

EPISODE 428

[SPONSOR MESSAGE]

[0:00:32.1]

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[ASK FARNOOSH]

[00:00:44.2]

FT: Welcome back to So Money or welcome for the first time if you're joining us for the very first time. We're happy to have you. I'm your host Farnoosh Torabi. It's Friday, June 10th and because it's a Friday, it's Ask Farnoosh time where we have been sifting through all of our e-mails and thank you to everyone for sending in question at farnoosh@somoneypodcast.com. That's the best way to reach me and we've got a lot to go through.

And as always, my partner in crime here, Sophia, my trusted assistant who has been well, over a year you have been with me by now.

[00:01:11.4]

SY: I know.

[00:01:23.2]

FT: I guess that's great, right? That's a pretty good milestone.

[00:01:27.0]

SY: Oh yeah, it's very exciting.

[00:01:28.6]

FT: Very exciting.

[00:01:30.6]

SY: No, it is and it went by so quickly. I honestly cannot believe that it's been over a year now.

[00:01:35.2]

FT: I know and so much of course in the last year and I'm excited to see what's ahead. What are your plans this weekend Sophia?

[00:01:42.1]

SY: I think this weekend I'm just going to go up to my parent's house in Connecticut, get out of this city, enjoy some fresh air. What about you?

[00:01:50.8]

FT: Good for you, well we're going to be having part two of three of Evan's second birthday. So Evan turns two on the 21st of June, but already we've celebrated in California with my parents and now this weekend we're going to be at my husband's family's home and that will be fun too because there'll be some kids there.

There weren't any kids at my parents little pizza party but this one we'll have some kids. I've got a really fun cake. He doesn't understand any of it. It's really just...

[00:02:28.8]

SY: No of course not.

[00:02:30.8]

FT: It's just the adults and I'm thinking and then of course his actual birthday on the 21st in our building in Brooklyn where he's got all of his little friends that are going to come and I'm going to have a little pizza party for them.

[00:02:43.5]

SY: That's so cute.

[00:02:45.1]

FT: Kids eat a lot of pizza at this age.

[00:02:46.5]

SY: They do, I'm sure they do. Wow.

[00:02:49.3]

FT: And for the rest of their life, that's why I cannot shed this last five baby pounds probably it's because I've just been eating cake and cupcakes and pizza at all the different birthday gatherings but it should be a lot of fun. It's always nice to go and visit my husband's family and they live in rural Pennsylvania, which is — well it's not too rural. There's a city there but it's Amish town.

So it's really cool because you get to see the Amish community and the horses and I just am fascinated by that whole world. I would like to get an Amish person on this podcast. I'm pretty sure that's never going to happen.

[00:03:31.9]

SY: Yeah because they don't really work with technology, do they?

[00:03:34.6]

FT: No, well some do to some extent and some do not at all. They do still, for example, take the train, in some cases they shop at Costco. They may have cellphones? I don't know. I don't want to speak for the Amish community but I feel like some of them may have some ways of phones because I can't imagine, how do you get in touch with people?

[00:04:05.2]

SY: I know especially in this day and age, I couldn't imagine life without my cellphone.

[00:04:10.0]

FT: Right, so this is a quick story. I was at the train station in Lancaster, Pennsylvania one time and I shared the train with an Amish family. I got off and waited for my mother in law to pick me up and they waited for their horse drawn carriage to come pick them up. I was like, "What if there was like a delay or what if they came late or early? How would they tell their friend or their family member?" I guess they don't, it's good old days and old fashioned waiting.

[00:04:40.9]

SY: I know.

[00:04:41.4]

FT: You just show up and you wait and you cross their fingers that they're going to get there sometime in the next hour or 10 but it's the things like that that I just think are so fascinating that people are able to live productive lives. The Amish are very productive, they're very wealthy, they're a fascinating culture and community and I think I would love to interview someone. Maybe it will have to be off camera but I've always wanted to figure out a way, so figure it out Sophia.

