EPISODE 581

[ASK FARNOOSH]

[0:00:34.3]

FT: Welcome to So Money everyone. It's Friday, June 2. Welcome to June everybody. Can we call it summer already? Can we? I mean, the weather has been a little so-so but I'm calling it summer, and June is one of my favorite months. It's my son's birth month, it's our anniversary month, lots to look forward to. This is a special episode. This is a special 581 Ask Farnoosh episode because we have with us a cohost handpicked from the audience from the listenership.

You guys are really good listening to this show because I mentioned little briefly earlier on that I wanted to start bringing on some audience members to share the mic with me on Fridays and go through these Ask Farnoosh questions together. Our very first guest cohost today is Tammy Tibbetts, and just a little shout out to Tammy before I let her take the stage. She is a remarkable young woman. Starting out as a journalist then starting her own international nonprofit called She's The First.

It's a girls education youth leadership nonprofit that's granting educations to young girls all over the world who would otherwise have the opportunity, and I think it's so remarkable that she started this in her 20s. She, in some ways, embodies so much of our listenership. You know, the ambitious, aspiration, go-getting person that you all are.

Tammy, welcome to So Money. What made you want to cohost?

[0:02:10.7]

TT: Oh, thanks for having me Farnoosh. I'm thrilled to be the first cohost. I guess I'm just a fan of the podcast and when you said that you were looking for a cohost, I thought, "Well, my whole job is about making it rain and money for nonprofits," so I emailed you and here I am.

[0:02:30.7]

FT: Here you are. Your organization — Tell us a little bit about She's The First and how you are helping these young girls and what inspired you?

[0:02:40.5]

TT: She's The First is fighting gender inequality by supporting girls who are going to be the first and their families to graduate from high school all around the world. This started out almost eight years ago as a simple YouTube video and social media campaign. I never imagined when I was 23 years old and getting this message about the importance of girls education out into the world that it would become my full-time job, my full-time passion, but I'm so glad it did because every day we're changing girls' lives.

[0:03:14.9]

FT: Really. A side hustle turning into a huge nonprofit organization. That pretty remarkable. I understand you work under Ann Shoket at 17, who's been on this show and has a new book out called *The Big Life*. That's a great mentor to have in your 20s.

[0:03:29.6]

TT: Yes. She still is an advisor to She's The First. I'm her book in the side hustle chapter.

[0:03:36.5]

FT: As you should be. All right, thanks so much for joining me, Tammy. I hope this will be fun for you. You're our very first cohost here and I'm excited to say that we've got a lot of interest from many listeners who want to come on and get the chance to chime in and have fun with me on these Friday episodes.

Our first question comes from an anonymous listener who's left a voicemail, and it's about how lending money to a friend has backfired. Let's listen to her.

[0:04:05.4]

Q1: Hi, Farnoosh. I am in a predicament from lending money to someone. Back in 2015, I helped out someone close to me and loaned him some money. I had it on writing and had my bases covered. He did pay me back a little and I was trying to be patient and understanding about it, but he has always seemed to have money to go out to do fun things but hasn't been paying me.

In March I took him to Small Claims Court and I won. No problem. He still owes me over $1,600, but I just recently received a letter that he is filing for bankruptcy. I’m wondering if you have any advice and if there's anything I can do. Also, shortly before he filed for bankruptcy, he'd bought a new vehicle. I have no idea how he pulled that off, unless he put in some else's name. Now he's also been taking vacations.

Is that something that can be looked into for bankruptcy fraud? I’m planning on talking to an attorney, but I just wanted to get your thoughts as well. Thanks for your time and for all that you do.

[0:05:12.6]

FT: All right. I’m so sorry to hear this, that a really well-intentioned loan that she put in writing, she did all the right things, Tammy, and it still ended up going south, and she even took him to Small Claims Court and won but he has gone missing. Has this ever happened to you, this potential of giving money or something to someone and the loan not being returned?

[0:05:40.2]

TT: This situation hasn’t happened to me, but I have made mistakes that have cost me small sums of money, and I find that usually I'm curious whether she had a gut feeling before agreeing to do this, because sometimes you should listened to your guy and when you don't you end up having to pay $1,600 or something like that if it doesn't go your way.

[0:06:07.0]

FT: Yeah, also not to mention the cost of the relationship. I don't think she ever really wants to have coffee with this person ever again. To answer her question; “what else can she do?” I would say that if your emails and your calls have gone unanswered, and there is a track record for this that you can show that I've tried to contact my friend despite the court's order. He has gone missing. Has no — Seems like he has no intentions of paying me back. I would go back to the court and ask them if they have any advice for you.

