EPISODE 1118

[INTRODUCTION]

[00:00:33]

FT: Welcome to So Money, everybody. November 6th, 2020. I'm recording this on November 4th in the afternoon. Currently, as I speak, we do not have an elected president for the next term. It's very close. It's anyone's guess. We're still waiting for the votes to be counted. By the time you're hearing this, maybe we have a victor. Maybe we're a little bit closer to knowing. But I think this episode will still stand its ground. We're talking about what the results of the election may mean for our purse strings, for how we spend, how we save, how we invest.

Coming up, I have a special guest joining me. You know him, Greg McBride. He is Senior Financial Analyst with bankrate.com and he's someone that I have been working with for, oh, gosh, I think since the first day I worked at Money magazine all those years ago. Greg's always been a trusted source, and now he is going to be on the show with us soon to talk about what a Biden or a Trump win may mean for our taxes, for the cost of health care, the cost of college, jobs, all the stuff that's really important to us.

Even if a winner is announced – As you're hearing this, if a winner has already been announced, it could be contested, right? This is a sort of thing that we knew we were prepared for the election was going to drag on. The results are still going to be up in the air for days, possibly weeks.

Ahead of bringing Greg on the show, I wanted to just recap this week's episodes in case you missed any of the discussions we had. On Monday, we had Hanie Wilschanski back on the show. She came on the show about a couple years ago. I wanted to introduce Hanie to the audience as a female breadwinner, a mom of four, an entrepreneur, and just learning from her tricks, her intelligence, her time management, and all of the complexities that she deals with on a day-to-day basis. Fast forward to just this summer, Hanie transferred her family from New

York to Florida permanently, a big move for the family done amidst a lot of uncertainty, against a lot of fear. How she did that is where we pick up our conversation on Monday. So if you're somebody who is considering change right now and it's scary because we don't know what's on the other side of that decision, I think you'll really appreciate Hanie's episode.

On Wednesday, we had Anne-Lyse Wealth who's the author of *Dream of Legacy*. This is a book that is dedicated to all parents out there who are raising black children. The book discusses the challenges and opportunities for families of color when it comes to creating and leaving a financial legacy. Anne-Lyse is a certified public accountant. She's a personal finance coach, grew up in Cameroon and France, and moved to the United States at 18. She's also a mom of three girls. So much knowledge and experience and insight from Anne-Lyse. If you haven't picked up her book, I highly recommend it. *Dream of Legacy: Raising Strong and Financially Secure Black Kids.* That episode was on Wednesday.

Switching over to the iTunes reviews section, let's pick a reviewer of the week. I'm going to say thank you, thank you, thank you to Ali G in Philadelphia who said, "The podcast is an amazing resource for anyone looking to develop financial literacy and become a better version of themselves. Farnoosh provides digestible and actionable content that has played an integral role in helping me navigate my finances." Ali says that he is a professional in their 20s, grateful to have found such an educational yet engaging podcast.

Well, Ali, would love to talk to you. By the way, love that you're Ali G from Philly. I haven't seen the new Borat movie. Have you guys seen it? I heard it's not as good as the original ones but entertaining nonetheless. I'm going to have to check that out sometime between working, raising kids, although I haven't been finding some time for television these days. You're going to hate this. I just wrapped watching Emily in Paris. I started hate watching it about two weeks ago.

The first episode, I actually got food poisoning in the middle of the episode. I started throwing up and I want to say that it wasn't just the food poisoning. It was the bad writing and just the terrible execution, coming from somebody who loves Paris. I think I just love and respect Paris

so much that a show like this I thought really dumbed it down. Nevertheless, I finished it because as many of my friends who watched it said it was a hate watch sort of thing where you kind of got invested in the characters and, yes, you did want to see what the fashion was. But it was just so trite and the writing was just so elementary. But at this point, you kind of want a no-brainer show. You kind of want a show that's not going to make you feel a lot because you have enough feelings in your day-to-day life.

That said, I also finished Ozark. On the complete opposite end of the spectrum, that was quite the show, quite the show, and can't wait for the next season. Hopefully, there will be another season. I think there's going to be another season. Jason Bateman is incredible, as is Laura Linney. My gosh, talk about complex characters. It was a bit gory though, and I'm not into that. But somehow I worked my way through it because I think the writing and plot lines were just so captivating. Okay, digressing. Ali G, get in touch. Let me know you left the review. I believe you've been already in touch on Instagram, but just let me know, and I will send you a link where you can pick a time for us to connect.

