**EPISODE 1470**

[00:00:00]

**FT:** So Money episode 1470, Ask Farnoosh.

[INTRO]

[00:00:31]

**FT:** Welcome to So Money, everybody. It is February 3rd, 2023. Welcome to the show. Welcome to Ask Farnoosh. Super excited to answer your money questions, a number of questions about investing this week. Y'all are thinking about compounding your money. I love it. This is February, my birthday month and Valentine's Day. My husband works over time this time of year. It's okay. I'll allow it. But you'll be happy to hear that I'm treating myself this month to a sunny trip to Miami. That is right. It is actually a trip that I've had to postpone for a number of years. I was supposed to go for my 40th back in 2020. But, of course, we know what happened then this time of year. So I put it on the back burner, and now I am ready. I'm ready to rekindle, to revisit my youth. Yes, 40. I was such a baby back then.

But I'm super excited because it's very cold on the East Coast right now. Miami promises warm weather. My best friend is coming with me as well because she was also supposed to celebrate her 40th with me back then, three years ago. So we're doing it. We are doing it. So join me on Instagram, if you aren't already. A lot of you have since joined me in January. I feel like I want to keep this momentum going. I hope that it's not just a new year, new followers, but that we'll keep this momentum going. But I promise to show you tons of behind the scenes, including where we're staying, our activities. It's kind of my first time in Miami. I've been there for work for a period of 12 hours, 24 hours. So that's the first time I'm spending quiet time, just me time for days. I can't promise I won't be working, but at least I'll be working in front of the water.

This is part of my advice for those of us in our 40s. I've been doing these videos on Instagram, giving advice for the generations, 20s, 30s, 40s. Then next week, we'll be doing the boomers. But for the 40s cohort, my friends, those of us who were born in the '70s, early '80s, my advice

because I know that we have all been burning that midnight oil, these are considered to be our prime earning years. So think about how hard we've worked to get here. You deserve a break. You deserve a snack. That's a line borrowed from a guest we're going to have next week, Caitlin Murray, who's the genius behind Big Time Adulting.

You may have heard me talk about Big Time Adulting on the podcast. I discovered her on Instagram, and I am a proud follower. I'm here for all of her advice, all of her jokes. She's a stay-at-home mom/content creator on Instagram, who speaks very candidly about her experience being a parent in today's age. She's got three little kids. So naturally, I invited her on the show. I like her, and I want to get to know her, and I want to support her work. She has this tagline in all of her videos, after she goes on some rant about being a mom and how it's stressful. She says to her audience, “Now, go get yourself a snack and have a great day.” I will be getting many snacks for myself in Miami.

Shifting gears a little bit to the podcast and what you may have missed this week. On Monday, we chatted with Scarlett Cochran, who's the author of *It's Not About the Money*. Scarlett was on the show previously, back when she went by Tasha. She has since changed her name to Scarlett, but her advice is still consistent. She wants you to learn how to design your own life because think about it. You grow up and you feel like you have a handful of options, in terms of what you're going to do for your career. The paths have already been paved.

While we are so grateful for those who have blazed the trail for us, sometimes you want to blaze your own trail. Sometimes, you're looking at your options, and you're thinking, “I don't want to make only this much money. I don't want to only work in this way.” Scarlett has her own personal journey behind that, as someone who is an attorney but didn't want to work the big corporate law job, how she translated her degree and her skills into being an entrepreneur. Her book, *It's Not About the Money*, offers a proven path to building wealth your way, while creating the rich life that you deserve. Love her. Listen to her drop some incredible wisdom on Monday's episode.

Then on Wednesday, we talked about money and dating. Who pays on the first date? How to tell if the person you're dating is secure. I don't mean just financially secure but like secure in their body so that they can communicate well and set boundaries and respect your boundaries.

© 2023 Farnoosh, Inc.

Are there ways to figure this stuff out while dating? 100% yes, according to our guest, Lily Womble, who is the Founder of Date Brazen. She gave us all of the red flags, all her insights on dating apps. And, yes, who does pay on that first date? I think you will like her answer.

Let's go to the iTunes review section, Apple Podcasts review section, and pick our review of the week. I have to say this was really hard to pick this week, and so I'm feeling generous. I'm going to pick two reviewers because I just feel like I must. These reviews are really good. If you don't hear your name called, do not worry. You might get picked next week. I don't get millions of reviews every week. That would be nice, but that's good for you. It's good for you. If you know you can leave a review, and there's a very good chance that I will read it, and you and I will be able to connect for a free 15-minute money session.

