

FT: Ric Edelman, welcome to So Money, a pleasure to have you on the show.

RE: Thank you so much, happy to be with you.

FT: You are the number 1 independent financial advisor in the nation according to Barron's and you've held that title now three times and this is why I love having you on the show, precisely because so many of my listeners send in questions all the time and a lot of the questions that they ask is "How do I find a financial advisor? How do I know I'm ready to work with a financial advisor and what's going to be the investment? What does it cost?" So, can you simplify that for our listeners and just clear the confusion once and for all?

RE: Sure, everybody needs to engage in financial planning. Not everybody needs a financial planner but we all need to engage in financial planning. We all need to save money. We need to get ourselves out of debt. We need to pay our bills on time and effectively. We need to have a good credit record, which affects our ability to borrow money and to do so at low cost. We need to handle the employee benefits at work, choosing the health insurance plan at work, participating in our retirement plan at work. We're all buying cars so we have to figure out the best way to do that, buy it versus lease it and pay cash versus finance it, things of that sort. We need insurance. We need to buy health insurance, life insurance, property insurance, whether we own or rent where we live, we need to protect our possessions, auto insurance. We have to have a will to protect our family in case something happens to us. So, there's a broad array of questions that affect all of us on a daily basis for everything from credit cards on one extreme to dealing with estate planning on the other extreme and everything in between. Most of us don't have a lot of education about this subject. Most of us aren't taught about money in school, you know, we go through 12 years of school and then 4 years of college and then for many of us post-grad educations and yet in all of those 12, 16, 20 years of education, when's the last time anybody taught you how to balance a checkbook?

FT: Right.

RE: When did anybody teach you the impact of compound growth, understanding the difference between term life insurance and whole life insurance? Most of us have no education here, so if you don't know what you're doing because you lack the education or if you don't have the time to do it yourself because we're all busy doing other things, or if you don't have the desire because let's face it this is a pretty boring subject and we'd all rather be spending our time the other ways, that's why you hire a financial advisor. Now, those of you who have the time and the desire and the knowledge, you can easily tend to these issues yourselves. It's not that complicated. It's not that hard. But, it is time consuming and does require that you know what you're doing. If you don't know then talk with a financial advisor, it's as simple as that. In terms of what the advisor is going to charge you, well it depends on the services that they provide for you. But, let me summarize it in a nutshell. Working with a financial advisor is a profitable thing to do. In other words no matter what the advisor charges you you're going to end up better off. That's the whole point. The advisor's going to charge you to manage your investments or to sell you investments depending whether they are fee based or commission based. An advisor is going to help you with insurance and there are commissions that you are going to pay when you buy an insurance policy and so on. So, you're always going to incur costs, either fees to the advisor or commissions when you buy investments or insurance or what have you. You're going to pay an accountant to do your taxes. You're going to pay a lawyer to do a will. You're going to incur cost but you're going to end up much better off after having incurred

those costs because your wealth will be higher. Your safety will be greater. Your life will be simpler. So, if it wasn't that way, nobody would ever pay financial advisors and the advisory field wouldn't even exist. How much you pay is going to depend on the services you need and that therefore becomes the most important question, Farnoosh, that you should ask an advisor, "Tell me what the services are that you provide your clients?" And, make sure that what they say fits with what you need. Some advisors emphasize investments, others insurance, some work with senior executives of Fortune500 companies, others work with widows, some work with newly married people, others work with divorcees, some work the LGT, the gay and lesbian community.

FT: LGBT.

RE: Yeah, the lesbian community, gay communities and transgenders and bisexuals and some work only with people who have with what we call sudden money, lottery winners, for example, or people with inheritances. So, you want to find out 'is this advisor experienced in dealing with people like me' and 'do they deliver the kinds of services that I'm in need for'. If you're severely in credit card debt, you don't need an investment advisor, you need a debt councilor. On the other hand, if you've got a million bucks in savings that you just got because Aunt Aida passed away and name you as her heir, well, you need an advisor with that kind of experience and skills. So, it's really very simple, tell me the kind of services you provide and who you provide them for and let's see if that advisor describes you. If so, you've got a good match.

