EPISODE 515

[INTRODUCTION]

[0:00:33.0]

FT: We made it everybody, it is the last episode of 2016. Welcome to So Money. I'm your host Farnoosh Torabi, this is Ask Farnoosh. Thanks for joining me, happy almost New Year, happy almost 2017. Can you believe it? It's been an incredible year with so many things to be grateful for and I just hope that wherever you are listening that you are happy and resting and reflecting. You know, this is a good time to think about all that you're happy about from 2016 all they're looking forward to in 2017.

Just to give you a little homework assignment over the weekend. I think it would be good for all of us to think about what we want to do with our money in the New Year and how we're going to achieve that financial goal. To that end, I'm actually, starting on Monday, New Year's Day, taking over Mint Instagram account. I don't know what they were thinking, but they allowed me to do this and so if you want some motivation, a community, some inspiration as you look to just get ahead with your finances in 2017, starting on January 1st, follow us @MintApp on Instagram, follow them and so then you'll be following me and we're starting a really cool campaign all 31 days in January?

We're going to be focusing on our goals, our money goals and using the hashtag #SoMinty, kind of like "So Money", "So Minty". Isn't that cute? We're encouraging everybody to post photos or images or whatever you want on Instagram that captures what your goals are, how you're achieving them, whether it's the resources you're using, the people you're connecting with, the inspirational quotes that are getting you there, the images that are getting you there. All the visual stuff.

We're going to be retweeting people, I'm sorry, reinstagramming people, I'm getting my social media mixed up, sorry. But it's going to be a lot of fun and I'll be reminding everybody of course on Monday when we start this, well actually, I guess we're stating it on January 1st. They're giving me work to do on New Year's Day? Oh well. It's okay, it's for a good cause.

Sophia, welcome to the show.

[0:02:48.8]

SY: Thank you.

[0:02:50.1]

FT: Do you have a New Year's plans? I don't have anything to do.

[0:02:53.5]

SY: You know? I am not a big new year's person. I was wondering what I was going to do, but I'm actually going to be very low key this year and just spend it at dinner with my dad and my boyfriend. Three way date.

[0:03:05.7]

FT: The two Paul's.

[0:03:07.2]

SY: Yes, the two Paul's

[0:03:08.4]

FT: Paul and Paul. That's good. Yeah, when I was your age, it was a different story. I definitely went all out New Year's Eve in my 20's until I learned a better way to do it. I got tired of being stranded in Times Square with no way to get home. The subways are free in New York and that's cool, but usually it's like 11 degrees below zero on New Year's Eve and you're freezing and you're in a crowd and you're paying too much money for your champagne, and you're just better off being home.

You know what's fun is staying at home until midnight and then leaving your house as many people do, so you're not like the only person on your street leaving your house, gosh, at 12 o'clock at night but there's a lot of people that crowd the bars around 12:30-1 and go there, you can toast and it's a lot of fun and there's actually a central park run. Did you know this? New Year's Eve. I think it's a 5km or a 10km.

[0:04:06.4]

SY: I didn't know that.

[0:04:08.0]

FT: If you're looking to start your new year's off on a healthy note. There's always that. Maybe I'll do it next year.

[0:04:15.1]

SY: Yeah, definitely sit it out this year.

[0:04:18.3]

FT: You know, I was really hoping to go to the million woman march in DC in January but I'm huge already. I can't even walk a block without needing to take a break, you know? I'll just be cheering from the sidelines, and by sidelines I mean on my couch in Brooklyn. But there's lots to look forward to in January and I think we're going to be ending the year now with our great questions from our listeners starting with — you guys are great listeners. Some of you are using the voicemail application on somoneypodcast.com.

So we have a question, an audio question through Speak Pipe from Naomi. Her question is, what if you're a foreigner married to someone living in their homeland and as the foreigner, you want to establish credit, you want to get your own financial independence? Here is the rest of her question.

[0:05:09.0]

NH: Hi Farnoosh, this is Naomi Hathaway and I'm currently living in Columbus, Ohio. My question for you is this: I run a group on Facebook with a lot of members in it that currently live overseas in an expat capacity and we started a conversation about finances and a lot of the people in the group are what we call trailing spouses, although no one really likes that phrase, and they're finding themselves in a position where they don't have any financial security and they don't have anything setup for themselves as far as stability goes.

