EPISODE 1196

So Money episode 1196, Ask Farnoosh.

[INTRODUCTION]

ANNOUNCER: You're listening to Money with award-winning money guru, Farnoosh Torabi. Each day, you get a 30-minute dose of financial inspiration from the world's top business minds, authors, influencers, and from Farnoosh herself. Looking for ways to save on gas or double your double coupons? Sorry, you're in the wrong place. Seeking profound ways to live a richer, happier life? Welcome to Money.

[INTRODUCTION]

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FT: Welcome back to the show, everybody. May 7th, Friday's Ask Farnoosh. I am Farnoosh Torabi. Thank you for joining. Our family is celebrating one year this week in our new home in the suburbs. What a year right? To think about the duress, under which we moved a year ago to the suburbs from New York City. We have no regrets. Many of you know, if you follow me on social media, the newsletter, the podcast, that it's been a year of transformation and a different lifestyle, a different pace, managing a house. Whereas before, we had an apartment. I can say with certainty now, that this was not a bad move, not a bad financial move. Later on, we've got a question in front of the audience about when to get determined to buy a home. When do you know it's time for you to buy and how much time should you spend working on that goal?

We're also thankful that we bought our house before this real estate frenzy took off. We literally bought this house, or we put an offer on this house in March of 2020. Around the time, when everybody was starting to go into lockdown, the stock market was plummeting, we felt there was so much uncertainty in the world. Yet in that moment, we made a huge financial and life decision, which if you know, I wrote about it, and I wasn't sure at the time if it was going to pan out.

I thought, well, I could look back on this and go, “Yeah, that wasn't so smart. Or maybe it will have been the best decision ever.” It was the latter. We didn't do this on a hunch, really. We had our financial ducks in a row. We knew we had to move. It had been in the works for several months. It wasn't this knee-jerk reaction to the pandemic, which is important. You never want to make a knee-jerk reaction when you're making such a big purchase, or even small purchases. Especially a home, there is no return policy, like there is with a pair of shoes from Zappos.

All this to say, my heart goes out to anyone right now looking to buy a home. I don't feel so bad for sellers, because y'all are just – you're making out like bandits. Good for you, go have that retirement of your dreams. Buyers, my goodness, I do think that what I'm seeing in our neighborhood and in our town is similar to around the country.

There was that funny video that I posted on Instagram, this parody of the real estate market, comparing it to auction for an apple, just a plain apple, going for a $120. It is a hyper-emotional time right now for so many buyers. There is not enough inventory. That's the real big problem. People wonder like, “What's going on?” It's its inventory. It is a low supply, and a much higher demand. It's historical how low inventory is. Of course, the low interest rates are spurring interest in home buying and of course, the pandemic and this new normal of how we're working and where we have to be to do the job that we have.

We don't have to be necessarily in New York City, or in San Francisco. A lot of people are migrating. You know what I thought was interesting, the biggest migration out of New York City, or I should say out of Manhattan, a lot of people thought maybe it was Florida. A lot of people moved to the Hamptons. Oh, fancy Brooklyn. Brooklyn is on fire right now. I just saw listing for a 1,400-square-foot home. It's 1,400-square-feet, y'all. It has three small bedrooms, an average sized kitchen, a nice backyard, in a very cool, hip area of Williamsburg. I'll give it that. 2.85 million dollars.

I think we've lost our mind. I think that is officially it. That listing for me summed up the market right now. I wish that we held on to our Brooklyn apartment just one more year and sold it today. You got to move on with your life. I have never had regrets about timing my real estate purchases and my sales. Of course, there's always a better time to sell, or a better time to buy. You got to move on with your life. You have to keep things moving, because sure, you could hang on to stuff, hoping that you'll get a better sale price, or maybe you'll get in at a lower price. Then in the meantime, what's your plan?

We needed to move. We wanted to be happier sooner rather than later. If it meant this trade off of not being able to sell in a peak market, well, you know, the thing is when it's a peak market and you're selling in that market, it's great. Then if you also have to buy in that market, you're back to square one. It's never going to be ideal from a financial standpoint when you're buying and selling so close, especially in the same area, where prices are all high.