FT: Yes. And that is something that, so you say ask, you know, 'What are your services?' I would also add 'How do you get paid?'

RE: Absolutely right. It's the next follow on question and I'll even take it a step further. When you ask the advisor 'how do you get paid' you got to be careful because you might get a misleading answer. And, because if you say to an advisor, 'how do you get paid', the advisor may say "Oh, I charge one percent a year on the amount of money invested." Well, that's a little misleading because you may incur costs to purchase the investments in addition to the advisor's one percent a year. So, instead of saying 'how much do you get paid', ask it this way, "Tell me what the total costs will be all in if I were to hire you? How much is your fee and how much are the other fees I might pay? Are there fees to open accounts or close them? Are there fees to purchase the investments you're going to tell me to buy? Are those upfront fees, are they annual fees, are there surrender fees? Are there fees to open account or close an account? What are the annual taxes going to be like to own these investments?" So, be careful how you ask the question to make sure that you get a full comprehensive answer

FT: Bravo, yes. Hope everybody was taking notes and if not, the transcript for this very important question, Q&A, is at SoMoneyPodcast.com. Well, Ric, I also wanted to have you here because I wanted to learn more about you personally, your journey, your financial habits, failures, successes, your So Money moment, but let's begin with a philosophy, a financial philosophy that you practice, that you uphold that helps keep your finances growing and in check.

RE: Well, my wife and I work very closely together in all aspects of our lives. We founded our firm together 27 years ago and Jane's attitude is that personal finance is more personal than finance. It really isn't money that is the driver of our interest in this field. It's the human condition. It's how do you help people achieve their goals and live lives that are free of financial stress because we know

that money is one of the leading causes of stress, certainly one of the leading causes of divorce. And so, we believe that it's not about beating the market. It's not about Wall Street. We really couldn't care about macroeconomic policy or the latest Fed meeting. What really matters is 'what are we trying to accomplish', 'what do we want to do with our lives', 'what do we want to be when we grow up' and 'how can we alter how we handle our money to help us achieve those goals to live the lifestyle that we want to foster and develop our own relationship with each other, as well as that of our families and our communities?' And so, for us, the philosophy of money is that money is only good if applied toward personal and individual and joint goals.

FT: And, how do you practice this in your own life.

RE: Well, Jane and I have had an attitude forever that neither one of us bends any money without the consent of the other. Back when we were newly married in the 1980s, the dollar amount was \$25, neither one of us could spend more than 25 bucks without the permission of the other. Today it's 100 bucks. We've increased it with inflation. But, neither one of us will spend more than a hundred dollars without asking the permission of the other and this serves two purposes, one, it allows us to be inclusionary we're both aware of what the other is doing. We're respectful of the other's interest and desires. It's not that Jane is going to say 'No' if I want to buy something. It's that she helps to understand what my motivations are? Why am I interested in that expense? How is it making me happy? How is it serving our goals and one of the key questions since I know that I'm going to talk with Jane before I spend any money, I know one key question she's going to ask me, the same question I'm going to ask her 'How does this expense fit in to our financial plan?' Very often people can't but the car they want or the house they want or take the grand vacation they want or send their child to the college they want because they haven't saved for those huge expenses because they're busy spending all of their money on stupid little things like cups of coffee, cigarettes and sodas and candy bars during the day and they think that it doesn't make difference, those dollars and quarters and nickels that people spend. But, in fact it's the small spending that has a huge impact on whether we can achieve our big goals. So, before spending 50 bucks on this whatever over here that I'll quickly forget all about, we can ask ourselves, "Would that 50 bucks be better spent toward our true financial planning goals. And so, by making sure that we are treating our money as ours as opposed to hers versus mine, we're working together toward common goals, we're showing mutual respect for each other with money and it helps to reinforce our relationship.

FT: Take us down memory lane, Ric. You don't just become the country's number 1 financial advisor overnight and I'm curious to know how you had your first financial epiphany or first financial memory that necessarily shape the way that you approach and think about money today.