But firstly, I want to say thank you our first reviewer, Lore.MH21, who wrote a review, I think it was last week, saying, “I want to be the Farnoosh Latina finance expert.” Here's her review. “Farnoosh, I've been listening to you for over two years, and you were one of the main inspirations to start my own podcast in Spanish. Though it is paused, I still believe in it. I've learned so much from your perspective and your diverse invitees that I am much better in my life. Thanks to your podcast. I hope to start again with De Peso a Preso in the fall. Please send me good vibes for new beginning.”

Well, I’ll send you more than just good vibes. I will send you a link where you can pick a time for us to chat, and we can talk about your podcast. I would love to give you some advice because I want this to happen for you. Thank you so much for listening, for this review. Stay tuned for that email.

Second review is from Beachbeachbeach, who left a review, “This quickly became my favorite podcast when I started listening a few years ago. As a fellow Xennial breadwinning working mom, I find the podcast relatable and engaging. Fanoosh is motivating and empowering. This podcast single-handedly inspired me to finally get my financial ducks in a row in early 2020.” Whoa, that was good timing. “And the advice has paid off and enabled growth and confidence throughout the challenges of the pandemic and more recently an unexpected job loss. I finally got around to writing a review after all these years in full disclosure, hoping for that free money consult. Thank you and can't wait for your book. Anonymous fan girl.”

© 2023 Farnoosh, Inc. 

Beachbeachbeach, I love these anonymous names people are coming up with. It's just so creative. Thank you. I would love to connect. This seems like a really important time for us to talk, as you are working through this job loss. But thankfully, you have savings at your back. I want to help you. I will send you an email with a link for you to pick a time for us to chat.

All right, let's head over to the mailbag, a lot of questions this week about investing. It's top of mind with the new year. Let's kick it off with Jill, who said, “Hey, Farnoosh. I saw you on Kelly and Ryan, and I loved that they opted to have a female advisor.” Yes, we are making waves. She says, “I loved the topics you spoke about on the show and wanted to get your opinion on the stock market. I'm 59. I invested about $30,000 last year in the stock market, and I lost half of it. I don't have a huge savings, and I'm very upset about my loss. Should I leave the balance of my investment in the stock market? Or should I sell and try to reinvest in other stocks? I'm curious to know your thoughts on the situation.”

All right, Jill, thanks so much for your question. This is a very unique situation because the general rule of thumb is just let the money ride. This is the way the market works. It goes down. It goes up. It goes down again. But if you give yourself time, and by that I mean at least 5, 6, 10 years, you should see more money in the bank than when you started. I mean, in the beginning, it could be very volatile, and the advice is to not give up.

But I tend to give this advice for those who are in the earlier stage of their lives, just starting to invest maybe because they want to keep it in the bank, keep it in the brokerage fund for 30 years. But it doesn't sound like you have that kind of time. You're almost at retirement here. You're approaching 60. I would like to see your retire. Maybe that's not something you're envisioning. But I want you to retire. I want you to be able to slow it down and relax during this season of your life.

You mentioned that you don't have a ton in savings. While I don't want to say that you have to have perfect savings before you start investing, for where you are in your life stage, in that you're not going to be investing this money to then take it out when you're 80 or 90 to start enjoying it, you want to start enjoying it maybe in the next 10 years, you want to get sturdier when it comes to your liquid emergency savings today. Do you have about five to six months’

© 2023 Farnoosh, Inc. 

worth of expenses tucked away in an FDIC-insured high-yield savings account? Is the amount of savings that you have enough to cover your bare bones expenses, in case you lose your job or have a unexpected medical expense?

If the answer is yes, then with this 30,000 that you have in the stock market, I want to make sure that it is allocated appropriately to match your risk tolerance. For someone who is approaching 60, you shouldn't be 100% in the stock market with that investment. You may want to be more like 40-60, 40% stocks, 60% bonds, which are fixed, which are more of a guarantee than stocks in the stock market.

So going back to that $30,000, which is now maybe more like 15, check the allocation. There are automated platforms that can create a balanced portfolio for you, based on, pegged to your retirement age. So if you want to retire in 10 years, you shouldn't be taking on a ton of risk right now with this investment. It's not to say that it has to all go in cash. You can still keep some stocks. But you want to make sure that it's balanced, that it's adjusted for risk.

