EPISODE 686

[ASK FARNOOSH]

[0:00:36.0]

FT: Welcome back to So Money everyone. Happy Friday. We have a very special cohost on Ask Farnoosh today. As you know, for the last several months, we've been inviting on listeners to join the stage, share the mic and share their life experiences, financial perspectives to give as advice to all of our listeners. We've got a lot of interesting, important questions to tackle today, and I want to bring on the stage, Amy Saruwatari, who's been, I understand, following the podcast from the beginning more or less, and even earlier than that, she was a fan of my Yahoo show on Yahoo Finance called Financially Fit. Those were the days.

Amy, welcome.

[0:01:17.3]

AM: Thank you. Thank you, Fanoosh. I'm happy to be here.

[0:01:20.1]

FT: I'm happy to have you on the show. I think that you are going to bring a lot of great valuable personal experience to the table. I understand that you recently switched careers, and tell us a little bit about that, because that involved a bit of a financial plan and strategy, because you were going from an industry that was paying you more to nonprofit. So how did you make that adjustment?

[0:01:41.4]

AM: Thanks for asking. I thought about this change for a long time and I have always been someone who cares deeply about the homeless and about education, and when the opportunity came up last May to make a change to do more cause-related work, I was really happy about that, and I had spent the prior, I don't know, maybe 8 years in tech, and in L.A. they call it Silicon Beach, but as you know, the pay scale for tech is a lot higher than a lot of other industries. So I kind of kept that in line, and what I also did at the same time was I moved out of like a metro area, which is really expensive, to an area that's a bit more affordable, that's further out, and I think a lot of people are considering that move. So the two things that I considered were moving to an area of more affordability and also having a job with a slightly lower pay scale, but more meaning personally.

So what that meant for me was just I have been saving for a very long time. I'm very much a saver, and I have been just trying to save as much as possible towards the move and towards this move in my career and I felt the time was right for me to do it.

[0:02:58.5]

FT: What makes you a saver? Do you think that was just something you were born having a tenacity to do, an interest, or was that something that you learned throughout life, like a bad experience happen and that made you more conscious about saving? How do you arrive at a place where you call yourself a really good saver?

[0:03:18.7]

AM: I think when I was growing up I was really sensitive to just financial conditions in my household, and I came from a two-parent household. There were three girls, and we I wouldn't say we were poor, because I think that's a mindset. I think we are more like kind of financially challenged. I was really sensitive to the fact that sometimes my friends would do things or take trips and maybe we weren't able to do it.

So with that in mind, when I started my first and when they first rolled out the 401 (k)s, I'm dating myself, I jumped at the chance to just start saving and I have been saving ever since.

[0:03:56.9]

FT: Wow! I think they started not to date you, but let's just remind everyone that, well, 401 (k)s, we talk about them all the time, they are relatively new vehicle. I mean, in the world of finance, they were established — What? In '80, '81 or '79, something like that? Something like that. Okay. We're not going to get too specific, but that's amazing.

I mean, quick math, quick back of the napkin math. That's like 30+ years of investing in a 401 (k). Not too shabby. Good for you.

All right. Now, let's talk Maddy's question. It's the first question of the list. Amy, she's curious about investing in cryptocurrency. What do we think about this? I mean, certainly Bitcoin has been all the rage, but is it something worth investing in? you're the saver, what do you think?

[0:04:46.8]

AM: I tend to be really conservative with my money, and I don't have a whole lot of money that is like — I kind of feel like cryptocurrencies, it's the new kid on the block. It's not regulated. It's not connected to a central bank, so it's highly risky. So if I had so blow money to invest in it, I would. I don't really do that, but I do have friends that has made some money in that market, and I don't thoroughly understand it, but I think it's worth reading about it at least.

[0:05:16.4]

FT: Yeah, I am 100% with you. I think that whether you are not you are someone who should invest in it, I don't think that's for everybody. I don't think it's for most people. It's an alternative investment, and as you mentioned, it's not regulated. It's very new to market. It's highly volatile. I mean, up 14,000 one day, down to 11,000 the next. I mean, it's extremely unprecedented in kind of the asset class that it's in. It's not for most people, but I do think that it would behoove all of us to learn as much as we can about it, because I do think that the underlying kind of concept here of having a currency that essentially creates a lot of transparency in the marketplace as far as how your money is moving around .

One of the principles of cryptocurrency is that it is decentralized. It's not relying so much on the banking system. So with that, I think they are something to be appreciated. We're seeing

Amazon, for example, in the news talking about looking at ways to integrate cryptocurrency into their payment systems. So I don't think that it is going to go away, but this sort of hoopla around Bitcoin as an investment is — Who knows? Don't blame me if this ends up becoming the next like investment in Facebook as far as growth and potential earnings, but it's like any other alternative investment, and the rule of thumb that I have really stuck to over the years is in your investment portfolio, as you are saving for your future, we always talk about diversification. Yes, there may be some room in there for alternative investments that are highly risky, but there should always be some component of risk in your portfolio, unless you're retiring tomorrow, you can afford to ride some volatility, but don't put all your eggs in that basket. A 5% allocation to these alternative investments, and that can be anything and everything from Bitcoin, to gold, to art, to real estate, things that aren't necessarily tracking an index, aren't a broad market, they're not a mutual fund, an index fund, an ETF, stocks, bonds. These are what categorically are called alternative investments. There's not a lot of track record. It's highly volatile. Not a lot of information, but there's a lot of emotion, excitement, and there's a big potential for gain and also a big potential for loss.