There was a so-so review this week as well. This listener was not happy with the sound quality of the ads, which I really was not aware of. I sent this to our editor and said, “I don't know if there are more people who feel this way.” But this listener, Layzercatz, said that the volume discrepancy between the show and pre-recorded ads is too much, and it's obnoxious. So I don't know if that's what everyone's experiencing. But if you do agree with Layzercatz, send me a quick note on Instagram. Direct message me. I have sent this to my editor, and we are working on it. He said that they are edited on two different sort of waves. And although the sound levels are the same, it's a different quality of audio. So maybe that's what's throwing this person off. So we're working on it Layzercatz. I really appreciate your feedback. I hope it's not going to deter you from listening to the rest of the show.

[EPISODE]

All right, we're going to bring on my guest, Greg McBride, now. Greg, welcome back to the show. It's great to reconnect. We spoke last – I think it was March or April when all hell was breaking loose, and the pandemic had just really arrived, arrived. How have you been?

[00:07:30]

GM: I'm very well. Thanks, Farnoosh. It's great to be with you again. Yeah, wow. What a ride it's been the last seven or eight months since we last spoke.

[00:07:40]

FT: You're in Florida. I'm in New Jersey. Through the roof, stock market was very, very, very volatile coming off of March's huge decline. Then, of course, we've picked things up since then. But based on what you thought was going to happen in terms of what might have happened to jobs, the economy, the business world, how do you feel? How do you feel about things right now? Are you more like surprised that things didn't get as dark as you thought or are you kind of where you thought we'd be?

[00:08:10]

GM: Well, I'm encouraged that we have seen I think a stronger, quicker rebound in some respects than I was expecting. But I'm concerned and a little anxious that we haven't put the virus behind us, and so this is still a threat. So while I think we have rebounded from the depths of the recession and unemployment very quickly, we've only recovered about half of the jobs that were lost during the pandemic, and the pace at which we're recovering those is slowing. That's my concern, right? The virus counts are growing, the job recovery is already slowing, and the lack of stimulus for households that are unemployed, underemployed, and for small businesses does present another risk factor from an economic perspective because with each passing day, a lot of those households and businesses are getting closer to the financial break.

[00:09:11]

FT: Right. So here we are talking not just eight months or seven months later, how long it's been. But on a very important week, during a very important week, which is post-election, we don't know the results, the definitive results or the – This is Friday now that everyone's listening. Greg and I, as I mentioned, we've recorded this on Wednesday, post-election day. I was saying, even if we think we know who got all the electoral votes they needed, it could still be contested. All that aside, whoever becomes president, to your point I think the first matter is putting this virus to bed. What would you like to see happen because that does obviously have a trickle-down effect? We've already experienced it. It's led to a recession. It's led to job loss, not to mention many, many, many lives lost. So what would you like to see or what do you think should happen in the next let's say the president's first hundred days in office to stem this?

[00:10:09]

GM: What I'd really like to see, I don't know, is something that a president can do single-handedly, I would love to see us put this virus behind us however that might be, whether it's a vaccine, therapeutics, or just policy where everybody is wearing masks and being diligent, and we do it that way regardless. It's going to be very difficult for the economy to sustain the recovery and get back to where we were pre-pandemic, as long as this is still a threat and as long as it's contributing to elevated unemployment and holding back demand. I think that's the other thing is that it's one thing to say that restaurants can open up. But if people aren't coming, from the restaurant's perspective, business is only a fraction of what it had been pre-pandemic. I mean, at least in Florida, I've seen a lot of that.

[00:11:10]

FT: Yeah. And speaking of policy, obviously Biden and Trump both have their own policies that they've proposed. There are a lot of promises made during election season. It's not to say that a lot of these things are actually going to happen. But what should we know about with regards to taxes? Let's start there. With taxes, do you have any thoughts on this in terms of if Biden

wins or if Trump wins? I mean, I think we're just going to see, depending on who you are and how much you make, increase in taxes.

[00:11:40]

GM: Well, what we do know is just what's been proposed. But as you said, where the rubber meets the road is does something get enacted and what's it look like finally, right, because that also depends on the makeup of congress to an extent. I'm not a big fan of people overhauling their finances or making moves on a presumption of something passing, simply because there's just too many unknowns. But from the tax standpoint, what's been laid out at this point from the Biden camp is that they would increase taxes for those that are making more than $400,000 a year. From the Trump camp, the idea of further tax cuts for the middle class and a lot of effort towards making the previous tax cuts that were put into effect in 2017 permanent and not having that 2025 expiration as they currently do.

