EPISODE 265

[ASK FARNOOSH]

[00:00:34]

FT: Hey everyone. Welcome back to So Money. Happy Friday. I'm your host Farnoosh Torabi, thanks for joining me. We've got tons and tons of questions this Friday from Crystal, and Maggie, and Oscar, and Elizabeth.

Before we get to everybody's excellent questions I wanna introduce our special guest. You've heard him before, if you've been listening to this show, and he's a special friend to the podcast, Alan Moore. He is the co-founder of XY Planning Network, it's a fee-only advisory and location independent financial planning firm. So if you're in Boston and you want a financial planner, if you're Honolulu, Paris, Alan can connect you with someone who can work with you remotely. He was on So Money not too long ago with some great insights into his own financial life and I thought, "You know what? Alan let's team up again. Come back and help me answer some of your pertinent financial questions."

So without further ado, Alan welcome to the show again!

[00:01:26]

AM: Thanks so much for having me back on. It's a pleasure.

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FT: Let's turn now to our questions, we have several in the queue, and I wanna get to as many as possible.

We're gonna start with Crystal and she says:

C: " Hey Farnoosh! Thanks so much for the amazing content on your podcast!"

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FT: Well thanks Crystal! She says:

C: "I wanted to get your thoughts on Credit repair companies. I have a friend,"

[00:01:46]

FT: "A friend". Hmm? [Laughs] Sometimes — are you talking about yourself crystal, or is it really a friend? So she says:

C: " I have a friend who recently used a credit repair company to clean up some blemishes on her credit and before I jumped onboard, I wanted to get your insight. Will credit repair reflect negatively on my report?"

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FT: Well it depends — and you can answer this too Alan, but I think just from my understanding it depends on whether this is a credit consolidation company? A credit management company? A credit repair company? Sometimes how they repair your credit can negatively impact your credit report. So if they are, for example, going and saying, "Okay you know what? We're gonna pay off this debt, we're gonna settle it. You know, 50 cents for every dollar that you owe." And that gets reported as a settled debt and that could potentially impair your credit report.

If however what they're doing for you is negotiating and saying, "We would like to lower your interest rate, we're gonna get rid of some fees," but you still end up paying that debt in time, in full, then that does not necessarily negatively impact your score. So you wanna ask them, "How are you gonna go about "repairing" my credit? Is it settlement? Or is it management?" And if it's settlement, just know that that could have the ability to negatively impact your credit report.

What do you know about this Alan? Do you help a lot of your clients with credit repair?

[00:03:17]

AM: Not really, and I'll tell you why. I have heard some really scary stories about the ways that they do repair your credit, such as changing your social security number so the credit companies can't track you, I mean there's a lot of really extreme stuff that happens in the credit repair world. There are only two ways to fix your credit: one is to fix in accurate information, so basically they reported something incorrectly, you report it to the credit agencies and they have to go double check and then they find out, "Okay yeah this was erroneous information." And time; over time negative information become less and less of an impact on your score, and eventually falls off your credit report.

And so what I would say is if you're looking at a credit repair company, chances are they're doing something shady just because there's really no good way to fix a credit score other than time and just fixing incorrect information.

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FT: That's a really good point. Yes, there's a lot of abuse in this industry. I think if you're getting an offer that says, "Hey, we're gonna get you out of debt in no time, in 30 days, in six months," that's too good to be true, you wanna walk away quickly. But I would recommend the National Foundation for Credit Counselling — NFCC.org. There's also Money Management International, these are credit counselling, non-profit groups. They're all over the country, you can hook up with somebody in your area, just type in your zip code on their websites and they will hook you up with someone who is a licensed and an accredited credit counsellor — say that 10 times fast! And they will meet with you — first meeting is free — to kind of just give you the overview of where you are, how they might be able to work with you.

They do have debt-management programs, but again, to Alan's point, these aren't quick fixes. You enter this program with the understanding that it could take two-three years to get out of debt. But it's gonna be the right way. And absolutely, time heals. We actually had on Ethan Dornhelm from FICO who's a principle scientist on the previous week's Ask Farnoosh, and he gives a lot of really insightful information about kind of what impacts your credit score, and how time does heal. So that's a good point though Alan, if it sounds too good to be true, you better just take it and leave it.

[00:05:28]

AM: Walk away. [Laughs]

[00:05:29]

FT: Walk away. Well good luck to your friend Crystal, and you!

Maggie says:

M: "Hey Farnoosh. I love your show! Retirement question — I'm 26 and currently contribute the max $18,000 in 401(k) pre tax and $5,500 in a Roth IRA."

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FT: Wow! She's ahead of the curve, wouldn't you say?

[00:05:48]

AM: That is awesome!

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FT: [Chuckles] She says:

M: "My employer also offers a Roth 401(k). Can I have all three retirement accounts? Currently the $18,000 bumps me down from the 25% to 15% tax bracket."

