

EPISODE 530

[ASK FARNOOSH]

[0:00:35.6]

FT: You're listening to So Money everyone. Happy Friday. The 1st Friday in February. It's my birthday month. Just putting it out there. I don't expect any gifts, but if you want to shower me with a review on iTunes or recommending this podcast to a friend, that is a huge gift to me and to all of us here at Farnoosh Inc. By all of us, I mean me and Sophia who are very grateful for your support and work very hard to make this podcast possible as frequently as we do.

And speaking of Sophia. Welcome to the show.

[0:01:05.6]

SY: Thanks for having me.

[0:01:07.2]

FT: February is my favorite month, and just for obvious reasons, it's Valentine's Day — February. I'm not really a Valentine's Day fan, but love is in the air in February, right?

[0:01:16.9]

SY: It is. It is.

[0:01:18.2]

FT: It's a romantic month.

[0:01:19.7]

SY: It is.

[0:01:22.0]

FT: It's not the warmest, but it's definitely, I guess, maybe a reason to cozy up to somebody, because it's cold. I actually discovered a study recently that listed the top 10 states for romance. New York was not on the list.

[0:01:36.5]

SY: Oh! That's surprising.

[0:01:38.1]

FT: Not so high on the list, New York. I think they were like in the double digits. A lot of cold states were on the list; Alaska, the Dakotas. I'm thinking that's because you need a warm body to warm up to. Thus, the romance ensues. That's my hypothesis. I digress.

We have good news — A lot of voicemails to catch up on. You have been listening to the show y'all and I appreciate that you've been using this little tool that we have on the website called SpeakPipe. Of course, you can always write in your questions for these episodes, but we wanted to shake it up a little bit, hear your voice, connect with you on a different, cooler level. I'm happy to say, Sophia, we have multiple voicemails that have been actually piling up.

I didn't check the site for like a week and I came back and it was nice to see many new voicemails. So if you've been waiting for your voicemail to get aired, this is probably the episode. We're keeping a few more for next week as well, but keep them coming. We love hearing your voice.

We're going to go to the first one who is — Who, Sophia?

[0:02:45.8]

SY: The first question, it's from Cody. Let's take a listen.

[0:02:49.2]

C: Hey Farnoosh, this is Cody in Louisiana, and I have a question or you regarding W-4s. What is your take on income tax return? I've been thinking about changing my W-4 to what I currently am, married with two kids. The current status on my W-4 is single and zero as I have never changed anything over the years. Would you recommend me changing it to married with two kids so I could get a bigger check during the year and possibly use that money to invest? Or let the government keep taking out as much as they can, and when I get my income tax return, invest that money? Thank you.

[0:03:28.2]

FT: All right, Cody.

[0:03:29.3]

SY: Farnoosh, what do you think he should do with this income tax return?

[0:03:32.8]

FT: His income tax return — Listen, this is something that I don't mess with. I don't mess with income tax returns. I don't mess with allowances. The thing is, when you're married and you have kids, that changes your whole situation and the IRS requires knowledge of this. I don't think it's illegal, but I think that there is going to be an issue if the IRS finds out that in fact you are married and you have kids and you haven't been claiming that on your W-4, or W-2.

You just need to do the honest thing. That's my advice. Each allowance that you claim will mean less taxes taken out of your check, so that may mean that Cody is not going to get as big of a tax refund. He might even owe taxes come April 15th. But I don't really see a way around this. You just need to be truth about your marital and dependent status.

I will say this too, I once worked with a tax attorney and it was the year I was getting married and I had been telling him since I was engaged that when we file our taxes for the year that I get married. We need to make sure that we adjust this on my tax return, make sure that I claim. And he didn't do that. When I got my tax return that he'd done for me back, I said, "We have to fix this." He goes, "Well, what did your husband do? Did he also tell the IRS that you got married this year?" I said, "Well, yeah, because that's what actually happened and we're being truthful." "Because — Oh, well, if your husband hadn't said that, then you wouldn't have to say it and you could just write this as a singleton and ultimately probably pocket more in taxes." I was like, "You're fired."

That's actually what happened. That was a big red flag for me, because I was like, "This guy is trying to work around me." So in my mind, I'm like, "Maybe that's not illegal, but it's not truthful and — I don't know. I don't mess with Uncle Sam." Just better be safe than sorry. In the end, how much money are you really talking about? I don't know. I don't know if you're going to lose some, make some, but just keep it truthful. Keep it honest. Keep it real, Cody, and I think you'll sleep better at night. I'll sleep better at night knowing that my listeners are doing the right thing.

All right, let's move on.

[0:05:49.3]

SY: Okay. Our next question is from Michelle. Let's take a listen.

[0:05:54.7]

M: Farnoosh, I always hear financial advisers say the best time to buy stock is when it's on sale. I completely understand this concept. What I don't know is the best way to go about finding the stocks that are on sale. I'm thinking there's a financial tool, dashboard, website, or an alerting tool that I'm missing. Please help. I would love to get in on the action when the stocks dip and the sales are on. What do you use?

