

EPISODE 1725**[0:00:00]****FT:** So Money episode, 1725. 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. What a week! Federal Reserve lowers interest rates by half a percentage point, a generous half a percentage point, to 4.9% down from more than a 20-year high. This is the Fed Fund's rate, and it's the overnight rate at which banks lend to one another, just a little background on where this interest rate shows up. It is also trickling down into the banking system, our banking system. We have already seen more hit rates decline since the news came out.

Coming on the show, we're going to be speaking with Financial Planner and Founder of Modernist Financial, our friend, Georgia Lee Hussey, about what this means for our investments, our savings, and our debt, especially this becomes a recurring event. Just FYI, the time of my recording with Georgia, which I prerecorded before this introduction, we did not know yet if the Fed was dropping rates by 25 or 50 basis points. So, bear with us. The insights, however, and the advice are still valid.

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FT: We'll also answer an audience member's question about whether it's smart to take out a 30-year mortgage in midlife and potentially have that mortgage going into retirement. You're going to have your mind blown when Georgia gives us her take on this. How and why a 30-year mortgage begins to feel less painful? How a 6% interest rate on your mortgage is really like a 30% interest rate, and why a 30-year mortgage begins to feel less painful by year 10? Really compelling stuff.

Of course, we're going to talk about the election and the recent presidential debate. Georgia loves to integrate policy into personal finance, and we're going to get into it. But first I want to share some exciting news, some personal news. I was at my alma mater this week at Pennsylvania State University to receive the Alumni Fellow Award. Now, when I first got the phone call from the dean of my business college at Penn State that he wanted to talk, this was earlier this year, I just assumed I was in trouble. Really, I didn't think at all that I was going to be awarded anything.

I think no matter how successful you may appear on paper, and this was actually part of the speech that I gave, there's always a voice in your head that's like, "Don't get too comfortable." Right? So, I was just blown away when he told me that I had been chosen to receive this award, which is the highest award that Penn State gives to its alumni. The program began in 1973. Each year, the school recognizes 12 graduates who are leaders in their professional fields. You're nominated by your academic college at the university. For me, that was the business school's meal. I went there, invited by the president of the university, Dr. Neeli Bendapudi. We call her Madam President, which, by the way, feels awesome to say out loud, just FYI.

We go back to campus. It was me, my husband, my in-laws. It was a whirlwind. It was just a delight. I mean, to imagine to go back to your campus as a – I want to say a relaxed person, but someone who's not stressed about the course load, and working, and grades. Now, you have a little bit more money or a lot more money than you did when you were in college, and you're being muted and greeted, and wined and dined.

My husband and I, on the ride back home, I was checking our calendars to go, when can we come back to Penn State? While I was on campus, I did a podcast interview with students on a show called, Following the Gong. It's an alumni, director, hosted podcast. Sean Goheen is the host. He did a fantastic job. The show, again, is called, Following the Gong. It's so well produced. The questions he asked me about my career, and my experience at Penn State, and my advice for students was just so thought-provoking. We did some Q&A with the audience. A student came up and asked if I had any advice for her around this imposter syndrome, and she was struggling with imposter syndrome.

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FT: Now, I thought, first of all, that this student was a faculty member, because she had such poise. She was so eloquent in asking her question. She seemed so comfortable in her skin. I was like, "You're feeling like an imposter?" It was kind of a precursor to what would happen later in the day. I have this young woman in college who hasn't graduated yet asking me about imposter syndrome.

My short answer to her was, one, everybody experiences imposter syndrome, and two, you deserve to be in every room you want to be in. There is no light switch to turn off the imposter syndrome, but I think just recognizing that literally, every human being experience this to some extent. Hopefully, gives you the comfort and the context to know that there is really nothing to be really afraid of when it comes to your feeling valid and your feeling of belonging in a room, in an environment with other people.

Fast forward to the awards ceremony. I'm on stage with my fellow fellows, including world-renowned scientists, a plastic surgeon who heals burn victims, to a top attorney, CEOs, a female Hollywood director. I would say about 50% of the people who went up to give speeches said, and if they didn't say it, they were thinking it. I am so humbled to be here. I have such imposter syndrome right now. So, whether you're a college student or a Hollywood director, plastic surgeon, a leading attorney, the host of So Money, we are all feeling inadequate at times, but here's the thing, we show up. We ask the questions. We do the work. We do it scared.

