

**EPISODE 237**

[ASK FARNOOSH]

[00:00:30]

**FT:** Happy Labor Day Weekend everyone! I'm your host Farnoosh Torabi. Welcome to So Money! This is Saturday, wow can you believe it? September 5th! It is Ask Farnoosh time. Lots and lots of great questions to get to. What are you doing this weekend? I am, well you know, it's been a really busy summer for the Torabi-Dussingers. We've been moving, twice now, we've been under renovation for some time now. We just wanna catch our breaths this weekend, I guess, and not having much to do. Spending time with our friends, and of course spending time you, getting to all of your great questions.

But first, let's go to iTunes and see who's left some reviews. By the way, last week I read out a one-star review on the show and that person did not get in touch with me for a free 15-minute money session. Surprise! So Peter, if you're listening, Peter Marks, and you wanna get in touch the offer still stands. This week though I wanna pick - wow there were several reviews this week and I know that there is a bit of a delay. So if you've left this review like a week ago and I'm just catching it now, it's because there's like usually a 72 hour pause before your review goes live on iTunes. But I'm gonna pick, well, [JCMantaray] writes:

**JM:** "I love learning as much as I can about personal finance, so I've been on the hunt looking for a personal finance podcast I can really get into. My first few episodes were at the airport, and before I knew it I was trying to download as many as I could before I had to put my phone in airplane mode."

[00:02:07]

**FT:** Well that's nice! As everybody else is trying to finish their game of Candy Crush, you are trying to finish your So Money episode, which is really awesome. And this person goes goes to say:

**JM:** "Farnoosh is super easy to listen to and her conversational tone really keeps you engaged throughout the episode. It doesn't sound like she's reading a script so it never feels monotonous."

[00:02:28]

**FT:** Well JCMantaray, thank you so much for this really kind and cool review. I can almost imagine you at the airport and the flight attendants are asking you to log off and turn off your devices, and you just have to listen to what - I dunno? Who were you listening to, Tony Robbins? Or maybe a millionaire next door? Either way it was probably a good show, hopefully. And I'm glad that you are sticking around! So email me: [farnoosh@somoneypodcast.com](mailto:farnoosh@somoneypodcast.com), and we will connect and I look forward to connecting with you voice to voice.

Let's shift gears now to our questions, starting with Monica. She says:

**M:** "Hey Farnoosh, I live in a high cost of living area - Los Angeles - and wonder if buying a home here is worth it? My husband and I want to have a home to call our own, but even condos in our area run about \$400,000-500,000. What advice do you have for want-to-be home owner who live in a very high cost of living area? Should we rent until we retire and then move out of Los Angeles? Thanks for all that you do."

[00:03:29]

**FT:** Well Monica, I don't really know much about you to give you a precise "yes" or "no" to whether I think you should continue renting or buy. But I would say the following: If you plan to live in Los Angeles for at least another five years, that's important. If the answer to that is "yes", then I think you're better qualified to be a home owner than somebody who's like, "You know what? I'm thinking maybe LA is like two year stint, a three year stint, I don't know, my job is uncertain."

But if you and your husband want to plant roots and stay here for the long run, even though it's a high cost of living area, if you're making enough money and you feel like you wanna invest in the town, in the neighborhood, in the city, then I'm not saying you should buy but I'm saying this

better qualifies you as a home owner. And I would also take into consideration how much of your monthly take home pay will owning a home cost you? So if you're looking at these condos that are \$400,000-500,000 a piece, when you add up the monthly mortgage and the taxes and the maintenance, what does that total? And what is that compared to renting? What's more affordable? Where does your dollar get the most value?

And keep in mind that housing costs exceeding 25 or 30% of your take home pay is too high. Too high! You need to have money left over for other survival needs, right? You wanna keep your housing costs to a minimum. And then I would wanna know, why do you wanna own a home? You said here that you wanna have a home that you can call your own. Well that's not nothing. I think hearing that signals to me that you guys want a home for it's emotional value and it's psychological value. Owning a home, studies have shown, it gives people peace of mind.

