EPISODE 405

[ASK FARNOOSH]

[00:00:32.8]

FT: Welcome back to So Money everyone. TGIF, I'm your host, Farnoosh Torabi. It is Friday, we made it. What a week, did any of you catch Follow the Leader on Wednesday with Gary Vaynerchuck? Yeah, a lot of you might know Gary because if you listen to this podcast and you're a fan of money and business and entrepreneurship, I have a feeling you might have come across Gary's work.

He is one of the most famous people on the internet at least, he's got millions of followers, he knows how to leverage social media and the digital space to make money, for not only himself but also his clients. He's the co-founder and CEO of VaynerMedia, which is a fast growing digital marketing agency.

They've got clients from General Motors to Coca-Cola, etcetera, even celebrities that come to him saying, "Hey Gary, we want to make some money here and we understand that everyone is on the internet so can you help us with that. So it's like a 2016 Don Draper who is basically taking the advertising model and putting it on the internet and getting a lot of traction.

He's a hustler. If you watch any of his videos on You Tube, follow him on social media, read his articles, been to any of his events, you know that he is really big on the hustle and he really believes that he can outwork people. One of the things that he kept telling me during our 48 plus hours together was that there is this myth that you have to suddenly work smart and not work hard and his thing is, "Well what if I do both? What if I work hard and work smart? Then I'm definitely, it's going to guarantee that I finish first," and he is obsessed with meritocracy.

So if you didn't check that episode, I think CNBC is playing it in reruns but you can also go to followtheleader.cnbcprime.com and we've got all of the full episodes online. So if you don't have cable, you don't have a television, you're not home when this airs, you don't have a DVR, don't worry it's online. It's all there and we hope that you'll check it out and please, let me know what you thought.

Okay, today we have several people to help out I'm going to start here just go straight to our mail bag and start with Caroline who writes in and says:

[00:02:49.2]

C: "My husband and I bought the smallest house on the best block in a great school system".

[00:02:54.2]

FT: Well, so far so good Caroline. She says that:

[00:02:57.2]

C: "We've lived there for two years, we want to stay as long as possible. We've talked about putting a second story on our house and based on the sales comps in the neighborhood and the rapidly appreciating values, we think it will be a great investment. My question is about the loan. Our plan was to save a $100,000 in the next two years so that we could put down half for the addition and take out a loan for the remaining amount probably 50 to 100,000. Recently I've been thinking maybe it would make more sense to take out a loan for the full amount and channel that savings elsewhere. What do you think?"

[00:03:35.2]

FT: Well Caroline, $200,000 on a home renovation, I think that's a lot? I mean I didn't spend that much money on my home renovation. I live in New York City, so I would first revisit the budget. Do you really have to spend that much money to get the dream home that you want? Maybe you can spend some time finding the right contractors, re-examining the plans to bring that down a bit because I think that if that's your budget going in, know that when you start a construction project, your budget always goes up.

I mean, always plan for 50% more spending because there are somethings that are just going to come up that you won't anticipate and this is not meant to scare you and this is not absolute but it's a good rule of thumb to keep in mind. Any home renovation project that you take on, know that there are going to be some potential unexpected cost. So having some money for that is very, very important because you don't ever want to be in a situation where you're stuck and there's a cost you just have to make to proceed and you don't have the money.

So just always air on the side of needing more than what you anticipate. So $200,000 or $150,000, maybe what you really need to do is think, "Okay, we're only going to spend 80, 90, $100,000," and then if there's any more than that and you have the savings fine. But I worry if you go in with a budget of $200,000, you could see a project that becomes suddenly $250, $300. Number one, be a little bit more conservative about your budget.

Next I think that cash is king. I think having the money, cash in your bank account. I think psychologically, you will just make better decisions and you'll be more thoughtful in how you spend that money. I think when you have a loan and it's this big line of credit, it's easier to okay and approve expenses here and there because it's less painful to spend that money, you will pay it back later.

As opposed to the money in your account, that account getting smaller and smaller and smaller and you suddenly are starting to realize the pain associated with these cost, the psychological pain, the reality of the spending, the reality that the money is only limited. I think for that reason alone, I think in some ways it's helpful to just use cash as oppose to financing it, debt financing this.

So I think to the best of your ability, if you can save that would be the smartest thing. This coming from someone who just finished a renovation, who did it all using cash, who spent a good year being very methodical and careful about who I hired and I didn't always make the best decisions. There were a lot of mistakes along the way that were sometimes costly.

