EPISODE 1338

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FT: So Money is brought to you by CNET, the site that shows how to navigate change all around us. So Money episode 1338, Ask Farnoosh.

[INTRO]

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FT: Welcome to So Money, everybody. I'm Farnoosh Torabi. It is Friday, April 1st, 2022. We are back to our regularly scheduled programming, where it's just me and you, your questions, and a lot of honesty. I know the last four weeks we have been dedicating these Friday episodes to answering money questions at the intersection of women and money. Our sponsor, Prudential, made that possible, brought on board every Friday a Prudential Financial expert to talk about everything from planning, investing, retirement, insurance. If you missed those episodes, please sure to go back and take a listen. I know those were not the typical Ask Farnooshes, but I was really proud of that partnership. We were able to help a lot of people, bring on great experts who normally charge money for their advice and their time, and they were giving it to us for free. So thank you to Prudential for that partnership.

But we're kicking off April 1st, April Fools', with a brand new Ask Farnoosh. I've been gathering your questions that have come in through all of the channels, Instagram, email. We are not going to play any pranks today, although it is April Fools'. I'm not really a prankster. I don't really like pranks. I think I'm just scarred because my mother was a huge prankster growing up, and I was always caught off guard. In fact, in my 30s, even in my 30s, my mother got me. She came to me one day. We were visiting my mom and dad in California. My husband and I, we were still dating at the time, and we were about to get married or we were hoping to get married. We are hoping to get engaged. At this particular gathering at my parents' house, my husband or Tim was going to ask my parents for my hand in marriage.

I know what you're thinking. Why are you suddenly a character in a Jane Austen book? Well, the reality is Iranians love formalities. They love formalities. They love etiquette. They love feeling as though they have a lot of authority in decisions that maybe they don't have authority in, at least in my family. My mom definitely wants to feel like she has the final say in things. So I just knew that doing this would make them happy, and it would be a smoother ride for all of us. Well, why am I even telling you this? I thought you might find this interesting. So we're at my parents' house. Tim is in the kitchen. I know he's going to be in the kitchen talking to my parents about this, the fact that we want to get married, and he'd love for them to bless our union, da, da, da. I'm in the guestroom, trying to act like I don't know what's going on. That this is all Tim, but really this is me channeling the expectations of my Iranian parents through Tim out into the world.

I get a knock on the door. My mother has come to find me. I'm thinking to celebrate, to say, "Oh, my gosh. We're so excited for you. Of course, we said yes." She said, "Farnoosh, did you know Tim asked us for your hand in marriage?" I was like, "Oh, my God. What? What's going on? How is this the thing that's coming out of her mouth?" Of course, I knew. We had practiced it all on the flight coming over there, every syllable of every word, how he was going to do it. I was coaching him. Of course, I knew. But I played dumb, and I said, "I don't – What?" She said, "Well, we told him no." In that moment, a dumpster fire was lit. I just felt like everything that I had been working towards, this idea of being with your one and only, your true love, the freedom that that could unlock for you in your life, completely shattered in that moment.

It was a joke, y'all. I got out of the bedroom. She said, "Let's go talk about it." We went and found my husband and my dad, who are now sitting outside on the patio. Tim was looking down at his feet. My dad was smiling, smiling. I got so angry. I said, "What are you smiling about? This is not a happy moment for me." Then everybody started laughing, and they said, "Oh, just kidding." It wasn't April 1, but it was April. So I'm going to say this was an April Fools' joke but also what my mother does. So now, maybe you know why I am the person that I am. I'm constantly looking over my shoulders.

Speaking of looking over my shoulder and being skeptical, the world is in flux right now. Would you say? The economy is moving in all sorts of directions. I don't know what to make of it. So usually, when I'm left with a lot of uncertainty, I over index on covering my bases. I fill up my gas tank last weekend. It was $70. That's easily $15 more than it was this time last year. The grocery store, forget it, people crying in the produce section. I mean, starting to get a little jittery about the economy, not just because of what's happening with inflation. But what we're seeing with regards to globalization and pathways being blocked, trade lines being blocked as a result of the Russia-Ukraine war. That's so serious, and it is trickling down to our daily economic lives. There's a lot more at stake, of course. People's lives are at stake.