Just speaking from my own experience, I had to find a rental twice in the last four months. It was nerve wrecking! Especially now that I'm a parent and I have furniture that's hard to move, and options were limited. So it was stressful! Having your own home and knowing that it's yours, and as long as you make that monthly mortgage payment it is yours, is peace of mind. Do you wanna own a home because it's what all your friends are buying and it's because what you feel you're supposed to do because you're "adult now"? If that's something that is a consideration I would say, "Maybe you shouldn't buy a home." Those are the wrong reasons to go into home ownership.

But if you wanna buy a home because you want a place to call your own, and that brings you peace of mind, like you said earlier, because you plan to live in the area for many years, because home ownership brings you a lot of internal happiness, then I think psychologically, emotionally, you might be ready. Of course the numbers still have to add up. And the good thing about living in a high cost of living area, I guess the silver lining is that, prices just continue to go up.

Like in New York, I firmly believe that if you buy property and you hold onto it for at least 10 years, you will do well. For the most part, it will be worth more than what you paid for it initially. And that's just because that's the nature of living in a high cost of living area, that it's sort of a

bubble from the rest of the economy and while there may be a recession going on - not to say that LA or New York will be unscathed, it won't be as damaged. And I think housing prices will maintain, not their highest levels, but they won't be as bruised.

So even in tough times, I think, owning in those particular pockets of the country can be okay in the long run. It really just comes down to what you can afford, what you feel comfortable with, what you're emotionally ready for. And from there I think you'll have a better answer, you'll be warmer to knowing whether you wanna rent or you wanna buy.

[00:07:05]

Kiyan says:

**K:** “As a Millennial in the workforce, I'm already starting to think about grad school in the next few years. My new job provides 401(k) matching through Vanguard, through which offers a 529 college savings plan. Do you think I should appropriate some of the funds from my 401(k) into a 529? I would likely still get matching if I do this, right? Or, should I bypass the 529 and borrow against my 401(k) if I choose to pursue a degree in the future? As you know, school will be a huge expense and I'd like to maximize my tax-free contributions. If I decide against school, then what are the cons of the 529?”

[00:07:45]

**FT:** So the thing about 529 plans, Kiyan, is that if you invest in them, if you invest in one and you don't end up going to college or grad school or any kind of higher education - and by the way, 529's don't just have to be for college or grad school, they can be for continuing education, they can be for courses. There are a lot of qualifications for 529 savings. But if you just don't go to advance your education and you have this 529, there's a few things you can do. One is you can change the beneficiary. So if you have a relative, a friend who is going to go to college, you can change the beneficiary. And so consider it a nice gift that you've given this friend or this new beneficiary.

The other thing you can do is take the cash out. But that's a problem because it's gonna cost you and so what is it gonna cost you? You're gonna have to pay income tax and a 10% penalty on the earnings. So just be aware of that. If you wanna save for college, and knowing that it's just four or five years away, just say. Don't worry about trying to get an investment return on it because in four or five years the market could really go for a rollercoaster ride and you won't have time to recover when it comes time to need that money.

So I would just say, "Save the money some place else, like a money market account, a CD, a bond, just a traditional savings account. Just save." Because in four years or three years, whenever you plan to go back to grad school, it's not like you're really gonna have made that much money from investing, unless we have really a bullish three years, which I just don't think we'll have because well, we've had a pretty bullish run for the last five or so years and we already saw already the market correcting itself.

So I just wouldn't maybe do the 529. Although the matching is pretty enticing, just be sure if you're gonna go to college. If you - I mean I don't sense that certainty from you. But if you know you wanna go to grad school and you have this 529, and your company's gonna do a match, which I'm not sure if they will. You asked me, "Would they?" I dunno. I have no idea. You'd have to ask them. It's not always a guarantee, just because they matched the 401(k), they would match in the 529. But if they do, that's huge so take advantage of it. But you wanna be certain that this is going to be a reality for you.

