EPISODE 1115

[ASK FARNOOSH]

[00:00:31]

FT: Welcome to So Money, everybody. October 30th, 2020. Tomorrow is Halloween. I'm not sure if you will be trick-or-treating. But we're going to attempt it safely, socially distant, masked. We're going to put candy out on our walkway, and so kids can just come and grab the baggies that I made. We'll stay on that porch and wave and pretend like we're scared from their costumes, and we'll see. We'll see how it's going. I know that some neighborhoods are totally shutting down Halloween around here. Some streets that are typically very popular have gone together and decide, "Let's just skip this one. Let's just skip 2020." Totally get it. But that was kind of the reason why we moved to the suburbs, everybody, was to experience these traditional events where we didn't really have the grand Halloween in New York City. We would go up and down the elevators to go trick-or-treating in our building, which is a lot of fun. But this is – It takes on a whole new meaning, right?

Big week for us, we received a second freezer. I know. It's the little things. But living in the suburbs, as we enter also the winter months and my kids are growing, they're eating a ton, I want to reduce my trips to the grocery store, especially with the numbers of COVID cases. I just want to be able to freeze more, so I can stuck up and save money and just have half things for the next few months ready to go. So I got the Frigidaire freezer. I found it at Lowes. It's popular. You could Google it. It's sold everywhere. It's one of the most popular stand-up freezers, so it's not one of the like horizontal ones. It's vertical, and I'm really looking forward to filling it up, so Costco here I come.

My latest column for Bloomberg, if you didn't check it out, I wrote a column for Bloomberg Opinion, every couple of weeks. This week, it's where should I put my savings for the medium-term. So we know that for the short-run savings account, although earning next to nothing, suffices, and for the long run we invest in things like a 401(k) and IRA. We get those two savings extremes. So what about the in-between stuff like saving up for a house down payment, a wedding, a honeymoon, a business? So I did a little digging. The pickings are slim, I'll be honest, to find some sort of savings strategy or investing strategy that beats, first of all, inflation. Because if you're putting your money in even a high-yield savings account right now, you're earning maybe just under a percent at the best-case scenario but more likely .4, .5, .6%.Inflation is outpacing that. So by the time you go to get that money in three years or four years when you need it, you will have actually lost value. So I had come up with some – I found actually a few. Not a ton but like three to four strategies for where to park this cash that you're not going to want to touch for at least a few years.

So check out that article on Bloomberg.com. You can Google my name. It is behind a pay wall, unfortunately, but I subscribe. It's totally worth it. I think if you're looking to invest in your financial literacy, in your financial awareness, Bloomberg is an incredible resource, whether you're looking for day-to-day news, market news, stock analysis, or personal-finance advice. They actually just launched a new personal finance section, and the people that I am writing with, they're just top-tier economists, PhDs, financial authors, financial experts. Erin Lowry who is the author of *Broke Millennial* is also a columnist along with me, so really proud to be in this company. But if you want to know where to put your medium-term cash, check out my latest column on Bloomberg Opinion.

All right, we're going to go to the mailbag soon. But first up, let's go to the iTunes review section and pick our reviewer of the week. Today, we're going to say thank you to Jon from Oakland who left a review on October 20th, calling the show accessible finance. "This podcast is informative and accessible to the average working professional. Farnoosh tackles topics that are relevant to us all, and she provides great context, helping all of us manage our money better. Great listen." Well, thank you, Jon from Oakland. Please get in touch. I'd love to offer you a free 15-minute money session with me for this generous review. You can get in touch a few ways. You can direct message me on Instagram @farnooshtorabi or you can email me, farnoosh@somoneypodcast.com.

Okay, let's go to the mailbag. We've got questions about where to find a financial advisor, lowering our home insurance. Let's start with Victor who says, "Hey, Farnoosh. I want to know how you recommend paying for a home renovation. My wife and I would like to add a bathroom and extend our kitchen. I'm expecting to pay at least $80,000 for this. I'm thinking about a combination of saving aggressively for a few years and using our HELOC and paying that off aggressively afterwards. We're currently refinancing our home to save about $600 a month on our mortgage. I didn't want to do a cash out refi because I didn't want to bake our renovation into the new loan. What are your thoughts?

