

EPISODE 491

[SPONSOR MESSAGE]

[00:00:34.0]

FT: Just about every investment and retirement plan is created by men for men, which is fine, unless you're a woman. Women still earn less than men, for now. We're more aware of risk, we're more likely than men to pause our careers to raise a family and unfortunately, we typically retire with less wealth than men even though statistics show that we live longer. That's why there's Ellevest created for women, run by and designed by women.

Ellevest helps women invest based on their specific goals like buying a home, starting a business raising a family or just retiring like a boss. So Money listeners can visit Ellevest.com/somoney and have an investment plan created at no cost customized to your specific goals. Invest like a woman with Ellevest. That's Ellevest.com/somoney.

[ASK FARNOOSH]

[00:01:32.0]

FT: Welcome to So Money everyone, it's Friday, Ask Farnoosh time. Thank you for joining me, it is November 4th, our first November Ask Farnoosh session of the month getting very close to the end of the year and you know, it's crazy, I was just walking by our neighborhood park and already all those Jose's Christmas trees are up.

Sophia welcome to the show.

[00:01:54.5]

SY: Thank you. I know, I was shopping this weekend and I was at Lord & Taylor. They already had all of their Christmas decorations up and Christmas trees and then they also had ugly sweaters for ugly sweater parties, it was crazy.

[00:02:07.4]

FT: We should do an ugly sweater day.

[00:02:09.1]

SY: We should.

[00:02:10.3]

FT: No one will ever see it but maybe we'll obviously take pictures and put it on social. Such is the life when there is only two of you in the office and some days it's just one person and we work remotely. I love the ability to have an option of whether to go in the office or not but also I miss the crazy office antics that you use to have when you worked at a company, right?

Like the crazy sweater day, or the Hawaiian shirt day, or birthday cake in the office at 4 o'clock in the afternoon. Not so good for the waistline but always a nice way to reconnect with employees. Yeah, so it's pretty crazy Jose's Christmas trees, which are our go-to Christmas tree pop up shop in the neighborhood, already up and running. Actually last year it caught on fire, that was terrible but they were back up and running within a week.

[00:02:54.7]

SY: Oh my goodness.

[00:02:55.9]

FT: Yeah, I mean that's the thing when you got trees as your product and then someone comes along and leaves around a lit smoke cigarette butt or something and you've got to have hopefully some insurance for that. Any-who, just an update too everybody, one thing that we want to change in the New Year with these Ask Farnoosh's, and we'll prepare you for it, is we're

going to add a widget to the somoneypodcast.com website where you can actually record your voice and leave a voicemail essentially for us and we will air it on the show.

It's called SpeakPipe and a lot of podcasters are incorporating this as a nice way to make their show more dimensional. You know, be able to hear listener's voices and then if you're not comfortable with that because you hate the sound of your voice, which actually I hate the sound of my voice, you can still write us in. But I think it would be a nice way to mix it up a little bit and also hear from you in a more personal way. So stay tuned for that. We'll have directions around that coming soon so that we can be up and running in the New Year.

In the meantime, Sophia what's on the docket today? What kinds of questions are we getting?

[00:04:01.0]

SY: So today we have questions ranging from everything to engagement rings to breaking a lease in favor of a more affordable rental, to mortgages and then a couple other ones thrown in there on student loans and emergency funds. So a lot of fun stuff today.

[00:04:17.4]

FT: A lot of range, sometimes we get very much a theme.

[00:04:22.9]

SY: We do, yeah.

[00:04:24.0]

FT: Investing or mortgages, but it sounds like we have a variety today and I see the first one, you mentioned it's about engagement rings. Katelynn is wondering if she should buy a non-certified diamond with her husband to be?

[00:04:35.8]

SY: Yeah, she's wondering if it's a good idea.

[00:04:38.5]

FT: Okay, so I guess she's concerned because they want to save money on the engagement ring and maybe she thinks the best way to do that is to go non-certified. I would hesitate. If you are going to get a diamond and you want it to be a diamond forever, I think that you want to get with a trusted diamond and the GIA is the Gemological Institute of America. They're the organization that certifies diamonds for their reliability, their consistency, the integrity.