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FT: Wow, that's great.

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M: "So I understand the current benefit. However, I will be receiving a raise that will keep me in the 25% bracket despite my pretax efforts. Perhaps at least $5,000 pre tax to maximize employer benefits, $13,000 in the Roth 401(k), and $5,500 in Roth IRA? Is this possible?"

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FT: What do you think?

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AM: So it sounds like there's just a little bit of confusion here on the way that taxes work, whenever you're contributing to pre-tax and Roth 401(k)'s. So let me just point one thing out here, and that is whenever you're in the 25% tax bracket and you're contributing money and you get down to 15% bracket, that does not mean that all of your income went from being taxed at 25% down to 15%. The way the US tax code works is your income up to a certain level is taxed at 15% and everything over that is taxed at 25%. So don't worry too much about trying to get yourself from 25 down to 15 because ultimately that's only affecting a certain amount of your income, not the entire income.

Now that being said, the short answer's "yes". You can contribute up to $18,000 total into your 401(k). You can split that between Roth and pre-tax contributions, you can do all Roth, all pre-tax, it's totally up to you. And you can put the money into the Roth IRA. The one thing to know is that any employer contributions, which Maggie did not mention having any, but if there's any match, that automatically goes into pre-tax. So even if you put all of your money into a Roth 401(k) and Roth IRA, you're still gonna be having some money build up in that pre-tax. So you can do that, it's just totally up to you on the way you wanna structure it.

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FT: Right. And I get this question a lot, which is, "I don't know whether to do the Roth or the traditional?" And I mean really it just comes down to your preference as far as how you are gonna be subject to taxes.

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AM: That's exactly right. I mean you basically are flipping a coin on do you think tax rates are gonna go up or down. And so if you're pulling money out in retirement and you're at a really high tax bracket, and a low tax bracket today, the Roth makes sense. If you're gonna be in a high tax bracket today and super low in retirement, the pre-tax makes sense. So what I see a lot of folks do is kind of hedge and end up with money in both Roth and pre-tax. But that being said, it really is a preference. There's honestly no right answer.

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FT: Mike, he says:

M: "How would advise a high school graduate who doesn't know what they want to study."

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FT: I think that's a lot of high school graduates. [Laughs] I think thats...

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AM: Absolutely!

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FT: ...most young adults. He says:

M: "But I'm pretty sure I want to go to college, how would I finance it? Should I do student loans? Should I go to a junior college and maybe then transfer to a four years school? Should I work while I'm in school?"

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FT: Mike, I love that he's asking this question now. So many...

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AM: Oh yeah this is huge!

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FT: Right? I mean so many students just go and they follow the herd, and they go to college, and they take out all of the loans. Actually Pew did a study, this week it came out on the fact that really, I mean we know this, but I think when Pew comes out with the report it's official [Laughs] that student loans has reached epidemic level, that there has never been a time in history where young adults have been saddled with so much debt at such a young age, that they predict it's gonna be just this seismic shift in how the economy will operate in the future. And so with that as the context I would say, "Mike, to the best of your ability, try to minimize your financing, your borrowing. And if you can go to school part time and then work, or you go to a community college first and then transfer especially because you don't know what you wanna do."

And that was me, I didn't know what I wanted to do. So I went to State School. I didn't go to the $35-$40,000 a year private schools, which by the way, the first year you're all taking the same courses. There's really no difference in terms of your education. Sure, Harvard is great, but if you don't know what you wanna do, don't invest so much money in just being confused. Go and just kind of know that you can explore lots of stuff, and at a low price. And if it means skipping a year between high school and college to figure out a little bit more about who you are and where you want to go, that's fine too.

I can only imagine, Alan, you know the number of clients you come across who didn't do that. You know, the went and they went to college, they financed it to the max, and now they're paying the price.

[00:10:38]

AM: Yeah. It's a huge issue. I mean I don't think I've ever worked with a client that didn't have student loans. But like you said, when you were first asking this question, Mike's actually asking the right questions now. So I'm totally in agreement with what you're saying, that college is an investment. You're investing money to be able to get some sort of, the education to start some sort of career that you really love. Don't make an investment into an unknown.

You need to figure that out, so whether it's taking a year off and working, or taking year off and travelling Europe, or it's going to community college, take that time, really focus on what you wanna do with your life. And then pick the school that's gonna provide you the best education because I can tell you, I got my college degree in family financial planning. Very few universities have that degree, so if I had just kind of gone some where random, I may not have been able to find that program. So definitely agree with the advice you're giving Farnoosh.

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FT: That's amazing Alan. Family financial planning — I would've taken that if Penn State had offered it. [Both laugh] So many schools lag in as far as offering just basic financial, personal financial courses to their students. Now of course they're becoming more aggressive on that front and realizing that they really need to be graduating students who know a thing or two about money, especially if they're gonna be giving them five-six figure loans, they have a responsibility to do that.

