EPISODE 1412

[INTRODUCTION]

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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 episode1412, preparing for a recession with financial expert, Maggie Johndrow.

> *"**MJ:** The things you can do to prepare for a recession are some money-oriented and some not. So, the not is prepare your resume. Start doing some mock interviews and reach out to your network."*

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FT: Welcome to So Money, everybody. I'm Farnoosh Torabi. It's Wednesday, September 21. And today concludes the two-day Federal Reserve meeting, where policymakers are highly expected, when they wrap up this meeting today, that they're going to raise interest rates by 75 basis points, maybe up whole point. That's the fear that the Fed is going to accelerate its campaign to raise interest rates because we know that inflation has been really, really stubborn. It remains at a 40-year high. So, the Fed, this is their number one concern. They want to raise interest rates to clamp down on inflation. This may get us into a recession, maybe a deep one.

Our guest today is Magdalena "Maggie" Johndrow, financial advisor, who is both a 2018 Investment News' magazine 40 under 40, and Investopedia's Top 100 Advisor recipient. She's been featured in Forbes, NBC, NPR, and now, So Money. We're going to talk about how to prepare for a possible recession. You just heard a little bit of her advice, get your resume ready. But what other financial moves can we make to really prepare and navigate what could be a really tough time?

We also discuss a very important October deadline for some student loan borrowers. What you need to know? And advice for the current generation. I'm looking at you, Gen Z. That's learning a lot about money on social media. Sometimes helpful. Sometimes not. Maggie has her take on how we can learn about personal finance today. Here's Maggie Johndrow.

[INTERVIEW]

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FT: Maggie Johndrow, welcome to So Money. A bonafide personal finance, finance expert. We're going to tackle a lot of terrain in the next 30 minutes. Grateful to have you on the show.

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MJ: So excited to be here. I'm a big fan.

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FT: Well, I would love for you to just start by telling us a little bit about what drew you to this space of personal finance. I know that you've worked on Wall Street. You've helped high-net-worth clients. Now, you help everyday people. Tell me about your beginnings and how you ultimately transition to the work that you're doing today.

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MJ: Sure. So, I did study economics in undergrad. And even went to a graduate school specifically to go and do economic development. So, I pictured myself being in a developing country and helping folks kind of better their lives or uplift their lives through economics. So, very different to where I am, but also some similarities. The key there being helping people.

Once I – My grad degree was from the London School of Economics. And after that, it's pretty much right around the 2008 financial crisis and crash. So, it was hard to get any sort of jobs. So, to be honest, I applied for a lot of things, and got a job at Barclays, which is how my Wall Street career started. But really, I just had to pay the bills kind of thing, right?

I love economics. I love numbers. And I love spreadsheets. So, that piece was really filled by working at Barclays, and later JP Morgan. But the helping people and working with people totally wasn't being fulfilled. And so, that's ultimately how I got into personal finance because it marries both my love and my nerdy side of economics with my love for helping others and working with people.

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FT: When we first connected, you brought up the fact that you are, I think, a daughter of immigrants? Or you are an immigrant? You are an immigrant?

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MJ: Daughter. Daughter. Daughter of immigrants.

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FT: Daughter of immigrants. From Poland?

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MJ: From Poland. Yup, both my parents immigrated here from Poland different times. They met here in the United States. And that's drastically shaped kind of my views on money and kind of how I got here.

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FT: Yeah. Well, that was going to be my question. It's like, I think, for a lot of financial professionals, there's obviously the draw to help people. And that's an important sort of gravitational pull towards this concentration. But our personal stories are also important. And so, I would love to learn a little bit more about what your experiences with money were growing up, the lens through which your family looked at the money world and how that shaped your ambitions now professionally.

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MJ: Yeah, absolutely. So, my parents fled or left Poland because it was communist at the time. And that really drove this idea of scarcity. So, one story, my grandmother, or babcia, as I call her, she would tell me about how there'd only be one of something to buy in town.

So, for example, her best friend was a seamstress, and they got wind that one sewing machine was going to come into the town **[inaudible 00:05:42]** my dad grew up and where my grandmother still lives. And she got up at four in the morning to be the first in line, because there was a line to get things because of scarcity, and to obtain that sewing machine for her friend.

I mean, that example really is an example of how money was colored for me. So, this concept of scarcity. I think that my parents stuck to a very strict budget. They never used credit cards. And they always wanted a deal. My mom is a “maxi **[inaudible 00:06:16]**”. Loves TJ Maxx. But they always – It was always like how can we get something at a discount? Because that's how they grew up, like finding things at a discount, or finding there's only one thing in town.

