EPISODE 1707

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FT: So Money Episode 1707, Ask Farnoosh.

[INTRODUCTION]

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ANNOUNCER: You're listening to So Money with award-winning money guru, Farnoosh Torabi. Each day, you get a 30-minute dose of financial inspiration from the world's top business minds, authors, influencers, and from Farnoosh herself. Looking for ways to save on gas or double your double coupons? Sorry, you're in the wrong place. Seeking profound ways to live a richer, happier life? Welcome to So Money.

[EPISODE]

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FT: Welcome to So Money, everybody. I'm Farnoosh Torabi. Friday, August 9th, 2024. Let's talk about the stock market, the stock market this week. If you hadn't noticed, I'm happy for you, and as it should be. You should not be poking around at the stock market, and worrying about the direction of stocks. If you are a long-term investor, like I am, and like I hope everyone listening to this show is, or eventually will be.

So, Monday, we all woke up and it wasn't even starting on Monday. I think it was as late as last Friday, maybe a week ago, the market started to go south. There was the jobs report on Friday of last week that came out for July that was below expectations, unemployment ticked higher. That sent jitters across the global markets. People now worrying, is America actually entering a recession? Is the Federal Reserve dragging its feet to reduce interest rates? They're not doing it fast enough. This "soft landing" that we thought we were in, is it actually not going to be a hard landing? Et cetera, et cetera.

So, that led the Dow Jones, the S&P 500, a lot of the global markets to tumble, and that continued into Monday. So, Monday, I send out an email, and if you're not subscribed to our email list, I highly encourage you to do so. I'll put the link in our show notes. I don't bomb you with emails. I email once a week, twice a week, when it makes sense, when I've got some interesting news, or a giveaway, which I'll talk about in just a moment. I'm giving away three copies of *A Healthy State of Panic*, which is now in paperback.

But all right, let's go back to the stock market. So, let's talk about where we ended up with the stock market. I'm recording this on Thursday, it's airing Friday. But I'm looking at the charts, I'm looking at finance.yahoo.com, where I used to work. Shout out to my old Yahoo team. What are we doing today, folks? We are up. We are rallying. We're not just up a little bit. The S&P 500 is up over 2% as of 3pm on Thursday, August 8th. When I used to be a reporter covering the US stock market for places like Yahoo, and I was a business producer at New York One. I worked at the street.com with Jim Cramer.

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When the market was up 2% and the market being the S&P 500, that was a big news day. That was a big day to really look at what was going on in the stock market. That's not a normal day. But here's the thing, if you're looking for normal in the stock market, stop looking at it from a daily snapshot. Stop looking at the market day to day or week to week, even. Look at the market year over year or over several years. What do we know about the stock market? It is irrational, it is highly emotional, it moves based on predictions, not on actual facts. It's just sentiment. The jobs report from Friday was below expectations, and so it didn't meet expectations, and that's why we saw a sell off.

But with everything that goes down, there was a day that everything goes back up, and this rally was quite quick. It was a quick turnaround. We know that the stock market is uncertain, it's unpredictable, it's highly volatile, it's very risky. But we also know the plus side of the market, which is that, over several years, over a 10, 20, 30-year period, putting money in the stock market, buying, and holding, and riding the ups and the downs leaves you with more money in the end than if you were leaving that money in even a high-yield savings account.

So, to conclude this TED Talk, keep investing. Don't worry about day to day, week to week fluctuations in the stock market. It's interesting. I mean, I'm kind of a market geek. I like to look at what's moving markets. This is sort of like how other friends might be looking at what's giving their football team a leg up one season. It's all just interesting. But what is most relevant to us as long-term investors is that, in the end, when we're looking at a 30-year historical chart, we see that the stock market, the US stock market over time on average returns after inflation, about 7% to 8% annually. That is where I'm putting my money, that's where I put a lot, if not, most of my money. My investments is in the US stock market.

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If you want to learn about more about investing, and not just in the market, but in real estate, and in yourself, and in your business, we cover a lot of ground in the So Money Members Club. I invite you to join us. Go to somoneymembers.com. With your membership, you get a free live event with me every month where we cover a hot topic. This month, we're going to be looking at side hustles, how to earn more money. We recently covered real estate, how to buy in this market. We've covered investing, obviously. We've covered alternative investments, things like crypto, and real estate, and art, and theater.

