EPISODE 370

[SPONSOR MESSAGE]

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[ASK FARNOOSH]

[00:00:45]

FT: Welcome back to So Money everyone. Aren't you happy it's Friday? Thanks for joining me. I'm your host, Farnoosh Torabi. It's Ask Farnoosh day. I love Ask Farnoosh day. I love hearing from you, get to hear what's on your money mind. A lot of people asking this week about emergency savings, giving some nice feedback, asking about homeownership and renting and buying.

All that good stuff coming up soon, but first let's talk about our weeks. How was your week? What'd you do? What was exciting? What was a win? What was a failure? This week I got the chance to hang out with multiple entrepreneurs. It was a very busy week. We ended a lot of our filming this week for the CNBC show, at lease following these entrepreneurs around for Follow the Leader.

So this week I got to meet the founders of Warby Parker. Do you know Warby Parker? It's really big in New York. I actually own a pair of glasses by Warby Parker. So Warby Parker is this really innovative — actually it's been called the most innovative company. More than Apple, Google, Facebook. It's a company that essentially sells eyewear for very little relative to how much you might pay in an opticians office.

So the same quality glasses that might go for $500, $600, $1,000 they sell starting at $95. And that's because basically they manufacture it themselves ad they're able to really cut out the middle man and offer these glasses for a fraction of the price. And then also what's really cool about their business model is that when they sell a pair, they also donate a pair to someone in a country where eyewear is not as accessible.

So that's pretty cool. The founders are Neil Blumenthal and Dave Gilboa. Their company's based in New York and so I got a chance to spend a few days with them. The company's not only called the most innovative right now, but it's also valued at over a billion dollars. So that was cool, and what was most fascinating about meeting them is that they're totally normal. Like these guys, you wanna hang out with them. I mean they're not weird, they're not eccentric, they're not these mad scientist guys.

They're just really thoughtful, interesting, normal men who one day decided that they wanted to disrupt an industry, start a business, and do it very carefully. And they have built quite an impressive business that's helping people. And then I also got to meet the founder, one of the founders of Birchbox. Anybody a subscriber to Birchbox? My best friend Kate actually introduced me to Birchbox years ago. She's a big fan.

And I, this week became a really big fan of Birchbox, especially after spending a few days with Katia Beauchamp. She's one of the co-founders, CEO. Birchbox is an online beauty retailer. It offers monthly subscriptions for about $10 and with that you get a fun box every month full of beauty goodies. You know, hairspray, face masks, body lotion. If you're a guy they have Birchbox for men.

And today, it's Friday, I'm meeting with fitness guru Tracy Anderson. I'm pretty stoked about this guys because she is Madonna's trainer, also BFF's with Gwyneth Paltrow. She got her in shape for Iron Man. Needless to say, Tracy has a very fast growing fitness empire and a lot of the moms in the 1% go to her classes in the Hamptons, so we're driving out there to kind of hobnob with the Hamptons people and see what this class is all about.

I'm gonna actually take one of the classes and probably cry my way through it. It'll be great television. So stay tuned to CNBC starting March 23rd, this month, to see what my life has been all about the last couple of months as I've been trailing these extremely successful entrepreneurs all over the country. A lot of you are eager for this to air, so I'm excited to continue to share with you some of the behind the scenes.

And so if you haven't yet subscribed to our email list, hop over to Somoneypodcast.com and sign up because I'll be sharing all the behind the scenes photos and also news and updates. And of course, follow me on social media; Facebook, Twitter, Instagram, even Snapchat. Snapchat's kind of fun. I've been schooled on Snapchat and I'm kind of sorry that I've been so late to the game. So join in on the fun, is basically what I'm trying to say. Let's connect.

Alright, now let's get to our questions for this Friday. We have a question here from Lara. She says:

[00:04:54]

L: "I'm rebuilding my emergency savings account and wonder if I should invest a portion of it in a potentially higher yield investment account? My savings account interest rate is less than 1%. At the same time, I want to make sure most of that money is liquid, in case I need it. Would you invest some of it? If so, how much and in what? Thanks!"

[00:05:16]

FT: Lara, I don't think I would invest my emergency savings. In fact, I don't. My emergency savings is in a standard savings account, or chequing account. I have money in a few different buckets, but basically it's at a bank that I can access when needed, and that is essentially what an emergency savings account should function as. You know, it's money that is liquid, that you can access in a pinch, in an emergency. It's very literal.

I think that if there's some of this money that you don't need, that you absolutely know that you don't need for the next year, two years, then maybe there you wanna invest it in a certificate of deposit where interest rates on average are about 1.3-1.4%. But of course the caveat is that you have to keep the money in the CD for the year, if it's a 12 month term, in order to benefit and earn that full 1.3% or whatever it may be at this point.