If it has the GIA seal of approval, you know that you're getting the highest standard of diamond. Now with that said, there are many ways to save on diamond that is GIA certified. You can go with a diamond that doesn't have as much clarity or isn't as clear or isn't as brilliant as some of the other diamonds. They say like the four C's, clarity, cut, and some others. It's been a while since we've been diamond engagement ring shopping.

But basically, go to the Gemological Institute of America's website, GIA, they'll give you a list of what to actually look for and then there are ways to save even after that. If you sort of find one that is not of the highest cut or clarity, if you are willing to make those tradeoffs, you can save. Then another way of saving is to buy online. There are websites that strictly sell online. Costco actually has phenomenal diamonds. They claim that they source their diamonds from the same places as Tiffany's.

[00:06:09.4]

SY: Wow.

[00:06:10.0]

FT: Yeah, do you know that? Yeah.

[00:06:12.2]

SY: That's a fun fact.

[00:06:14.0]

FT: I have been in Costco and I've seen rings for \$60,000, which is very expensive, but that's the same ring that they claim you could get at Tiffany's for over a \$150,000. They also have much more affordable rings. But the quality of their rings they claim are on par with that of Tiffany's and other competitive jewellers. So worth looking at places like Costco, online websites where they don't have as much overhead.

I'll tell you a funny story. We went to Tiffany's as I think all brides to be do just because it's an experience. I really don't think I was going to buy anything at Tiffany's. We had just started looking for rings and it was more just to humor myself I think because I knew going in that this was going to be a rip off and I'm with Tim who I think also was a little afraid that we were at Tiffany's. In his mind he's like, "But what if she really does fall in love with something here? Then I'm screwed."

I would never do that to him, but we did go around and honestly, this is by the way Tiffany's in Manhattan, their flagship store so it's attracting a lot of tourists, a lot of foreigners, very few actually couple like us. So that hopefully meant that people are onto the fact that this isn't necessarily the best place to get your ring. It's definitely more of a brand thing and you get the turquoise box and it's all about presentation.

Any-who, I made a round and I saw this ring that I really liked and I asked the person behind the counter if I could take a look at it up close maybe put it on my finger and she looked at me and she said, "This ring?" I said, "Yeah, this ring," and she goes, "Okay, just give me a minute," and she calls security over and this really big guy came and stood right next to me while she took out this ring. I was like, "What did I just do?"

This ring looked like, you know, most of the rings I've been looking at that were of moderate price. Nothing to write home about, beautiful, but I didn't know what I was in for. I looked at the price tag on this ring, it was \$300,000 and I kid you not, it looked like a \$20,000 ring that you

would find at Costco. Maybe that's just my naiveté, but I also think that that spoke to the mark ups in the store. It was just funny too because they made such a performance out of it like getting the security guard over and whatever and Tim was definitely sweating at this point.

[00:08:35.4]

SY: I was going to ask.

[00:08:37.3]

FT: He's like, "Are you serious? You picked — the one ring you pick out in this entire store and it's six figures." I was like, "Well, you know." I might admire the fancier things, but I don't end up usually buying them at least not when it comes to this ring. So anyway, long story short, don't assume that you have to spend a lot to get a nice, good ring and I also have some girlfriends who didn't go the diamond route. They went the emerald and the ruby route, which also are beautiful. You don't have to go the traditional diamond route.

I actually, my ring does have a diamond, but they are also some canary yellow diamonds on the side which depending on again on the cut and the quality can be a lot more affordable. So I just say go with something that you love, that you want to wear forever, that you might want to hand down to a relative one day or as an heirloom and that you're not getting just like the standard ring that everybody else does, which by the way can be more expensive.

I have friends who've gotten into antique shops, state sales, have found really beautiful pieces that has lasted the test of time and they're just stunning and they pay a fraction of the price because it is not your standard diamond ring.

[00:09:47.9]

SY: I think it's really important to remember, especially in today's day and age, like I talked to my girlfriends a lot and I think obviously you want a ring that you're proud of and that you want to wear but honestly, I think if you're worried, I don't know if this is one of the concerns that

Katelynn has but if she is worried about what other people think, you know, at the end of the day it's what you wear you have to love it and that's all that matters.

