EPISODE 1752

FT: So Money episode 1752, Ask Farnoosh.

[INTRODUCTION]

ANNOUNCER: You're listening to 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. It's Friday, November 21st, 2024. We have lots to discuss this Friday, including questions from our mailbag about how to balance saving for our kids' futures, while also ensuring our own retirements. Another person wants to know, is it too late to start investing in my 60s? Plus, will we have a market crash in the next four years? I've got some thoughts on all of that. No crystal ball, though, on the market crash, but I do have some insights that I'd like to share.

Speaking of Donald Trump, I've been releasing a number of quick videos on how his proposed policies may impact our wallets. Most recently, I posted a video on Instagram and TikTok about the financial impacts of his plans to dismantle the Department of Education. Trump has said, he wants to abolish the DOE. He says, it should never have been created in the first place. My thoughts? I think that's insane. I'm just going to say it. Personally, as the recipient of a public school education in this country and now a parent in the public school district, I'm saddened by this and also, very fearful of what it could mean for kids, like my son, for example, who has ADHD and receives an individual education plan.

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Our school district in New Jersey is very supportive of kids with learning differences and disabilities. We have a wonderful board of education here. Not always in agreement with them, but they're vigilant and the parents are really involved. I trust that our community will be able to navigate this with some bumps, probably, but we'll navigate it. We're going to keep our kids' best interests at heart. But I'm not so sure what's going to happen everywhere else. In case you didn't know, and this isn't something that I really knew, but the DOE, the Department of Education distributes billions of dollars to public schools, ensuring that low-income districts get much needed funding. It also manages federal student loans and grants, like Pell grants and income-driven repayment plans, which make college more affordable for millions of families.

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The DOE also enforces civil rights laws. This isn't just about money. This is about human rights, civil rights, to ensure every student, the DOE is in position to ensure that every student has access to a fair education, including kids with learning differences and disabilities, as well as low-income and on-house kids. Now, what would happen if the DOE is dismantled? There are some really important financial risks, and I bring this to our attention, because we need to be really active on a local level, advocating for our schools. In some cases, we need to reroute. We need to re-strategize our plans for higher ed, maybe even elementary school.

Listen, if the DOE breaks up, is dismantled, public schools are going to be the big losers. They're going to lose critical funding, leading to things like larger class sizes, fewer teachers, less access to resources. For my student loan borrowers in the audience, the elimination of federal loan protections could mean fewer repayment options, higher interest rates, and then a bigger reliance on private lenders. We know private lenders are not so amenable, as amenable, when it comes to refinancing and making payment plans and all that stuff. What can we do? One, just please stay informed about your state and local policies regarding your education system, because the states are going to play a much bigger role if federal oversight disappears.

If you're saving for college, get creative. Are there scholarships, state grants that could help offset the costs? Because this is the thing. If you take out federal student loans, primarily to fund your college education in the next four years, while the DOE gets dismantled, there's a huge question mark with regards to the repayment requirements on the loans, the support you're go-

ing to get when you get into a bind, a financial bind, and you need support to make payments that are more aligned with your actual budget. Right now, we have income-based repayment. Will that go away? Maybe. Don't forget to get involved in your local community, your school boards, your advocacy groups. These are all the organizations that are going to be key to supporting your schools locally.

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This week, I released a really interesting and insightful conversation with Farrah Bostic, who is a brand strategist and a data miner. She has a lot of insights on polling, specifically election polling. She gave us a lot to think about when it comes to this divide that we know exists around the health of the economy. The economy was a top reason people voted one way or the other in 2024. The chasm, though, that exists between how some people think the economy is doing horribly, others think it's doing well. Why does that exist, actually? Who's to blame? Farrah had some really interesting thoughts. She also touched on higher ed and the future of income-based repayment and public loan forgiveness during a Trump presidency.

Also, this week, in case you're catching up to So Money, a conversation with Kara Perez, Founder of Bravely Go. She has a new book out called *Green Money*, where she offers a roadmap for how we can use our money to create meaningful change from how we save to how we spend, and even how we invest on the face of potential policy setbacks related to environmental protection.

