EPISODE 1509

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FT: So Money episode 1509, Ask Farnoosh.

[INTRO]

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FT: Welcome to So Money, everybody. I'm Farnoosh. This is Friday, and so you're listening to Ask Farnoosh Friday. May 5th, 2023, our three-year anniversary of moving into this home in New Jersey. More on that in just a second, but today's episode is a special one because we are going to be joined by Nicole Stanley, one of my favorite people in personal finance. She's the founder of Arise Financial Coaching, which helps professionals ditch debt, save more, and achieve financial confidence. But more than that, she helps all of her clients and everyone on this show and myself too battle financial anxiety.

So Nicole works at the intersection of money and mindset, money and mental health. She herself, if you listened to her episode on So Money, which I'll put in the show notes, when she first came on the show, she talked about how she built her family's net worth to over a quarter of a million dollars, earning $56,000 a year. Today, she's helped hundreds and hundreds of clients all over the world, some of you in the audience. We're going to talk about how she and I are preparing for a possible recession.

This was a question lifted from the audience. How to strike a balance with your life post-layoff so that you are maybe enjoying some of the time off? If you've afforded yourself some financial runway, but you don't want to lose momentum and completely check out of the workforce, which could backfire once you're ready to start interviewing again, and taking money out of your brokerage account or your 401(k) when you're in a financial pickle. Nicole's on standby. We're ready to answer those questions soon.

But first, our home, three-year anniversary of closing on our house in New Jersey. Congrats to us. It was one of the most daring things I've done. It's the biggest financial decision we've made in our lives. It's one of the biggest personal moves. I love this story of how we got here because fear got us to this home. It's a story for the books. Yes, it's in *A Healthy State of Panic* because Tim and I, we were panicking. It was the beginning of the pandemic, and we weren't sure if we were making the best move or the worst decision buying this home. But fear helped us figure out what to do. It helped us to strategize. As the saying goes, life isn't about making right decisions. It's about making decisions right.

With that mindset, I was like, “You know what? We're going to buy this house.” If it turns out to be a flop, if it blows up in our face, I have not only a plan B. I have a plan C, D, E, and F. That's me. Fortunately, we didn't have to go that deep. The house ended up being more than right for us. You can learn more about the book. Pre-order your copy if you haven't yet at ahealthystateofpanic.com. I got some exciting announcements in the coming weeks.

Let's head over to the Apple Podcast review section and pick our reviewer of the week. Remember, this is a special giveaway. Last week, I announced that I was going to pick a reviewer to receive a copy of *Little Troublemaker Makes a Mess*. I'm holding it in my hand right now. It's by one of our favorite authors, Luvvie Ajayi Jones, multiple New York Times bestseller who was on the podcast last week. I said leave a review of that episode. This Friday, I will pick a reviewer.

We got a number of awesome reviews. You'll get the book, as well as Luvvie’s favorite red lipstick, which I have yet to order for myself. It's on my to-do list. It's her signature color from The Lip Bar. It's called Bawse lady, B-A-W-S Lady. The winner of these two giveaways is kabalouz or kabalouz, who left a review on Thursday, actually soon after the episode aired last week, with a five-star review where she says, “I've returned to So Money.”

I love this. This person recently returned to So Money, having listened to every episode from 2013 to 2018. But she writes, “After my first son was born, our finances took a dive. I stopped listening. Almost five years later, I saw Luvvie was on, who is so inspiring. I'm glad to be back, and I'm getting so much out of the episodes from this year. I'm reminded how Farnoosh easily breaks things down, keeps it real, and energizes.”

Here's why I love this review. One, I love a comeback story. I love that you made it back, and I'm so sorry we lost you during those years. But I get it. Having a kid, having to deal with all those financial decisions, it's overwhelming. I wish we had been there for you during that process. But I totally get it as a mom of two. It's never too late. I love that you're a mom. So you're going to get this book for your littles, *Little Troublemaker Makes a Mess,* and you're going to get a lipstick. Email me, farnoosh@somoneypodcast.com, kabalouz. Let me know you left this review, and we'll be in touch. I'm going to get this to you ASAP.