Later this year, we'll be covering budgets, and that's just one aspect of your membership, are these monthly live workshops. You also get live office hours with me. You could get to come in and hang out with me every month and ask me your money questions, or just sit in, and hear what other people have to say. We have an online community where we share, we give advice, we engage, and you get free access to this podcast without ads. Normally, that comes at a cost, but it is baked into your membership. It's a bonus. So, you go to somoneymembers.com and check us out. It's a monthly subscription, and you can cancel it at any time.

I did mention giveaways, book giveaways. I'm holding in my hand the new yellow copy of *A Healthy State of Panic*, the paperback copy. The publisher emailed me this spring and said, we ran out of the, I guess, what color would you call the book, the hardcover? It's like a lime green. So, they ran out of that color, supposedly. They said we got to come up with a new color. They gave me some of their favorite options, amongst which was this bright yellow. Thanks to everybody in the audience who voted. This was a crowdsourced cover, a yellow lemon. I love it. I think it's fresh. I think what my goal has always been is to make this cover approachable, fun, juxtaposing panic with some fun. It's small, it's bendy. You can put it in your backpack, your purse. You can gift it to a friend.

I'm giving away three signed copies. All you have to do is go to my Instagram, where I have a dedicated reel about this giveaway, and I have that link in our show notes, so you don't have to go looking for it. But just click on that Instagram link in our show notes today, it will take you to the reel where I give the instructions. Basically, just follow me on Instagram, tag a friend, share a post. And by Sunday night, I will go through everything and pick three people to get each a copy of my book signed. So, that's the giveaway. Let's go to the mailbag.

[ASK FARNOOSH]

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FT: First up is an anonymous question from our friend in the audience, who says that – firstly, she wants to thank me for consistently educating my eager to learn audience. She says, "The podcast has allowed me to reach Coast FI in my 30s. What is Coast FI, you ask? Well, Coast Fi is shorthand for Coast FIRE. It's a wealth benchmark within the FIRE Movement, financial independence, retire early, which is what FIRE stands for. It's a singular approach to this, to financial independence, where you reach a certain level of savings and investments early on in your career. Then, you sort of coast. You let those investments grow on their own without making additional contributions, and let time kind of do its thing. Compound interest work its magic.

We know that every seven years, your money doubles, right? So, if you have, let's say, $500,000 in your portfolio right now, your stock market portfolio, it's diversified, it's risk adjusted. Every seven years, you could see that potentially double, give or take. So, if you're 35 right now, by 42, you'll have a million dollars. By 49, $2 million. So, depending on what you anticipate needing in retirement, you could just stop investing and just let that investment that you currently have coast, ride the compound interest wave. Then, go back to using your money for other things. So, that's where our friend is at in the audience, and she credits this podcast for helping her get there. To that, I say, wow, made my week.

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Our friend in the audience is currently in her 40s, recently retired early, retired from a stressful, 50 plus hour a week job. Her partner still works a very low-stress job, but it's well paid, and he earns together. They earn over $200,000. They use the dividends from their investment portfolio to cover personal expenses and also to contribute to family expenses. They do have a mortgage that's $500,000. Our friend is about to inherit about $300,000 very soon, and they are at a loss as to what to do with it. Their monthly expenses are covered. They have over a million in retirement accounts and over 100,000 in savings.

Their young kids will have five to nine accounts and the cars are paid off. "So, with this upcoming inheritance, what should we do? Should we contribute to our kids' college plans? Should we pay down the mortgage, which is at a 6% rate, place the money in a high yield savings account for security, invest, something else?" She recognizes that she's in a privileged position.

How have they managed to get to Coast FI, well, they've lived for years, as though they made $120,000 a year, although they were making a combined $300,000. So, living really below their means, and they reached Coast FI in a very boring, but effective way of, "Spending less than we earn," she says. So, what are my thoughts? All right, my friend, I'm going to give you a name. I'm going to call you, Farnoosh, okay? As if I'm talking to myself. If you were me, I would say, Farnoosh, get some goals. Anchor this inheritance in those goals.

Now, I will say that that 6% mortgage is – it's not 3%, right? It's not crazy high, but it is at a place, at a level where it's just shy of that 7% mark. Where this is a rule of thumb, everybody. If you have any outstanding debt that is carrying an interest rate at 7% or more, that is a high-interest debt, relatively speaking. Why do we say that? Compared to investing in the stock market, which is like the opposite end of what you could do with that money, it's like paying debt or investing that money. You're probably going to see more return paying off that debt than investing in the short term in the stock market. Yes, the stock market, over many years, produces 7% to 8% after inflation.