I'm just wondering what your thoughts would be on the best way for someone who is starting basically from scratch, as someone who might also not necessarily be a US citizen, what would be the best way for them to get started? Is it starting with the bank account, is it starting with trying to establish credit? And in that, I guess is a second question, in trying to establish credit. What is the best way to go from having zero credit to building that up, to having something that is, worth something? Thank you

[0:06:07.7]

FT: All right, good question Naomi. Thank you for calling in and great to hear your voice. I love that she's part of a Facebook group right? To connect with her people, that's a smart way to I guess get to some of the matter. I would say, Naomi, that it's important that you first may want to start a secured card. A secured card is sort of like a credit card on training wheels. You can get this at many of your local banks, credit unions, community banks. There are sometimes a little bit of a fee associated with opening up one of this secure cards.

You can research them on sites like bankrate.com and nerdwallet.com, and a secured card is created to help people sort of in your boat. You know, those of us who don't have credit either because we're not from this country or where we have bad credit because we foreclosed on property and we can no longer qualify for the serious credit cards and the serious loans. Or we're young and we don't have any established credit, so this is kind of a good way to do it.

Well, how it works is you load this card with your own money, usually a little bit of money, 300, 400, $500 and then you use it like a credit card. You kind of swipe or dip throughout the month and then you get a bill at the end of the month, which then you pay off. You're expected to payoff and then of course this is your money. So you’re basically paying yourself back, but the goal is to pay yourself back in full, every month, continuously for many months. You’re showing that you can exhibit good credit behavior, good borrowing behavior.

After a year, you could very well with good behavior and a good track record on the secured card, upgrade to a traditional credit card and all that time you’ve been using your secured card, that activity does get reported to the credit reporting agencies, which means essentially you are establishing credit as you're using this secured card. Very important though to verify this. Just triple check when you open up a secured card, ask the bank, “Will this get reported to my credit report? I just want to be sure because my goal here is to establish credit.”

And that from there you can open up hopefully a bigger credit card, a real credit card with a real line of credit and then work your way up from there. I also think she mentioned you know opening up a bank account. That’s always a good idea too, you want to have a place to store your cash once you start working, doing those direct deposits, very important. It’s not going to necessarily help you establish credit but it’s important for your own financial security to have a way for you to access your money yourself and good luck to you.

Thanks for your question, I love the voicemails. Sophia, how can we get people to leave voicemails, what do I have to do?

[0:08:48.6]

SY: I don’t know, I would think people would want to leave a voicemail because it’s like your five minutes of fame.

[0:08:53.7]

FT: I know. Well, to help with all of the logistics of the site, we are revising somoneypodcast.com, we are revising Farnoosh.tv. So come probably late February, early

March, as I bring to the world and you young lady, we will also have a new website to go with that. So I'll be giving two births in not too long from now. So stay tuned for that, that's really exciting and we're kind of looking at all the plans for that now and trying to figure out the best UX design for the sites. Let us know if there's something that's bothering you about the site, both of my sites. How can we improve it, let us know.

All right, let's go to our next question, it's a written question Sophia and they're kind of similar, right?

[0:09:40.8]

SY: Yeah, we have two questions from Adina and Abby. I almost wonder if they were working at the same company and we're excited and decided to write in together, because they both pertain to employee stock purchase programs. What are the chances? So Adina's question is pretty basic, she just wants to know what you know about them and if she should participate, if her employer offers one, and the best way to maximize their value.

While Abby's question is a little bit more involved. She's already participating in her company's program and she gets a 15% discount on the stock that she buys. Her returns are about 43% and she's wondering if she should sell the stocks now since they're becoming a large part of her portfolio, or wait until 2017 to avoid capital gains?

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FT: You know, one thing that my previous mentor Jim Kramer always said and says is that when it comes to stocks, pigs get slaughtered. So his point is that when you have earned enough, enough is I think 43% is pretty good, you want to shed some of that. You want to sell some of that and take some of those profits, even if it means paying the taxes.

I think that, just again, touching on Abby a little bit longer here because she had a very specific question about whether she should sell her stock. Yeah, I think that you always want to look for a balance — you want to aim for a balanced portfolio and if your company stock is really taking over those portfolio, that's a sign that you need to reduce your investment in that one stock.

You never want to have so many eggs in one basket. Just like ask the people at Leman Brothers, ask the people at Enron who are putting their entire life savings in their company's stock. Hopefully nobody's ever doing that again, but it was a very sobering lesson. I think honestly, you should never have more than 10% of your portfolio in your company's stock. That's it. Just to be on the safe side.

Your company could be doing spectacularly, and then it could not. So to ride that risk, I think you want to just do your best to keep it to a minimum, as far as your own investment. and now just generally, what are employees stock purchase programs, as Adina is wondering? And yeah, it sounds like they may be coworkers right? What are the odds of getting two ESPP questions?

