EPISODE 1218

[EPISODE]

[00:00:31]

FT: Welcome to So Money, everybody, I'm your host, Farnoosh Torabi. It is June 25, 2021. Thanks for gathering here for another edition of Ask Farnoosh, where we're going to answer your money questions. We've got some good ones this week about how to budget for a home when you're living in high cost of living area, how often should you check in on your investments and what about REITs, real estate investment trusts. There are some interesting reasons why this may be a good investment category, but of course, diversification is key, but we'll get into REITs in just a moment.

But first, some really big news. If you've been following me on social media or my newsletter, this is old news. But if you are just catching up, I got a book deal y'all. Yes, this is very big news. It's not the news that I was holding onto sharing with you, for now, it's been many months. Hopefully that will come momentarily. That other news has been many, many months in the making. This news, this book deal has been all probably in the making for my entire life but in the last three years has gotten turbocharged and here we are, it's called *A Healthy State of Panic.*

You may have heard me talk about this book. I often downplayed it because I was insecure about it. It was a bit of a passion project, it had nothing to do with money, but also everything to do with money. For me, writing this book although it's not done yet, it has been a complete creative outlet. And I encourage everybody, if you are thinking of doing something creative and you are trying to rationalize it because it doesn't have anything to do with your day job, or it's going to take away from your day-to-day responsibilities, make space and time for it because I just think only good things can come of it. I thought to myself, if I don't get this book deal, but I've written this book proposal about my life and the learnings. Listen, if nothing else, it's been cathartic. I feel like I've been to therapy. It's been an incredible experience going back through the days and the events of my life up until this point to try to connect some dots, all with the hope of providing readers with some strategies, some insights, some funny stories to get them through wherever they're at the crossroads of.

This book, *A Healthy State of Panic.* It's sold at auction and I sat in my home in disbelief when my agent called me with the news. It's funny, you go through a lot of surprising moments in your life. There's not like putting something out there in the world, and feeling like it gets validated. This book was validated by editors at Simon & Schuster who saw in me despite Farnoosh being this personal finance expert, like really believing that I could write this creative book that is more or less a memoir and believing in me. It reminded me of this quote that I read the other day that said, may you attract people who understand you on a deeper level, who genuinely want you to succeed, who are happy for your abundance.

If you can attract these people and exclusively these people in your life, you're going to win. Like the road is paved, and I have felt that way throughout my life and in particular, at this juncture, where people who I didn't even know, who just knew my work, who read the proposal, who met with me once and said, "Yes, we're going to bet on this woman." I owe it all to these people. I owe it to myself for getting myself to this point, but getting me over this hurdle. I just didn't know what was going to happen and the best happened. I got a book deal. It's going to come out early 2023, which means I got a lot of work to do to write this book, but I cannot wait to share these stories that I've been holding for all my life.

You know what? This entire journey started with taking a huge chance on myself. A few years ago, I dabbled in standup comedy. I took a course, I saw an opening for an evening course in Manhattan and I took it. I joke the first night that I showed up at this class. Everybody went around the room like, "Why are you here? What brought you here?" I said, "Look, it's two hours on a Wednesday that I don't have to answer to any children. That's why I'm here. Ha ha ha." Little did I realize that that experience was going to catapult me to a new place in my career, and in my life and really push me to do the thing that I think I was always wanting to do. I've always wanted to tell funny stories, be out there in a bigger. Not just talk about money but talk about life. I hope that this book will, for me, selfishly be that bridge.

For you and people who don't even know me yet, maybe this book will be a way for you to feel seen and understood. If nothing else, a breezy book that will get you to laugh all the way to the end and see life through the lens of a woman who grew up totally scared and a woman who is continuously scared, always looking over her shoulder, texting my husband late at night about how to dole out my life insurance just in case I don't make it until the end of the week. I literally do these things. They're funny and they need to be told, because if we don't laugh, we cry.

