

EPISODE 1359

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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 1359, Ask Farnoosh.

[INTRO]

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FT: Welcome to So Money, everybody. I'm Farnoosh Torabi. It is Friday, May 20th. How's everybody doing? Hope everyone's having a good week, looking forward to the weekend. I looked at the weather app for New York City and New Jersey area. It's going to hit high 90s this weekend. It's too much. We've all been hoping for warm weather. It's like, "Weather gods, take it down a notch." It's not really what we're asking for, but have any of you looked at your portfolios lately?

Yeah. It was another rough week in the market. Talks of recessions are intensifying because now we're getting these earnings reports from key retailers like WalMart and Target that are saying, "Look, we had a lot less sales in the previous quarter because of inflation and high gas prices." If Target and Walmart aren't doing so great, and also in some cases, they lowered their forecast for the entire year, and so that could hint to a widespread drop in spending this year, and we know consumer spending makes up two-thirds of GDP, of economic activity. So the talks around a potential recession are intensifying. More economists, more market experts, more global CEOs are saying, "Absolutely. We're going to be headed towards a recession or we're in one right now."

I want to just take a moment to talk about this. We've been talking about recessions for a while now on the podcast. We dedicated Friday's episode to it. We talked about it again on Monday with our guest, money coach, Nicole Stanley. Right now, I just want to say, if you're worried, I don't blame you. But use this moment right now that we have, this little period as an opportunity to review your financial plans, and consider some what-if scenarios, and base them on previous recessions. Although every recession is different, there are some patterns. Typically, there is job

loss. Typically, things do get very expensive until they start to get inexpensive because we have high interest rates.

But then we have high interest rates. So if you've got variable loans, or if you're looking for credit in the market, things can get a little tricky. If you are worried about a worst-case scenario like losing your job, then now is the time to look at your balance sheet and say, "Do I feel comfortable with how much I have in savings? Could this help me ride out a job loss, a period of unemployment for many months?" If not, then now is the time to think about how you're going to increase savings. Maybe it's cutting back on spending, generating some extra income, negotiating with your billers. But start doing this now.

The one silver lining to all of the hype and stress around thinking about a recession that might be coming is to say, "Okay. What can I do? What can I control right now? I could sit here and just continue worrying. Or I could take this energy that I've got and pour it into a plan, a new plan, or a revised plan." I'm not going to say you're going to make that extra money tomorrow or cutting back is easy. But better to do this now than when we are in potentially a place of crisis.

What if the interest rate on your debt does jump because you have a variable rate student loan or a variable rate credit card, and you are carrying a balance on that card? The Federal Reserve is only going to continue to raise rates in this environment. Inflation is crazy high. They're calling it runaway inflation. So what can you do right now? You can look at potentially consolidating your debts to get that fixed rate and streamline your payments. Maybe you can refinance or transfer some balances to a zero percent APR credit card so that for the next 12 months, you can pay off that debt interest-free.

Then if you're a business owner or someone in the market for new credit, we know that in past recessions, some banks became hesitant to lend because they're hurting too. This can be troubling if your business relies on credit to expand or if you need a mortgage or you need a car loan. It's time to pay close attention to your credit score. That's the action, which is always important to be on top of your credit score.

But in particular, as we head into a potential recession, the higher your score, the harder it will be for a bank to say, "Sorry. We can't give you this loan or we're not going to give you the best rate." Then I also want to talk about the stock market. I started out with the stock market. It's

been in a downward spiral for many weeks, and I talked about this in an earlier episode, how I'm hearing about people pulling out, thinking about unloading their investments. I just want to say this. As tough as it is to watch your investments lose value, you must trust that over the long run, you're better off writing the market. If you have the benefit of time, then you can afford to play the long game.

I'm going to give you a piece of historical context. The S&P 500 crashed during the 2008 crisis. Who doesn't remember that? It did lead to many people exiting from their 401(k)s, unloading their investment accounts out of fear. What they should have done was think about an even worse-case scenario. If there's a worst-case scenario, then your investment's falling and by 40% in a given month or a given two weeks. It's that you exit that portfolio.

