

EPISODE 488

[ASK FARNOOSH]

[00:00:32.3]

FT: It's Ask Farnoosh Time. Welcome back to So Money, how are you? I'm your host, Farnoosh Torabi. It is October 28th, Halloween weekend. Tell us what your plans are. I'm here with Sophia, by the way. Sophia welcome to the show.

[00:00:47.8]

SY: Hi.

[00:00:48.7]

FT: Hi, so we've been talking about Halloween for a while now. I think we've gotten Evan secured enough to be in his firetruck costume, not a fireman costume, and we'll be going to our friends house upstate, which is going to be nice fall trip because the drive will be nice and they live near Sleepy Hollow, which is of course is your quintessential Halloween spot. So we're going to be there and spend some time with other kids and other cool adults wearing uncomfortable costumes.

I am not probably going to wear any. I'm going to be pregnant, that's my costume and I'm going to just wear something that embellishes my ever growing bump and the other day, someone was like, "You look so cute," and I'm like, "This is as cute as it's going to get people, okay?" I'm five and a half months and in about five weeks, 10 weeks, it's just going to be ugly and painful and I think I'm going to have to be home for the next, I mean I don't know? Maybe I'll be fine but I have a feeling that it's going to be a tough winter.

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SY: You can be Rachel on that episode of Friends on Halloween, when they asked her what she's being for Halloween and she's pregnant in that episode and she says, "I'm a woman who bought a cute dress and I'm not going to be able to fit into it a couple of months so that's what I'm wearing."

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FT: Perfect. So I'll come up with a story, yeah. I know, this is what I really miss is there's so many cute clothes out right now for fall and I can't wear any of them. Before I got really big, I did this splurge, which is just collecting dust in my shoe closet. It's these really cute grey suede pair of over the knee boots. Hopefully next fall they'll still be in style.

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SY: Oh I'm sure they will.

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FT: I hope, because then I'm out a lot of money. All right so that's my little rant before we get to the questions and it seems this week, Sophia, we have a bit of a theme and we have some people who live abroad who are concerned about their credit scores.

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SY: Yes, that does seem to be the theme and our first questions from Brent, he is an American living as a resident in Canada and right now he wants to know how he can maintain a good credit score here in the states in case he ever moves back. He says, the exchange rate makes money transfers to the US painful and he doesn't want to find a reason to spend US dollars if he doesn't have to.

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FT: I guess that's just the price of moving to a foreign country where you have a credit card that's based in the US and wanting to maintain good credit. So it just sort of depends on how important this is to you and maybe, you don't have to go and spend a lot of money on this card. What you could do to keep your cost low and therefore the exchange rate not to be that big of a burden Brent, is to just tie this credit card to one small expense a month. Maybe it's a \$50 expense or something that you are committed to paying off regularly and that will help to maintain that credit card in good standing and you can continue to build credit. And then Will has a question, he's a US citizen.

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SY: He was living in the UK, now he lives back in the US.

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FT: Okay, so he's a US citizen, he was living in the UK, he's moved back to America and he's having some issues with credit?

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SY: Yeah. So he has a great credit score in the UK but then now that he's back in the US, he's trying to build his score here back up. So he started applying for a bunch of credit cards and he's getting denied, he has four hard inquiries on his credit report and he wants to know the quickest way he can improve his credit and he also wants to apply for a mortgage.

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FT: Okay. I wish he'd ask me this question before he applied for all these credit cards. Good news is that credit inquiries, hard credit inquiries don't stay on your credit report forever. Within a year, they start to lose their effect and then they drop off your credit report after two years. A foreclosure could stay on your credit report for seven, 10 years, but this is minor. The other thing I would say is, if he wants to start really establishing credit and avoid getting denied all the time, is to go open up a secure card.

A secured card is a card that you can open up, virtually any bank, credit unions, community banks, it's a piece of plastic, you load it with your own money, usually 300, \$500 to start, not huge "credit limits", because it's really your money and then you go and you spend on this card as if it were a credit card, you pay off the bill every month like you would a credit card but you're really just paying yourself back.

So there's no risk to the bank, it's really your money that you're using and paying back yourself every month with this card being the vehicle, this secured card. You'd use this card well for a year meaning you're using it and paying off the balance in full every month like a credit card. Within a year, you could graduate into a real credit card. This is really like a credit card with training wheels.

The good news about secured cards also, for the most part this something you want to definitely verify before you open one, but most times, the activity on that card does get reported to your credit report. So if you act well with this card, you pay off a bill every month in full, that does translate into a gold star on your credit report. So you're establishing credit while you're using this card.