RE: Well, I was very fortunate. I grew up in an upper middle class family. My parents were entrepreneurs. Dad owned his own business and mom was heavily involved in operating that business with him. They worked 7 days a week, 52 weeks a year. We never took family vacations. Their busiest times of the week were weekends so Dad was always gone from Friday night through Sunday night. And so, I was able to grow up in a materially at least, a nice household, wonderful middle class family and neighborhood and money wasn't an issue. If I, you know, I had nice allowance without having to work for it. Dad was, other than working with him in his business, he was adamant that he didn't want his children to have to work summer jobs because he had to as a kid and he was determined not to have us to do the same. And so, I learned about money from more

of a personal responsibility perspective by observing my Dad and my Mom at how hard they worked and how careful they were with the financial decisions and they involved me in it. I remember helping my Dad prepare his tax returns. I remember looking at working with my Dad and watching how he made business decisions and the economic implications of that. And so, it taught me that money is a tool. Money is a necessary part of life and even though I didn't have to go mow lawns to raise some money for my own spending, I was very early taught on the importance of money, its relevance and how necessary it is to focus long term and not squander the dollars in your pocket on frivolous spending.

FT: Sure. When you did receive an allowance as a kid, what was the first thing you wanted to spend it on?

RE: Oh, I think it was just like all other kids' spending. I was a, you know, loved music and so I was always in a record store and I could never get enough of it. The opportunity to go to concerts when I was a teenager was absolutely huge for me and I think like all kids immediate gratification is always very tempting.

FT: Certainly. Well, and sometimes immediate gratification can get us into trouble which transitions us well now into the financial failure question of the show. Ric, if you wouldn't mind, share with us a financial failure in your life, what happened and what did you learn.

RE: Well, the dumbest thing I ever did was right after where I left my first job out of college. I was not entrained in the financial field, my degree is in journalism and I was writing and serving in a trade association as Director of Communications and it was a non-profit organization and so they had a 403B plan. That was their retirement plan and I was putting away 5% of my pay into that retirement plan and when I'd left that job after about two, two and a half years, they said to me, 'What do you want us to do with the money in this plan?' And, I said, 'Well, how much is it?' and I'd only been there a couple of years and this is back in the early 1980s so my salary wasn't high in the first place and they said, 'well, you've amassed about 800 bucks. What do you want us to do with the money?' And, I said, 'You mean I got \$800 sitting in this account and you're letting me have it if I want it?' They said, 'Yeah.' I said, 'Great. Cut me a check.' And, I immediately spent it I have no idea on what. Today, of course, I realized that had I taken that \$800 and continued to save it and leave it alone, now 40 years later how much money would that be worth? Thanks to both compound growth and the biggest stock market gains in human history. Boy, what a foolish thing that was? And, it was because at that time, I had no understanding or comprehension of money, didn't understand compound growth or tax deferral or the need for delayed gratification and so I squandered away what was at that time my life savings.

FT: What do you think then is the biggest mistake that so many of us make with our money today, besides perhaps overspending on frivolous little things and neglecting to plan for the future? When your clients come to you, what's usually the first thing you repair?

RE: We, well, for our clients, what we generally fix is how their money is invested. Most people have a very poor asset allocation. Most of them don't even know what that is. How much of your money is in stocks versus bonds versus government securities versus gold, foreign securities of bank accounts and CDs? How have you taken all of your money and split it among all the different asset classes? Most people do a really bad job of that. They end up either taking too much risk or they're

earning too low in return. Either way, they're not doing themselves a lot of good toward achieving their financial goals. So, the number one thing we repair for our own clients is the need to make sure their money is properly invested. For most Americans, I think it's more fundamental than that because let's face it most Americans don't have any money to invest in the first place. They're living paycheck to paycheck. They're squandering the income that they've got and the number one reason I find that they're doing that is because they don't realize the importance of saving money right now. Most people don't understand the concept of compound growth. A lot of people say, "Oh, I got a lot of expenses right now. I've got a lot of issues. I'll save later once I get past these costs and later on my income will be higher too because I'll be making more money. I'll have promotions or career success and I'll make money later. So, I'm going to get out of grad school and worry about saving after I graduate." Or, "I'm about ready to buy a new house. I'll worry about saving later." Or, "I'm having a young child. I'll wait until the kid grows up. I'll save later." And, people squander the number one most precious resource, time. By failing to understand that saving at age 20 just a few bucks is a far more value than saving thousands in your 50s. People squander the most valuable resource, in fact when people come to my seminars, the most common thing people say to me at the end is, "I wish I'd started saving 20 years ago."

