**EPISODE 1175**

[EPISODE]

[00:00:31]

**FT:** Welcome to So Money, everybody. It's Friday, March 19, 2021. Listen, I have some really big news that I can share with you for probably another month and a half because it's going to take a while to formalize, but I'm really excited and I just wanted to tell you that I got some big news that's bottling up inside, and I'm going to try to not slip and share it because I'm not really allowed to, but it's huge. I think it's huge. It's a big change for me in my career, it's not like a delineation. I mean, the podcast is still going to happen. I'm still going to be your personal-finance friend, but it is something new and exciting, and maybe a little unexpected. So don't hold your breath, because it's going to probably many weeks, a month or so before we can announce this publicly, but stay tuned.

We've got so much to cover today, there are multiple bases. We've got people asking about the stimulus check, how to become financially independent by 42, and when to know if an investment property is worth it. A lot of people are scooping up homes right now, whatever is available. The inventory is so slim. Also, people are looking at investment properties through a new lens now, because interest rates are so low.

Before we get to your questions. I want to give an update if you haven't seen or heard this. The IRS has pushed back the filing and payment deadline for your 2020 taxes to May 17th, buying us essentially two extra months. I was really surprised by this. I just did a story last week about what we can expect with our 2020 taxes and the changes. There was no word from the IRS about pushing back the date. To change it at this point clearly signals that the IRS is overwhelmed, and taxpayers are overwhelmed. We need those extra weeks. So May 17 is the new tax filing and payment deadline. And we do have a question as I said about the stimulus that I'm going to address in just a minute.

Let's go to the iTunes review section and pick our reviewer of the week. This person will get a free 15-minute money session with me. This week, we're going to say thanks to Rich who left a review on Saturday saying, "Favorite podcast for walks. Farnoosh and I have walked more miles together than I can count since the beginning of COVID. This podcast has been inspiring, educational and helped me understand more about my financial picture. I originally started listening as a way to stay motivated while juggling paying student loans and contributing to retirement. However, this podcast recently inspired me to open up a 529 plan for my nephew when he was born in June. I've even convinced my parents that we should do this instead of presents. My brother and I have significant student loan debt and this would be the ultimate way to set up our next generation. Thank you, Farnoosh for helping me start powerful financial conversations."

Rich, my pleasure. I got goosebumps. You can email me, farnoosh@somoneypodcast.com, let me know you left the review or direct message me on Instagram @farnooshtorabi and I will hit you back with a link where you can pick a time for us to chat, maybe talk about those student loans. It's so nice to know that I've been able to be a companion on your walks and reminds me that I need to get out more. I've been waiting for the spring, y'all. The weather has got to get better.

Speaking of spring, the first day of spring is typically Persian New Year so Happy Persian New Year, Nowruz to all my Iranian Persian listeners. This is happening on Saturday, March 20th this year, the beginning of spring equinox. [Aidé shomā mobarak 00:04:14] to my Persian friends. This is a 13-day celebration, y'all. If anyone ever says Persians, Iranians don't know how to party, they are mistaken. We definitely know how to have a good time and also make it last. We're looking forward to seeing my brother and his girlfriend this weekend and just maybe cooking up some Persian food. Also, who am I kidding? We're going to order it in?

[ASK FARNOOSH]

[00:04:36]

**FT:** Let's go the mailbag, shall we?

[00:04:38]

We'll start with, Therese. She says,

[00:04:40]

**T:** "Hey, Farnoosh! I love your podcast. Whenever I need some motivation financially, I put you on and it makes me want to seize the day, kind of like when I'm getting ready to go out for an evening, I put on Beyoncé. You are the Beyoncé of money experts to me."

[00:04:54]

**FT:** I mean, honestly, there's no better compliment, Therese. I stopped in my tracks when I read that. Thank you so much. Here's what Therese is looking to solve. She says,

[00:05:04]

**T:** "Last year, I managed to save $20,000 and I put all into my RRSP account."

[00:05:10]

**FT:** She's in Canada, so RRSP is — this is my aside. It's a registered retirement savings plan and sort of like maybe an IRA we would open up in the US. The RRSP account can be actually used for purchasing your first home. She says,

[00:05:28]

**T:** "In Canada, we can use this savings as a first-time homebuyer and so long as we pay back within 15 years, we aren't taxed."