It's not going to be a full-fledged credit card but if you are responsible with it then in about a year you could apply up to a real credit card with a real line of credit from a bank and start to fortify your credit profile that way. As far as getting a mortgage, I don't see that in your near future right now because you don't have credit, really, a credit history in the US.

These are all really good questions, I guess it's tricky because our credit system is our credit system. It's the US credit system. It's not a universal credit system, so you have to play by the US's rules when it comes to establishing credit here and secured cards are very popular vehicle for people like you, Will, who are ex-pats coming back to the states or people who are coming back after a huge setback in their financial life; a foreclosure, a short sale, things like that, bankruptcy. It's a great way to slowly but surely rebuild credit.

And then we have a charity who lives in Japan?

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SY: Yeah, she lives abroad in Japan.

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FT: It's the international episode of So Money.

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SY: I know. So her and her husband do well financially when they have gigs lined up. They're performers and she wants to know what your financial advice for people who have good but unstable careers is, other than just getting a new career because they liked what they do. But they make about \$100,000 per year combined, they have a Roth IRA in a traditional IRA, which both amount to \$8,000.

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FT: What I would say is for anyone who has unstable income, and that's me. I basically don't have a nine to five job where I get paid every two weeks. Sometimes I miss that because I can't always foresee what my monthly budget will be. However, once you kind of get on a good pace of earning, and in this case it sounds like they're doing really well, both making a combined income of \$100,000 a year, they love their jobs. So I would just say that you want to be really careful about your savings cushion. You have retirement which is great.

But what about a rainy day? What if you go three months dry and don't make any money? Could you still pay for your living expenses and that is the biggest risk of working for yourself and not having a consistent paycheck is that rainy day because you don't know what's around the corner, you might have a very quiet six months. It's really important to have, I think for freelancers and people who not knowing when their next paycheck's going to be, to have about a year's worth of rainy day savings tucked away. I know that's aggressive. You'll have to get this figured out overnight.

Work towards that and maybe you have already three months and that's alright but I would say, if you have extra money to put that towards the rainy day cushion that to about a six month, nine month place and then double down on the retirement accounts. It's tough I know. Just get in to it, a really devoted habit of saving 20% of every paycheck immediately and putting that in savings and then by the end of the year, hopefully you'll have a really solid cushion.

[SPONSOR BREAK]

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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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FT: Would you ever consider going freelance Sophia?

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SY: I would, just because I've heard so many success stories of people making more money than you do in a corporate job.

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FT: Yeah. You definitely can make more money, the caveat is that you also have to pay for your own expenses that sometimes an employer pays for, right? So like health insurance and even for me, that was scary. I also missed having silly things like access to a free phone and a copy machine and a desk that I could go to. Working from home is definitely all it's made out to be. However, it's nice to also go to an office and be with people and collaborate.

So there's pros and cons but certainly once you kind of figure out, "Hey, I can make all this money," and then you really learn how to optimize your taxes, that's the sweet spot. So sometimes hiring a good book keeper or a CPA could be worth every penny because they could save you a ton of money on the tax end and then you end up coming out ahead as a freelancer.

Then we have this question from Jessica who wants to learn how to invest more.

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SY: Yeah.

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FT: I love when women want to learn how to invest more. We need more questions like this.

[0:11:56.1]

SY: Yeah, so she's a recent college grad and she wants to learn more about how to invest and how much she should invest when she starts making some money. She wants to know if you have any book recommendations for millennials or maybe older podcast episodes that she should reference?

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FT: My advice is that once you get that job, you invest in your company's 401(k) or 403(b), whether you're working in private or public sector. Hopefully there is a retirement plan there for you. If it's a big enough company with enough resources, typically there is something like that and they may even match your contribution. So definitely take advantage of that. Open up the 401(k) immediately, don't hesitate. I would say a good savings rate of a 401(k) is anywhere from 10 to 15% of your paycheck. T

That may seem like an impossible amount of money to put towards retirement at this stage but rest assured, it won't be painful. Because it will be automatic, coming out of every paycheck and it's a lot easier that way than have you do it yourself after the fact, after you get paid. It will feel more painful and then you get to also lower your tax exposure. You'll make some money back in April when you file your taxes hopefully. If you don't have access to a 401(k) then the next best option would be a Roth IRA. Especially if you're young and you're making a starting salary, a Roth IRA is fantastic in the sense that it allows you to save for retirement and the money is saved post tax but you get to withdraw the money in retirement tax free. So that's the benefit.

It's a little different than a 401(k), whereas you get the tax benefit today. With a Roth IRA, you get the tax benefit when you go to withdraw the money in retirement. But then also your contributions to a Roth IRA are available to you at any time. So that's another reason people like it because it's a kind of a hybrid vehicle. Yes, it's for saving for retirement but in an emergency, you could also take out your contributions and pay for some other necessary expenses and again, for that, I would say try to max it out. It's not as high of a contribution limit as a 401(k). Limit for the Roth IRA this year is \$5,500.