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But if we're talking about like a $3,000 credit card bill or a $500,000 mortgage even, with a 6% interest rate. I think that if you wanted to aggressively pay off that mortgage and save out that 6% interest, you're going to basically earn back that 6% interest. Will you get that in the stock market during that same time? Well, this is where we're coming out a little close. It's like 7% versus 6%. If you said your mortgage was 9%, I'd say, "Yes, let's knock down some of that principle."

But here's the other thing I want to mention, is like, you don't have to have one job for this $300,000, This $300,000 can go in several directions and make an impact in many ways. You could save a portion of it in a high-yield savings account until you figure out what those goals are that you want to achieve beyond what you're currently affording. Maybe it's that you decide, "You know what? We've done a really good job of saving, and we want to go out and explore. We want to take our kids, our family, on a one-month excursion exploring the world." That's going to cost money. This is where the $300,000 can really afford this amazing experience for your family.

That may not be your desire, but this is how I'm encouraging you to think, like what are the experiences, the personal life experience investments that we want to make that we could really do now with this inheritance. But of course, you don't need all the $300,000 for that. You could take some of it and pay off the mortgage a little bit and knock down some of the interest and the term of your mortgage. The rest, you could invest.

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I like a multi-pronged approach to finance. I love being able to multitask with my money, and of course, there's a lot of pleasure that comes with just getting rid of a piece of debt in one fell swoop with a chunk of money, and having that just be the sole purpose of that money. But when you've got a lot of money, hundreds of thousands of dollars to work with, have it work for you in multiple ways. You should go back and listen to an episode we did recently this summer that was all about inheritances. I don't know if you caught that, but there was someone who asked a question, who was kind of in your camp, where she was getting not 300,000, but I think it was like $40,000 or $50,000.

This was not money that she needed, not even close. She had plenty in savings, and investments, and she made a ton of money. This was, I think she actually got laid off, but she was fine, and this was a severance. My advice was like, go on a vacation. My cohost, who's a little more conservative, was like, "Well, I would first want you to run the numbers and figure out, are we actually really secure?" I respect that, because, of course, yes, like I jumped the gun a little bit and said, go on a vacation. Do you. Have fun. But my cohost, Pam Krueger, who's the founder of Wealthramp, she said, "Maybe just make sure double check that your retirement plan is coasting well. Make sure that your coast ambitions are still tracking. Then, if they are, I don't think you have to put much more towards it."

You can look at things like paying down that mortgage, and investing in life experiences, and then the rest in a high-yield savings account, which I know the Fed is probably going to bring down rates soon. But we're still probably going to finish the year with high-yield savings accounts, many of them offering about 4% to 5%.

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Our next question is from Lee, who has a question about post versus pre-tax retirement contributions. Getting very technical now. Let's turn on the other side of the brain. Her question is this. She says:

L: "Farnoosh, I've been contributing to a post-tax IRA because it has a 1% match."

FT: Post tax, meaning she makes money and then she pays her taxes, and then she contributes to this IRA, which ostensibly is a Roth IRA. She doesn't say it's a Roth IRA, but let's call it that, because it's essentially what a Roth IRA is. Plus, there's a 1% match. She says:

L: "However, I was recently promoted, and I'm getting closer to my peak earning potential. Should I think about moving that contribution to my pre-tax 403(b)?"

FT: Pre-tax, y'all. So, she gets paid, she contributes to the 403(b), and then she pays taxes. That reduces her taxable income, and then she's taxed on the remaining. So, should she move that contribution to the 403(b), as she's earning more money. She says:

L: "I have a healthy NASDAQ in my pre-tax account, but I've only recently started the post-tax IRA. I know there are many advantages to having a post-tax fund at my disposal in retirement.

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FT: Okay. So, Lee, I think that I would want to take advantage of that 1% match to the fullest extent, that post-tax IRA, which, let's call it the Roth IRA is also great, as you say. Because you can withdraw that money in retirement tax free. We don't know what our tax situation is necessarily going to be in retirement. It's nice to have that option to withdraw from a fund without the tax burden. As you say, you're earning more, so you're going to eventually become disqualified, probably to contribute to this post-tax IRA. We know that Roth IRAs, for example, have an income limit and beyond making a certain amount of money. I believe it's $153,000 for single tax filers in 2023. In 2024, the threshold goes up to $161,000 for single tax filers. Married, it's more than that.

But bottom line, as you make more, you will no longer have access to this sort of a tax break with a Roth IRA. So, take advantage of it while you can. Then, if you want to do more, if you can do more beyond that post-tax IRA, then contribute to the 403(b), which works similar to a 401(k), in the sense that you pay into the account before taxes. As I said, it reduces your taxable income today that you pay taxes on withdrawals in retirement.