So I just hope that she's not considering something perhaps because she's nervous about what other people might think and the other thing too is now it's so popular, a couple years later when you and your significant other are making more money, you can always upgrade. He can get you a nice little wedding anniversary gift a couple years later, so that's always an option too. You know?

[00:10:34.3]

FT: Yeah, hopefully your marriage last forever and there's always other things to look forward to down the road if you love jewelry. That's a great point Sophia, because I do think that there is pressure to do things just because culture dictates it and now with social media, of course what's the first thing people do when they get engaged? They show their rings online. I didn't do that or people beg them, "Oh show us the ring, show us the ring."

So for that too, I think there is some pressure to make sure that it's this ring that just wows and it's like, give me a break. The other thing too is, depending on your preferences, you might not even want an engagement ring. I have a girlfriend who got engaged later in life. She was in her 40's and she's like, "I'm not getting an engagement ring. I want a Rolex. For me in my life stage right now, that's what I've always wanted. I want this," and so that's the compromise.

I don't know how much the Rolex was, but I'm sure it wasn't inexpensive but there are other things you can get too and it's becoming also trendy now for married women not to wear the engagement ring. They just wear their wedding band. So think about that as well. Is this something that you want to wear forever or is it just maybe in the first part of your marriage and then you'll just turn to just wearing your band?

Definitely go with the GIA certified ring, to answer your very first question, if you are going to go the diamond route. But also look at the alternatives to a diamond, or finding other sources for those diamonds creates some more affordability for you, and congratulations!

[00:12:02.1]

SY: So our next question is a total change in topic. We'll go to student loans and then emergency fund and the question is from Kweku. He's in the final semester as a college student and he currently has about \$28,000 in student loan debt but he's also managed to save about \$12,000 in an emergency fund and he has a car loan that is \$1,800, which he's paying off at a \$150 a month. So he wants to know which debt he should tackle first? He's thinking the car loan, but is open to your advice.

[00:12:35.8]

FT: Yes, did he mentioned on what the interest rate on that car loan is versus the student loan? I assume it's a little higher.

[00:12:42.0]

SY: He didn't.

[00:12:42.9]

FT: He didn't. Okay, so Kweku, if you're rationalizing paying off the car loan first because it is of a higher interest and also your car is a depreciating asset, I would prioritize the car loan for those reasons. The student loan, as long as you are paying it off on time every month, managing it well, you're taking advantage of the interest tax break. I think that is something that you could pay off overtime and not feel like you're penalizing yourself for doing that.

Of course the more money you make, you could commit to putting an extra payment towards principle on that student loan, which will allow you to get out of debt faster, minimize your interest exposure and so that's one way to make that more affordable for you in the long run. I love that you have a \$12,000 emergency fund. How many college students can say they have even a penny in emergency?

[00:13:33.7]

SY: Not many.

[00:13:34.6]

FT: I had zero in emergency. Emergency? I wasn't thinking of emergency in college. I was thinking of like, "I'm going to make money and spend it." So kudos to you for even having that amount saved and I would say you are so ahead of so many of your contemporaries. I am not worried about you and \$1,800 on a car loan is very minimal. Actually, I don't say this a lot, but you could pull a little bit of money from your emergency fund to pay off that car loan.

And then what you could do is just start paying that \$150 a month that you were paying towards your debt back into emergency so that within a year, you're back to where you were. So that's one way to handle it and so great question. You are super smart. I am very fortunate I think that our audience is above average when it comes to money management and sometimes I just echo what they think they should do.

Like, "Should I pay off the car loan?" Yes, that's the short answer. But the long answer is I think you could probably do it by taking a little bit of money out of your emergency fund without sacrificing too much, but then committing back to putting that \$150 a month, as if you still have the car loan, towards the emergency fund to get back to whole with that and then just continue saving too. My goodness, very exemplary.

[SPONSOR BREAK]

[00:14:49.1]

FT: 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 84 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, 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. Wix.com 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.com, it's easy and free. Go to Wix.com to create your own website today. The result is stunning!