[00:05:16.2]

SY: I will. I'll start doing my research.

[00:05:17.9]

FT: And get back to me. How can I get the Amish on So Money? If anyone out there has an idea, please let me know. That was not I was planning on talking to you about but it turns out it's pretty interesting, right? So that's what I have to look forward to this weekend and another cool thing that happened this week was I had a cool chance to spend some time with some fellow Penn Staters at an event on Thursday night in the city.

I promoted it on Twitter. If you're an alum, you were welcome to come and it was a nice little turn out. Penn State's always been a big fan of my work and very nice to me and so I gave them the big bucks. It's a nice little exchange we have going on. I donate then they have little dinner parties for me, which is nice because I get to promote the book and I connect with people from my school, which is a huge network here in New York City. I mean hundreds of thousands of people I think, over the years.

[00:06:13.7]

SY: Actually, it's so funny, my boyfriend's co-worker went to Penn State.

[00:06:17.4]

FT: I feel like you're one degree separation from somebody who went to Penn State, if you didn't go yourself.

[00:06:23.4]

SY: Always.

[00:06:26.4]

FT: Yeah it's like — we have I think the largest alumni network in New York City than any other academic institution. We graduate 40,000 people a year, or was it? No, when I was there, there were about 50,000 kids on campus and that was just the main campus. There's all the tons of satellite campuses.

Okay, I digress again. I now think it's time to go to the mail bag and start with our questions of the week. What do we have so far?

[00:06:57.0]

SY: All right, so our first question is from Katelyn. She writes in and her question is about credit card debt. She and her husband have about \$5,000 in credit card debt and they just got married actually and received \$5,000 in cash and wanted to know if they should keep that for an emergency fund or maybe use it to pay off some debt and they also have a \$5,000 line of credits on their bank which has a lower interest rate than their credit card. She wants you to recommend what she should do.

[00:07:29.1]

FT: Well, congratulations on getting married. I think look, you've got a nice little win fall here. \$5,000 and it just so happens that you have \$5,000 in credit card debt. I think the universe is telling you something Katelyn. I think it would, as much as maybe it would be more ideal if you had savings and then you could say, "Okay well I have savings so obviously I have to put that towards credit card debt."

But my feeling is that you get rid of this credit card debt, you get rid of not just the debt but the anxiety and the stress that goes along with it and then whatever monthly pay that you were putting towards that debt, that now becomes the savings for your emergency fund every month. On top of anything else that you can contribute to the savings. If you have nothing, it's really important to get going on that savings account and at the minimum, whatever you were putting towards credit card debt after this \$5,000 gets wiped out, imagine it's still there to some extent but put it towards savings if that makes sense?

And then the \$5,000 line of credit from your bank, that's nice but just have it there in case of an emergency and that could be not your savings account, I wouldn't want that to substitute as an emergency account with real cash but if there's a real, real, real emergency in the next six months before you're able to shore up a lot in your emergency savings that could be a nice alternative for you, especially if you have a low interest rate. In case of emergency, you could break open that glass.

But I would much prefer that you get rid of this high interest rate credit card debt with the win fall, start aggressively saving for your own emergency fund and then have that line of credit out there available to you in case of a real disaster, which I hope will never happens but it's nice to know that it's there. It's low interest but don't start using it because it's there and you want stuff but I trust that you'll make the right decision.

Katelyn thanks so much for your question and thank you for listening to it every day, that's huge. How do you like the word gone to three days? Are you missing the five day per week? Are you missing the seven days per week? I hope not because I'm never going back to that. Never! I can't, I can't do it! Neither can you Sophia. That was a lot of work for the two of us.

[00:09:41.0]

SY: It was, it was. I am happy that we're done to three.

[00:09:44.7]

FT: Yeah, much happier I have to say. I hope you're enjoying it because it's really been great for us. It's opened up a lot of free time to do other projects that we're really excited about. So thanks Katelyn and I see we have a question from Taylor.