Then in five years, while you've left that money sitting in cash in a bank account, you are way behind on your financial plan, on your retirement plan. You might arrive at retirement with a deficit because here's what happened to those people who stuck for the ride in 2008. Five years later, the S&P 500 regained all of its losses, and then it continued to grow over the next 10 years in a bull run market.

By virtue of sticking with their investments, their portfolios adjusted. They bought in low again and did very, very well over the next many years, over the subsequent years. So, again, if you have time, play the long game. Lots more on this in our last week Friday Ask Farnoosh, so go back and check it out. It's doing really well. I think I might have hit – I may have really captured the zeitgeist there with that recession episode, and I don't think this topic is going away.

In today's calendar, So Money calendar, some of you have it right now, looking at probably on your desktop, May 20th, 2022, like I wrote this tip a year prior because that's how it works with publishing. You have to write long in advance before your book or your calendar comes out. So on Friday, May 20th, 2022, the advice is stay the course to maximize your returns, and I'll read the rest. One of the keys to being a successful investor is to avoid making any impulsive moves with your money when the market is dropping. You don't want to pull your money out selling at a loss, only to miss the gains when it rebounds. In fact, according to Fidelity Investments, those who stayed invested in target date funds during the 2008, 2009 crisis had a higher account balance by 2011 than those who reduced or stopped making contributions.

All right, let's pick our reviewer of the week. Head over to the iTunes review section and say thank you this week two sbpdc. Sbpdc left a review this week saying, "So Money is so right now. I started listening to Farnoosh and So Money in 2022, and it is so refreshing to hear financial advice with practical next steps, while taking into account real life variables that may mean making choices outside of the average financial guidebook. As a woman in her early 40s, I'm playing catch up on my investment and financial planning. Having Farnoosh as my partner on my money journey makes me feel empowered to drive my own destiny. I love the diversity of guests Farnoosh brings on the show and her honest discussions of all the incredible challenges individuals and society are facing. Thanks for the real talk and really smart episodes."

Well, thank you so much for being in the audience, sbpdc. I so appreciate this review. Makes all the work worth it because I feel like I'm really making an impact, and you get me. You get me. This is exactly my goal is to bring on diverse guests to talk about money, the intersection of life, and all of the constraints, and all of the questions that we have about race and climate change and gender issues and politics and how it all factors into our money moves. We are not making money moves in a bubble. We are not isolated. Everything matters. I love that you got me. I love that we're also probably the same age. Were you born in 1980? Because early 40s, that's me. Get in touch, okay? You can DM me on Instagram @farnooshtorabi. Let me know you left this review. Or you can email me, farnoosh@somoneypodcast.com. I will reply with a link that you can go to to pick a time for us to connect.

Guess what? All next week, it's audience week on So Money. I'm bringing on an audience member on Monday and Wednesday, different audience members, to help them with their finances. Yes, these are actually people who left reviews, and I said rather than in private giving you a free 15-minute money session, let's blow it out. Let's make this a actual episode, 30 minutes. We'll get to know you a little bit more. I'll be able to help you. But hopefully, through our conversation, we'll help everybody listening. So stay tuned for next week. It's going to be a special audience week on So Money.

If you want to participate in something like that, the best way is to leave a review. We don't have to make it an episode. I'm not going to force you to do it. We can definitely have a private one-on-one. But if you do like this show, the best way to support it is to leave a review. It's how we stay fresh in iTunes. It's how we attract new listeners. The show has been long running seven

years, but we get new listeners every single day, and I have to think that these reviews do help in that way.

Okay, I did something very different this week. I reviewed a TV series because that's what I've been doing. I submitted my book to my publisher, waiting for her edits, and I have a few extra hours a week to squander. So I've been watching some extra Netflix and Hulu and Apple TV and all of them. Getting my money's worth here. I watched WeCrashed, which is the dramatized story of the WeWork rise and fall.