But when it comes to our financial livelihoods too, this is something that I'm looking very closely at. I'm looking at the yield curve. I'm looking at unemployment rate. I'm looking at inflation, obviously. I'm looking at where interest rates are headed. I'm just kind of sensing what everyone's mood is right now. I'm hearing from audience members. There are economists who are suggesting we might be headed for a recession. I don't want to be an alarmist, but I am somebody who listens to her fears very, very closely. I will just give you some behind the scenes of what's happening in my life as I'm absorbing all of the things that are happening, reading the news closely.

I said to my husband the other day, I said perhaps we should apply for a home equity line of credit, a HELOC. A lot of banks are out of this business now. It's not super lucrative. But rates are going up, and so maybe they're going to be coming back into the marketplace as banks can make a bigger spread on these types of loan vehicles. Essentially, we moved into this house in 2020. It's been two years now almost. In that time frame, home prices have escalated. Our home has appreciated since we bought it. We were very lucky. We're not moving, but we have all this equity, and I don't want to ever think of my house as an ATM machine. I don't –
My parents sort of did that. The previous generation would take equity and pay for college and pay off debt and all the things. It's just – I want to not do that.

But I do want to prepare for World War III. Here, I'm using air quotes. I don't really think we're going to have World War III but like the worst worst-case scenario, where I don't even know what's on the other side. I don't even know what that means. But it's just bad, and we've depleted our emergency savings. We need to break open glass. The HELOC can be the fire hose in that glass container, where we might take out a portion of our equity. It would be a very low rate, compared to using a credit card to pay for things. I mean, who knows? What if, God forbid, one of us gets really, really sick, and our health bills become insurmountable, and health insurance is not really there for us? This is happening to friends and on top of that a fragile economy.

I just feel like when there are opportunities to leverage debt cheaply, you might want to. Taking out a HELOC doesn't mean that instantly you are in debt, right? You only owe on it once you start to draw on it. So I'm just telling you. That's what I'm thinking about. I'm thinking about that. I'm thinking about taking care of everything that we have, ladies and gentlemen, because replacement costs, they're already very high. They're going to continue to soar, especially for electronics, vehicles, appliances. If you have any big ticket items in your home, take care of them. Get the warranty or just do what you can to reduce wear and tear because I'll tell you another story recently. I got into a little bit of a car accident. Nothing crazy. Nobody was hurt. I hit a truck that was parked on the street with its front tires jetted out, and then the tires had these long sharp spikes coming out of it.

So I was driving kind of slow. I was approaching a red light, and the side of my car brushed up against that tire of that truck. So it flattened my tire. I scraped some of the metal on the car pretty bad. Long story short, I had it towed. I got it to the dealership. I started a claim with my insurance company. My fault, I get it. The initial estimate was $3,000. After my deductible, it was going to be like $500 for me. Come to find out a week later, the car goes through a more proper inspection, and the garage is saying that it's going to be now 10 times that price because they have to literally readjust the frame of the car. There was some damage to the whole frame of the car, and the suspension has to get replaced.

Now, the insurance company is saying, “It's not going to be $500, Farnoosh. We are totaling your car because the cost to repair the car is going to exceed the value of the car.” Right. Well, I'm not having that. I did some research. First, I called the garage. I said, “Can I bargain with you? Can you bring this down? Do we need all the bells and whistles to get this car back on the road and running?” It's a lease, so the answer is we need to get it to perfect because the dealership is going to expect that when you return it. Okay, point taken. But I also felt like they were upcharging me, and labor costs are really high right now because of inflation. Park costs are really high right now because of inflation. Had this accident happened a year ago or two years ago, I'm convinced it would not have been this expensive.