[00:10:02.5]

SY: Yeah, Taylor writes in and says:

[00:10:05.5]

T: “Thank you so much for giving some solid advice on IRA’s”.

[00:10:08.5]

SY: Taylor is thinking of converting his 401(k) into an IRA next month so wants to know, “What are your top tips or habits for getting the most out of an IRA?” Are there any episodes that maybe he should go back to?

[00:10:23.2]

FT: I don’t recall any specific episodes that were a lot about IRA’s although check out anything with Sophia Bera or Britney Castro or my financial adviser friends who come on from time to time sometimes on Ask Farnoosh. I think almost always we end up talking about IRA’s because retirement is such an important topic and it does come up a lot with the questions.

I think to get the most out of your IRA, it’s simply to max it out every year and this year I believe the limit, if you’re under the age of 50, is \$5,500 as far as being able to contribute an amount that will then reduce your taxable income in the current calendar year. So that’s one way and then I understand your converting here.

So 401(k) into an IRA, just make sure that that is a direct roll over. That you are not getting a check in the mail from your 401(k) company because in that case and it probably won’t happen but just be very specific that that money gets directly transferred into the new IRA and if it doesn’t, the risk you run there is that it’s going to go down an as early withdrawal and with that comes penalties and of course taxes.

So just make sure that it is a seamless direct rollover and you can work through your existing IRA company and of course your 401(k) provider, your previous 401(k) provider to make sure that that is what happens and that’s it. I would just say that after you do the rollover that you continue to invest in this IRA.

Even if you get a new job that has a 401(k) that you do both, because the 401(k) might have different kinds of investments, you can invest more in a 401(k). There might be a match, which would be really great. Then the IRA I would say would be a supplement but not something that you would do once in a while. That you really commit to maxing it out as much as possible.

[00:12:28.6]

SY: Okay.

[SPONSOR BREAK]

[00:12:31.3]

FT: Need a website? Why not do it yourself with Wix.com? No matter what business you're in, Wix.com has something for you. Used by more than 84 million people worldwide, Wix.com makes it easy to get your website live today. You need to get the word out about your business, it all starts with a stunning website.

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[CONTINUED]

[00:13:32.1]

SY: All right, so the next question comes from Mutali. She and her husband both have very comfortable incomes. They currently own a town house and have a 30 year mortgage but they're thinking of maybe investing in a rental property in downtown Chicago and if everything works out, they're hoping that that rental income might be able to help take care of their mortgage payment and maybe some other expenses.

So they're wondering if maybe this would be a good investment? They're expecting a child this year and Mutali is also considering maybe going back to school part time so not sure if this might be the best investment opportunity.

[00:14:09.7]

FT: Wow, okay so they're having a baby? For me, that jumped out because I've been there and how exciting, congratulations Mutali. You guys must be over the moon. I know lots of emotions, lots of preparation and probably a little bit of stress, right? Because there is this unknown factor called "what is it going to cost to afford a child?" And you know that it's probably not going to be inexpensive, I'll tell you that much. It's not inexpensive.

So I don't know, I feel as though unless you're just loaded, you have so much money, there's so much to go around that you could comfortably afford this rental property and you could comfortably have a lot of savings for your child that's about to be born and you can comfortably make all of your monthly expenses and then there's even some money left over, then yeah. It sounds like that would be a great investment opportunity.

But you also mentioned that in addition to having this child, you're also thinking about going back to school part time. What's that going to cost like? So honestly Mutali I would just say sit down with an excel spreadsheet or a pen and paper, good old fashion pen and paper, and write down all of your current expenses, your fixed current expenses that probably aren't going to change like your mortgage and other living expenses.

Then also, account for all of the future expenses. If you go to Babycenter.com, I like going there sometimes because they have these calculators that will help you assess what it may cost to raise your child in the first year. If you're planning on having child care, breast feeding versus

formula, all of that stuff cost money but different types of money. So it's important to get a sense of ballpark figure how much you want to have set aside for those expenses. Then of course, grad school, what's it going to cost if you go back part time.

