EPISODE 195

[ASK FARNOOSH]

[00:00:30]

FT: Welcome back to So Money everyone. Happy Saturday! It's Ask Farnoosh time, and I'm your host Farnoosh Torabi. Thanks for joining me. So last week I mentioned I'd just started my tennis lessons and we got off to a bad start because Saturday it actually rained when I got to the, just as I arrived to the tennis court it poured heavily. And so I got caught in the rain and we had to reschedule, ran home and then the next day, fortunately the instructor was available. So we went the next day and she was asking us what our skill level is, and I was very - I did not pretend that I was any better than I was. And I said, "Frankly, I was the pity player on the high school tennis team," and I think I proved myself right at that practice session last Sunday.

I hit the instructor, at least once, with a tennis ball, definitely several balls went over the fence, and my brother actually, who hasn't played for as many years as I haven't, was pretty good. So Todd did really well, but he's athletic so he gets the gene, I didn't. But I'm looking, I think we have like I dunno, 14 more sessions left or 11 more sessions left and sprinkle in some extra court time with my bro. I think by I dunno, October hopefully I should be good. Of course that's when the weather's bad and you can't play, but I'm just excited to be doing something that I have a very big passion for, and that I hope will be something that I can do when I retire because I need some hobbies. I work a lot guys, in case you haven't noticed. I don't really have time for leisure activities. I workout sometimes, but I'm really excited to pursue tennis once and for all.

Anyway, that's just a little bit about me. But now of course we have to talk about you all! You all have been very patient asking me questions throughout the week, waiting with such anticipation for Saturday and Sunday - I just know it - for me to respond to your questions. And before we get to all the great questions that we've got lined up for today, I wanna turn to iTunes and see who has left reviews. We are really getting close to 300 reviews guys! Thank you so much! I have a review here from several people during the week.

We have, let's see... we have from Maggie, René, Hugsom, Californiacoastaccount. Who do I pick? Oh my gosh, this is hard you know? I just try to like throw a dart and see what catched my eye, and try not to read because I don't wanna be biased. So I'm just gonna go with Californiacoastaccount who says:

C: "This podcast really helps. Growing up money was always credit. When I was in college, and that credit finally tipped to bankruptcy. I started to realize credit cards are not money, although I'm constantly working to get myself in the spot I wanna be. Farnoosh surprises me every episode with new material I can apply to my own lifestyle. Not only that, she keeps me motivated. Thank you for putting this material out there."

[00:03:40]

FT: Well, it's my pleasure. It's my absolute honor and privilege to be able to do this podcast and thank you for your review Californiacoastaccount. Send me an email, farnoosh@somoneypodcast.com. Mention that I read your review on the air, and we will connect. I'll follow up and I'll send you a booking calendar so that we can have our free 15-minute Money Session. Okie oke guys, let's get to the questions. As I said, we have over a dozen and I don't think I'm gonna get to all of them today, but there's always tomorrow! We're gonna start with Rachel and she says:

R: “Hi Farnoosh! I recently got hooked on your show. I just got married and my husband and I are in our 20s."

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FT: Well congratulations to you both Rachel! She says:

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R: "We're lucky enough to be in a position to save about half of our income."

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FT: Wow! She says:

[00:04:31]

R: "We have savings funds for travel and for a house that we're going to use next year. Where should we put our short-term savings?"

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FT: Well first of all, I have to say, saving 50% of your income is outstanding! I've just finished interviewing a number of millionaires next door, which I'm gonna be airing those interviews soon as I promised. I've been trying to put together a themed week of millionaires next door. You guys are gonna just love these episodes and these individuals an couples that I found, but what I found to be common with many of these profiles is that they're not saving 10%, they're not saving 20%. They're saving 30, 40, 50, 70% of their incomes in some cases and it's not a lavish lifestyle while they're doing this, obviously, but the good news is that when 35 comes around, 40 years old, 45 they're retired! They can throw in the work towel and start traveling, start maybe a passion project.