[00:12:48]

FT: Are you a homeowner, Greg?

[00:12:50]

GM: I am.

[00:12:51]

FT: As am I. I have to say, before we bought this house, we bought in the pandemic, our real estate agent was like, "Be prepared for your taxes to go up, your property taxes," and that wasn't just because of inflation but because of the fact that New Jersey as a state were having some fiscal challenges as is so many other states right now, right? There's got to be some way to make up for that at a state level. So I think that's sort of regardless of who's president. At

the state level, we might see some of our property taxes go up, municipality taxes. Where do you stand on that?

[00:13:27]

GM: Well, I think you're absolutely right. But your comment also sort of brings to mind something else that does pertain to homeowners. This is completely independent of the election. It's just the fact that in a lot of states where there's an amendment in place that caps the increase on your property taxes for a homeowner, if you're buying a home, you've got to be prepared for some sticker shock there. For example, in a state like Florida or California, the homeowner you're buying the home from, what they've been paying in property taxes may have zero bearing on what you pay as property taxes because the assessed value of that home gets reset upon the sale, and so that can be an issue of sticker shock or for new home buyers, particularly if you're going into a market you haven't been in before. That's one.

The other thing is and really across the board, people get accustomed to their mortgage payment. But that first year, the amount that's being escrowed, it's kind of an estimate and it might be a little bit off. So there's a very real possibility that after you've been in the home a full year, the second year is when the escrow portion of your mortgage payment reflects reality, and that too can deliver a sticker shock to people. I've seen that happen. Again, sort of independent of just the overall trend of states and municipalities needing to raise more tax revenue, that kind of tells you which way the wind is blowing over time. I think there are a couple things that could sneak up on homeowners, particularly those that are in the market looking to buy or have recently bought.

[00:15:11]

FT: People have this assumption that who's in office will necessarily mean certain things about jobs and health insurance. Yes, there's plans and there's proposals. But at the end of the day, there are many other influences. It's not just who's in office that's going to determine your financial trajectory.

[00:15:27]

GM: Yeah, absolutely. And the economic backdrop is a big part of that too. I mean, I've seen with elevated unemployment and the fact that jobs disappear a lot faster than they reappear as an economy recovers. So, yes, there are a lot of people that are in real hardship right now because of the job situation. We went from the lowest unemployment in 50 years or the highest unemployment in 90. We've recovered, like I said, about half the jobs lost during the pandemic. But, again, only half in the pace of that recovery is slowing.

So, yeah, I think there's really that one fundamental point that's central to household finances. It's sustainability of employment and income. Some of that may be dependent upon the economic backdrop or the particular industry you're in, some of that may depend upon particular policies, and some of that too may depend on your skill set, your talents, what are – How portable are your skills? Are you able to you know change to a different industry, change to a different employer, move to a different part of the country, and kind of pick up where you left off? I think all of those are different pieces of the pie.

[00:15:27]

FT: In a recession, there's so much fertile ground for entrepreneurship and pivoting and things like that. So I think, again, while between Trump and Biden, they're promising different types of job growth plans, there's going to be job growth no matter who wins. But it's just going to kind of show up differently. But as an individual, as a person, the fact that we are in a recession, there are fewer barriers to starting a business. Innovation is hot right now, and I think there are opportunities regardless, again, of who's in office. Those opportunities will still be there.

[00:17:28]

GM: Yeah. In economic recovery, we'll see job creation. That's really the backdrop, yeah. It may vary a little bit. The type of job creation may vary a little bit, depending on different policies

and regulations. But if the economy is growing, if the economy is recovering, you're right. It opens the door to a lot of opportunities in terms of entrepreneurship and job creation, irrespective of an election outcome.

[00:17:57]

FT: Do you think a stimulus, a round two is necessary? I think so. For some reason, we don't have one yet. I feel like that should be also on the to-do list within the first hundred days if possible.

[00:18:11]

GM: Absolutely. The lack of that is a real economic risk. We talked a lot about those that are unemployed, but we found that the hardship goes far beyond those that are unemployed. We found that almost half of American households had seen their income take a hit at some time during the pandemic. 49% of households said their income had suffered at one point during the pandemic. And for 42% of them, they had yet to come back. So a lot of people, millions, tens of millions of people that are back to work, but they're making less than they were pre-pandemic because they've had their hours cut, because the business can't operate normally. They've taken an outright pay cut, whatever the case may be. So, yeah, there's a definite need certainly among the unemployed who have seen that federal weekly benefit go away but also among those that are working and they've just – There's a big gap between what they're bringing home now and what they were bringing home this time of year ago.