The second illustration that that story provides is a sense of community. So, even here in the United States, there's a huge Polish community. A lot of folks are now second gen or third gen like myself. But that first generation really built the idea of community, of helping your neighbor, including helping financially, if that was applicable.

And lastly, I think the story doesn't shine as much on this. But there's a big distrust of institutions, whether that’d be banks or government institutions. So, I found – And this is anecdotal. But in the Polish community, the Polish expat community, a lot of that first gen was afraid to invest their money and afraid to put all their money in the bank. Afraid to online bank. There was a lot of like under the mattress kind of money. And I think that that was important, because it also drove me to understand what is investing and why is it important?

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FT: Wow! Yeah, that piece about community is not something that we often bring up in a story about scarcity. But I think that is so true. And my parents, similarly, fled Iran. Came here to build a new life. And loves the Marshalls and TJ Maxx's of the world. But my mom is also – She's the person where if you're like, "I really like your sweater, or your bracelet." She's like, "Thank you. Do you want it?"

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MJ: Oh, my God! Same.

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FT: Yeah. It's like she has this – She just has an attachment to things. And I think she knows what it's like to receive. And so, she's a real big giver. Because I think that's the thing about immigrants, is like you come here and you do a lot on your own. But you also have to rely on help. And that is something that you will never be ungrateful for. And that is sort of like you would inherit this, inherit, like – It's like reciprocity, right? Like, you're always just like, "Here, just take my sweater. Take my clothes. Take whatever. Like, I want to help you."

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MJ: It's so funny you say that. That's literally – Like, anytime I compliment my mom on something, she's like, "Here you go." And like would take the shirt off her back. Like, "Mom, I'm just saying it's nice."

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FT: Right. I don't want it. And then I remember, I can't give her a compliment, because I'm going to go home with a bag of clothes.

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MJ: Oh my goodness.

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FT: It's interesting too what you said about lacking the trust of institutions. You started working on Wall Street in the Great Recession when a lot of that came to the surface where people – It wasn't a new phenomenon. But like, again, here we are, where banks are falling apart. People are losing their homes, subprime mortgage explosion, all the things, which then lended itself to things like crypto. Because then the marketing around crypto is like we can't trust the institutions. We have to create this decentralized monetary system. But then we know crypto is also imperfect. So, how do you encourage today's investors, your clients, to participate in a system that is still very much working through things and not always trustworthy? And just because you're the new shiny object, or you're the crypto, or the new FinTech that's anti-establishment, that doesn't mean that we have to jump in and blindly trust that either, right?

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MJ: Right, right. Yeah. I mean, it's funny watching my parents go through 2008. So here they are, not trusting institutions. Somebody convinced them to work with a financial advisor. Happened to be in the Polish community. And to invest their money. And my mom, in 2008, pulled all her money out. And I was too green to be able to – I don't even know if she shared that with me at the time. And it's nothing –I don't know this advisor. So, they could have done all the right stuff. But clearly, there was a disconnect between what you're supposed to do, which most people will know is leave it in there. It's hitting rock bottom. Now's not the time to pull the money out, because you're then realizing that loss. If you don't pull your money out of the market and put it into cash, then it's really just a loss on paper.

And as we've seen time and time again, since the Great Depression all the way to now, markets recover, right? And while history can't necessarily predict the future, we've seen this ongoing pattern of recovery. And so, probably many financial advisors would say the worst thing my mom did was pull her money at that time. And to me, it means that even if this advisor was wonderful, there was a lack of education and communication provided to my parents at that moment that obviously could have been so critical. Like, just think about where the stock market is from 2008 to now, even with this volatility that we're experiencing, we're still higher than where we were in 2008.

And so, I think that moment, when I learned about it, I realized that I really need to take out the jargon and really explain to people and educate folks on what the stock market is. What to do during a financial crisis? What not to do? And make sure they really understand that.

And I'm pretty proud to say that we just saw the recession in 2020. All of my clients were uncomfortable, but kept their money in. And we're happy to do so. And that we're going through it again. So, I think that education, if there's anything I learned, is that education is key to understanding what you should do with your money, whether that's invested or not, right? And I think if something's not transparent, or something sounds too good to be true, pause and think about why that is. Because chances are it might be.