That's also what I shared in my speech. I said, "This college, Penn State, I came here ambitious, but not really understanding what that meant for me or how that was going to play out." I said, "The university granted me resources and runway to make a mess of things, but more importantly connect dots and meet the right people who would change my life. For those of you who are students watching, listening, if you are I well, like I was a student who had a lot of ambition, maybe not a lot of direction, that's okay. Trust the process. Do it scared."

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FT: I have goosebumps talking about my experience at Penn State. It's ironic, because I did not want to go to that school. My parents had to bribe me. They were like, "Go. It's what we can afford. It's a great school. Trust us. Trust the process." They did promise me a car, which I never got, but it all worked out. I'm not mad about it. That's just a little behind the scenes of what happened to me this week.

Now, I'm ready to play my conversation with Georgia Lee Hussey and we're going to talk money. We're going to talk politics a little bit. Sorry, not sorry, but it's important. We're getting really close to the election and we need to talk about it. When we're talking about elections. We're talking about our money. We're talking – here we go.

Georgia Lee Hussey. Welcome back to So Money. We promised audience we would have her back. We were here last in July, as we get closer to the election, and as the fall unfolds. It's important to have you back, because you bring such an important perspective on everything. Tie to the news, tie to zeitgeist. We love you. Welcome.

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GLH: Thank you so much. It's lovely to be here. I'm excited about thinking about money as we go into the end of the year.

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FT: Yes. Lots of news abuzz, whether you're following the election. We definitely want to touch on the debate and what you thought. Also, this is the big week that the Federal Reserve met to decide on interest rates. Now, full transparency, we're recording this episode before the Fed actually announces its decision, largely expecting a rate cut the first since 2020. We don't know audience if it's going to be a quarter of a rate cut or half a percentage. But we're pretty sure it's going to be something in the downward direction. We want to know what that could mean for our wallets.

First, let's talk about the debate since that happened earlier. I think there was an obvious winner in that debate from a not just a composure standpoint, but from actual strategy. Here's my plan. That was Kamala Harris. What did you think?

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GLH: Yeah. I agreed. I was grateful to hear answers to systemic issues that Americans experience around access to wealth equality. Well, as I often say, it has five pillars. There's money, obviously the one we're talking about, but relationships, well-being, skills and craft, and time are all implicated in the policies we heard. I was grateful for the understanding that our economic systems just aren't working for most American and that health care, home ownership, child care, just three big ones.

One candidate had some policy ideas on how to approach those things. The other simply wouldn't even address them most of the time. Let's just get the pithiest response out of the way. The answer that they're going to have a concept of a plan for health care, and they've been out of office for three years, we're in office for four, and we're arguing about this for the – so basically in the past eight years, we've been making statements about undermining the Affordable Care Act. It's unacceptable.

I have many clients. Myself, I would definitely be back in a situation where I could not get health care, because of pre-existing conditions. I appreciated Kamala saying, "Remember that when you couldn't get health care, because you had a back problem?" Then that led you to a financial spiral.

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FT: Yeah. You declared bankruptcy, right? Health care costs are the leading cause of bankruptcy in this country. Talking about policy, she also mentioned tax breaks for small businesses.

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GLH: Yes.

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FT: And parents. She talked about a first-time home buyer credit for down payments, which all of this has to go through many votes and needs to have an implementation strategy. But at least there's a plan, not a concept of a plan. People are still pessimistic, more pessimistic than optimistic on the economy, even though we've seen some improvements. Inflation is at least technically down. The whole inflation story, I think, is that where it really hurts, like food, and health care, and childcare, those have not gone down. They've maybe plateaued, but compared to four years ago, we're up 20% on grocery bills.

I think that while the administration wants to take credit for or the Fed wants to take credit for inflation coming down, I think that we have to be realistic about actually where that's coming down and where it's still plateauing or going up. More pessimism than optimism on the economy and polls, and this is across NPR, PBS, Marist.

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GLH: Yeah.

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FT: Show that people trust Trump to handle the economy, immigration, and the war in the Middle East more than Kamala Harris. I think it just says to me that you have to work so much

harder as a woman to prove your case, to prove that you're worthy, to prove that you're up for the task.

