

EPISODE 133

[ASK FARNOOSH]

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FT: Hey everyone, welcome back to So Money. I hope you're on the road going somewhere fun and fabulous, or you've just arrived. It's Memorial Day weekend, and I do hope you are taking advantage of this 3-day weekend. I just realized the cover of Time Magazine is how the American vacation is ending, it's going away. And that's kind of a scary thing. And I know it is trivial, a lot of us don't use our vacation days. So wherever this podcast finds you, I hope you're having a good relaxing time. At least part of your brain is down to business, you're listening to this show, you wanna get some financial savvy, so I'm not gonna waste your time. Let's get right to it.

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This is the Ask Farnoosh episode of So Money. Of course every Saturday and Sunday I turn the show over to you and we've got a question here from Louisa. She is asking me, she wants to know how to invest. She's 20, actually she says:

L: "I'm a recent college graduate - 2013 - and I'm looking for smart ways to start investing my money. What do you think are the best options as I'm just starting out? When should one start investing in stocks and bonds?"

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FT: Well Louisa, you should invest early, and well, and often. When you start that first job and you start making money and you're tucking some money away for a rainy day, also tuck some money away for your future, and that's where you wanna be a little more aggressive than just a regular bank account. You wanna open up perhaps a retirement account, either through your work, whether that's a 401K or 403B, or you can go to your local bank and open up an IRA - an Individual Retirement Account. And all these types of long term investment vehicles will allow

you to invest in the stock market, in the bond market, and you should. You should do this early. And I like this question, and I get a lot, but I think that sometimes when I get a question about investing from a millennial or from a young adult or a recent grad is they really wanna know how to pick stocks. They wanna know how to open up a portfolio from a brokerage, not in this way of retirement portfolio, retirement account like a 401K, but more just kinda like throwing darts at the stock market and monitoring your account. Cause it's kinda sexy, it's kinda fun. There are shows around investing, it kinda makes it seem like a thrill, and it is if you're up for the ride cause it's gonna be a very volatile ride.

But I think when you invest within the relative security of a 401K, which also is volatile - I'll be the first to admit - during the recession people's 401K's went very south, but at least there are tax advantages. Sometimes your employer offers a match that's technically free money. So look for opportunities like that. And if you are working and you're young, I think you would probably qualify for a ROTH IRA, that's where I'd start. And also take advantage of your work 401K.

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Ashley asks:

A: "I am looking to hire a financial advisor to start helping me manage my finances. What should I look for in my financial advisor? What are the questions I need to be asking to make sure I'm managing my money properly with their help?"

[00:03:32]

FT: Well actually Ashley, funny you ask that because on Thursday of this week, I interviewed my financial advisor, Stacy Francis, about this very thing. I believe that was episode 130, so check that out for sure. But I would just say to you that as you are interviewing advisors, the most important thing is that you feel that there is a trustworthy connection there, that this person understands your goals, that they value your goals. They're not throwing you historical returns spreadsheets and talking about how much they've returned for their clients over the past 5 years. That's important, but it's not what they should be leading with. Advisors should really be leading with "Who are you? Where do you wanna be in 5 years? What are your priorities? How

much money do you make? How much money is coming in? How much money is going out? How can I best serve you?" And at the end of the day you want to like your advisor, because your relationship with your financial advisor is very, very intimate. It's like you're getting financially naked with this person every time you meet. So you wanna make sure that you like them, you trust them, that obviously they're certified - a Certified Financial Professional, CFP is the designation you want - and ask for recommendations. Seek the recommendations of friends, co-workers, relatives, parents, friends, to see whom they like to work with. I would say interview at least 3 to 4 people before you make your decision, but Stacy Francis is the founder of Francis Financial in New York. It's a boutique wealth management firm. She is my financial advisor and she's on the show. Check out the episode 130 and you'll learn a lot from Stacy.

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Raj says:

R: "Hey I love your show, always top on my podcast list."

FT: Thanks Raj!

R: "Enlightening experience learning all the financial wisdom from you and the other famous personalities that attend your show. Thanks for coming up with such a wonderful show. I was wondering if you could come up with an episode or article that would teach money habits to teens. I would like to impart the wisdom to a soon to be a teenager."

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FT: Alright Raj. Well actually I have an article coming out in Money Magazine in the July issue about allowances and it does talk about older kids who are in the high school years, how to really allocate the allowance so that they really learn about, not just money management, but maybe even entrepreneurship. There are some parents out there that are telling me they are giving their children not just money for doing laundry, they don't get money for that cause that's just what they have to do, or making their bed - they don't get money for that. But they do earn money when they look around the house and find projects that they can provide for the family.

Like for example they'll look at the yard and say, "Wow, there are all these dead leaves. I'm gonna rake them, and then I'm gonna negotiate my income." They'll go to mom and dad and say, "I'll do this, but I wanna make \$10," and then mom says, "Well I'll give you \$9," and then they settle on \$9.50. So I think that's awesome cause you're teaching your kids entrepreneurship, and teens really get that.

