

**EPISODE 1169**

[ASK FARNOOSH]

[00:00:31]

**FT:** Happy Friday, everybody. Welcome to Ask Farnoosh. I'm Farnoosh. It is March 5, 2021, our daughter celebrated her fourth birthday this week, on March 3<sup>rd</sup>, 3/3. A lot of people born on 3/3 I noticed. It's a big birthday day for many people, I don't know. A lot of people getting busy like nine months prior to March 3<sup>rd</sup>. It seems to be a popular time to try to make a baby. We had a nice celebration, albeit COVID style. We rented for an hour this play gym, indoor play gym, which is a great idea of thinking, as a business owner, that's not a bad way to make the most of the current world that we live in. They charge you whatever they charge you for the hour. It's clean, it's safe, and it's a way for kids to let it loose.

She did that with her brother for an hour on her birthday afternoon, followed by opening presents, pizza, cake, cupcakes. We had a whole Minnie Mouse theme going. We got her a lot of presents, a lot. We rationalized it because we thought, "Well, if we had given her a birthday party with 10 friends, she would have gotten all these gifts." Her brother of course, we didn't want to leave him out, so we got him a few things. We aren't spending any money on travel, or restaurants, or new clothes really. But look out, if it's your birthday, mama's got a big budget.

Who did we have on the podcast this week? I just want to give shout outs and remind you, because you know, weeks get busy, you might miss out on some of the excellent people we have on the show. Monday, we had Meredith Fineman on the show. Meredith talks about how to be a better bragger. Is that even possible? Like we never associate anything positive with the word bragging. Maybe if we say humble brag. But she tells us like, "Don't even humble brag. That's actually not productive and that won't actually make you seem self-deprecating or humble. It actually does the opposite." So how to brag effectively, especially when it comes to promoting yourself at work, being an advocate for yourself in your financial life, in your career? She's got some really great strategies.

Then on Wednesday, oh boy! If you listen to nothing all month, please run to listen to Laura Day. She has spent nearly four decades helping people, and organizations and companies harness and develop their innate intuitive abilities to make decisions and make change. She's a New York Times best-selling author, Newsweek calls her the \$10,000 month psychic. She's predicted Wall Street crashes. I really wanted to have her on the show to talk about intuition, what is it, how to work it, to get us closer to the "right decisions" and like what is a right decision. If you're wondering, if you're contemplating a move right now in your life, a big move, a shift, you want to listen to Laura. She has some great, great insights and her books are incredible. If you want more after listening to the podcast, you want got to pick up her books, *Practical Intuition* and *The Circle*.

We got a lot of good questions from our audience members today. Before we get to the mailbag, let's go to the review section and pick a reviewer of the week. Leaving a review, you may win the chance for a free 15-minute money call with me. We'll really get into it, we can talk about whatever you want, money, but also whatever, career, kids, politics. I'll go there with you.

This week, I want to say thank you. Thank you, thank you to [Kat Canetti 00:04:01] who left review on Monday and this is the coolest title, I think. She said. "Like a cool rich aunt with great advice." I've always aspired to be the cool rich aunt, even when I was in college, because I wasn't sure I wanted kid, I wasn't sure I even wanted to get married, but I was like, "I'll be anyone's aunt" or aunt as we say growing up in Massachusetts. Here I am, someone recognize this in me. I'm not an aunt yet though. So Todd, if you're listening, get on it. Kat says, "When I graduated college, someone gave me the book. *Millionaire Teacher*, which made me realize I knew nothing about personal finance or finance in general. I was an engineering major but had no concept of the stock market, investing or anything. Much less what to do with my student loans or why a credit score even mattered. Growing up poor and a first-generation college student, I've always been a frugal saver but never knew that there were ways to make money work for you. Farnoosh has since taught me all of that. Seriously, she covers every topic under the sun. I'm truly grateful for her work and recommend her podcast to all my friends."

