EPISODE 1275

[INTRODUCTION]

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FT: Welcome to So Money, everybody. Friday, November 5th. I'm your host, Farnoosh Torabi, and you're listening to Ask Farnoosh, our Friday episodes on So Money dedicated to answering listener questions, audience questions. Today, we're dedicating the show to the theme of climate change and its impact on our money. If you've been listening to the show this week, you know that's been the recurring theme. On Monday, we talked about real estate decisions in a climate-changing world, following the story of friend and founder of Zeta, a financial services company for families, Aditi Shekar, who with her husband are considering very seriously leaving San Francisco where they founded the company to Bozeman, Montana, where they feel it will be more sustainable, a place they can actually plant some roots and pass down wealth to the next generation. They don't see that in their crystal ball in San Francisco. She walked us through her calculus for real estate in this climate-changing world.

Then on Wednesday, a conversation with Geeta Sankappanavar, Founder and Chair of Rallius, a neobank that is committed to sustainable banking. We talked about why this is a way that you and I, consumers, and bankers can support the environment and put our money towards the changes that we want to see in the world and why this is actually more impactful. Where we bank is more impactful than some of the spending decisions we make around green initiatives. Of course, so much more for you on this topic at cnet.com where my team and I have dedicated tons and tons of coverage, videos to how climate change is impacting our bottom lines.

On Monday, we introduced some predictions that experts in the world have about climate change and our finances. Just yesterday, Thursday, we did a whole series on real estate and the home. Our coverage at CNET on the cost of climate change continues next week as well where we'll be tackling spending decisions that we can make to support sustainability and then, of course, investing, how climate change may impact our retirement plans. If you're someone who's approaching retirement and thinking about moving to Florida, should you reroute? I wrote that article. So make sure to bookmark CNET for ongoing coverage of climate change and our money, and this is not going to be our final installment. We are dedicated to covering this all the time now. It's part of why I joined CNET because they are dedicated to telling the stories, the money stories that matter.

Today we're answering your money questions, specifically in the investing and real estate realms, and I've got the perfect guest to help us navigate, Georgia Lee Hussey. She's the Founder of Modernist Financial, certified financial planner. She's been on the show many times. I wanted Georgia on the show because she has for entire career been deeply invested in helping people with their financial decisions always with this lens of consciousness. How can we make financial decisions that, yes, make us wealthy but also make a positive impact in the world? We have questions from listeners about how to create an ESG portfolio, whether to buy flood insurance, even if you're not living in a flood-prone area.

Let's first go to the iTunes review section and pick our reviewer of this week. This person gets a free 15-minute money session with me. This week, I'm saying thank you to Julia316 37, who left a review about a week ago saying, “The show is a must listen. I have been an avid listener for a year since I realized it was time to educate myself for financial and life success. Over this year, I've learned so much and I feel a lot more confident in making meaningful money decisions and how to better advocate for myself. I fully appreciate the difficult topics and open conversations.”

Well, Julia 316, thank you so much for your review. I'm so honored to know that you are in the audience and glad that you've decided to stick with us and happy to hear that the shows helped you. Please email me, farnoosh@somoneypodcast.com. You can also direct message me on Instagram @farnooshtorabi and let me know that you left this kind review. I will follow up with a link where you can select a time that works for you for you and I to chat.

What's going on with me? Well, now that our climate feature is more or less complete, just making some final edits to next week's stories, I'm looking to the holidays and I have been getting ready requests from media to share my best advice for how to rein it in this holiday season, how to not overspend. The issue I keep going back to is the supply chain. If you haven't ordered your gifts yet, I'm worried. I'm worried for you, especially if these are gifts that are popular toys, pieces of furniture. I know a lot of the big manufacturers, the big-box retailers, the Lands’ Ends, and the Pottery Barns of the world have already issued statements saying that there may be some shipment delays. Because right now, what do we have? We have labor shortages. We have a slowdown at the docks, the shipping docks.

I do think that climate change has impaired our ability to get things through. This bottleneck partly is because of the destruction that some of the changing weather and patterns and the floods and the droughts and the storms have caused, right? If a storm comes through and takes the roof off of a manufacturing plant or it devastates cropland, that's going to trickle down to Main Street and our ability to enjoy those goods and services. So if you haven't gotten what you need, think about alternatives because stressing out over that, trying to get that thing that you need and not being able to get it, might mean you're going to overspend on shipping, which by the way, may not even still guarantee you're going to get the item under the Christmas tree or by Hanukkah. It may mean getting something that you don't really want, and so it's not really money well spent.

