind of story because, you know, I'm all about how to take it up a notch with your money, not just how to cut coupons,

please let's elevate the conversation and talk about how to do more and better with our money and this is a really great piece and the person who helped me with this piece is with us.

Sophia Yanapolis, welcome to the show.

[0:03:09.2]

SY: Thank you for having me.

[0:03:12.0]

FT: Did you see the article yet? I found it at the airport last week when I was in LA. They usually send me copies but I bought this particular issue, I was so excited to see it on newsstands, it was a kind of an early, it was like September 9th and it was already on newsstands the October issue. So I bought it, read it on the plane, looks great, you did a great job talking to these women who are making all this money and very inspiring, right? I feel like I should maybe start driving Lyft in my spare time.

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SY: "Spare time".

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FT: Spare time, right, it's all relative.

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SY: Yeah, it was really great those themes to a lot of those women and great, totally inspiring and definitely made me question about getting out there and maybe getting crafty on the side or something like that.

[0:03:55.6]

FT: Yeah, all of their back stories as far as why they wanted to start making extra money, I think we all can relate. In some cases there was a need to find a catharsis, if you're going through something emotional or painful in your life and you want to make constructive use of your time, almost as like a distraction but also cathartic. One woman did that and ended up making money through selling beautiful graphic T shirts online through Etsy.

It has now inspired her to maybe leave her day job thinking, "Hey, maybe I could do this full time, it's actually a real passionate project and I would love to turn this into a business." I think that's the beauty of side gigs and I can speak to this, you just never know how it's going to manifest, where it's going to lead you. It could turn into your full time gig. I mean Martha Stuart was crafting on the weekends, catering on the weekends and now the rest is history.

She was a stock broker turned media mogul and domestic [inaudible] and it just started from her exploiting her skills and let that be inspiration. But we have many questions to get to, thank you to everybody who wrote in and I mentioned last week that we're about two to three weeks behind as far as getting to the questions that are coming through the Ask Farnoosh portal but we have many to tackle. So sophia, kick us off, who is first up?

[0:05:26.5]

SY: All right, so the person who first wrote in wants to remain anonymous so they're going to by HA and she's 40 years old living in Brooklyn, and recently married and she's never had any renters' insurance or other type of insurance aside from health and disability but now that she has a nice diamond ring in her apartment, she wants to look in to some renting insurance but doesn't know where to start.

[0:05:52.2]

FT: Okay, I can completely relate to this person. I have a very nice ring that when I got it, I wanted to have it ensured and Tim and I, were living together, we lived in an apartment that we were renting at the time. What I was surprised to discover was even though we had renter's

insurance, it did not cover very valuable things like the ring, like the art work that we didn't have but maybe one day would.

The advice that I would have for you is to start with a major insurance company that you can get an affordable renter's insurance policy from, you're going to need that anyway, everyone should have at least renter's insurance if they're renting, homeowner's insurance, obviously if you are a home owner. But on top of that, you may need to get some supplemental insurance for extreme valuables in your life like your ring.

I'm talking like big ticket. Your laptop is probably going to be covered in your renter's insurance policy, your electronics, your PlayStation, your television, your computer, things like that. But if you have a five figure ring on your finger, you know that's something that you need to get additional insurance for. You need to get it appraised and show that to — you can get it through the same insurance company, you don't have to go outside your insurance company, usually. if you go with a big enough firm like a state farm or what are the others Sophia? I can't remember what the big insurance companies are. You know what they are.

Just go online and Google, do a search, you can go and search for insurance companies, there are websites out there that can help you find, price compare for you. Talk to friends, maybe you already have an existing renter's policy, renter's insurance policy, call them and see what it would cost to tack on your ring to the plan that you have. But it has to usually be something additional. Never assume that it's included in your policy, that would be the mistake. Good luck to you, congrats on getting married and I'm happy to hear you're a neighbor in Brooklyn. It sounds like we have a lot in common and thanks for listening to the show.

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SY: Well I guess it's true when they say you learned something new every day because I did not know that renter's insurance wouldn't cover something like that.