Speaking of our episodes, don't miss these new So Money conversations that happened this week. On Monday, we spoke with Ramit Sethi, our friend of the show. He is hosting a new Netflix series called How to Get Rich, and he was generous to come on and talk about the behind the scenes, what he's learning about helping people in their homes with money, and one thing he absolutely refused to do while filming this series. I'm guessing fear helped him land on the right decision there. Then we spoke with Erin Lowry, also an OG in personal finance, creator of the Broke Millennial book series, and now a very cool workbook on why she's purposely steering clear of TikTok because it's frightening and how she calculates financial enoughness.

All right, it's mailbag time. This is so special. I have with me a co-host, a co-expert to help navigate your money questions. Remember I used to do this, everybody. I would bring on a friend of the show, someone who I really admire, who just gave really amazing advice. Today, we're bringing back Nicole Stanley, everybody, who is the Founder of Arise Financial Coaching. You know her well. Her episodes on So Money are one of our most listened to because Nicole's superpower is helping people manage their money as they're also trying to manage their mental health, so money at the intersection of mental health.

Our episodes with Nicole have focused on not only her own getting-out-of-debt journey, which we can touch on a little bit and recap a little bit when I bring her on to the stage. But she helps clients with anxiety, with financial fear, with FOMO, with all of these mental health concerns that play an enormous role in our ability to get a handle on our finances. Of course, now, with all the uncertainty, and we're going to get to some of that in the mailbag about the recession and everything surrounding the recession, the layoffs, a lot of us are in transition. So I thought let's bring Nicole back to help us really dig into the right answers for your questions.

Nicole, welcome back to So Money.

[00:07:24]

NS: Thank you so much, Farnoosh. I am excited to be here and excited to answer these questions. They're hot.

[00:07:30]

FT: They are hot, coming at us hot. First question, Nicole, is about how are we, you and I, preparing for a recession. Now, it's interesting because we've been talking about a recession and the possibility of a recession happening within, it's a ballpark, like 6 months, 3 months, 12 months. Since I've been at least harping on this since last summer when we saw interest rates really going up, the Federal Reserve really clamping down, trying to clamp down on inflation. But the job market just was humming. Nobody was getting laid off. Every month, unemployment rate was stellar. Can you really have a recession if everybody's working who wants a job, or there's more jobs than there are job seekers. That was also another stat that kept getting thrown around.

Fast forward to now, what do you think? Do you think that the times are even more precarious or that we've sort of – have we soft-landed here? Inflation's at five percent. Are we going to have a recession this year?

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NS: I think it's hard to be like a future teller or to have a crystal ball. But at the end of the day, I feel that the economy has just been uncertain for years. When we think about what happened last year, when you and I first spoke, we spoke last summer, and we were talking about how to prepare for a recession, right? It was the same idea of like is it going to happen? Is it not? We had just come out of COVID where there was this huge dip in the stock market but then this huge recovery, right?

I kind of feel like we're living in this very weird time of recession-like activity that happens on a dime. Interest rates rise. We see layoffs go up, especially in tech. On the other hand, you'll read article where it would be like, “Best day in however many months in the stock market.” I'm like, “Which economy are we in right now? Is it a good one? Is it a bad one?” But I think that most people are feeling that stress, especially as layoffs are becoming more of a hot topic.

I know that a lot of my clients have been laid off, especially those who work in tech. That brings a lot of fear for people, right? So regardless of when it might happen or if it might happen, I think people's biggest concern is how is this going to affect me. Am I going to lose my job, right?

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FT: Well, that's exactly it. I mean, you basically took the words out of my book. I talk about how we have these – a lot of times, I call them abstract fears, the R word, or climate change or – Oh, my gosh. These days, everyone’s, especially with the recent bank collapses, “Will the bank – will the financial system fall apart?” All legit fears, but there are better fears to focus on that can stem from this.

But it's not worth your time to be worrying about these things in the abstract. You really need to bring it home to your doorstep and say, “Okay, if I were to lose my job.” Not someday but tomorrow so that the trick is make it really specific to you. Make it immediate so that in your mind, you will be encouraged to make some immediate moves, which usually starts with research, usually starts with looking at your spending, looking at your bank balances, looking at maybe your immediate industry and saying, okay, our company or our industry house “insulated” are we from the impact of rising interest rates and the economic pressures that is widespread.