 

[00:05:38]

**FT:** Cool. She says,

[00:05:39]

**T:** "My husband and I both recently bought a brand-new car as well and I was approved for line of credit, 4.5% interest rate, owing $41,000. I'm not too worried because I know I'm capable of saving large sums of money, but I'm wondering, should I pay the line of credit off as fast as possible or pay myself at the same time? Keep adding to my RRSP for example?"

[00:06:05]

**FT:** All right, Therese. Again, thanks for the Beyoncé reference, life has been made. To answer your question and I think what you're asking me is, which is more beneficial or which should I be more aggressive about, the car loan or my retirement account, the RRSP? My opinion just based on what you've given me here is to put more towards the RRSP. Here's why. I see this as really coming down to opportunity costs. I see less benefit to putting more of your money towards a relatively low interest car loan versus there's more benefit to putting those extra dollars in your retirement account, which if it's like a retirement account in the US. Historically, the returns have been better than 4.5% per year. That's compounding interest.

If the rate of return is potentially greater for your money in the RRSP over the long run, it's more than 4.5% you think, then mathematically, the opportunity is greater for your money for you in the RRSP. All said, you still want to make those car payments, you don't want to fall behind. In the states, car loans typically come with a term, like five years. So you do have this end date to that loan, which along the way you're making fixed payments towards, and as long as you're kind of on that plan and you can make those payments steadily — I mean, I've had a car loan, I still have a car loan. I could pay it down entirely, but the rate is so low. It's like 3%. The opportunity costs of me paying that off in one gulp, in one lump payment versus taking that lump sum payment that I would have put towards the car loan and putting it into the stock market, the opportunity is greater in the stock market.

If that is also what you think is your case, I would just say play by the rules of that car loan, make those payments, the interest is relatively low. Therese goes on to say that she's going to get a sweet tax return this year because of the money that she contributed to her RRSP.

[00:08:09]

**T:** "What would you do with the extra $7,000 or $8,000 of tax return money? Should I put it back into the retirement find and let it accumulate interest or make a dent in my car debt?"

[00:08:21]

**FT:** I say go half seas. Why not? Here, you've got some money to play with. That's kind of the beauty of a windfall is that, it can afford you perhaps multiple options. So maybe put half of that $7,000 or $8,000 towards your RRSP, your retirement and the other half towards the debt. All right, Therese. Thanks so much for your question.

[00:08:41]

Next up is Leah. With her stimulus questions, promise you there's going to be a stimulus question. She says,

[00:08:47]

**L:** "The latest stimulus check threshold has been lowered and my income alone is qualified to receive this third check. But combined with my husband's income, then we are over the joint married threshold. I'm curious, what are the disadvantages of filing married separately. I don't want to file separately or receive the check, but lose out on other tax credits."

[00:09:09]

**FT:** Thanks, Leah. Yeah, you're right. This is really about a calculation that I'm not the best person for. I want to preface all of this by saying, I'm not really a tax expert. I don't have a certification in taxes. A CPA would better help you in this case, because that person can do all the math. I don't know enough about your lifestyle and your life situation to know which tax breaks would relate to you and maybe what ones you would miss out on. That said I'm on H&R Block website. The general rule of thumb that many tax experts relay is that, it is usually more tax beneficial to file jointly. You're almost always better off filing married jointly, because many tax benefits are not available if you file separate returns. The most common credit deductions are unavailable on separate returns and they have a whole list here on their website. The earned income credit, dependent care credit, tuition credits, student loan interest deduction, child care credit, adoption credit. There's a special allowance of $25,000 for real estate passive activities with active participation, all the stuff. Standard deduction if your spouse itemizes the deductions.