[CONTINUED]

[00:15:50.1]

FT: All right, the next person I believe is thinking about breaking a lease?

[00:15:54.1]

SY: Yeah. So Connor say that him and his partner, they currently pay \$2,500 a month in rent and they have nine months left on their current lease and they want to move to save money on the rent and then ultimately so that they can save more each month and right now, both of them are saving about \$2,500 a month, which is also really good but they want to be saving more. And the other rental that they're eyeing is obviously more affordable. So they want to know should they pay \$5,000 to break their lease or stick it out for another nine months?

[00:16:27.4]

FT: Did they say how much the new apartment or the apartments they're looking at how much more affordable it is? Like how much less than \$2,500 a month is it going to be?

[00:16:36.2]

SY: No, I don't think they've shared that with us.

[00:16:38.3]

FT: So they're currently spending \$2,500 a month on rent, they have nine more months left on the lease. So just a quick math, that comes to \$22,500 that they're going to have to pay to stay in the current place and if it's going to cost them \$5,000 to break this lease, then they want to make sure that whatever the new rent is that in the nine months that they're going to be there, they will breakeven, at minimum, they will make back that \$5,000 in savings.

I don't know what the new rent is but we know this much, that if they stay in the current apartment, it's going to cost them \$2,500 times nine, which is \$22,500. If they pay \$5,000 to break their lease and move into somewhere more affordable, they want to be sure that they are saving, at minimum, \$5,000 over the next nine months in order to justify breaking this lease and spending all these money. Ideally they would break even and then some.

So \$22,500 if they stay in their current place. If you subtract \$5,000 from that, that's \$17,500 divided by nine, you want to be sure that the rent on this new place is around \$1,900 a month. So you want to be saving \$600 a month over the next nine months every month to basically earn back that \$5,000 that you paid to break the lease and then from there, you'll just continue to save. Does that make sense?

[00:18:11.0]

SY: Definitely, yeah.

[00:18:12.3]

FT: Because nine months paying \$2,500 a month, that could seem like such a pain in the arse but I also think it's counterproductive to break the lease and pay \$5,000 unless the benefit of moving is so great that it pays for itself over a period of time. Otherwise, stick it out and in the meantime, continue to save as wonderfully as you are currently. That's a really nice chunk of

change you are putting aside every month and then come month eight when you are looking to finally exit from this lease and maybe find something new.

At least in New York, we work very much close to deadlines in New York. There's no finding an apartment six months before you want to move in. It's like always the last month before your lease ends. So if that's your case, just stick it out, do the research, save and by the time you are ready to move, you'll have so many options because you'll have cash in the bank and what's the best way to negotiate with the landlord is to pay up front.

So to say, "We have six months or the whole year that we can pay you in cash and if we're going to do that, we want a 15% discount or a 20% discount," and who knows? You might find some landlords that are very open to that because cash is king and so that's what I would say to you Connor. Another housing question from September which is a very cool name.

[00:19:32.8]

SY: I love that name. I was going to say it's so unusual but I love it.

[00:19:36.1]

FT: Month names are very popular. I've noticed it even in my son's school, he has a May, a January.

[00:19:41.6]

SY: Ah yes, January yeah.

[00:19:43.1]

FT: January Jones, yeah.

[00:19:45.1]

SY: All right. So September, she says before her and her husband met, he got a second mortgage and that mortgage has an interest rate of 8% and a year ago, she became a consultant and she's already making way more money than she ever did at her previous job but ultimately, they now want to combine their mortgages into one so that they can have a better interest rate and soon, before rates go up since we keep hearing that.

But she's concerned that the banks won't be thrilled about the fact that she has a job in consulting and she also doesn't have any tax returns yet to prove her income. So she's not sure what she should do.

[00:20:20.9]

FT: Well I can relate to this. Not so much the interest rate of 8%, which I agree, you need to refinance that fast. I don't think that rates are going to go up so much in the next few months that it will impact getting a great rate. Now we're in six months, I think 8% is high enough where whether you are refinancing now or in six months, a year, you will have a better rate than 8%. Because right now rates are around 4%, if not lower, depending on the terms.