[0:08:01.9]

FT: Yeah. I mean you can get it through your renter's insurance insurer, through the insurer that gives you that. But you have to usually get, it's called a rider, in addition to your policy that would cover something specific like your ring. Again, if you have art work or anything I would say that's over, that's like a high four figure over five figures, worth looking into, worth asking and saying, "Hey, does this cover?" Because usually valuables like that need, you have to pay up a little bit more. It makes sense, insurance companies are always looking to make more money.

[0:08:36.1]

SY: Of course. Okay, the next question is Mary Grace. Her little baby just landed his first commercial modeling gig and she wants to set aside that income that he makes now for him to have in the future and she wants to know the best place to put it until he's about 18 or so and also that will maximize during his interest bearing years.

[0:08:59.5]

FT: Right. Well, congrats, that's pretty cool. Baby modeling, making money. I'd say, Roth IRA. As soon as you have an opportunity to tuck away income and you're young so this baby's obviously in the low tax bracket. I would say do the Roth IRA. You're going to get the benefit of being able to pull out that money when he's 18. Sorry, not when he's 18 but in retirement tax free and if he wants to take it out at 18, he could take out the contributions, not the earnings tax free and penalty free. That's depending on how he wants to use it. So if it's for college you can do that.

We just did a big story for mint.com on how to save for your child's college education, if your child's only two. Sometimes people fight 529 plans, college savings plans, limiting because hey, your kid might not go to college and so then what? Another alternative is the Roth IRA which allows you to save for your retirement obviously but in the event that you also want that money for college at some point you could withdraw the contributions tax free and penalty free for that purpose.

Now, if you want this money to be available to your child for college and all of the above and that you don't think waiting till 59 and a half is really likely that your kid will probably want to tap this money then you could do a custodial account, which is essentially a brokerage account that's in your name and then once your child turns 18, depending on the state, 18, 19 or 21, it converts to your child's ownership and they can do whatever they want with it. You could also open up a brokerage account in your name and hand that over to your kid when he or she is well and ready. There's a lot in that. These are the more aggressive approaches.

The other thing you could do that's less aggressive, which I wouldn't do because you have a long timeline, 18 years potentially or longer, you could do something really conservative like an online checking account, CD's. I say, take advantage like you say of these interest bearing years and do either, depending on the goal, right? Is 529 for college, is it a Roth IRA for retirement and or college? Is it a custodial or brokerage account for all of the above and then some? That's really what you have to decide is what's the purpose of this account? And then any one of those vehicles will probably work for you. That's pretty exciting.

I need to start putting Evan to work. How does that happen? Evan's cute and I feel like he could maybe compete in these modeling gigs but I also feel like, that's a lot of work for me.

[0:11:49.4]

SY: It is.

[0:11:49.4]

FT: Or my nanny. Like we have to go to this auditions and I don't want to become a stage mom. I only see negative. I mean there's obviously dollars to be made but I feel like it's just too much effort.

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SY: It's a lot of effort, yeah.

[0:12:04.3]

FT: He's too little, I don't even know if he'll like it, we have a little girl in the building who is so cute and she models for Children's Place and she gets all sorts of campaign. I apologize, that's the sirens, when you're in New York, that's what happens.

[0:12:23.6]

SY: All right, so switching gears, our next question comes from Erin. She has about \$30,000 that she's not touching and wants to use for a down payment on a house even though she's not looking to buy for another two years or so. So she'd love to know your thoughts on where she can put the money in the meantime that offers the most interest but also keeping in mind that she'd want it to be liquid in about 18 months to two years' time from now.

[0:12:50.8]

FT: Okay. So really, unlike what I just told Mary grace, which was to put money in a high yielding account like a brokerage account, a 529 where it's a long term investment, you can hopefully weather the ups and down in the market, Erin, you can't afford to lose money. You want to keep that \$30,000 at minimum no less, if you make money, even better but because you want this money in the next 18 months to two years, you really don't want to risk it. So the best place to put it and best is, you're going to laugh. But there's just not a lot of places where you're going to get more than 1% or one and a quarter percent for short term investments and that's either high yield online checking account.

There's a really cool site called SmartyPig. Let me just go on there right now and see what the promotional interest rate is. SmartyPig is a really cool website that helps you save for goals and it's meant to be a short term savings account. Right now it's a 0.75Y APY. That's lower than I've seen it offered in the past. I've seen it up to a percent, a percent and change but that's really the ballpark for short term savings accounts right now. Online you're going to get the best interest because as we know, online banks, and here's that siren again.