Now, WeWork, of course, is still around. But when Adam Neumann, the co-founder and CEO was at the helm, the company went through an extremely turbulent time, had a very high high and a very low low. I watched it. It was eight episodes. I consumed it all in like four days. It was the sort of thing that left me with a lot of questions, and no one else in my household had watched it, and I really needed to talk about it. So I invited two good friends on the show, who also happened to be smart journalists who had watched it as well and also wanted to talk about it and didn't have an outlet.

So the podcast became the outlet. We talked about Adam Neumann, the co-founder and CEO, and what questions we would want to ask him today if we had the opportunity to sit down with him, like what happened. We talked about his wife, Rebekah Paltrow-Neumann, who was in some ways his muse. In some ways, a motivator behind the "Messianic" Adam Neumann that so many people knew him as. Incredibly charismatic leader who had convinced many of the WeWork employees that they were there to not just rent office space but to elevate the world's consciousness.

The company's IPO got scuffled. It went from a \$47 billion valuation to I think a \$9 billion valuation. Adam was forced to step out as CEO, and he walked away with a over \$1 billion golden parachute. Would that have happened to a female CEO? I don't think so. We get into it on WeCrashed. So that was Wednesday's episode. Be sure to go back and listen. If you watched it and want to hear what people thought, I mean, this is something I should do, by the way. I should just start watching more TV and talking about it on So Money when it applies. So many different shows right now touching on money and business, whether it's The Dropout, Inventing Anna, which I did watch, and I had a lot of thoughts on that one, but I feel like that ship has sailed. I'll keep my eyes peeled.

All right, today, we have questions from the audience about how to establish your financial life when you're a newcomer to the United States, and you may not know how long you're going to actually be here. What are the best brokerage platforms, best robo-advisors, how to make the decision? Should you really invest in your companies 403(b) or 401(k)? If you've got a pension, if you have a Roth IRA, if you have a brokerage account, like where does this employer-sponsored retirement account really fit into the grand scheme of things? Is it really worth it, especially if it's got higher than average fees? Then also a question about transitioning careers from a government job, a federal job to the private sector, how to make that transition.

Before we get to the mailbag though, I want to just read off a listener's feedback. This kind of made my week. I shared it with my colleagues at CNET because I was like, "Ladies and gentlemen, we are changing lives." So Jennifer wrote in and said, "Hey, Farnoosh. I am new to your podcast and so happy I found it. I recently watched your negotiation video on CNET Money in preparation for a pay raise talk. I used your templates for what to say. I was so nervous about talking to my boss, but I did it and I got my raise. Thank you so much. You make a difference in my life. Lots of love to you."

Jennifer, lots of love back to you. I shared this with my colleagues. We were partying in Slack. We were so excited, so motivated to get back in front of the camera to bring these videos to you. If you're not subscribed yet to our YouTube channel, youtube.com/cnetmoney, where twice a week we bring you fresh videos. This week, we talk about retirement hacks. The week before that, we're talking about how one woman in the pandemic turned a side hustle into a six-figure business. She was able to put her full-time job aside. If you've got a cool story that you think should be told on video, get in touch as well, farnoosh@somoneypodcast.com. Or direct message me on Instagram.

All right, let's get to your questions. First question is from Rebecca, and she wants to know whether it's worth it to invest in her employer-sponsored retirement account. We always talk about the value in a 401(k), the value in a 403(b). There's that tax deduction you can get. There's a potential match you can get. There's that automatic contribution which makes it super easy. So for all those reasons, generally 401(k)s and 403(b)s are highly recommended. But there are some caveats, right? If you have other options at your disposal, it's important to compare and contrast and see where your money is best put to work.

So, back to her question, Rebecca, she's 30 years old, she just started a new job that offers both a noncontributory pension plan, and the employer contributes five percent. So she's getting that. That's fantastic. Who has that? Rebecca. She also has a 403(b) from the employer. Here's the thing. She already has a Roth IRA that she maxes out. She's got ample savings in a savings account. She has a very modest brokerage account, she said. She's looked at the investment options for the 403(b). The expense ratios are not that high. She said, "But the company where I have my brokerage account has lower expense ratios. So does it make sense to contribute what would likely be a small part of my paycheck to a 403(b), or would I be better off putting it somewhere else like my brokerage account? Thank you so much for your help."