But that's excellent! Was it a popular degree or were you kind of one of the few who went that route?

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AM: It was very new so I think it got started in 2005, and I started the program in 2006 or something like that. So it was a very new program, but I think we had something like 100 undergrads at the University of Georgia, which is a 30,000 person school. But it's becoming much more popular and there's only a few, only really a handful of universities that have college degree programs to become a financial planner, which is very different than getting your finance degree to go work in investment banking or that sort of thing. So thrilled I got the degree, cause it really set me up for the career that I have.

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FT: Let's talk about Oscar's question. It's a good one, it's about entrepreneurship, something that you have pursued and myself as well. He says:

O: "What steps did you take in starting your own business? What type of investment strategy do use currently?"

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FT: He quotes Warren Buffet and says:

O: "If Lehman Brothers would have been Lehman Sisters [Both laugh] they wouldn't have gone bankrupt."

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FT: Did Warren Buffet really say that? He's my new hero!

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AM: I don't know. I've never heard that quote before.

[00:13:09]

FT: "If Lehman Brothers would have been Lehman Sister, they would not have gone bankrupt." That's funny! Well you can answer this too Alan, I think you have a much more structured business than I do. I mean I'm kind of this, you know, I kind of feel weird calling myself an entrepreneur, even though I'm totally an entrepreneur. It's just such a hustle that I don't feel like I'm running a company, I'm just running my life and trying to do good by the work that I do independently.

But I will say this, that at the very least before I started Farnoosh, Inc. — which is literally what it's called. [Laughs] It's funny, but it is what's it's called, Farnoosh, Inc. — in 2009, I made sure that I had about a year's worth of life savings tucked away. It happened to also be the year that I got laid off from my full time employer, so I was not sure what to do, but because I had that one year, roughly, living expenses tucked away I felt that I could really take some smart risks with my next steps.

And the next steps were not to go back and work for a company full time, it was rather to try to expand on the freelancing that I was already doing to really develop some strategy behind this media company, essentially, that I now run. And so if anything, I would say if you're in the beginning steps of starting your own business, if you're currently employed somewhere, don't quit your day job. Try to keep that wheel turning, those wheels turning, save as much as you can so that you can make the leap with some financial security in knowing that you can make mistakes and it's okay because your rent's covered and everything else is okay, your bases are covered.

How did you start your business Alan?

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AM: Yeah, I'm kind of in the same boat where people call me a "serial entrepreneur" and it makes me really uncomfortable. But I guess from a technical definition that's what we are. But no, I got laid off as well. So I walked into the boss's office on Friday, and told not to come back on Monday. And it was in that moment that I realized just how risky having a job was. And I remember growing up in the South, very traditional household, having a job was considered safe, entrepreneurship was considered risky. But it was in that moment that I realized somebody that I really didn't even like, held the keys to 100% of my income. And I swore then I would never put myself in that position.

And so ultimately I launched my own financial planning firm, which then kind of led into the founding of the YX Planning Network. But I'll echo some of what you said, whenever you're looking at starting a business, the two things you've gotta figure out: income and expenses. Farnoosh, you know you talked about the income side, look at the side hustle. Figure out a way to earn enough money to cover your living expenses, cover your car payment, whatever you've got because ultimately that's gonna take so much stress off of your business.

But also look at the expense side and I'll tell you when I started my company I moved from a two bedroom lofted apartment with granite countertops and hardwood floors — it was gorgeous. Nicest place I've ever lived, into a studio apartment in a fourth floor walk-up in downtown Milwaukee. And I literally cut my personal expenses in half because that made nut that I had to get, that what I needed in terms of to cover living expenses, made it so much lower and so much more accessible.

So if you're looking at starting a business, work on the income side, work on the expense side, make those meet up and then it will free you to really pursue a career in doing what you love. And don't let anybody tell you that you can't get paid for work that you love, because I don't know of any career that you can't be an entrepreneur it. You just have to figure out a way to make it work.

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FT: Absolutely. And Oscar, let us know what you're pursuing, because I think that we should keep this dialogue going. I'd love to know if we can help you, you know just as far as any specific questions you have with the industry you're looking to go into and congratulations on realizing this is the path you wanna take. It's a fun one. It doesn't come without ups and downs, but it's better — we were just talking, Alan, before we got on the podcast that as entrepreneurs we don't have really the case of the Mondays. That's cause, for better or for worse, every day is Monday. [Both laugh]

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AM: Every day!

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FT: Every day is Monday.

[00:17:26]

AM: Well yeah and it makes it funny cause I'll ask a friend, "Hey you wanna go out for drinks tonight?" And they're like, "Alan, like I gotta work in the morning." Like, "Oh yeah, you have a real job." I forget that I certainly work the hours, but I don't have the normal schedule. So it's so interesting as you kind of shift into this kind of new mindset when you own your own schedule.