Online banks because they don't have the same kind of overhead like the brick and mortar banks that will have buildings and rent, they can take that savings and pass it on to consumers.

So I would say definitely an online vehicle, go to bankrate.com, go to nerdwallet.com, you can shop around for rates, for banks by rates there. The thing about SmartyPig going back to that site that's cool, other than just a relatively high APY, is that because it's so goal oriented, they offer lots of visual ways to track your money, you can also invite people to contribute to your accounts.

So it promotes this idea of social saving, I would take advantage of that. If I was saving for a home and my friends knew, my family has a big goal of mine, I would share the link once or twice a year and say, "Hey it's my birthday or it's the holidays, in lieu of presents, please just send me contributions to my real estate account."

So check out SmartyPig, that could be a great destination to park your cash. Or maybe your existing bank has a great online division where you could get a little bit more of an interest rate of a savings rate. So that's what I would say about that but definitely not the stock market, you got to keep this money relatively intact.

[0:15:34.4]

SY: Our next question comes from Dan and he's very eager to retire early, which obviously is becoming a huge trend now and he has six months in savings and started investing 25% of his monthly salary three months ago in a world stock market index fund. He wants to know what you think of the strategy and maybe anything else he can be doing. He also would love recommendations for where he can receive specific index funding recommendations but for non US citizens.

[0:16:10.8]

FT: There's a lot of websites out there, there's information at Yahoo! Finance information at Morning Star, information at CNBC.com, there's a ton of information out there where you can learn about index funding. A lot of the guest on my show here, if you've gone through the

archives, are financial advisers or experts in investing and so they may also be resources for you. I will say though that you mentioned Sophia, he's investing a quarter of his salary in one place, one fund. I know that sounds like, it sounds very broad, the world stock market index fund. At least it's not like all of his money in one stock, that sounds like a nice basket but I would say, try to diversify a little bit more.

I'm not sure what's in this world stock market index fund, are they large caps, small cap, what industries are represented? Taking a page out of almost every investing book, you got to diversify and I think I would be cautious to say to anybody, I would not say to anybody "just do one fund". You want to try to pick a variety of funds that capture the whole spectrum. So this is a world stock market index fund, maybe you also find some index funds that track a particular industry or other markets, just so that you give yourself a little bit more exposure. 25% of your salary invested is fantastic. At that rate you're probably going to retire like tomorrow.

But I think that it would be prudent to just be a little bit more diversified in your approach. I'm not going to say how, what's like the sweet spot, what's the magic number but one index fund sounds like not enough to me. You want probably enough to where you're getting exposure to a variety of sizes of companies, different types of industries, different countries represented. I don't really know what the breath of this world stock market index funded. It sounds very aggressive. The world in one index fund. But what does that actually mean? I don't know. That's your job to find out Dan and report back to us that would be kind of cool to find out.

You know I get this questions sometimes like, "I'm a non US citizen, what do I do?" I'm not an expert in international ways of investing but I'm sure that there are ways to access almost any platform, trading, mutual fund, index fund, whatever you want, you just have to abide by your governing laws. There should be a way to access it all and depending on your country, just become more familiar with that. There are a lot of trading platforms out there that we talk about on the show, Wealthfront, Betterment.

They would have information on their websites about what to do if you're a non US citizen and sometimes maybe you can just access it and from there get access to the funds that they offer. A lot of those platforms that I just mentioned, Wealthfront, Betterment, these are online trading

platforms, largely offering index funds. So if you're interested in index funds, check out those sites as well. And full disclosure, Wealthfront has been/is a sponsor of this podcast.

All right, one more last question.

[0:19:45.3]

SY: All right, it's from Andrew and he says his brother has put himself in a about \$8,000 worth of debt and he is in the process of training to become an electrician in New Jersey. But under his current apprentice salary, he's not making a lot of money and his parents are also terrible with money but are looking to Andrew to help his brother out. So he would love to know if you have any tips for him to help educate his brother on how to get out of debt but to also make sure that he stops from making the same mistake again.

