EPISODE 167

[ASK FARNOOSH]

[00:00:29]

FT: You are listening to So Money! Welcome back everyone. Or, welcome for the first time, if this is your first time listening to the show. I'm your host Farnoosh Torabi. It is Saturday and middle of June. I'm kind of embarrassed to say that last weekend I didn't really get the chance to give my husband a proper first Father's Day because our son's birthday fell on the same day as Father's day. And to boot, I lost my wallet. Well actually, I had it stolen. Did I tell you this? I had my wallet stolen right out of my baby stroller! Maybe that was my fault. I didn't have it in a purse strapped to my body, it was a wallet inside of sort of a little shopping bag that was hooked to my son's stroller. And I was at Macy's and I remember this women in the elevator was striking up a conversation with me about my son's outfit, and I was giving her some shopping savings tips - yeah that's me. And then I left Macy's and realized that I did not have my wallet and so I came home and realized that this person who had stolen my wallet had gone on a shopping spree at Macy's.

They spent about $800 at 3 different registers at Macy's, and then they went to the local subway stop and got 2 monthly metro passes. Yeah, so this was quite the evening for me at the point. It was 5:30 when I realized this. So I'm quickly trying to cancel all my credit cards, disputing these charges. Fortunately they had done these charges on my Amex, on my American Express cards and any credit card there is zero liability when it's fraud, so that's good. But I also felt that I should go to the police department because this person was a thief and needed to be reported. And so I went, and I thought also cause it happened most likely at Macy's, that they have cameras and they could maybe catch this person. I was pretty convinced I was never gonna see my wallet again, but I just thought it would be important from a justice standpoint to get this person on the record. Hopefully the police would be able to track him or her down and more importantly, while I did do a credit monitoring immediately on my credit - so that works for about 90 days, or maybe it's 60 days - after that there's no saying. This person could go and try to open up a credit card in my name and it wouldn't be alerted to me unless I sign up for some sort of credit, on-going credit monitoring. And I didn't wanna freeze my credit card, I didn't wanna freeze my credit, I should say.

So long story short, so the point is having [Chuckles] - can you tell it's been a long week? The point is that having a police record is important because if in the future this person goes and tries to steal your identity, you have a record saying that you actually had this happen to you. You had your wallet stolen, and there's a police record, and so it's just added protection and added evidence for you in the event that you need to prove your case. That you did not actually open this credit card or take out this loan. So on top of that, I didn't have any money, [Laughs] to buy anything for my husband without him actually finding out. We do share an account, but I didn't want to use our shared account, so this weekend honey, it's for you! This is gonna be your Father's Day that you deserve and I'm sorry that it was on delay, but better late than never, right?

So that's my long-winded story about what I'm doing this weekend and why. And so, it's also Saturday, so what does that mean? We gotta go to the iTunes review section and pick a kind, kind reviewer who left a recent review to win a free 15-minute money session with me. And I'm gonna go right about here and say, I'm gonna pick JonathanMoore41. He says:

JM: "He's a new obsessed listener. I just discovered So Money the book, a few months ago."

[00:04:39]

FT: Wow! That was written in 2008! I gotta start marketing that a little bit better. He said:

JM: "After a reading it from cover to cover within a few days, I was ecstatic to see that there was a podcast. Great information, amazing guests, and great insider insights. These tips felt more real-life and not like I'm being punished. They feel more real-life, and it doesn't feel like I'm being punished. Thank you Farnoosh for getting me started on the right track!"

[00:05:07]

FT: Jonathan, my pleasure. I'm so happy that you fell upon "You're So Money", my very first book which I wrote back in the day. Back before the financial crash too, and I almost feel like I should do a revised, a revision of that book because at the very least, just to get rid of some of the references to pop-cultury things and products that were hot at the moment, like the Motorola Razr phone. Remember that? This was before even the iPhone came out, I think? So it's a bit dated in that sense. The facts are all right, but the sort of "trendy" stuff that I mention is really dated. So yeah, I've been thinking about updating it, but I'm happy that you still found it relevant and I'm happy that we can continue the conversation with this podcast. And please, email me at Farnoosh@somoneypodcast.com. Let me know that I read your kind review on the show on Saturday and that you'd like to get a free 15-minute money session with me. I will respond with a booking calendar, and we'll be off to the races. Thank you.