Thinking about how we can reframe the holidays so that it's not so gift-centric. Could we do more experiences this holiday season, things that don't require a shipment, where you can literally pack your kids in the car and go somewhere fun? Of course, seeing family is always best. But if you're not close to family, and you don't want to get on a plane to go see family, what's the next best thing that you can do? Over the holidays, I just booked a two nights' day for my family night at Hershey Park. So I said, "Let's just do that because that's something that doesn't require any gift wrapping." These are memories that we all know are worth their weight in gold.

A lot of people ask me about these buy now pay later strategies. I'm not going to spend too much time on this. Maybe I'll do a whole episode on it later on different payment plans for the holidays. But my feeling about the buy now pay later options is that you have to know yourself. These payment companies are going to sell you on the fact that there's no interest for easy installments of $29. So, yeah, if you need that wiggle room, that's great, but do not be fooled. If you miss any of these payments, it will come back to bite you and it will cost you and it can negatively affect your credit score if you fail to make payments. Just FYI, it's not perfect.

The other thing about buy now pay later is that it's so easy. It's so much more attractive perhaps than paying with a credit card because the credit card is going to be due at the end of the month, whereas this you can pay over several months perhaps. But that can also create a scenario where you're over spending, right? Again, that's why I say you got to know yourself. If this is a really big purchase, let's say a television or a couch, and you want to pay in installments over the next four months or three months, and you know you can do it. But it's just helpful too because it will provide your budget with some wiggle room. I get that, but this is like your MO for paying for things. Then you realize you're buying more as a result. Compared to last year, you've accumulated more stuff because of this. That's a sign that this is probably not the right payment option for you. So I just wanted to bring that up. It's timely. It's been on a lot of people's minds. I've been getting a lot of questions about this.

Finally, something that is not going to be affected by supply chain if you order it now is the So Money Page-A-Day Calendar. That's right. I have a calendar now dedicated to So Money. It's a 2022 calendar. You can get it at workman.com. If you type in the code SOMONEY, one word, you'll get 20% off between now and the end of the year. If you live outside of the United States, that code is not going to work. Workman will not be able to ship it to you, but you can go on Amazon. It's available on Amazon. Unfortunately, no discount there but it's in stock.

If you want me to come to your office or to your book club or to, I don't know, any other virtual event that you want to organize around this calendar where I can talk about my advice for 2020, my forecasts about money, I'm happy to join you. All would take is everyone in your group to buy a Page-A-Day Calendar as their ticket for the event. If this is a much bigger event and you want to have me come to your company, I'm doing a few of those this month and in the New Year. We can talk about bulk purchases or maybe having the calendars there for people to purchase. But get in touch. It's farnoosh@somoneypodcast.com . You can also direct message me on Instagram.

All right, let's bring on our special guest and answer your money questions, the reason you're here. Georgia Lee Hussey, Founder of Modernist Financial, welcome to the show. It's great to have you back.

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GLH: Of course. I'm delighted to be here as always, Farnoosh.

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FT: I wanted to have you on, Georgia, because I feel like your approach to financial planning has always been to look at it through this lens of sustainability and social justice and helping us make financial decisions that certainly address our bottom line but also help to make the world a better place. So you're the perfect guest for this episode. We have a lot of questions related to sustainability investing. Tell us maybe, first, what are some of the climate and money-related conversations that you're having with your clients? What is top of mind right now?

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GLH: Yeah. We've noticed a quite intensive uptick in the number of folks who are interested in ESG investing. Often they ask that question with lack of clarity, what they even mean. That is – I think I'm going, "No, exactly." I'm like, "And the reason you don't know is because nobody really doesn't know." There is not a universally acknowledged third-party designation that we can point to like LEED certification for a building or a B Corp for a business like ours that we can assume they're being held to some kind of universal standard when we use the term ESG.

But what I hear from folks is a deep desire to not allow the way that they move in the world be a source of exacerbating the issues that they're seeing in their community. If they have kids, thinking about how their kids are going to be growing up, seeing how climate change is just – It just has gotten real the past couple of years. So a lot of people are just asking, "Is it possible? Could I do it? Would it be reasonable? What does it mean? Do I have to give anything up?" These are the kinds of questions I'm mostly getting.

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FT: ESG investing stands for environmental, social, and governance investing. It's a type of investing that it has been around for many years but more recently has been picking up in popularity. Just so people know, this is a category of investing that tracks companies that are doing the good work in supporting E, S, and G or sometimes just E or sometimes just S. What began as maybe a thoughtful way to invest with your heart is now proving has the added benefit of being quite profitable. Is this a more reliable investment bet now?