What other direction can you take? In some cases and some states you can garnish wages, you can garnish their tax returns, you can put properly lean their property. You can — There are other steps that you can take that are a little more — A lot more aggressive, but I wouldn't do without the cooperation of the courts, and they can do the proper directions for doing that. Maybe that is something that you want to do.

This is frustrating. I feel you, especially if you're seeing your friend buying things and taking on vacations, but that's probably why they're also declaring bankruptcy. They just are spending money that they don't have. Just know that this could be a long road unfortunately, but you are doing all the right things and just see maybe if the courts can now step in even further and help you with perhaps garnishing wages and sending you a check from their employer or from their tax withholdings.

All right. We have another audio question, Tammy. This one is from Corey, and it's about how to achieve buying their dream home. So I’ll let Corey take this one away.

[0:07:50.0]

C: Hello Farnoosh. My wife and I have a goal to buy our dream home in about three and a half years and keep our current home as a rental property. We are currently saving as much as we possibly can, and in order to boost those savings a little bit, we have dropped our 401(k) contributions a little bit which seems like a no no, but it’s getting us closer to our goal and it feels good.

I dropped my 401(k) contribution from 8% to 5%. My employer does not offer a match. My wife dropped her contribution from 7% to present to 4%. Her company does offer a 3% match. Other details, our current mortgage on our current home, we have about 130,000 left on that home. We already have an emergency fund of about four months saved up. Dropping the 401(k) contribution to get to our goal of our dream home and owning a rental property faster. Thoughts?

[0:09:09.4]

FT: All right. First things first, Tammy. Do you own or do you rent in New York City?

[0:09:15.0]

TT: I rent in Brooklyn.

[0:09:16.3]

FT: You rent in Brooklyn. Where in Brooklyn are you?

[0:09:18.2]

TT: Yeah, in Park Slope.

[0:09:19.5]

FT: In Park Slope, okay. I’m a couple of neighborhoods over. I'm in Boerum Hill, and I love Park Slope, and I would love to — I wouldn't mind living there, actually. They have great public schools and Park Slope. It would save me a lot of money.

[0:09:34.0]

TT: I love your neighborhood too. My gym is there.

[0:09:37.2]

FT: Yeah? Which gym?

[0:09:38.6]

TT: Yeah, I go to Blink.

[0:09:40.4]

FT: You do go to Blink. They just opened and I'm wondering who goes here, because it's right across from New York Sports Club, so it's like those two rivals. What do you like about Blink? Because it seems like a very different take on the gym experience.

[0:09:54.9]

TT: Yeah. They're owned by Equinox, so I think they just are — They've got a great brand. Their staff is so friendly. Every time you walk in, it's super clean and it's very cheap .

[0:10:09.7]

FT: Ah! There we go. It's very cheap, and it's owned by equinox, which is very expensive. Maybe you're getting a little best of both worlds.

We have derailed a little bit, but that's good to know. Blink is maybe worth checking out. I have to train for a half marathon soon. It's happening, and I haven't trained at all. It's happening in October. Wish me luck.

Corey and his wife want to buy their dream home in a few years, and in an attempt to save up for this they have dropped their contributions to their retirement accounts. Now, Corey, I get that something you feel like has to give if you want to save more aggressively for this big goal of buying home, and I hope you can get there. I just worry about dropping your contributions as much as you have. In your case, you've dropped it by almost 50%. Your wife also almost dropped her contributions by 50%. I would say that at the very least, try to get your wife to contribute as much so that she can earn the full 3% company match so she does 3% and then her company gives her 3%, so that's a total of six.

Initially, she was doing seven total, now she's doing — Now, I would love for her to do maybe six total. We always say that if you have an opportunity to bank on a company match, which is essentially free money in your 401(k) or 403(b), do it. Maximize that. I feel like I wouldn't feel so disappointed in the direction of reducing your contributions. At least you're getting that match.

I would say that once you do sell your current home and it turns into rental property, and hopefully that's cash flow positive, you would take some of that extra revenue and put it towards playing catch-up in your retirement account for the little that you've backed down for now. Maybe in five years once you have your dream home and you've got that rental income that you can use some of that to pay into your retirement accounts and play some catch-up. Good luck with that, Corey.

All right. Next questions is Gabe. I'm going to have you read this one off for you — Sorry. Okay, next question is from Gabe. Tammy, you can take this one and tell us what Gabe is curious about.