FT: Yeah.

RE: Everybody says that. And, even though everybody says that, my response is, "Well, have you told that to your kids?" Because your kids are 20 years ago. So, you blew it but you have a chance to make sure that they don't blow it and too often, parents, don't share their experiences with their children and as a result the children grow up as financially illiterate as the parents.

FT: Right. There's that famous saying 'time is wasted on the youth'.

RE: Yes.

FT: But, I, and I speak to millennials all the time. I often go to college campuses and give talks and I think what you said is so poignant and I'm actually going to lead with that from now on is to, you know, scratch talking about IRAs and 401Ks to 20 year olds, talk about time and time plus compound interest, boom. That's your solution.

RE: Yeah, I'll give you the one number that matters to a 20 year old. If a 20 year old wants to amass a million dollars by age 65, all they got to do is save \$3 a day.

FT: Oh my gosh.

RE: That's all it takes, \$3. That's less than a cup of coffee, a pack of cigarettes, a six pack of beer. Anybody can come up with 3 bucks a day but if you wait until your 50 to try that, now you need over a thousand dollars a day.

FT: Oh my gosh.

RE: And, that's the problem with American savings rates.

FT: Let's transition to happier thoughts. Although, \$3 a day sounds pretty easy and doable to me but let's talk about Ric Edelman's So Money moment. A time in your life, Ric, where you feel like you really had a financial win and share the lesson with us.

RE: Well, my wife and I, when we started our financial planning practice back in the 80s. We gave up everything in order to do this. We lived in a one bedroom apartment. We didn't own a television. We worked in the business 24/7. This was the work ethic that my parents had taught me in starting their own business and every dollar we earned, we plowed back into the business. And, I remember saying to my wife one day, "One day we're going to have a profit of \$5,000. I don't know when. I don't know how long it's going to take but that's our goal is to one day have at the end of the month, after we've paid all our bills, we've paid the rent in the office and paid salaries and paid all the bills, we're going to have 5 grand left over in the checking account. When that day comes, we're going to the mall and we're not leaving the mall until we spend the money." And, that day finally came, it took years, frankly, and the day finally came. We were so excited, astonished frankly that there was money left over in our checking account after paying our bills and dutifully we honored our promise to ourselves. We went to the mall and we bought an ice cream cone. When it finally came down to it, we couldn't bring ourselves to spend the money. It had taken us so long to earn it. It had been such a challenge to produce it that we could not bring ourselves to squander it on frivolous spending of clothing or toys or electronics that we had been doing just fine without and we knew we would continue to do just fine without that. And so, we've managed to buy ourselves a couple of ice cream cones. We went home and that money went into savings and we began to realize that the ability to spend was just as good as the spending itself.

FT: Yes. Oh my gosh, you know, I had that epiphany myself. You know, in your 20s, you're poor and you're eating tuna fish out of a can and you feel like the world is against you and all I could do was obsess about the purse I wanted, the house I wanted to buy someday. I always was looking at what I didn't have and what I would spend my money on if I had money and I would just obsess about it. And then, finally, I started to make good money, I started to have my financial bases covered and I took on a more sensible approach to life and realized, actually, what I really wanted and what I really wanted, by the way, was nothing what I wanted when I was "poor", you know.

RE: Yeah.

FT: I wanted more stable things, secure things like a college savings account for my son. I wanted to raise a down payment for a home one day and as opposed to buying, you know, sort of this superficial artificial things that we think will make us happy but really don't and I think it's interesting that mind shift happened once I started to make "enough money" where I felt like I could get my financial bases covered.