But it's more affecting some industries and others. So taking that inventory can only happen when you personalize this. What am I doing, which is, I guess, what I've been doing for my entire financial adult life, which is being conscious about my spending. I'm not to say that every month I spend the same amount of money. Some months, I spend more than others. But I do track my spending, and I use this app. It's called Empower. It used to be called Personal Capital. It tells me on a weekly basis how my spending is fluctuating.

So this week, Farnoosh, you spent X hundreds of more dollars than last week or this month. It also goes to the month, and it's helpful because it's like your weight as it fluctuates. If you've got a target weight – I think about Fred Rogers, Mr. Rogers. Did you see that movie? He always kept his weight at a certain number. It was like exact. I forget what it was. I think it's 168 or whatever.

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NS: I have no idea of that.

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FT: It was bizarre how he was able to keep it at that every single day. It was like this point of pride for him. That's not me, but that's okay. Yet I do have a target number. So there are some months, some years that I go back and forth. But it's important to have your benchmarks. In the context of a recession, those benchmarks may need to shift because, truthfully, like my husband and I, we feel secure in our careers. But I do create those worst-case scenarios. I kind of map them out. If he got laid off, what would that mean for our health insurance? What would that mean for our monthly ability – our ability to spend every month.

So doing those worst-case scenarios, that's what I've done already, and I've gotten to the point where I'm like, okay, I feel like we could do whatever we need to do for a year if we had to with no one getting paid. I mean, that's extreme. But when you can go to the extreme and still feel okay, then you're kind of ready for whatever.

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NS: Yes. That's what I love about you saying bringing it to your doorstep because I think that that is most people's issue is that the problem stays big. So they see something on the news. The stock market is going to drop, right? Layoffs are happening. They don't actually think about what would happen to them in light of that news, right? Because not everybody loses money when the stock market goes down, right? Not everybody gets laid off when there are layoffs. So it's thinking about how would this affect me and knowing, just like you know, Farnoosh, your numbers.

Because I know that most people, they're like, “I got to save. I got to save. I got to save.” Or, “Is this enough,” and they're wondering is this enough, where I think the best way to prepare for a recession is to figure out what is your enough.

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FT: Yes. Which we talked about this week with Erin Lowry. Not to interrupt you, but we talked about how to get to enough is first get to your bare minimum. What is the bare minimum that I need, that our household needs every month to keep status quo? Then do that scenario in the event that you get laid off. Then knowing that layoffs typically last for about – like the unemployment post-layoff is about six months for even the most employable people because think about it. Finding a job, applying for the job, rounds and rounds of interviews. For that full-time benefits-paying job, it’s going to probably take a number of months.

So with your unemployment insurance from the state, with your severance maybe, that's going to cover some gaps. But then you will need to cover those gaps too, doing that math now and figuring out that worst-case scenario. I'm unemployed for six months, maybe longer. What will I need to keep my lights on? Maybe you decide, you know what, I don't need to keep all the lights on. I would do these five things. I would take these five things off my plate immediately. But to have that plan ready to go, you’ve got your go bag.

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NS: Exactly.

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FT: That will save you so much time and money in the chaos of post-layoff. That’s really what we're worried about when we talk about recessions. I mean, more than just the stock market, our portfolios taking a hit. It's that we do lose our jobs. That's, I think, more severe.

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NS: I think people don't have that plan B ready. So when that happens, they're trying to maintain the status quo, and that puts them faster, right? They're going to eat through their savings faster. They're going to go into debt faster and then, ultimately, feel more set back than they would have been if they had a plan day one. What's my go bag? What gets cut immediately? Which sports that my kids are in maybe gets modified in some way?

These are hard decisions, but we have to think about them because at the end of the day, the worst-case scenario with a recession is what it does to your family, right? The more you can be prepared, which I think is two ways. The first is cash. So we talk about savings or emergency fund. But I like to be really specific about cash in a recession because it's the people who don't have enough cash that often get into trouble, right? Those are the ones that end up having to take out more debt or having to pull from their investments when the stock market's down, when their portfolios are down.