[00:17:43]

FT: Yeah, absolutely. Let's turn now to Elizabeth's question. She has a question about budgeting. She says:

E: "It seems like budgeting software keeps coming up but I have to say that I've had some trouble using this software because my boyfriend and I live together, meaning we have some shared expenses but separate finances. We track who pays for what and we square it up at the end of the month. The problem is that programs like Mint and You Need a Budget — YNAB — don't seem to be able to capture this and expenses are allocated wrong, so I end up doing all of it myself in Excel. I don't mind doing this but it'd be nice to be able to use some software and get some of it done automatically! What are your suggestions?"

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FT: What do you suggest to your clients? I mean we're big fans here of YNAB, and I like Mint and we've had on the founder of YNAB and a lot of people like YNAB because it helps you to budget for the future. Really looks at projections really well, especially if you're a business owner. But what do you think Alan?

[00:18:43]

AM: Yeah I normally would recommend somebody go to Mint or YNAB. The issue, and you know I apologize for the personal finance industry in general. We are stuck in the traditional world were you're supposed to only live with someone that you're married and you have 2.5 kids, and a white picket fence. So that's just, everything is stuck in the old school. I don't know of any software that's gonna easily account for a non-traditional household, which is basically like anyone that's not just a married couple.

One option, whenever I was thinking through this, one option might be to actually kind of realign the way that you're paying the bills and the way that the finances are working. For instance, maybe open up a joint account that you put in enough money to cover the monthly bills, and then use that to kind of track via Mint and maybe that would allow you to track it a little better. Ultimately you may end up doing this pretty manually simply because I'm not aware of any software that would help for this situation.

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FT: But I will say, congrats to you and your boyfriend for being really communicative about your finances. It sounds like you have a good system, even thought it's not perfect, you're working on it and you're clearly, you're doing the good work that's needed in relationships to make sure that your finances are squared away. And hopefully, if this ends up being something that is serious and you end up living together longer, maybe marriage is in your future, maybe buying a home together in your future, this is a really great foundation.

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AM: Totally agree.

[00:20:10]

FT: Alright, we're gonna do one more question here from Kelsey, and she says — this is a good one:

K: "What do you think about the Fed's decision not to raise interest rates in the US? Good? Bad? Neutral?"

[00:20:21]

FT: Well I will only say that personally I'm really excited about that, the fact that interest rates did not go up. I was surprised! I was absolutely shocked. I was almost, I would have bet money on the fact that the Fed was going to raise rates. Personally I was really excited about this because we are going to have to refinance our home loan soon and the longer the Fed drags out the interest rate hike, the better for us. But of course, that is gonna be — I'm pretty sure the next meeting. I mean what do you think Alan? Next meeting it's gotta go up. Right?

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AM: I think I have heard that said for the last, I dunno, four years. So who knows? This is one of those things where we could debate and we could bring on economists and talk to them. But ultimately it doesn't really matter cause we just have no control over it. And so we have to trust that the Fed's doing what they think is in the best interest of the economy as a whole, and it may affect some of us individually negatively, some of us individually in a positive way. But ultimately they're gonna do what they're gonna do. So if you're trying to refinance a loan or looking at that, I would go ahead and do it. But again, we've been saying they're gonna raise interest rates for years now and they still haven't, so who knows?

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FT: And honestly, even if they were to raise rates the next meeting, it doesn't mean that you're gonna see a huge spike in your interest rates immediately. These sort of things take time to filter into the economy, and then frankly I mean they're not gonna raise rates by two points. Maybe it's a quarter of a point and so I think we are not gonna really feel the pain until a few meetings, when they start to raise in succession. I mean that's what I remember, cause it's been a long time since we've had an environment where the Fed kept raising rates.

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AM: Yeah, it's kind of one of those things that it depends on what kind of debt you're taking out and what you're looking at. But yeah, I would say it's gonna be fairly slow. There's gonna be a shock to the economy simply because everyone's gonna freak out, but that usually settles down after a few days or weeks, and then things kind of resume normal. So you know it's one of those things I just wouldn't worry about it. I mean we've got so much to stress about in life that worrying about what the Fed's doing, I just wouldn't. I wouldn't be too concerned with it.

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FT: Alright. On that note, Alan, thank you so much for joining us. Everyone, let's give a round of applause — virtual round of applause.

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AM: Thanks so much for having me on!

[00:22:42]

FT: Yeah! Alan Moore, really awesome to have you on. You know, you're fun! Let's have you on again for these Ask Farnoosh's. Some of these questions are a bit technical, and I'd love to have you back and share your expertise with our audience. Wishing you continued success!

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AM: Thanks so much. I look forward to being back on the show!

[END]