You may discover that while filing separately can earn you the stimulus check, the cost is great and it comes at the expense of missing out on these other tax breaks, which may amount to more savings for you in the end. I know that's what you know and that's what you came to me hoping to clarify without knowing again your life situation. It's hard for me to guess or estimate what credits you would miss out on and what the what the financial losses there potentially. I would recommend if you know a CPA who can get on the phone with you for 30 minutes and provide more of an educated guess, that may be worth it. It's a good question. The stimulus is not a little bit of money, it's a good chunk of money, so you want to be able to qualify for that if it's going to be helpful to you. But you also want to be mindful that you're not taking one step forward, two steps back. Good question.

[00:11:15]

Argil has a question about real estate. Argil says,

[00:11:18]

**A:** “My wife and I starting to get serious about buying our first home. We’d like to buy in 6 to 12 months. I have about $100,000 in stocks in one stock in a single company. We are fortunate to have been given the stock decades ago when the price was significantly lower by a grandparent. The plan is to sell the stock for our down payment. As time goes by and the house purchase gets closer, I’m feeling more at risk about having this money in a single stock that could unpredictably lose value. I’m worried about that risk. Can you give me any advice on timing the sale of the stock and where we should keep the cash between the time we sell the stock and the time we buy?”

[00:11:59]

**FT:** All right, Argil. Yes, you are on the money here. I agree that the time to sell is now or soon-ish, because the stock could drop significantly in the next few months and it may take far longer to rebound, to recoup those losses. You’ve owned the stock long enough as you know, so that you’re just going to pay long-term capital gains, less than the short-term capital gains you would owe if you just held it for less than a year, so that’s good. Your tax burden is not as high as it may have been, but I wouldn’t wait much longer to cash out, given that the goal you are trying to afford with this money is just around the corner. There’s no other timing advice here, other than do it as soon as you can. I will also mention that having just gone through this home sale of ours. Once you make an offer on a home, you have to pay the down payment pretty quickly after that, so there’s not a whole lot of time. It does take a little bit of time to like liquidate a stock, transfer the cash over to your bank account, it could take a few days. Depending on your bank, it could take up to a week, right? Don’t wait too long. Don’t wait until you’ve made an offer on a home to cash out all that stock, because you may need that money sooner than later.

Do it, whatever is convenient for you, between now and next week maybe. Don’t really tie my investment advice to timing the market. I time it to your goals. Your goal is around the corner, so you should sell the stock sooner than later. Once you’ve liquidate it, if you don’t pay the taxes right away, make sure that you carve out a bit for your taxes, keep that in a safe account. The rest, put also in an FDIC insured bank account somewhere. Again, that's easy to access because when it's go time and you've made an offer on a home, things move quickly and you may need to either wire or have a certified check for the down payment. So make sure you're banking somewhere where all that is accessible to you. I would order checks because you just never know.

Especially in this COVID environment, getting to a bank — I remember, number we were trying to just get our money out of the bank, oh, it was so difficult. We could only go to a certain branch that was open and then we have to stay in our cars. There was all these protocol that was new, that we had to learn to just access our money. We had to play by those rules, which cause a bit of a delay, frankly. It would have been helpful to know all this before getting into the sale process. But keep it somewhere that liquid, where the bank has a lot of ways that you can access your money, whether that's a quick wire, maybe they've got hours were you can walk in and get a certified check or a way for you to drive through and get a certified check. You don't want that to slow you down. Maybe it's where you're already banking. I would just put it there. It's not about where am I going to get the best interest rate. This is money that you're going to need to tap in the next 6 to 12 months. It's not a lot of time, so it's less about growing the money this point, right? It's really about making sure that it is safe, it's not losing value and it is accessible to you.

[00:14:55]

Next stop is our friend, Kim. Kim's got a question about early retirement. Kim is 32 years old, a musician, making a decent living through performing, teaching and commission. Kim says,

[00:15:09]

**K:** "Before the pandemic, I also had a nice W-2 job as a nightclub entertainer. With the live music industry on pause, I've been taking a moment to reflect on my workaholism. Even when gigs come back, I may only have 10 good years of performing left in me. When that time comes, I would love to be financially independent. I have a 401(k), a Roth IRA, plus emergency savings for one year of rents and living expenses. I'm single, no kids, no debt. I'm comfortable budgeting and living lean, but I'd love some advice on how to start my strategy."