So the fact that you're saving half of your income is a really good indicator that you're on your way to being millionaires soon, if you keep at it. Where should you put short-term savings? Well this is money because you wanna pull it out in the short-term. You're saying next year you wanna use this money for a house and travel. Keep it in a savings account. A liquid account at your local bank or credit union, or an online account. This is not money that you want tied up in the markets, you don't wanna be putting this in an IRA or a bond necessarily. Maybe a one year CD perhaps? I mean maybe the interest rate is a little bit higher than a chequing account or a savings account, but I think you wanna be first and foremost sure that this money is accessible to you.

As someone who has gone through several home purchases, that closing schedule, when you have to close on a house it can really sneak up on you a little bit. Everything moves very quickly when you're ready to go and close on a house and they'll say, "Okay, closes in two days." So then you have to go to the bank and get the money and if you have this money tied up in a CD or even in an online account, sometimes it takes days to transfer. Just make sure it's really accessible so you don't have to delay anything in the event that you need this money quickly and it's there for you. So don't worry about interest rate, don't worry about how it's getting invested. Just most important for you guys is that this money is accessible and you can withdraw it for free. And congratulations! Buying a home and going to travel and saving half your income, sounds like a fun journey ahead. So good luck with everything!

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Abby says:

A: “Hey Farnoosh, I'm re-sending this question, per your request, because I'm not sure if it was received."

[00:07:20]

FT: She says:

A: "First off, love the show, thank you for your wisdom! Before my newlywed husband and I married, his ex-wife started an ESA - and Education Savings account for their 11 year old child and asked him to contribute. I’m 100% on board for saving for college, but I’m not convinced that this is the best avenue. I haven’t brought this up to the husband yet, but I’d rather us open a separate ESA for their child and potentially our future children. What are your thoughts?”

[00:07:47]

FT: Well it sounds like there's some trust issues here. You're not trusting the ex-wife. Perhaps you're concerned that because you're husband's not a co-owner of this account, that she could take his contributions and reroute it somehow? I sense that's what's happening here because it sounds like that's really what's holding you back from wanting to do this. And so I would say, why not have your husband suggest being a co-owner of this account with his ex-wife as far as opening it up together and designating their son as the beneficiary. Can you do that? I think you can! And this way, what he contributes you can be confident that she, the ex-wife, can't suddenly decide, "I'm gonna take this money and run."

I mean I don't know if that's what your concern is? It sounds like it is, so I apologize if I'm mis-reading or I'm reading between the lines and there's nothing to be read, but if you're concerned about trust and her ability to be faithful in this savings plan, then the best thing to do is to be co-owners of this account, then every decision that's made has to be jointly decided. And you could say to her, easily, "You save and I save. You have an account, I have an account. Totally game with saving for college, but I would feel more comfortable just, because now that we're divorced, have a separation of finances."

And have a conversation with your husband about it, hopefully you can have a constructive conversation and it won't turn into an argument. But I would definitely have this conversation if you are concerned and if you do plan on having other kids, this is definitely a conversation to have now, as far as how to manage this, how to organize this and save appropriately so that all the kids get a fair amount of money for college.

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E: “Hi Farnoosh, I work in..."

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FT: I guess "PM" means project management?

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E: "PM/engineering and am in the midst of applying for jobs as my boyfriend and I are looking to move to a new city. I have a salary in mind that I want to make but came across a job the other day that is half of that number, but looks really interesting and is in a field that I would like to move into so I applied for it. In the job ad it said that the employees are hired at a base salary of $X + incentives + benefits. In the event that I get an interview for the job, how should I approach the salary issue since it is set in the posting. Any advice?”

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FT: Well, you know Elizabeth, salary discussions with an employer - a prospective employer - are meant to be a conversation, a back and forth, nothing is ever set in stone. I mean trust me, even if they say there's no wiggle room, there's no moving upwards from the stated salary in the ad, ask them, "Well are you willing to make an exception?" This particular question, "Can you make an exception? Or have you ever made an exception?" Is actually a very, very studied sentence.

There is a professor at Warden who's written a book and I've interviewed him and he's basically written a book about negotiating, getting what you want. And when I interviewed him I said, "Well what happens when somebody tells you this is the bottom line, no can do, no budging?" You wanna say, "Well, have you ever made an exception? Or could you make an exception?" What it does is it forces the person on the other end of the deal to think differently, to reshape the mindset and think, "Okay have we? Or could we?" And to think a little more outside the box than just, "This is what we have to do."