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GLH: Yeah, it's a great question. So I would say I can definitely align this with my own career. I started in the industry about 11 years ago. At that time, I was very hesitant to offer ESG investment options because they were very expensive. They were primarily active strategies. So they tended to be a lot of high turnover, a lot of buying and selling, not a lot of support. From evidence-based approach to investing, that was not how ESG investing was happening. As I moved on in my career, the options got better and better. So now you can buy index like ESG funds. That takes care of the I don't want to buy anybody a Maserati with my portfolio question, right?

But we are still in the shadowy, “What exactly do you mean when you say ESG land?” But as you say, there are – We can now look at data for longer periods of time. We have historical performance. I would say that one of the things we need to understand as investors in ESG, and I'm actually going to just talk about E because when you add S and G into this conversation, that we just have too many filters that are layered on top of each other. So we, for example, run a sustainability portfolio. It edits out some elements that nobody wants to be involved with like certain kinds of munitions, child labor, etc. But its primary focus is greenhouse gas emissions because we can track that. We can track that across the whole market.

So when I look at those portfolios, some quarters, they're kicking the index’s ass. Other quarters, they're not doing as hot because we have filtered some of the positions out, right? So thinking about benchmarking, we have to just, again, remember that as investors, we take a long frame. We take a long view. With ESG, that's even more important because unless you're an analyst who can say, “Oh, I'm missing exposure to this particular kind of gas pipeline company, and they just had a killer month or quarter, and so therefore I'm missing those returns,” we’re not going to have that kind of sophistication.

I think just sort of getting comfortable with, “I'm going to outperform the S&P sometimes. I'm going to underperform the S&P sometimes.” But over the long haul, we believe that companies that are considering their climate impact are going to do better over the long run.

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FT: Right. They'll adapt. What is the recommended approach though? Do you recommend the going all in approach to a sustainable portfolio? Can you do like 10%, halfsies?

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GLH: Yes, I would say we don't really do half. We don't do a little bit or pieces. We either do sustainability portfolios or we don't. Usually, the reason we don't is because the person is underfunded. So if they really – We are not sure they're going to be able to meet their goals. We may consider primarily doing a globally allocated broad or indexed portfolio because the data on those is more robust. I can take – I have a much better idea of projected returns and projected risk and volatility, as it relates to their financial plan. We don't have a lot of those clients, to be honest. I have some sort of grandfathered in clients who are in that category, and we actually have a lot of those folks sustainability portfolios as one of their goals in their financial plans. They get to the point that they would be able to do that.

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FT: Is there a certain amount of money that is helpful to have in your portfolio before dedicating fully to a sustainable theme?

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GLH: It really depends on your financial plan, right? If you want to spend a million dollars a year in retirement, you need a lot more money in your portfolio to be able to meet that goal, and you better be like shoveling cash into your investments, right? So I think it really depends on what are your goals, where are your assets now, and are you saving aggressively to be able to meet those goals, if that is appropriate for you? Are you are you on track in terms of the financial plan that is your plan with your goals and your ability to save?

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FT: Right. So if you're just starting out or if you're playing some catch up with your retirement savings, then focusing on the broader market initially is a better way to go and then gradually moving over to more sustainable portfolio.

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GLH: I would say it's more like you would start with a globally allocated portfolio, so you'd own – There's 3,000 stocks in the US. You'd be aiming to own all 3,000 of them in some low-cost fund, international real estate, all the fun asset classes that make up an evidence-based portfolio. But oftentimes with our folks, like I'm thinking like our angel funds or pro bono style clients, we're starting with a target date fund. When they get to a portfolio that's more verdant, then we're considering a more sophisticated portfolio that might have more moving parts. Then as we see, "Oh, yeah. They're meeting all their funding goals, etc.," then we'll think about is it a good time to reallocate to sustainability. It's much more about their plan than it is the portfolio.

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FT: All right, let's head over to the mailbag, Georgia. Our first question is from Shannon, and she

says, "How do you know which ESG funds are really impactful?" So we've talked a little bit about the lack of a measuring stick that is the same measuring stick we're using against all of these companies and these funds. That is not yet something that the financial services industry has access to, but that's not to say you just can't find out. You have to sort of dig into it, and that's where people like you and others can be helpful.