Anyways, stay tuned for more updates. This is just the beginning. I can't wait to keep you along for the ride. Thanks again to everybody who has supported me over the years. This book is really dedicated to each and every one of you.

All right. Let's go to the iTunes review section and pick our reviewer of the week. Every week, we pick somebody from the review section, the ratings and reviews section to get a free 15-minute money session with me. This week, we're going to say thank you to Sweetness the Third who writes in and says, "I started listening to Farnoosh in early 2021." Oh, a new listener. "It has been great to listen to her guests and financial advice during the past six months. I read a number of books from her guest and they have increased my knowledge of the financial world. Her advice is individual and I like her take on crypto. The finance world needs more people like Farnoosh that move away from the shame game and encourage people to create actionable steps towards financial independence."

Well, thank you, I appreciate that you like my take on crypto although it's not much of a take. It's just mostly, don't buy into the hype. If you didn't check out our crypto week from, I think it was a week or two ago, check it out. Four dedicated episodes to cryptocurrency, blockchain, bitcoin, all of it. Had some fantastic guest on who really broke it down simply, digestibly. Sweetness the Third, email me, farnoosh@somoneypodcast.com or direct message me on Instagram. Those are the two best ways to get on my radar. Let me know that you left this review and I will promptly respond with a thank you and a link for you to sign up for a free 15-minute money session for you and I. Thanks so much.

In case you're still catching up to the podcast this week, we had on some fantastic guest. On Monday, we spoke about affording parenthood while working with author Daisy Dowling, who is a 20-year Wall Street veteran who now coaches working parents, helping them to get to the top of their game. She's also a mom to two young children. She's got a book out called, *Workparent: The Complete Guide to Succeeding on the Job, Staying True to Yourself and*

Raising Happy Kids. Our discussion revolved around, obviously, how to afford parenthood, how to maintain a structure that addresses the needs both at home and at work, how the pandemic has changed the culture around working parents, mostly the good stuff that came out of the pandemic, so check that out. That was on Mondays show.

Then on Wednesday, why and how to be proud of your privilege with Hitha Palepu, a good friend of mine. She's an entrepreneur, she's an angel investor, she's a mother and she's also an author. Her next book is called, *We're Speaking: The Life Lessons of Kamala Harris.* It's going to be out this fall. But for our discussion this week, a lot of it focused on privilege. Hitha is the first to say, she grew up basically on third base with a supportive family unit, resources, wealth and now continues to have those resources. Her parents are still very much a part of her life and supporting her and her now family. She's open to talking about it. She is a privileged individual. She is also extremely hard-working, so we talked about what motivates her.

Because there's often this perception that if you grew up with resources, if you grew up wealthy, if you grew up privileged that your successes later on in life, "Well, they are bound to happen." We feel almost less worthy of them sometimes, or we feel guilty about that or others make us feel that way. A really interesting conversation with Hitha, so check that out on Wednesday show.

[ASK FARNOOSH]

Now, let's go to the mailbag and answer your money questions and get everybody who wrote in. You can easily include your question for our Friday shows by direct messaging me on Instagram. I check there every day for the latest and greatest questions. You can email me, you can go to the website as well at somoneypodcast.com. Click on the button that says Ask Farnoosh and you can either leave a voicemail, or type your question, whatever you prefer.

[00:09:52]

All right. First, Meredith writes in and she says,

[00:09:54]

M: "Hey, Farnoosh. I'm thinking adding REITs to my portfolio of mostly broad index funds to diversify. What are your thoughts?"

[00:10:03]

FT: Okay. This is a very specific question. Let's take a minute and define REITs for everybody. REITs, what are they? Real estate investment trusts. That's an acronym for real estate investment trusts. There are over 200 different kinds of REITs and these are holding companies, that own or finance income producing real estate across a range of property sectors. There's a single-family, apartment rental. There are even mortgage REITs, where the holdings are residential development projects. Right now, a lot of REITs have been doing well because the price of real estate has gone up.