Another way to help teens really understand money management is to have them take over an entire budget item. So if you are giving them money for, let's say you give them money for school clothes and say, "This is it. I'm giving you \$200. Have at it." The thing is they're gonna make mistakes. They're gonna make regrettable purchases, and or, they're gonna become really great at finding discounts, looking for deals, so giving them more control at that age when they're a teenager, over the allowance in terms of how to spend it is wise. Because one, they'll learn from their mistakes, but two, they'll also become a little bit more aware of the possibilities. And they'll become aware of tradeoffs, and I think that will be a really great lesson for them. But check out episodes in the past that I've done with Ron Lieber, New York Times bestselling author who's written about kids and money. There's also, let's see, Susan Beacham, also an episode. Susan runs Money Savvy Generation. She talks about teaching kids, young and old, about money. And so there are a lot of resources here at the podcast that can help you out. If you've got more questions, email me. But check out the July issue of Money Magazine coming out in around mid-June.

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And then we have a question from anonymous.

A: "Hey Farnoosh, what is your biggest financial failure? I absolutely love your show, it is part of my daily routine, but based on your reactions to guest failures, I often wonder if YOU have ever had any big financial failures. I made a lot of mistakes in my mid-20s, which completely ruined my credit score. Now, I'm trying to rebuild my finances. I was relieved to hear how Matt Giovanisci improved his credit score after also making mistakes in his 20s. I think guests would be able to relate more with you if you shared your failures with them."

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FT: Oh yes, anonymous. Where do I start? I have talked about my failures on my show, perhaps not so straightforwardly. But sometimes when guests say something that resonates with me, I will chime in and say, "Oh I've been there, done that." And so I suppose one of my biggest mistakes out of college in my 20's was that I opened up this store credit card, and it was a Banana Republic card because I started my first big job and I wanted to look good. So I opened up a Banana Republic card, they were offering me a bit of a discount when I did. Didn't know that this was probably not a good idea because of course, when you open up a store credit card, it's a very high interest rate, low limit, which makes it easy to max out, and every time you apply for a credit card - whether it's a store credit card or a major credit card - they check your credit, and that dings your credit. So credit inquiry - a hard inquiry technically.

So - that's just a side bar - I got the card, I bought a few clothes with it and a few months in, one month, I forgot to pay the bill. I did not automate the payments, I was behind on that. So I was still paying with a cheque and an envelope, and I just missed one of the payment deadlines. So I was late, and I got a letter about it, and I paid right away when I got the letter. I just didn't know I was not organized. And long story short, paid it off, never used the card again cause I was like, "This is not just - I just can't deal with this anymore." And I got scared, you know, truthfully. Didn't even think that it was gonna hurt my credit, because I thought, "It's just a store credit card, it's got a low limit. It was like a one-time late payment." And you know what? That did bring down my score. It was probably at a high 700 score, and that brought it down to a low 700, which was not the end of the world, but I'll tell you when it came back to bite me. When - a couple times - one was applying for mortgage down the road. These hard inquiries fall off your credit report, but a late payment stays on there for a longer time and at this point - it was a few years later - I was applying for a mortgage and I did not get declined, but it did come up in the underwriting and it was kind of embarrassing. It was like, "You have this late payment from Banana Republic, what's up with that? What happened?" And so I had to write a letter saying that I cleared it, it's all good.

But then, okay this is probably where I was really silly, 6 years later I'm back at Banana Republic - and I know this is not the most significant failure, but you're talking to Farnoosh Torabi, I'm not really allowed to have a lot of financial failures otherwise I'd be really bad at my job but we're being honest. So I'm back at Banana Republic, thought this whole thing was behind me, I was

pretty sure it'd fallen off my credit report, and I'm at Banana Republic with my then fiancé who's getting a store credit card cause he's buying a \$1000 worth of clothes at Banana Republic and they were having like a 30 or 40% off discount when you open up a store card. He was just starting a new job, so he was buying all these clothes. And so I heard this, I was like, "30%!" Or 40%, it was wild the discount. And I know you're not supposed to open up a card for the freaking discount, but I was tempted and I said, "Can I open up a card?" And they said, "Sure!" And do you know what? I was denied! I was denied a Banana Republic card. How embarrassing? Standing next to my soon-to-be husband, because they found out that some 6 years ago I paid that card late once, and they didn't trust me again.

So that was embarrassing and I don't think I've talked about that very much. And it wasn't like this huge cataclysmic failure, but it was very embarrassing and it was just one of those things that kept coming up in my life. It was just this issue that kept sticking, and it was because I just forgot to pay a bill, once. And that just goes to show you how important it is to pay off your bills because it just ends up haunting you for so long, and in some cases can prevent you from getting additional credit.

So there you go anonymous, what do you think of me now? But I'm gonna be more conscious of this. I'm gonna be more of an open book to listeners. While I don't have these huge major failures, I do have these little anecdotes that if you find them exciting, hey I'll keep them coming.

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Thanks everyone for tuning in. Hope you have a wonderful rest of your memorial day weekend. Tomorrow, tomorrow guys, you're gonna love our guest. It's Monday so we've always got a special guest on Monday. It's Ryan Holiday! Ryan Holiday, he's a bestselling author, media strategist, former head marketing at American Apparel. So he's got a lot of interesting things to say. He's one of the smartest people I have encountered on this show, so very excited to unveil his interview. So in the meantime, hope your day is So Money!

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