So I would say take the interview, go in, don't be so concerned that they have in print in a newspaper or whatever said that this is what it is. All salary discussions should be a back and forth. Employers, a lot of times, expect the prospective employees to negotiate, and they don't, so the employer automatically wins. So I just say, go in there, be confident, talk up your worth. Do a little market research, find out what this particular position, if it's anywhere else in the market place at a different company, what they might be paying. Go to payscale.com, go to salary.com, talk to people who you may know that are affiliated or have some similar kinds of jobs. Do some research and go in there armed with that research and start a conversation.

If they start to be, if they start to brush you off, if they start to get dismissive, and I hope they don't but I have heard that in some cases - I get questions and emails about this on the show sometimes, you know, "I brought up salary negotiations and they just got really defensive." And I would just say to that, that that's actually a good sign to see now. This is a good litmus test because if they become suddenly really angry or defensive, let that be a sign of the culture of the workforce there. And that's probably not a culture you wanna be a part of. If they're open to it and they're, you know they go further to explain and they have the conversation respectfully with you, even though they may not give you more money, but it's respectful, well that's a good sign. And that may mean that in the future you could revisit this.

So my bottom line advice to you is, don't be so caught up on the fact that they wrote something in writing in the paper. That was probably just something that they did to perhaps either weed people out, or manage expectations a little bit so you know that if they're offering you $50,000 relatively there's no way that this is a six figure job. But maybe it's a $65,000 a year job potential, or you could ask for $8,000 more, along those lines. So use that as a benchmark.

[00:14:11]

Chris says:

C: “Farnoosh, sorry if you've already answered this - do you have a search feature for past Q & A's? I couldn't find one. Young professional here, and I've worked for a few different companies now and have contributed to a 401(k) at each one. Should I simply let them be, or should I put them all in the same place? Positive/negatives with each option? With the latter, if I do that, should I transfer or rollover, and what's the difference? Thank you!! you rock!”

[00:14:38]

FT: Awh thanks Chris! Well I don't think you've asked this question before or anyone's really asked this. I do have a search feature on Somoneypodcast.com. You can search by keyword, by guest name. You can't necessarily search within the Ask Farnoosh's particular things, but if you search retirement - I tag everything! So if you search 401(k), retirement, you should hopefully get enough results where you might be led to past Q & A's, or Ask Farnoosh episodes where that topic is discussed.

For your case, your 401(k), it really just depends on the quality of the 401(k) at your new job. Do you like the options? And if you do, then you could rollover your old 401(k) into the new 401(k). Or you may decide you wanna roll it over into an IRA outside of work at a bank because you have access to several more options when it comes to investing. You know, with a 401(k) you have options but they're relatively limited. In an Individual Retirement Account it's much more broad. Further more, it may be cheaper to have money in an IRA because you may not have to pay fees for the management of the IRA, the IRA as an entity. Sometimes you have to pay a fee for the management of your 401(k) as an entity. And so some considerations to make there.

A transfer is the same thing as a rollover, essentially. But you wanna make sure that you are doing it directly. Whatever you do, make sure it's going directly from your previous 401(k) directly into either the new IRA or the new 401(k). You do not want that money to go anywhere outside the realm of an account, because as soon as it does, it's considered an early withdrawal. You have to pay taxed on that, you might have to pay an early withdrawal penalty, which can effectively wipe out 40% or more of your earnings. So just be cautious that if you decide to move the money somewhere else, that it is a direct transfer or a direct rollover. Good question!

[00:16:50]

Michael writes in:

M: “Hey Farnoosh! My question concerns robo-adivsors and automated investment services. What are they exactly? How do they work? Who are they best suited for? Should I use them or a more traditional investment vehicle? If I go with one service, how much should I be investing monthly into them?”

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FT: Well that's a lot of questions around robo-advisors. I don't have a lot of time to dive into this, and frankly I don't know all that much about robo-advisors, although I know who the big players are. In fact I just had the folks over at Betterment reach out to me to see if I'd like to have someone from the company on the show. And actually, maybe I will do that because I do get a number of questions from listeners like you who are interested to learn more. So I would say, there are a lot of great articles out there. I was a contributing editor at Money Magazine, and at Money they just published about a month ago online an article called "Robo-Advisors, the Next Big Thing in Investing".