Okay, fine. You got to charge what you got to charge. So then I went to the insurance company, and I said, “I don't agree with totaling this car because the car is actually worth more than double what the price of this repair is.” They said, “We understand, ma'am. But we have an experience with this garage, where they tend to – At the very end of the repair, they'll upcharge you, or they'll say, ‘Oh, there was an unexpected cost,’ and then we're worried that this estimate is going to become even more at the end of the day.” I leveled with the guy. I said, “Do you know how hard it is to find a car right now in this market? By the way, I know what you're going to do. You're going to take this car, you're going to fix it up a little bit, and you're going to put it on the market and probably make a profit. So I know how you're going to benefit. But how am I going to benefit? Aren’t you supposed to be looking out for me? Who’s looking out for me?” When I said that, he said, “I'm going to make this work. I understand what you're saying. It's a tough market out there. I get where you're coming from.” He sighed, and he said, “I'm going to call the garage and I'm going to make this work.”

Ladies and gentlemen, the check is in the mail. The insurance company is sending me a check to repair my car. Now, I'm probably never going to drive this car again because I'm so scared now that I'm going to get a fender bender or a flat tire, and then this whole debacle is going to repeat, and I'm not going to be so lucky. But my lesson to you is just this. Take care of your stuff. If you have a car, treat it like it's a diamond ring because to repair it, to replace it, to buy a new one, good luck. I was just talking to our car editor at CNET. I was exploring all my options. I was like, “What can I do?” He goes, “Honestly, Farnoosh, there are no cars that are readily available right now. If you want to drive maybe a Ford-150.” I was like, “Say no more. Say no more.”

This is my soliloquy, my TED Talk for this Friday. Take care of your stuff. Start to think about how to recession-proof your life. Not to be an alarmist but always good to be thinking worst-case scenarios. And please don't play any April Fools’ pranks on me. I'm still traumatized. We're going to tackle a lot of good questions this week. As always, housing, real estate. We're in the thick of buying season right now, so somebody wants to know how the heck she's supposed to navigate and save up for this debacle of a real estate market that we are in. We have a listener who wants to know how to invest for fun, F-U-N. That’s a thing. Apparently, you can invest for fun. What to do if your company doesn't offer a retirement plan and any risks to refinancing a car loan right now. I'm going to answer all those questions. I'm going to answer those questions in just a moment.

But first, let's go to the iTunes review section and pick our reviewer of the week. I'm going to pick two reviewers this week because we are a little behind on this. My apologies, we did not pick a reviewer of the week the last four weeks, as we were doing those special episodes. But we're going to say thank you to two loyal listeners. The first is breathe-In, who left a review on March 18th saying that, "This show is a plethora of financial information. Love it." This is what breathe-In says. "I'm so thankful for this podcast, Farnoosh. My time is very valuable, but it's never wasted when listening to your show. Thank you. Thank you. Thank you." Thank you so much. Let me know you left this review. You can do that by either emailing me, farnoosh@somoneypodcast.com. You can direct message me on Instagram and just let me know you left this review. I'll follow up with a link so that we can chat and talk about whatever's on your money mind.

I'm also going to say thank you to someone who left a so-so review, an Avid Listener 1.618, who left a review last Friday, who says, "Unfortunately, in 2022, Farnoosh has become just another shill for the financial services industry with episodes that resemble infomercials for Prudential." So I suppose this person was not happy with our episodes the last four Fridays, where we combined efforts with Prudential. That's fair. I hear what you're saying. I have a different opinion, obviously, and I know that many people did write in saying how much they loved the episodes. I thought it was so detail-oriented and insightful and an opportunity to hear from somebody who normally works one-on-one with clients. I get it.

So to make it up to you, would you like to hang out and have me help you with anything that's on your money mind? This reviewer seems to have been a loyal fan of the show for some time and now is questioning that. So I want to make it up to you to do the best I can. Let's get in touch. Email me. Again, farnoosh@somoneypodcast.com. Or direct message me on Instagram and don't be shy. I'm serious about this. I want to be with everybody. Whether you love the show, you're meh on the show, you hate the show, like this is important to me. I want to understand where everybody's coming from and do my best to help you.