All right, Rebecca, this is interesting. I'm going to be honest. I'm not sure I'm going to have the exact answer for you, but here's what I'm thinking. Here's where my mind's going immediately after reading your question. So firstly, expense ratios are very important to look at, and this is actually one critique of 403(b)s and 401(k)s is that the expense ratio is maybe higher than what you would get at a brokerage firm, getting a plain old brokerage, opening up a plain brokerage account, brokerage portfolio somewhere else. The reason is, is because that 401(k) plan is very specific. Your options, while you have probably a lot of choices, it's relatively fewer choices than what you would get opening up an online brokerage account, where you might get several times more the options. So you have a better chance of finding those index funds, those ETFs that would have lower expense ratios. Expense ratios are really important.

Now, I covered this in the very first episode of So Money, very first. I interviewed Tony Robbins. He had written a money book at the time. This was 2015. We talked about how little attention people often pay to expense ratios. This is the price that you pay for investing in a fund that is taken, that is deducted from your investment every year. It appears to be this small percentage, like .1% or 1% or .5%. It's always like this like very small percentage, so we don't really care about it. We don't do the math. But we have to remember that we're investing for 20, 30 years, and that expense ratio, that fee, essentially gets deducted every single year as our money compounds. So that number amount goes up every year.

Over the course of the life of your portfolio, by the time you retire, those fees times all those different funds that you have adds up to tens of thousands of dollars, depending on the size of your portfolio, maybe even more. So it's really important to pay close attention because in the

long run, fees do add up, and they take a huge bite out of your retirement plan. In your case, Rebecca, I would say how different are those fees? Are we talking .1% versus .2%? Or are we talking one percent in your 401(k) or, sorry, your 403(b) versus .2%. If the spread is, I would say, more than half a percent or more than a percent, then I would go with the brokerage account. If it's small enough, where maybe you can even run some numbers, run the calculators, and see what you're going to end up paying more, for example, with that 403(b) in fees, you need to compare that to the tax savings of investing in that 403(b).

Because remember, the other differentiator between an employer-sponsored retirement account like a 403(b) or 401(k) and a brokerage account from an outside firm is that you're not going to get a tax deduction today when you contribute to a brokerage account. You will, however, get that with a 403(b). So what is the tax savings by investing your money in that 403(b)? Again, I'm not going to have the exact answer for you, but these are the immediate questions that I have based on your questions.

This is math that you could probably do on your own. You don't have to hire someone. You don't have to call anybody. But you could probably figure out. Like if I contribute this much money to my 403(b) this year, this is how much tax savings I will get because you're going to basically take that contribution, subtract it from your gross income, and that will lower your taxable income. So based on that new taxable income number, what will be potentially the tax savings? How much taxes will you pocket from that? Then you can also do the fee calculation on your own.

Just take one fund. Maybe there's an outlier there, looking at how much 1% fee versus .2% fee, what the difference is there over the long run, as your fund compounds and grows. But remember what I said earlier. The 403(b), it's an automatic contribution right out of your paycheck. There is a tax deduction. There might even be an employer match. If there's an employer match, which you didn't mention, so I'm guessing there isn't, but if there's an employer match, at least contribute up to that because then you'll get that free money. Now, whatever's left, invest in the brokerage account.

All right, I hope that wasn't too many questions for your question. But I appreciate this question a lot. I think that sometimes in our financial lives, you Rebecca, you understand the rules of thumb. You know that employer-sponsored retirement accounts generally are great. But then

you get to a point like this where maybe not because the fees are quite high, and you've already got this pension. You've already got the Roth IRA. Do you really "need" to be investing in this 403(b)? At that point, it's about maybe doing some more calculations and seeing where you're going to get the most savings in the long run. Good luck.