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GLH: Yeah. I think she has multiple stories. One of them is obviously that, and I actually love that she doesn't really talk about it ever. I'm so grateful that she's just out there doing the work, because I honestly think the more she talks about being a woman or a woman of color, the more she reinforces the story and reminds people of the story, so she's just like out there being a badass. Watching her in that debate, I was like, I would love to be able to speak like that in public. What an extraordinary capacity to take nonsense answers and call them by their name.

I would say that she has the other problem that the Republican Party over the past 40 years, basically, since Reagan has marketed themselves as the economically responsible party, but there's very little data to support that. If you look at the impact of debt by administration, Republicans are just as likely and not more likely to increase the debt than a Democratic administration. So, of course, those are macro questions we're looking at, but that's a very hard thing for the Democrats to shift the narrative on.

This comes back to, as a voter, it is my job to stay out of the weeds of the noise and focus on the data. So, as a wealth manager, I'm looking at the data, ignoring my personal noisy experience, and looking more broadly across my community, across markets, to say, how are things trending? Because what we're experiencing right now is already happened. We need to be thinking more long-term. So, this is called recency bias.

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FT: Yes.

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GLH: We just have to actively overcome it. We're like, inflation feels really high right now. I'm like, "Yeah, but that's recency. That's a recency sense."

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FT: Yes. Yeah.

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GLH: We're thinking more about five or ten years, what feel impossible.

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FT: A very important message, I think, for the younger adults who don't have the lived experience to know that markets are cyclical, real estate markets go up and down. I think I just saw a study that, in terms of the generations, Gen Z is most gloomy on their finances in terms of, they really don't think they're ever going to have "enough money" that fear of lack. There are real circumstances behind that.

Also, I want to remind them that every generation goes through its thing. Context perspective is so important. You brought up patterns and trends, and one that we may see happen in forthcoming months is a reduction of interest rates – that can't seem to go in the reverse direction, where the Fed has been raising rates in the last couple of years to stem inflation and bring down inflation. They think they've got a handle on it. They think we've gotten that soft landing, ready to bring interest rates lower. Good news for consumers who have any revolving debt or shopping for credit in the next couple of months.

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GLH: I think this is an interesting moment for us to step back and realize that we are both debtors and investors. Lowering interest rates is not great for me as an investor. My projected returns are going to go down, because the base risk-free interest rate is going down. It's an interesting moment, because a lot of my clients are like, "I love my 5% savings account that we offer them." I'm like, "I love it too and don't get used to it." This is not something you can rely on.

These are floating. As an investor, I don't have bond, but a lot of my clients, own bond. So, the amount of money I'm making off of that portion of my portfolio is going to go down.

Now, hopefully, we only take on debt a few times in our life, and it's with intention, right? Yes, mortgage rates are up, but historically they're not that high. I think they're actually very reasonable right now. I think we may end up with five, five and a half. But what I would say here is as an investor, I'm not stoked about interest rates going down, but I'm excited about them maybe leveling off at a more reasonable rate than they were for the past 10 years. I would love to be having a savings account, pay me three and a half –

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FT: Just to be clear, you're talking about saving in a high-yield savings account, but investing in the stock market, how does the stock market usually fair when rates go down? One guess is that companies now can grow more than ever, because they have better access to credit. The layoffs will stem, hopefully. Hiring prices will go away. The reason that the Fed is lowering rates is because they're worried about the job market suffering too much from higher rates.

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GLH: It could be good for this stock market, sure. The stock market is also bumping. The Russell 3000 is up 27.

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FT: You love that Russell 3000. Let's take a quick commercial break to talk about the Russell 3000. No, seriously. We always talk about the S&P 500 or the Dow, which I know is not really a barometer in NASDAQ. When you hear any news reports about how the markets did, they never mention the Russell 3000. What is going on? They need a better PR person.

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GLH: I agree. I have written a few notes to marketplace asking them to use a better metric.

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FT: They'll do a foreign exchange over the Russell 3000.