Let's go to the iTunes review section and pick our reviewer of the week. This person, as always, will get a free 15-minute money session with me. This week, we're going to say thank you to FilLeon311. Last Friday left a review called Helping a Widow Out. She says, “I have been listening to this podcast for a month and a half. I'm 36. My husband died almost a year ago at 38-years-old. After his death, I was entitled to his life insurance and his 401k. I started listening to Farnoosh, because I want to make sure that I'm being extremely smart with this money. My husband was all about saving for our house and our retirement. Now, I need to do that for myself. Thank you for this podcast. Any advice as to the best way to use this money?”

Well, let's talk about it FilLeon311. Thank you so much for reaching out. I'm honored to know that you're in the audience, especially helping you maybe a little bit during these really challenging times. I would love to connect. Email me, farnoosh@somoneypodcast.com, or direct message me on Instagram and let me know you left this review. I will give you the link for us to have a chat. Thank you.

Anyone else who'd like to speak with me one on one on the phone, yes, the phone. Remember that? Just leave me review and there's a good chance I'll pick you, because I don't get a million reviews every week. I get a few and those are good odds. Leave a review and hopefully, we will be talking soon. Or just leave a review and you don't want to talk to me, that's fine, too. Let me know what you think of the show. Most importantly, let me know what you think of the show.

Just quickly reviewing the week, we had some outstanding guests on Monday, Melissa Houston. Got to give Melissa so much credit for coming on the show and talking about her experience

with financial infidelity. She, being the one who was committing the act of financial infidelity in her marriage, racking up six figures worth of credit card debt.
Now get this, Melissa is a financial expert. She's a certified public accountant. She is a business finance coach. Yet, she found herself in this predicament. She takes us through that, the emotions, what led her to it, the aftermath. Real honest conversation. It reminded me of why I started this podcast in the first place, was to have these stories be told, not because we want to air out people's dirty laundry, but because I think it really humanizes the financial life experiences that we have. Hopefully if you're listening, you might not feel alone, or you'll feel inspired, or you'll just appreciate the storytelling.

Then on Wednesday, for all my listeners in the audience who consider themselves sensitive, our guest, Melody Wilding has good news for us. This is a superpower, she says. Sensitivity, especially at work can be a force for you to excel. Of course, people who are sensitive don't always feel strong. They were told, “You're an oh, too sensitive, or maybe you should get over yourself.” Well, Melody is here to prove us wrong and show the science behind why this is a superpower. Please listen to Wednesday show with Melody Wilding. She's got a new book out detailing all of it, called *Trust Yourself*. It's available everywhere. Just actually came out this week.

All right, it's mailbag time. Let's go to that question about when to buy a home. Behnaz asks, “Hey, Farnoosh. When should we get determined to buy a home?” I suppose the question really is about how many years to work backwards. Everyone's timeline is going to be different. I think, it first helps to understand what will be required of you to buy a home, or what will be required of all of us listening on this podcast to buy a home, for the most part. If you've got a boatload of cash, you can probably skip to the next question.

For a lot of us, we're going to have to finance the purchase, which will require a down payment and getting approved for a mortgage. This is what you'll need to have. When I talk about having your financial ducks in a row. You might have all this stuff in a row as I speak, or you don't and it will take you time. Depending on where you are in your financial life, it could take you six months, it could take you six years. Depending on also what your goals are. Do you want to buy a starter home? Do you want to buy your forever home? What's your budget? All this stuff will have to be taken into account.

At the minimum, you're going to need cash for a down payment. I know that you can get FHA loans for very low down payment, first time buyers. Some of us will qualify. In this current market, it's going to be a little bit harder to get a home, to get the offer accepted if you don't have – if you're not showing the strongest financials. Sellers are really picky. I mean, obviously, they're going to favor cash offers, but they will prefer the buyer with the highest down payment, because it is a better sign of that deal probably happening, that that person has the money in the bank. They will get the mortgage. There won't be hiccups along the financial process.

I really recommend having not just also for the ability to be attractive as a buyer to have a higher down payment, because it's good for you as the owner of this home to have more skin in the game, to have that nice chunk of equity. As the market fluctuates, the price could be really sell her now, but it could plummet, it could go down 10%, depending on what's happening in the world.