I like your plan, Victor. I like the idea of taking a little bit of time to save up aggressively and then if you want, using your HELOC to be a buffer for you. As you know, renovations, I've gone through many myself. You have a budget in mind, but I would also prepare for spending anywhere from 15 to 20% more, simply because of surprises that could come up when you're renovating a bathroom or a kitchen. I don't know how old your home is, how solid your pipes are, but there are always, always surprises. You have to move a beam. So you don't know until you break the walls and you start taking apart cabinets. So just maybe up that to 100,000 as a buffer.

Waiting is a good idea. Just because right now there's such a frenzy to home renovate. There's in our town home renovation trucks outside every single house. I can't even tell you, whether it's someone doing interior decorating or painting their home or adding a room, renovating their kitchen. We ourselves are embarking on a redesign of the first floor. I'll tell you, contractors are super booked up, a lot of them, depending on your neighborhood obviously. But there is some value in waiting, just because you're not going to be able to negotiate very much right now. My guess is that contractors are super booked up. People are paying their rates. There's no lull in demand. In a couple of years, there may be a lull in demand. At that point, you've saved money and you've held onto that HELOC, so now you can really hit the ground running. Also, giving you a couple of years to figure out what it is you actually want to do.

I know that for us, working with a designer, although we're not doing any renovations, it's just aesthetics. We're paying for her time. But if I know exactly what I want because I have gone ahead and put together a portfolio of photographs, whether I did it – I'm doing this on Houzz actually, H-O-U-Z-Z. It's a free app. Giving that to her so that she doesn't have to come up with all the ideas. I just basically said, "Okay, here's what I want." I'm probably shaving hours and hours off of her time, saving money on my end. So taking the time now to save but also to ideate and plan so that you don't have to pay more when you're ready for all those extra hours of ideating, strategizing, plotting that you just know what you want. You've even picked up maybe some things, and the contractor or the architect can just start to plug away.

If you have a HELOC, hold onto it. I'll tell you, the market for HELOCs has shrunk in the recession. That is a fact. Some of the big financial situations are out of that market. They just consider it too risky. A lot of banks are tightening up their requirements for new loans. If you've been in the market for mortgage recently, you may know this. And they're pausing their HELOC applications. One other thing I would suggest, Victor, is calling your bank and saying, "If your rate hasn't gone down in this market because we know obviously rates are dropping," to see if you can adjust your HELOC to be a fixed rate HELOC as opposed to an adjustable one. I don't know what kind you have, but I'm just throwing this idea out there as well. If your renovation is going to be for another couple of years and your rate is adjustable, it could go up, the rate. So locking in a rate now, go and ask your bank if you can do that. Thanks, Victor, and good luck.

All right, next is Rina. She says, "How can we lower our home insurance, Farnoosh? I feel like living and working at home makes our house less at risk of burglary and fires and other sorts of threats." It's true, and you should absolutely be negotiating your home insurance rates. All of us right now, if we're working from home, if we are spending more time in our houses, if maybe we've gotten a dog in the pandemic that could pass as maybe a guard dog, you should call your home insurer and ask them to re-underwrite you. As far as underwriting goes, you are lower risk and your premium should reflect that. It's a great time to shop around for home insurance and car insurance, and I just want to let everyone know, you don't have to wait until your home insurance or your car insurance "expires" or is up for renewal. You can always be making the transfer. I think in this market, it's very competitive. Premiums are dropping.

If you like your home insurer and you want to stick with them, simply call and ask for them to revise your contract and your premium. Be sure to also ask what are the criteria that they consider when reducing people's premiums. So just to give you an example, our insurance company was really concerned less about burglary and more about fires. They say that in their experience, a home these days is less at risk, at least in our neighborhood, to a burglary, more cell potential fire or water damage. So those were the areas where we got more souped up. So we got extra fire alarms throughout the house. We have a dehumidifier in the basement where if our house is going to flood, that's the first place that would flood. So it really is important that you understand what they're looking at. Not all insurance companies look at the same things or hold everything with the same value. So really important, if you want to stick with your insurance company, understand how exactly they're evaluating you and what you can do to lower your premium.

Speaking of insurance, I've recently partnered with Metromile, which is not a home insurer but a car insurer. It was perfect timing. We moved to New Jersey. We needed new car insurance, and then I connected with the folks at Metromile, which is a new car insurance company that offers pay per mile car insurance. So our previous car insurance and I'm sure everybody here listening, if you've got car insurance, the way it's underwritten, the way that they determine your premium is not so weighted on mileage. Instead it's weighted on things like where you live, the type of car you have, your driving history. Then at the very end of the equation, they look at what are your habits as a driver. Do you drive a lot?