But I don't really worry too much that my emergency savings account isn't earning a high yield. It's just one of those things that I'd rather have comfort in knowing that the money is at the ready for me.

Jayme says:

[00:06:26]

J: "I have listened for a year now. Thank you for your show. Tonight I was catching up on TV and watched Season 2, episode 13 of Black-ish, and if you have not watched, you need to. The basis of the episode is around spending, family finance and money. It illustrates the reason why I understand you have your podcast in the first place. Thank you for your program. Maybe having someone from the team that wrote the episode would be nice to hear their inspiration and personal stories."

[00:06:51]

FT: So Jayme, thanks for that anecdote. I actually do remember catching some of that episode at one point. I think that it's an older episode. I don't have time to watch Black-ish every week, but I really should DVR it because every time I fall upon it when I'm flipping the channels on a random night when I actually do have time to catch maybe an hour or so of television, it's a hilarious show. And I've actually seen the cast on news programs and talk shows, and they're really cool.

So I would love, maybe I'll work on that. I don't know where to even begin? Maybe LinkedIn? I dunno, how do I find someone who works on Black-ish? I guess I have to wait for the credits to roll next time I watch and do some deep investigation to get somebody on the show. But that would be cool. And it's nice to know that there are mainstream shows like that that are tackling money, the issues of money.

Because it's showing that it's relevant, that it's something that a lot of people, especially primetime network television can relate to. So that makes me feel like I'm doing good work as well, and important work. If this is, if money and family finances and spending is something that

ABC wants to take on through their comedy lineup, then by all means. I think that's fantastic, and if it gets people talking about money, then I think that's great work. So thanks. I'll have to keep an eye out for that again.

[SPONSOR BREAK]

[00:08:19]

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 75 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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FT: Jill says:

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J: "Now that my husband and I have a two year old, we are investigating life insurance. What's a better investment, term life or whole?"

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FT: I think that most people are just fine purchasing term life insurance. It provides basic coverage for a limited number of years — a term. It can expire after 10 years, 15 years, 20 years, from the day that you buy it and begin paying into it. And for most people I think term is the way to go. It's more affordable, I think I mentioned this before in the show? But let's say you're healthy, you don't live a dangerous lifestyle, you're around 35 years old, a term life insurance policy that's say worth half a million dollars, you're looking at paying about $35 a month.

Which in the grand scheme of things is not that much money, considering you have a very substantial life insurance policy here. And far as figuring out how much life insurance you need, the rule of thumb in the financial planning books is you take your salary, annual salary, and you multiply that by eight to 10. So if you make $100,000 a year, that's $800,000 to a million dollars in life insurance, in term life insurance. That's a good question. I'm glad you're thinking about this now that you're a parent. It's important.

Hilary says:

[00:10:30]

H: "Hey Farnoosh! Loved your podcast series "Meet the Millionaires Next Door". I wanted to know how millionaire is defined? Is it a combination of 401K and home equity? Or is it defined more as cash on hand and after-tax investments? Thank you!"

[00:10:45]

FT: Well Hilary, you know I didn't go out with a very specific millionaire definition, but I think that for the most part my guests had a million dollars or more in net worth that was as a result of cash on hand and after tax investments, also their 401(k). I don't think many people were factoring in home equity, and if they were it was just kind of icing on top.

It wasn't that they had $800,000 in home equity and $200,000 in cash, and so they became a millionaire next door. Good news, starting on Monday we have another Millionaire Next Door series. So great timing for your question. I hope you'll enjoy this forth coming one.

And Paul echoes that and says:

[00:11:25]

P: "I'm glad to hear you will be doing more of the Millionaire Next door. By far my favorite episodes."

[00:11:30]

FT: Well you're gonna love what we have in store next week. I don't wanna say it tops the last time, but it's definitely competitive with the four or five people we had on back in August when I first did Millionaires Next Door. And anyone out there who wants to start a podcast, Millionaires Next Door is a potentially really great theme. People love to hear from average people, average Joe's, average Jane's who were able to, through saving and earning and investing and just being diligent and conscious with their money, amassing a little bit of a fortune.

Kate says:

[00:12:01]

K: "I like the flexibility and freedom from the responsibilities of owning property that come with renting, but my family, who value homeownership, say since I have the means, I should buy a condo for the stability, etc. What do you think? I'm happily single, don't have kids, invested well, and am content living in my, for the most part, well-managed, rental apartment. Do you think homeownership should be a goal for everyone? Or, if a person preferred and had the means to rent, why not?"

[00:12:29]

FT: Yeah totally Kate. I mean if that's what you wanna do, then that's what you wanna do. Look, I mean I'm not gonna sit here and say that homeownership can't potentially help you accumulate some additional wealth, assuming you do it right and you hold onto it for a while and you buy at a smart price, you could end up one day with some equity that could help you in retirement or could help you just advance your life further if you go sell it and then you could use that money for something else.