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FT: Well, on the topic of recessions, we technically might be in one. But we're not really calling it that, because the job market is really relatively strong. And while layoffs are happening, it's hard to call it really a recession. But we can sort of see the handwriting on the wall. And this is one of the first times at least in my recent memory where you like could see the recession coming a mile, 10 miles away. Recessions tend to creep up on us. Like the 2021 was pandemic-led. And who could have foreseen that? The one in 2000, 2009, apparently nobody knew that was happening. But this one, we can sort of see where things are headed. And I think the consensus is we're going to be in a recession next year. So, ahead of that, what are you telling your clients in terms of securing their income? Securing their budgets? Making sure they're spending wisely? All of that. How should we be like almost reauditing ourselves right now?

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MJ: Yeah. As you said, textbook definition. Two negative quarters of economic growth, we hit that, right? That’s how you find a recession. But as you also said, the experts are unwilling to call it a recession because of strong job numbers, really. And so, we're seeing a couple of good things. So, inflations come down, right? Our peak was 9.1%. Even this last reading, though, the market kind of reacted negatively to it, it still came down, right? It came down from, I think, 8.6, to 8.3. So, we're trending in the right direction, which is good news, and may make any sort of potential recession not as deep, or as long as past ones we've seen. So, that's kind of the bright light here.

I would say the things you can do to prepare for a recession are some money-oriented and some not. So, the not is prepare your resume. Start doing some mock interviews and reach out to your network. You want to start doing that now before the big layoffs happen, because then you're going to be top of mind to folks than when they're being flooded with 10 or 15 people that all lost their job and are looking to network. So, I would start that now. And I'd have that resume ready now.

In terms of finances, I would make sure to pay off your high interest credit card debt or as much as you can have it. The Federal Reserve has raised rates, and they likely are going to continue to do so, which indirectly does correlate with credit card variable interest rates. So, try to pay that down, because that's going to be more expensive. And then exactly, have that emergency fund, which I usually say at least three months' worth of your living expenses. But ahead of a recession, if you can, try to make it six months' worth.

And in terms of investing, take stock of where's your income coming from? So, if you're still working, chances are you're not going to need your investments right now. So, don't worry about them right now. But if you're in retirement, you might be living on those investments. So, take stock of what are your sources of income that aren't related to the markets. That might be Social Security, pensions, some sort of guaranteed income annuity. There're other sources that aren't reliant on the markets that you're going to live on during a recession.

And lastly, recessions are times where things are on sale, so to speak. So, we're sort of there now. The markets are down year to date. Could get worse. But now probably wouldn't be the time to pull your money, because things are already down. Instead, what I usually tell folks is to dollar cost averaging. And so, what that means is putting the same amount of money every single month, or bi weekly, or whatever is comfortable for you, regardless of what's happening in the market. And over time, you're going to get the most-fair average price.

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FT: Mm-hmm. Great advice. I hadn't thought about getting the resume I've been running now before everybody's lost their job.

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MJ: Yep. Yep.

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FT: I lost my job in 2009. And yeah, there was nothing for me at that point.

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MJ: No. I feel you. That's when I was looking for a job too.

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FT: That's when I was like, "Entrepreneurship looks really, really great at this point."

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MJ: And you know, a lot of folks decide to be entrepreneurs, and a lot of really great companies are built out of recession. So, Twitter was built out of the 2008 recession. And then look at where it is now. So, even though it's hard to go through those recessions, try to think of it as that learning opportunity, or is that chance to reinvent yourself.

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FT: Yeah. Some things that are a little bit sooner on the docket, recession, they're calling that in 2023, the experts. But we know, for example, there is a deadline at the end of October, which you think is very important for those with student loans. Tell us about the PSLF deadline and what we can do to gear up for it.

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MJ: Yeah. So, the PSLF is the Public Service Loan Forgiveness Program. And that says that if you make 120 qualifying payments, and you're working for an organization that qualifies for this loan forgiveness that typically is a 501(c)(3) three nonprofit, or government organization, if you make those 120 qualifying payments, the remainder of your loan will be forgiven.

And so, there's been a lot in the news about the kind of the first people that applied for the PSLF and were denied. The denial rate was pretty high. I want to say it was at 99%. And the reason folks are getting denied is because there's a lot of different provisions that need to be correct in order to have those payments qualify. So, your loan type needs to be correct. It needs to be an eligible government loan. You need to make sure that your employer is eligible. And you need to make sure that you're in an income-based repayment program, and that you're making those payments on time. For example, maybe some folks say, "I'm on a government loan," but they didn't realize that it wasn't a Federal direct loan. And therefore, those payments they were making were not counted.