A little bit more about Lee, she wants to give us context. So, this actually informed my response, too. But she says, additionally, her husband, who is 10 years her senior, has a very healthy retirement account. He's going to get a government pension. So, the two of them are in a pretty good position for retirement. Now, she's just wondering about the tax details. Which one is better? I mean, I always think that the ability to invest in a post-tax IRA is a good ability. In top of that, you're getting that 1% match. That's win-win. Is it enough every year to just contribute to that, given that the limit, the contribution limit may be smaller than the 403(b)?

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The contribution limit, typically on a Roth IRA is around $6,500. It's going up, I think in 2024. It's going up to $7,000 in 2024. So, if you know, because you've done some calculations, that that is not going to cut it for you and you need to invest more, then that's when I would contribute more using the 403(b). All right, Lee, thanks so much for listening to the show and for your question.

Next up is Bethany, and she says:

B: "Hey, Farnoosh, I love the show. I founded this past summer, and I've been trying to digest as many episodes as I can since then."

FT: Wow, may the force be with you. Bethany says:

B: "My husband's work informed him that to move up within the company, he needs to take some accounting classes. Fortunately, I work for university, and his tuition will be half off. We plan to use his parents' 529 plan, which my husband is the beneficiary of, to fund the tuition, and the fees, and the books. Recently, though, we learned that my husband's work will reimburse his tuition. Are there any tax implications if we do not put those reimbursements back into my in laws' 529? Could we use it to fund a 529 for our son, pay off some of my student loan debt, or even set it aside for a house down payment? Any insights would be appreciated."

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FT: All right. Bethany. I'm not so clear on the tax implications of using a 529, but then getting reimbursed another direction, and then, will that put you in some sort of violation? That's a very unique situation. I think you want to call your 529 provider. But here's my thought, if your husband's job is going to reimburse him. Why are you touching this 529 plan? Can your in laws change the beneficiary of that 529 from their son to their grandson, your son, and let your son use the money when he's ready. Qualified family members include the beneficiaries, spouse, son, daughter, stepchild, foster child, adopted child, or a descendant. So, your son qualifies.

If there are some things that won't be covered by your husband's job, that they will not reimburse, then you could use the 529 for those expenses safely and without any worry of a tax event happening. You can use the 529 as more of a supplement in that case. Then, whatever balance remains, you can change the beneficiary of that balance to somebody else in the family, maybe your son. So, that's what I'm thinking. Unfortunately, I don't have a specific understanding of 529 laws to the extent that you're describing of like the 529 money that we're going to use will get reimbursed. I mean, I want to say there shouldn't be an issue, but I also think, why break open the 529 if your husband's company is going to reimburse him?

Then, finally, a question about prenups. Lanvi wants to know, how does one go about getting a prenup? This is pretty straightforward. You got to look at your state's laws. Most states require that both individuals go into the prenup with their own attorneys, and I recommend this too. I think you each want your own attorney, which may sound weird. You're both getting representation, you're not even married yet. What's going on? But as we've heard on this show, and actually going to do an episode on prenups later in December.

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It's important to have representation. A marriage is a contract, and so you want to be able to protect yourself in the event that that contract goes to hell, essentially. So, the first step is to find a lawyer, preferably a marriage attorney who has experience doing prenups. Again, you each want to have a lawyer, so that you're both equally represented. You're both fairly represented. You want to get a lawyer from the state where you're going to be living, not where you're getting married, and they will draft it up for you. It's going to take weeks, potentially, and the recommendation is that you have this figured out, signed about a month before your I do's.

Now, there are a number of websites as well that can help you where it could be a more economical, it could be quicker if you're just looking for a simple prenup. I've seen ads for this company called Hello Prenup. I think they were featured on Shark Tank. Rocket Lawyer as well is a resource. They have a lot of different contracts on their website, including prenup templates. So, you can go that direction, or you can go a little more buttoned up, and work with a lawyer one on one, and get it done. I'm seeing more and more couples do this. It used to be in my generation of marriage, like 10 years ago. Before that, that prenups were thought to be just this thing that you did when you were super rich, when you're Jennifer Aniston, and Brad Pitt, and two billionaires getting married.

I'm happy to see that that culture, that thinking, has changed, to now, you're seeing many more younger couples, couples without a ton of assets, getting married. Because they know that as they're married, they're going to build a life together, together, and separately, and they want to be protected in the event that their marriage does not work out. It is as I remember, Erin Lowery told me once on the show, she's the author of *Broke Millennial*, the *Broke Millennial* series, financial expert. She wrote about this in one of her recent books. That getting a prenup is an act of love. It is an act of love, because it's saying, "Look, we don't want to get divorced, but in the event that things don't go the way that we plan and hope, we want to make it really easy for the two of us. We don't want to be fighting. We don't want to have to stretch out the pain and the grieving for longer than we do. The prenup will protect us."