[00:06:11]

And as a reminder, anyone who would like to receive a free 15-minute money session with me, you can up your chances of that by leaving a review on iTunes. Every Saturday I pick a new reviewer, like Jonathan, to receive a free Money Session with me. So if you're interested in that, I would love to hear from you!

Alright, let's get to business! Let's get down to the "Ask Farnoosh" questions. We've got a question here from Anna, kicking us off on a Saturday. She says:

A: "Big question, should I go back to grad school? I'm a 23 years old making $60,000 a year. My husband is 29 making $55,000 a year. So we make an average of $110,000 a year plus another $10,000 in freelance work on top of that. My current career trajectory has me capping out in 3-5 years at about $90,000. I'd like to get an MBA which would put my potential at $130,000 a year plus $30,000 in bonus structure with likely increases each year. The MBA would cost around $100,000. I currently do not have any debt of my own, but my husband will have around $16,000 in student loans. Our monthly expenses are roughly $1,974."

[00:07:27]

FT: Alright, so Anna. You've done some excellent math here. I like the fact that you've projected the benefits and the potential costs. So you've looked at the pro's and con's, financially. In general, I'm a big fan of furthering your education - I have a Master's - but only if it makes sense, right? And so this is what you're asking me. How do you know if this is gonna make sense for you? So there are a number of factors, and I find that if you can answer "yes" to all of the following statements, then getting an MBA will probably be a wise investment of your time and of your money.

Okay, so can you answer yes to this? "The MBA will allow me to advance in my career and make more money. Without it I will plateau at a certain point soon." I think the answer to this is "yes". You kinda said this more or less in your question to me, so that's good. Getting warm. How about this? "I can comfortably afford a monthly student loan payment as soon as it will come due."? Now, know that there's usually a 6 month grace period until you have to start paying those loans back. You may not find work. It's possible. We might hit another recession. You might not find work within that 6-month period. Will you be able to make those student loans current, and will you be able to make those student loan payments on time, regardless of your job situation at that point?

You know, it's hard to predict. But the good news here is you have another person in the relationship. You have your husband who's making money, so this is a conversation to have with him. "If I don't have a steady job, or if I'm not making as much as I'd like, will we be okay?" So maybe it's a matter of saving some money, putting some money aside for those first 6 months of student loan payments that are gonna be due and just knowing that you're gonna have that to give yourself pretty much a year to find a good job. So if you can answer "yes" to that, it's also a plus.

Can you answer yes to this? "The MBA will be from a top school that has a strong history of helping graduates land great jobs?" This is important. If you're going to spend $100,000 on an MBA - and I'd rather you wouldn't, and I'll talk a little bit more about that in a second - then I would prefer to see that you give that money to a school with an excellent reputation and a strong alumni network in your radius, in your area. The only exception here I would say is that if you get a full ride, and that's actually what I'm hoping you'll get, or maybe some substantial grant money or aid from a school. And if that's the case, and it's from a second tier school, fine.

Getting a free MBA from a good school is A-okay in my book, and I think in most people's book. So if you can answer "yes" to that, excellent!

And so, as you make your decision, I think that what I want you to consider is not to necessarily quit your job right away and spend $100,000 and get immediately into $100,000 worth of debt. That's like the worst case scenario in my mind. Better yet, maybe you work part time and continue to bring in an income so that whatever loans you take out, they won't be as daunting to pay off. You won't have to take as much out cause you'll be making money. Or maybe you can somehow work it with your current employer that they will subsidize some of your MBA. Some employers do that. Check out HR, see if they have any kind of graduate programs, subsidy, or assistance.

And definitely apply for free money. Just because you're going to graduate school, doesn't mean that scholarships are no longer applicable. There are a lot of scholarships for students who are interested in furthering their education, graduate school, MBA, law school. And so sites like Fastweb.com, Scholarships.com, all free resources that can give you access to scholarship applications based on the criteria that you meet. And so, and one last thing: ask all the schools - I did this when applying to Columbia for journalism school - I asked all, I asked Columbia, and I asked all the other schools that I applied to, for any applications to grants, scholarships, work-study, everything that they provide directly to students. Sometimes this isn't advertised on their websites, you have to call the admissions office and they will be able to help you with that.