And so, our current administration realized this was a problem. Like, a lot of people who were relying on this loan forgiveness maybe didn't even take corporate jobs and stayed in their government or nonprofit jobs in order to – for longer, to qualify for this program. And they were denied.

So, they created a waiver program. And the deadline to take advantage of it is October 31st of 2022. So, it's creeping up. And they created this waiver program to fix any sort of these discrepancies on past payments. So, I have a couple of clients that were denied because they weren't working with me yet. So, they kind of were just making their payments thinking that the PSLF, they qualify for it. And now we're working through making sure their loan is in that Federal direct loan, or the Federal direct consolidated loan, or they are in income-based repayment plan. And those past payments that weren't counted now will count. And many of these people are going to have their loans forgiven, which is really exciting.

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FT: That is really exciting. Yeah, the PSLF program was so fraught. It was basically a non-program. Helping only 1% of – I don't think that's very –

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MJ: Not successful. No.

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FT: Yeah. But now, hopefully more people.

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MJ: It was created with good intentions. But I think there's so much fine print. And as somebody who had student loans going into college, when you're 17-years-old and you're signing up for these loans, they make you do this like online program that's so – there's so much fine print. And there's no way any teenager is reading all that, right? And that's when most people are signing up for loans.

And some people can blame me or blame those saying, “You didn't read the fine print.” But what 16 or 17-year-old is, right? And they’re still teenagers. Brains are still not fully developed. So, yeah, I think it's good intentions. But those that are processing the loan are really sticking hard and fast to those guidelines. And so, it's exciting that we can fix some of these mistakes as adults that maybe we made when we were younger.

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FT: One last question about student loan debt. I mean, what's your advice now to a family that is looking to save for the future for college expenses for their, say, current 5, 10-year-old now? Should they be saving as much? Do you see a real seismic change happening within the college industrial complex so that the cost to go to college is not growing at multiple times of inflation every single year? Or are we just going to be back in this boat, essentially, in years to come?

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MJ: Yeah, I think that the government can really, for the most part, control public universities or colleges. I think that it will be harder just given that we're a capitalistic, democratic –

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FT: They could tax the universities more.

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MJ: That's right. That's right.

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FT: They could certainly do something like that.

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MJ: I don't know if that is even like high on the docket. But I do think where they're trying to look at reform currently is those public universities. And so, things that I've heard or read about is doing a two-year associates at a community college. A lot of states already have set announced, I believe Rhode Island did, that you can get community college for free, right? And so, do two years at that community college and then transfer in to another public four-year university.

I would say try to take advantage if you do need to do loans of the government loans. There's a lot of better programs out there, like the PSLF, or like the teacher loan forgiveness program. Once you're going down the private route, that's where things I think get trickier, where loans are often bigger, and the interest on them is higher. And really, the only advice for folks with private loans is to think about consolidating them and refinancing them for lower interest.

So, I would definitely rethink how we're feeling college or university consider trade school. There's going to be a massive shortage of folks in the trade as boomers retire. And I think there are a lot of calculators out there online to see, at the current 6% rate of inflation, how much will school cost. And just make sure you have a plan. So, maybe you save for part of it, take out loans for part of it and work to pay for part of it, right? But just don't blindly sign those glossy financial aid packages. Because often, there are lots of loans included in them, and only a smaller amount of grants.

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FT: Yeah. Yeah, I agree with all of that. It just really makes me so angry when these universities charge so much. And the reality is they're going to get people that will pay full price, because I think it was the – At one point, it was the president of a university, I believe, in Washington, DC, who will remain nameless. I don't really remember the school. So, I don't want to get this one wrong. But this was essentially the public statement that he made. And he said, "You know what? We can raise tuition because people will continue to pay. And who's going to pay, it's the rich people from overseas that calm and pay."

So, what they had found was at this one particular school, their international student base had grown by so much, because those folks, those who are privileged can come here and get an education and they will pay whatever they have to pay. And they're not taking out the loans and all that. And so, they're subsidizing, in some ways, this ability for these universities to charge what they want to charge and be okay with like then everybody else maybe not coming or taking on debt or whatever, and not feeling accountable to that. So, it's fraught.