So it's important to first be really conservative about your budget, plan for spending more than that as a possibility because things come up and then I think cash is king. If you can do this

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project, spending mostly your money, it's going to encourage you to be just that more thoughtful about every single expense.

So good luck to you and I hope it's successful. Keep me posted, as I have said, I have been through this not to the extent of adding on to our apartment but we have combined apartments, a big project. So I have some thoughts on the whole process so keep in touch Caroline.

We have an anonymous question and this person says:

[00:07:16.2]

A: "I Googled myself and found out that my address, pictures of me and my family member's personal information all come up on the first page. What do I do? Is there any service that works to keep your information from showing up online?"

[00:07:32.2]

FT: Well, yeah. I think there are actually some services that will help to whitewash your Internet existence in some ways but I would start by maybe finding out where this information is popping up and going directly to the sources and figuring out how your information got there, tracing it, maybe working with them directly to get you off these sites.

I mean in some cases, it's going to be very difficult. I remember somebody reached out to me at one point long ago and said, "Hey Farnoosh, you did an article on me about how I got myself out of debt. Well, at the time I really appreciated the story but now, it's one of the first things people find out about me when they Google search me and I'm looking for jobs and although I got out of debt and it was a great story, I still feel like it's not the best way for people to first learn about me," and I completely understood.

The problem was, was that that article was published on Yahoo, which is one of the most popular websites on the planet. So we were able to ultimately yank that article off but it was difficult even finding the right person to do that for me even though I was working there. My advice to you is to ask around, do a search for these types of companies.

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I don't know enough about this to recommend anything, but I have seen documentaries and I've seen interviews on 20/20 and 60 Minutes about these kinds of stuff. So it exists, you just have to do a little research and do contact perhaps some of the sites where your information is listed and just be careful about giving your information out anywhere because that sometimes is what leads to that information popping up on sites that you didn't authorized.

And moving on, we have a question here from I want to say from Genet. Genet says:

[00:09:26.0]

G: "Thank you for putting out this podcast. It's been a welcome addition to my morning routine. I recently got married and read that couples should aim to keep their credits separate. My partner and I have some separate accounts and one joint account. We've been using a debit card for our joint purchases but would like to take advantage of credit card rewards. Is there a way to share a credit card without mixing up our credit? Is this even something we should really be worried about? Thanks again."

[00:09:54.0]

FT: So Genet, all right just to clarify because I'm not really sure if this is what you think happens when you get married or not? I couldn't tell from your question here but forgive me if you already know this but just to say, I want to say and to clear things up a little bit for anyone listening, when you get married, your credit does not get shared necessarily technically. Your credit doesn't average together. Your credit doesn't become your husband's credit and vice versa. Your credit score does not appear on your husband's credit score. Your credit is still your credit.

What I think the general advice out there is and I support that is that as a couple, you're going to obviously have shared accounts. You might even have a shared credit card but it's important that you are vigilant about your credit profile. If you have a partner who has a lot of debt, is irresponsible with money, doesn't pay bills on time, this may not be a situation where you want to have your name and your partner's name on one loan, on one credit card because whatever activity happens on that card, good or bad, affects the both of you.

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So you might enter the relationship with stellar credit and your partner may have mediocre credit and you open up a credit card together, you go about using that card, maybe your partner is responsible for paying it off fails to do it, not only does your partner's credit get damage but so does yours. So that's just something to be weary of if you're married to someone who needs some credit R&R. I wouldn't recommend sharing accounts with this person unless you are certain that the two of you can be responsible and that you've worked out a system to pay off that debt, that credit card debt, or that loan timely and in good faith.

So what happens when you get married, your credit scores don't get mixed together but just keep in mind that if you co-sign anything together, the activity on that loan, that credit card, gets reported equally to both of your credit reporting agencies and your credit scores get impacted accordingly. I think you can have a joint credit card together. Where his and her names on it and in that case, whatever activity happens on that card will get reported to both of your credit profile accounts. Got it?

So that's what happens. Again, if you think that this is something that's a good idea for whatever reason, don't do it. When you apply for credit cards together or when you apply for mortgages together, the banks will look for both of your credit profile separately and make an assessment. There's not like a credit report for the two of you. So I hope that clarifies some things up. I mean I don't think you shouldn't be really worried if you trust your partner, if you got a system down of paying your bills on time.