[0:06:20.9]

FT: Okay. Well, we don't really talk about investments so much on this show as far as stock picking and trying to time your investments. We like to talk about long term passive indexing, passive investing. Of course, you can't ignore the news. If you watch CNBC, you're bound to start getting curious about stock movements, and pricing and I worked at TheStreet.com with Jim Cramer, and so this is very much a piece of my history as a financial reporter.

I also studied finance, so I have some background on this, but I don't really act on it. I think that, Sophia, when she is hearing about stocks going on sale, which we hear often when the market tumbles and the S&P falls several hundred points, or the DOW falls over a percentage, people actually find that to be an opportunity to buy into the market. I would agree with that to some extent. I think that how I calm my nerves when the market is being so volatile and up one day and down another is to say, "Well, when the market is really selling off, this is actually a good time to buy in." Warren Buffett will probably agree.

But to her question about what does it mean when a stock is "on sale", what I think pundits and advisors are really talking about is they're referring to — now we're going to get a little technical here, so maybe have some coffee so you'll stay awake for this, because I might fall asleep. They're really talking about stocks price to earnings ratio, PE ratio. This is one of the old school tenets of finance. It's one of the first things you learn as a financial student. What that's equal to is the price an investor is paying for \$1 of company's earnings or profit, and you calculate it by taking the share price of a stock dividing it by its earnings per share. By the way, earnings per share is calculated by earnings divided by total shares outstanding.

Again, this is a very common metric in the market to basically value a stock's worth. It's just one metric though, and I would be skeptical of just going by this alone. By the way, are you guys still awake? Are you still awake, Sophia?

[0:08:38.6]

SY: I am.

[0:08:39.7]

FT: Okay. I'm worried, because this is getting into like really technical terrain, which I don't like doing on the show, and you're taking me all the way back to my finance classes at Penn State, which also were very sleep inducing. I'm not a stock picker. I've never been a stock picker. Like I said, on the show, we like to talk about long term investing, broad based diverse portfolios. Never buying or selling individual stocks on any particular piece of news or market moves. But, listen, I know people are interested in this. I'm not going to deny that.

If you want to learn more about stock movement, stock pricing, when to buy, when to sell, don't come to my door, because I'm not the best person. But you should read thebalance.com. It's a good website. Actually, that Mr. Money Mustache who's been on the show before has some really, really thoughtful pieces on investing on his site. Then, *The Intelligent Investor* by Benjamin Graham, who is — They call him the father, the grandfather, the founding father of investing. Warren Buffet, in fact, talks about how when he was a teenager, he got a copy of Benjamin Graham's *Intelligent Investor*, and it really changed the course of his life. He called it one of the luckiest moments of his life. It gave him the intellectual framework for investing.

If you want to be like Warren Buffett, or Benjamin Graham, read *The Intelligent Investor* and let us know how else we can help you; if you want to learn how to save more, make more, retire well, quit your job, find a job, start a business, that's what I like to talk about. So I love the question. I appreciate the question, and I hope you'll find better answers with those resources.

All right, everyone's awake. Good. Next question.

[0:10:29.2]

SY: Okay, so our next question is from Sarah, and it's regarding freelancing. Let's see what she has to say.

[0:10:36.5]

S: Hi Farnoosh, my name is Sarah. Thanks so much for all the great content you put out there. I recently found the podcast and I'm loving it. My question is about freelancing. I jumped into freelancing without really understanding how it works. I started doing website editing for a small

company a few months ago and it's bringing in between \$100 and \$200 a month. Not that much, but this is a side job for my 40 hours a week regular work at a nonprofit, and that covers all my basic expenses and needs.

I'm hoping that this money will help me pursue my true goal of attending a certification program in 2018 and pursuing a completely different career path. Any advice you have for me on what to do with this money in the meantime, or if it might make sense to save it a certain way, or how it might impact my taxes. My taxes have always been pretty simple.

[0:11:31.5]

FT: How to save the little money that she's making? Where to save it? How might it impact her taxes? I think that the thing she needs to do is just, yes, save it in a separate bucket. Keep track of it. Also, keep track of your expenses related to this side gig. I'll get back to why in a second.

In regards to saving, she could open up an online account. She could create a separate account at her existing bank, and some banks do let you do this; compartmentalize, or label an account for a specific purpose so that you can visually see that particular goal growing.

Don't worry about interest or investing this money aggressively, since, I guess, she wants to tap this soon, like within a year, so it's not something that will benefit from long term interest. As far as how this will impact her taxes — Again, keep track of any related expense if this is — It's a website. Your server cost. Your design costs. If you have a MailChimp or a newsletter service, anything that has to do with the business that you're paying out of pocket for. Keep track of that. Keep receipts.

Also, report all of the income. Whether or not she's going to get taxed is going to depend on the amount of the income as well as her related itemized expenses. As an example, let's say she, in a year, makes \$1,200, but maybe she had \$2,000 in related expenses to run the site, to do her side gig, it's possible — Don't hold me accountable to this, but it's possible, after the running the numbers, that the IRS will not charge her any taxes on that income because, technically, she was operating in a loss, but you have to report all any income to the IRS. Then, cross your fingers that you're not going to owe as much, or too much.