It's always nice to know when your head rests on the pillow at night that you do still have some equity in your home. You're not underwater. You also want to show that you have money coming in. This is going to be a big part of your underwriting. When you're getting approved for the mortgage, you're going to want to make sure that you have a steady job, they'll want a letter from your employer saying, “We're not going to lay you off tomorrow.” The bank will also want to see about two years of tax statements. Same goes if you're self-employed, because that's also an indicator of your business's strength. Are you profitable? Are you making money? They're going to want to see a balance sheet. They're probably going to want a letter from your accountant, or whoever does your bookkeeping and credit score. Your credit needs to be good, if you want to get a good interest rate.

Right now, the best interest rates are going to those of us with credit scores in the healthy 700s. 720, 740, 760. If you got that, you will probably get the lowest possible rate. Those are the financial elements. If you're listening to all this and you're going, “Check, check, check, check, check,” well, you got a head start. You might not have to wait the many years to start to feel prepared to buy a home.

Of course, the other part of this equation outside of the math is the mindset, right? Do you want to buy a home? Why do you want to buy a home? What are the reasons? Feeling prepared. It should not be because your mother keeps calling you and wondering when you're going to buy that house. It shouldn't be because all your friends are doing it, and so you should too. In my book, those aren't really equate to logical reasons why we should want to buy a home, or feel the urge to start preparing to buy a home. It's a personal life choice.

Do you want to become a homeowner because you want to set down roots? You don't have plans to hop around, you want to own an asset, which may or may not appreciate, but over time, probably you'll build some equity and that is something that's important to you, do it for you. In addition to having your financials ready and rocking, you also need to feel like, “Okay, this is what I want.” Start envisioning yourself as a homeowner. It's going to be an adjustment.

That's also why it's important to give yourself that time. I'll tell you what, when we moved out of Brooklyn to the suburbs, I had already been a homeowner, but it was that jump from city life to suburban life and also leaving the city, which I had been in for almost 20 years. Lots of great memories. The city had been so good to me. We had our kids. It was just full of positive, positive experiences and memories.

I felt a little bit like I was abandoning that. Moving on is always bittersweet. It was emotional. I'm happy that I gave myself a good nine months between putting our house on the market, selling the house, finding a new place to adjust psychologically. That's my parting advice for you, is if this is going to be a real 180 for you, because of not just you're going from renting to owning, but it's a lifestyle switch, right? It's a culture switch, perhaps. Then, give yourself some time. There's no rule that says, you have to buy a house by 30, or even by 40.

Just do it because it's the right time for you and you're really the only person who can judge that. I hope this was helpful in giving you some sense of the things you'll want to prepare for to be ready to become an active participant in the real estate market. Good luck, Mehnaz.

All right, a retirement question from Natalie. She says, “Hey, Farnoosh. I'm an avid listener here with an important 401k question. I'm 36-years-old, ex-chief-of-staff for a member of Congress. Now I'm a real estate agent in New Jersey. I still have my 401k with the Thrift Savings Plan from the House of Representatives. I have about $200,000 so far. The TSP has low fees and it is growing, but I can't contribute any longer. My question is, if I should transfer that money to a new 401k, or a traditional IRA in order to contribute, or should I leave it in the TSP, let it grow, maybe increase risk and wait until 65, or just start a new IRA? I want to make sure I maximize this money and that I have it in the right place for growth."

All right. Natalie, you bring up some really important points here. You want to do something with this TSP. By the way, for those of us who aren't familiar with TSPs, they're like 401ks. TSP stands for Thrift Savings Plan. It's a tax deferred retirement savings and investing plan. It's for Federal Employees, usually. The same type of savings and tax benefits that many private companies give their workers through the 401k.

The fact that the TSP does have low fees, as you described is attractive. Sometimes 401ks are dinged, because the fees aren't that great. What you'll get with a 401k a lot of times is an employer match. Regardless of what happens to this TSP, we'll get back to that in a minute, I want you to open up this 401k through work. If you have it available to you, especially if there is a match. Even if there's not a match, I still like it, because you can automatically contribute from your paycheck. Before your money hits your checking account, it's one less step to saving for, or investing for your retirement.