Then from there, I think you may be able to better assess on your own whether this rental property investment is really something that is feasible and it maybe that now is not the right time because you have a lot of balls in the air and with unknown expenses around the corner, it's just better to have cash on hand for that as opposed to putting it into this rental property.

Even though you will be cash flow positive, you've still got to find a renter and there's a lot of not just money here that has to be put to work but time and effort that has to be put to work and if you got other things in your plate, it's a serious investment, a rental property. It requires a lot of focus and dedication and so this may not be the best time but I don't want to be the party pooper here. I think that first and foremost, just go and run the numbers and be conservative.

Really, I would say whatever you come up with in terms of child costs in the first year, maybe add an extra 10 or 20% just because you don't know. You just don't know, and same with school. Really look at options there. Maybe there's a few different schools with a few different financial options, maybe there's grants you can get, fellowships, things like that to make it more affordable and if that's the case and there is a lot of money left over then the investment property sounds great.

I think the investment property in and of itself sounds like a great idea but all the other chips have to fall into place and I think you know that. So I hope I have given you some sense of direction. I'm sorry I can't say yes or no for sure here but I think that's what I would do if I were you. I would go back and just really be clear on the numbers. All right.

[00:18:08.1]

SY: All right, so the next person actually writes in and he's following up a question that he had a couple of weeks ago. It's from Phil.

[00:18:16.8]

FT: I love follow ups. This is great, they're following directions. I love it when people follow up because I hate giving advice and then I don't know did they take it? Did it work, did it not work? Am I full of crap?

[00:18:28.8]

SY: Well Phil writes in and he wants you to know, he's one of your ambitious, talented male listeners and he writes in saying:

[00:18:36.8]

P: "I asked advice regarding a yearly review and salary negotiation. I wanted to say thank you so much for the advice. It was very thorough and detailed."

[00:18:46.8]

SY: And what actually ended up happening to him was both good and bad. They did his review last month and they actually increased his pay by 29% however he was disappointed because he couldn't practice his negotiating skills but nevertheless, he wanted you to know the podcast is awesome and to keep up the good work.

[00:19:05.9]

FT: All right, well I mean yes, maybe you didn't get the chance to negotiate but you didn't have to go through the ordeal. We want to negotiate and it's important to practice but what's better is you just got what you wanted. A much quicker solution here and they just gave it to you, and I bet they knew that you were somebody who deserved it and was worth it.

Maybe you didn't negotiate directly but perhaps through your presence and through your work and through your ambition, they saw that. That was a silent negotiation that you did there, right? Because it was like you're really showing up for work and sometimes the negotiation is not just the back and forth in the room, in the one scenario, in the one instance.

Sometimes, remember your output at work, you're negotiating for your job every single day. When you do a good job and you lead well and you fulfill goals and you really show yourself well at work, every day you're winning and every day you're leaving an impression to the people who have or are in a position to give you more money and give you a promotion.

So every day you're in a position to negotiate in some way even though there's not that back and forth but to really prove yourself and that's really what a negotiation is, proving yourself and making a case for yourself and so I think you should deserve more credit Phil. I think that maybe next time you'll be able to really duke it out in the negotiating room and get even a bigger raise but enjoy it man. 29%? That's a huge, huge bump.

So congratulations. I hope you're going to save some of that money and I hope you have some fun with that money. I hope you're going to go on a nice little vacation or something or buy yourself something nice and pretty but better the vacation because we know that inanimate objects do not actually lead to happiness but I'm glad that the podcast is working for you and thanks for the follow up.

[00:21:12.6]

SY: All right, so the next question comes from Ashley who you also answered one of her questions a couple of weeks ago but Ashley is back with another question.

[00:21:20.2]

FT: She's back.