[0:12:26.5]

TT: Gabe says he's thinking of buying a house with a 3% interest only mortgage. As far as paying the mortgage, he's wondering if it's a better investment to put more money towards the principal of the loan or just pay interest during the interest only turn and instead invest hi money in the stock market mainly via ETFs and index funds. Which option is better? Putting money towards a mortgage or stocks?

[0:12:54.6]

FT: Wow! Okay. This is a really popular question that I think in the personal-finance world it's asked and answered a lot. Oh gosh! I mean, from a historical return perspective across the map, I would say stocks do have a higher return over decades, over like, let's say, 30, 40 years. The U.S. Stock Market has returned more than home prices.

That said, if you are in places like New York City, San Francisco, or maybe even like Boston, depending on when you bought and when you sold, there is a chance to also there make a nice profit and perhaps more than you would with the stocks.

Gabe, I don't really know a whole lot about some of the other things that might be going on in your financial life. One; do you have much saved for retirement? If you don't have a pretty good retirement fund, and what is that even mean? There are all different types of metrics, but by 40, the goal is to hopefully have about twice your income in retirement, in your retirement savings account. If you're nowhere near that, then you might want to consider putting the extra money that you have towards a retirement account; an IRA, a Roth IRA, your work 401(k). If you're self-employed, maybe SEP RIA. If you're not interested in any of that and you just want to have a brokerage account, then you can open up a brokerage account. I like the idea of having index funds and ETFs, those low-fee funds, mainly, will be a low-cost way for you to grow your money.

Though an interest only mortgage, just be aware of the fact that when you're not paying any money towards principal and just interest, after, say, five or seven years when that interest only component of that mortgage expires and now you have to pay interest plus principal and your balance hasn't gone anywhere, and now interest rates could be 6%, 7%. I don't know. By then, it could very well be. Could've doubled since from where we are today, you're to be facing a very big mortgage bill every month. Much larger than what you're used to paying.

It's really important that if you don't go, the pay more towards the principal route and more the I'm going to invest in stocks route, that you're very well prepared for that day. When that interest only component expires and now you have to pay principal as well, your payments could double easily or close to that, and you need to pay for it. You need to have the money for that. Those are things you have to weigh. This is not just a strict, "Which one is going to get me the biggest return — Biggest bang for my buck, the biggest return on my investment. It's also what can you handle really.

For this reason, I don't love interest only loans because they're very tempting. You just pay the interest and then when that kind of expires — When that interest only term expires, then you're facing a bigger bill. If you don't have the means to pay that or you haven't been saving up for that day, you could be in trouble. Just think about that. Do some of the math in that department and maybe that will give you a better answer for yourself.

All right. Next questions. Tammy, take it away. It’s from Sarah.

[0:16:34.9]

TT: She asks, “What is considered a low expense ratio?” After a recent podcasts, I went back and it looks like my portfolio which is primarily made up of index funds has ratios as low as 0.045% but as high as 1.33%, Is 1.33% too high?

[0:16:59.2]

FT: All right. Do you ever look at your expense ratios, Tammy? Say, for retirement.

[0:17:07.9]

TT: For retirement? I have a Roth IRA.

[0:17:11.9]

FT: Do you know how you’re invested, or is that just something that you don’t really look at closely?

[0:17:19.1]

TT: I know that I — I am with Fidelity and they've got it set up, but I don't know what the exact ratio is. I have to look into that.

[0:17:29.1]

FT: Yeah. It's really important. I actually was sort of lackadaisical about this myself and I only kind of got more laser-focused on this. A few years ago when I interviewed Tony Robbins, and he wrote a book about money, and the big takeaways for me from the interview and from going through his book was that it's very important to look at the expense ratios. In other words, when you invest in a mutual fund, or an index fund, or an ETF, or any kind of fund, there's usually a cost associated with that. It's a percentage, an annual percentage taken from the value in that fund that you have accumulated or whatever. If you've got $5,000 in mutual fund and the expense ratio is 1%, then they're going to take 1% of that every year. That's on top of whatever your financial advisors is costing you.

It may seem very nominally, like, "What's a percent here, there? Really, it's so little." Like, "Does it even matter?" The answer is yes, it matters a lot, because when you thinking about retirement and investing year over year over year for 30 years if you start young and compounding of that. I did the math, and Tony's done the math, and it's very easy to do the math. You can go online and figure out what expense ratios really add up to. It's potentially hundreds of thousands of dollars when you also factor in what you might be paying a financial advisor on an annual basis. That's something that you really don't need to be paying these expense ratios in many cases. Something like a .045% ratio is very low, and I like that. I like .045. 1.33 is not as high as I've seen, but compared to .045, it's a lot higher and so you might be like, "Oh my gosh!" If all of your funds were 1.33, I'd be a little nervous.