So when you're thinking about a recession, your question should first be how much cash do I need, right? How accessible is my cash, and how long will it last me? If you can answer those three questions, then you're going to be way better off than the majority of people when they encounter a recession because cash is really the thing that saves you when you are without a job, when your investments are down, right? It helps you keep the lights on, pay your bills.

I think the second thing is that if you have a plan for your investments before there's a recession, you're going to be way better off than most people, right? I think that the people who are sure, they're like, "Okay, I have enough cash. Okay, I understand the stock market's going crazy. But guess what? I'm in a long-term game, and I have a well-diversified portfolio, meaning I'm not just sunk into crypto or I don't just have all my assets in tech, right? I have a broad whiff of the things that I own. Therefore, I don't have to go and run and sell everything I own, right?"

I think the people who struggle during recessions are the people who overextended themselves during good times, right? They got caught up in crypto, or they decided, "I'm going to be a hobbyist trader, and I'm going to just trade my emergency fund because things are good. I have a good job," right? It's that optimism, which you talk about so much in your book.

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FT: It's that fearlessness. I'm sorry. It's fearlessness.

[00:18:16]

NS: Right.

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FT: It's like, "I'm sorry. I can't be fearless. I have a mortgage. I have growing children with needs. I cannot be rolling the dice right now and think that I will just be triumphant." I need certainty. To the extent that I can control that, I will. Call me crazy.

All right, I think we have given this question a lot of thought, and I want to move on to Liz, who says, "I am so thankful, Farnoosh, for my own healthy state of panic that I had prepared for this exact scenario." What is that exact scenario? She lost her job. I should have mentioned that earlier. So Liz lost her job, and she feels like she anticipated it. In that anticipation and in that fear of that anticipation of her losing her job, she went and made some important moves. That included getting an emergency fund together. So that emergency fund with her severance will be over a year's worth of expenses covered, based on her spending budget today. That isn't even including her unemployment.

First of all, can we just – I wish I had like a –

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NS: [inaudible 00:19:27] go.

[00:19:28]

FT: Like a sound effect or something, like you're – like stadium cheering for Liz. Okay, this is not just a small deal. This is a extra large deal. But here's the issue, and she wants our thoughts on this. Part of her wants to take this time to relax, enjoy the summer. But there's another part of her that's feeling nervous about navigating a job search in this very precarious market. She just wants to like keep her options open and therefore – but like what's the balance, right? How can she leverage this new fear that she has that if she's out of the market for too long, it's going to backfire?

But she also wants to take advantage and enjoy the good work of like saving and having the ability to have – she's bought herself some time. She's bought herself some peace of mind. What's the balance? I'll let you go first. I have some thoughts. This question actually came up in our private workshop on Monday that I had for everybody who pre-ordered *A Healthy State of Panic.* I'm going to have more incentives coming out this summer for those who want to join that early bandwagon. So Liz was in the audience there, and she dropped this in our chat. But I thought I got to bring this to the Friday episode too because I think a lot of people are either in this. It's a good problem maybe to have that like, "Oh, I have all this runway. Should I use it all before I get –" Going on the job hunt. Is that going to backfire? What do you think?

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NS: Yes. So what I love about this question is, one, she's super prepared. But, two, I think it brings up a deeper issue that many people struggle with which is attaching anxiety or stress to action with money. So when she talks about applying for a job, she's saying, "Well, I don't want to stress myself out, or I'm going to be so overly concerned," right? It's this immediate relationship that we have between the two. If I take action with my money, it needs to be fueled by stress, fueled by fear, and it needs to bring up not great feelings, right/

When we think about relaxing and enjoying our time off, it doesn't seem to coincide with our money. I think that that is the issue to talk about because I think that searching for a job can be very stressful, right, especially when you don't have the money. Luckily, she's put herself in a situation where she is not without savings. But even with the process of editing your resume, researching, sending it out, networking, how can we make that less stressful for Liz?

That would be my first question is how can we include those actions in your break in a way that's not going to fill you with this jittery fear or could consume you from when the day starts to when the day ends? I think that that would be the first thing that I would chat about with Liz is like what can we do to actually make the job search feel less stressful for you. Some ideas that I would have around that would be how can we set specific times for you to be sending out resumes? How can we also have specific numbers that we want to hit so that you're not feeling like when you take that time off, that you're being lazy? Or you need to make it up. Or you need to do something else, right?