I think having expenses and listing them and keeping track of that will help to reduce her tax exposure on that particular side income. Additionally, I would say, because this is something that I went through. If she thinks that this side income and this side gig will ultimately become a business, a full-fledged business, then sooner than later, I would say open up a business bank account. To do this, she'll want to get incorporated. Become official. Get a corporate I.D., a certificate of incorporation. You'll need this in order to open up a business bank account anywhere. You can start getting certified as a corporation by contacting your state office that's responsible for registering corporations in your state. You can Google it and you can do a lot of these work online.

You could work with a tax preparer, or rather, a tax attorney. It's faster, but it's obviously more money. If you wanted to do this on a budget, then you can just contact the state office directly. They'll give you the forms, they'll give you the fee schedules. There's also some sites out there, like legalzoom.com, like legal DIY sites that can help for a little bit of money, but less than, of course, working with a tax attorney.

So there's a few avenues you could take, but this is only if she really sees this becoming a business and wants to start ahead of the game, getting this money appropriated for the business, sheltering it a little bit as far as taxes go, because, now, you're a corporation. That does help with taxes. That's what I would say.

I think our next voicemail, Sophia, has also to do with taxes. What's that question?

[0:15:15.8]

SY: It comes from Jennifer, and she wants to know whether or not she should open up an IRA. Let's hear exactly what she has to say.

[0:15:24.1]

J: Hi Farnoosh, my question involves opening an IRA for tax sheltering purposes. My husband and I make roughly \$180,000 a year for a family of five, and once I plugged in some of our

numbers on TurboTax, there is a possibility we may be owing taxes for the year. My question to you is would it make sense to open an IRA to avoid paying taxes to the government? Thanks so much for your help, and I love your podcast.

[0:16:01.8]

FT: I do think that opening up a traditional IRA could reduce your taxable income. Remember, the contributions to an IRA up to \$5,500 this year can be deducted from your taxable income, which ultimately reduces the taxes you'll owe. It could be more money in your pocket come tax time.

I think that if you're using TurboTax, Jennifer, you could probably refer to them to help you run that calculation for you to just do that comparison. Yeah, I think that's one of the reasons many people open up IRAs. Obviously, it's a great vehicle to save for retirement, but the tax benefit is also what makes it super attractive. I would definitely explore that further.

All right, thanks for your audio questions. Let's go to some written questions now. We have a question here from Jonathan, which actually isn't a question, it's a follow up.

[0:16:47.5]

SY: Yeah. He wanted to let us know that he had the pleasure of having a 15-minute money session with you last year and he wanted to give you an update. He had his 2016 so money moment. In November, he was promoted. It was his second promotion in two years and he broke the six figure ceiling by negotiating. Now, he's on track to pay off all of his student loans in the next three and a half years instead of 10. He suspects that that will be his so money moment in 2018.

[0:17:18.2]

FT: Wow! Awesome. Congratulations, Jonathan. Let us know what specific episodes helped you with that. We love to get specific here and figure out what were the actual things that we said

that moved the needle so we can highlight them. We're so happy for you. That's huge. We're so happy that you negotiated. We're so happy that you're prioritizing your student loans.

Cutting down your loan payoff by 60%, that's phenomenal. We are really proud of you. We're happy for you. Keep us always posted. A reminder to all of you, if you have wins that you want to share, this is where we can brag about you. Tell us how things are going, not just your questions, but also what you're winning at and how we can learn, maybe, from your great examples. Congrats, Jonathan.

I think we have time for one more question. Let's go to Gabriella.

[0:18:13.7]

SY: Yeah. She's in the process of reevaluating her 401 (k) options at work, and she has two options. She's wondering, should she have her company match up to 50% of her contributions up to a max or \$9,000, or should she have 100% of her contributions matched up to 3,000? She's not sure which to choose.

[0:18:34.9]

FT: That's just quick math. Which one will give you the most free money? That's how I would assess this. Let's take the first scenario where she contributes a maximum of \$9,000, and then her company gives her 50% of that. That's \$4,500. In the second scenario, she can contribute up to \$3,000. The match is more, it's 100%, but she's still only going to get \$3,000.

In my mind, the first option with the 50% match, or she can contribute up to \$9,000, is more attractive, but it's assuming that she's actually going to contribute \$9,000. That's kind of where it really makes sense. You have to kind of take advantage of this match to the fullest in order to have this be the better deal. That's how I'd work it out.

Cool, that she even has these options. I know that some companies are going away with their match, going away with their 401 (k) plans entirely. Gabriela, you are in a good spot. We hope that either — Whichever way you go, that you at least contribute 10% of your income to

retirement every year, and you do this consistently even when you make more money, get a raise, that you just stay the course. Hopefully, about the time you're ready to retire, you'll look back and be really proud of yourself. That 10% can include a match. Maybe that only means, for you, you have to do half of that or a little bit more than that. It's not that much of a burden.

All right, congrats, and thank you everyone for your voicemails. I hope that we will hear from you more and more as we continue this show this year. Hope your weekend, Sophia and everyone, is So Money.

[END]