EPISODE 1130

[ASK FARNOOSH]

[00:00:31]

FT: Welcome to So Money, everybody. I'm your host, Farnoosh Torabi. It's been a minute since we've caught up kind of in real-time, right? I'm recording this pretty close to the Friday that you're hearing it and I don't think we have touched base about everyone's Thanksgiving and how it went. For most of us, it looked very different than Thanksgiving normally looks like. Normally, we travel to the West Coast with my kids to go to San Francisco and see my family, my parents, my brother travels as well from the East Coast to the West Coast. It's a whole thing, it's like a week and it changed. We didn't do that this year. Instead, we flew our parents in at the very beginning of November. When they came, they quarantined for about five days. They took COVID tests, came back negative and then they moved in with us until Thanksgiving, and they just left yesterday back to California.

We think that we may not see them for a very long time after now. I mean, it's really — we're heading in for what they're saying is like one of the most difficult times in our country's public health history. These months are going to be really, really hard in many ways. For Christmas, we'll probably just be here in New Jersey. We usually travel to Pennsylvania. We haven't even told our in-laws about that. I think they'll understand. I hope they'll understand. These are the hard decisions that we have to make and we hope that our families will be understanding and know that it's not personal, right? But we're just trying to make sure that we take the right steps now so that we can see everybody again soonest, really. Hopeful news on the vaccine front, right?

Lots to look forward to in 2021, but I think that the journey is not yet over and we still need to do all the right things. Wear masks, wash your hands, keep socially distant. I did a lot of TV watching over the Thanksgiving break. I watched the Undoing on HBO. Has anyone seen this? I'm not going to give away any spoilers, but I loved watching this movie. Well, I should say, it's like a six-part series. It's just a one and done series, there's knocking going to be another season. But it stars Nicole Kidman and Hugh Grant, they play a very rich — not very rich, but like very well-to-do. Yeah, you could say pretty rich, doctor couple on the upper East side, tragedy ensues and it becomes a thriller really pretty quickly, and a psychological thriller as well.

I loved watching this because it really reminded me of New York and that things were in New York. It's a beautiful homage to New York City. There are beautiful shots of Central Park and the different neighborhoods, the way people used to eat at restaurants, used to go to events together, used to go to school. It made me really miss the Big Apple, and I hope that it gets its groove back sooner than later. But the show for me was very much personal, like getting to see -- it hit home a lot in some ways. That not murder part, but just getting to see New York again in its glory.

I also thought that the show brought up some interesting financial plot lines or just lines. There was a moment in this show where Nicole Kidman is having a conversation with her father, Donald Sutherland, he's 85 and just like so iconic, right? His eyebrows played like a role in the show. Anyway, Nicole Kidman, I can say, she's in a bit of do-do in the show, and the father asks her — although he's very rich. She said, "Are you okay financially?" and she says, "Yes, I'm fine." You know she has a trust fund, and you know that her father definitely helped her out and continues to help her out. But she's also her own person, she's a psychiatrist, a successful one on the upper East side. Having financial independence now granted part of it, most of it may be funded by her family went a very long way in the series and making sure that she always had options, kept her options open.

When she had to leave the city to escape because the media was hounding her family and she wanted to get away from the scene of the crime, she could do that. When she needed to rent a helicopter, she could do that. Anyway, it was cool, it was interesting to see rich people be rich and kind of live vicariously to them a little bit, although rich people got problems too, that's for sure and that was all on display in the Undoing. Check it out. It's cool. It's well done.

This week, if you haven't yet checked out our episodes, our interviews, please do. On Monday, we had Deepa Purushothaman and Rha Goddess who are a dynamic duo, the co-creators of nFormation. It's a first of its kind community that was created by women of color for women of color. It's a membership-based platform that supports high-performing women of color take their seat at the table. Really, really cool stuff that they're working on. And on Wednesday, my friend

Wendy Sachs, who was on the show a few years ago, talking about her latest book is now back to talk about her documentary. First time for her producing a film so she kindly takes us behind the scenes to talk about the production, the fund raising, the stress and ultimately selling it to both Showtime and Amazon. How is she able to procure two streaming deals? I had to ask, and she does not leave out the details. Check out Wendy Sachs on Wednesday.