I think like for many people, depending on how specified or how senior they are in their role, there may be five jobs you can apply for. It's not like there's thousands of jobs every single day that fit your expertise. If you have a less senior job, there's going to be more opportunities. So looking at how many opportunities you have in a given week and then setting a realistic number. Is it five? Is it 10? Is it 20 jobs per week, right? When are the times of your week that you can do that where it doesn't take up your whole life? So how can we make both come together, enjoy the way she's set up for herself? She set up her savings so that she could be less stressed. So let's put that in the plan of the job search. I don't think we have to go laissez-faire, like sunbathing in the backyard and never applying for a job.

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FT: Part of the fear is that she's thinking in absolutes. She's thinking it's got to be all or nothing. I'm going to take the whole summer off, and then I’m going to like wake up and start applying for jobs. The world's changed, or the world's gotten worse, and I wasn’t doing myself any favors. I think what I'm hearing from you is that she needs to create boundaries, exciting boundaries.

Start with the things that you want to do this summer, your fun list, your bucket list. Cross out those dates in your calendar. Those are non-negotiable. There are weeks you might want to go on a beach trip. There are afternoons that you want just to carve out for yourself, or yourself and your children, or yourself and your girlfriends. Establish those at the get-go, okay? So every Friday, sorry, oh, oh, including also a week every month or the last two weeks of every month so that you are setting yourself up for success in what you ultimately want, which is to feel like you have this freedom to do what you want.

I don't know Liz, but I know people like Liz. I'm probably similar. You can't turn off. You can't 100% turn off your professional dial. You just can't. You will be – and here's the thing too. Talking to people, updating your LinkedIn, applying for jobs, or thinking about what you want to do, that's all part and parcel to your setting yourself up for success in whatever you do next. Getting another job isn't just applying for that another job. It's thinking about what you want to do. It’s talking to other people in your industry. It's thinking and dreaming.

I mean, people say – I'll compare this to like the book that I just wrote. There were days when I felt like I wasn't making progress because I wasn't putting words on a paper. But writing a book is more than just words on a paper. It is living your life. It is experiencing your life and then taking those experiences and then having that inform the book, same with jobs. So boundaries, start with what you want to do.

Then I can go crazy trying to do what I need to do for this book launch. So I've decided that I'm going to every week email five people about what I would love their help with, all sorts of different help. But like I got to start asking for the asks. In your world, Liz, what are the asks? It could just be can we talk to a friend who also got laid off, and how are you managing your time. It could be talking to other colleagues that got laid off. How is your job search going? Can you connect me with somebody at this place or that place?

I have a friend who just in, I guess it was February, was off as part of that huge Google layoff. Like Liz, on the one hand, “Oh, I got all this time. I'm going to get all this severance. We have money to cover our bases. My wife is still employed. Thankful, thankful, thankful.” But this man has more phone calls a week than I do. He’s like constantly on the phone. He's a social butterfly. This is who he is. But that's not to say that he's not also playing tennis more. He's spending time – he's going on field trips at his kids’ schools.

You know what? He decided ultimately that he doesn't want to go back into a nine-to-five. He thinks he can probably consult because of these phone calls that he's had and because that's where the market's going. In tech, for him, realistically, to find that same job which he's not sure he wants again. He wants another higher level gig, and that's harder to get in this market. But what might be easier and more exciting for his work-life balance is stitching together consulting gigs.

So all this to say that you might have it in your head that you're not doing it “right” or you're setting yourself up for failure because you're not every day at it, trying to find another job. That's not actually what it takes to land somewhere successful. Landing somewhere successful means creating those boundaries, continuing to network, connecting with other people, connecting with yourself, which may mean disconnecting from other people. Yes, doing the things like the LinkedIn and the this and the that, and like checking your email, and like reaching out to people. But, again, only when you – only during those outside boundary times.

Any parting thoughts? I think that we have – I feel – I'm excited for Liz. I'm like –

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NS: Yes. I feel like this is a great opportunity for her. I think she set herself up for great success, and I love what you brought up about making sure that just because she's ready to apply for another job, that might not be the best job for her. Take a little time to think. What did I love about my role? What did I hate about it? How could I – right. Is there a different side step or a kind of horizontal step I could take? Is there a different way I could spin this?