Metromile is disrupting that in some ways since we are not driving as much as we normally would, if there wasn't a pandemic, if we weren't working from home. We decided to look into it, and it turns out, you won't believe this, we are saving over $100 a month on car insurance, and we just have one car. It was very expensive in York. Now in New Jersey with Metromile, we're saving over $1,200 a year. It's pretty unbelievable. The coverage is extremely comprehensive. Signing up was a singe. We just went on the website, signed up. Within a half hour, we were basically registered. Metromile sends you a device for your car that monitors your mileage so that you are paying exactly what you should be, and it's only available in nine states. So if you are in New Jersey, you can qualify. But check out metromile.com if you're interested in learning more about this. If you're a low-mileage driver, there's no reason why you should paying a ton for car insurance.

Next question is from Lynn. She says, "I love your show. I've been listening for several years, and it is by far my favorite podcast." Well, thank you, Lynn. That's super nice of you to say. What's your question? She says, "I've got a stock market return versus mortgage interest rates question. My spouse and I are 41 and 44, respectively. We own our house outright, no mortgage. The current market value of the home is $330,000, upfront $255,000 that we paid for nine years ago. Between the house value and our investments, including retirement and an investment account, our net worth $700,000. I'm currently contributing 10% of my income to my 401(k), and my spouse will have a pension upon retirement. Neither of us is retiring before the age of 65, at least that's the plan. My question is are we better served by selling our house using the about a third of the sale proceeds towards a down payment on a similarly priced home and investing the rest, about 230,000, in our brokerage account? We'd have to pull about $1,100 out every month from the sale proceeds as well to pay for the new mortgage. Do we leave things as is or go with this plan? In short, are we better served taking our current home's value and liquidating it a bit while borrowing rates are so low? Our end goal is to retire in 25 years with a minimum of a million dollars in assets not tied up in real estate."

Well, Lynn, this echoes a little bit of what we talked about in a couple episodes ago where I think I went on this rant about optimizing, activating your home equity. For some of us, it makes 100% sense to sell if you're ready for what is on the other side of that sale, right? Do you have a place where you can comfortably live, comfortably make those payments, be happy there, and then use the sale proceeds to do multiple things, as opposed to just looking at it in your budgeting app or your net worth app and feeling good about it? I like the way you're thinking. I like the idea of knowing your goal, right, which is to retire with a million dollars minimum in assets that are not tied up in real estate. Well, ahead of that, you're going to have to sell your house. So whether you do it now or in 10 years, that is something that will need to happen in order to have that cash in hand.

Right now, we know it is a seller's market in most states, in most cities, in most towns. There's not enough inventory across this country to meet the demand. People are continuing to buy, even in this month of November, almost November, October in Montclair. A friend just put in a bid. She was 1 of 11 offers. What? Usually, these months are dead. People aren't buying homes in the dead of the fall and winter. So the pace has not slowed down. If you want to sell right now, rest assure if you're seeing other homes sell quickly, yours will too and you could probably sell in a week with multiple offers and you're going to get a price that you won't see for many more years to come.

So if you're willing to sell, consider it. Consider it, and I would say that for your next home, if you're willing to downsize even a little bit and buy something smaller or with a smaller price tag to be able to really park the rest of this equity in the stock market to let it ride out so that you're not pulling from that every month. My concern is that you're going to be eating away a lot of this equity over the years. If you can somehow pay for this new home out-of-pocket from your salaries, that's the idea. I mean, you're going to have this mortgage. Rates are really low. But if you can get a mortgage that can come out of your checking account while you keep the equity in the stock market, which I've done the math many times myself, the smart money is in the stock market. It's not paying down the mortgage instead. That’s going to help you get to your financial goal, your retirement goals faster and more efficiently. I’m excited for you. Don't just take my word for it. Make sure you run all the numbers. You talk it through. You also talk to your real estate broker who can tell you what's going to be on the other side of the sale. What is the inventory in the other side of the sale? Maybe you rent for the first year so that you can wait for prices to cool. You’re selling in a hot market, but then you’re going to go buy in a seller’s market right after that. Maybe if you can wait it out, that’s where you’re really going to get bang for your buck.

