EPISODE 1407

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[INTRO]

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FT: Welcome to So Money, everybody. It's Ask Farnoosh Friday, and I'm your host, Farnoosh Torabi. Happy back to school for all the parents out there, all the families. Some of you already started going back to school in August. I don't know how you do it. But this week in New Jersey, and for the most part, we put our kids on the buses, and we are very grateful here in our household to be able to say that it is back to school season. It's nice to get back into our routines. It's in some ways back to the real hard work of finishing the year strong and excited for our daughter, especially because she started kindergarten, and she's going to the big school with her brother, going on the big bus. She's just so excited. It's a really special time for her and also her brother, who can feel a little like he's got her under his wing, and he's been there, done that. It's really cute to see the two of them doing their school thing together.

Some news on my friend, some cool news. I started writing a weekly column at CNET called So Money Hot Mic. You know I have a lot of opinions, and I usually share them here on the podcast. But I thought let's reserve some real estate on CNET, where I can sound off on some of the financial issues, news, data trends, that I find to be a little triggering. The inaugural piece this week is about how I'm not a big fan of the buy now, pay later programs and plans. We've talked about this. Like I just don't understand why these programs exist. I mean, I get it. I get it. It's fertile ground for marketing to people right now who are struggling, whether it's because of rising costs due to inflation or the fact that you're a freelancer or a contract worker, and you may not get paid for another 90 days after you've completed your job.

Also, interest rates are rising. So we don't want to carry the debt on our credit cards. So buy now, pay later programs, and you've heard of them, you know the affirms, the after base, Apple's getting into this billion-dollar market. They allow you to pay for items, whether it's new clothes or sneakers, even groceries, in some cases, in bite-sized installments, four installments, interest-free. They don't really do a credit check in the beginning. If you are late, guess what? Your credit gets hit, and there's a fee. We're learning more about these programs and how convenient they are to a fault. Consumers are participating and spending more than they really should be and adding to our national debt crisis.

So I took aim at BNPLs and, of course, what happens next when you do that? The PR emails come through. Yes, the emails from the marketing teams and the public relations folks who represent these companies, emailing me saying, “Hey, Farnoosh. Saw what you wrote. I thought we could get on the phone, and we can like help you clarify some things." No, I know enough. I know enough. I know that not everybody falls into debt with these things. Not everybody's falling into an overspending trap. But I don't think we need these products, and I also think that the way that they are marketed and branded as these financial tools that can help you reach financial wellness and make all your consumer dreams come true, I feel like that's overselling it a little bit, under delivering on a promise.

Prepaid debit cards and check cashing services and credit card advances, I mean, these are all, you could argue, convenient, but they come with a price, and they don't necessarily help their consumer achieve financial wellness. If anything, they keep them in a cycle of poverty and in a cycle of having debt. I think there are better tools out there. I include some of them in my article. So I'll put that link here in our episode notes, where you can go and check out my inaugural piece for the So Money Hot Mic column, covering buy now, pay later plans. What do you think? What do you think? What am I missing? What am I missing here?

Preview of what we're going to have from the mailbag today, two questions about the post math of divorce and how to put yourself back together financially. Somebody wants my book recommendations for new grads. Is it okay to not max out your 401(k) and instead put money towards a brokerage account? I have some answers, some thoughts. First, though, let's go to the iTunes review section and pick our reviewer of the week. This person will get a free 15-minute money session with me. We have some new reviews since last we did this.

This week, we're going to say thank you to Amanda, who left her review on Friday, saying that she really loved the student loan episode, which was last Friday's Ask Farnoosh. I brought on two experts to help us navigate the new student loan elimination plan that Biden and his team have announced, that they're going to eliminate up to $20,000 worth of student loans for qualifying federal loan borrowers. There are many nuances to this rollout, and we had questions. So we had on some experts to help us with that. Anyway, Amanda was a big fan of that episode. Here's what she said. "Hey, Farnoosh. I love the show. I'm a 35-year-old OB-GYN with a mountain of student loan debt but hopeful goals for my financial future. Your show has been informative and encouraging. I listened to the show this morning and wanted to provide some feedback from the perspective of someone that did refinance with earnest."