It relates to Mary Grace's question at the beginning, where she spoke about how do you prepare. This is why Liz’s knowledge of her numbers is so important because she can now be creative with how she's going to look for a job. I think taking the time and giving yourself the space to enjoy is going to help her do that. So this sounds like a great pivotal moment for Liz.

[00:28:47]

FT: Yes. I'm excited. Now, you have the headspace to actually think strategically, where we often don't have that when we're stuck in the daily drill of working a nine-to-five. Okay, Marissa has a tax sort of question for us. So her business partner needs to pay off his 2021 IRS tax debt of $60,000, so he can be in good standing with the IRS. Yes, we all want that. This is also important because he's currently applying for more loans. Of course, business financing, you got to be – I got to have a clean bill of tax, tax health, kind of important.

So he plans to pay for this $60,000 by pulling the money either from his brokerage account, which has $111,000 in it. Or he's going to take it out of his 401(k), which has 200,000 in it. His 401(k) is down, like a lot of our portfolios, a lot of our retirement portfolios. It's down more so than the brokerage account because of whatever reasons, fees of the market. So he's not keen on taking the money out of the 401(k). He's also not clear about the penalties for withdrawing early.

She said, "For more context, his savings comes from eight years of being in the tech industry, which he left in 2021, this savings being the brokerage and the 401(k). He's now 35. He's working as a seasonal firefighter for more modest income and entering our second year of business together." So this is her business partner. "We're not paying ourselves or taking disbursements from the business yet. He said he prefers not to get a personal loan or make payments to the IRS on a payment plan. He's already paying a mortgage and doesn't like the feeling of being in debt. What are your thoughts on pulling from the 401(k)?"

All right, I got something to tell him. Do you want to hear it?

[00:30:44]

NS: Yes.

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FT: I had a gigantic tax bill this year. Part of it, a lot of it, all of it was because I had a full-time job last year and kept my business. This full-time job came with bonus and vested units. Don't feel bad for me. But it was like, I guess, at the end of the day, my accountant – and this is really my accountant's fault. I'm not really happy with her right now. She said, "Holy F. You have a lot of –" Also because I have – the business owes money too. I get that. I was preparing for like half of what she told me I owed. But then to double that, I was like, "Got it." Okay.

Thankfully, she told me that at the end of 2021. So I had like four months to get that off the books and like into its own little fund and like ship it out to the IRS April 15th. But also this year, as some of you know, I paid off a gigantic debt of a business that I started back in 2019. That was six figures. I also helped pay off a partner's debt with that because she didn't have the money, and I desperately wanted to close this bank account because it was charging us like 12% interest. I was like, “Okay, I'll just – I don't care. I'm going to take another risk here.”

But I'm like lesser of two evils. Keep paying this bank a double-digit interest or give you a little bit of a loan. I and another partner gave her, basically, the loan. So we split it in charging her interest but not 12%. So I'm making a little bit of money on this loan, and I do believe she'll pay it off because she can do it. It’s on a schedule. But all this to say that I was like really stretched thin in terms of liquidity by the time this IRS bill came around. Yes, maybe I could have forked it all over. But I was like, “Can I pay it in two chunks? Can I just –,” because I was waiting for payments to come in from my other clients.

This is the life. This is – I'm giving you a little behind the scenes of like the shuffle where I have savings, I have Investments, I have clients, and I get paid. Obviously, I have this podcast. The business is strong, but there are some months when you're waiting to get paid. If you've got six figures worth of payments going out, well, guess what? You might need a bridge loan, or you might need a little breathing room. Because I didn't want to cash out my retirement account. I didn't want to take money out of my brokerage account. I didn't want to even take money out of our emergency savings because that's for if, God forbid, we got a really – a health bill or a car breaks down or something like that. I was like, “Who can wait here? Who can take a minute? Can the IRS take a minute?” Yes, they can. The interest rate is not high. It's like four percent.