Kat Canetti, call me, email me, DM me. We need to talk. We need to have our free 15-minute money session. Would love to know where you're at now in your life, where you are in your journey, a crossroads perhaps, I can help you. Email me, farnoosh@somoneypodcast, direct

message me on Instagram or you could tweet me. Let me know that you're the Kat, the amazing generous Kat who left us a review and I'll promptly reply with a link where you can pick a time that works for you to talk to me. I just finished a phone call with Sarah in the audience who had some really important questions about taxes, and talked about paying down, and the importance of celebrating your wins.

[ASK FARNOOSH]

[00:05:50]

**FT:** Okay. Let's go to the mailbag. Very excited. We got so many good questions about where to invest, how to saver for a child, how to save for kids, and have you guys heard of stock slices. A listener is wondering about stock slices and whether there are crappy investments, I've got some thoughts.

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Let's hear from Megan first. She says,

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**M:** "Hey, Farnoosh. Absolutely loving your podcast. I have a question about mutual funds and ETFs. I'm 31 and my bank set me up with mutual fund investments when I was 25. I have been happy to contribute over the years, but now I have had a couple of money-minded friends say to me that I should move all of that money out of the bank and to ETFs through a brokerage ASAP. What would you advise?"

[00:06:36]

**FT:** It's nice to have money-minded friends, Megan. Good for you. They say that you are the average of the five people you spend most of your time with, outside of your family, I guess. Think about who your friends are., who your colleagues are, are they teaching you things, are they giving you honest feedback, are they inspiring you. It sounds like you got some good

friends there, Megan. I do agree with them. Assuming that where your money is currently parked is carrying higher than normal fees. The reason I'm going to guess that they are encouraging you to move your money to an online brokerage, and invest in things like exchange traded funds.

Just a quick sidebar, what is an ETF or exchange traded fund? This is a type of security that tracks an index, commodity, a sector, any kind of asset. It can be bought and sold like stocks on the stock exchange and so it has liquidity, which people like. You can cash out at any point, but it is a fund, so it is diversified. It's got a lot of different ingredients and it's pretty passive. The cost to engage with an ETF, to invest in an ETF is significantly lower than say, a very actively managed mutual fund. In addition to ETF, which I like, there are also index funds. We talk about that on the show a lot and they're pretty similar to ETFs. The biggest difference is, that while ETFs can be bought and sold throughout the day like stocks, index funds can only be bought and sold for the price set at the end of the trading day.

But look, on this show, we don't really talk about trading or buying and selling fervently. We really think about buying and holding. That aspect of an ETF being sort of more liquid is a nice to have, but it isn't essential when you're thinking about creating a long-term, buy-and-hold portfolio. The biggest draw, the biggest incentive is the cost, I think and also the performance. It may sound like they're not going to perform as well as an actively managed mutual fund, but the study shows that passively managed funds like index funds and ETFs, it sort of ride an index or ride a commodity do well. They do just as well if not better than actively managed funds and they cost a fraction of the price, because they're passively managed, because they don't have a lot of people teams going in there, making moves on your behalf.

I will concur with your nice friends that it would make sense if you want to build upon this portfolio to move it over to a brokerage, an online brokerage that does have IRA, individual retirement accounts, Roth, traditional, SEP IRAs. There's a whole bunch of them, depending on where you are in your life and what you need. That can also give you access to a variety of investments, including ETFs, index funds. But here's a thing, when you sign up for these brokerage accounts, and there are so many, there's Schwab, there's Betterment, Wealthfront. Ellevest.

I always say, you can't really go super wrong with these Robo-advisors/automated platforms insofar as they have a lot of the same fees, they offer a lot of the same investments and the same types of plans and portfolios. The main difference I find across the board is the UX, the experience. Some are little bit more, they index more heavily with like hands-on help, so some love to tout that they have live person who can help you with your investment choices. But you don't have to worry about picking the ETFs, or picking the index funds, or mutual funds when you sign up. They ask you bunch of questions about risk tolerance, when you want to retire, your goals, et cetera. Then the algorithm creates a diversified portfolio across all the different sectors, across all the different asset classes using mostly, if not all, ETFs and index funds.