All right, next question is from Emily. She says, “After two years of working with a planner, a financial planner, and listening to your show, our spending is under control. We’ve automated our savings. We have a debt payoff plan. We’ve both kept our jobs during the pandemic as well. We feel really lucky. However, after years of financial stress, I still have a lot of anxiety surrounding our money. I check our bank account balances multiple times a day. I play around the numbers in our budget to see if we could eke out a little bit more for savings. I go back and forth on if we have the right savings to debt payoff ratios. Do you have any recommendations on how to transition into a set it and forget it mindset? I appreciate any advice, and seriously your show has been a lifesaver.”

Wow, thank you so much for your question, Emily, and your kind words. My first question for you, Emily, I mean, I guess you're asking the question, so you're not enjoying the process of checking your finances all the time. I love it. I tell you, I go wake up in the morning, and one of the first things I check is my net worth. In my app, I check my bank account balances. I use personal capital, the free version, because I’m cheap. I don’t want to pay up for the premium stuff. But I just want to see what my net worth is, and on one screen I got – I have my cash assets. I’ve got my portfolios. Everything is there. I don't freak out when I see my net worth up or down thousands of dollars because I know that that is just the stock market doing its thing. Really, I just look at it. I think it's good to have a relationship with your money that is consistent.

So whether that consistency for you is once a day, once a week, once a month, commit to it. I get the sense from your words that this is irritating you. That it is not what you want to be spending your time doing. Otherwise, you wouldn't have asked the question. But to some extent, you have to look, right? You have to look. Automating is important. I'll tell you how I automate. I automatically contribute to my SEP IRA. I automatically contribute to our brokerage account. I automatically pay off all my bills. My checking account, it's hooked up to my credit card account. I write very few checks. I move very little money myself. That I think is something everybody can do. It alleviates so much time, so much tracking. If I had to actually be responsible for mailing out checks or writing checks or moving money myself, things would never get done. I would make mistakes. Things would fall through the cracks.

You may remember that earlier this summer I did readjust my retirement portfolio. I woke up several nights for a week. I woke up in the middle of the night worried about, well, gosh, if like the stock market actually wakes up and realizes we're in a recession and starts to actually mimic what's happening in the economy. At some point, where we may see a 20% decline and then a bear market, for me. At my age with my responsibility as the breadwinner, being an entrepreneur, I don't have the stomach for risk that I did when I was 25 when I initially set up my retirement portfolio. So I'm glad that I listened to my instincts. I'm glad that I didn't ignore the fact that I was waking up every night in sweats. I did something about it and I didn't just adjust my investment portfolio. I also adjusted my savings. I knew that reducing my stock exposure and my portfolio meant that if I want to still hit my targets for retirement, I have to contribute more. So I'm putting more into my retirement portfolio.

But at the minimum, if you can automate all of these other things, right? If you think about what's coming in and what's going out. For all the things that are going out of your checking account to your investment portfolios, to your bills, to your savings, we could all automatic. Don't worry about it. That's called setting it and forgetting it. But don't forget who you are and that life changes you and that it's important to check in with your choices every once in a while, and that a relationship with your money is vital. You need to figure out the regularity of that relationship, how often you're checking in. For me, I have a high tolerance for looking at money and I can look at it all day. That's me. If you don't have that tolerance, that's fine, but do commit to some sort of cadence once a week, once a month. I highly recommend the app or something like it where it's just a quick look and I want to caveat it with don't freak out. Well, your net worth was up $20,000 yesterday, and now it's down $5,000 because the market is just doing its thing. Hope that's helpful and congratulations on all the progress that you and your husband have made. I'm so impressed.

Last but not least, Allie asks, “Hey, Farnoosh. Over the past few months, I've been working on educating myself on personal finance but I'm looking to seek the help of a professional advisor. Do you have any recommendations on where to start looking for one?” All right, Allie, o you’re ready for some professional advice. In everyone's life at some point, a little professional advice can be well worth it. My husband and I hooked up with a financial advisor early on in our marriage. We no longer have this person helping us out because she was so great. She taught us the ropes, got us set up, and at some point we just were cruising. I’m looking at the fees and I’m like, “Why am I paying 1% when I'm just basically investing in index funds?” But she was very helpful in getting us set up, recognizing holes we had in things like insurance and how to increase our investing strategy, getting us set up with our 529s for our kid, getting us set up with life insurance. All of the boxes you want to check off when you're at that stage in your life, and she was fantastic. I'm still friends with her. I still recommend her. I found her through word of mouth. I found her through my work. I would start there. Talk to friends, colleagues about who they’re working with.