Did you have someone help you when you invested this money? If not, maybe it's about getting a little bit of help. The help doesn't have to be in the form of an expensive professional advisor. It can be one of these automated platforms. Wherever you're investing that money right now, maybe there is an 800 number or email that you can write to and say, “Hey, I just want to make sure that this money is invested appropriately, given what my needs are. I'm not somebody who can afford to lose 50% of this because I want to be able to tap this in the next 5 to 10 years. So what's the best allocation?” It can still partially be in stocks, but the rest may want to be in something that's a little bit more of a guarantee like bonds and fixed income investments.

Long answer short, keep adding to your savings, if you don't have at least a six-month cushion that can cover your bare bone necessities in case you are out of work, not making money for the next six months. As far as your investments go, make sure you're allocated properly. It’s not about ditching investing, but it's about making sure that it matches where you are in your life stage and the kind of risks that you're really willing to afford.

The robo-advisors can help with this. I like the ones that offer that additional free number that you can call and talk to someone. A lot of the platforms have this. But talking to someone and

© 2023 Farnoosh, Inc.

making sure that when you revisit your portfolio. You're not pulling everything out, but you're maybe making some adjustments to put some of the money that's in stocks in something that's a little bit safer. They're still investments. Bonds are still investments, but they're not going to zigzag and be as volatile and crash like stocks may. All right, Jill. Thanks so much for listening. Let me know how things go. If you've got more questions as you continue this investment journey, I'm here for you.

Another question about investing from Leanne. What are the best types of investment accounts for retirement that don't have a minimum age for withdrawals? Leanne is 35. She's married with two kids. She makes about $265,000 a year, and she saves about 40% of that. Her only debt is the mortgage. She says, “We're maxing out our 401(k)s, our IRA contributions, and putting the rest of our savings in a mutual fund account. We've passed our Coast Fi number or Coast Financial Independence number.

The kids have 529 plans that are comfortably funded. We have our six-month emergency fund. I love my career, but my priorities have changed. And in the next five years, I want to leave the workforce to focus on spending time with my kids. My husband would continue to work and could likely cover all of our expenses with his salary. But I want to make sure that we have investments in accounts that I could withdraw from, if needed, before hitting the minimum ages required for the 401(k) and the IRA. Appreciate your advice.”

All right, Leanne. Honestly, it sounds like you're ready for that brokerage account. That's what I say. First step, you take care of all the tax-incentivized investment accounts like the 401(k) and the IRAs. Then you move on to the accounts that maybe don't have tax benefits. But the pro is that you can take your money out penalty-free at any time, including the growth, and that would be a brokerage account. You already have a mutual fund account that's probably sitting within a brokerage account, and you can add to that or start a new one with a different kind of mix of stocks and funds that are more allocated to this 5-year to 10-year goal that you have for, basically, retiring.

Like I told Jill, use a robo-advisor to construct this portfolio for you. Brokerage accounts, again, anyone can open this, but I don't recommend starting until you have exhausted other investment accounts available to you that do offer tax incentives, whether that's the traditional

© 2023 Farnoosh, Inc. 

401(k) or traditional IRA, where your contributions are tax-deductible today or a Roth IRA, where withdrawals are tax-free at retirement. You've probably earned out, so you can't contribute to a Roth anymore. So then I would say a brokerage account, where you can take the money in and out as you please. There are no tax incentives, whatever you take out. If you take out earnings, you'll have to pay taxes on those earnings but not income tax. You pay capital gains tax, which is less than typical federal income tax.

So wherever maybe you're investing that mutual fund, if you like the services, inquire about expanding that into maybe a more robust portfolio that is adjusted for your risk and your needs, given that you want to kind of retire, you at least, in the next five years and be able to draw down on this.

All right, another question about investing from Danielle. I didn't plan this. Y'all are just thinking about investing. It's on your mind. Here's the question. “Farnoosh, I love your podcast and the diversity of guests you bring on the show. I am starting a new job, making around 80,000 a year. The company is going to match my 401(k) contributions up to 3%. How do I prioritize contributions to the 401(k), my Roth, and my high-yield savings account? I live in an expensive neighborhood, and I save 15% of my salary, but will be more limited once those student loan payments kick back in.”

All right, this is a smart question, how to prioritize the investments and her savings, making the most of this period when her student loans have yet to kick in. Here's my advice. I want you to, Danielle, contribute at least enough to earn that match. Why not get that “free money,” right? So in your case, you want to contribute at least 3% to your 401(k). Then your company adds another 3%. So already, you're at 6%, contributing to a 401(k). I like to recommend that you put away 10% or a little bit more of your income towards some sort of retirement savings vehicle or a combination of vehicles. So you've got this 401(k) at work, which has this match, which is great.