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SY: Literally back to back they were in the mail bag back to back.

[0:12:10.8]

FT: It's Adina and Abby so they also have very similar A names. But anyway, ESPP plan is basically a stock purchase plan that many employers offer, the big companies might offer, the publicly traded ones of course will offer for giving their employees a chance to buy the company stock at a discount. And like in like in Abby's case, it's a 15% discount. So right off the bat, you are likely going to have to face some capital gains when you go to sell this.

The other thing to keep in mind with ESPP plans is that there's all sorts of different eligibility requirements, you need to read all the fine print, every company's plan, it's going to be different as far as not just who is eligible but when you can buy the stock, when you can redeem the stock. So you have to make sure that you're following all those guidelines and then the taxes can be a little complicated. Not going to go into it on the show, because we want to keep people on the show, we don't want them to fall off.

I think that's me to consider that if you do participate in one of this plans that you're also maybe working with a tax service or you are very clear on the tax implications once you go to sell them.

So that's what I'll say about that. I had an option to do this when I was at TheStreet.com and I think I probably did buy some of the stock but very little. When I was at yahoo, I think I was not a full time employee, so I was not eligible but other employees did. You know, it can be a great benefit. But once you reach 43% Abby, I think it's a good time to cut loose a little of that fat. Good luck you two and I'm going to pretend that you don't know each other but I think you do.

[0:13:58.5]

SY: So our next question comes from Jill, and it's actually a follow up because she wrote in a couple of weeks ago, and her question is a little bit more complicated than we had originally thought. She's the one who had a dispute from her doctor and she's contacted her by phone, email, and even a written letter.

But basically, the gist is that the doctor standing behind her charge because she feels it was appropriate and Jill does not. And the charges for a biopsy that came back inclusive because the biopsy was not adequate. Jill says because it was a failed attempted, she does not want to pay the full charge, and now that the doctor has retaliated by sending the bill into collection, she's wondering what else she can do.

[0:14:43.4]

FT: All right. So this is a little bit more complicated. It sounds like she's dealing with a very difficult to work with doctor.

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SY: Yes.

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FT: It's very easy for doctors to just say, "I'm sending it to collections, deal with collections." And I think that perhaps at this point, Jill, you could call the insurance company and explain the charge and say, "This is what I was charged, however this is feel," and take it up with the insurance company and see what they say. The other thing you could do at this point, because you feel very much lost at sea and no one is advocating for you, is to work with an advocate.

Billadvocates.com is the advocates of accurate medical billing and they have people who may be able to help work with you to be essentially that, your advocate, and maybe call on your behalf or just simply educate you on your rights. So check them out and it could be that you could get this squared away. But in the meantime, I would hate for this to damage your credit. So perhaps you first call the insurance company and just make sure if indeed you should pay this to avoid damaging your credit, and then working to get reimbursed.

I know that's not ideal, but you've got to think about protecting yourself as well. I mean, this is the situation, it's gone to collections. It could get worse, it could really tarnish your credit and I know that this is, on the principle of it that you don't want to pay, but it could be better to just deal with it, pay it and then go back to fight the bill just so that it's not hurting you more than it has to if that makes sense. Sorry to hear about this and hope that between the insurance company and billing advocates, maybe your doctor will call you back, who knows? But you do get some answers.

All right, let's go on to Jessica who's got a question about converting a Coverdale ESA?

[0:16:45.3]

SY: Yeah, so her parents started a Coverdale for her when she was younger but they totally forgot about the investment while she was in college and so…

[0:16:55.0]

FT: How can they forget? College is not cheap.

[0:16:57.3]

SY: Trust me, I know but their original investment was for a $1,000 and now the account is worth about $1,500 and so Jessica is 27 and she's wondering if she can convert that money into something she can use either immediately or in the future and she really wants to avoid penalty fees and taxes. So she's wondering, she already has a 401(k) and a Roth IRA. So she's wondering if she might be able to roll it into one of those?

[0:17:26.1]

FT: As far as I know, the answer is no. Unfortunately you can't convert a Coverdale ESA into something like a 401(k) or a Roth IRA. It's a Coverdale ESA, it's a trust, a custodial account. It's created specifically for educational purposes. It's like a 529 almost that, imagine if you have a 529 that you hadn't used, can you put that into a 401(k)? No. Can you roll that into your Roth IRA? No. Your options really are to either cash it out and pay taxes or to roll it into another Coverdale account, or change the beneficiary.