I’ll tell you, if you’re in a particular industry, if you work for yourself especially, you want to talk to people who work in your industry or work for themselves, who work with financial advisors that understand what your needs are. Your professional life is going to impact your taxes. Knowing how you make money, knowing that some seasons you do better than others is important financial advisor to know because they’re going to be modeling out a plan, and that plan has to take into account the reality of your professional life. For a lot of us, we have 9-to-5 jobs. We get the paycheck every two weeks. We might make 5 to 10% more every year, every other year. Those projections are easier to make than, say, working with a entrepreneur, self-employed, small business owner where you might have an amazing year and then you have a not so great year. Then there's a pandemic and there’s a recession, so how recession-proof is your business. All of these things are important for the financial advisor to know. If here she has experience working with others in your field, they’re going to be able to come to you with so much more information, so much for analysis, insights, access to resources, things like that. So very important to start by just talking to your inner network, your circle, asking them who they’re working with, and getting referrals.

A website for you and everybody listening, XY Planning. XY Planning is a community of financial advisors and network of financial advisors that cater to the Xs and the Ys, the Gen Xers and the Gen Yers. The financial advisors are all CFPs. They are fiduciaries, which means that they're not going to sell you stuff that they're making a commission on, and they don't tell you about it. They work in your best financial interest. Important for anyone you work with but XY Planning is exclusive to these types of planners. They are fee-only planners and they're flexible.

So traditionally, our parents' financial advisors, our generation before us, the planners typically worked in the following fashion. They made a percentage of your underlying assets, the one that they invested for you in the stock market. Whether you had a good year or a bad year, they're taking a cut. Now, as more people, especially the XY cohort, you're not developing wealth as early on, I say, your parents and your grandparents. Frankly, your path is nontraditional and you may not have a lot of money now but you may have more money down the road. That shouldn't have to curtail you from working with the professionals. So knowing that they work in various ways, they make money either through retainers now, hourly fees, a package, six-month plan. And that's great because they're meeting you where you're at and you don't have to get deprived of financial advice that's good, simply because of the fact that you're not "rich" yet. I love it. So go to XY Planning online and talk to your friends, talk to your family. Talk to at least three people.

A big red flag when you're in the meeting or I guess at this point virtually talking to your planner, the first meeting is free. And if they're not asking you a ton of questions, You should start to wonder. Are they actually interested in working with you? Do they really have what it takes? If you find yourself with a lot of like dead air in the meeting, come with your questions. Ask how they charge their clients. Ask how they'd like to work with their clients, what sort of things outside investment strategy have they helped their clients with. But if they're not also asking you what are your goals, how do you make money, what are your financial concerns, then move on because they're not showing interest.

Thank you, Allie, for question. I think this is going to be great for everyone listening who's interested in working with a planner. Alternatively, you might want to work with a financial coach, so different than a planner. This person is not helping you make investment decisions or setting up a Roth IRA for you. Instead, they're working with you to unpack some of your financial baggage, the emotions that we have surrounding money. Some financial planners are also therapists. You could find a financial therapist, so combined emotional and also the practical. If this is resonating with you, then you might want to also look into those areas of financial advice.

All right, Allie, good luck to you and thanks so much for your question. Thanks, everyone, for tuning in for yet another edition of Ask Farnoosh. Stick with us next week where we've got some amazing guests lined up for you. It's the first week of November. We've got Hanie Wilschanski. For those of you who has listened to the podcast for a couple of years now, you know Hanie. She was on – I believe it was last spring. She is the breadwinner in her marriage. She's got multiple, multiple children. She moved in the pandemic from New York to Florida in a frenzy, without her husband having another job locked. How did she do it? That show really is looking at the choices that people are making right now perhaps out of fear, perhaps in a world of uncertainty. But they're making those choices and they're moving forward. How are they doing it? Hanie is a wealth of knowledge. Then Anne [inaudible 00:29:10] Wealth on Wednesday who has written a book for black families to help teach their children how to build wealth.

Thanks for tuning in, everybody. Have a great weekend. Happy Halloween. We'll see you back here on Monday. I hope your weekend is So Money.

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