

**EPISODE 632**

[ASK FARNOOSH]

[0:00:35.2]

**FT:** Justin Krane, welcome to Ask Farnoosh.

[0:00:38.8]

**JK:** Hey, thanks for having me, I'm so psyched to be here.

[0:00:41.0]

**FT:** I love having guests, cohosts this Friday episode with me and I've been very much looking forward to having you on. Really, I should have you on So Money to interview you, pick your brain about all your financial theories and philosophies. Maybe for another time, but for now I'm very excited to share the mic with you and go through some of our top questions.

We get so many questions every week, it's hard to sift through it all alone all by my lonesome. So Justin, welcome to the show and thank you.

[0:01:10.7]

**JK:** Thanks again.

[0:01:12.1]

**FT:** You are – I'm going to brag about you for a little bit because you deserve it. Your book is called *Money, You Got This*. God I love that title and what I like – especially like about your approach to money and everyone listening, Justin Krane is a money strategist for business owners, he is on a mission to help business owners, entrepreneurs really understand the money side of their business. Because you're right, a lot of times we just go about the idea and the

business and we're great at building things but once we start making that money, that's a whole other skillset.

[0:01:45.7]

**JK:** That's a new set of problems.

[0:01:49.1]

**FT:** Or opportunities, as I like to look at things. What I really appreciate about your approach is that you say on your website that you're not about cutting back and living a frugal life, that you want to get the shoes, you like to have sushi, you want to live your best life today, also, save for your future. You can have it all and a bag of chips with Justin.

[0:02:05.6]

**JK:** Let's do it.

[0:02:06.1]

**FT:** How did you get to be so wise and so optimistic about money?

[0:02:13.5]

**JK:** I think it goes back to when I got divorced in 2010, I realized that I had to financially hit the reset button and really get clear about what I wanted for my financial life and how I was going to stop taking care of everyone else and put on my own oxygen mask and that was a game-changer for me.

[0:02:34.0]

**FT:** Wow, so the divorce was you know, unfortunate circumstance, gave birth to an enlightenment around money. Was there a specific moment, was it because you had to pay the legal fees? What was it that was like, “Oh my gosh, what have I gotten myself into?”

[0:02:50.2]

**JK:** Well, being a certified financial planner, I deal with money all the time. But I think for me, it was always about – I wasn’t really clear about what I wanted for myself. I didn’t feel like I had a voice to build a new life for myself and when you do get divorced, it’s almost like it’s a death and then as you’re coming out the other side, you get much more aware and you have this raw emotions of what you really want.

Then I started being like, “Okay, I got this, I’m going to lower my values — just like I’ve been doing for my clients, I’m going to align my values and my goals and unite them with my own life so I could get a return on my life.”

[0:03:29.8]

**FT:** What is it that Justin wants?

[0:03:32.8]

**JK:** What does Justin want?

[0:03:34.8]

**FT:** In 30 seconds, because we don’t have a lot of time.

[0:03:36.8]

**JK:** Yeah, I want to be easy like Sunday morning. I want to basically create business and help people get really clear on their money so they can live the life that they want and it’s the same exact thing for me. I just brought it in, I was like, “Okay, where am I, what are the kind of things

that are important to me, and family and legacy and traveling and all of that?" That was what I wanted more of, and that's what I work towards every day.

[0:04:03.3]

**FT:** Just listening to yourself at the end of the day. What's the biggest money problem your clients come to you with? The entrepreneurs and the small business owners, specifically?

[0:04:13.0]

**JK:** It's, "Where did all of the money go?" So they don't know what's going on, they don't have the clarity and then they feel like they're working really hard but their business isn't as profitable as they thought it would be by now.

[0:04:26.5]

**FT:** How do you help them get more profitable or is it all in their head? They just aren't running the numbers and they actually are doing better than they think?

[0:04:33.7]

**JK:** No, I call it like Farnoosh, it's "national get your head out of the sand day". Like literally, we got to get our heads out of the sand, we got to get really clear on what's going on with the numbers in our business and I'm almost like, "You know what? Have a glass of wine with me, maybe we bring in your book keeper, maybe we bring in your admin and let's just see what kind of cash or business is generating, how profitable it is," and then once I disarm them and make them feel like, "You know what? It's not so overwhelming," they get a little clearer and feel empowered to make decisions that will take their business to the next level.