But again, there's 200 different kinds of REITs. It's really important to do your research. Maybe start with the type of sector, the type of REIT that you are most interested in if you are more bullish on let's say, single property versus other types of property. That may be where you focus your efforts. You can look at websites like Morningstar, Yahoo Finance and the websites for these REITs to get their prospectus, to look at their historical charts. There was a really great article recently on REITs at seekingalpha.com. I'll put the link on our website, where they sort of break down what's going on right now in the REIT.

What I thought was interesting about that piece was that, a lot of us may think because of the pandemic, and many people working from home and not transitioning back into a workplace, that commercial real estate REITs aren't doing well, but there is a forecast that they will continue to do well, that maybe now is a good time to get in, because they've been selling off. But that, the work culture is gradually going to go back to an in-person workplace culture. If you think about a company's expenses, real estate, rental space is not the biggest cost sometimes, depending on the company. It's not the sort of thing where companies just completely abandoned leases or are no longer going to take on commercial leases. This might be an area to get in a little bit lower right now as the market changes.

But like all investments, you want to do your research, you want to be diversified. Great that you have this portfolio of broad index funds. Fantastic. If you want to put no more than 10% of your investment dollars towards this space, I think that is prudent. You don't want to do 50% REITs, right? This is an alternative asset class. Investing less than 10% of your money in this space makes it so that if this sector crashes, your overall portfolio is going to take on a severe hit. But this is a really great interesting sector.

We've talked about real estate investments on and off on the show, and alternative to REITs is to work with a company like Goodegg Investments. Goodegg investments was cofounded by two women, Annie Dickerson and Julie Lam. They've been on this show. I think it was Episode 841. You can go back and listen to our conversation, where they talk about why they started Goodegg Investments, how it works. You can go to goodegginvestments.com to learn more. But basically, they take your money and they then go with their team and invest across the country in many different types of real estate ventures. Multifamily units, single-family homes, et cetera, et cetera. They are very transparent about what they invest in. There is a minimum to participate, so you want to make sure you're comfortable with that minimum. But it's another way to get into the real estate sector.

I find that Goodegg and companies like Goodegg are best suited for those investors who are interested in creating cash flow, but don't want to be landlords. Would rather give money to other people to go in and invest in these properties that have their own landlords and then reap some of the cash flow incentives. Thanks for your question Meredith and good luck.

[00:14:11]

Speaking of investments, a friend of the show asks, "How often should you check in on your investments?"

[00:14:17]

Okay. This is an interesting question because I use personal capital. This is not an endorsement. This is just being truthful about what I use. This is an app that I use, a free tool to look at my net worth and all of the related accounts every single day. I have it on my phone, I check it multiple times a day. When I'm waiting for a Zoom call to start, I'm usually on personal capital. If I'm waiting to pick up my kid in the car, I'll take a look at personal capital. Maybe it's just me, but I think I'm not alone. I think if you listen to the show, you get me, you do this probably yourself one-way shape or another. With that, I'm essentially checking my investments multiple times a day, but I'm just looking at the bottom line. I'm just looking at the fluctuations. I'll notice for example if my net worth has dipped. I'll go right to the investment section and go, "Oh, yeah, the market is down and move on."

For me, it's more of a way to figure out was this drop in net worth my fault or something that is out of my control like the market. For me, it's just a way to check. I don't make knee-jerk moves based on this. I know myself. I can control myself. This might not work for you if you are highly emotionally charged and seeing your investments drop 10% in a day would prompt you to make an impulsive move. If that's you, don't do what I do. Instead, check your investments perhaps quarterly or biannually.

