EPISODE 230

[ASK FARNOOSH]

[INTRODUCTION]

[00:00:30]

FT: It is Ask Farnoosh time! Welcome back to So Money everyone. I'm your host, Farnoosh Torabi. It is a pleasure to spend time with you this weekend. I am really looking forward to weekends these days. I play tennis with my brother Todd. We signed up for some basic tennis lessons, we have a 22 year old Russian instructor who is very impressive. She is also extremely fit and it really encourages me to continue playing, get good at my game. She's very good at coaching. And within, I would say it's been about a month that Todd and I have been playing consistently once or twice a week, our game's getting good!

So what's funny is we play in the Brooklyn courts, the public courts, the free courts and you see all sorts of players, all ages come and go, and there was this 7 year old who was playing against his father and he was really good. And I said to Todd, "Some day we will be as good as this 7 year old!" And anyway, just a little anecdote about how my summer's going, and depending on how you count your summer, this is the last weekend in August, so this is sort of - you know for a lot of us it's going back to school time, camp's over, a lot of people already headed back to college. My intern Helen - Helen, my darling Helen went back to college to the University of Wisconsin. She was my intern all summer and we miss her dearly.

Anyhoo, that's what's going on here at Farnoosh Inc. and it is Saturday, so we are going to go to iTunes first and see who has left a review for the show. And I'm gonna do something different today; I'm gonna pick somebody who left me a one star review, because I never say you have to leave a five star review! I never say you have to leave a four or three or whatever. I just say, "Leave a review, and I might pick you to receive a free 15 minute money session with me." I don't think this person wants to speak with me, but I'm gonna read it out loud anyway because I thought it might be fun.

His name is Peter Marks, and he says:

PM: "Financial advice? Shallow and self-centred. One star."

[00:02:41]

FT: Peter says:

PM: "As a host, her depth was epitomized..."

[00:02:45]

FT: Her, being me.

[00:02:45]

PM: "...was epitomized in an episode where she was prattling on about the difficulty of having to be a full time mom, taking care of her one year old child 24/7 for a whole week while on vacation. Ended her comments by expressing empathy for her nanny. So a spoiled rich brat, superficially interviewing successful people results in mediocre entertainment, let alone any substantive financial advice. Pass on this one."

[00:03:13]

FT: Well I have to say this was very well written, at the very least Peter, you are a great reviewer in terms of your punctuation and your choice of words. I thought this was pretty powerful, and it did catch my attention so congratulations. Obviously I disagree with every single word in this review, not just because I am the host and I take this personally, but I wish that you would listen to some more episodes and I also wish that you wouldn't assume that somebody who can afford to have resources is spoiled and rich in the bad sense - "a rich brat" as you put it.

And you know what? I host this podcast, I'm very transparent, I was talking about vacation, which was blissful on the one hand, but you know what? Also hard work because yes, chasing after a one year old who just started walking, in a home that wasn't ours that was full of valuables and sharp edges and I mean literally like a ladder dropped on Evan. But anyway, you don't wanna care about that because you think those are just first world problems. But you know what? It's something that I experienced and I thought I would share it, and I had a lot of mothers and fathers writing in saying, "Yeah! Taking a one year old on vacation, not so easy!"

So anyways, perhaps that's my fault for over sharing, but I don't regret it. I'm sorry you feel that way. If there's anything that I can do to help you with your financial situation or you have a question for me, please get in touch: farnoosh@somoneypodcast.com. As I offer to many people every month, I'd like to give you a free 15-minute money session, and maybe we don't talk about money? Maybe we talk about other things. I'm here for you Peter, even though you don't think I am.

That's a little different right? But thank you to everybody else who did leave a review that was positive including, Jeff's Mom and Talking Shrimp, leaving very kind reviews for the podcast. I really appreciate it.

[00:05:07]

Switching gears now to our questions, which is why everybody is here to join the podcast and listen to our questions and answers. I have one here from Tom. He says:

T: “In one of your earliest Ask Farnoosh weekends I asked about taking a personal finance course. Well I've now completed two free MOOCs and am most of the way through a personal finance college textbook that I've read for fun.”

[00:05:28]

FT: Woah!

[00:05:29]

T: “Can you tell this show has inspired me?”