[0:05:07.1]

**FT:** Have you heard of the book *Profit First*?

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**JK:** Yes, I have.

[0:05:10.8]

**FT:** Mike Michalowicz. He was on this show and he's also like you, very passionate about helping entrepreneurs basically align, like you say, their values with their money. But really, make money, keep your money, keep more of your money. Because we end up spending a lot on other things and not giving it to ourselves. Your book is called money, you got this. Tell us about it a little bit. Why should we read it?

[0:05:37.1]

**JK:** Yeah, well I'll tell you what, this is Seinfeld meets Curvier Enthusiasm meets Money For People and for small business owners. I've just taken crazy funny stories that I've had and created a money lesson out of it. Like one time — can I give you one real quick?

[0:05:53.2]

**FT:** Yes, please.

[0:05:54.6]

**JK:** I'm in the car with my wife and I'm driving, this is my new wife and my second marriage, you know, blended family and all that and like, we're rushing, we're running late and all of a sudden, she takes lipstick and she rubs it on her cheek and like rubs it in. I was like, "Oh my god, what are you doing?" She said, "You never knew that?"

[0:06:12.1]

**FT:** I know what she's doing.

[0:06:13.1]

**JK:** She's like, "Yeah, like when women are in a hurry like we don't have the makeup for our cheeks and all that so we just go with lipstick." I'm like, "Oh my god, there's a money lesson there. Be resourceful, leverage your assets."

[0:06:24.2]

**FT:** Multitask.

[0:06:25.2]

**JK:** Yeah. Maybe you've got something that you could repurpose, maybe there is an asset that you can use in a different way. If you approach it differently, you know, there you go.

[0:06:37.0]

**FT:** I do that, I'm a kindred spirit with your new wife.

[0:06:39.0]

**JK:** There you go.

[0:06:40.0]

**FT:** One of my favorite episodes of curvier enthusiasm, it's a running joke in our house is, "Respect the Wood".

[0:06:46.3]

**JK:** That's right.

[0:06:47.2]

**FT:** Remember that episode? Where he left the – maybe you can extrapolate that to respect the money.

[0:06:53.2]

**JK:** That's right. You got to respect the money.

[0:06:56.8]

**FT:** I'm just thinking for you. You can take it or leave it. Justin, are you ready for some So Money, Ask Farnoosh and Ask Justine questions?

[0:07:05.7]

**JK:** Yes.

[0:07:06.0]

**FT:** All right, we have a great couple of questions, first that our audio delivered. Everybody, you can go to So Money Podcast, click on Ask Farnoosh and you can either leave a voicemail if you're on the go or you just like the way your voice sounds, you can leave a voice mail or you can type it in but we do have two voice mails.

One from Mary and one from Alexandra, let's hear Mary's problem, here we go.

[0:07:29.9]

**Mary:** *"Hi Farnoosh, my name is Mary and I am a 40-year-old self-employed consultant. Wondering about retirement and student loans. How to deal with both. I don't have any more credit card debt or car payments, I've paid off both — yay! I've been kind of little by little working away at my student loans, but I'm ready to take care of them if I can in the next couple of years."*

*Do I really focus on them or is it better to go ahead and open a retirement account of some sort? So far I haven't done anything along those lines. I've just been really cranking away at building my business. So, if I start a retirement savings now, which kind of account? What would be best and you know, how do I decide whether to pay off loans or put money into retirement?"*

[0:08:31.6]

**FT:** All right, Justin. So Mary is, she said she's 40 years old, she's self-employed and she's deciding or she's grappling with whether to put more towards retirement or more towards her student loans.

I mean, I think she kind of answered her own question and that telling us that she hasn't done anything for retirement, she's 40.

[0:08:50.7]

**JK:** Yeah. You got to start putting some money away and having it work for you. My bottom line.

[0:08:56.7]

**FT:** I agree. I mean. The truth of the matter is, money, I mean, just from the math or the historical returns for selective. If you put money in stocks over the next 25 years, that's putting your money to better work than paying off student loans, which probably, I don't know, assuming that there may be federal, probably the interest rates aren't too high.

But more importantly, forget the numbers, you need to secure your future as soon as possible. Like yesterday, right? So you're going to have to play some catch up Mary. I would prefer to see that if you have any extra money that that is going towards retirement through a traditional IRA or a Roth IRA.