I will say that in my case, I did find that most of my funds luckily were below — Were very nominally, like almost 0%, the expense ratios, like your .045%. There were a couple that were over 1%, and I asked my advisor about them and I said, "Why are these more expensive?" She said, "Well, if you look at what —" The one that was kind one and a half percent, or 1.33%, it was an emerging market's index fund. She said, "You have to understand that not all funds are created the same, and these emerging markets are very volatile, and there is little more work that goes into managing the risk within these particular funds. It's more, maybe, time consuming, thought consuming, and so you're going to pay a little bit more for that."

At the same time, it's important that you are in emerging markets because there's a lot of growth there, you're young, it's high growth. You can take on this kind of risk. She said, "I recommend keeping it, paying a little bit more for it." For some of these other funds that might've been higher than I would've liked, the expense ratios we found comparable funds that invested in similar things with smaller expense ratios. We were able to, overall, bring down my expenses.

I kept a couple of over 1% funds because I rationalized that it was worth it because maybe they were little more high-risk and needed more risk management. I'm getting a little too in the weeds right now, but bottom line, Sarah, is a low expense ratio is something I would say that's below half a percent and you don't really want to go over 1.5%. If you are, you really want to understand why, and is it possible to replicate the dynamic of that fund in terms of how it's invested, what's in it, the ingredients in a different way with a lower cost.

It's almost like buying organic or not organic. Sometimes you don't need the organic, but it's like you think everything has to be organic, so you're going to pay up for it. Actually, it's more important that you focus on organic berries because those are more prone to pesticide. You know what I mean? You have to get a little more educated and what really you're getting for your money and is it actually going to make a difference? In that case, it's good to talk to a fiduciary financial advisor who is not there to sell you stuff to make money but really just there to look out for your best interest.

Was that — Are you still awake, Tammy, because I — I'm waiting for you to sleep.

[0:22:11.7]

TT: I want to listen to the podcast that Sara listened to that prompted this, so I have to go back and look that one up.

[0:22:18.8]

FT: We talk about this occasionally. I actually do recall recently talking about low expense ratios, and maybe it was an Ask Farnoosh, but maybe it was also the Tony Robbins episode one. What's been your favorite episode, Tammy?

[0:22:31.1]

TT: I think I'm a little biased, but I loved when you interviewed Ann.

[0:22:34.9]

FT: Ann Shoket, your former boss.

[0:22:36.1]

TT: Yeah. Yeah, because I just believe in her message in the big life so much.

[0:22:42.3]

FT: Yeah. Yeah, I used to contribute to Seventeen Magazine as well under Ann's guidance, and I was a financial columnist for them during the recession which I thought was so cool that a young female audience kind of magazine that the leadership there really wanted someone to bring in some financial clarity to that audience and didn't underestimate the fact that even though you're 14, you still do want some financial guidance. You're curious about money, and I was really fortunate and proud to be able to do that for a little bit.

We would sometimes field questions from the audience from the readership and I will say they were pretty sophisticated questions and they were going through some really challenging times in their families because, if you remember 2008, 2009, it was a really scary time for everybody. Especially I think when you're young and no one's telling you really what's going on but you see the emotional turmoil that's happening everywhere.

People are upset, losing their jobs, they're scared, they're frightened, they're insecure, and all you want to do is help, and that was actually the beautiful thing that I kept hearing from the Seventeen readers, these young girls, they'd say, "My parents lost their jobs." "My mom is really worried about paying the bills. I want to help her. She's not really coming to me for help, but how do I do it in a way that I'm not being like the nosy daughter, but I really do want help."

A message to parents out there; if have tween or teenage kids, enlist their help. They want help. They would love — If you told them like, “Hey, if you — Just turning off the lights in the house before you leave is to save us $10 a month on energy, which is hundreds of dollars over the course of the year, which is more opportunities for us like have fun times to go out to eat.” If you put it in that context, I think that they're more than willing to follow the rules in the house at least.

[0:24:45.1]

TT: Yeah, that’s a great idea.

[0:24:46.5]

FT: What was your role at Seventeen? You were at the social media. You’re really on the on the cutting edge there too, social media manager.

[0:24:56.0]

TT: Yeah, that was my last role there, but I started out as the prom website editor.

[0:25:02.4]

FT: Oh my Gosh! All right. What year was that?

[0:25:07.6]

TT: That was in 2007. I was there for five years.

[0:25:11.2]

FT: All right. 10 years ago. Prom and intense, let me tell you. I hear people — I don't have — I have years until prom. The money that you put towards prom is like serious. You got to start saving for that from freshman year, because parents are suddenly are like, “Wait a minute. It’s not just the dress. It's the limo. It's the dinner. It's the nails. It’s like getting married.