[00:21:20.8]

SY: She's back and ready and ready to ask another question. She writes in that she recently bought a car and pulled her credit score from Experian and was actually excited to find out that her score was in the top 10% of the country. But that being said, a few weeks later in the mail she received a letter from TransUnion saying that her score was a bit lower.

So she wants to know what gives and how do you accurately know your score? Should she maybe pull from each and average it out?

[00:21:49.7]

FT: All right, so this happens sometimes. Note that there are three major credit reporting agencies, Experian, Equifax and TransUnion. They don't all work together. While a lot of them make the same effort to calculate your score and to compile your credit information, sometimes they compile things differently at different times and so they're not all going to have the same exact information at the same exact time.

But if there's a huge discrepancy, I would first pull my credit report from all three major credit reporting agencies. You can go to Annualcreditreport.com and do that once a year for free from all three agencies and just do an apples to apples comparison and if there's a really big difference in what TransUnion is reporting versus, was it Experian or Equifax?

[00:22:43.8]

SY: Experian.

[00:22:45.2]

FT: So that may mean that there's something on your TransUnion credit report that is either wrong or inaccurate or missing and that's something for you to discover so do that. That's the first step, go to Annualcreditreport.com, pull all of your credit reports and I would even pull the third credit report from the agency that you have and really explored. Pull all of them and just see what's going on.

That might give you your answer and if you do notice a mistake, there are ways to correct mistakes and the best way is to contact the credit reporting agency, whether in this case it's TransUnion or the other one, and let them know that there's a mistake and you can go onto their websites and there's actually forms online that you can fill out to make the claim to dispute and I

believe they have just a limited number of days to research your claim and come back to you with either a correction or an explanation for why the report is the way it is.

Once, let's say they say, "Okay, it's a mistake, our bad," they have to then, it's their responsibility to contact all of the other credit reporting agencies to make sure they don't make the same mistake and if they do, that they have to also get rid of it. So I'm sorry to say that there is a little bit of work here for you that you probably should pull your credit reports and just check the information.

Check little things too like do they have your address correct? Is your social security number correct? Are the accounts listed, all your accounts? Gosh I would hate to find out and you would hate to find out that maybe your identity has been stolen. I don't think that's the case. It doesn't like that's what's going on but good advice for everybody. Once a year it's free, why not?

Go onto Annualcreditreport.com and pull your credit reports. Just make sure that everything is correct. I read a survey one time Sophia that something crazy like 25% or more credit reports have mistakes. Again, it could be as minor as a misspelling of your name or a wrong address, apartment number or something but it could be as serious as opened accounts that you do not open.

[00:24:56.2]

SY: I believe that.

[00:24:58.4]

FT: Which indicates something more serious going on so just check because this is only your responsibility and hopefully it's something that can be corrected quickly but it's good that you're doing this now before applying for a loan, is that — that's right? She's on her way to applying for something?

[00:25:13.9]

SY: Yeah, she's hoping to get a new car.

[00:25:15.5]

FT: A new car right. So always a good practice to do your own peeking at your score before you apply because if there is a huge problem where you need to repair your credit score, you can do that before the lenders get a look at your score and then you can apply with more confidence.

And that's a wrap. Thank you so much Ashley, thank you Phil, thank you Mutali, Taylor, Katelyn, Phil again, high five man of getting almost 30% raise and not having to negotiate for it. That's the best case scenario. I would love to find out, e-mail me and tell me, if you know, what prompted it because that's pretty awesome. Usually if you get a review, you get maybe a 5% raise, 10% would be really good, 30% almost is pretty awesome, so keep in touch and let me know the deets.

All right Sophia, I hope you have a great weekend in Connecticut. Everyone else, I hope you have a great weekend, enjoying, relaxing the almost summer. It's pretty much summer, right? We can say that. June 21st is the official summer start and that is also Evan's birthday. He's a solstice baby and I'll see you all back here on Monday.

Thanks so much and have a So Money weekend.

[END]