Well, in your case, as a self-employed person, maybe it's a SEP IRA. But do something and do something quickly. In the meantime, I think we don't ever say just pay the minimum on credit cards, but I'm okay with just paying the minimums on student loans, how about you?



[0:09:52.1]

**JK:** Yeah, I'm with you on that. I think you got to have both, I get this question a lot. "I have debt, I want to save for retirement." I think we got to get in a game of investing and being the mindset of we're building something for ourselves and being able to see it. When you see it grow, it's a win. It makes you feel even more confident, just like when you paid down your debt but I think you got to do both because at the end of the day, you're going to need some assets to live off of.

[0:10:18.1]

**FT:** Yes, it's not an either/or scenario. Although it may feel that way because money is limited so we feel like we have to do one or the other but clearly you can't default on your student loans, that would be terrible. So just stay the course with the student loans, even if it's going to take you the full 10 or 15 year term. At the same time, dedicate at least 10%, maybe 15%, 20% of your income towards a retirement portfolio.

At this point, they say, by 40, not to scare you Mary or anyone else listening but, you know, the charts suggest that by 40, we should have anywhere from two to three times our salary saved for the future, as in retirement. That's kind of aggressive but I mean, the thing is, you get to retirement and you don't know, A, how long you're going to live, hopefully a long life but that costs money. But also, B, your health concerns may be expensive as well.

Who knows the future of social security. The more you can save now, the better off you'll be. No one arrives at retirement going, "Ugh, I saved too much. I wish I hadn't saved so much money." Okay, Alexandra's got an audio question, here we go.

[0:11:36.5]

**Alexandra:** *"Hi Farnoosh. I've recently discovered your podcast, So Money and it really empowered me to take a closer look at my finances and understand how all of this would work."*

*Now, I'm 27 and I have a gross income of \$105,000. I'm currently investing 10% of my income in an IRA but I would also want to open an IRA Roth to diversify.*

*If I know that I will be in a higher income bracket as I grow older, it might make sense to diversify but I'd love to hear your thoughts about this. I also have another question about student loans.*

*If I know, I have a loan but it's not in the US, it's abroad. It represents about 20% of my total income and I wanted to know if it's possible for me to get a tax break or deductible with regards to the end trust. I've already paid the interest.*

*I don't even know if that could be retroactive but any advice on this would be really helpful. Thank you so much."*

[0:12:46.5]

**FT:** All right, Alexandra, thank you so much, she's got a two part question Justin. First is about kind of whether or not she should take advantage of a Roth IRA, she has an income of about \$105,000. Eventually she'll be phasing out of the eligibility for a Roth. Should she still do it, is it worth opening it up and kind of going through the hassle?

I think yes.

[0:13:10.1]

**JK:** 100% yes, totally.

[0:13:14.1]

**FT:** Why not? I mean, the thing is. So she's not going to phase out for a little while because according to the IRA, once you start making about \$118,000 — and that's if you're single — You start to get — your contributions are reduced starting at \$118,000. Once you hit \$133,000 or rather \$134,000 I guess. You can no longer contribute to a Roth IRA for this tax year. You have a

ways to go unless you're expecting a huge raise in the next few months. Do take advantage of this because I like to say, and you probably would agree that it's important to have tax diversification when you arrive in retirement, right?

[0:13:52.6]

**JK:** Yes, I mean our country like do we have any money in this country? We barely have money. We are in debt like tax raise in my opinion like what do I know right? Going up, they've got to go up at some point where they have to cut social security and Medicare or we have to raise money maybe tax rates should be higher. That's why a Roth is huge.

[0:14:13.6]

**FT:** Yes, so then her second part of her question Justin is about again, student loans. She has a loan that is not US based, it's a lot of her money and she's so obviously paying a lot in interest potentially. Can she A, get the tax break as we know student loan interest for many people is tax deductible and all this while she hasn't been deducting the interest. So if it is possible can she go back in time basically and get the deduction.

I did a little research and correct me if I am wrong Justin and anyone listening but according to the IRS in order for the interest deduction to apply your school that you attended has to be "an eligible educational institution" so that's as far as I know. So if it's a foreign school, if it's overseas you want to check with the IRS basically [irs.gov](http://irs.gov) and hopefully there's a handy tool where you can type in the name of the school or do a search to see if it's an eligible educational institution.