[00:10:07]

Dawn says:

**D:** "I am 30 years old and I feel like I am so behind in saving for my retirement! So now I am ready to start the process, but just so confused about where to start. I have a Roth IRA in a bank that my father started for myself a few years ago that I have yet to start contributing to. And my current employer offers a 401(k) that I can contribute to but with no employer match. My question is, is it better to start contributing to the Roth that is open, or would it be best to rollover this account into a 401(k) plan through my employer to have just one account? Thanks. By the way, I love your podcast!"

[00:10:41]

**FT:** Well thanks Dawn. I wouldn't recommend merging these accounts. Remember, the Roth IRA has a different tax implication than the 401(k). With the Roth IRA you contribute to it and that money grows and you can withdraw it tax free in retirement. With a 401(k) you contribute, it reduces you taxable income today, then you have to pay taxes on the withdrawals on the earnings in retirement. I don't even think you can dump a Roth IRA into a 401(k), they're just two different vehicles.

I would say, "Contribute to the Roth IRA, max that out while you can." This is something that is not something everyone can be eligible to contribute to. It's one of those things that there's a window, right? Once you start making too much money, this becomes less and less of a viable option. So take advantage of the Roth IRA cause it has great tax benefits.

Then with your 401(k), if you've got money left, put money in that. I don't like that there's no corporate match, so it's not like I would rush to put money in the 401(k). I would prefer that you rush to put money in the Roth IRA to max that out, and then with maybe some that's left over, put it in the 401(k). I'd say if you can carve out 10% of your take home pay towards "retirement savings" and then spread it across the Roth and the 401(k), starting with the Roth, that's what I would do. Good luck!

[00:11:58]

Drew says:

**D:** "Hey Farnoosh, I really enjoy the podcast, especially the entrepreneurial topics that you cover. I am looking at starting to self-publish online and wondered what has worked best for you? Do you prefer to publish your own website and build your own payment and delivery system, or do you like to use services like Amazon Kindle to bring books to market? Do you like to use services like Upwork (formerly oDesk) to find freelance editors, or do you prefer to work with people already in your professional network? Keep up the great podcast!"

[00:12:27]

**FT:** Yeah Drew, well first of all, awesome that you're entering the self-publishing world! Sounds like you wanna do a book and maybe a blog as well. So I've never actually self-published a book, although I know many, many authors who have. And learning from them, they love using Amazon Kindle, they don't do their own payment system - it's just, you know, there's great cost-efficient services already out there that exist that work, so they take advantage of them.

They do recommend investing in a good editor because at the end of the day, your book is only as good as the vocabulary and the words and the grammar. The idea's important, but you also wanna make it readable and reader friendly. So make sure that you do invest in a good freelance editor and lots of people have found editors online through Upwork - formerly oDesk - I have found transcribers through Upwork and oDesk, so it's a great resource.

However, if you know someone in your existing network that you think would like to take on this job and is affordable, then by all means consider them as well. And thanks for your encouragement. Let me know if you have any other questions about self-publishing. I've actually done a lot of research on this just out of my own curiosity as I'm looking to maybe in the future go into self-publishing.

[00:13:41]

And that's a wrap everyone. Thank you so much Drew, and Dawn, and Kiyon, and Monica for your questions. Tomorrow we've got questions from Ben and Jon and Eric and Scott, so if you didn't get your question read today, tomorrow might be your lucky day. And of course, if you have a question for me that you haven't sent, hop on to [Somoneypodcast.com](http://Somoneypodcast.com), click on "Ask Farnoosh", and that is a little tool that connects you to me, and get's your question read out loud.

So thanks so much! Happy, happy Labor Day Weekend everyone. Hope your weekend and your day is So Money.

[END]