That, believe it or not, can make a huge difference in our ability to stay the course. A 401k, while maybe the fees aren't the best, the variety of funds aren't vast, as vast as an IRA, that you open up through a brokerage, it is a bit more of a tailored offering. I like it. I like it for the automation. I love it for the match, if it's available. If that is possible, open up the 401k.

Now when it comes to the TSP, the first thing I want to find out, or you should find out is how different are the fees. Is this a situation where the fees are just absolutely stellar? You have to do the math. When you compound the impact of fees on your TSP versus, let's say in your 401k, what is that difference? Because this is not going to probably be a little bit of money. Even though maybe, let's say your 401k on average is charging you a fee of 1% a year. If the TSP is 0.01%, or even 0.50% times the next 30 years. With that, you said $200,000 in there, that's a significant amount of savings.

While you may not be able to add to this TSP, the act of leaving that money in there growing at a low-cost, a lower cost is significant. The only downside and maybe trade-off. Downside is harsh, but the trade-off here is that your investments will all be under one roof. That's fine. I mean, I have multiple accounts. It's possible to keep track of everything now through the advent of technology. You can download an app that will be able to migrate all of your accounts, so that you can view at least all of your balances in one place and always have that eye on the TSP, so it doesn't become this thing that you forget about, or stop seeing the value of. That's a way to circumvent it, to keep it from being a little bit less of a cumbersome thing to have these multiple accounts.

It's just work with an aggregator to see all the accounts in one place, at least. Do find out more about those fees, because that could really be the smarter choice in the long run is to keep the money growing. Yeah, I think perhaps, dialing up the risk adjustment of the portfolio to have it be a little bit more aggressive and just ride out the next, I don't know how old you are. Oh, you're 36. Ride the next 30 years. I think that could be a really good plan.

If you are working with a financial advisor, this is a great question for an advisor, to give you some sense of where you're going to see the most savings. You could do nothing for now. When you sign up for that 401k at work, find out what the fees are. If it's comparable, then maybe do migrate the TSP over the 401k. If it's different enough and you've done a bit of the calculation, that compound growth calculation, you might see that leaving money in the TSP could be a savings of tens of thousands of dollars over the next 30 years, maybe even more. All right. Good luck to you and thanks for your question.

Next up, "Financial advice on TikTok? Farnoosh, what are your thoughts?" I have no thoughts, everybody. I am not on TikTok, as you may know. I did download it the other day and I tried to do a video and I couldn't get it to work. I think that's just the universe telling me to stop. Stop while you're ahead. I can't be everywhere. I really do believe in educating 14 and 15-year-olds about money. Maybe I'm not the person to do it. Frankly, TikTok, it has its limits. If you're only getting your financial advice from "influencers," "experts" on TikTok who have nothing else to show for their work, I question that. I think that's dangerous.

I believe, with anything you want to educate yourself on, you should have a diverse approach. A little bit of TikTok, some books, some podcasts, joining a club maybe, talking to friends, watching some videos, going to a seminar. It's an Important to diversify your educational experience. It's more enriching. There are more chances of filling holes that way, finding out what your true path should be.

There's a lot of charlatans on TikTok. On social media, there are a lot of fraudsters as on all platforms. You really need to vet your sources. If TikTok is going to be the carrot for you to get introduced to money and investing, fantastic. I think it's serving a purpose there. It should not be your one-stop destination. To be honest, I was afraid of even downloading TikTok for the longest time and I'm still not sure if I should have it on my phone, because I don't know. You read things.

You got to find your lane. Now, maybe I'm speaking more to the experts here, but you got to really just find your lane, your lanes. You don't have to be everywhere. I want to be helpful to people. I want to be accessible to people, but it's not important for me to be all places all the time. I think there is truth to spreading yourself too thin. I know my audience is not on TikTok. I mean, I watch TikTok after they're posted on Instagram, on Twitter, but I'm not really a user of TikTok and I think that my listeners, maybe you're not also a 41-year-old mom of two, living in Montclair, New Jersey, but we have a bit of a similar mindset maybe around money. We like a lot of the same things. TikTok's just not making the cut right now.