If you've been curious to join us in the So Money Members Club, this is the week to join. From now until next Saturday, I'm offering free admission for an entire month to anybody who wants to come, drop by, explore, check out our library of workshops, mingle with our members, talk to me, go to somoneymembers.com and use the code SOMONEYBF2024, I'll put that in our show notes, to get access, get keys into the club for free for a whole month, and check us out. If you've been craving community around financial wellness, if you want to learn more about how to save, how to budget, how to invest, just this month, just this week, actually, I hosted a live workshop on all the different ways to design your savings strategy.

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If you've been keeping your money just in a plain vanilla savings account for all this time, you're not saving right. There is a way to optimize your savings depending on your goals, your liquidity needs. I go deep into it. If you join now, you can access that workshop. All of our workshops are recorded and hosted in our library for everyone to access. We also have monthly office hours. It's a lot of fun. My gift to you is to try it out for a month. If you want to get a head start in the new year, get your financial ducks in a row, meet those financial goals, consider the So Money Members Club a great partner in that endeavor. Somoneymembers.com, use the code SOMONEYBF2024.

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One more announcement before we head into the mailbag. This is for all my aspiring authors in the audience. My next Book to Brand live event, in-person event is happening March 7th, 2025. It's happening in New York City. This is my seventh live Book to Brand. It's an exceptional day. We're going to gather with top literary agents, book editors and publishers in one room. We've confirmed about a dozen speakers. We're going to get into it. We're going to talk about what book topics do these people see a huge market for right now? How do you get your proposal to the top of the pile? What are the biggest first-time author mistakes? I've made many of them. How to up level your proposal to reach a six-figure, a seven-figure deal? Do you really need to be a social media star to score a major book deal? I say, no. It's a debate, but I say no.

The best part of Book to Brand is that for you as an attendee, you're not just sitting and listening and taking notes. This is your opportunity to connect directly with industry powerhouses to ask them questions, get face time, even feedback on your book idea. This is the room where the proposals happen. Many of my attendees go on to work with the very literary agents and publishers. They met at Book to Brand scoring major book deals. It's all happening again on March 7th. It's a Friday in New York City. You can book your tickets at booktobrand.co, booktobrand.co. We're right now offering an early bird special with a major discount. Seats will be limited. We always sell out. If you have any questions about Book to Brand, just get in touch. Email me, farnoosh@somoneypodcast.com, or DM me on Instagram.

All right, let's hit the mailbag. First question is from Liz, and she sends this question through Instagram, which is a great way to get in touch. You can follow me there if you're not already,

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@FarnooshTorabi. This question is about how to balance saving for yourself and your children's futures at the same time. No surprise, a mother is asking this question. Mothers, I see you. I am you. It's hard to do what I'm about to tell you to do, but it's important. My advice is we have to protect our finances first. You can't pour from an empty cup. As much as you want to prioritize your kids' college savings, or whatever in the future you're saving for them. I know that some parents are saying, "Well, I don't know about college, but I know that I want to have a nest egg for them at some point in their 20s to help them take flight," whether that's money for an apartment, money for starting a business. You just want the money there for them by the time they hit 18, 19, 20-years-old.

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We have to ensure our financial stability first. This means contributing to your retirement account first, building your emergency fund first, paying off your high interest debt first. Your kids, they can take out scholarships. They can take out grants. They can take out some loans if they have to. There's no loan for retirement, right? Once your basics are covered, then I would say, aim to strike a balance. For example, you might decide to put a percentage of your income towards retirement while contributing a smaller percentage to a 529 plan, or another college savings account.