All right, moving on to the reason we are all here, answering your money questions. First up is Taylor, who sent a message through the So Money podcast website. You can go there, click on Ask Farnoosh, and enter your question. She says, "Hey, do you suggest someone save or invest for a home down payment in a market like we're in right now? Home price inflation is bananas, and bank accounts are paying 0%. So where do I put my money? Do I save for a house? What is going on?" A lot of questions and rightful questions. This is not a typical market. This is not a "normal market," largely because of economics. What we have is a lack of supply, a lot of demand. When you've got that in the housing market, in the car market, at the grocery store, what you will see is inflated prices. We have inflation, and that is absolutely affecting the housing market, in some ways more than other kinds of markets.

Does this mean that Taylor should abandon her goals of ever buying a house? No. But right now, if she doesn't have her finances locked down, if she doesn't have a lot of capacity to go in with high bids, and doesn't have a lot of cash and willing to part with that cash to compete in this market, then this is not a healthy market for Taylor. I'm sorry to say, and I'm not sorry to say. You know that sometimes it is healthy to stay on the sidelines. You're watching everybody else. All the cuckoos go out there and try to bid 50% above asking price. If they can afford it, good for them. I also don't want to hear it from them, if their home value depreciates in the next few years, and they're left with an underwater mortgage.

I want to say remember that time when you came in with a suitcase full of cash at an open house. Remember when you cashed out your emergency fund, and you said, "I have no other choice. I have to buy this house." You didn't have to buy this house. You can rent. You can buy something smaller. I was actually in conversation with an economist last week. I was in South Carolina at the Red Ventures headquarters for a leadership summit, and I had the opportunity to interview Tim Quinlan, who is a senior economist, and I asked him. I said, "What do you say to people right now who are adamant about buying but feeling extremely stuck, feeling as though they just can't?" They may have done all the right things. They've saved up for the down payment. They have a good credit score. They have stable jobs. They have all the normally right ingredients for qualifying for a home and winning a home.

He said, "Truthfully, it's about readjusting your expectations." If you are insistent upon buying a home at any cost right now, you may end up with something that you don't love. You may end up with something that's way out of budget, and that's not fair to you. That's not fair to you today or in the future. So he suggested that you stay in the game to the best you can. You look at homes, perhaps not in the price range that you were looking last year. Maybe you bring it down a notch. Truthfully, there may not be a lot of inventory at that price point. So you can't control what you can't control. You can't ask people to put their homes on the market, although people are trying.

So this is a really weird market. As I said in my second book, *Psych Yourself Rich*, at the end of the day, it really helps to have financial philosophies to hang your hat on. Maybe one of those philosophies is I don't engage with crazy. I don't engage with crazy. What's happening right now in the market, in the real estate market, is, in Taylor's words, bananas, and it's not my fault. I've done everything right. I'm going to let the crazies do their thing. Then when the market opens up, when there's more inventory, when prices come down, when things seem a little bit more "normal," then I will engage. So, Taylor, continue to save for your down payment as you would, with the expectation that maybe you're not going to strike with that down payment this year. Maybe next year.

I always say there's never any harm in saving for a big goal, even if that goal changes. What you're left with is still a lot of money that you wouldn't have had normally. So thankfully, you have a goal to work towards. The goal might change. But at the end of the day, you'll still have the money, and then you'll find something else to do with that money that might at that point seem more aligned with where you are in your life and what you value. Where to put the money, if you do want to buy in the next five years, which I think over the next five years, things will adjust and hopefully be more beneficial to buyers, you don't want to put this in the stock market. I wouldn't put this in an index fund. I would put this in a high-yield checking account or savings account, maybe an I bond. I wrote about I bonds recently at CNET.

Basically, one option if you're not trying to beat inflation but trying to do a little bit better than what the market is offering, the average of point nothing percent. I bonds are a relatively secure government-backed investment sold directly to the public. You can go to treasurydirect.gov. Learn more about them there. Purchase them there. The current I bond savings rate is a little bit over 7%. So not bad, right? But the caveat, of course, is that they're not as liquid as bank accounts. You have to stick with the account for at least a year. While you can technically withdraw your money, after that, you do risk forfeiting the last three months of earned interest. But after five years, you can take out the money without penalty. So it's really more for those who want their money to mature for at least a year but best for five years, and there is a limit as far as how much you can save on I bonds. It's $10,000 per year. So I don't know what kind of a home down payment you're looking to save up for but look at I bonds. Maybe a place to leave your money safely, knowing that it'll be there for you and will have appreciated quite nicely in a year's time.

