EPISODE 330

[SPONSOR MESSAGE]

[00:00:32]

FT: So Money is brought to you today by Wealthfront, the most tax efficient low cost, hassle free way to invest. Visit wealthfront.com.

[ASK FARNOOSH]

[00:00:44]

FT: Hey, happy Friday everyone! Welcome to So Money. This is Ask Farnoosh where I get to hear what's on your money mind, answer your financial questions. I'm recording this episode in Brooklyn, but next week probably recording this episode in Los Angeles. I'm actually leaving for LA this weekend to interview my first subject for my new CNBC show that's airing in March. I'll also be attending while I'm in LA, the TCA Press Tour. I've never heard about this, but apparently it's this big event, the Television Critics Association Press event. I'll be there on behalf of the network and probably trying to not faint as these events tend to attract some well-known people and TV stars. May see some of my favorite people from TV Land.

My top shows right now, Homeland, Downton Abbey, Veep with Julia Louis-Dreyfus and I just binged on Aziz Ansari's new Netflix series, Master of None. Anyone seen this? It has a 100% on Rotten Tomatoes, which last I checked, very few shows got a 100%. And honestly I thought it was good. I thought it was smart, I thought it was okay. Would I give it a 100%? No. I thought it was thoughtful, it was definitely relatable because they actually shot it in Williamsburg, and I lived in Williamsburg for a while and it was nice to see some of the familiarity of the places they were going and the conversations they were having in their 30-something lives.

But did it make me laugh out loud? No. It was kind of rusty at some points. I don't think the acting was - some people were amazing in the show as far as acting, others were, maybe they could take a few acting lessons? I dunno. I know that's harsh, that's harsh because I could never do a show like that, but just my honest opinion. But I will say that it actually had me caring about the characters and feeling invested in their happiness, which few shows do that for me anymore. I dunno about you?

Alright, enough about television, let's go back to podcasts and let's invest in you and answer your burning questions. We have a question from Mike. He says:

[00:02:50]

M: "In terms of best ways to teach people sound financial management and helping obtain financial freedom, what tool do you think is the most effective? Social media?"

[00:03:00]

FT: Sound financial management and helping obtain financial freedom, those are big tall tasks. And I don't think there is one tool, and I don't actually think social media as in Twitter or Facebook, YouTube, Periscope is highly effective party people I don't think people turn to social media for financial advice as much as they may turn to things like books and articles, podcasts, tools, and let's not forget real people. I mean that's my perspective.

I think social media has it's purpose. I've done numerous Twitter chats and Facebook chats and Periscope events to help build awareness around money and strike up engagement over particular money topics, but it's not the end all. I would say it's maybe a way to tease a topic, to gauge interest, but then move the conversation over somewhere where you can be intimate, like a podcast! Totally shameless, but I think this podcast has been a game changer, don't you think?

I mean for me at least it's been a way to open my world up to financial possibilities. I've learned more about money and people's thoughts and experiences around money in the last year doing this show than any - I will say this, this is a big statement, but I will say more than any other project or work I've put out. I've written books, I've done TV shows, I think the 30 to 40 minutes we have everyday on this show allows for a lot of reflection. And I think the lesson is that the most powerful and affective vehicle might be conversation.

Having these open dialogues and discussion around money, which is a very taboo topic still. I think that'll open the flood gates, that'll get people excited about money and want to obtain financial freedom and in some cases face our financial demons or fears as they may exist. So I vote for podcasts, is my short answer to your question Mike.

Anna writes in and says:

[00:05:02]

A: "I love your podcast."

[00:05:03]

FT: Well thanks Anna! She says she listens every night while making dinner. Well that's So Money! Because sometimes I wish I was making dinner, instead I'm ordering dinner and that's not So Money. But Anna, you've inspired me. She says:

[00:05:16]

A: "Your interview with Betty Liu inspired my question as she mentioned that she tries to take emotions out of her financial decisions. My brother and I recently inherited my dad's house and we are not in agreement on whether to keep or sell it. My brother lives there and doesn't want to sell, I don't yet own a home and would rather sell. Rather than completely overriding my brothers wishes I requested that he put together a business plan for me if he wants to keep the house. I've yet to receive anything from him and my question is, should I keep the house and use it as an investment property even though it's a shared ownership or should I sell it and reduce my liability on a 70 year old house?"