Everybody, take advantage of this. This is money on the table, and it can fast track your way to getting to this 10% benchmark. Now, at this point, because you can still qualify for a Roth IRA, because your income still allows you to qualify for a Roth IRA, I would participate in this simultaneously. If you were to max out a Roth IRA this year, the contribution limit in 2023 is even

more. It's 6,500, up from 6,000 last year. That gets you to 10%, even more, because I did a little bit of the math. 6% of $80,000 going into your 401(k), plus another 6,500 in the Roth IRA, that's over $10,000 a year that you're putting, you and your company, towards your retirement.

When I say 10%, that includes the match, if available to you. So this is why the match is great because it gets you there faster. I like that you already have savings, and you're already on a savings regimen of 15%. Continue this if you can, all while your student loans are on pause. I agree, this is the time to accelerate the savings. Once your student loans kick in, and you're reassessing what's possible in terms of investing or saving, I would look at your savings bucket. Do you have at least four to six months of your expenses shored up in that savings account? If you don't, then maybe cut back a little bit on that Roth IRA contribution, a little bit because you're investing more than 10% all together by maxing out the Roth and doing the 3% in your 401(k).

But maybe your student loans kick in, and you've already got four to six months and savings. You're already investing 10% to 12%, and you don't have to keep putting 15% towards savings. You can put that now towards your student loans. Does that make sense? So it's about, first, optimizing that 401(k), supplementing it with the Roth because you can, continuing to save 15%, all while your student loans are on pause.

When the student loans come due, you take a beat. You reassess? Can I keep things going as I have and pay my student loans? Or if I have to really make a concession, I think that you look at your savings. Do you feel like you have enough there? If you don't, then you take a little bit of what you were contributing to investing, and you put it into savings, and then pay your student loans. It's a little bit of a dance. But who knows? By the time your student loans arrive, you might be making more money. Great question.

Okay. Next up, Jenny wants to know whether or not she should have her daughter, who is a senior in college, take on some student loans because maybe that will have her have some skin in the game. So here's the fuller question, “Farnoosh, I'm a longtime listener of the show. I'm so grateful for all the advice you've given over the years. Here's my scenario. My daughter's approaching her senior year of college, and we just ran out of 529 money.

© 2023 Farnoosh, Inc. 

I have a second daughter in her junior year of high school who has approximately 42,000 in her 529 plan. Additionally, I started a HR consulting business this year. And to prepare, our family saved about $100,000 in cash. However, I hate to touch it while I'm ramping up my business. My quite question is should I have my daughter take out a loan for her senior year of school. I do like the idea of her having a bit of skin in the game, but I don't like the idea of her being in debt. I'm 54. My husband's 49. We would like to partially retire in about five years."

All right. So my friend, Jenny, I would say, in this case, I would feel comfortable having your daughter take out a student loan for her senior year. My parents did not believe in student loans, at least for undergraduate education. This was years and years ago, when college wasn't, of course, as expensive as it was today. But even back then, it was impossible for my parents to send me to a private school and pay the full tuition. So they steered me towards a public school, where I also was able to get a scholarship, and they were able to cash. They were able to pay for that out of their paychecks.

Fast forward to today, the college affordability quotient has completely changed. It's gotten worse, and I think that student loans sometimes do make sense. For your daughter to take out a student loan just for her senior year is much better than for all four of the years, right? Hearing that your second daughter who's about to go to college has 42,000 in her 529 plan, I'm thinking that's not going to cover her four-year tuition, depending on where she goes, of course. But on average, that may cover one to two years of tuition, again, depending on where she goes.

So to the extent that you can continue to save for the second child to give her a little bit of a similar financial experience as your eldest daughter, wouldn't it be fair to fully pay for your daughter, who's the older daughter? Then the second daughter is saddled with debt going into college. I am a parent of two kids. So it's always about like making sure that we're being "fair and equitable" to the both of them. That's an aside.

But mostly why I think it's important to take out a little bit of debt for this final year is because I don't want you to sacrifice your liquid savings. You're starting a business. The first year is always unpredictable, although you're projecting to make, you said in your notes here, $250,000, and your husband makes $100,000. You just don't know, right? So to ensure the stability of your household, keep that cash liquid. It's just a year's worth of student loans. I said

this already. What's that going to be, 50,000, maybe 60, maybe less? I'm not really sure what her costs are.