And from what I understand too, in order to go back in time to get the tax break, you got to do an amendment and that could cost money if you have to hire someone to do that for you and that could counteract the interest deduction savings right? What do you think?

[0:15:37.3]

**JK:** Yeah, I think you've got to ask your accountant. You've got to go through the numbers.

[0:15:41.6]

**FT:** Short answer, talk to somebody else.

[0:15:43.8]

**JK:** I mean like –

[0:15:44.4]

**FT:** Talk to somebody who does this for a living but I've never gotten this question before. I mean, a lot of us potentially could get our degrees overseas elsewhere. I know some friends of mine who are getting their medical degrees outside the US but planted then come back to the US to work. So what happens when they go to pay off their student loans? Do they get the interest break? I don't know? I think you probably could if it is an eligible educational institution, to use the IRS's words.

[0:16:15.1]

**JK:** I'm with you.

[0:16:16.2]

**FT:** Oh and I was lying, we have yet another audio question this time from Heather and Heather has a question about savings and debt and I'll let her ask it. Here we go Heather.

[0:16:28.9]

***Heather:** My husband and I have \$30,000 in credit card debt that we attained when he was sick and not able to work for a couple of years. We now own a successful performing arts studio, we have about \$300K in retirement and \$50K in cash savings. Do I use the cash to pay*

*off the credit cards even though not having the cash gives her a bit of an anxiety attack? That is my question, thank you so much.”*

[0:17:05.0]

**FT:** All right, what do you think Justin? Should they? Basically she’s concerned right? Because she has to give up a lot of the savings, the cash to pay off the debt. It’s obvious to me but I will let you answer.

[0:17:21.6]

**JK:** Yeah, I work with a lot of studio owners both dance and performing arts studio and that business model is very hard to deal with all of the time because the cash flow is all over the place because most people have high fixed cost with rent. Plus in the summer time or holidays or whatever, people aren’t around as much. I would not take the cash, I would not pay off the credit cards, I would keep it there as an emergency savings account.

Then I would take the cash from your business and create a way that you can save – I am making it up, let’s just say one to \$5K per month, pull that out and use that money to pay off the credit card but if there’s an emergency whether it’s personal or business, yeah because dance studio owners is a hard business. It’s very rewarding but the cash flow can be very volatile.

[0:18:15.5]

**FT:** But \$50K, I wonder how much that would cover? I mean if that’s about a year’s worth of spending for them being maybe conservative wouldn’t that be more than enough? Should she first do the math and see how far that \$50K would stretch? If they have more than enough in their cash savings that maybe some of that should go towards the debt?

But I like your idea too, reworking your business, basically your business in how you’re making money to funnel some of that towards the debt. But bottom line, I think we both agree, the debt needs to be a priority, right?

[0:18:54.5]

**JK:** Yeah I am with you on that and the thing is if they just have \$50K and no emergency account for their business and who knows what their fixed expenses are in their business and they have a certain amount of money that is living expenses, you've got to look at both of those from a holistic total standpoint and see how much you're actually going to need. Of course we should be paying down debt but we don't know to what extent that money is needed to just keep us alive.

[0:19:23.4]

**FT:** Right and I am happy to have you here because I don't know anyone who has a performing arts studio. You, as it turns out, know quite a few people in that shoe.

[0:19:34.2]

**JK:** Yeah, let me place it, it's tough, it's hard.

[0:19:36.4]

**FT:** Yeah, well I am also really impressed that they have 300K in retirement, that's pretty good.

[0:19:41.7]

**JK:** Love that.

[0:19:43.2]

**FT:** But they managed to do that while running a relatively volatile business and that they have \$50K in cash savings. It sounds to me like their business is doing pretty well, knock on wood, let's hope it continues. All right Justin we have a question from Anastasia. I'll let you read it and it's a budgeting question. Take it away.

[0:20:05.3]

**JK:** Do you want me to read out loud?

[0:20:07.1]

**FT:** Yes please.

[0:20:07.9]

**JK:** All right, Anastasia, she needs some help with her finances although she's already come a long way. In the last year, she's made "radical changes" to her finances. She got off of welfare, enrolled in a financial course for people with irregular income, won a grant for her music, which she used to open an Emergency Savings account and a Roth IRA. The biggest challenge for her is budgeting. She's contemplating opening an account with a major bank to help her save and budget. Should she do it? She's also had trouble securing credit... should she try again?