So really think a little bit more about this in terms of affordability - getting the most bang for your buck. I think, yes and MBA in many careers is vital to be able to advance. But you don't wanna do it to your detriment either. You don't wanna get the good degree, but then be saddled with all this debt and not have the great job prospects as a result. You wanna make sure you're going to a good school, great school, that you're being smart about how you're investing the money, and that you're really talking to your husband about the "what if's". What if I don't get a job in the first 6 months or the first 9 months. At least a job that would comfortably be able to help me pay off these student loans with my salary alone.

So a little bit more critical thinking, although you've done a lot of the base work here, doing the pro and con analysis. So that's great. I think you can definitely, you can handle this. And let me know what you decide. I'd love to hear more about the next steps that you've taken. Good luck!

[00:12:53]

Maggie! Hey Maggie. She says:

M: “I've been following your advice since "You're So Money" was first published."

FT: Thank you! And she says thank you to me!

[00:13:04]

M: "My question is, I have some mutual fund accounts with about $12,000 saved. I also have my TSP and a Roth IRA."

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FT: TSP, folks, is a Thrift Saving Plan that is often given to federal employees. It's kind of like a 401K. She says:

M: "I was wondering if I should withdraw from the mutual funds over the next few years to max out the Roth? Thanks! Maggie”

[00:13:25]

FT: Hey Maggie, well you know I love a Roth IRA! I love me a Roth IRA. I would say find out two things first. The one is, you wanna figure out the tax consequences of cashing out those mutual funds. And so if you've made some gains in the funds, you may face capital gains tax. If you've only had these mutual funds for less than a year, you may face what's known as a "short-term capital gains tax", which is actually a lot higher than a long-term capital gains tax. So, just a sidebar here for a moment: The IRS says that if you hold your assets for longer than a year, then you can benefit from a reduced tax rate from your profit. And for 2015 the long-term capital gains tax rates were anywhere from 0-20% for most taxpayers. It's 0, 15, or 20%. If you're ordinarily taxed at less than 15%, then you might actually qualify for a 0% long-term capital gains rate. In which case, withdrawing from your mutual funds would be tax free.

For high income taxpayers, the capital gains rate could save as much as 20% off of the ordinary income rate. And most people in this country are somewhere in the middle. So they're gonna probably pay a 15% long-term capital gains tax on any withdrawals from say, a mutual fund that they have. So going back to your question about whether to withdraw: you may have to pay a tax. Are you okay with that? It could be 15%. So you'd lose 15% of $12,000, which is about $1,800 and you know what? In the grand scheme of things this may not be a hard hit because your plan is then to invest that money into a Roth IRA, which as we know, offers you the benefit of a tax free stream of income in retirement. And then the other advantage of doing a Roth is you can invest that money in a variety of funds. Not just that one mutual fund that your money is in currently, but you could spread it across various funds. Hopefully very low-fee index funds which will save you a lot more money in the long run.

So I would say, I mean again, I'm not a financial advisor, and so I would say this sounds to me like a generally good idea. You take the money out of your mutual funds, you pay the tax, then you dump it into a Roth IRA over several years perhaps because you can't put $12,000 in a Roth IRA in one year. I think the maximum is $5,500 or $6,000 this year. So over 2 years you could probably do it. I would say go for it if you want. Because I think what really is also the other advantage, the Roth IRA is going to give you access to many more varieties of investments, which could be in the long run more beneficial to you and your money. Good question, smart question.

[00:16:04]

Alan says:

A: “Hey Farnoosh, I love your podcast. I only recently discovered it so I'm trying to listen to 3-4 episodes a day to catch up."

[00:16:12]

FT: I know. Sorry! It's a lot. He says:

A: "I was wondering if there was any place we could go to get an overview of some of the more foundational tips you provide such as: save and invest at least 10% of your income, keep the cost of rent/housing to no more than 25-30% of take home pay, pay off mortgage as soon as possible, watch out for hidden fees associated with brokers, etc.? Your work is very important and I hope you continue to put out great content."