Automation is really key here, so that you are just able to stick with this plan. You can stick to both goals consistently, even if your contributions aren't equal, you're at least doing two things at the same time. But it starts with putting your own oxygen mask on first. Just to double-click on affording college, I talked about scholarships and grants, there are so many different ways to achieve a college degree affordably, whether that's going to a community college first and then transferring, taking on a part-time job while you're in school, taking a gap year and using that year to get first, just clear on what your higher ed ambitions are. Because that brainstorm alone can save you time once you're in college. You know exactly what you're after. You get it done, maybe even early.

So many kids go to college having no idea why they're there, what their goals are. There was a time when that was okay, because college wasn't expensive, but every minute, every time that clock ticks, money is getting spent. Too many kids either transfer out after first year, because

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they realize, “This is not the right school for me,” or they end up staying in college for five years, six years. Now, part of that is because some of these schools are not equipped, frankly, to support their student body. They don't have enough classrooms available and teachers available to satisfy the credits that someone needs to graduate on time. There is a systemic issue there in some cases.

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I don't want to put all the blame on students not knowing what they want to do, but if you know what you want to do and you get clear on that and you research that, and then you go to college, that saves you time and money, and it's a lot more enjoyable of an experience. Look for creative ways to fund college. Get very clear on your college goals. Then here's my last tip on this, get clear with your kids. Okay, my parents did not tell me that there was absolutely no money saved for me for college, and they also didn't tell me that I wasn't allowed to take out student loans.

My parents are immigrants. They don't understand why anybody would pay for a college degree. My dad especially came here as a student, and he was awarded a scholarship and then another scholarship. He had virtually no higher ed costs. He got paid, in fact, to be a student in America. Maybe daddy needed to get with the times a little bit, because fast forward to when I'm going to college, things have changed. I'm not getting scholarships like he did, and it also costs a lot more than what the tuition was back in the 70s and the early 80s.

That being said, it was an incredible shock to my system, to my nervous system, to everything when I found out at age 17, 18 that a lot of the schools that I was hoping to apply to and get into and go to were no longer options, because the money just wasn't there, and the ability to afford it through loans was not going to be permitted. I was left with choosing a school where my parents could just cash flow it out of their paychecks. My pool of potential schools shrank, and I ended up going to Penn State, with a little bit of a scholarship. I was a local Pennsylvania resident at the time, so it all worked out.

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I love Penn State. I advocate for the school. Anybody who wants to go to Penn State, I encourage it. At the time, I was really bummed. I think it also cost me a lot of headache and unnecessary headache and unnecessary time, and unnecessary college applications, money spent on applications, if I just known the bad news earlier. I probably would have saved us a lot of time and money. Just get clear with your kids, and I think as early as freshman year of high school, sophomore year of high school, to sit down and really explain to them the economics of going to school.

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I remember my father used to always tout this expression of, you need to go to college to get an ROI. Don't leave school without an ROI, a return on your investment, an investment of your money and your time. You want to be able to leave college and be able to have something to show for it, and to gain from it. Is what you're going to study a viable degree, because there is a job market for it? Is what you're paying for that degree worth it? You're not going to saddle yourself with too much debt, to the point where even if you get the job, you can't afford a place to live, or a car, because all your money is going back to pay off your student loans.

Readying your kids with the economics of college, as well as the economics of being a graduate on your own, what does that cost? Drilling this into them as early on as possible. It is really important, because then, I mean, you might actually inspire your kid to go, “Okay, I'm going to get some summer jobs. I'm going to start applying for some scholarships. I'm going to look for some creative ways to get to college, to my dream school, affordably.” Suddenly, a lot of that load is off you, and now your kid is charged and revved up. It's called a healthy state of panic, I guess.

All right, coming up after the break, we're going to talk about whether a Trump presidency is going to lead to a market crash. I think I want to be answering this question for the next four years, and hopefully, not during a market crash. Then also, is it too late to invest in your 60s? A listener wants to know, she's 65, and what's realistic at this point? More after the break.

Okay, my friends, we are back, and we're going to talk about Trump and the markets. I've touched on this, or a lot, in previous episodes. hey, I'll never get tired of talking about this stuff.