You could go on as an authorized user on one of your partner's existing credit cards. If you don't want to open up new credit together, you can take existing credit and just have one of you come on as an authorized user and in that case, the activity on that card gets reported to both of your credit profiles equally. So that's one way to do it and that's all I have to say about that. If you have more questions, this is something that I really geek out on.

For all of you listening, credit's very near and dear to me and so, if you have any further questions about this feel free to write in and with your debit card, you probably know this too, debit card transactions activity do not get reported and do not impact your credit score. Just credit cards and loans.

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[SPONSOR MESSAGE]

[00:13:54.1]

FT: We have spoken so much about being fiscally healthy this week. It's also important to me and my family to be diet healthy as well. What if I told you that you could eat right and save time and money while doing it? I know it sounds too good to be true but it's possible with Prep Dish.

Prep Dish is a healthy subscription based meal planning services that takes the guess work out of grocery shopping and meal prep when you want to eat well but you're short on time. Each week, you'll receive an e-mail that contains a grocery list and instructions for prepping your meals ahead of time and it only takes two hours to prep a whole week's worth of meals.

But it gets even better, Prep Dish is offering So Money listeners a special offer of $4 for the first month of meal plans. Just go to Prepdish.com/somoney and use my code "somoney", one word, when you sign up. They have this Romesco baked salmon with roasted sweet potatoes recipe that I can't wait to try and they have gluten-free, dairy-free and paleo options as well. Go sign up today, Prepdish.com/somoney and use my code, "somoney" for $4 for your first month.

[EPISODE CONTINUED]

[00:14:57.8]

FT: Erin says:

[00:14:58.8]

E: "Two quick questions for you. One, if I have disability insurance through work that will pay 60% of my salary, should I still look into buying my own policy?"

[00:15:09.8]

FT: Well to answer this first before we get to the second question, I don't think you need another policy. I think that's sufficient. A lot of times, policies, disability insurance policies through your employer, if you have to redeem it, that money is paid to you and it's not taxed. You don't have to pay taxes on that so it's like kind of getting a paycheck because if you're in the 20% tax bracket, 35% tax bracket that is the equivalent of 60% almost of your paycheck which in this case is what your disability insurance covers.

So I think it's like replacement insurance, like replacement salary insurance for all intents and purposes so I think you're good and that's a pretty good policy but check and read the fine print. Obviously I don't have the policy in front of me but that is generally what happens and then your next question is:

[00:16:05.8]

E: "When people talk about having a six month emergency fund, does that means six months of income or six month of expenses? I currently have an emergency fund that will cover six months of expenses but not yet six months of income. I want to shift my focus to saving for a down payment on a house, and should I wait to do that until I have a six month income cushion? Thank you. I listen to the podcast every morning".

[00:16:28.0]

FT: A lot of morning listeners to the podcast, it's very inspiring. I need a morning routine. My routine is waking up at 6:30 to feed my son who then decides he wants to start his day whether I've had enough sleep or not and so I need the strongest possible coffee. Then, one day I hope to listen to a podcast in the morning, maybe get an exercise routine in the morning. A girl can dream.

I think, to answer your question, I think six months of expenses is what we're really talking about because we're talking about in a worst case scenario, you lose your job, ideally you have income of six months stored away so you can save as well. But at the bare minimum, you want to be able to cover your necessary expenses for six months so that includes housing, food, your insurances, your utilities and any icing on top would be great but at the minimum, you want your necessities covered and those necessity expenses covered.

If you want a save for a home, then you want to have that emergency savings and you want to have a down payment saved. That's a separate account right? You want to anticipate that when you make a bid on a home in order to be competitive as a buyer, you have at least 15%, 20% depending on where you are, even in New York, you might 25%, that's a lot but that's what people do these days to ensure that they're in the running to buy a home because right now, it's a seller's market.

So the more that you can put down on a home, the more likely you'll get approved. So six months of expenses and then separately save for a down payment on a home that's equivalent to at the minimum I would say 15% if not more of your budget for a home.

All right Monique says:

[00:18:24.3]

M: "Hey Farnoosh, love the show. I tune in daily."

[00:18:28.3]

FT: All right, you're making me double think this transition I am doing. Do you guys know about this? I'm going to three days per week starting in May. Yep, it's happening. Went from seven to five to three days per week, it's a big shift but I think it's going to be a smart move for my sanity and also your listening enjoyment. I think that a lot of people are writing in saying, "I listen everyday but it's a hustle." So we'll do three quality podcast a week starting in May.