All right, let's help out our friend, Sarah. She's got $30,000 of fun money to invest. Her goal is to use it for things like vacation, a greenhouse, build a greenhouse, some outdoor projects. She says the money is currently sitting in her checking account. She's not trying to double the money or anything, but any suggestions for where to invest it, so it's doing a bit better than a savings account. So, Sarah, all right, fun money. Just want to make sure we have our other investment bases covered. You're investing for retirement. You've got other big goals in the next 5 to 10 years covered, as far as how much you might want to have for them or start saving towards them. Wonderful if you're now in a place where you've got tens of thousands of dollars to invest in your life, the fun things. This greenhouse is going to bring you a lot of joy, outdoor projects. Fantastic. You may not want to use all of this money right away, so you want to put it somewhere where it's earning something. But you want it to earn better than the nothing percent that we talked about with our friend, Taylor.

I did mention I bonds. I hope you're taking notes because that's one place you might want to think about investing some of this money, saving some of this money. There are also high-yield accounts, which I know aren't that high-yielding as they sound sometimes. But we have talked about neobanks on this show. These are digital-only banks. One example is Current. A lot of times, these types of newer banks that are trying to attract customers and compete with the bigger institutions are providing much higher yields than average. So Current announced earlier this year a new high-yield savings account called Interest, and it gives users a 4% annual percentage yield. Those fields can change, of course. They're not locked. But interesting, right?

I would look into these neobanks, these digital-only financial institutions where the rates are usually between two and four percent, which is, again, like far more than what you might get at a traditional bank. I wouldn't put my emergency money in these banks, but I would put something like fun money in there. You want your emergency fund in something that is more liquid, that's hooked up to a stronger network of ATMs. Sometimes, these neobanks, they're fledgling, right? So they're not fully established. They're not everywhere. They don't have ATMs all over the place, and transacting might be a little bit more cumbersome. Even though they are digital, you may not have as many access points to your money. So just keep that in mind. Make sure that, of course, it's FDIC-insured wherever you're putting your money. So high-yield accounts, number one. I talked about I bonds.

I would also look at there are some accounts where you can get signup bonuses for opening up a checking account. For new customers, there are welcome perks around the market. In the banking world, for example, Chase Total Checking has a $225 account when you fund a new account via direct deposit. So just make sure that you follow the rules to earn these bonuses and just make sure that you are also keeping an eye out for any minimums that you're required to keep within these accounts because you don't want to get hit with fees, and then the bonus money just kind of empties out. Then lastly, there are right now very popular Treasury Inflation-Protected Securities, also known as TIPS, a popular bond instrument, where right now during periods of high inflation become very popular because the value of the bonds follow the rate of inflation. They're government-backed, so you're never going to lose the original value of the money of the bond, even if inflation goes in the opposite direction.

Now, you might already have some TIPS in your retirement portfolio. They're common add-ons to 401(k)s. But you can, again, buy these directly from the US Treasury Department at treasurydirect.gov. So those are some options for you, Sarah. Depending on when you want to access this fund money, keep that in mind as you choose where to place your money because, again, some of the things that I talked about, they have maturities. They have rules around how often you can deduct the money from the account without penalty. So just keep those things in mind. Everything comes at a price, right? If you want a higher interest rate, there's usually a catch.

Katie writes in. She says, "Hey, Farnoosh. I love the podcast. I've always found it super helpful. I especially love all the support and encouragement you give to women." Ah. So, Katie, I'm guessing you listened to our Friday episodes this month? Hope so. She says, "I have a very quick question about retirement. I'm a full-time employee of a company where we have about 15 employees, but our company does not have any retirement, none at all. I always hear about 401(k)s, but what can I do without that option? I already have a Roth IRA that I max out. But what else can I be doing to save for retirement? I make $100,000 a year. I've seen online things about solo 401(k), SEP IRAs. But it wasn't clear to me if these applied to me, since I'm not self-employed. Thanks so much.”