You could also use this for educational purposes, and if there is a course that you want to take, a class that you want to take that might qualify, maybe look into that? You are 27 years old maybe there's something that you want to learn more about, a course you want to take to enrich your education, to advance your career or just your own mind? I mean there are options but unfortunately I don't think the option that you're specifically seeking is viable. To avoid penalties and taxes at this point, without actually using it towards what it was meant to be used towards, not going to happen.

But if you are working with a tax attorney or a tax accountant or a CPA, they may be able to know about some loop holes that I don't know about, but from just understanding what Coverdale ESA's are and how they work, I think your options are relatively limited and so I'm sorry, but maybe this is a gift to explore something that you had never explored before to go and further your education a little bit. You could always also dedicate this to somebody else. So if you have a niece or your own children at one point, they can also be beneficiaries. All right, sorry about that.

[0:19:15.4]

SY: So we're at our last question already and it comes from Ginny and she has a thousand dollars sitting in a cash account and she's interested in investing in an ETF. She doesn't have any specific goals or timelines for the money at this point but she just really wants to passively grow her savings.

So up until this point, she's only invested in mutual funds and target date retirement funds so this would be a whole new experience for her. And she heard from an adviser that there are such things as commission free ETF's, which sound really attractive to her. So she started to research that, but got totally overwhelmed. So she was wondering what she should look for when it comes to a commission free ETF?

[0:19:59.3]

FT: I like ETF just like I like index funds for the same reason that this adviser likes them probably is that they're low fee or no fee in some cases. Probably more affordable than the mutual funds and the target date retirement funds that she is currently invested in. So if there is a way to roll that money into an exchange rated fund, index fund and a mix of that, I think that will in the long run be more cost effective.

The things you want to look for in selecting any investment when you are looking to create a basket of investments is that whenever you choose that as a whole you have diversity. You have a representation from different markets, you have different sized classes. You have just in general a good mix of stocks and bonds and other types of investment categories. So that, just like going back to the question about ESPP, that you're not putting all of your eggs in one basket, right?

So I think commission for ETF's are great and in fact many platforms like what we have been talking about on the show all year and some of the sponsors of this show, from Ellevest to Wealthfront, Betterment, they advocate for these sort of investments because of their low fees. So you don't have to work with a financial adviser, by the way, to get access to a commission free ETF or just a low cost index fund or low cost ETF. You could do this on your own and I would encourage that because it's not rocket science, you can sign up.

I know you feel overwhelmed, but that could be just because you are new to it. But spend a little bit more time researching, maybe hook up with one of these robo-advisers/online platforms and they can do the whole diversification for you. They ask you a series of questions based on when you want to retire, your risk tolerance, your goals, and they will come up with a portfolio for you that aligns well with that and try and include as many of these low cost funds as possible.

And it's totally doable, Ginny, and I am so glad that you are looking into this. I think it's a great way to start the New Year to make sure that your investments are not just generating the kinds of returns that you want but they are also cost effective; that the fees are not going to cost you money and eat up those gains over the life of that portfolio. When I started this year, 2016, I said to myself, "All right, I am going to go through all of my investments and kills the funds that are costing me every year." Not just the fact that they are losing money in their returns, but then I have to pay a fee towards.

Fortunately I didn't have many of those but we did trim the fat as they say. I also stopped working with the financial adviser. For me at the time, right now I don't need one. So that was a big savings as well. So as you think about 2017, think about some of these ways where you can cut costs, which are hidden, but they do add up. I actually calculated over 30 years, I would be spending a quarter of a million dollars in fees, right? What?

[0:23:00.6]

SY: Ouch.

[0:23:01.0]

FT: Yes, goodness I mean that's college for two kids, maybe? If they go to state school. Yes so I got rid of that as soon as I made that calculation because that really hit home for me and thanks to Tony Robbins actually for waking me up to that a little bit more than I had been. And of course, he was guest number one on So Money. Any who, thank you so much Ginny and good luck to you and Jessica and Jill, Adina and Abby and of course, our audio guest, Naomi.

Good luck with establishing your financial independence in the US of A this year, or I should say next year. Can you believe it? Hey guys, don't you love saying this? It's like, "Hey Sophia, I'll see you next year."

[0:23:44.2]

SY: I know, it's crazy.

[0:23:46.3]

FT: I'll see you in the New Year which is really a few days away but really sincerely, it's been a phenomenal year. I feel really lucky to be able to continue this podcast with you. It's been such an epic journey and I look forward to keeping in touch with all of you. I'm not chocking up, really my voice is just letting go at this point. It's been a long year of talking, but it's well worth it.

Thank you so much and have a happy, safe New Year's weekend and I will see you right back here on Monday with a fresh new episode.

[END]