Oh, so she also has feedback. "Personally," she says, "I love that the government is prioritizing student loan forgiveness, despite not benefiting. The one issue I have taken is that I have friends with household incomes over $400,000 that have not had to make a student loan payment throughout COVID, and this term is counting towards their 10 years. I did the math, and some of my close friends have saved over $100,000 during this time. One friend even told me she is able to buy her second home because of this. Their incomes and job security was not impacted by COVID, and I find that this is not equitable. I'm trying to stay in my lane and focus on my goals, but this has really upset me. Thanks for your great advice. I'll be listening every week."

Thanks, Amanda. That's interesting. I never thought of that, and you have a point. I mean, look, the bottom line is that when the government rolls out "bailouts," and this is technically a quasi bailout, whether they're doing it for institutions, industries, individuals, during COVID, there was also the Paycheck Protection Plan, PPP loan forgiveness. In theory, that was all supposed to help the people who needed the help the most. But we know that that is not what actually happened. So it does create moral hazard, and we talked about that in the episode on Friday. So if you haven't checked out Friday's episode, by the way, last week, please check it out. If you have student loans or you know someone who has student loans, forward it to them. It's really worth a listen and a re-listen.

I would love to extend you, Amanda, a free 15-minute money session with me. You can DM me on Instagram @farnooshtorabi. Or you can email me, farnoosh@somoneypodcast.com, and I'll be in touch with a link, and you can pick a time for us to chat. All right, I'm on TikTok now, too. I said that out loud. That is a thing. That is happening. I'm on TikTok, Farnoosh So Money. My goal is to really keep that consistent. Do a video or two a day. Maybe not on the weekends but I'm trying to build a new audience there. I have a book coming out within the year. I'm just being transparent. I have a book coming out within the year. I need to sell books. No, I want to sell books. I want to sell books, and I want everyone to like learn more about how to live a rich life.

So I figured let me go to TikTok and help some people out, especially since we know a lot of the TikTok creators and the fin influencers are 22 years old, and that definitely serves a purpose and serves an audience. But I'm like, “You know what? I got 20 years on these people, and I have some things to say.” So I've been on TikTok, and I'm trying to keep it really fun. I'm not overthinking things. I'm seeing what's trending, hopping on the bandwagon, doing those kinds of videos. Go there and learn more about me and how to make money, basically. Farnoosh So Money, TikTok.

All right, that was my plug for TikTok. Next up is our Recession Help Desk question. I am committed to this, everybody. I know we're not really maybe in a recession, but I am committed. So that when we are in a recession this time next year, we'll say, “Farnoosh was on it.” But really, I think people are hurting. That's the bottom line. People are struggling and want help, and maybe the National Bureau of Economic Research has yet to call this thing a recession, the thing that we're in. But many of us are feeling the pinch or the punch, as it may be.

This week, we actually had someone right into the recessionhelp@cnet.com email. That is a thing, recessionhelp@cnet.com. Email me there with your recession-related questions. This week, a grandfather wrote in. It was so sweet, and he said, “Farnoosh, I have a grandson on the way, and I'm super excited, and I want to give him an investment vehicle as a gift, rather than toys. I want this to be a gift that when he's 20 years old, he'll open, and he can buy that first car or begin his education. But I would need help from family, and I want this to be a gift that everybody contributes too, family, mom, dad, aunts, uncles. What advice would you give me to convince everybody to get on board?”

It’s a really, really sweet gesture and question. I think what he's really getting at is that investing is not something everybody's comfortable with, and maybe not everybody will see the reward in that because it is something that you have to wait and requires delaying gratification. We just want to sometimes give kids the toys. So I said to him, as you approach other family members with this incredibly thoughtful plan, keep in mind that some will hesitate to contribute because of the volatility in the stock market. But you can provide them with examples of how long-term stock market investments tend to do far better than savings deposits over 20 years. The numbers don't lie, and there are calculators online that can lead you to those digits.

Then I would also refer him to a piece that I wrote on CNET, link here, on how to navigate risk in the stock market right now. That might be a good reference. Bring in your family and say, “Wouldn't you have liked when you were 20 years old to arrive at adulthood wit, gosh, I don't know, like $10,000 or $15,000,” or whatever you think the accumulation will be. How might that have helped you get a leg up in life? I think that's a hard thing to argue with. So that was our Recession Help Desk question this week, so lovely.