[00:05:32]

FT: Yeah I can Tom! And I think Tom - Tom and I went to college together. I know. Tom why don't you ever admit who you are, like really like, "Hi I'm Tom from PolySci [Laughs] freshman year and from the Schreyer Honors College." I know who you are, and it's always a pleasure to hear from you, and I'm very impressed. His question is:

T: “What's next? Can you recommend a good intermediate level text that is both educational and doesn't push a personal finance philosophy or agenda?”

[00:06:00]

FT: Well I would say, Tom, it really at this point now that you really have covered the basics, it depends on what areas of personal finance you're most interested in. So now is a great time to really hone in on a specific channel. Maybe it's real estate, entrepreneurship, investing, all of the above. But there are some great additional books out there that go into these areas in depth. I like everything Ilyce Glink has written about real estate. Ilyce - I-l-y-c-e Glink - G-l-i-n-k. She is a real estate master and she's got a lot of ways that she communicates with her audience through books, she's got a radio show, she writes articles. She's a queen bee of real estate, she's also a friend and I go to her for a lot of advice.

For entrepreneurship, I like my friend James Altucher. He's written a great book about that called "Choose Yourself" and one of my favorite books about money, which isn't really even about dollars and cents, but it's about sort of identifying your financial priorities, what money means to you, and how that's gonna really influence the way that you live your life. It's called "You Money or Your Life" by co-authors Joe Dominguez and Vicky Robin. It's an international bestseller and it's been around for a long, long time. And I actually was in an audience when Vicky was speaking at one point years ago, and was completely inspired.

So really it's, at this point I think you might wanna get out of the world of academia. You know, you've gotten the textbook, you've gotten the courses down pat, now maybe look to some leaders in particular spaces like real estate, entrepreneurship, and find your specialty. Thanks for writing in.

[00:07:49]

Amanda writes in and says:

A: “I'm saving to a Roth IRA, 401(Roth) and 401(k) for retirement - so three accounts. My understanding is that this is all post-age-55 money. Right? What types of accounts should I be using for potential early retirement, pre-55 money?”

[00:08:08]

FT: These accounts allow you to withdraw penalty free starting at age 55 and a half. There is an exception to that rule though and it says that if you are someone who retired early, if you quit your job, or you were fired, then at age 55 you can withdraw from your 401(k) without penalty. It's call "The Rule of 55". So that is the only exception. But in general, if you're still working, 59 and a half is when the government at least would encourage you to wait till to withdraw that money.

As far as early retirement, we've talked about early retirement on the show. Last week we had the millionaires next door, I think that for you, if you're interested in retiring early and you wanna make withdrawals from investments without the penalty, you're looking at a taxable account from a brokerage. And I have one, I mean I have my IRA's but I also have a brokerage account that includes a mix of investments that are similar to what I have in a ROTH or in and IRA, but there for me to access at an earlier stage without the penalty, if I want to.

So look into a taxable account at a brokerage, you would work with somebody there or not. But the idea is that you create this portfolio for yourself that includes a variety of investments, and when you go to withdraw that money, you will have to pay the capital gains tax on that, but it is there for you whenever you need it.

[00:09:39]

Nii and Renee, a couple, writes in and says:

N&R: “Hi Farnoosh! My husband and I love your podcast, especially Ask Farnoosh. It's great to hear questions that we either have or didn't think to ask and your advice is practical and applicable.”

[00:09:52]

FT: Well thank you so much! They go on to say:

N&R: “You're helping us on our journey to financial freedom!”

[00:09:57]

FT: Well I'm really happy to hear from you, and great to know that couples are able to listen to the show and benefit. And I thank you for the feedback.

[00:10:06]

Sabrina says:

S: “Hi Farnoosh, we currently have a 5% down payment for a house, a debt to income ratio of 3%, and a small emergency fund. We had planned to purchase a home of $350,000 to $400,000. Our monthly mortgage would be about 28% of income before taxes. Currently only one of us is working, and the other plans to return to work but likely at or near minimum wage in California. Our main source of employment is not stable and may or may not disappear in the next six months. Should we continue going forward towards buying a home? We're afraid of being priced out of a home if we wait three years to accumulate 20% down. Sabrina.”

