EPISODE 335

[SPONSOR MESSAGE]

[0:00:34]

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[INTRODUCTION]

[0:00:45.7]

FT: Welcome to So Money everyone. I'm your host Farnoosh Torabi, coming to you from Hollywood. Literally from Hollywood, I'm a hotel room in Los Angeles and I can see the Hollywood sign from my window. I'm here filming my new CNBC show for those of you who are not familiar, I am now the host of a new show on CNBC that is yet to air, it's airing March 23rd at 10 PM eastern and pacific, it's called Follow the Leader. It was just announced yesterday at the television critics association press events which I never been to anything like this.

There was a red carpet, there were celebrities, it was like my own little Golden Globes, it's as close as I probably will ever get to Golden Globes or the Emmys or the Oscars. I just had a lot of fun, hobnobbing and it was actually a very exciting event and a proud moment I have to say. The podcast is a year and a year into this endeavor, we've landed a TV show that's not unlike the podcast where we're following these very successful people.

I'm immersed into their lives, 72 hours trying to learn how they think, how they operate, how they strategize, their past, their present, their future and so that's the show, I'll be sharing more and more about that as we get closer to the air date but also again really excited that this is the one year anniversary of So Money, what a difference a year makes.

Do you remember when the show launched? How many of you were actually here on day one? It was a big deal right? We had Tony Robins, we had people like Robert Kiyosaki kicking us off and if you ever want to know what it's like to launch a podcast, I will be the first to tell you that it was not a surge of downloads, despite the fact that we had some huge household names but growing your podcast audience, I've learned in my experience, you have to be dedicated, you have to be consistent and even then, the buildup is slow.

It can be slower than you expect at least. But eventually if you stick with it, it can climb and there were even a few days here and there in 2015 where I was ready to just kind of call it quits, I never told you that. but yeah certainly there were days where I thought, "What am I doing? This is such a grind," and it can be sometimes a lonely experience where you do this podcast and some days you get feedback, some days you don't.

But then there were days where I'd wake up and I would see downloads we're through the roof and it would just be like a handful of days where maybe someone wrote about the podcast, perhaps someone gave it a recommendation, somewhere online and that would help me really kind of rebuild momentum and star at a new level.

I have to say that this podcast, I'm telling you, I'm serious, it's the single best professional idea that I've ever had and it's one of the few things that I've ever self-started and continued for a long period of time. I want to say, thank you for letting me go this long, for keeping me going. I know that you are listening and that you're writing in and I get your emails and I get your tweets and I get your Facebook posts and I get your Instagram comments and I really appreciate you.

Because with your help, I've been able to grow this show and this year I want to grow it even more. This is really the year of you. Write in, let me know, this is what the Friday episodes are all about is to get in touch, of course we've got questions to answer and tackle but I also want to hear your feedback, don't be shy okay? Promise? All right. Let's talk about Kelly's question. Kelly writes in — Hi Kelly. Did you know I was going to pick your question? I did, here we go.

[0:04:22]

K: "For five years," she says, "I've been busy working to pay off my law school loans, building a practice and funding my independent 401(k) that I operate as a solo practitioner attorney. I know

I should have been investing the money along the way but my working life was just too hectic to think about that.

The balance is now $250,000 and it's all in cash. I finally have time to invest the money but after a seven year bull market, I'm reluctant to jump in with such a large amount all at once. Help? As I write this, I think the market is down 5% in the first week of 2016, should I wait for more of a pull back, put all the money into the market now or invest a little bit at a time?"

[0:05:06]

FT: Well Kelly, conventional wisdom I think says that dollar cost averaging or as you said, investing a little bit at a time is the go to strategy. It will help you reduce the impact of volatile swings in the market, you'll feel better knowing that all of your money is exposed to a potential down turn. I would agree with that plan, it's how I invest but you have a lump sum, it's $250,000 and I just want to throw out a study that was released a few years ago specifically about lump sum investing in the market.

"Vanguard found that investors with a lump sum are better off putting their money in the market all at once." How do they know this? They did the math and they figured out that the longer you take to invest, the lower your total return, in their example, they found that those who invested their entire lump sum on day one outperformed those who took a year to get full y invested two thirds of the time.

Two thirds of the time, those who just put all their money in the market on day one outperformed those who took a year to get fully invested. But, that's just one study. I just thought I would put that out there because we do talk a lot about dollar cost averaging, it's the right way, it's the only way. Well, you know, there have been some studies that would dispute that.

Many people like the dollar cost averaging approach because it gives you more peace of mind. Like I said, if the market tumbles, you haven't exposed all your money to the downside. Now, you have a lot of money here, we're talking about $250,000, a quarter of a million dollars, this is not something that you should just take my advice for, certainly please don't just take my advice. Don't just listen to this podcast and do what I tell you.

I would suggest you consult with a financial adviser or a few advisers to get their take on the matter and the most important thing is that you are diversified and you're comfortable with the asset allocation and you asked earlier about "should I wait for more of a pull back?" You can't time the market, who knows what's going to happen in a week.