I would do it and it's the financially smart thing to do. You can definitely cut down on your fees, get similar, if not, better results and work with a brokerage that can offer something that is designed specifically for retirement. Thank you for this question. I know retirement is actually one of the top, if not, the top question, theme of question that I get on this show. Which may surprise you, given that my audience is largely people in their 20s, and 30s and some 40s. We're really thoughtful people on this show. We really care about our future selves, so I love questions like these.

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Speaking of stocks, Jennilyn, wants to know if stock slices are a crappy investment? She says,

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**J:** "If I'm interested in the stock, can I put a little bit in and just observe it as an educational tool?"

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**FT:** Yeah. I've heard of this, Jennilyn. I've heard about like Charles Schwab is offering stock slices, some other brokerage firms. The idea is that, while we may not be able to afford the sticker price for one share of let's say Amazon, or Apple, or Berkshire Hathaway, you may be able to still participate with stock slices. Instead of buying the whole stock, you can buy a

fractional share. In some cases, for as little as five dollars. I think this is a great way to engage kids, not again because we want to talk about buying and selling stocks. But we just want to educate the kids, and also yourself on how the market works if this is just an aspect of your investment strategy, I'm all for it. I wouldn't do this as my general approach to investing. I think you got to go back to what Megan's doing, which is opening up an account with a brokerage firm and getting those funds in your portfolio.

But if you are just curious about the stock market, you have a love for particular stocks and you can't afford them, and you'd like to create a sort of diversified stock slice portfolio. Knowing the risks, knowing that the prices are going to go up, and down and that this is not the best way to invest in the long run, it's just a supplement maybe to your approach. I think it's great. You can also get a fraction of an ETF, a slice of an exchange traded fund. There's also that way to get into this type of investment. One reason people like stock slices and I'm talking about like financial experts and financial advisors, is that, it is a way to sort of dip your toe into the investment world if you don't have a lot of money to begin with.

Again, I think it's great for teens who are making money from summer jobs or whatever, and they want to invest. Which is I think is a great exercise for teens to get them acclimated and educated about the stock market, but they can't buy a full stock share so they might buy a slice. It's a great way to build a very diversified portfolio of your favorite stocks more affordably. I would do this after you have paid off all your debt, after you've got the emergency fund, after you've maybe maxed out your 401(k) at work and also, maybe your IRA or Roth IRA. Then, you get into fractional shares. This is extra. This isn't the meat and potatoes of your investment strategy.

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All right. I see Jennifer has a question next about kids and money, but first, I want to skip over to Lilian, sticking with our retirement/investing theme here. Because Lilian is in a bit of a pickle, a Roth IRA pickle. She says,

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**L:** “Hey, Farnoosh. We were penalized for investing in our Roth IRAs because we were way over the limit for who can invest in them. We have a financial guy, but hadn’t updated our income with him in some time, and so clearly, we were caught unaware. What a place to be in. What would you suggest for us now? Mutual funds? We could up our investments there, I guess. We’re just face palming all over the place, so much for being on top of things.”

[00:14:31]

**FT:** All right. Lilian, it’s fine. You live, you learn. I’m sorry this happened. You said you have a financial guy, and I get maybe you lost touch with this person. But I’m curious, did he have any suggestions for you in the aftermath? I hope you’re not paying this person. That aside, your options now, Lilian are to open up perhaps a traditional IRA. I assume you don’t have access to a 401(k) at work or 403(b). If you do, then I would do more in that department. The other option is to just open up a brokerage account, which doesn’t have the same tax benefits, but you can access this money at any time penalty free. You can withdraw it whenever you want. The goal should be though to design this to be a long-term portfolio. For us, my husband has a 401(k) at work, I have a SEP IRA because I’m self-employed.