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GLH: Yeah. It doesn't pay. They'll use Dow. They'll use the NASDAQ, because everybody loves to look at the sparkly friend. But yeah, so the Russell 3000 is basically the closest proxy we can get to the whole American stock market. So, to me, it's the best indicator, because it shows us the large cap, sexy stocks that have been doing so well over the past year and a half or so. It shows me the little tiny steel company in Ohio that is also on the public markets. So, by tiny, still quite large. This is, it's a better proxy for American public businesses and the S&P 500, which is primarily moving around based on just a few, a handful of, I would say, overvalued growth tech stocks.

Again, back to what is going to happen in the short term with interest rates. Stocks will likely be happy, because small companies will be able to borrow money more cheaply. That's great. Most people who have a well-diversified portfolio own bonds in their portfolio. So, those rates are going to go down, but the whole purpose of those is just to be stable. You don't get in return on your bonds. They just even out the volatility of our stock ownership. Then if you have credit cards, your rates and mortgages are going to go down.

My joke is the rates of bank pay you will drop way faster than the rates that they charge you. Expect your savings accounts to come down in the short term, and mortgage, and credit card debt to come down more slowly.

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FT: We have a question later about pros and cons of taking on a mortgage in midlife as the audience member is concerned about having this debt going into retirement, potentially. But just to touch on housing for a minute and rates and the impact on housing. There is a narrative that when rates go down, mortgages become technically a little bit more affordable, but that as-

sumes also that prices don't go up. You actually probably will, because we have no supply. As more people are interested in taking on mortgages with lower interest rates, flooding the market again to buy and then that pressure on prices, it's going to be a wash.

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GLH: Yeah. I'm just very wary of the dominant narrative of real estate, because it is really the linchpin of so many systemic social issues we're experiencing right now. Homelessness, fentanyl crisis, like children going hungry. It's really such a big problem. So, I think again, this is where I try, Farnoosh to remind ourselves to hold both. Yes, it's really nice that the house I own is going to go up in value, but when my house goes up in value, the ability to build low-income housing goes down.

As middle-class people, we have to remember that our wealth building is somebody else's loss, somebody else's lack of capacity. I've actually liked the higher mortgage rates, to be honest, because I felt like the real estate market certainly on the coast was so overvalued and just –

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FT: You're on the coast and have you seen prices come down? Because I've only seen prices go up around here.

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GLH: There are areas that have maybe a little pummeled, like I live in a downtown core in Portland and no Trump, it's not on fire. It's actually full of extremely bougie, sweet little boutiques, and restaurants, and people coming down to shopping them, but like my neighborhood is a little pummeled, because people have been moving to the suburbs away from the downtown. In 10 years, people are going to remember that they like walking to the coffee shop. There'll be an urban renewal. It's fine. But markets have been somewhat flat, but to your point, because we can't build fast enough.

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FT: Yeah.

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GLH: There's a lack of inventory and that impacts keeps prices somewhat solid, even if things aren't moving a lot.

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FT: Let's help out Brooke, who has a question about home ownership. She says, "Farnoosh and Georgia, is there ever a point when it doesn't make sense to purchase a home from the perspective of a buyer who's aging in their 40s? My husband and I are 45 and 44. Respectively, we have two kids under the age of five." Ooh, they're in it. "Renting in a high-cost living city, but we're ready to go back to the burbs. Given our ages, we're trying to understand if it even makes sense to pay a mortgage into our retirement years, potentially. We have been reading so much about the positives around renting versus buying, but we want to understand if there are any negatives to not owning a home when you hit retirement." So many people are looking forward, especially in this era, cashing in on their homes in retirement as they build equity.

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GLH: This is, again, back to that dominant narrative about how real estate operates. I don't own a home right now, I rent, but I am aggressively investing, because I know the numbers and I actually am going to make more money in the stock market than I'm going to make in real estate. No matter what my realtor friends tell me, I know what the trending averages in Portland, Oregon are for the past 20 years and the market beats them. If you don't own a home, invest aggressively. I think it's actually better for the environment, and race, and gender. It's a better place to invest in general, but know that if at some point you want to buy a home, you're going to take money out of investments to buy that house. That's invest somewhere if you have the capacity.

Of course, from a values and life perspective, we gain some things by being renters and we lose some things by being renters and not owning our own home. You can't control the home. You also don't have to deal with the furnace. There's pros and cons. I hear a narrative underneath this question that debt is bad. Given the ways in which our Congress has amped up the tax benefits of home ownership, it is very hard for me to argue against a mortgage.