And that's honestly as a long term investor, you cannot be concerned with day to day fluctuations, don't do that, if you take anything from this answer is just don't obsess about market fluctuations. Take that study into consideration and go into a meeting within a financial adviser or a few actually and just kind of get a variety of feedback before you pull the trigger.

Heidi says:

[0:07:39]

H: "Thank you for a great podcast and happy New Year."

[0:07:42]

FT: Well happy new year to you Heidi.

[0:07:43]

H: "I could have about three fourths of my mortgage paid by 2020 or I could purchase a second property in my home town, a small sea side place for us to rent out and perhaps later use as a vacation property. What would you recommend? I'm good on retirement savings but if I purchase that second property, I would probably not be two thirds with the mortgage on my primary residence until 2025, so a five year delay.

The primary residence is one that I am unlikely to sell unless I really have to as a location is perfect and the building is really nice and hard to get in to and I can rent it out if I decide to get something bigger. It would pay for itself, fees and mortgage and provide income. Thank you in advance.

[0:08:28]

FT: Heidi, why are you asking me this question? You know what to do, right? You're answering the question as you're asking the question. From what you're telling me, it sounds like you would be happier and financially okay, totally sound to purchase that second property, the only caveat is that you wouldn't be financially capable to get to almost paying off that mortgage as soon as you would like — your primary mortgage.

But who cares, the mortgage is — as long as it's not keeping you up at night and it just rates low and you are getting the interest deduction, I think you shouldn't have to worry about aggressively paying that off and it's just a five year delay with this extra home you can build wealth potential, you can build an extra revenue stream as you rent it out.

There are a lot of potential benefits to having the second home and not to mention you'll enjoy it, what's your money if you can't enjoy it? If I were you, that's what I would lean towards, I would research more of this potential of buying the sea side house. Just do a lot of homework on buying that second property and know that for second homes usually banks want you to have excellent credit, better credit than you would if you are just qualifying for a traditional mortgage for a primary residence.

They do like to see larger down payments as well because they consider second properties riskier than primary residences, if you think about it, if you lose your job and you're broke, you're not going to give up your home, might give up that second home first. Banks, to protect themselves, they make sure that you have more skin in the game. 20 to 25% is the norm for second homes. If you think you can cash flow positive and you can rent it out, mathematically I don't see why this can't work in your favor. You say you have savings, you have retirement, consider it. Sounds like you've earned it?

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[0:10:21]

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.

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[0:11:25]

Taylor says:

[0:11:26]

T: "Hey Farnoosh, first off, thank you for your podcasts, they have been so helpful."

[0:11:31]

FT: Well, you're welcome Taylor.

[0:11:33]

T: “I was wondering if it’s possible to ask my employer for tuition reimbursement. I recently graduated with a degree that I’m proud to say is why I got my job in the first place, at my six month review, I was planning on asking for a raise but was wondering if getting my debt paid off would be a better option if it’s even possible. Thanks.

[0:11:53]

FT: I think it’s good to ask for a raise, I think it’s good to ask for tuition reimbursement but those are two separate conversations, okay? Frankly, the more important one I think is the raise conversation. If you think that you’ve earned it, if you think that you maybe got in to the company underpaid, that now you’ve paid your dues and that you’ve really delivered.

That’s the most important thing, not that you’re not that you’ve just been working “hard” and staying late but that you’ve actually helped the bottom line. You can track that and present that and justify why you should get a higher raise, that’s more important, that’s a better conversation to get used to having because that’s going to help you in the long run in your career.

That raise could help you pay down your tuition. If you don’t get the raise but you feel like there’s still some room in the conversation to explore other possibilities, maybe you bring up tuition reimbursement and I would do it also by bringing in some of the other examples of companies, maybe companies that are competitive with the company that you work at.

Saying, “Hey, this company gives you a tuition reimbursement plan, would you consider something like that?” That might be effectively a raise for you but really in the form of a tuition reimbursement but I would not replace the raise question with the tuition reimbursement question if that makes sense?

I don’t want to say that it’s unlikely but it’s one of those things where your boss can’t just agree to it on the spot, that takes a lot of planning, meetings, getting the approvals, getting HR involved, it’s a lot easier sometimes to ask for the raise, and maybe your boss can’t give it to you right away but it’s just a matter of having another conversation with his or her manager to get you what you want. It’s less cumbersome, it’s less bureaucratic.

All right, here we go, Omid says:

[0:13:44]

O: “Happy new year Farnoosh, love your show and I’m looking forward to all I’ll learn from you and your guests in 2016.”

[0:13:50

FT: Thanks for all the New Year’s wishes every one. Omid says:

[0:13:54]

O: “I carry a stack to 10 year and 20 year term life insurance policy to protect my family. I’m confident that this approach is best for our financial situation. My question is, who in their right mind actually purchases whole or permanent life insurance? Is there any situation where whole life insurance actually makes sense over term?”

[0:14:14]

FT: We talk a lot about insurance on this show and there are two types, term and permanent or whole. More often than not, term is perfectly adequate, more than enough, gives you like it sounds a term, a 10 year, 15 year, 20 year life insurance policy.