[00:19:13]

FT: What's your advice for someone at this stage in the year in the pandemic if they have been on unemployment or they're – Obviously, unemployment only makes up a fraction of what you were previously earning for many people. Aside from saying like make a budget, until this next stimulus rolls around, what would you say to someone who's struggling?

[00:19:33]

GM: Well, one of the things that I'm seeing is that we are starting to see a lot of those initial mortgage forbearances roll off. Under the CARES Act, the way that that worked was if you had a federally backed mortgage, you were eligible for 180 days of forbearance. But then that could be renewed for an additional 180 days if you were still experiencing financial hardship. Seeing the numbers of these forbearances rolling off at the end of that first 180 days concerns me that there are a lot of people that don't know they can get it renewed for an additional price. So that's really the one that I would stress because the mortgage payment is the single biggest component of most households' budgets. If you can get payment relief on that front, boy, does that go a long way toward stretching the limited dollars you may have coming in. That's point worth stressing.

In terms of your other financial obligations, there are payment relief options available there as well. So if you haven't already sought payment relief on your car loans, your credit cards, or even private student loans, go ahead and do that. One thing to bear in mind is the federal student loan, the waiving of interest and payment requirements, that is set to expire at the end of December. So unless there's a stimulus package that renews that, be prepared to resume making those student loan payments in January.

[00:20:56]

FT: But the mortgage payments can be renewed, the deferment of those can be renewed per the CARES Act that came out this summer.

[00:21:04]

GM: Yes, and that's if you have a federally backed mortgage which does govern most homeowners; a Fannie Mae, Freddie Mac, FHA, VA loan. You are eligible for that under the CARES Act. Reach out to your lender. There is payment relief available but you've got to raise

your hand and ask for it. Per the terms of the CARES Act, it doesn't end after the first 180 days. If you're still experiencing hardship, you can renew it for an additional 180 days.

[00:21:34]

FT: Wonderful. Thank you for that reminder. I didn't know that. So if I didn't know that, I'm sure lot of people didn't. I get a question often, Greg, about investing in times like these when there is so much at stake and there's so much uncertainty. I know that you and I both agree. It's not about timing the market but it's about time. Just get in, so you have that time to sort of ride the inherent volatility. Sometimes, the headlines love to pair election with stock market movement, as if like it has anything to do with definitive long-term meaning in the market. So what would you like to remind people about when it comes to things like elections and the stock market if you're wondering is now a good time to invest or should I wait till January when things are more clear?

[00:22:28]

GM: Well, I think that the time in the market is key as you said. As investors, our time horizon is measured in decades. We've got decades in which we are in our careers and we are working and we are saving for retirement. Then hopefully, we've got decades at the other end where we're in retirement and we're drawing down those assets. So the money you accumulate, you're accumulating it over decades and it needs to last you for decades. That's how you need to think in terms of time horizon. Presidents come and go every four to eight years. But if you're investing over a time horizon of 40, 50, 60 years or more, you're going to have a lot of different presidents during that time. You can't overhaul your portfolio every time there's a change and there's an election or every time there's a change in the presidency. You're just going to spin your wheel.

As difficult as it may be, you really sort of have to take your political hat off and just be as agnostic as possible about the current events and maintain that long-term focus because the market has gone up under republican administrations. It's gone up under democratic

administrations. The market over time is going to go up, and you need to be in it in order to participate in that. I'm not a big fan of timing the market. If you're worried about putting all your money in and having the market go down immediately in dollar cost average, put money in on a regular basis, even monthly amount. That's the beauty of a 401(k) plan. You're contributing every payday. You're not putting all your money in at once. But the important thing is get in, be in the market. You got to be in it to win it.

[00:24:14]

FT: In fact, I'm looking at this chart on Bloomberg which is showing yearly S&P 500 index returns by president. It goes all the way back to George H. W. Bush, 1989. So that's like 30 years of presidential years. Within those 30 years, one, two, three, four, five, six, seven years of negative returns. The rest are in the black. That's also something to chew on.