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Okay, so always ask, always feel free to ask about the intersection of politics and the markets. The actual question was, will a Trump presidency lead to a market crash? Now, the stock market does not operate in a vacuum. We know this, right? A president's policies are influential on the economy. They're influential on investor behavior, but there's no guarantee that any one administration, whether it's Trump, or the next president, is going to cause a market crash, or conversely, a market boom. We've experienced periodic recessions and market downturns throughout the ages.

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My advice, so let's break this down, and I'll give you some advice, okay, along the way. Firstly, for anyone who's jittery about a Trump presidency and his policy proposals and their impact on the markets, and therefore, our portfolios, I would say, focus on the policies and not so much the president's personality. What truly impacts the markets are the policies. The tax cuts, the trade agreements, the interest rate policies, fiscal spending. If a Trump presidency in 2025 implements policies that institutional investors for the most part, because institutional investors are actually the real market movers, not you and I. If they perceive, or believe that his policies will be favorable, and there are some that would favor the markets, like lower corporate taxes, deregulation, then the market could respond positively.

Conversely, if there's uncertainty around trade agreements, or there are geopolitical tensions that the US gets involved in, that could create volatility. It's unclear right now what the market thinks. We've seen polar opposite reactions already. We saw on the day of the election results, the market rallied 1,500-point increase in the Dow Jones Industrial Index. As someone who has reported on the markets for a better part of her career, I don't remember a day when I saw a 1,500-point climb. I think that was unprecedented, at least in the last 10 years. Then of course, the following week, once the market took a beat and was like, “Oh, wait a minute now.” Okay, what are you going to do? You said, you're going to – on the one hand, you said you're going to reduce corporate taxes and you want to deregulate and we like that, but also, you want to raise tariffs? That's not going to be so great for corporate profits, especially if you have enormous amounts of imports from countries like China, and then we saw the markets take a beating.

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Then the Federal Reserve announcing in the context of all of that, we're not sure if we're going to lower interest rates at our next Federal Reserve meeting. Well, the markets didn't like that either. The markets don't like uncertainty and things are pretty uncertain right now. We'll get more clarity, I think, once he's in office. But I think it's a real mixed bag in terms of how his policies may or may not impact, specifically the stock market. The market has a mind of its own. That's another point that I want to make. Historically, the market reacts to so many factors outside of a president's control, global events, as I mentioned, the Federal Reserve's decisions and even natural disasters, right? It's more likely that these variables combined with investor sentiment will be what moves markets.

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For you and anyone listening and hearing this and going, “Okay, what now, Farnoosh?” Here's what we need to do. We need to forget about trying to predict short-term market movements, especially those based on election outcomes. That's just a fool's game. Instead, focus on what we always should focus on, which is having a diversified portfolio that aligns with your long-term goals. This way, you can manage the ups and the downs, regardless of who is in office. I'm going to say this, prepare for volatility, put your seatbelt on. Elections, we've seen it already. They create uncertainty. Then, you see short-term fluctuations in the market. But rather than reacting emotionally to these headlines, have a plan for how you're going to manage your portfolio.

After this episode, go to your brokerage. Make sure you are signed up for automatic rebalancing. Auto rebalancing. What is that? It's free, if you're working with an automated platform. It means, when the market has a shaky day, whether it goes up a lot, or down a lot, your portfolio will automatically rebalance to make sure that its mixture of stocks versus bonds stays in balance, in balance to your risk tolerance, in balance with your long-term goals. It won't adjust every day, but periodically, usually every quarter or twice a year. That's important. Everyone who is investing right now, who is working with a brokerage, make sure you're set up for this.

Another way to prepare for volatility is to make sure that within your investment portfolio, that you have allocated some of that money to cash. With where I invest, the robo advisor, they have a policy, where whatever they create for you, their portfolio that they create for you, automatic, based on answers to some of the prompts that you provide, they will try to reserve about 9% in

cash. They've actually raised that over the years since the recession, the great recession, because they started to really understand the importance of cash during extremely volatile times, during recessions. As security for their investors, they hold about 9% in cash within the investment portfolio, but that portion stays in cash. I guess, you could change it if you want, but that's their default.