I would say that you could still apply together. I think someone to help you along the way would be a mortgage broker. I think when you have a complicated situation like this, it's nice to have some handholding throughout the process and then this person can also shop around for you and given their experience, approach the banks where he or she believes will be most open to working with freelancers.

Frankly, that's our economy these days. A lot of people freelance. So I hope by now, banks have risen to the occasion and have adjusted to this and become more open and willing to work with borrowers who fall in this category. The one thing I will say because I've been in your shoes, and I'm still in your shoes; I consult, I freelance, I do have a history of income at this point but it is a fact that if you're applying for a mortgage, whether with someone else or by yourself and you work for yourself, the underwriters, the bank underwriters who will ultimately be drafting this loan up for you and approving you, will want to see a history of payment.

And if you don't have a long history yet, they'll want to see pay stubs and your previous income and your previous tax returns will be important. They will want to see that as well. Even if that's not how you're working now, you're not working for one employer, it's still relevant and they will also look at things like savings and debt in addition to your income. So it all has to add up and if it helps too, having a letter of recommendation from your tax attorney or CPA if you have one for your business.

It helps to have letters from your current clients who are employing you stating that they really enjoyed working with you. That they want this to be a long term relationship. Anything that can improve your chances to make it seem like you're a valid borrower, that you have a steady future in the business that you have created for yourself, all of that does go a very long way. And again, a mortgage broker will be able to help you understand what kinds of documents can buffer your application and this is again advice that I got when I was applying for a mortgage or refinancing and I was working for myself.

It really comes down to paper trail and that's your tax returns, your pay stubs. If you happen to complete your taxes yet, at least to show the pace of your earnings to date and then a letter from a tax attorney or your financial planner that says that refinancing or getting this loan is not going to negatively impact your business. You are not pulling money out of your business savings and things like that. Having that vote of confidence can go a very long way. So yes to the refi, definitely do that. I think that is going to save you both a lot of money and as far as you being prepared for the underwriting process, just get all your paperwork together.

There's a checklist that I just went through and just try to have that all prepared and ready to go and maybe work with a mortgage broker so that they can help to also communicate all of these back and forth to you so that you don't feel like you're constantly talking to the bank, every day they want something new. The mortgage broker can help to streamline that whole process, if they're a good one, and you can ask friends around for a good mortgage brokers, you can ask real estate agents for good mortgage brokers. They all work together and so hopefully you will find someone who'll be a great partner for you and your husband as you go on and embark on this process, and good luck.

All right, we have time for one more. I feel like I have done a lot of talking. I think pregnancy has made me a lot chattier and also quick to be sure to rant. So this is very counterproductive for me, but hopefully it's all been good advice.

[00:24:25.3]

SY: So our next question is one from Nicole and I think it's one that many millennials, especially recent college grads, are facing. So I think she's asking for a wide audience and she said as a recent college grad with a full-time job, she feels that a handful of her friends either never got full-time jobs or are out there and they are travelling the world and are planning to quit their jobs in pursuit of travel. So she wants to know, "How can I know that working hard and saving now will end up as a big payoff for later on in life?"

[00:24:55.5]

FT: Well, we all know people like that, right? You probably have friends who are traveling the world or have travelled instead of working?

[00:25:01.8]

SY: Definitely.

[00:25:03.1]

FT: And then you hear some wonderful stories that come out of that, Pencils of Promise for example, right? It's this phenomenal foundation where they build schools in Africa and the young man who established that quit his job in finance to travel underdeveloped economies and countries throughout the world and recognized this hardship of a lack of education and came back super motivated and started what is now one of the most phenomenal non-profits.

So there's a lot of good that can come out of pursuing travel and if you think of it as a way to invest in your life and your worldliness and how that can apply to giving back or helping yourself find your calling, I think there's a lot of benefits to travelling. Guess what though? It costs money.

It's not inexpensive. Although we've had guest on the show that have talked about how to do it on the cheap, and there are all sorts of ways to travel the world, given your financial circumstances.