Once we have maxed those out, then we contribute to a brokerage account, which is basically just a portfolio of ETFs and index funds like we talked about earlier. It’s just a way to supplement our retirement, but it’s also listed at this is money that we could tap if let’s say in 10 years, we needed it for some reason or who knows. I want to retire early, I can’t take money out of my SEP IRA yet because I’m not 59 ½, but I’ve got this brokerage account. So you’ve got options.

Just to recap for everybody, a Roth IRA, it does have income limitations. You cannot contribute to a Roth IRA when you start making too much money. If you file taxes as a single person, your adjusted gross income has to be under \$139,000 for the tax year 2020. And then for this year, 2021, if you want to contribute to a Roth IRA, you have to make under \$140,000. Just keep that in mind, because you can forget. If you got to raise one year, or if you got a bonus, or anything like that, that can add up and you don’t have to do the math. Then suddenly, you’ve done a financial no-no. It’s not that you’re going to get arrested, but there is a penalty.

There are ways to remedy the excessive contribution, but you have to do it before you file your taxes and lo and behold, our listener here said, she realized this only after doing her taxes and filing them. These won't apply to Lilian, but I just want everyone else who's listening to be aware, that you have yet to do your taxes and you realize, "Oops, I put too much money in my Roth IRA." One option is to what's called, recharacterize your access contributions to a traditional IRA. If you don't qualify for a traditional IRA or don't want to do this, you can also withdraw the extra contribution made to the Roth and you just do this and you say, "Oops, sorry." But you don't have to pay any sort of penalties so long as you do this before your tax return is due for that year. So April 15th for most of us this year.

You can also keep it in the Roth IRA, the contribution and apply it to a future years Roth IRA. But of course, this assumes that maybe your salary will go down. If you choose to do nothing and let the money sit in the Roth IRA when you aren't really supposed to contribute, then you're going to have to pay a 6% tax penalty every year until you've fixed the problem. I suppose by fixing the problem it means, by doing one of the above that I just talked about.

Are we still awake? I'm serious. Roth IRAs are really awesome and hot, but that was a lot of explaining and I apologize. If you want to learn more about Roth IRAs, you can go to [nextadvisor.com](http://nextadvisor.com). you can go to [investopedia.com](http://investopedia.com), [nerdwallet.com](http://nerdwallet.com). Lilian, if you've been paying this financial advisor, you should get your money's worth and get him to tell you what is the best thing to do, but thank you for reaching out to me.

[00:18:22]

Our next question is from Jennifer and she says,

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**J:** "Hey, Farnoosh. Which of your episodes do you recommend for children in savings? I just had a baby last month and I'm wondering which accounts to open up for him."

[00:18:38]



**FT:** All right, Jennifer. Well, congratulations on becoming a new mom, all sorts of feels. It's really cool that you're already thinking about saving for your child. Firstly, I know it might sound crazy at this very early stage, but saving for college, it's never too soon. I know that we all debate about the future of college and you don't even know if your kid would want to go to college. It isn't a really a bad thing these days. It's not like, you have to go to college, but it's still highly recommended. If it just wasn't so expensive. But that's why, if it's important for you and if that's something that you really want encourage in your children, to have some savings.

The vehicle that we use here in my house and so many Americans do is the 529 college savings plan. We've talked about this a lot on the show. You can go to my site, [somoneypodcast.com](http://somoneypodcast.com) and then in the search bar, type "529." There, you'll find a lot of great episodes, conversations with people like Ron Lieber, who is the financial editor of the New York Times. He's been on the show number of times. And most recently, this year actually, earlier this year, he was on to talk about how to save for college. 529 plan for your kid.

If your kid doesn't end up going to college, you can change the beneficiary to someone else in your family or yourself. Or along the way while you're investing in this 529 plan, you're like, "I really need this money for private school." Now, you can actually use a 529 for private elementary school. That's more of a need, you could tap it for that. The benefit of a 529 is that, it's kind of like a Roth IRA. The withdrawals are not taxed. When it comes time to apply that money towards qualifying college expenses, things like tuition, books, room and board, et cetera. But worst-case scenario, if no one's going college, then you can withdraw the money and just pay the taxes on it as you would on any other side of investment game.