And it happens every day, people do that. But that shouldn't be the reason why you buy a home. You don't buy a home so that you can gain equity, somehow think of it as an investment. Because people did that, and they got into a lot of trouble not too long ago. Becoming a homeowner is an individual decision and there are pro's and there are con's, but definitely the fact that you family's pressuring you shouldn't be the reason to do it.

And definitely not because "everybody else is doing it" is a good reason either. That is another reason a lot of us got into trouble in the 2000's. Buying homes, taking on mortgages that we really shouldn't have because everybody else was. And so this is a huge potential purchase. A home is, for most people, the biggest purchase of their entire lives.

So it shouldn't be done hastily, and if you at the end of the day feel a lot more comfortable psychologically, emotionally, and financially it makes sense for you to rent, then rent. I like to hear also that you are investing well, that you're saving, that you're happy. That's what's important. Someday maybe you could change your mind, and that's fine too. But if you don't wanna do it right now, don't do it. By any means, don't be pressured into buying a home. You heard this here.

And Steve say:

[00:14:11]

S: "Hello from Silicon Valley!"

[00:14:12]

FT: Hey Steve! High five! I love Silicon Valley. I just watched actually Chelsey Handler has an hilarious series on Netflix right now called "Chelsey Does". I think it's like four or five docu-series episodes and one of them's called "Chelsey Does Silicon Valley" and it's all about how she's like really confused by technology, she's really a slow adapter, and she goes to Silicon Valley to like pitch an app idea.

Pretty hilarious content, so I'm a big fan of Silicon Valley. My parents actually live out in the East Bay. I love that we have some west coast representation here on So Money. He says:

[00:14:46]

S: "Love the podcast and your approach to personal finance. How would you approach the rent versus buy decision out here? The rents are crazy and house prices are worse!"

[00:14:57]

FT: I know Steve. Trust me, I know. Gosh, well listen, what I just told Kate holds true for you too. So keep in mind that whatever you wanna do should be based on your comfort level, your financial affordability level, not because you feel pressured by your environment, your family, your friends, your whatever. But in Silicon Valley, of course you have kind of a rock/hard place situation, right? Where renting is really expensive, and buying is for many people not even a possibility.

At this point I would just say, do what you can to get by comfortably and also factor in your job security, because I know in Silicon Valley things are changing all the time, people jump around. If you really feel like you can be in Silicon Valley for the long term, this is kind of like where you wanna be for at least the next 5-10 years, then maybe start to consider the potential to buy.

And if you find that it's way out of your reach right now, then you'll have to rent somehow. You have roommates, you live further out, you just make it work. But if homeownership is something that you're interested because you're gonna be in the area for a while, you think you'll be at least, then start to do some of the reverse engineering of that. Figure out, what are home prices? What will you need for a downpayment? Where's your salary right now? Where will it have to go? What kind of a savings cushion will you need?

So you can start to gather the financial elements that you need in order to become more eligible and more ready to buy. But no, I mean if you can't buy right now, you can't buy. And so you're gonna have to rent and I think there are a lot of ways to make renting manageable and there are gonna be tradeoffs. You might have to move further away, get a couple extra roommates, live in a walkup instead of an elevator building.

In the meantime you can save and reach your next goal, which is either to find a more attractive rental, or to actually buy. So, you know, I'm sorry that Silicon Valley prices are so astronomical. Also talk to your employer because if you're — I don't know who you work for, but sometimes employers can really help with housing because I know that in Silicon Valley, what's really the challenge out there for employers is attracting top talent.

And if you've got a job out there, know that you're valued and that it's to your company's benefit to work with you to make sure that you're able to be there for the long term, and invest in the company, stay there, and if they can help you with housing, maybe they will because they value you and they want you to stick around. So maybe that could be a resource for you? Talk to HR, talk to your boss, maybe they have some ideas.

And that's a wrap everybody. Thanks so much for tuning in and thank you so much Steve, and Kate, and Hilary, and Jayme, and Lara, and Jill. Thank you so much, I really appreciate your questions. A lot of housing questions this Friday, and you know me, I love real estate, so keep 'em coming. And like I said, if you haven't already, please sign up for our newsletter. I try to keep you guys updated on what's going on behind the scenes, in front of the scenes, and so go to Somoneypodcast.com and sign up.

And of course, if you have any questions for me, the best way to get through is to click on "Ask Farnoosh", send in your question or your comment and every Friday I try to address them. I'm about two weeks behind, so if you ask a question today, I probably won't get to it for another couple of weeks, but I do try to get to every single one. And I thank you in advance.

Alright, happy Friday. TGIF folks. Stick around all weekend if you have to catchup on any of the episodes from this week. And of course, stay tuned Monday because we've got a fresh Millionaire Next Door week coming at you. Hope your weekend is So Money.

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