[00:06:00]

FT: Wow 70 years old Anna, I'm sure this is not a house that's in stellar condition. Maybe it's gonna need a new roof soon, it might just need a lot of fixing up, which could factor into the costs down the road. Honestly, I can't - I cannot answer this question for you. I am not legally tied to this house, you and your brother are. And this has to be a joint decision. Unfortunately your brother sounds pretty complacent and unmotivated to make any moves right now and the least of which to create a business plan. I think that was a very astute suggestion on your end, but it was not well received obviously.

One of the pitfalls of leaving property to several people, more than one, I think is that it makes it harder for everyone to come into agreement on what should happen with the property. Hopefully he's not taking advantage of the situation and being a freeloader and hoping that you're going to pick up the tab. Question for you, questions. Is there is a mortgage? You call this inheritance a liability, so I'm guessing probably there is still a loan attached to it?

And if that is the case, and it's not an easy payment to make, that mortgage, then you and your brother may come to the conclusion that it's better off selling. Maybe you have to show him the math? Has he seen the math? What this could mean? And also factor in the potential cost of maintenance as this is a 70 years old home. And the other thing I wanna ask is, have you consulted with a real estate attorney? Because this person, depending also on the state that you live in, could help you navigate your rights.

And ultimately though, I think this is going to have to be a joint effort. Your brothers is a legal owner, legal stakeholder in this property, you can't just make decisions without him being involved. And so try to re-convince him perhaps the benefits that you see from selling, and maybe all he needs to learn is that there will be cold hard cash in his future. And perhaps there are some emotional attachments to this house, that has to be assumed as well.

So go back, talk to your brother, have an honest conversation, lay all your cards out and maybe it will help to speak to an attorney who can be a sort of objective voice of reason. Undoubtedly this is an emotional time for him, which may not be the perfect time to make financial decisions. So maybe having some time go by is a good idea too.

Alright, next question is Connie. She says:

[00:08:31]

C: "Hey Farnoosh, I just want to say that your podcast has really changed my life."

[00:08:36]

FT: Well okay, I'm just gonna do a mic drop now because that's the best thing you could probably say to me, that it's changed your life. And I assume for the better? I will read on. She says:

[00:08:46]

C: "I am 32 and I have become an avid listener since the first episode with Tony Robbins. This year, I have increased my salary by $15,000 by negotiating when I got a new job and I credit that partially to advice from your podcast interviews."

[00:09:01]

FT: High-five! She says:

[00:09:02]

C: "I have a large student loan from my undergraduate degree. I've decided not to pursue graduate school because of this debt, and until this year, I have been paying minimum payments on this loan. I just hit the 10 year mark and realized I am barely making a dent. Now, I am making double payments every month. In addition to decreasing the principal of my loan, will making double payments improve my credit score?"

[00:09:26]

FT: This is a really good question I think because it is not always clear what a credit score factors in and I will say that your credit score's largely dependent on payment activity related to revolving credit such as credit cards. Student loans, mortgages, those are instalment loans. Your student loans are factored in, but not as heavily. And I think all things equal, reducing your student loans should have a positive impact on your score because it is effectively lowering your debt to credit ratio, but it's not as influential as say paying off your credit card debt.

So that's the short answer. But don't let that dissuade you from paying down your student loans. I think I'm with you. If you've made it 10 years and you're not really noticing a dent and you're making more money now and this is weighing on your conscience and it's weighing on your ability to feel financially independent, then do that. Pay double. And the key is that you're paying that extra payment towards the principle and not just an extra payment. Okay?

So make sure that that is what you're doing, that you're paying what's due every month, which is a combination of principle and interest, but that that extra payment goes down exclusively towards principle. That will definitely accelerate your payoff.

Destiny writes:

[00:10:47]

D: "Hey Farnoosh, I just finished reading your book Psych Yourself Rich. Thank you for writing that."

[00:10:51]

FT: Well thank you for reading it! She says:

[00:10:53]

D: "My question was about how you keep your papers and your tax files. I was under the impression that you had to keep all paperwork for at least seven years. But you had said three. Was it three for the tax files, or three for the other paper work? Or both? Or is is seven for the rest of the non tax files. Laughing out loud - LOL - cause if it's only three years, I'm going to have a hay day cleaning out my house! Thank you kindly!"