Outside of college savings, if you just want to save money for your child, for him to tap that at various stages of his life, you could just open up a bank account for him and start contributing. Eventually, if your child gets a job, you could open up a custodial IRA and put his money in that custodial IRA, which is basically an IRA for your son. You as the adult, as the legal guardian would sort of oversee it until your child is of age. But it's a great way for parents to give their kids a leg up towards retirement if their kids are making money throughout their childhood.

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Okay. Next question is from Morgan, who says,

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**FT:** “I have a question regarding mortgages. Currently in the home buying process and expected to close in August, I spoke with my bank and they have offered locking in a rate at 2.875% for \$4,000. The fee is to lock the rate and pay for discount points. Does it make sense to lock this in or should I wait until closer to closing and put that \$4,000 towards the down payment?”

[00:21:39]

**FT:** This is a great question. I’m sure a lot of people are going to be facing this. There is no slowdown in the home buying process in 2021. I was just reading that January home sales were up like 23% or 25% year-over-year. If you live in Montclair, good luck buyers, good luck. It is bidding war left and right. The biggest reason to lock in your mortgage rate is really just to be able to sleep better at night knowing that you know what your mortgage payment is going to be. That it’s not going to fluctuate or change at the last minute. I wouldn’t recommend locking it in too soon, so I’m not sure where you are in your home buying process, the timeline. But the advice that I generally followed is that you want to lock it in as close as you can to the closing date. Usually like 30 days out. This is because, by now, you have done the appraisal, you’ve done an inspection, you’ve gotten obviously the contracts signed. There aren’t going to be any surprises, there aren’t going to be any reasons to like delay the close.

If you like the rate, you should lock it because then you know, this is it, this is the price you’re going to pay. And you do pay \$4,000 for it, I guess. But talk to your bank and see if there is any wiggle room there. As I’ve mentioned in the past, when we were getting our mortgage last year, we were able to get a lower interest rate because we moved some of our savings to that bank that we were getting the mortgage from. The bank had what it called a relationship discount. We’ve never done any banking with this bank. They were the bank that offered us the best mortgage and our mortgage broker there was basically like, “Look, your rate is X, but if you bring over some savings and create a deposit account with our bank, then we will reduce your

rate at no cost.” Maybe that’s a way to offset the risk. Like if you don’t want to lock it, is there something else you can do that can counterbalance?

If you don’t want to lock it in and the rate does go up to say 3% by the time you close, you’ve got that relationship discount, which will bring it back to 2.875. Does that make sense? I don’t think rates are going to go up gigantically or down gigantically. I think it’s going to pretty much hover around 2.8% to 3% for the next 30 or 60 days. Rates don’t usually jump dramatically over night or within weeks. It’s usually very nominal, the change, but it’s not a little bit of money when you calculate 12 payments times 30 years, right. So you do want to be smart about it. The other thing you can calculate is like, if you don’t lock it in and let say rates do go up to 3.1%, what is the new mortgage going to be? Is it going to cost you more than \$4,000 over the long run to have that rate?

It’s really insurance, to make sure that you’re going to get the rate that you expect, that you were told, no surprises, peace of mind. Bottom line, good to lock in the mortgage rate, because it can protect you from potential rising interest rates. It’s going to effectively raise your mortgage costs month to month to month for the next 30 years. In that way, for some people it’s very much worth. But talk to your mortgage advisor, who could perhaps give you a prediction of where rates may or may not go. But 2.85% is outstanding, Morgan and congratulations and good luck to you.

Thanks for tuning in, everybody. That is our March 5<sup>th</sup> edition of Ask Farnoosh. Thanks to everybody who wrote in, Megan, Jennilyn, Jennifer, Lilian, Morgan. Thanks for spending part of your day with me and I hope your weekend is so money.

[END]