Let’s now get to the bigger mailbag. First up is Anna Claire, “Hey, Farnoosh. I love your podcast. Is it okay to contribute to an individual account before maxing out my 401(k)? I'm 25, and I'm thinking about investing for life events that happen before retirement. I already contribute to the employer match 6% in my 401(k), and I max out my Roth every year. So I love this question. It is true that we don't only just want to invest for retirement. We might want to buy a house in 10 or 15 years. We might want to start a business down the road. We might want to, I don't know, fill in the blank, and we want to be able to have an investment vehicle, a portfolio that we can tap without the consequences that come with an early withdrawal from a 401(k) or an IRA. So you have to wait till you're 59 and a half to take money out of a traditional IRA and a 401(k) and a 403(b). Otherwise, you face a 10% penalty.

Roth IRA is a little different. You can take some of the contributions that you've made out penalty-free at any time. But what you're looking for really is to grow the money and then have all that investment accessible to you down the road at some point for a future goal. I get it. I like the fact, Anna Claire, that you are doing so well with this 401(k) work, that you're optimizing that match. You're getting the most out of that. You're squeezing it. Presumably then, you are getting at least like 10 or 12 percent of your salary invested in that 401(k) annually, which is excellent. By the way, she's 25, so this is a great place to start. Great head start here.

Then you're maxing out the Roth IRA, which is another $6,000. So I think that if you want to now move over to the brokerage account or maybe do a little bit less than the 401(k), but definitely get the full match in the 401(k). Once you do the full match, maybe you can move on to this brokerage account. I think at some point, once you are optimizing your retirement portfolios, that is a good and natural moment to look at how else you can be investing. A brokerage account is a little bit more flexible than a retirement account because you can, again, access it at any point/

I wouldn't open up a brokerage account for some money that you want to invest for five years or less or even maybe six or seven years or less. You want to make sure, Anna Claire, that whatever you're putting in this brokerage account, you won't need really for another 7 to 10 years or longer because you want to be able to give yourself enough time to earn back some losses, when the market has a really bad month or a year or a period of time. Recessions happen like every five to six years. So I would just caution you with that. I think you know this.

But everybody else listening, that's kind of my rule of thumb for investing in a brokerage account, where it's not really designed for retirement specifically. So it's a different goal, maybe earlier in your timeline. Just don't make it too early in the timeline. So yeah, Anna Claire, I say it's okay to do this. But definitely try to reach that employer match fully. Maxing out your Roth would also be great, if you did that first, and then hit the pit of the brokerage account.

All right, Jess wants book recommendations. She says, “I have three incredible nieces, all in their early 20s, at the beginning of their adult lives. One's a teacher. One's finishing graduate school. One is entering her junior year of college. I usually buy them fun books for Christmas, poetry, humor. But in light of where they are in their lives, I'd love to get them a collection of books to put them on a good financial track. Your conversation with Fran Hauser, where you discussed her workbook and her other book, *The Myth of the Nice Girl*, is what inspired this question, actually. So do you have any suggestions for the books? I could get them to help make sure they start their professional lives with more knowledge than I did 20 years ago.”

Okay. So, Jess, I have a book for young adults. It's called *You're So Money: Live Rich, Even When You're Not.* The foreword is by David Bach. I wrote it. It came out in 2008. So there are some dated references in there to things like Motorola Razor phones and Sex and the City. If you can get over that, the advice is still good. I think the voice is solid. It's me. So there is that option. But I also love the *Broke Millennial* series of books that Erin Lowry, who's a friend and guest of So Money has written. The *Broke Millennial*, it started out as her very popular blog, and then it turned into a series of books. The first is sort of the granddaddy, all things personal finance, the Broke Millennial. Then the second one, I think, dealt with investing. Then the third one was about money in the context of relationships and not just like romantic ones, but money when you're talking about money with your friends, your parents, etc. Then, of course, Ramit Sethi's book, *I Will Teach You to Be Rich*, has now sold, I think, a million copies. It's a little deal, and he's been on this show a lot. He's one of my favorite people, favorite guests on the show.