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GLH: I wish I had an easy answer for you, Shannon, and I sadly do not. But I think that there will be an easier answer over time. The place I go to when I'm looking at people's portfolios that are not ours is MSCI. They're a nonprofit research organization quite large that you can put your fund name into a tool on their website, and it will tell you what the impact of that fund is and where it's in the green and where it's in the red in different categories. I like that as a shorthand. There are a lot of other tools out there that also are impactful, especially when you're looking around specific topics. Let's say you want to be – You're concerned about indigenous rights and gas pipelines. I believe there's actually a specific calculator that will sort of give you a sense of your exposure in that area.

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FT: This is where working with a financial planner like you, working with your 401(k) plan provider is immensely helpful. In this scenario, well worth the time to invest working with a professional.

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GLH: Right. That's, I think, such a good point, Farnoosh, because if you're a lay person, you're unlikely to have the skill to figure this out. I wish that weren't the case. But investing is complicated. There's a reason why people go to school for years and have CFAs to be able to make these kinds of recommendations. But I do think, to your point, we can lean into the larger low-cost DIY options out there. Vanguard has more ESG options than they did several years ago. You could construct a pretty simple portfolio of US international bonds with an ESG filter. That would be fine.

Now, my question for you, for you, Shannon, is define impact. What do you mean? That's what a lot of these questions to me are about, is there's a lot of impactful, or is it risky, and so? I'm like, well, it all comes back to your definition of risk, your definition of impact, and then applying that to the reality of the limitations of the market. I think we just need to be very comfortable with the fact that there's a lot of gray in this category, and it's not likely going to get resolved soon.

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FT: Demand is picking up and calls for more transparency and the right ways to measure sustainability. Like you mentioned earlier, it's on the rise and it's only a matter of time before this becomes way easier and more efficient to participate in as an investor.

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GLH: Yeah. What I'm excited about is that as the great wealth transfer is happening, which is basically older people are passing and they're transferring their assets primarily to white generations below them, those generations are demanding more options around ESG. The changes that we have made have all come from consumers saying to Merrill and all these big companies, “I'm sorry. They’re there, dear. You don't need to worry about it.” Behavior around ESG investing is not acceptable. We want an answer and we want change.

So this is a great example of put your money into ESG. It may not be perfect. Choose reputable companies to invest in. But the more asset flows there are into ESG, the more robust the infrastructure will be around making it something that they can compete against each other around.

That's where I think we have a lot of value. But I completely agree with the person you were talking about. I think banking – Do you know the nine to one rule for banking? Oh, my god. It’s the best. So this is why we recommend our clients consider credit unions or B Corp banks, because for every dollar of – This is what my B Corp bank in town told me. For every dollar they have in deposits, they're able to loan out $9. So as a company, I have, let's say $100,000 in savings that just sits there, they're able to go out and make $900,000 in loans.

Now, my B Corp bank, 85% of their loans go to underrepresented founders and organizations based whose names might be initials WF and put point .0003% of theirs or whatever. Some very small amount of their overall deposits are leveraged into loans for folks who are not normally represented. So that's a lot of power.

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FT: I think that's going to be a fascinating story to watch and experience.

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GLH: Yeah.

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FT: Next question is from Kristin, and she's wondering if it's too risky now that New York City is investing their pension funds, that New York City is investing its pension funds in renewable energy. Is that going to mean good news or bad news for those teachers and those who are participating in those pension funds?

[00:23:44]

GLH: Given the scale of the New York pension fund, I would be concerned if they're not investing in renewable energy. Because if we think about, let's just take household investing as a proxy for institutional investing. We have small allocations in our portfolios to high risk asset classes that are likely to perform higher in the future, or have higher performance over the long term. Emerging markets in real estate are the easiest examples of this.

Pension funds, when they have such large amounts of money that they need to deal with, they have more opportunity, but also really a mandate to make sure they're getting exposure to the future growth. So like when we invest in emerging markets, Brazil, Russia, India, China, we're investing in the growth of those economies in the future. Same thing, that's what I see happening here. So I would be worried if they weren't doing that.

Also, the other benefit is that institutional money has the potential to make small investments for them in new areas that can really turbocharged an industry and get cash into those industries so they can scale and become a better version of what coal has been for us, or timber, or whatever it might be.

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FT: Well, thanks for your question, Kristen. Kristen is actually a friend and former Brooklyn neighbor. Hope you in the family are well. All right, RB fast writes in and says, “Should I avoid buying real estate within 200 miles of the ocean?” I just did a story on this on CNET. It's about the new calculus for home buying. And 200 miles seems pretty far off. But it really just depends.