I mean I just think this is awesome. This is amazing, getting off of welfare, enrolling in a course, getting a grant, opening emergency savings account and a Roth IRA, you've done so much, you're amazing. Keep it up!

[0:20:50.9]

**FT:** I know.

[0:20:51.3]

**JK:** Keep it up and keep going!

[0:20:53.5]

**FT:** Keep it up, absolutely and just to give you some more background on Anastasia, she has an 800 plus credit score — Wow! Unfortunately she's been denied credit because her income is too

low and so her local credit union would not approve her for a credit card. So in the meantime she's been using a secured card for 20 months, again doing the right thing. We always talk about that when you can't get traditional credit, like a standard credit card, start with the credit card with the training wheels which is also known as a secured card. I mean I'm with you Justin, I think that she's clearly going to be successful. She may just need some reassurance here and I will just reassure you Anastasia and telling you that I would also go back and try to find a bank account somewhere that's easy to access, has preferably zero account maintenance fees. It's easy to hook up with a program like Mint where you can track your expenses.

I would consider a number of banks. I mean go on to a site like Nerd Wallet or bankrate.com where you can look for banks based on the kinds of attributes that you want in your bank whether that's no fees, easy withdrawals, convenience, good interest. I would recommend – Justin what about credit unions? I mean she said that she tried one credit union and it didn't work out but she should try another one.

[0:22:19.0]

**JK:** Yeah.

[0:22:19.6]

**FT:** Or another community bank.

[0:22:21.1]

**JK:** I would be as resourceful as you can. Find an account that works for you that lets you automate your savings that pays some decent interest and then I want to add one other thing, I want you to think about your human capital. I want you to think about your ability to generate money based on what you're really, really good at and view that as an asset as well.

[0:22:41.0]



**FT:** That's a great point. Justin what's an example of a client that came to you, an entrepreneur, small business owner that you really help them with strategy or money management, what is a real great success story?

[0:22:52.4]

**JK:** Sure, yeah. One of them is someone by the name of Eon Fay Morrow who runs Objects with Purpose and she sells candles. These amazing candles and what I helped her with is basically her inventory management and her mark up on what she sells. She wasn't marking up her candles enough and she was working super, super hard and not making that much money plus she was making these one-off sales.

So I am a big believer in reoccurring revenue. So I encouraged her to create a candle club. So now she's got a candle club where people can buy those gift boxes, Farnoosh, where you could buy something, so she now has that which gives her reoccurring revenue, which is huge for a product based business owner. Plus when you are looking at your numbers like your financials now you can break down her wholesale revenue which she wasn't doing.

Her retail revenue, looking at the profitability of both and then we are adding a third line item which has to do with the candle club which is reoccurring revenue. Now we start to track that now we can start to see what is working and where she's making her money and then go bigger in terms of what's really ROI.

[0:24:00.9]

**FT:** Amazing and so how is she feeling?

[0:24:03.0]

**JK:** Oh my god, a million bucks. So much better, so much more in control and wanting to deal with the numbers and she's feeling empowered and ready to take her business to the next level. She doesn't feel like she's running ragged chasing the money. It's more like, "Okay I got a system. I got a plan. I know what is going on and I feel good about it."

[0:24:22.1]

**FT:** Yeah she has a baseline, right? She has that reoccurring income that she can count on, that she can plan around and that's everything to an entrepreneur.

[0:24:30.6]

**JK:** That's right.

[0:24:31.0]

**FT:** Justin, you've been really great. I have to say I want to have you back on the show because you obviously have a lot to talk about, to share from your personal experiences, from your interaction with clients, I think we can learn a lot from you. So don't go too far, I'm going to be calling you again to come back and do an actual interview episode.

[0:24:50.8]

**JK:** It's a deal.

[0:24:51.5]

**FT:** This has been a lot of fun, deal? Okay.

[0:24:53.2]

**JK:** Yeah.

[0:24:53.5]

**FT:** All right Justin thank you and tell us how we can learn more about you.

[0:24:56.7]

**JK:** Sure, everyone can go to my site which is jkrane.com.

[0:25:03.5]

**FT:** All right, very easy. Thanks Justin, have a great weekend.

[0:25:06.5]

**JK:** You too.

[0:25:06.9]

**FT:** Hope it's So Money.

[0:25:08.3]

**JK:** You got it.

[END]