[00:10:57]

FT: Okay Sabrina, lots of thoughts going through my head, first is: okay I don't think this is the right time to be looking at a home with your income being so fragile. Your job is not secure, you're not sure, you say you only have a very small emergency fund. Buying a home is a huge undertaking and I stand here as a homeowner telling you this, twice over. You know, I've bought homes a few times now in my life and every time it is a huge financial undertaking and for me too because I'm not employed by a big company, I have to show even more paperwork to prove that I am financially stable. I have to get a letter from my accountant saying there's enough money in the bank.

And for you, if you work for a company the bank my want you to supply a letter from your employer saying that you are gainfully employed and that your job is not going to be terminated any time soon. If that is not something that you can guarantee, I would not even go forward with this, because the underwriting process could take months. It could take four or five months and so in the meantime you might find yourself out of work, your financial situation may worsen and that will only put you in a more difficult position to get approved.

So eliminate that stress for now, just put this on hold. And the other thing about being priced out, the fear of being priced out of a home if you wait too long; don't worry about trying to time the real estate market. If anything, the way I see it, interest rates, they're going up. Right? This is no surprise, in fact there is this expectation that by October this fall, we may see interests rates start to creep higher. And what happens in a higher interest rate environment, we see lots of times home prices come down because it's not that hot of a market anymore, right?

The reason people are rushing to buy right now is to leverage these low interest rates, which we've had for several years. Once interests rates go up, prices I think are gonna get under pressure and come down a little bit so that people will be enticed to buy. So you know what? Don't worry about the fact that you're gonna have to wait a few years to buy a home. Buy a home when you feel it is the right time for you, not just financially, but psychologically. And based on your question, it doesn't sound like you feel very confident entering this.

I'm glad you asked this question, I hope that I was able to give you some rational reason as to why to not do this yet, and also some encouragement that the longer you wait, the more you save, the more prepared you will be to make a healthy decision when it comes to real estate. It's not a decision you should take lightly, or you should move quickly towards. You wanna take your time.

It's a little noisy in the background. If you hear people laughing, talking, I'm recording this from a WeWork Office in downtown Manhattan in the financial district and it's getting crowded here. If it was publicly traded, I might invest because the way I see it, it's just growing and growing and growing. There is major demand for co-working spaces, and I am one of those people. I've been here since May and I love it.

[00:14:11]

Mollie says:

M: “I have been offered a new job, while I am 8 months pregnant. The new company has asked that I begin immediately in November, while my preference was to start in January due to my health insurance premiums. I've got about $2,500 in Flex Spending Account to help cover my hospital costs, but my premiums will be about $1,500 a month. I was initially offered a sign-on bonus of $5,000 to cover the costs, now they claim they will offer 5% of my salary paid every 3, 6, 12, and 24 months of employment. Any advice on how to negotiate this so I don't have to pay so much out of pocket at one time?”

[00:14:53]

FT: Well Mollie, I would go right back to what they initially offered you and say, "Hey this was the initial offer, I'd really like it if we could stick to the original plan. I'm expecting a family, obviously, and this is gonna be a real burden for me financially." Have you asked them that? Have you asked them to go back to the original sign-on bonus of $5,000?

This is what else I would do; I would say, "What would you do if you were me?" This is a great negotiating question whether you are looking to get a raise at work, whether you're trying to negotiate with your future employer over your sign-on bonus, put the other person at the other end of the deal in your shoes and ask them head-on, "What would you do if you were me? This is my situation. I really look forward to starting working here, but this is going to really put a lot of pressure on my family and on our budget, our family budget. So are there other ways we can work towards meeting what I need? And have you ever made any exceptions?"

Asking these questions, it forces the other party to really have suddenly empathy for you and to think about this as not just a business transaction, but as a transaction with a human being that has a life, that has a family, that has responsibilities. Do that and see what they say, and hopefully they'll find some kind of compromise or trade off, or even just go back to the original sign-on bonus.

[00:16:19]

Andy says:

A: “Hey Farnoosh. How do you manage the daily mental toughness when dealing with debt while working to grow your business?”

[00:16:27]

FT: Andy, two things: one is, you might wanna get someone to help you out with the debt. If you're in over your head and you are overly consumed by this debt, it's keeping you up at night, this may mean that you need a third party to come in and be your advocate, to take this over. And I would recommend the National Foundation for Credit Counselling. This is an organization that is a non-profit all over the country, certified credit counsellors to help you get out of debt. And it's not an overnight sort of strategy, it's a long term strategy; it could take years depending on the amount of debt you're in, but the good news is, is that they're willing to work with you as your partner, as your advocate. So it's nice to know that you have that, it might be able to alleviate some of the stress.