[0:20:16.6]

FT: Yeah. I hosted this show called *Bank of Mom and Dad* years ago and this is bringing back some memories of this young adults who are in a lot of debt, the parents wanted to help but the advice always was that "yes, you can be there for emotional support mom and dad. Advice, maybe a couch to sleep on, meals, but do not write your kids checks, do not pay off their debt because that will never teach a lesson". There's something about going through the pain of getting yourself out of debt that is unforgettable, leaves a mark and it's less likely you're going to get yourself in that hole again.

If you get a nice lump sum from anyone, mom and dad, friends, family, it's your get out of jail card free and you might get back in jail sooner than you know it. So my advice to mom and dad, to your mom and dad Andrew is just to kind of say, be there emotionally, resourcefully but not financially. For your brother, I would say a few things, one is, if he's high in debt, low in income, he needs to make more income. Going back to what we were talking about earlier in the show, there's a lot of ways to make money on the side. So if he is determined, that might be something that he would be interested in doing and could do quickly.

There's a lot of websites out there that can connect him to jobs if he's an electrician in New Jersey or in the process of becoming one. Perhaps once he's completed his certification, he can start doing a lot of freelance or what are some of his other skills that he can monetize. Start looking in some extracurricular activities that can pay and then I would say, as far as the debt and handling that, this could be a situation where he would benefit from working with an adviser. There's the National Foundation For Credit Counseling, nfcc.org. You can mention that as a resource to him, it's free, the first meeting, you can look for a location by zip code on their website, go in there, make a free point man, they'll analyze your debt, they'll also analyze your budget, your income, the whole gamut and come up with a prescription for your brother.

Maybe it turns out they want to step in and help him and try to modify some of that debt for him. They don't settle debt but they try to work with your creditors to find easier payment plans, maybe reduce interest, get rid of fees to make the monthly plan, the monthly payments more affordable. I think if I was your brother, I would try to make more money on the side while I'm getting this training to just try to pay off that debt and there's also Readyforzero.com, which is a site that's been around for a few years at least and their whole mission is to help people visually conquer debt.

So you go on there, you create an account, you upload how much you're in debt and visualization is very powerful, having a community and resources is very helpful. So this site tries to assist people who have had debt but need a little bit of coaching to get through it and like to see their progress. It's a free website you can use and people, like I'm just on there now, this Nick from Rochester has paid off \$21,000 in debt. Jennifer from Atlanta has paid off \$37,000 in debt. It works for people and so that's what I would say.

Don't go at a loan, your parents can definitely be there for some advice and get a job, get some jobs, whatever they are, maybe they have nothing to do with becoming an electrician. Maybe it's pet sitting, maybe it's driving Uber? But the silver lining is that if he doesn't even enjoy it, it's short term and it's got a big purpose, which is a get out of debt and finally become financially free. And that is my So Money advice for your brother, thank you and so nice of you looking out for your brother Andrew. I think that's really cool, it sounds like you guys have a close family and that's going to be very helpful to him, I'm sure that is not for nothing.

Thanks Mary Grace, Erin, Dan, Andrew and anonymous, HA. I really appreciate you writing in, I hope this was helpful and Sophia, I hope you have a great weekend. What are your plans? Anything?

[0:24:54.7]

SY: No, I think I'm just going to lay low. I don't know if people can hear it in my voice but I have been battling a cold this week, so definitely just want to get my health back on track and so I'll be laying low this weekend. What about you?

[0:25:08.3]

FT: We are taking Evan to Dutch Wonderland.

[0:25:11.9]

SY: Oh fun.

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FT: If anybody wants to join us, we'll be there on Saturday, it's this little kitty playground amusement park in Pennsylvania where my in-laws live so we'll be spending time with them and doing some kiddy stuff of course we have to. That's all our life is now, it's like I'm trying to plan these little fall excursions but usually when I was single or married and no kids, it was always like, "What are the best spa's, what are the best restaurants?"

Now I'm like, "10 things for families to do when you go to Quebec City", which is making me second guess Quebec city at this point because I don't know what I can do with a two-year-old there. There's a lot of things that I would like to do there as an adult, as a female, somebody who likes to eat out and shop but that is not usually how it goes when you're traveling with kids. Still looking for advice in that department.

All right you all, thank you for tuning in and talk to you on Monday. Hope your weekend is So Money.

[END]