[00:06:07]

FT: Today, I took a peek in the mailbag, a lot of good questions about advice for married couples, money advice for married couples, college planning for parents, how do you go about this. Do I think the real estate market is going to soften in the coming months? That was a cool, interesting question. Then finally, some questions about investing.

[00:06:26]

Let's dive deeper. The first question is from Samantha and her question is:

S: "Priorities and money strategies for newly married couples, Farnoosh."

[00:06:34]

FT: I love this topic and if you listened on a recent, Ask Farnoosh, I did discuss a recent article that I wrote for Bloomberg Opinion about how to many wives are leaving their financial decisions to their male partners. And while this isn't exactly what you're asking me, Samantha, I will want to talk about this a little bit. But first, let's talk about what should newlyweds or about to get married couples talk about and what should be on the table?

I'll tell you, when my husband and I were moving in with one another, so before we were engaged, we moved in with one another. I know. My mother wasn't so thrilled about it, but whenever. We went to our favorite bar, our Mexican restaurant bar and we knew ahead that meeting that we were going to discuss money and we were going to make it really simple and straightforward. We put on two Post-Its, one for him, one for me our incomes or gross earnings for the most recent year, our debt levels including student loans, credit card, mortgage, etc. Our savings, how much do we have for a rainy day or just sitting and checking at that time and our credit scores.

We did this, we swapped Post-It notes at the same time and we were able to level the knowledge field at least. We both were learning the same things about each other at the same time, so there was no one with a particular leg up or anyone who could hide. We had to sort of do it as a team. It was fun, and honestly at that point, in our relationship, nothing really surprised us from these Post-It notes. We had a good sense of our earnings, because things would come up over the years. We had a good sense of what we owed. We each had mortgages, which wasn't necessarily bad debt. We both paid down our student loan debt, which we had discussed.

But if you don't know these basic things, not nice-to-know things, these are must-know things. Before you get married, have an understanding of each of your financial anatomies, earnings, debt, savings, retirement. What's in your 401(k)? What's your credit score? Because it's all going to matter when you want to say, "Move in together, buy a car together, get a dog together, have children together, by house together, rent an apartment together." You might want to layer onto that discourse, things like, "Are you going to be receiving inheritance? Are you going to inherit your parents' business or do you anticipate having to take care of a parent?" Not that it's going to make or break the relationship, it's just a good thing to know. You want to know what's down the road, right?

If you're planning a trip to go from here to the supermarket, you want to know if there's a detour, you want to know if there's some construction project happening, right? It helps you to navigate that journey a lot better, a lot more smoothly, with more knowledge more safely. So know what's ahead as well. And on that same token, talk about your goals. If you do want to become a homeowner, of you want to start a business, or you want to have six kids, or no kids. If you've got your eggs on ice. These are important things to come up. May not seem super financial related, but they are because all of these things carry price tags. And the more you are understanding of what your goals costs, the earlier you do, the more likely you can achieve them.

Some tactical advice for you Samantha, and anyone else listening curious about marriage, money, frameworks. I'm a big advocate of financial independence in the relationship. Sometimes you will work, sometimes you won't. But always have your own cushion, always have your own nest egg even if it's just a few thousand dollars at a time, but it should be in your bank account.

In every relationship, there are three financial bank accounts at minimum. Your account, my account and our account. The stuff that you agree to pay together as a team towards your mortgage, your rent, your car payments, childcare, food, etc., that can all go into your joint account. That money on a month-to-month basis, you all have a running sense of like how much you need in checking, right, in order to cover all your bills. That's your joint account perhaps. Then separately, you each have independent accounts. They're not offshore accounts, these are perhaps also at the same bank that you share. But it's just — it's really so that you can silo it out, feel more independent and you don't have to ask for permission to make a purchase, or get a haircut or whatever. It's important to have your own stash

Men, women, we need our own stashes because your money equates to your options. And whether it's a good situation or a bad situation that you find yourself in, that money can come to your rescue. I have worked with many couples over the years, through my television work, through workshopping who have financial issues. We all know that money issues in a marriage can be implosive.