But the good rule of thumb is to keep your student loan debt. I know this is an eye roll because a lot of us have more than this. Try to keep it to no more than your anticipated first year salary out of college or 10% of your take home pay, that monthly payment. In that way, she can afford so many other things. You may decide that once she graduates, and maybe your business is doing really well, that you help her pay off that student loan. Again, that's your choice. I don't shame parents for helping their adult children financially, especially when it comes to things like student loan debt. If it's credit card debt, maybe not.

But your daughter having skin in the game, to your point, is not a bad thing. Because guess what? If you tell her now, before senior year, that, look, this is the financial picture for us. We didn't want this to happen, but here we are. We think we need you to take out a student loan. Well, she may get creative here. She may try to graduate early. She might apply for a scholarship. She might get a job to pay the tuition while she's in school or at least some of it. So knowing now what her situation is going to be next year is very important.

So the earlier you can talk to your daughter about this, the better because then she can brainstorm, and she can start to make some money moves. But keep your cash liquid. Take out a small loan and make it federal, if you can, to the extent that you can just take out federal student loans. Fill out that FAFSA for next year. Do it as soon as you can. Your daughter is going to be okay, and you're going to be okay with this plan. Thanks for your question. Good luck and thanks for your question.

Okay, lastly, not a question about investing but pet insurance. Yeah. This is a little bit of a pivot here. “Hello, Farnoosh. I am one town over from you in West Orange, and I'm a longtime fan of the show. My family got a puppy last year, and we understand that if we want pet insurance, we need to get it as early as possible before any pre-existing conditions emerge. Is pet insurance worth it?”

All right. Well, I'm going to give you a studied answer. I researched this. I am not a pet owner, and I've never been a pet owner, and so I don't have personal experience with this. I have

© 2023 Farnoosh, Inc.

friends who have had pets go through extensive surgeries and stay in hospitals for extended periods of time. It can be very expensive to keep a dog on life support. Let me just say that. If we're talking from a purely financial standpoint, I think, and this is my recommendation based on no personal experience but just looking at like the cost of pet insurance and the likelihood that you're going to use it, you may be better off just having more money in your savings account, putting away a little bit extra every month for this probability.

The average pet insurance is about $30 a month. So in a 10-year period, that's $3,600 in premiums. If your dog has a history of cancer in their line or that breed is prone to getting sick, you may come out ahead with this. You may want to get pet insurance. So this also depends on your dog and the breed and all that. Otherwise, the pet insurance company comes out ahead.

But I know that this is also an emotional question. If this gives you peace of mind to know that you have this, if you can just swing $3 a month and know that this way, if something happens to your pet, at least you're covered. Not entirely because I don't think pet insurance is a silver bullet, but that there is something there if to supplement the cost of taking care of your dog. If it gives you peace of mind, then it's money well spent.

A few pieces of advice on what to ask before buying a pet insurance plan. You want to ask if it also includes preventative care like physicals and immunizations. Is there coverage for accidental injuries? Are there any exclusions to the coverage? What about pre-existing conditions? As humans, they can't use that against us anymore. But pets I'm not sure how much are the deductibles, the copayments and other fees. What is the totality of the cost? Is there a limit to how much the plan will pay out each year, and how are the claims handled? Does it have to be out of pocket first and then it gets sent to insurance?

It's not to assume that this pet insurance will work in the same way as the human health insurance policy that you have. So really important to just compare, look around, ask other pet owners. If you are a member of a Facebook group in your community, this is a great question to throw to your neighbors. See what everybody else's experiences. When you're at the dog run, ask around.

© 2023 Farnoosh, Inc.

All right, that is our wrap for us this Friday. Thank you so much, everybody. We're headed to see Aladdin this weekend on Broadway, my kids' first Broadway show. I am thrilled. I hope they appreciate it. We have seen by now Aladdin in all of the formats. We've seen the original Disney. We've seen the live action. Oh, my gosh. We've seen the spin offs like the Jafar spin off. These are my people, right? Aladdin, I feel like my kids don't really look Iranian, but I keep trying to explain to them like, "Aladdin, he's one of us. It's the Persian Empire. It's so special." I'll let you know how it goes next week. Until then, I hope your weekend is So Money.

[END]

© 2023 Farnoosh, Inc.