[00:15:44]

**FT:** All right. So I got some advice for you, Kim on a strategy towards more financial freedom soon. You want to do this in your 40s. I'm 40. I consider myself financially free. I still work because I love what I do and frankly, I need to work to be able to afford my lifestyle. I don't think I can just retire right now with my savings and that's okay. But I do feel free in the sense that my savings, my investments are affording me options in life, and I do feel like I'm in the pilot seat. I'm not reacting to things. I don't have my hands tied behind my back. I'm not depriving myself of anything that's really important to me. It depends on what your definition of financial freedom is, and that's the first part of this strategy is, what do you mean by "early retirement or financial freedom"? Does early retirement really mean retiring? I don't think so.

I'm going to take a big guess that in in your 40s, you're just going to like hang out and not be concerned about making any money. You are very talented it sounds like, and I think that you could parlay your skills maybe not to live performance if that's not what you want to do, but there's other things that you could do that you'd want to do, whether that's teaching or coaching, working in other industries like film. That definitely leverage talented musicians and artists like yourself. Thinking about what your picture or definition of financial freedom means to you 10 years from now. I know you probably want some mathematical advice like, "Oh! Maax out your Roth IRA, deposit X dollars a month into a portfolio," which definitely could be a smart strategy for you. I'm not negating that. But I want you to first answer the question about what you want, what are your goals? How do you want to feel? What do you want your day to look like? Does it mean not working at all? Another way to think about this is what is maybe your career path, your new career path in your 40s. What do you need to do now to set yourself up for success from a lifestyle career standpoint in your 40s, so that you don't feel like you're working the grind, that you're not overworked as I sense you are currently?

This next decade, I see it really more as a transition, doing some of the things that you're currently doing, but then winding other things down and then maybe starting some new projects that will take you into your 40s, that will now define, redefine what your life is going to look like and how it's going to take shape in that decade. Very exciting. I mean, you do sound to me already pretty financially independent. But again, that just depends on your definition. You heard mine, but I have also heard, you have one year's worth of rent and living expenses. That's awesome. You're on a budget. You live lean, you're happy with all that, so I think you're in a fantastic place to afford the time now to decide your future with so much thoughtfulness and strategy. I know you asked about strategy, so thinking about what do I want my life to look like, feel like, what is the impact I want to make in my 40s, how do I want my day to be divided and then what is the work that I can do that can support that?

All the while, Kim you should continue to save for your future. Between now and next 10 years, how much do you want to have in the bank on top of what you already have so that your 40s can be spent doing the things that you love and less doing the things that you feel like you have to do to make money to support yourself. Because maybe you do have, instead of one year of runway, you have three years of runway. That doesn't mean you're just hanging out, but you're doing the things that you want to do and not chasing the money. You have created this question for yourself, this amazing safety net, but I do think that as you go through the years, you want to pay attention to the fact that when you hit 50, and 60, and 70, you may not want to work as much and you may want to go down to — you may want to dial it back to 50%, 30%, ultimately 0% of the work that you're doing now.

What is the money that you're going to need in your 50s, your 60s, your 70s? There's a lot of calculators out there that can help you with the math strategy part of this, but you've come to me hopefully wanting more of a mindset and a thought process behind all of this. If I were you, I would continue to invest in the ROTH. If you can also, the 401(k). Perhaps additionally a brokerage account. I have one where I maxed out my SEP IRA. As far as retirement accounts with tax benefits, like a good IRA, I'm sort of tapped out, so I got to go to the brokerage accounts, which are not necessarily retirement portfolios. You can access this money sooner than 59 ½, but you don't get the tax benefits per se. But there, I've created a diversified portfolio of low fee funds with the intention that I'm not going to use this money until my 60s, so I can be aggressive in my portfolio allocation. That's it. That's sort of the general advice that I would give you. I think it's so great. It's so awesome actually to hear from an artist to say, to declare, "I am financially comfortable." That is So Money. That is So Money, Kim. I'm so happy for you, inspiring proof that you can be a creative, and pursue a passion and be financially successful. Thank you for sharing your story.