[00:24:43]

GM: Yup. Over that same horizon, we've had three recessions, four now, four recessions. As you noted, it's basically 22 to 8 or whatever in terms of winning years, getting the edge over the losing years. So I think this too shall pass, right, regardless of what's happening in the market now, regardless of where we are from the economic perspective now. Over time, the economy grows a lot more than it shrinks. The market goes up a lot more than it goes down. Sometimes, it's difficult to have that perspective when we're staring at high unemployment and concerns about job losses and businesses closing. But the other side of this is there are brighter days ahead.

[00:25:40]

FT: Yeah, man. 2008 though was a really bad one. I'm looking at the chart, and that was really, really the worst in in many decades. But we made it back.

[00:25:49]

GM: Yeah, market. We're not only recovered but we're on to set new highs for years and years thereafter. So you can't wait until the economic coast is clear to start investing because by then you've missed the lion's share of the rebound. This year I think is an excellent illustration of that. The market fell by almost a third between mid-February and mid-march, but then it started to recover. By August, September, we maybe have recovered all those losses and we're setting new record highs. The economic headlines in August and September are still really bad. Again, the market, it went down before the virus really got a grip on the economy, but it started to rebound long before the economic headlines turn.

[00:26:40]

FT: We have covered the stock market. We've covered jobs. We've covered taxes at the federal level, at the state level. We're going into a really interesting winter, right, with COVID levels spiking. Just if we are going to repeat what we experienced in the months of March and April, even with the hospitals being overwhelmed and people not leaving their homes, I mean, we have some much more to go. We have so much more to experience before I think we're going to be on the other side of this. What's your advice for people? I mean, now we kind of know what we might expect, which we didn't know in February going into March. A lot of us were caught off guard, didn't have our savings plans together. So maybe there's an opportunity here for some of us to like squirrel away some money, just any money you can between now and the end of the year in preparation for what could be a very long and cold winter if you know what I mean.

[00:27:36]

GM: I couldn't agree more. You're absolutely right. I think really savings is that's the one thing that could help you sleep at night at an otherwise time of great angst, both from a health perspective and potentially from an economic perspective as well. Only about one in four American households actually has an adequate emergency savings cushion enough to cover six months' worth of expenses. So more always better than less in that regard. I think now is

the time to really embrace that and make concerted effort to boosting the savings, because we're heading into the holiday season, and people are grasping for any sense of normalcy. There might be the tendency that the frugal fatigue gets a hold of you. Maybe you go a little overboard. I think you would have to sort of corral that urge as much as you can look. Look at boosting the savings while you can just because of all the uncertainty that lies ahead. Having a little bit more money put away as opposed to a little bit less, definitely the better spot, again, particularly with so many unknowns from an economic and health perspective.

[00:28:45]

FT: Well, Greg, thanks for keeping this as bipartisan as possible. Obviously, without knowing obviously who's going to be our president in 2021 yet or maybe we do. I don't know. I would say safely at this point, Friday you're hearing this, we don't definitively know. So I appreciate kind of giving us both sides of the equation but also making sure that we keep a big picture here. We also look at history to remind us of what might play out in our future. One thing is for certain though. We're still living in a pandemic. We still need to play it safe. We still need to socially distance. And taking the time now to just save a little bit of money, whatever you can paying down your debt but first primarily saving I think would be priority at this point because, I mean, I've been saying it all along this year, Greg. I feel like 2020 was hard, but 2021 could be harder on our bottom lines if we don't follow safety procedures this winter. It’s just we don't have a vaccine yet, so until that happens.

[00:29:49]

GM: Yeah, and there are just certain financial fundamentals that hold true regardless of who's president or whether we're in a pandemic or not. You kind of hit on it there, right? That's boost that emergency savings, pay down debt, invest for the long haul, maintain that long-term perspective. If you're checking each of those boxes, that’s really what you need to do in order to stay on track, both in the short term and in the long term.

[00:30:22]

FT: Greg McBride, thank you as always. Everybody, check out bankrate.com, an incredible resource for content advice up to the minute rates. If you're looking for a new bank, if you're looking for a mortgage, if you're looking for a great credit card, check out bankrate.com and, of course, Greg's always got fresh commentary. I want to invite you again on another time soon, and hopefully we'll have more rosier things to talk about. We can be on the other side of this, talking about maybe things to look forward to that are less – I don't know. How would you characterize it? Just challenging.

[00:31:00]

GM: Well, maybe the glass will be half full.

[00:31:02]

FT: Yes, there you go. Thanks again, Greg. And everybody listening, I hope your weekend is So Money.

[END]