But ultimately, you can't do it for free and it is time that you are not working in the workforce to build a momentum that way. If you want to become a CEO of a company by 35, I don't know that taking two years off to travel is necessarily going to get you there as if somebody just kept working and climbing the ranks. But we all have different goals and I think Nicole, to answer your question, you really have to ask yourself, and just try not to think about your friends for a second is, "Where do I want to be in the next five to 10 years?"

And that's a big question to answer and I don't think you'll have all the answers but you do want to think about what your aspirations are. What not only will make you happy but what will make you fulfilled? What is your definition of success? Today I was talking to a colleague and this person is considering transitioning from working at a magazine to working for herself and she was asking me about how to make the transition. She was fascinated by developing a personal brand. I was giving her some advice, and then when she ended the call by giving me some great advice.

And she said, "You know what they say," and she said, "The difference between luck and fortune is hard work," and I thought that was a great takeaway for all of us because it's true, hard work pays off and whether you are working hard in your career or working hard travelling the country to learn and grow and educate yourself and expose yourself to cultures and the beauty of our world and somehow finding a way to apply that back in a productive way, that I also consider to be hard work. But fortune is a different definition for everybody and so the question is for you Nicole, which I can't answer and Sophia can't answer, and your friends can't answer is, what is your definition of fortune, what is your definition of fulfillment?

You're young, so honestly, there's no really wrong decision at this point but you want to be sure that you're okay with it and that you are not asking this question wondering about travelling just because you feel this social pressure to. That's never a good reason to make any decision. It's an irrational way to make a decision. When I was young, I tried to build that in and it's maybe not about taking a year off but maybe taking advantage of your vacation, which believe it or not,

many of us don't do. Taking those two or three weeks and investing it in going to a part of the world where you've never been not just some beach but actually immersing yourself, doing a volunteer work or whatever.

I think there are a lot of ways to gain on our time off and even in a short period of time, feel like we've experienced months or a year's worth of value in being in a foreign place. So things to think about. But you've inspired us all because I think that there is a lot of value in getting out there and seeing the world especially when you're young too, because I assume you don't have a lot of overhead. You don't have kids or a mortgage, just you. So investing in yourself now is a smart way to do it.

But whether you invest in yourself by travelling or investing here at home in your career choices or the projects that you take on, there's no wrong way to do it. It's just, which one is more you? That's how I would answer that and of course, if you're going to travel, start saving. I hope you have some money for it. I studied abroad in college so I took advantage of travelling a lot in school and did less of it as a young person and as a professional but I do regret not having gone to more of the off the beaten path places. I did go to Europe a handful of times. I would love still to get back to the Middle East.

[00:29:34.7]

SY: That would be amazing.

[00:29:36.3]

FT: I know. I mean I'm from Iran and my parents are, and I was there when I was one and I think it would be so important for me and even my family, like Tim and Evan, to take them all to go there to see where it all happened for my family. But it's such a delicate time there that I don't know, I feel like I want to wait it out a little bit until at least past this election and see how things go.

My mom is actually there right now and my dad hasn't been back in years. My brother has gone actually more than I have. His Farsi is way better than mine. I think it's important to go back to

your roots and someday we'll get there. But right now, I don't know. Well, I've got a podcast. I could podcast live from Iran.

[00:30:20.5]

SY: Well you have a baby a on the way.

[00:30:23.6]

FT: Yeah, I've got to have the baby first and then, yeah baby steps.

[00:30:26.8]

SY: Yeah.

[00:30:28.1]

FT: All right, thank you Sophia for getting this questions brought to me and thank you all for writing them and asking these great questions and I hope that this has been helpful to everybody listening and I will see you all back here on Monday when our guest is Eric Dunn who is the CEO of Quicken. Anybody out there that use Quicken? It used to be owned by Intuit and it's now a private company.

Lots of new things happening with Quicken as we know that's a budgeting software so I am excited to share that with all of you and also hear what it's like to be the CEO of a company like that. How do you stay competitive in the ever changing and growing and expanding world of FinTech? That's on Monday. In the meantime, I hope you have a great weekend, and by the way, Sunday is daylight savings.

Thanks for tuning in everyone and I hope your day is So Money.

[END]