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FT: It used to be so much better. You used to be able to deduct all your property taxes.

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GLH: Sure. Yeah, it was better, but it's still really damn good. You get a \$500,000 exclusion when you sell. You get to deduct your interest up to \$750,000. It's still pretty great. If you're renting and you're a landlord, I'm slightly embarrassed by the tax planning on real estate investing, even on not very good properties. I would just say if you have a mortgage and it's under \$750,000, it is always important to take your actual interest rate and make it your after-tax interest rate. Because even if your interest rate is six, you are not paying six, you deduct the interest. If I have a 50% tax rate, which is unlikely, but let's say I do, my real cost of my mortgage is 3%. That's how I think of a mortgage. My mortgage now 3%, and inflation's 2.4%, that's what we think of in the next 20, so I'm really paying 0.6% to buy a house. That is cheap.

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FT: Wait, why aren't we talking about this more?

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GLH: I don't know why people don't think of their mortgages this way.

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FT: Because the pain is real and immediate.

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GLH: Yes. But in 10 years, it will feel different. So, that's the other thing I hear underneath this question is I want to have this mortgage in 30 years. As we talked about at the beginning, before we came on, it is very unlikely. She's going to live in this house in 30 years. Maybe, maybe that's cool. That would be unusual, but very sweet. I always say the mortgage cut the feeling of the hurt of your mortgage today and the feeling of it 10 years in will be much less, because you will be making more money, because it cost of living increases. In 20 years, you're going to feel you have a deal.

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FT: Wait, so you're just making the case for homeownership here? I know you're like, "Oh, I –

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GLH: Yeah.

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FT: That's a pretty powerful.

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GLH: If I want to lock it in, but when I say that, I'm also like I love being a renter, because when the AC doesn't work, I'm like, "John, Darling. Could you fix the AC?" And my sweet landlord comes and fixes it? I would much rather be shoveling money into the market. I also don't own a car. I'm like a little unusual in these ways, but because I'm like, I'm not going to spend \$800 on owning a car. I'll just have my town car lifestyle lift and ride my bicycle.

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FT: Yeah. Just to be specific, I just looked this up. The average duration of homeownership in the US is 13 years.

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GLH: 13 years. I've heard seven and eight from realtors.

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FT: It's interesting. 13 years. I know that doesn't apply to everybody or even if it's less, always get a fixed rate, because I actually had a mortgage broker. This was in 2020 when we were shopping for mortgage. He goes, "We should just get an adjustable-rate mortgage." It's, how long you planning to live in this house? The average whole duration he said to me is eight, nine, 10 years. Yeah. "I said, I hope to live there forever. That's the plan. Also, I can get a fixed 3% rate.

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GLH: I do arms for my very wealthy clients, which is most of our clients, because they just pay the interest. They deduct the interest and then we invest the difference. Instead of paying down principal, we invest in a portfolio that's basically the mortgage pay down portfolio. We make a better spread, but that's because they have liquidity to do that. For everyday humans, no, a fixed rate is like the way to go. I would get a fixed rate.

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FT: Yeah. Well, Georgia Lee, always so good to digest everything with you. Thank you very much for walking us through the interest reduction, the election, homeownership.

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GLH: The last thing I want to say is now that at this moment in the election, the most important thing we can do is vote and get other people to vote. A few organizations were supporting if

you're in Portland and you're on our newsletter, we're going to throw a vote forward letter writing party in early October. Come in, write some letters to get people to vote. Evidence based that it does actually get engaged voters out to the polls. There's also pizza to the polls, which delivers pizza to folks waiting in line to vote. It's so charming.

Then Michelle Obama's org when we all vote, which helps confirm that you're registered properly, etc. especially given all of the voter suppression that the right is pushing right now. Please confirm you're registered, because they are trying to kick us off the polls. Just want to remind, although I get to vote in my pajamas in Oregon because we do online in voting. So, let's get out there and practice democracy.

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FT: All right. Thank you for that. Yeah, pizza, candy, water, power bars, all of it. Sometimes you really need it. Thank you so much.

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GLH: You're so welcome. It's always such a pleasure. I'll be on in a month to talk more about the election and the monies.

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FT: Can't wait.

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