[00:16:39]

FT: Thank you Alan. Well, we've been talking about my book for a little bit of this show. So my first book is called "You're So Money: Live Rich Even When You're Not." And in there, you can get it at your local library, you can buy it for pretty cheap on Amazon if you buy it used. Or you can buy a fresh, brand new book. It's up to you. But there's options now. And so there you can find a lot of what I preach. That's kind of the foundational book for my work. It's got all the principles that I care about, about money. And I would also suggest the second book, which is called "Psych Yourself Rich", which is less about the tactical stuff, and less about the numbers and the budgets and getting out of debt. It's all about the psychology of money, the behavioural steps that we should take to reach financial prosperity, the good habits that help people achieve financial well-being. So those two books combined, I think, can offer you a really good base. And then just keep listening to the podcast, and write in to me if you've got questions. Let's keep this conversation going.

[00:17:44]

Alright, last question. We've got Edmund here. He says:

E: "Hey Farnoosh, thank you for all the help you do for people. My question is, I have $300,000 equity in my home and I'm trying to borrow $15,000 from the bank but because of my bankruptcy six years ago the bank denied to lend me the money. Are there any other options so I can borrow this money?"

[00:18:06]

FT: Sure! Well you know, tough, tough. I mean Edmon, going to a bank and asking for a loan with a bankruptcy on your credit report is going to work against you. And bankruptcies tend to stay our credit reports for up to 10 years. So potentially another 4 years where you have to deal with this staying on your credit report. It's tough! No one may be willing to lend you the money because of this, as far as banks go. Maybe a sister or brother or a friend or a family member will give you money. I wouldn't necessarily go there though. It's tough, right? Asking loved ones for money. It's just never a good situation. I would say, if this is the only bank you've reached out to, maybe it's worth reaching out to a few more banks. Maybe try like a smaller bank like a credit union. I dunno, just put out some more feelers and see what happens.

I would also say, I mean, it's tough. The bankruptcy is going to be a really big barrier, but you might wanna apply for credit card that has a very low interest rate, maybe a 0% APR for the first 12 months. Again, this is only gonna likely go to the people with the best credit scores. So if you don't have good credit, this also may not be an option. Last, I would say - and this might actually be a winner here - go to a peer-to-peer lending website like Prosper.com, there's also Lendingclub.com. You can go there. These are peer-to-peer loan marketplaces. So individuals lending to individuals. So they cut out the middleman, they cut out the financial institution, and I would even suggest listening to So Money episode 115. I interview Simon Cunningham, who is an expert on peer-to-peer lending, and he has some pretty good insights as to how it works.

But based on how much you need, what the loan's for, and your general credit rating, you could probably get some offers from investors willing to lend you money at a particular rate, often better than what a traditional bank may offer. Now you, because of your bankruptcy, might face a higher than average interest rate than what the sites are advertising. But if you're not getting any loans from banks, this is maybe better than nothing, perhaps, for you. And I would say, if this is an urgent - you know $15,000 is a lot, but it's not that much if you can save for it over the course of a year or 2. And if you don't need this money right away, this isn't urgent, I would rather see you work to get this money saved, on your own, to pay for whatever it is you need to have paid. I just worry about getting into debt, and hopefully it's for a good reason. Maybe this is a home renovation project that will pay off when you sell the home? But that would be what I would suggest off the top of my head. So good luck and again, let me know how things turn out for you.

[00:21:09]

And that's a wrap for this Saturday. Thank you so much to all of my great question askers. Alan, Edmon, Maggie, and Anna! Great questions ya'll. Thank you so much! Again, if you wanna ask me a question, very simple. Just hop onto Somoneypodcast.com, click on "Ask Farnoosh", and there, boom, submit. Goes to my inbox, and you could be on the show in the following weekend.

Thanks everyone! Have a great rest of your weekend. Hope to see you back here tomorrow for more questions, and good answers. Hope your day is So Money!

[END]