We're going to round out this episode with a home buying question, another home buying question. But this time about a second property. Our listener asked this, "Farnoosh, I really enjoyed your latest episode on buying a home in this market. My husband and I bought a single-family home in 2017. Now, we're thinking of buying an investment property. We thought about that for a while now and my question is this. Do you recommend buying an investment property in this market? We want a multifamily home, but of course, the prices have shot up in the last year. If we do decide to make the leap, what should we be aware of? We put down 20% on our home and I believe for an investment property, you need to put down at least 20% as well."

You're right my friend, that when it comes to borrowing for a second property, banks are far more critical of your finances. This is why. Because if let's say you lose your job or for whatever reason, you can't afford both of the mortgages, which mortgage you thinks is going to fall to the cracks first, or which house is more likely to end up in a foreclosure? It's often that second home, because it's not your primary home. Why would you give up your primary home if you could can first just give up the vacation house or at the rental property? Banks are aware of this, and so they do want you to have more skin in the game. Usually, 20% if not more from a borrowing standpoint, some things to just be prepared for.

The math you really want to do for yourself is to calculate your monthly expenses related to paying the mortgage, the taxes, the maintenance, all of it and have a real understanding of what you can potentially rent this home out for. So look at what rents are currently in the market, also keep your eye out for things like job growth in the area, the number of people that are moving in versus moving out, all of these trends are critical and informative because it may give you a sense of what are the long-term rent conditions in your market. You want to buy an investment property in the market ultimately where the rental market is brisk and that prices are at worst stable at best growing. Some people have had more success creating a net positive cash flow through Airbnb, you can usually earn more on a nightly basis, on a per night rate than sometimes like for the month. But it depends on the type of landlord you want to be. Do you want to entertain a new person every night or every week, or do you want to have that one family that, one tenant every year and just keep it a little bit more consistent that way?

This is an oversimplification. Obviously, I'm not an investment property expert, but I've done so much research on this. I've even had an investment property at one point, so I do know quite a bit. And at the very minimum, you want to be doing this sort of math of cash outflow versus cash inflow. Then you got to think about what is my time worth. We don't often talk about that. So yeah, you might be netting out $75 a month, but is that worth your time. When you factor in things like being on call, having to deal with tenants, which may not be your jam. If it's $500 a month, maybe that's more worth it to you. You have to figure out what is worth it to you. It's not enough just to be like a dollar positive every month. You want to be positive enough where this feels like a worthwhile project, an undertaking in addition to an investment.

Then last, an investment property ideally appreciates in value or stays flat, so let's assume you are cash flow positive every month, but let's say your equity in the home, the value of your equity plummets or drops because your market suddenly becomes a buyers' market not a sellers' market. This is something else to keep in mind if you ever have to sell the property and what you pay today turned out to be less in the moment that you want to sell. That can potentially erase whatever cash flow gains you've made in the years prior depending on how severe the drop in value is. So kind of map out these worst-case scenarios. Let's say your cash flow is $500 a month, positive and you're like, at minimum, I am sticking with this property for five years. If your home value drops 10%, in other words, your equity, your cash out is 10% less than what you put in, will you walk away still profitable? What about a loss of 20%? What about a loss of 15%?

Play these scenarios, worst-case scenarios. As I say, go to the dark place and understand what you may face in the worst-case scenario. That's a lot of it, but I would also recommend two podcasts for you, two financial experts for you. One is Paula Pant, Afford Anything. She is a foremost expert on investment properties and rental properties, so check out her work. She's got a podcast called Afford Anything, a blog called Afford anything. Then of course, BiggerPockets Real Estate, where everything they talk about on that podcast is about investment properties, really smart, smart conversations happening on that show.

That's a wrap my friends. Thanks so much for tuning in. My goodness, we got five questions in. Thank you for sharing part of your day with me. It means a lot. Stay tuned for my big announcement coming soon. If you've got any guesses, let me know. It might be fun to share some of the guesses along the way. Thanks for tuning in, everybody. I hope your weekend is so money.

[END]