Items to review when you do check your portfolio, really when you take a relook under the hood is to make sure, one, that everything is still well-balanced. You can sign up for auto rebalance usually depending on the platform that you're using. To make sure that if the market does have a rally or a pullback, that your asset allocation, that your weight in stocks, and bonds and all the other asset classes is where you need it to be to address your risk tolerance, your retirement horizon, all of those things. So that if the market has a rally, you're not more invested in stock suddenly, because all of those price values went up. The portfolio auto rebalance is for you to make sure they are always say, 60% stocks, 30% bonds, 10% cash.

The other thing you want to look at and this is something that I did several years ago. You just do this once. You look to make sure that all of your investments, all of the funds have relatively low management fees. Investing in mostly ETFs and index funds will solve for this. You don't have to be too worried. But once in a while, there may be an exchange traded fund or mutual fund that is more actively managed. In that case, you might notice that the fee or the expense ratio as it sometimes called is above 1%. I would look very closely at that investment. Is it worth it? 1% annual fee may not seem like you're losing a ton of money, but you got to remember that this is an investment that you're going to contribute to over the years. It's going to compound.

That fee is also going to compound. It can be money that you don't need to be spending. You might be able to find a comparable find that has a lower expense ratio, a lower fee.

I did this once early on when we were working with a financial planner and I let her pick all my investments. She had me in a few funds that had expense ratios of over 1.5%. I thought, "Whoa! What are we doing her? Do we really need to be in these funds?" I think I saved tens of thousands of dollars over the years by getting rid of those and putting more money towards these low fee index funds. Index funds typically have expense ratios that are fraction of the cost/

[00:18:03]

Robert is up next. He says,

[00:18:05]

R: "Hey, Farnoosh. I'm pretty good financially. The only thing is my student loans. How can I manage this without having high monthly payments?"

[00:18:14]

FT: All right, Robert. I know these student loans are such sticking points for so many people. You feel like you've really made progress with your savings, with getting out of credit card debt. But these dang student loans, they just won't g away. There are only a few options here, Robert, but they are all good options. You may have already explored these, but you didn't tell me, so forgive me if these are already things you're familiar with. But maybe others listening will want to pump up the volume here.

Firstly, you could try to refinance to a lower rate. The goal here you say is to bring down those high monthly payments, make those monthly payments smaller to give your budget more wiggle room. You could try to refinance the debt to a lower rate. Fortunately, interest rates are low right now, I would to this sooner rather than later. Because with inflation, my guess is that rates are going to go up at some point and probably in the next year. I would start with your existing lender and see what options they have, but definitely shop around. You can go on-site like NerdWallet and Bankrate to look for competing rates.

You may also want and I know this is not maybe music to your ears, but you could pay an extra principal payment once in a while to your loan balance to knockdown the balance. Very important to put it towards just the principal and not principal plus interest to not make like an extra payment, which will include interest. But to really just put money towards the principal as an additional payment, make your monthly payment as instructed. But if you have extra money for the first few years to knock down just that principle, eventually your monthly payment should come down and you'll pay less interest over time, your term will shrink.

You may also want to look into if these are federal loans, income-based repayment, ibrinfo.org. Income-based repayment is the most widely available income driven payment plan for federal student loans. It's been around since the last recession, since 2009. It's an Obama era provision. This can help you lower your loan payments, make them more affordable with payment caps based on your income and your household size. Income-based repayment or IBR will also forgive remaining debt if any after 25 years of qualifying payments. You can check it out again at ibrinfo.org. This is exclusive to federal student loan borrowers and how it works, how they decide what your payments are going to be, they use a sliding scale to figure out how much you can afford to pay on your federal loans.

If you earn below 150% of the poverty level for your family size, then your required loan payment will be nothing. If you earn more, then your loan payment will be capped at 15% of whatever you earn above that amount. There are calculators on the website. There's an application you can apply and find out if you qualify. I would highly encourage you to go down that route if you do have federal loans and they are really hard to manage.

[00:21:19]

Last but not least, a listener wants to know, "How do I figure out my housing budget in a high cost of living city?"