Then this book is not exactly a money book, but I think it's a great book for someone who is starting out in life, advice that I wish I had gotten in my 20s, and it is this book, *Unfollow Your Passion* by Terri Trespicio. *Unfollow Your Passion* is all about mapping out a life for yourself that is really, truly yours, and not a life that takes on borrowed advice. It's not very good from other people. This idea of pursuing your passion, while in theory, great, is not always the best pursuit when it comes to creating a solid career path for yourself. Passion is important but also profit too, being good at what you do, feeling valued at work. So those are my book recommendations, Jess. My book, Erin Lowry, Ramit Sethi, and Terri Trespicio. They've all been on this show, if you want to look up their episodes as well.

Next up is our friend, Sabrina, who writes the following. "Farnoosh, I'm a black female. I'm 50 years old. I have three kids ages 5, 9, and 13. I've primarily been a stay-at-home mom, which for such cliché reasons, crippled me financially. I'm in the process of divorce. My ex's career is soaring, while I feel like a 1950s housewife, in the dark and starting from scratch. I'm grateful to say that I did pursue a master's part time over the last seven years, so I can build on my career as a mental health therapist, though, most don't go into this line of work with aspirations of becoming a millionaire. My question is where do I start? What should I prioritize in order to gain confidence and traction with becoming financially accountable and successful?" Then her second part of the question is really sweet, which is, "I've been loving your show. It's a great resource. I've started at episode 1. Am I missing out by not maybe starting with the most recent episodes? Thanks in advance."

Well, I'll answer the second question first because that's a little bit easier. Given everything you're working through right now, I would highly recommend a few episodes that I've done with women who have really found their footing post-divorce. First is Lauren Greutman. She's a financial expert and author, and she came on the show and opened up about the struggles that led to her recent divorce and how she is thriving today. There was also Emma Johnson. She's the founder of Wealthysinglemommy. She's a divorced mom of two kids. Wealthysinglemommy is a blog, fantastic resource. Emma is an incredibly important voice for women who are divorced, especially single moms, and she is a big champion of 50/50 parenting, which is a little controversial, but I'm a big fan of it. I see the merit in it. Check her out, Emma Johnson.

Then last, Dasha Kennedy. She's the creator of the award winning financial advocacy group called The Broke Black Girl. She's just a force and talks about raising two kids, getting married very young, and then going through a divorce and all the lessons learned. Now, she's on her feet. So my first piece of advice for you, Sabrina, where do you start, is you prioritize yourself now. I'm sure that your entire marriage and as a wife, as a mother, you may have lost, and I think you kind of said this, like you've lost your identity. This is really your moment to step back into the person that you were and discover the new things about yourself, the person that you want to become. Really invest in that and prioritize you.

Your kids are 5, 9, and 13. You are in it. I have a five-year-old and an eight-year-old. I don't know what if I would have had a third, who's 13 and going through the teen years. My goodness, you have so much on your plate. It's really important, if you have still a good relationship with your ex, to talk about sharing your kids and the time that it takes to raise them. I hope you're not planning on doing this all on your own, right? That's part of why 50/50 parenting is so important. Too often, we assume as women in post-divorce that the kids must be with us all the time. This is the way that it's always been. Mom knows best. Yeah, some dads should not be in the picture for various reasons, and I'm not going to get into all of that.

But if there is still a healthy relationship between the two of you, and even if not, but if he's a good father, and he can be there for the kids, make sure that he's there for the kids. Come up with a system. Come up with a plan because you're going to need time. As important as money to you right now is time. As much as you can carve out time for yourself during the weeks so that you can perform some self-care, invest in your next career. So important, you are laying the foundation. It's not going to all happen this year. But you have to plant the seeds, and that takes time. So, yes, you need savings. And, yes, you need to get your financial house in order. If you didn't have your own bank accounts and your own credit cards, you got to put things in your name now. Start establishing your own financial profile but also time. Invest in yourself, prioritize your time, and insist upon co-parenting, if you're comfortable with it.