And what they say is that technology is allowing people to make smart decisions about what to do with their money for a very low fee and that robo-advisors is the latest big shake up in the investment world. And it's kind of like "set it and forget it" for you portfolio, where a computer program automatically adjusts your investments and even tries to minimize your tax bill. The article goes on to talk about how they work, the fact that this is booming, how millennials - young adults - are really big fans of this. And some skepticism in the article; are they a little too simple, too simplistic?

So the jury is out, whether robo-advisors are in fact a better solution for financial planning, particularly say for a millennial who doesn't have very complex financial decisions to make. But now that you've asked this question and I have gotten a few questions like this recently, I'm thinking maybe it's a good time to book someone from this marketplace to get those questions answered and of course they're going to be a little subjective, so I'll try to play devil's advocate on the interview. But thank you for you question, and I'm sorry I couldn't answer all your questions with this topic, but you've got me inspired to dedicate an episode to this. So thanks a lot Michael.

[00:19:14]

Angela says:

A: “I'm seeking operating monies for my business for the first year. Sending 17 year old to college next year myself.”

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FT: Well Angela, so it sounds like you need money for you business. And having spoken to many entrepreneurs on So Money, we have heard people talk about how they bootstrapped their startup with a 0% APR credit card, where they maxed it out the first year and then paid it off within the first year so they were able to basically get a free loan, essentially. The important thing there is you gotta pay back that credit card before the 0% APR expires! People go to peer-to-peer lending sites to get money for startups. People might go to Kickstarter, which is another site where you fundraise money for your business. You could sell things to short cash to start the business. You could take out a private loan from a credit union or a bank to start your business.

And so really, there are several ways to find the operating money for the capital for a startup. Also, look into your city. Go to your local library, go to your local municipality to find out if they have grants for local businesses. Go to the Small Business Administration - SBA.gov - and search for your local chapter and see if there are resources available for small business owners. It may not be money, but it might be resources like help, tax help, branding advice, marketing advice. So there are perhaps free resources out there for you that isn't exactly dollars and cents, but can go a very long way in helping you start your business.

As for sending your 17-year-old to college next year, I would say have a conversation with your child about how he or she can also help contribute to their education. Can they work? Can they apply for scholarships? It's not too late, and make sure that they are filling out the free application for Federal Student Aid. That's the FSA, the earlier her or she fills it out, the more likely they will qualify for some good Federal Aid. Alright, good luck!

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And we're gonna wrap here with JP who says:

J: “Farnoosh, Great Podcast. I don't always agree with you or your guests but I always find myself learning something from each guest. After listening to your podcast with others and reading blogs, I understand the benefit and freedom that comes with owning your own business. But I'm not a passionate person about anything and I don't know where to start. I feel like I'm good at a lot of things but not great enough to start blogging or podcasting on a specific topic. I have a few ideas rolling around in my head but they seem to be just that, ideas. Any idea of where to start?”

[00:21:58]

FT: JP, this actually reminds me of a graphic that I once saw, and I put it on Instagram. It was so right on and spot on and it said, "What kind of success are you?" And it was three circles, and in the middle where those three circles overlapped, was sort of the sweet spot. Was the "total success spot", and really you wanna combine what you love to do, what people will pay you to do, and what you know how to do. Those three things, if you can combine what you love to do, what you know how to do, and what people will pay you to do, then that is total success.

You've gotta have all of those three elements. If you're just doing what you love to do and you're just doing what people will pay you to do, then you're just living a dream. If you're just doing what you love to do and what you know how to do, then you're happy but poor. If you are doing what you know how to do and what people will pay you to do, then you're rich but you're bored. So the key is to do what you love to do, what people will pay you to do, and what you know how to do. Does that make sense? I'm gonna post this on Somoneypodcast.com, this graphic, so you can actually see what I'm saying. It's a little hard to visualize as I say this, but it will click when you see it and I look at this from time to time because I think that might help you narrow down what it is that your niche should be, that what it is that you should actually pursue. So good luck and let me know how things go.

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And that's a wrap everyone! Thanks so much for tuning in. That was our Saturday edition of Ask Farnoosh. Tomorrow, several more questions to answer and I look forward to having you join me back here tomorrow. Thanks so much! Have a So Money Saturday folks.

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