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GLH: Yeah, I would look at climate change modeling for any place that I was going to buy. I would look at earthquake modeling. I would look at flood modeling. I would look at water access. This is a big thing. It's one of the reasons I live in the Pacific Northwest is I'm likely to have access to water when I'm 60, or 70, or 80. That's a big concern for me. So I think considering climate change and understanding the impact.

When I hear somebody – I mean, I don't like beach. So it's not really a relevant question for me personally. But the idea of buying property in someplace where basically the public is going to have to underwrite my ability to rebuild just feels not great for me.

My next question is, what do we do about the people who are not buying a beach house there but live there, and our workers there, and when they become climate change refugees, which is already happening in Louisiana and the rural south?

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FT: Right. So who's looking after those communities is a very important question. A related question to this, Maxtor7685 says, “Is flood insurance worth the investment? I'm not living in a flood zone, but I'm worried?”

I'll take a stab at this question first, because I have looked into this recently. Our home is not technically in a flood zone. But I think maps are outdated. If you live through the experience recently of hurricane Ida in late August in this neighborhood and you didn't get a flood in your basement, you are very, very lucky. I think it's only going to get more difficult to avoid the wrath of flooding.

So, yeah, flood insurance, even if you're not technically in a flood zone, worth looking into. You are going to be the best assessor. You know the history. You are the one who's going to make the best educated guess based on what you're seeing as far as weather patterns in your area.

Now, having said that, there are some investments that you can make before investing in flood insurance or in conjunction with flood insurance like installing a sub pump, which helps to drain water from your basement out of your home. You can clean debris out of your drains, gutters, downspouts. You can also move your furniture and rugs off the floor if you think there's going to be a chance of flooding. Of course, sometimes it's flash flooding, so you don't have even a chance to do that and that you can find more on this in my colleague, Marcos Cabello's piece on CNET right now on how to prepare for the next storm. But you can apply for flood insurance, I'm learning through the National Flood Insurance Program, which is managed by FEMA. You can also purchase it through major national ensures. Maximum coverage is $250,000 for structures and $100,000 for personal property, according to Marcos' piece. Your state may also have flood insurance protection. So yeah, definitely worth looking into if you've already experienced a flood in your home.

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GLH: I would also say, this brings up a great question about do you trust the business model of the insurance broker you're working with? Do you trust them to be an advisor to you about what you really need? Because looking at an insurance agent who is with one particular company and can't offer other policies to you means that they have one set of options. But if you're working with, for example, a broker who can work with any company, they're going to see much larger data sets as well in terms of premiums and risk modeling. So when I recommend insurance brokers to clients, I'm always looking at folks who are brokers and can see the broader world and also have a fair amount of experience.

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FT: Really, really great point. Work with a broker if you can, for more options. Last, Michelle has a question about wind and solar investments. She asks, "Are they worthwhile?"

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GLH: Yeah. I wonder what does this person mean by worthwhile. My follow-up question would be are you making tactical investments in individual stocks? Because you probably should stop. You can get lucky. Especially, recently, people have the belief that they're really good investors. It's really easy to believe you're a really good investor in a fast-rising market. So generally, you can get lucky and gamble and buy the right wind or solar stock. But generally, just buy an ESG-oriented and allocated index fund, and you'll own some in there.

Look at the funds that are available to you either through that robo-advisor or through your 401(k). Make sure the cost, internal fees of those funds are reasonable, under .5%. I prefer under .3 if you can get there. Do a little bit of research into what they mean by ESG. But if it's in your 401(k), it's probably – It should have been vetted. If it's one of the larger robo or DIY custodians, it has very much been vetted. So I would recommend stick to what is easy. If you make it complicated, you're not investing in the right way. There're other places to make your life complicated that are more impactful.

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FT: Anyone can get started through their 401(k), the robo-advisor, a financial planner.

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GLH: Look at the funds that are available to you either through that robo-advisor or through your 401(k). Make sure the cost, internal fees of those funds are reasonable, under .5%. I prefer under .3 if you can get there. Do a little bit of research into what they mean by ESG. But if it's in your 401(k), it's probably – It should have been vetted. If it's one of the larger robo or DIY custodians, it has very much been vetted. So I would recommend stick to what is easy. If you make it complicated, you're not investing in the right way. There're other places to make your life complicated that are more impactful.

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FT: Hear, hear. Georgia Lee Hussey, thank you so much for spending time with us. You can learn more about Georgia at modernistfinancial.com, and all of our coverage on the cost of climate at cnet.com.

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GLH: Thank you.

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FT: I hope your weekend is So Money.

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