[0:25:35.8]

TT: Yeah, then college tuition after that.

[0:25:38.5]

FT: Yeah, by the way. It’s such a slap in the face. It’s like you have this big expense and then it's right before college, which is going to be the biggest probably expense of your young adult life.

Well, speaking of big expenses, our last question is from Sean, and Sean wants to know should I pay for my wedding photographer in cash or on a credit card and pay it off in increments?

Tammy, a personal question, are you married?

[0:26:08.1]

TT: No, not yet.

[0:26:08.9]

FT: Not yet. Are you engaged?

[0:26:11.1]

TT: No, but I have a wonderful boyfriend; Michael.

[0:26:15.0]

FT: Okay. Happy to hear that. If one day you and Michael got married or if you — Just hypothetical, how do you envision paying for your wedding? Have you thought about it?

[0:26:29.5]

TT: I plan to have a small wedding, so I don't think it will be super expensive. When it comes to larger expenses in my life or even at She's The First, I am a big fan of putting it on the credit card to get the point, but I always pay off weather it's mind or she's the first credit card bill as the statements come.

The part about paying it off in increments, I don't know if that's a good idea. You'll have to advise him on that. For me, I love the credit card points and redeeming them on free air miles.

[0:27:04.0]

FT: Yes, I'm with you on that. I think that I like to put a lot of my expenses on my credit card knowing that I will be paying this off in full before any interest accrues, before any panel — It's going to be gone within the month, maybe before the payday.

Sean, I think that for two reasons, I would opt for a credit card instead of cash. I've heard a lot of terrible stories, not a lot, but enough where that it would frighten me to encourage you to pay in cash for your wedding photos, because what is the photos come back terrible or something happens and they lose the photos or it gets deleted. That has happened.

Fortunately, these days, everything is digital and so hopefully your photographer is able to upload the photos as he or she is taking the photos and so there's no risk of them getting deleted off his or her camera. Even then, what if they come back and they're really late. I've had it happened where people were like, "We didn't get our wedding album for like a year and a half later because our photographer got really tied up."

It would be terrible if you paid them all in cash and then you had to sit on your hands for a long time to get them and you have, at that point, no leverage. You always want to maybe give a deposit, but always keep a little bit money aback so that you have the leverage, you can go back and things are coming to you late or you don't like things. They'll make the adjustment happily because they still are owed money.

The other reason I think it's helpful to put on a credit card with the intention of paying it off in full right away, no increments. It's like Tammy said, you can get cash back or points and that could be helpful if you are planning to, say, go on a honeymoon soon after. If you put this on a travel rewards card or something like that, you might be able to use those points towards flights or hotel depending on the kind of card that you have.

Paying it in increments could be pointless because the interest that you'll pay could outbalance or sort of counterbalance any points you get, so it ends up being a negative. Of course, it hurts your credit score to when you carry that balance month over month. My advice is do the credit route, but try to pay off the credit card bill within the month that the bill comes due and don't pay it all right away. Do maybe a 30% or 50% down payment to secure the photographer, but keep some money back in your pocket so that you have some leverage when you're reviewing the photos and waiting for the photos to come too. Congrats on your wedding. I hope everything goes well.

I want to say thank you to Sean, and Sarah, and Gabe, and Corey and our anonymous voicemail. I hope you get your money back from your friend I really do. I hope that sometime soon you and your friend can reconcile your relationship over this. It may be over, and that would be justified. That's the real bummer. It's not just the money, but it's the friendship that was compromised, but a good lesson for all of us.

Tammy, thank you so much. Tell us how we can learn more about She's The First and how we can volunteer with you, get in touch.

[0:30:32.9]

TT: Yes. Our website is shesthefirst.org and we are all over social media, on Twitter, Facebook, and Instagram @shesthefirst, so please reach out. We would love to add all of your audience to our movement.

[0:30:47.1]

FT: Thanks, Tammy. This was really refreshing to have you as a cohost and my very first audience guest on Ask Farnoosh, and it was really fun for me and I hope it was enjoyable for you. I didn't put you to sleep too much.

[0:31:03.9]

TT: Not at all. It was a lot of fun and educational at the same time.

[0:31:07.7]

FT: Oh, thank you so much. Everybody, check out the Monday episode of So Money. We had Alice Finn on the show. She is a financial expert and has a lot of advice for us ladies out there. Stay tuned. Hope you have a great weekend and I hope your weekend is So Money.

[END]