By the way, what happened to Snapchat and Clubhouse, right? There's so much so many platforms that come and go and I really hope TikTok comes and goes. Those are my true thoughts. Those are my true thoughts on that. I was actually quoted in the New York Times about my opinions around this. You can check out the article from last week's New York Times. I think it was last Thursday. It was just an article about how a lot of young, young people, like 12, 13, 14-year-olds in this country are looking to TikTok for investing advice and getting in on the excitement, which is great.

More people that can get educated about investing at a young age, I'm all for that. Let's hope TikTok is really more of a launching pad for them to get into some more serious, thoughtful, factually correct material and platforms around money and investing. Those are my two cents. Thank you for listening to my TED talk on TikTok.

Last but not least, Kathy says, “Hey, Farnoosh. You know, I don't like to read books, or attend conferences. Do you have any alternatives on how to learn how to invest, for a person who is afraid of investing, because of maybe losing money, and I have no idea how to manage my 401k. I really suck at investing.”

Well, first of all, Kathy, do not allow these imposter syndrome thoughts to be taking up space in your head rent-free. It's not that you suck at investing. It's just that you're not participating in investing. No one expects you to be excellent at investing before you start. If we all had to wait until we were knowledgeable and excellent, we would not have any money for retirement, we would not be growing any of our money. The point is not to become intelligent about investing before you start. The most intelligent thing that the most important, the most intelligent step you can take when it comes to investing is starting, even when you don't have all the answers.

Let me repeat. The intelligent move is to start, even when you don't feel smart about investing. The way that you do it is important, right? It's not about like, going on Coinbase and starting a Dogecoin portfolio and putting your life savings in that. Although, we have seen the headlines everywhere about certain people getting rich off that. That is making news for a reason, people. It is not mainstream. It is completely outlier.

Most people are better off starting a diversified portfolio that invests in stocks and bonds and commodities, through a workplace 401k, through a Roth IRA, a traditional IRA. I know that's not sexy and I know that's not going to make the headlines. What I just said is not newsworthy, but it is worthy to you as you're listening to this show to know the truth. It is important. I don't want to be another sensational podcast host, or TikToker, who's making fun of us for having a long game in mind.

I can appreciate the appeal of crypto, but it is not to say that if you don't do it, then you're not smart, or you're not really an investor, or you're not really in on the trends. Listen, my friend, open up a 401k at work, automatically contribute from your paycheck. Start wherever you can, ideally work your way up to 10%. Take advantage of your employer match. If you don't have a 401k, no problem. Open up a Roth IRA, or a traditional IRA at literally any bank or brokerage that you like.

I like Robo Advisors, because the fees are less than a human being managing your money. If you go to a portfolio manager to do it, it's going to be more expensive. If you go to any of these websites that we talk about on the show, and I'll list them again, there's Wealthfront, Betterment, Ellevest, Charles Schwab, Prudential, Vanguard. Pick your flavor. Most of them have a 0.30% cause that is taken from all your assets under management every year, regardless of whether you make or lose money, but it is significantly less than working with a human.

The technology will build the most beautiful portfolio for you after taking into account your needs. You're going to ask like, when you want to retire, what's your risk tolerance? You can actually say in a lot of these questionnaires that you don't want to take a lot of risk and they'll bake that in. You don't have to feel intelligent about investing before you begin investing. In fact, that is the dumbest thing you could do.

The smart thing is to know that you have to start early, you have to start and that there are vehicles out there to help you start responsibly and get you on track. Along the way, you can continue to learn. I mean, we are all building the plane as we are flying it. I am still learning about investing. I tell you what, I'm not waiting to put my money in the stock market. Because I believe in the long game. I believe that if I start today with a little bit of money and let it ride for 20 years, that I'm going to end up better than I am today, than if I even wait five years to start, because the compounding really works best when it has time on its side. The only thing that would be a bummer is if you let this mindset be a roadblock for you to investing.

That's our show. Thank you so much for joining. If you have any questions for me, the best way to get in touch is Instagram. Follow me there @FarnooshTorabi. Send me a direct message. You can also go on the website, somoneypodcast.com and click on Ask Farnoosh. Leave a voicemail. Send in a question. I really look forward to hearing from you. Send me your questions. We need them. You produce this episode. You. This is your show. This is your time to get the knowledge you want. I hope your weekend is so money.

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