Sticking with retirement and investing, Marsha wants to know where to open up a Roth IRA. She's looking at two different online brokerages and wants to know how to make this decision. At this point in our lives, with technology where it's at, with what we know about investing and how it's important to not overthink it sometimes, allow the, I say, robots to do some of that work for you in terms of picking your funds and managing your portfolio so that you can just go back to running your life, which is busy enough already.

I like online platforms for all those reasons. When it comes down to which platform to engage with, everybody has the same information and is running on this same information that diversity is important, that low fees are important. What you may find across these different platforms, I'm talking, Fidelity, E-Trade, Charles Schwab, Wealthfront, Ellevest, the list goes on. The investor that chooses one over the other, a lot of times it comes down to two things, fees. So all of these sites will charge a fee for essentially managing that portfolio. It is always less than if you worked individually with someone in person like a Certified Financial Planner because it's automated. It's not as high touch, say. It's usually a third or a half the price of what it would be to work with a financial professional.

That said, that fee is not apples to apples everywhere you go all across the robo-advisor landscape. So it's important to be aware of that. That's one thing you want to look at closely. You might see .3% here, .25% there, a half a percent there. I'm not saying strictly look at this, and that's your deciding factor, but it is important. The other differentiator that I see across the robo-advisor landscape, which is important as you're making your decision, is to see where you might be able to tap into a human being. Work with an actual person when things get a little bit more complicated or you have a question. Does the site provide access to a person? Do they charge for this? Or is it included in your feet? Also important to know.

Then it's also about what options you have. What are the variety of funds that you have at your disposal? Now, I think that a lot of these platforms have many of the same types of funds or identical funds in some cases. If you are particular about certain kinds of investments that you

want to have access to, then that is another lens through which to evaluate which platforms to select. But at this point, these brokerage firms have many, many, many options. I don't think you're going to be running out of choices. The other last important thing to consider is the user experience. Do they have? Do they have an easy downloadable app? Is it user-friendly? I remember when Ellevest launched, and Ellevest really focuses on female investors, women investors. But, of course, they work with everybody. But they had the woman investor in mind as they were building the look and the feel of the site. Some people like it, and it has worked for them. I mean, the company is highly valued and has been growing very strongly over the years.

Sallie Krawcheck has been on the show. She's the founder. A couple of times to check out our conversations about Ellevest and her own mistakes, believe it or not. Even when you're Sallie Krawcheck, you make mistakes with money. But, Marsha, I don't have any strong affiliations or feelings about certain brokerage accounts or online brokers, robo-advisors. Go through that list of criteria. Fees, accessibility, access to a human if that's important to you, and the user experience.

Okay, switching gears now to a career question, a career transition question. A lot of us are in this space. We have the great resignation. Now, we have the great reshuffling, people trying to map out their new career paths. Libby is in that world. She says, "Hey, Farnoosh. I love your podcast. It is inspiring me to stop being afraid of finances and get my house in order. I work for the federal government as an intelligence analyst currently, and I recently got promoted. I'm finally making enough to start saving and investing after paying all my bills. My husband is a federal post worker, and as the family breadwinner, your book and podcasts really speak to me.

Well, Libby, thank you so much. That's great and congrats on the promotions. Here's her question. "I've realized that I'm never going to make enough money as a federal employee to get to a level of wealth that I aspire to. 10 years in, and I'm just barely living over paycheck to paycheck. Any advice on how to switch industries and make what I think I deserve to make? The idea of moving into project management or team leading an industry that's brand new to me is daunting, even if I do have leadership organizational skills."

All right, Libby. You started this question by telling me that you have stopped being afraid of your finances. So stop being afraid of your career. You have the experience, like you said. You have the skills. More importantly, you have the ambition and desire. You have that fire in your

belly. I'm going to tell you this. I have watched many people transition from not-for-profit or federal to the private market, to industry. I saw my own father go from universities to corporate and industry. I'm going to give you a little secret. The private industry world will really appreciate workers like you that come with the perspective of working in bureaucracy and really appreciating that and appreciating that maybe you were working for so many years, out of the goodness of your heart as so many in nonprofit world do. You have good moral compass. You bring an empathy to the workplace.