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Because essentially, what a prenup is doing, it is filling in any gaps or rewriting some of the laws that your state mandates in the event of a divorce. Without a prenup, you are vulnerable to your state's proceedings, your state's laws around divorce. If you don't agree with your state's laws, the state that you're living in, then you want to have a prenup.

Our friend in the audience wants to know, "Farnoosh, how do I transition to have separate accounts in my relationship? I've been married with fully merged finances for many years, 25 years in my case." So, just to preface, I don't think this person is getting divorced. This isn't because they're separating that she wants to have separate accounts. I'm not sure what the motivation is, but it doesn't sound like they are on the precipice of a breakup. Where in that case, it would also make sense to start transitioning to having separate accounts.

But I think in this case, they're happily married, they just want to find ways to create some more maybe financial autonomy for each person in the relationship, which I completely advocate for. I think it's so, so important. At the end of the day, it doesn't really matter how you're managing your money in so far as the number of accounts, or whether you have joint or separate accounts. Honestly, at this point in my career, I've seen everything. What I have found is that, if you're foundation isn't solid, meaning there isn't good communication, you don't have trust, there isn't transparency, then it doesn't matter what your financial bucket system is, your savings bucket system is, it's not going to work. It's not going to work.

So, before I get into my preferences for how to manage your savings, and whether to have a joint account, and/or separate accounts, I first need to be very clear that you must first work on your communication, and the trust, and the transparency. There are ways to implement this in our relationship. We use an app called Empower. It's free. This level of Empower that we use is free. You get to pull all of your accounts onto one dashboard, so both of us can see where our finances are. Jointly, separately, we have multiple accounts, but it's just a way to stay in touch with the current finances in the relationship. What, when bill gets paid, what are our debt levels for the mortgage, or car payments, et cetera.

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There's also an openness to talk about money. I never feel intimidated and vice versa to talk about money, to talk about what's bothering me or what my goals are. So, that has to be there, that layer has to be the first layer. Then, from there, I think whatever works for you is going to work best for you. Do what is sustainable. If you feel comfortable having everything in one pot, that's fine. But if you ask me, I think that if you're going to do that, also have separate accounts that maybe is connected to the joint account. Where every month, you're taking a percentage from the joint account to your individual accounts. In that way, the two of you can go on your separate ways to spend as you wish.

So many of the arguments that bubble up in relationships, a lot of the tension that arises in relationships around money has to do with spending, how one person in the relationship is spending versus the other. The values don't always align, the spending values. Look, I like to go get my hair done every six weeks. It's a couple hundred dollars for the roots to get colored. My husband doesn't have that on his budget. If he's going to come after me for that, we're going to have problems. We don't. One, why? Because well, we have mutual respect for our spending styles. But also, I have my own money and he has his own money. We don't go around – as one mom told me, "My husband chases me around the house with a credit card statement." That's so dehumanizing to me. I don't know about you, but I feel like I want to avoid – I would love for every couple to never be in that situation.

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So, going back to our friend who wants to transition from having a joint account exclusively to having separate accounts. What I would say to you is that? First, figure out what is the purpose of this personal account that you're going to design for the two of you, these personal accounts. And how much do you anticipate wanting or needing in your account on a monthly basis. From there, whatever that number is, you want to create an automatic system that drafts that amount from your joint account to your personal accounts. Logistically, you could choose to bank with the same bank where your joint account is. That could be simpler. One website, one dashboard. You've already got the app, and you can look at both your joint account and your individual account perhaps at the same time.

So, it's not that hard to transition out of having a joint account into separate accounts. But you first need to do the homework of realizing, what is going to be the purpose of these individual accounts, how much do we want to fund in each of these accounts on an ongoing basis. Then, creating the automations to have that work for you.

That is our show, everybody, this Friday. Thanks so much for tuning in. A reminder, head over to my Instagram, I have that link in our show notes, to learn how to qualify for my drawing, for a free copy of *A Healthy State of Panic*, signed copy. If you have questions for our Friday show, the easiest way to send them in is to go to somoneypodcast.com, click on Ask Farnoosh, and you'll be prompted to leave your question there. You can also directly email me, farnoosh@somoneypodcast.com and you can DM me, direct message me on Instagram. I hope your weekend is so money.

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