[00:21:28]

Okay. Well, we know the rule of thumb, right? Generally, housing costs, whether that's a mortgage, rent. If it's a mortgage, add in your taxes, your insurance, your utilities. Thirty percent of your take-home pay is a good rule of thumb. You don't want to spend more than 30% of your take-home pay on housing-related costs. If you make $10,000 a month, that's $3,000 a month. If you make $5,000 a month, that's $1,500 a month on housing. Some of you are listening and want to throw your phone against the wall or your laptop or wherever you listen to podcast. Because this is just not doable in some parts of the world. This includes New York City. This include San Francisco, Los Angeles. This listener did not say where exactly he or she lives. But if it's New York City, even with rent coming down in the last year, it could still very easily be 30%, 35%, 40% of your take-home pay. Do you not live in these cities? Some decide not to.

But I chose to stay in New York City and the way that I made it work was, I found alternative housing accommodations. When I first moved to the city, making $18 an hour before taxes back in the early 2000. I lived with a married couple in a rent subsidized apartment, had my own bedroom obviously with its own bathroom, which was a real perk. I paid $550 a month and did that for two years and I saved my money. You could live with many, many roommates. You could have a longer commute to work or you could try to not take on a job that requires you to show up every single day. Maybe you come in twice a week so that you could afford to live further out and just dedicate part of your week to the commute because commuting is no fun. Some people like their commute.

But I will give you permission to spend up to 40% of your take-home pay on rent if it means that you're going to be able to get the sort of job that you can't get anywhere else, the sort of opportunities that you can't get anywhere else. Frankly in New York City, that city while it is a pain in the butt financially to make it work, the opportunities that are in that city, the people you're going to meet, the responsibilities that you might get at an earlier age are unmatched in my experience. I remember some advice I got early on in my career was that, if you get the chance to work in New York City, do it even if just for a year. Because the networking, the experience and the salary that you'll make in New York City is very competitive.

Then you go to whatever other city and you've left New York but New York hasn't left you and you're an attractive candidate the next place you go. You can command a higher salary. You have your network and your Rolodex from New York City to lean on. There's nothing quite like it. I encourage you to give yourself that chance to live in that high cost of living area, but you want to make sure that you're getting something really invaluable out of it too. Also, that it's not going to sink you further into debt. If you're going to spend more than 40% of your take-home pay on housing, then I would assume that this also means you can feed yourself, you can pay your bills, you can make ends meet. It may mean some serious tradeoffs, but if working in your industry and being successful and rising through the ranks in your industry really does mean dedicating some of your career to living in a high cost of living city.

This are big life decisions that we have to make. They're very personal, but it's also where these rules of thumb, where spending no more than 30% of your take-home pay should not stop us positive. They should give us pause, but they shouldn't stop us. We should give us pause to recalculate, re-strategize, reflect. And if we're still hell-bent on living in that city, let's go for it and make it successful. One last thing I'll say about living in high cost of living city is that, I didn't just have one job, I had multiple jobs. It encouraged me to find many revenue streams.

Again, thank you New York. If I was living in rural Indiana, I don't know if I would have been as motivated to make more money. I really want to take New York up for all that had to offer and there was a high-ticket price for that, so I worked. New York was fertile ground for those extra jobs, so I'm optimistic that you can make this work. You have to really commit to it, understand what you want to get out of it, how are you going to make this an investment. If you are going to spend a lot on rent more than you are planning to, more than anywhere else in the country, what are the trade-offs that you will have to make in your budget? Some things will have to give. It may mean not going out as much. It may mean cooking more. Like for me, going home on the weekends and living with your family to curb the temptation of going out in New York City, giving up a little bit of my social life. But it worked out and it can work out for you.

Thanks everyone for hanging out with me this Friday. Really appreciate your commitment to this show and for all these questions. Remember, you can always reach me on Instagram @farnooshtorabi. You can email me, farnoosh@somoneypodcast.com. See you back here on Monday and I hope your weekend is so money.

[END]