I would recommend going back to listening to my episode with Emma Johnson, where we talked about 50/50 parenting. I will say that there are cases. There are exceptions to this, and I'm not saying that as a rule, as a must. All parents should split parenting responsibilities. But it is also true that single motherhood, when you're really just by yourself doing it, it is a huge financial handicap. I don’t have to tell you why. It just is, right? You don't have time, as much time, as your former partner to go out in the world and apply yourself and make money and invest in yourself and all of the important things that you should and are entitled to do. Sabrina, thank you so much for being in the audience and for this really important question. I am so happy to know that you did invest in yourself during these years. You're going to do this because you have already been doing this. You have been investing in yourself. Maybe not fully, but now you can really step into it. You've got a master's. You got this.

Then, Elizabeth, to finish us this week, also has a question about bouncing back after divorce. Here's her question. “Hey, Farnoosh. A friend recommended your show to me, and she was absolutely right. You are awesome. I was listening to your conversation with Erin Confortini last week.” Erin, by the way, is the TikTok star, the 22-year-old finfluencer that I'm trying to learn from. “You both had a quick conversation about budgets, and I have a question. I'm putting myself through a personal finance rehab, if you will. Just finished a divorce, where I get the majority of the debt because of our income disparity, and I now pay my ex alimony. Anyway, for the first time, I'm really trying to learn and do right by myself financially. When you both were talking about budgets, it made me wonder. Should you budget by category or by item? And what I mean is if I go to Target and it's a mix of things, do I say it's groceries? Or do I boil it down to more?”

Well, Elizabeth, this is a very specific budget question, and I'm not a budgeting expert because my take on budgeting is I don't like budgets. There was actually a study that a Yale professor did recently about like the traditional financial advice that has been given and how a lot of it is fraught. He took aim at the whole like concept of budgeting and why it might just be better to do some mental math. I have to go back and find that study and really figure it out. Maybe I'll bring him on the show and kind of go to battle with him a little bit. But I do think that budgeting can be more work than it should be.

In the beginning, though, when you're coming out of something like a divorce, or you're just starting out, you have a fresh clean slate and you want to get on a system, yes, I think where you're at, Elizabeth, it does help to be really meticulous. Then eventually, you will get a hang of things, and you may not have to reference this budget in such a detail-oriented way in months to come because you've just sort of gotten the hang of it, and you have that mental math working for you. I think that Target is one of those places where you can get almost everything, right? So it is important that if you're going to Target that maybe you do compartmentalize your spending, and you say, “Okay, hold on. I spent $250 there today. 150 that was groceries.” You want to be fair to your budget. If you've budgeted $500, let's say, a week or a month for something, you don't want to cheat that. You don't want to say, “Well, I went to Target, and I bought all this produce. But it was Target, so I'm going to put that under miscellaneous or household items.”

No, really be true to how your spending should reflect how it's being identified on the budget. Now, you brought up Target, and I think Target – There's a lot of miscellaneous that we buy at Target, but it generally falls within like a few buckets. There's groceries, kids, kids' stuff, which could be school supplies, clothes, sneakers, and then maybe toiletries and household items. I love Target so much. I really do. It's like fun for me, and I can never get over the prices. I'm like, “How is this only $6?” But then, of course, I check out, and it's like $160 later. So there's that to reckon with.

But, Elizabeth, I think that you got to do what is true to your budget and true to your spending, at least in the beginning, because you really want to get honest with the numbers. As somebody, again, who's coming out of a divorce, who's looking for a fresh start, you want to get really clear on your patterns, your financial patterns, your needs, your wants, the way that you spend. Doing this consistent look over and tracking, at least for a month or two or three, I think is going to be life-changing. Then eventually, you'll be on cruise control. You'll look back and go, "Why was I being so meticulous?" It's because you had to do that to be able to arrive at this place where you feel comfortable free styling it a little bit.

All right, everybody, that's our show. Thank you so much for tuning in. If you like what you're listening to, if you like this show, and I know you do because you waited till the end, please leave a review. Hit that subscribe button and share with just one other person. You saw how some of the people who learned about the show, it came through word of mouth. It's still sometimes the best way to get the word out. It's not like buying Facebook ads, thank God, because I don't have a budget for that.

Thanks, again, everybody. I will see you back here on Monday when our guest is Mark Scholes. He's a New York City psychotherapist, and we're going to talk about attachment theory, one of my favorite topics, and how it shows up in your financial life and how to get better with money in your relationship. I hope your weekend is So Money.

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