When I did further into their issues, I often discover that there is a power struggle around the money. Then I look further, and I've proved further, and I discovered that there is one bank account, which to them at the time may have seemed like the matrimonial thing to do. It's like one bed, one bank account. We're in this together. I think that everyone needs to have their own stash. Independence is critical, especially our generation. Our generation where two people are coming together, typically with their own financial baggage and the baggage can haver good stuff in it and also some weird some stuff in there.

To have your separation is important. You've been used to making your own financial decisions for a long time, and now you're in a partnership, it's hard to give up some of that independent license. It's not to say that you're going to derail or you're going to go rogue in the relationship financially, but it's just so that you feel like you have your own piece of the pie. I tell you, emotionally and tactically, it goes a very long way in creating harmony in the relationship. You're not fighting as much, there's not as much of a power struggle, everybody feels a little bit more solvent, personally financially solvent. It's all good.

Now, with the article I wrote recently that was based on a piece of research that came out this summer about how too many women, about half of female population that's married in this country says that they defer long-term financial planning decisions to their male spouse. Do you know what was the number one generation who does this? Millennial women. Not the generation that is synonymous with baring their head in the sand, right? This is a generation that's very outspoken that seems to understand the importance of financial independence. And yeah, this goes out to everybody, but in particular, women who may be listening, who are about to get married, don't become that statistic.

Make sure that there is transparency in the relationship when it comes to financial decisions. Of course, naturally, one person may fall into the role, into the more primary role of making decisions that have to do with like retirement, and an insurance planning and etc. But that is not to say that the other person turns their eye, or buries their head in the sand or doesn't ask questions. You got to ask questions.

If your partner for some reason doesn't want to share this role with you, I may be a little curious as to why. Dig deeper. This stuff doesn't have to be hard. It really doesn't. Especially nowadays with technology, my husband and I share apps that show our bank information. We have a lot of transparency, and we talk about money, the little stuff and the big stuff all the time. So it doesn't feel like we have to have this moment every month to talk about money. We just talk about it as it happens, and that works for us. But truly, you got to find what works for you. Every relationship is different. every relationship dynamic is going to be different. Find your groove.

Along the way, these are the things that I think every relationship needs, is transparency, communication. understanding of each other's goals, understanding of each other's financial realities and teamwork. No one is better at money than the other person. That is BS. If you think that, keep listening to this podcast.

[00:15:00]

All right, Meg ask the question:

M: “How much should we contribute towards 529 college funds?”

[00:15:05]

FT: Another fun question. I actually just wrote a piece for Parents Magazine, it’s coming out on January on the biggest financial to-dos that parents should put on their to-do list when your kids are maybe not even born yet, or still relatively young, or still young. And of course, saving for college is on that list. It’s not the first thing on that list, it’s not even the seconding thing on the list. I think, too often, parents will compromise or will say it’s okay to compromise their retirement savings to fund the college fund. That’s a big mistake. There’s no Stafford loan for retirees. There’s no scholarship when you turn 65. It’s like, you just have to save your money. For the most part, it’s all on us.

College on the other hand, right, there’s so many ways to go to college and find money to go to college. You can go to school part-time. You can start out at a community college first and then go to a four-year school. You can skip a year, work, raise money and then go to school. You can get scholarships. You can get grants and you can get affordable student loans. Don’t go crazy. But my point is, I want parent to remember all of that when they’re college planning. I think it’s helpful to sort of first see where college prices could be at when your child is at that point.