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MJ: The other thing to think about too is like, then the students, if they are coming from international, are they staying here? Or are they going back home? Because if they were to stay here, well, okay, we've just now trained a new worker base. Because let's be clear, our birth rates are very low, and we're going to have a job crisis as, the biggest generation, the boomers retire. We need folks to fill those rolls. And folks are getting married later, having children later, and having less children.

I think the latest statistic I saw for the United States to kind of maintain its worker base is that every young person needs to have – Or a couple needs to have two and a half children, which really means three, right? Because you can't have half a kid. But that's a statistic. And a lot of folks are opting not to have children or just to have one. And we're going to have a labor shortage. And that's really important for economic output, right? So, GDP and efficiency of economic output all depends on creating more efficiencies or having more workers.

So, we'll have to find the technology to create the output, or we need more people. And so, it's fine to have, of course, folks internationally come and get an education. But we don't really have a good path to have them stay here and use the knowledge of our great institutions and put it back into our

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FT: And invest it back into our country, right.

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MJ: Exactly. Exactly.

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FT: An American degree in another country is probably more valuable than it is in our own country, to be honest. I went to graduate school at Columbia, and one of my classmates was from India. And he said to us, "I'm just here for the degree. I'm going back to India. Because with this degree, I can essentially run – I can have any job I want." And he did. He went back and he like ran a huge newspaper. And good for him.

But I agree, I think if we could incentivize these folks to stay and – Well, that's a whole other podcast. But my point is, is that Universities are not incentivized. The universities are not incentivized.

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MJ: No. And sometimes they can't. And sometimes they can’t, right? So, even if they want to stay, really, the biggest path at this point to stay in the United States is to get sponsored by an employer. And that's quite expensive. So, if an employee can't have the means or doesn't want to spend to sponsor an international student or worker, they don't have a choice but to go home. So, yeah, like you said, it's a whole another pod. But it is definitely something to think about when it comes to college reform.

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FT: We have just a few minutes left before Zoom cuts us off here. So, Maggie, I want to talk a little bit about your parting advice for the current generation who's learning a lot on social media. Learning a lot about money on social media. They're not reading books. They're not taking on a coach. They're not working with financial advisors. And while I don't think you have to do those things, there is a challenge when your main source of information is a social media platform, like TikTok, where 50% of – More than 50% of searches, online searches, are being generated from TikTok. Of all sorts of searches, not just money questions. But what's your advice for how someone can get started to educate themselves?

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MJ: Yeah, I think be mindful of which content you are consuming off of TikTok or other social media platforms. It's really interesting, because a lot of clients that I work with have their PhD in immunology or medicine, or they're physicians. And they're not allowed to, or they're heavily regulated as to what they can say on social media platforms.

Same goes for someone like me. I'm regulated by the SEC and by FINRA. And so, I have a lot of very strict regulations on what I can or cannot say on a social media platform. And so, what

I'm trying to get out is those that maybe are considered experts or most knowledgeable in these industries can't go on these platforms. So, that kind of begs the question, like, who is then on the platform? Right?

And I'm not saying there aren't people that are – I have a few people I love to follow that are former traders or formerly on Wall Street that are very smart. And I agree with what they say. But they had to drop those regulations in order to say what they're saying. But that also leads anyone. I think that anyone can get on there and say, “Buy this or sell that.” And just be mindful of what their background is. What is the credential? And what is their ultimate goal? Like, are they trying to sell you something? Or are they truly just education-based? Right?

I think in terms of where to look for education, go to advisors' websites, advisors that are regulated. We have a blog. For example, we do this on social media. And we use that completely to educate. And I know a lot of other folks in the industry do the same thing. Our goal is really just to help people start on their own or in the future if they need to work with us. So, just be aware of what someone's background is. I don't know if you'd want me as a financial advisor giving you medical advice. But I know there are people out there that are trying to do that.

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FT: Maggie, thank you so much and tell us where we can find all that great information.

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MJ: Sure. If you go to our website, which is johndrowwealth.com, you'll find a blog, our social media. And I hope to interact with you on those platforms.

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FT: Awesome. We'll be sure to put that link in our episode notes. Maggie Johndrow, thanks so much for all this widely important information.

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MJ: Thank you.

[OUTRO]

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FT: Thanks so much to Maggie for joining us. Her website again is johndrowwealth, johndrowwealth.com. You can follow me on Instagram @Maggienomics. I'll put those links in our episode notes.

I'll see you back here on Friday. And I hope your day is so money.

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