The other thing I would say is, to the best of your ability, automate all of your payments. If you are still at home watching the bills come through the mail, opening up the bills, reading the bills, thinking, "Oh my gosh, how am I gonna pay this?" Instead, link your chequing account to all of your debtors and pay off at least the minimum every single month, if not more. And that way you know that your debt is being managed on autopilot. And meanwhile you can focus on the business.

And I would say while you're focusing on the business and going about your daily life that you stop using those credit cards until the debt is gone, well and gone. Because what I find often, what perpetuates the stress, what perpetuates the debts is this continuation of using the credit cards while paying them down. And you might think to yourself, "Well I'm not spending as much, or it's helping me manage my money better to have everything on a card," you know what? Keep those cards out of mind, out of sight while the debt is getting destroyed. Alright? And good luck with your business.

[00:18:13]

Patricia says:

P: “Hey Farnoosh. I am trying to play catch-up with retirement and have heard a lot about accounts or investments that offer compound interest. Would I be able to find this type of investment at a credit union or a bank? Is one better than the other? As I said, I'm afraid I'm entering this later than I would like so any advice you can provide would be greatly appreciated! Thanks so much for your time, Patricia.”

[00:18:41]

FT: Any account or investment that has an interest rate attached to it, is compounding interest. And so whether it's a savings account with a 0.05% interest rate, cause these days you know savings accounts don't have a very high savings rate, of if it is an index fund with an average 3% return every year, that is also going to compound. So really it's just about deciding where you wanna put your money, how aggressive you wanna be. If this is money for retirement, I would suspect you have time to grow this money, you can take a little bit of risk and so maybe it's not that you put it in a savings account at your local bank, but maybe it's that you open up a Roth IRA or an IRA - a traditional IRA - and put the money in there where the money will grow and be invested in a variety of different stocks and bonds and mutual funds invest over time, year over year, the interest will compound.

Which is magical! Which is why so many people in this country are able to retire well or even early because they were able to take advantage of investments and savings and reap the benefits of compound interest. It's one of those things that my guests often say to me, "I wish I had learned more about it as a kid growing up." So a note to all parents out there, if there's one thing that you can teach your son, your daughter, before they run off into the real world, is to take advantage of compounding interest. And yes you can open up an account at your bank at your local brokerage, online there are a number of accounts that offer this.

[00:20:16]

And one last question here from Crissy. She says:

C: “Hey Farnoosh! Long story short; over the past few years, I was mostly fun-empolyed and didn't make the best financial decisions. I have about $8,000 in credit card debt, I withdrew about $8,000 from my traditional IRA. I am back on track and I'm trying to decide how to best utilize my salary. I can contribute at least 25% to savings. I am a teacher, so I contribute about 6%, but I don't know if I should pay off my credit card debt first, or repay my IRA first, or emergency fund? What do you suggest? Thank you for your generous wisdom!”

[00:20:56]

FT: I would love to see that credit card debt out of the picture. So if you can aggressively get rid of that within the next six months, great. Do it. And then you can go and start to work on your emergency fund. 25% to savings; why don't you divide that up between retirement and rainy day for now? Because that's a lot to be putting towards retirement. You can probably shave maybe 5% of that and put it into an emergency fund. So use that 25% spread across different savings funds. So retirement and then emergency.

If you've got extra money, and you say you do, definitely go down the credit card debt pay-off path. I'd like to see that out of the picture because the one thing that I think is gonna keep you behind, psychologically and also very, very physically, is the debt. And I say this not just because it's got high interest and you wanna get rid of the debt, but I think from a mental health standpoint, it's nice to know and it's relieving to know that that debt is gone. And so I want that for you and so that's what I would focus on. Thanks Crissy!

[00:21:59]

And that's a wrap everyone. Saturday, Ask Farnoosh, thank you to Crissy, Patricia, Andy, Mollie, Sabrina, Nii and Renee, and Amanda for all your questions. And Tom! My classmate Tom, for sending in all your questions and kind comments. I really appreciate it. Just as a reminder too, starting the week of September 14th I will be going down to a five day per week format. So we're going from seven to five and Fridays will be Ask Farnoosh, and weekends we will be taking a break, which I cannot wait for.

Thank you so much again for tuning in. I hope your Saturday is So Money.

[END]