[00:11:18]

FT: Well speaking of cleaning out my house, just a little aside here, I just started reading the Life Changing Magic of Tidying Up by Marie Kondo. I know I'm very late to this! People have been telling me about this book for like the last six months, the last year, and I finally asked for it for Christmas and I'm on chapter two, and I have to say I'm pretty need an dI don't feel as though I'm learning anything yet, nothing really profound that's altering my life.

But I think that there's more to come. And if anything, I'm becoming re-invigorated, re-inspired to once and for all do a super tidying up of my home. Because after the baby there was just a lot of compilation and a lot of adding instead of subtracting. Anyway, to your question about taxes, tax paperwork, how long should you keep everything? The IRS suggest that you keep your tax returns - returns, your statements for three years.

Tax paperwork that supports the return, receipts, pay stubs, etc., you would be better off keeping that for up to seven years, in the event especially that you get audited. And the reason is is if you get audited for, this is key, especially for failure to report all your income, the IRS may request supporting documents as far back as seven years. And this is of particular importance, heightened importance for people who own a business or have freelance income because in those cases you're more likely to forget to report that one small paycheck you got back in June.

Sometimes the IRS puts business owners and freelancers under the microscope more than people who work for a standard 9 to 5. So just something to think about. I believe that's what the book said too, although I've been known to make mistakes. So if that is, if there's confusion in the book, which was written five years ago, actually more than that. It was published five years ago, it was probably written seven years ago, then know this: three years for IRS returns, seven years for supporting documents.

[SPONSOR BREAK]

[00:13:21]

FT: Time now to shed some light and say thank you to one of our sponsors on the show today, Wix.com Need a website? Why not do it yourself with wix.com. No matter what business you're in, wix.com has something for you. Used by more than 70 million people worldwide, wix.com makes it easy to get your website live today. You need to get the word out about your business? It all starts with a stunning website.

With hundreds of designer made customizable templates to choose from, the drag and drop editor and even video backgrounds, there's no coding needed. You don't need to be a programmer or designer to create something beautiful. You can do it yourself with wix.com. The site empowers business owners to create their own professional websites every day.

When you're running your own business, you're bound to be busy, too busy. Too busy worrying about your budget, too busy scheduling appointments, too busy to build a website for your business and because you're too busy, it has to be easy and that's where wix.com comes in. With Wix, it's easy and free. Go to wix.com to create your own website today.

[CONTINUED]

[00:14:23]

Amanda writes in and she says:

[00:14:24]

A: "Should I ask about peer-equity during a raise conversation? I'm going to a raise discussion this month, and have taken on many additional responsibilities this year. I'm asking for a 15% raise. If it's a 'No', I'd feel good if I knew my pay was comparable to my peers. I'm thinking of two male co-workers adding similar value and at similar places in their career. The way I've been thinking about phrasing it is asking my manager to just be aware, since I know he can't tell me their pay. Ask him to take five minutes, and ensure he feels my pay is equitable when compared with these partners. If he can answer that as a 'yes', as my company is going through some hard times, then I'm okay, but I want him to make sure he's thought about that. Do I bring this up or just focus all on me?"

[00:15:19]

FT: This is pretty bold. I think that bringing up your peers' compensation in a conversation about your raise is not the best strategy. I do think it's better to focus on your value to the company based on your input and accomplishments. There's no one like you, so don't bother comparing yourself to your co-workers. I mean it's hard not to, right? I guess what you're saying completely, and as a woman, if I had the sense that my make colleagues who were putting in as much work as I was were compensated more, I'd be pissed.

But to ask your boss to reference other people's pay in the meeting, I'm not really sure that's appropriate and honestly, what does comparable mean? Really? Is a 15% difference comparable? Is a 5% difference comparable? I think what you really wanna ask is do I make the same amount of money? Don't beat around the bush, but even then I don't think that I'm gonna recommend it. Because at the end of the day he could just turn around and say, "Well that's confidential and I really don't feel comfortable," and then things get awkward.

And I worry, really most that that kind of questioning can work against you. It's not a terrible question and it's completely in your right to be paid equitably, but to ask, "Is my pay comparable to other people's pay," I feel like that's not something that a manager would be prepared to answer and just giving him five minutes, I think could really turn him off.