All right Monique says:

[00:18:57.3]

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M: “My sister is here to ask for more money on a position that she was offered. So which episode is the best one for her to listen to for advice?”

[00:19:04.3]

FT: Wow, I’m sorry to hear that. I mean I think it’s common. People get scared to ask for more money. They think that they’re going to seem entitles, they’re going to seem ungrateful, “I should just be happy to have a job offer.” That’s just phooey, especially if you’re just starting out and you’re a younger worker. The fact is, and this is a survey by Nerd Wallet recently that a lot of employers anticipate offering you more if you ask for it. They leave room for negotiation at least 10 or 15%. It’s just part of the ordeal of accepting a job.

So to answer your question about which podcast are helpful in order for your sister to regain some confidence, I remember talking to Lea Goldman from Marie Claire about this very topic, Episode 309, Lauren Maillian Episode 308, Jenna Ricker Episode 306. I did a whole episode, highlight Episode, 2015 highlights, Episode 322 where we talk about how to earn more in life whether it’s on the job or on the side.

So those I think are some good starter episodes. I think also we talk about earning more with Ann Shoket formerly the editor in chief of Seventeen Magazine, episode 328. Oh — okay sorry, one last one, Episode 329 Sherry from Save Spend Splurge, she’s amazing. That episode is awesome for a lot of reasons. This woman, she’s kind of anonymous, she didn’t gave me her last name but how she negotiates her pay and she’s a freelancer. It’s a little different than being an employee at a company but I think the advice is stellar.

So listen to that and I think, I know she’ll be inspired. This is a podcast that I try to talk a lot about, how to enhance your income potential. I think she’ll learn a lot from those ladies, I certainly did. And last but not the least, we have a question here from Megan rounding up our Ask Farnoosh for this Friday, and she says:

[00:21:15.2]

M: “I’m expecting a win-fall by the end of this year”.

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[00:21:17.2]

FT: All right I like win-falls she says:

[00:21:19.0]

M: "It's because of a law suit over a car accident".

[00:21:22.0]

FT: Well I'm sorry to hear that, I hope you're okay Megan. She says:

[00:21:26.0]

M: "My lawyer says that I should be receiving between 20 and $30,000."

[00:21:31.0]

FT: That's good.

[00:21:32.0]

M: "I'm in my late 20's. I have a healthy savings account, I have a Roth IRA, and I owe $20 grand in student loans. What do you suggest I do with this new money? I want to do the right decision for my future."

[00:21:46.0]

FT: All right, so Megan I think that before you make any moves with this lump sum, which is significant, you want to think about where you want to be in the next three to five years. Do you want to go back to school? Do you want to transition from one career to the next, which may require being out of work for a while or taking time out?

Do you want to start a business or buy a home? I think it's obviously, you look at what's in front of you, you have this debt, this student loan debt which depending on the interest rate which I don't know could be some rotten debt and may be worthy of a pay down with this lump sum, this win-fall.

I will say when I got my first book advance for my first book proposal, I think I was 25 or 26 at the time, I had about $30,000 or $20,000 in student loans. I used a big chunk of the book proposal advance to pay that off and it felt really good and it was a low interest rate. It wasn't because I was paying all of this interest but for me, psychologically, it was nice to be debt free once and for all so I did it.

In this case, it sounds like you'd be putting 80, 90% of this win-fall towards your student loans and if it's a low interest rate, I'm not sure that's the best way to use that money given you may want to pursue several things in the next three to five years that would require some cash. So think about where you want to be in the next few years.

If those goals require some financing and maybe it is that you put some towards the student loans to relieve that monthly payment a bit but then you save the rest for a goal down the road that maybe you don't even know what it is but you like the idea of having the money there, okay? So congrats on the win-fall and I really hope sincerely that you are okay and I appreciate your question and your listenership.

Thanks everyone, thanks Megan, Monique, Erin, Genet, anonymous, I hope you clear up your profile online and Caroline. I really appreciate all of your questions and as a reminder, if any of you listening have a question for me, the best way to get in touch is to go to Somoneypodcast.com. Click on "Ask Farnoosh", type in your question, it comes into my inbox and we shall meet on a forthcoming episode of Ask Farnoosh.

In the meantime, I really hope you enjoy your weekend and I will see you right back here on Monday. I hope your day and your weekend is So Money.

[END]