All right, Katie, sorry to hear that your company is slow to providing these benefits. Hopefully, as the company grows, and you all solicit for benefits, I would encourage you as an employee to band together with your colleagues to ask for what you want. Benefits are very important in terms of employee retention. So hopefully, this is on the top of your company's to-do list as it expands and as it grows and as it can afford these benefits for their workers. I hope that this is only a temporary thing for you. In the meantime, yes, great that you have a Roth IRA. That was going to be my first recommendation. I know that your company is a little lean on benefits. But if you're getting health insurance through your company, and if you're on a high-deductible plan, also see if you can attach to that an HAS, a health savings account. The HSA is multi-beneficial. What it allows you to do is set money aside on a pre-tax basis to pay for qualified medical expenses. Okay, so you can pay for deductibles, co-payments, coinsurance, other expenses, and it will lower your overall health care costs today. But also within the HAS, if you're not using this money, you can invest it too. In retirement, this can be an additional savings vehicle. So look into a possible HSA through your company's benefits.

It is true that you have to be a business owner to invest in a solo 401(k) Or a SEP IRA. If you have a side hustle that's bringing in revenue, and you want to incorporate and have that “business revenue,” that side business revenue funnel to your corporation, you can look into that because that can offer you some tax benefits. It can also make you eligible for things like a SEP IRA or a solo 401(k). For this, I would recommend talking to a tax expert, a business tax expert, to see if this is something that might be valuable to you. Outside of those things I just mentioned, a plain vanilla brokerage account is the next best move. I'm sort of platform agnostic at this point. It doesn't matter to me whether you come to me and say, “Hey, should I go with Ellevest or Wealthfront or Schwab or Fidelity?” At the end of the day, many of these successful robo advisors have a lot of great options for investors. They're tailored to the person and personality I find often.

If you're really looking to establish portfolios around multiple goals, you identify as a female, I mean, Ellevest is a great destination for all of those reasons. If you're more technical, and you really want to combine, for example, the old with the new, I like Schwab for that reason because you've got all of the history and experience and legion of experts at Charles Schwab. Then they've got their automated platform, which brings in the best of technology and data to help you create pristine portfolios. So really, there's no going wrong. I would just also check for fees. Do a apples-to-apples comparison for fees to understand what the cost of working with various platforms is, but just open up a brokerage account. In that brokerage account, you can self-select your investments. Or a lot of times, these automated platforms will give you a questionnaire. They'll ask you about your risk tolerance, your goals, what you're looking to do with this money, and will create a diversified portfolio for you that matches your timeline, your goals, your risk tolerance. A lot of times, what they choose for you are low-fee funds. Great.

Good news, bad news with brokerage accounts. Good news is you can take out the money at any point. You're not restricted to waiting till you're retired to take out the money. You don't have to wait till 59 and a half. Bad news, you do have to pay capital gains tax when you take the money out, unlike a Roth IRA, which you can take the money out no tax. Unlike a 401(k), where your contributions help to reduce your taxable income today, there's none of that with a brokerage account. But within the portfolio, you are invested in a very similar way as how you invested in a 401(k), a Roth IRA. So supplementing your investment portfolios with that I think is smart. I have one. I've had one for years.

All right, excellent questions, as always. It feels good to be back, just me in the mic. I really appreciate your questions. If you liked this show, please subscribe. Please send it to a friend. Leave a review. As you know, we pick someone every week or try to every week to receive a free 15-minute money session with me. You can direct message me your questions. You can email me your questions. You can go on the website and send me your questions. Make sure to follow me on Instagram because now I'm starting to do once in a while some posts podcasts that are only available on social. So if you want to get a sense of how I felt about a particular episode, sometimes I am so inclined to host something impromptu and go there and do that. Trying to make my Instagram a little bit more dynamic and engaging and fun, so I would love a follow. I'll see you back here on Monday, and I hope your weekend is So Money.

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