We did the same thing for our kids. When they were born or even a little bit before they were born, we started college planning, and we said, okay. So if our child you at 18 years or in 19 years, what would college cost in the future? There are college cost estimators out there. Basically, they assume a 5% to 6% growth rate for tuition prices, which is ridiculous but that’s where were at everybody. Hopefully that will change, but let’s just work with reality here.

First, figure out what are your college aspirations for your kid. Of course, everybody might say they want to send their kid to Stanford or Harvard, but what else? Right? My husband and I both went to Penn State. We’ll be exceptionally happy if our children decided to go to Penn State. It’s a great school, it's great value. In our calculations, we just assumed that. And truthfully, it's not to say that if our kids decide to go to a more expensive school, they're all on their own. But again, we were a little bit more conservative in our college savings approach, because knew that that we could have enough for a really good public school if that's what they wanted to go. Then once we arrive at college and they want to go to somewhere more expensive, we're going to have a conversation about that and see if that's even worth it.

If that still the place they want to go, at that point, maybe we shall out more money or our child will work or will apply for scholarships or grants. But it's not like college is no longer a possibility, right? We've done about 80% of the work and then the other 20% potentially will need to be figured out. I'm all for honestly young adults taking out a little bit of student loan debt. I know, I'm going to get hate mail over this. But if that is the way you need to go to college, because that money just doesn't exist elsewhere, applying for like a $5,000, $10,000 or $15,000 federal student loan is not going to kill you.

Actually, it might make the child more invested in their educational experience. Because now, they have that debt and they will be accountable to that debt when they graduate. It will make sure that they get a job when they graduate. At least, I can't say that it's going to be true for every kid, that's it's going to be a light in their -- it's going to light their fire. But I think that think that there's something to be said about knowing your accountable, financially accountable for part of your education.

Some parents intentionally have their kids take out a little bit of student loan debt. It helps you build credit. Again, nothing crazy, enough where you could probably pay a dime within the first few years of being out of school and having a job. In other cases, parents, they just would love to send their kids to school, to their dream schools for free and that's a really important value to them.

Figuring out what are your values, what kind of college scenario do you envision for your child. Of course, you're not going to be able to control that, but you got to have a starting place. Our starting place was public school, probably paying out-of-state tuition and then working backwards to saying, "Okay. How much per month should we put into this 529, so that with the assumed growth rate in the 529 Plan, will we be near where we need to be in 18 or 20 years?"

We came to the conclusion that it was about $500 a month, and we do this for every child, $500 a month. Come rain or shine, $500 a month into the 529 Plan.

That's the calculus. What are your college value as a parent? Do you have to send your kid to college for free because you just have to? But please, don't compromise your retirement for it. Or, are you okay with sort of getting them 75% there, and then the other 25% figuring out a strategy closer to the day of college? Whether that's a combination of loans, and scholarships and grants, your child working or choosing a different more affordable school. Then figuring out what that cost could be in the next 20 years. All the calculators are online. You can go to a site like collegecost.ed.gov, collegesavings.org, savingforcollege.com. All these sites have calculators that will plug in check for you.

You will see what your monthly input should be from now till then. It's not guaranteed obviously, because a 529 Plan, the money gets invested in the market, but it's a smart fund. It reduces your risk, the closer you get to the college years. You're not going to be as heavily invested in the market in year 17, of 18, right? But you will be heavily invested in stocks in year one and two.

[00:20:54]

Okay. Speak My Geek says:

S: "Do you think that the housing market is going to soften or correct soon, this year or early next year?"

[00:21:02]

FT: Well, I will say, a lot of what fueled the frenzy in the spring, and summer and fall of 2020 was the pandemic, right? And really not seeing an end to having to work from home, and school from home and everything from home, so everybody wanted a nicer home and maybe possibly relocate to a different state. So that's really what added more of a tailwind to the buying frenzy.