RE: Yeah, it's a shame that most people don't understand that point.

FT: Yeah. Well, let's talk habits, Ric. I'm curious to learn what habits, just one that you practice on a consistent basis, maybe it's not daily but it is conscious and consistent and the best part is it helps to keep your finances and your money growing.

RE: This one actually was taught to me by my big brother Brad. He taught me this when I was a kid. He was 8 years, still is, 8 years older than me and so he was a solid teenager when I was only 8 years old or so and he gave me a Planters peanut can, an old beat up can and he gave me some money, some coins and he said, "Collect your change and put it into this peanut can and when the can fills up, roll it up and I'll take you to the bank and I'll help you open a bank account." And, to this day I still have that very same Planters peanut can now fifty years later and I still do the very same thing.

One of the things I learned on how to save money when people so many people say to me that they'd love to save but they can't afford to, here's the simple trick, collect your coins. Never spend coins. Only spend paper currency. Now, I know these days, most of us are using credit cards and debit cards but I would argue not to do that. I would argue that you should carry cash and when you go into Starbucks or you go to get a soda at lunch or what have you, don't use your credit or debit card, use a dollar bill and hand them the dollar bill or the five dollar bill and when you collect the change don't spend coins. If that thing is a dollar, a dollar one, don't give the cashier a dollar and a penny, give the cashier two dollars to get the ninety nine cents in change. Take the change every day out of your wallet or purse or pocket, throw it into a Planters peanut can, you use whatever piggy bank you like of course and if you'll do that at the end of the month you'll come up with 20 to \$30 in savings, literally without trying.

FT: Oh, easy, I do this myself. My husband makes fun of me but it's one of my, you know, my sort of childish pleasures is going to TD Bank with my mason jar of quarters and dimes and nickels and pennies and like a kid, literally, I like I'm behind children in line.

RE: It's great. It feels empowering doesn't it?

FT: I know. We're going to do it on my birthday. It's like this is what I want to do. I want to go and like get my 300, I really think there's going to be about \$200 in this jar and that's going to, you know, help us get whatever I want that day which is nice.

RE: So, if you feel that you can't save money, just collect your coins. It's very, very effective. If you get the spouse and children involved you'll come up with a hundred bucks a month or more and now when you get the children involved have them roll the money. Don't take it to the bank and let them roll it. Let the kids as an engagement and they'll begin to understand the nature of money. Questions will naturally emerge when they're dealing with this and then you show them how to throw the money into a savings account, later into a mutual fund account and you begin to develop smart money saving habits.

FT: I love that. Okay, Ric, we're almost through but before we go we have some So Money Fill in the Blanks that I'd love to get your on the spot answers to. If I won the lottery tomorrow, let's say a hundred million dollars, the first thing I would do is _____.

RE: Give it away.

FT: All of it?

RE: Yes.

FT: Alright. Nice tax deduction there too, might I add. The one thing that I spend on that makes my life easier or better is _____.

RE: When I travel, I have a chauffeur driver take me from place to place without having to hunt for cabs and deal with all that. It just is a guilty pleasure.

FT: Yes and you can be accessible, you're not driving, you're hands free.

RE: Yes. I'm much more productive in the car.

FT: My biggest guilty pleasure that I spend a lot of money on, maybe just a little too much is _____.

RE: Cars. I enjoy cars and so I have some pretty fast ones and there is no economic legitimacy to get them.

FT: Right, right. These aren't investments so much but guilty pleasures. I love it. One thing I wish I had known about money growing up, sounds like you had a very, an above average upbringing and with regards to learning about money but what would be one thing you wish you have learned?

RE: It would be truly understanding compound growth and the importance of investing in the stock market.

FT: And, finally, I'm So Money because _____.

RE: It's my career.

FT: Yes, it is. Thank you so much, Ric Edelman. We'll be keeping an eye out for you. Congratulations on all your successes and we're wishing you even more and more and more in the new year. Thank you.

RE: Thank you so much, Farnoosh, the very same to you.