Whole life insurance is designed to be in place for your entire lifetime as it sounds and has a guaranteed death benefit. It also comes with a partial cash value that you can borrow against at any time. In a way, it has more flexibility, which may be attractive to some people who want an additional way to protect their finances down the road.

Particularly wealthy people who don’t mind paying say the $800, $900, $1,000 monthly premium. The cost is a lot of hire, six to eight times higher than term. We’re not talking average people taking these out, we’re talking extremely wealthy people who can afford this. The truth is that a lot of people are taking out these policies who really can afford them and they’re being misguided. So much so that they ultimately give up paying the premiums and forfeit the policy. Even though they paid into it for several years.

One study found that 20% of whole life policies get canceled in the first three years. That's money you're not really getting back. 40% within the first 10 years because, as I said, people can't afford paying the premiums and this is from the Society of Actuaries in 2012. To answer your question, it's appropriate for some people, most would be fine with term but I think people who have a lot of wealth.

Maybe they have a lot of dependents and maybe they have dependents scattered throughout. They have a second marriage, third marriage so they want to make sure that all these people are taken care of, they like the idea of the cash value but it's expensive. You have to be able to pay into this and not have a worry about it.

Elizabeth says:

[0:16:08]

E: "Hey Farnoosh, a topic that has come up lately is the gender wage gap. Asking for more money initially and not being afraid to ask for raises. I wanted to mention an experience I had two years ago, I was searching for a job so I researched salaries online to figure out a reasonable number. During the interview when they asked me my desired salary, I told them and didn't add any cushion. I later received this email:

"Elizabeth,

I want to thank you for your time and it was a pleasure to meet you. I believe you have strong personal skills and form your resume references, you are a knowledgeable person. I regret to inform you at this time, your salary expectations with experience does not match our requirements. I was impressed with you and if you desire, would pass your name to an affiliated company."

[0:16:54]

FT: Elizabeth ends with asking me:

[0:16:57]

E: “What?”

[0:16:59]

FT: So Elizabeth, okay, this is how I look at this email. I know maybe at the time it’s a rejection and rejections are rejections and you don’t want to really look at the silver lining or the bright side to this rather thoughtful response really. It’s a nice let down. Look, the company wasn’t a right fit and they were honest about that with you, that you were not a right fit for them and vice versa at the time. They didn’t say “never ever”.

Clearly by being very blunt and brave and bold with your salary expectations, desired salary, it didn’t make them think less of you, in fact she was impressed of this person, he or she, was impressed with you. This was her words. So much so, that while they couldn’t offer you a job, they want you to land somewhere.

They think you’re valuable somewhere else and they want to help you? What company does — I’ve never seen anything like this. Raise your hand, who has ever gone on a job interview and they’re like, “Sorry, you’re not a right fit for us but I’ll make a phone call for you, I’ll write a letter, I’ll write an email to my buddy over at down the street at a company that’s similar to ours that maybe has a bigger budget.” That’s pretty cool.

So let this be proof that while you didn’t get the job, it didn’t leave the perspective employer thinking of you in a negative way. In fact they thought you were awesome. I see this as a very positive email and you should keep this email because I think in the future you’ll look back on it and read it and read it and re-read it and you might find new appreciation.

May Toll writes in, says:

[0:18:29]

M: “Thank you for providing this incredible resource to me and everyone else. Here is some background on me: right after graduating from undergrad in June of 2013 and for the last two years, I’ve worked for a nonprofit that did not offer a retirement plan. In both those years, I contributed the max to a Roth IRA.

Starting this year we’re going to have a retirement plan that might have some kind of employer contribution. Those details are still being worked out, it’s a no brainer to me that I’ll contribute as much as the match, if that’s an option but my question is, should I contribute additional money to the 401(k) or simply keep contributing to the Roth? Being on an entry level, nonprofit salary, I don’t see myself being able to contribute to both and I want to be smart with my financial planning. Thanks.

[0:19:16]

FT: I love this question May Toll because it shows your head’s in the right place. I like the idea of diversifying your retirement nest egg if you can. Ideally you would max out both of your employer sponsored retirement account and this Roth IRA — a Roth IRA is super tax friendly and because you’ll eventually phase out of this, assuming your income will increase, there are income limitations to those who can participate in a Roth IRA.

You might want to just take advantage of this while you can and also the 401(k) up to the match and do the Roth IRA the best of your ability. That’s what I would do, I would do the 401(k) if there’s a match or even if there isn’t a match do something with the 401(k) because there are other tax benefits to that as you know, separate from a Roth. This way you’re sort of diversifying your tax exposure and retirement, that’s my advice, I like the idea of doing a little bit of both, mix it up.

All right, thanks May Toll and thank you Elizabeth and Omid and Heidi and Kelly, I really appreciate your questions. Happy anniversary to So Money, it’s been a great year everyone, I can’t wait to see what 2016 holds for us, hope you have a fabulous So Money weekend, coming at you from Hollywood, more to come.

[END]