To summarize, focus on policy, not the personality of who's in office. Understand that the market has a mind of its own. Have a long-term strategy, which means that you are diversified. Your portfolio is adjusted for your personal risks, that you have, auto-rebalancing. And that if you need to keep some more cash on reserve, keep more cash on reserve. I think that's a smart thing for all of us to be doing right now, whether that's in your emergency fund, or within your investment portfolio.

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Speaking of investing, to round us out here, a question about investing later in life, specifically in your 60s. Our question is, "Farnoosh, is it too late to start investing? I'm 65-years-old." I don't think it's ever too "late" to start investing, but we have to be realistic with where we are in our life stage. The fact that investing is risky, inherently risky. We need to be careful about how we actually go about doing this. Firstly, in your 60s, I think your priority is not trying to get the highest rate of return on all your money. It's that you want safety and stability. You want to preserve your wealth and ensure that whatever you have saved continues to grow steadily, not necessarily with, again, the highest return so aggressively.

Stocks can still play a role in your portfolio, but I don't think they should dominate. For those of us in our 60s, a balanced approach is best. That means a larger focus on safer investments, like bonds, certificates of deposit, and cash reserves. Bonds are your friend in your 60s and beyond. Bonds provide stability, predictable income. For my audience members who are interested in bonds, I would look into treasury bonds, municipal bonds, or high-quality corporate bonds. Bonds are not no risk. But if you buy through the government, if you buy treasury bonds, they are backed by the federal government. Even high-quality corporate bonds, they get rated, it's not zero risk, but it's more stable, more reliable than investing in that company's stock.

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If you want to keep it really simple and you want to get into the bond market action, simply purchasing a bond market index fund, or a bond exchange traded fund is a great way to get access to the bonds, to the bond market in a diversified way and in a low-fee cost way. As for stocks, again, think of stocks as playing a supporting role. You don't have to abandon stocks entirely, but I would keep them to about 30% to 40% of your portfolio. How did I get to that number? You take 110, you need to subtract your age. That number that remains is a percentage that is the recommended stock allocation in your portfolio. 110 minus 65, which is the age of our audience member, that's 35. 35% roughly in stocks and the other 65% of your portfolio in bonds.

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Even within the stocks that you're investing in, I would focus on, still, as safe as possible, safer options, like dividend paying blue chip stocks, or low-cost index funds that track the broader market. What are dividend stocks? Well, dividends are a type of payment that's used by companies to share profits with their shareholders. They're paid out usually monthly, or quarterly, or sometimes on an annual basis. It's just one way for investors to get a return from their investment as they're investing. Here again, you can get a fund that invests in dividend stocks, like an index fund, or an exchange traded fund, and that way you get a lot more exposure and more diversification.

In your 60s, I also don't think it's too late to hire a financial advisor. If you're not confident managing your money yourself, and in your 60s, it's not just your investment portfolio now that you're trying to maybe construct, or deconstruct. It's also your healthcare. It's the potential downsizing and relocating. Sometimes there are tax implications when you move and sell assets. Working with someone who is well versed in all of this, working with a financial planner that specializes in working with people in their retirement phase, or nearing retirement phase to get their ducks in a row. Do you have an estate plan? That wouldn't be a financial advisor's role, but the financial advisor can connect you a good one, can connect you to a tax specialist, an estate planner. Then as a team, helping you transition into this next phase of your life.

All right, my friends, thank you so much for your questions this week. Keep them coming. You can email me, farnoosh@somoneypodcast.com. You can go to our website at somoneypodcast.com and click on Ask Farnoosh. Instagram DMs are open. If you like what you're hearing,

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please leave a review and I would love for you to hit that subscribe button. So, so important. I'll see you back here on Monday, Thanksgiving week. In the meantime, I hope your weekend is so money.

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