Thinking about not just, "Oh, this transition is going to be difficult. But look at all these gifts that I'm going to give this next employer. I have it all and then some." I hear this sense of maybe imposter syndrome coming through your question. Go back and listen to my conversation with Ruchika Tulsyan, who wrote all about impostor syndrome and how we have to get over it. If you, Libby, are feeling like you are going to have a hard time or this is going to be a difficult transition for you, this is my question to you. Why do you think that? Who's telling you this? Where are you hearing this message? How is it entering your system?

Because you just got promoted, so you know you've got it, okay? Something is going on, and we don't like it. So tell that voice to please exit the room and go get that job because you absolutely can. You absolutely deserve it. Now, I'm going to give you some other resources, now that I've gotten you totally hyped up. Maybe you want to work with a career coach. That's going to be some money. But there are free resources on line as well that you can tap into to read articles, follow people that give incredible TED Talks and live Instagrams even, who they might be able to answer your question about this sort of transition because you're not the first one who has done this, and you won't be the last. But the muse is really excellent.

My friend, Allison Task, has been on the show many times. She's a career coach, and she offers online programs. She does one-on-one. But if in your town, wherever you live, there are probably really great career coaches, career experts, following them online first to see what you can extract from them for free. Maybe they have books or free PDFs or online sessions that are free. Soak it all up. Make this your job, your second job to basically get this transition done. Tell yourself, "This time next year, I want to be working at a company." Good news too, companies are hiring. It's a great time to be looking for a job.

I know we're talking about a potential recession and that, of course, is not going to mean that it's a great time to look for a job for everybody. That some industries will be more harder hit than others in the coming months and coming years. But don't let that dissuade you. Your skill set is applicable to many different industries. I'm not worried about you, Libby, but I appreciate your question. Thank you so much for writing in. Thank you more for being in the audience, and keep us posted. I'm rooting for you.

Lastly, a question from Fatima, who is writing on behalf of a friend. She says, "Hey, Farnoosh. One of my friends is from Manchester in the UK. What sort of money advice would you give to a family who might be in the US on a temporary basis? They're not citizens, and they're probably going to be here for about three years and eventually become citizens." All right. Fatima, so nice of you to be asking on behalf of your friend. My advice is that wherever they land in this country to go to their local credit union and talk about opening up a savings account there. Additionally, they might want to check out this site called Nova Credit, N-O-V-A Credit, because in addition to securing their money here, we want it to be insured and in a savings account. If they have long-term plans here, and they want to, say, rent and buy a home and all the things, they will need an established credit history in America.

This is not always an easy thing to accomplish. This is one of the pain points of being a newcomer to this country and having to start basically from the ground up to build credit. In the meantime, you can't buy some important things like a car or rent an apartment. But I actually did an interview with one of the cofounders of Nova Credit. His name is Misha Esipov. It is a fintech company that helps to transfer your credit profile from, in your friend's case, Manchester to the US and create with the help of Nova Credit what's called a credit passport. Nova Credit has partnership with over 20 countries. I'm sure one of them is the UK. Essentially, the goal is that when this family friend arrives, in very little time, they will be able to start qualifying for credit. So I will check out that.

I don't really have any investing advice yet. I think when you're a newcomer to this country, it's important to get a job, start making money, start saving money, start paying your taxes, establish credit. I think those are the most important things. If they're working for an employer that offers a 401(k), then that's obviously something to look into. But it sounds like they may be more interested in more of these foundational items on the checklist. A local credit union or

community bank should also be a great resource for them. I would hope. All right, thanks for your question.

That is our show. Remember next week is audience participation week, where we're going to put an audience member in the hot seat. She or he is going to ask me questions related to money, life, career, all of it, and I will do my best to answer, hopefully help everybody else in the audience. Have a great weekend everybody. I hope your weekend is So Money.

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