So here's what I would say though, beyond focusing on your good work, focus also on how a raise or promotion will benefit the team. And go back and listen to my podcast with Leah Goldman, co-executive editor at Marie Claire, who shared some really valuable advice around women in compensation, and actually you asking for 15%, she would say, "Ask for 20%." Every woman should ask for 20% more than what they're making.

And then to quote Sheryl Sandberg from Lean In, she said, "You should go into your negotiation with a very clear sense of what you want, however when you do talk, it shouldn't be all about what you want and why you think you deserve it. You've got to turn it around and explain to the person you're trying to pursued, why your negotiation is legitimate in their eyes, and demonstrate that you're taking on their perspective and thinking about your relationship with them.

Sheryl found that when women explained why what they were asking for was legitimate and signalled concern for organizational relationships that they both increased people's inclination to give them what they're asking for and improve the social impression that they made. So in layman's terms, everyone wins when you ask for a raise and mention the benefit of you making more and your greater responsibilities as a benefit to the team because you'll be able to focus more on your work, you'll be able to happier at work, that then everyone wins and you'll actually be looked upon more favorably.

You're more likely to get the raise and that more people, she says, are more inclined to work with you than if you had just negotiated straight out like some guys do. The truth is there are some gender biases when it comes to effectiveness in asking for a raise. Women, studies show, should shape the ask differently, should strategize differently than men.

Good luck, and I'm just happy that you're thinking about yourself and getting more money and speaking up for yourself. But don't focus on your co-workers. Focus on you and think about how your elevation in the company will benefit the group and the company.

Last question here from Matthew. He says:

[00:18:51]

M: "My mom needs a car but can't afford it, so I've decided to purchase one for her, about $15,000. I have about $83,000 in student loans and will be putting 20% down on a mortgage in the next 1-3 years. My concern is my net worth in the eyes of mortgage lenders. Is this a consideration they make? And if so, should I keep the car for mom titled in my name so that I have a larger net worth? Or should I just register the car in my mom's name and lose that $15,000 in net worth?"

[00:19:22]

FT: Alright Matthew, so when applying for a mortgage sure they do ask for assets and liabilities and that ultimately will lead them to a net worth for you. But the most important thing when you're applying for a mortgage, there's a few that I think supersede your net worth. One is your income, and the other is your credit score, which reflects your payment history and how good you are with borrowing money. Also having skin in the game in the form of a substantial downpayment, 20% is very good. That can work in your favor as well.

Lenders, they wanna be sure at the end of the day that you have the ability and capacity to pay the mortgage. They consider net worth too, but having a net worth that is plus or minus $15,000, I don't think is gonna really make or break your chances of getting a mortgage. What's gonna be more impactful is your credit score, and in some cases if you can just prove that you have the monthly capability of paying that mortgage down and that your job is secure.

Sometimes they'll ask for a letter from your employer that says your job is, as far as they can tell, secure and that you've been a good employee. They might want a letter from your accountant to say that if you're a business owner that your business is in good standing. These are the sort of variables I think that will be heavily examined in an underwriting situation for a mortgage. And honestly, $15,000 for a used car, you could probably go lower and still get a really good car.

Go to Edmunds.com, they've got a lot of listings. And I did actually a little bit of research for you and just kind of scraped the surface and found that you can get a lot of great, relatively new vehicles from talking 2012 till now, used, in the 10 to $12,000 ballpark. So you may not have to spend the whole $15K. Alright, and what a great son you are. Thanks for helping out your mom.

And thanks for listening everyone, for all your questions too, Matthew, Amanda, Destiny, Connie, Anna, and Mike. I really appreciate your questions, your thoughtful questions. I appreciate you for tuning in everyday, every week. This show could not be anywhere without you. Wish me good luck as I travel across the country to get this show on the road. I will be tweeting and sending out pictures and maybe even some Periscopes along the way. So stay connected.

Follow me on Twitter, @Farnoosh, and continue to send me your questions. Very simple, go to Somoneypodcast.com and click on "Ask Farnoosh" and that question will go directly into my inbox and who knows? Maybe you and I will be having a one-sided conversation in an up-coming Q&A.

Thanks so much again. Hope your weekend is So Money!

[END]