Now, we have a lot of hope and optimism around vaccines. We have a new administration. I don't know if there's going to be as much fervor and demand for new homes. But I will say that the housing supply is still far below where normal demand is for homes. Interest rates are still very low, which makes it attractive time to borrow for a mortgage, or car loan, all of those things. I do think that some of the patterns that we saw take place in the pandemic, like people working from home. That's not going to be an immediate change, right?

We have been hearing from companies, let's say, "We're going to go remote indefinitely, right? Or at least through 2021 and we're actually going to give employees the option to work from home forever." So I think working from home is going to become increasingly normal, even in a post-pandemic world, which would also again create more interest in buying homes that are more amenable to people with those lifestyles.

Also, let's face it. The spring is coming and the spring is usually a very hot time to list. I have a neighbor here in town who listed her home this past spring. Didn't get any bites or maybe didn't get the offers that she would have like. I think the house needed a lot of work. So she spent the entire fall and winter working on the house, plans to relist it not in December when no one is buying or fewer people are buying, but probably again in March, April, May when there is more of that demand. The reason there's more demand in those spring months is because homes look prettier when the weather gets warmer, the flowers are blooming. And then parents that want to come in to start the new school year there, they need to then really start moving in the sprint, up to summer to make that timeline happen.

Short answer, I don't see it correcting so much or softening so much in the next three to six months or maybe even the next year. I think there's going to be a little bit of a — I don't think homes are going to go for twice their asking price, which is what we saw in some cases here in New Jersey, like totally ridiculous. Some of these homes, I will say. They will never see those prices again. Sorry. Will they go down 50%, 25%? I don't think so. I think we're going to see prices soften a little bit, but not to the extent that we're going to see a complete reversal of the price hikes, if that make sense.

[00:23:53]

All right. Final question is from Laura. She said:

L: "I have a couple of index funds that have done pretty well, so what do I do now? Do I just hold onto them forever and keep investing more or do I sell the funds? Or do I withdraw at least the profits and reinvest then in something else?"

[00:24:09]

FT: Laura, I'm not really sure what your goal is here, right? We often talk on the show about investing in the context of retirement, and saving for your future, and not worrying so much about where your investments are at on a particular Wednesday, and whether you should do something about it. I think it's great news that your index funds have done so well. I think you just stay the course, and I know that's hypocritical of me because I totally change my investments a little bit this summer. I reduced my stock exposure in my retirement account, but I didn't do it in a way that felt transactional to me. I was making a long-term choice.

I had realized that after 20 years of investing in my portfolio in a certain way, that it was time to reassess the risk tolerance of the portfolio. Given that my life had changed. I'd become the breadwinner in my marriage, two kids now instead of zero, a mortgage, all of it. I would not be comfortable seeing huge swings in the portfolio from here on out. Of course, I understand things are going to be volatile at times, but I didn't want to take on as much risk. So I dialed back the stock exposure, and instead, added more cash to my contributions monthly. So that I could still hit or get close to my original retirement target knowing that with less risk, comes less reward, so I got a put more into this fund or in this case, my SEP IRA. Which is made up of a bunch of ETF and index funds.

I wouldn't sell it. I think if I — I'm sensing this might be for retirement or for your future. In that case, it's not about transacting when things are good and when things are bad. If you really want to make a shift in your approach to investing because of a life change like I did, then that's one thing. But making a decision to sell your index find or — they're going to be tax implications to this as well, FYI. That's another reason why it benefits you to hold on to the investments and cash out when you're in a lower tax bracket, i.e. in retirement usually when you're not making as much money. I'm not a fan of making moves in your funds. I would say, stay the course and if you do want to invest more because you have a bigger capacity to invest at some point, sure, add more to that fund or open up other index funds. Diversifying your portfolio is always a good thing, but I appreciate your question.

All right. That is a wrap my friends. Thanks so much for sticking with me on this Friday. I can't believe it's December, right? December 4th. We're going to get our Christmas tree this weekend and we're going to post some pictures on the Instagram. Make sure you're following me there @farnooshtorabi. Thanks so much for tuning in, everybody. I hope your weekend is so money.

[END]