So do that and maybe you could do both if you've got the 401(k) and you've got some money left over, also open up a Roth IRA, it's a great way to diversify our tax exposure and retirement. When you're young, and Sophia, I'm preaching to the choir here because you know this. But when you're young, compound interest is magical and the charts show that when you're 25 and let's say you save \$10 a day in a Roth IRA, right? You turn 35 and you stop, for 10 years you put \$10 bucks in a Roth IRA and every year it compounds the interest rate's say 5% on average.

So then you stop and then you arrive at 65 and you've got all this money because it continues to compound. Even though you're not adding money, that money compounds. You'll have more money in retirement than someone who starts to save at 35 when you stopped, the same amount of money \$10 a day for 30 years at the same rate. So there you go. Starting early and letting your money compound early, even if you let it sit for another decade or 30 years, will be a boat load of money for you in retirement.

So take advantage of your youth and the fact that you're just you and maybe you don't have dependents, you don't have a mortgage yet and you can put this money all towards you. You can be selfish with it, so take advantage of that. Whereas I think she was asking me about stocks and how much to invest in stocks and tell her more about like day trading maybe or investing. That's not something that we really like to promote on this show. There's definitely something to be said about educating yourself about stocks and learning how the volatility and how stocks move and what drives markets.

I have a background in that as well, it's very helpful as you're investing for retirement but we take a very passive approach here on the show where we like to just stick with the low fee funds, index funds, ETF's and trust that over the next 30 years, if we start young, that we'll end up with a positive gain. It's not about worrying about the gyrations in the stock market, "Oh my gosh, I need to react to this news today because the Dow is down 1% or whatever." Again, that's all good context and there are lots of books out there.

There have been guest on this show from Frank Curzio, just look up the archives, look up "investing" in the search menu at So Money Podcast and I'm sure you'll find a lot of archived episodes that can give you some more context. There are a lot of great books too out there as well. Warren Buffett's written a number of them and so I would start there. Then we've got one last question from Carrie or Carl.

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SY: It's from Carrie.

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FT: Okay, I have my glasses on today and I still can't read.

[0:17:11.3]

SY: So she wants to know if you don't want to get married, how do you prepare for your future? Does it still make sense to buy a home and how should you save for retirement?

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FT: I don't really know if there's a difference. I think that if you want to buy a home, you should buy a home. If you want to save for retirement, you should save for retirement and I don't think that the strategy's any different. Of course when you're married there's more money, presumably, to go around and that could mean that you could get a bigger house or you could have more for retirement as a couple.

But even if you're married, I would say you need to look out for number one, that's you. You know, you need to make sure that you're saving for your retirement and that your partner saving for his retirement. Hopefully you'll both arrive a retirement together and there will be lots of money to go around but you should always think very autonomously when it comes to your money sometimes. Even when you're married it's important to maintain some financial autonomy, to have some freedom with how you spend and how you save and how you plan for the things that you want to buy.

You know, Carrie, I don't really have any different advice for you. I would just say, sometimes when we have this expectation that we're going to get married, we might not be so insistent upon ourselves to save or invest or — because we're like, one day there will be two of me, two incomes, more money I can rely, be dependent on my partner or rely on my partner for some support. That's definitely an advantage to being married but I think you should always still be able to stand on their own two feet. That should always be the goal.

Because that's just icing on the cake when you get married and your partner can be a source of support for you and vice versa. But you shouldn't expect that and that shouldn't be the reason that you want to get married. You do what you want to do and you do the math for you and you save for you. It's true that as women, we live longer than men, so you might want to take that into consideration. So, Carrie, make as much money as you possibly can, that's the bottom line. Just live your life to the fullest, earn to the fullest, save to the fullest and if you get married one day, fantastic, you'll be a catch.

All right guys, and read my book, *When She Makes More* because sometimes that happens when you're in a relationship. Even if you're not in a relationship and you're a woman who has got a lot of financial independence, on your own two feet, how do you navigate the dating world? What happens when you think you want to get married? You can change your mind. I thought I wasn't going to get married one day, I had definitely a moment when I was like 20 and I was like, "I think I'm good, I think I'm just going to not get married." But you're allowed to change your mind. Come back if you change your mind, maybe I'll have some more advice for you then.

But thanks Sophia for ushering these questions in and all of you for submitting your questions. I hope it was helpful and we always like to hear back from you. When you take our advice or not take our advice or take our advice and things don't go well, let us know, let's continue sharing and keep learning. Thanks and have a great weekend, I hope it's So Money

[END]