Assuming you keep this loan from them for a year, which you could just say, “I need breathing room for three months.” You can schedule the payment on your schedule. So with my accountant, I paid half of it on April 15th, and the other half I will pay in June because I just – I had money coming in, but it was going to come in between April and June. I'm just saying this because he's like, “Oh, I don't want to have debt from the IRS.” It's like, you know what, that might be your best solution here because the interest rate is actually reasonable. It's like four percent.

I don't like the idea of taking money out of maybe a brokerage and paying taxes on that, which is what is the tax on –

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NS: It depends on how long he's held that investment. So if he's held it for over two years, then he would have long-term capital gains tax, which is a much more favorable tax rate than his 401(k). So I think if he was – I think that your option of taking a payment plan is the most advantageous for him. But let's say his income can't support it because she did mention they're not taking any withdrawal or any payment from their business, and he's getting a very modest salary. So my question first comes up with I wonder what his cash flow is. Because if his cash flow is the problem, then, yes, he's going to be feeling like he has to make the these rash decisions.

But I know that the IRS will work with you on a payment plan. I believe you know they're going to take your income into consideration. So I think that that's a much more favorable choice for him. But I think if he's pressed and he really feels he needs to choose one of the two, I would strongly advise against the 401(k) poll because his penalties are going to be so much higher. For those of us who already know, it's a 10% penalty for early pull. Then after that, he's going to have to pay his state and federal taxes on that money as a – if he's employed or it's employment income, which could make the two together, depending on his tax rate, almost 30%.

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FT: Don’t poopoo an IRS payment plan. It could be –

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NS: Don’t poopoo.

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FT: Don't poopoo because it could give you the liquidity that you want. I think he needs liquidity right now.

[00:35:56]

NS: It's true. I think it's too much cash for him to do – like with his income, with what he has invested, it's such a large percentage of his total investment portfolio. To me, that's a very risky move. So the other questions that I had thought of, and I know they didn't provide these, but I think it's really helpful to ask them or show the other questions we would ask. My first question would be why are they not paying themselves from their business. What type of business do they run? How big of a loan do they really need, right? Is this a brick-and-mortar business where they're trying to get inventory? Have they considered investors?

So there's a lot of like layers I would pull back for this business, these two business partners, because I think that, yes, the question is how can you pay his taxes. But I think there's also bigger questions for them to answer as a business which is is this business loan at this amount the best for us, right? Are there ways that we can get around this? Are there pre-sales we can do on our physical products? Are there soft launches we could do, right? What can we do to generate cash that doesn't require a loan?

Because I know that there can be just this assumption when you start a new business, and many businesses need that capital. So I'm not poopooing on that. But I'm saying what can we do, right? Is there any way we can get some cash up in here so that we can start paying ourselves? Maybe he could afford that 401(k). Or not the 401(k) payment, the payment plan with the IRS, right? So thinking kind of outside of just the where should I get the money now? But how can I you know rethink this entire question too to make sure it's the best move for us as a business?

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FT: You're 100% right about this theory that we have to go out and get a business loan. That's when you feel legit when you get a business loan like, "A bank gave me a seal of approval." But, yes, you could do a drive. You could do a pre-sale of something. Let's get some cash in your pockets.

We're going to wrap right here. Thank you so, so much, Nicole. I knew this was going to be an incredible episode. Thank you to the listeners who sent in these extremely thoughtful and I think these questions that I think we're all thinking, **[inaudible 00:38:18]** we're thinking about; how to pay our taxes, how to navigate a recession, how to navigate a layoff. I so appreciate you coming on and being my partner in crime today, this Friday.

[00:38:29]

NS: These recession questions are awesome, and I think that they show us what everybody's thinking. So if you're a listener and you've thought these questions, it's showing you that you're not alone. There's probably thousands and thousands of people that are feeling the same stress as you. So it's okay to ask these questions. I love that these people are active to reach out and ask experts like you how they can manage this. So we need more questions like this popping up in your email.

[00:38:56]

FT: Yes, please. Send them my way. You can email me, farnoosh@somoneypodcast.com. You can DM me on Instagram @farnooshtorabi. Please, if you like what Nicole has to say, and a lot of you do because a lot of you have become clients and friends of Nicole, go to arise.financial to learn about her coaching program, more about Nicole. I'll put that link in our show notes. Until Monday, everybody, I hope your weekend is So Money.

[END]