So you have to be willing to be able to stomach that 5% not working in your favor, and if you are that person, then maybe this is something to play with, but it's really rolling the dice. I don't think it's something to invest in necessarily, but I do think that we should all learn about it. So that's my two cents on the whole thing.

You're going to think about it every day, because it's in the news constantly, but one of the things I have learned just through recent history is that when we all, like the majority of the reading population and of consumers start to talk about a particular thing, like housing and buying a house, we know how that ends up, right? There is this herd mentality that we can fall into very easily to think that something is necessarily a really smart investment simply because we are hearing about it all of the time and we're hearing about our friends investing in it and etc. That doesn't necessarily mean that it is a valid and good and wise investment. It just means that everyone's falling into it, and as a result, a lot of people could also see their investments go down. But anyway, that's what I'll say about that. Amy, do you want to add anything?

[0:09:00.7]

AM: Let me just say I think it's an interesting idea, because it's not tied to like a country's economy or something like that, and I think it's the way of the future, but I'm just not ready to jump in yet.

[0:09:11.7]

FT: Fair enough. That is totally fair, and investing is partly emotional. You have to feel like you are confident in what you're investing in. Now, at the same time you shouldn't allow your emotions to deter you from investing in general, but when you're talking specific investments, like cryptocurrency, that's, again, not — We don't have a real track record there. It's really hard to feel confident. But, again, it's up to the individual.

[0:09:39.2]

AM: Exactly.

[0:09:39.7]

FT: Okay. Moving on to Gina's question. Amy, do you want to read it of for us?

[0:09:45.1]

AM: Sure. I read your column in the January issue of O Magazine offering up advice from Baked by Melissa's founder on starting a business. A friend of mine and I are having an idea to start a business but want to know once you have an idea, how do you get started? Should you research, write a business plan? What are practical first steps?

[0:10:03.6]

FT: So how do you start a business? First steps. Well, to use the example of Melissa Ben-Ishay from Baked by Melissa, which for a lot us we know what that is, especially on the east coast. She's widespread here. Got lots of different stores and has an online store, but these are like these tiny little cupcakes that just spread like wildfire. During the recession, Melissa opened up a little outpost in the West Village or so ho selling these tiny cupcakes for 3 for a dollar, or a dollar each or something like that. It was a dollar each. During the recession, nobody had any money, but we still wanted to feel indulgent, so it worked really well for the time.

So that's the thing. I would say what Melissa did that I think can be an example for you and a lesson for all of us is that you want to understand the market. She was a real great baker. She loved to bake cupcakes. That was a no-brainer for her to create something delicious and enticing, but you also have to pair that with what's happening in the market. There's a lot of competition for cupcakes in the market, for baked goods in the market. How do you standout? How do you differentiate?

Also, she knew that it was a tough time in the market financially for people. Were they going to spend $4, $5 on a cupcake? No matter how beautiful it was or how delicious it was, that may have been a hard sell at the time. So she started with these miniature muffins that went for a dollar each. Everyone has a dollar, right? And it was an experience and I think that that's what helped her kind of claim her stake in the marketplace and differentiate yourself.

Yes, doing all the research. I don't think you have to write a business plan yet necessarily, although no one's going to argue with that, but I think that if you're just in the beginning, it's really thinking about what is your competitive advantage? What is your — As my friend, Chris, calls it, you're unfair advantage. This advantage that you have that is special and unique to you or that is especial and unique to your product, your service, that you can really leverage to get out there to earn customers, because there's no such thing as a new idea anymore, right? It's really more about the execution, and that is what I would focus most on. It's how do I design this and produce this and market this in a way that would earn attention.

Another example I'll give you is — I just learned about this. It's actually a sponsor of the show, RXBARs. I eat them like all the time. Do you know what I'm talking about, Amy?

[0:12:46.1]

AM: No. what is that?

[0:12:47.7]

FT: RXBARs, they are these nutrition bars, and they have very few ingredients and they weren't doing that well when they first came out in the market, then they changed their packaging to be extremely transparent. So when you look at these packages, they're like these rectangular packages, these small nutrition bars, and right on the front, it tells you the four ingredients.

Millennials, they discovered [inaudible 0:13:14.4], which was their customer-base, want transparency. They want to know exactly what's going into their bodies. The fewer the ingredients, the better, and they did that. Literally, overnight, they increased sales and it was all because of a tweak to their packaging. Now, that's a little bit further down the line for somebody who's just starting about and thinking about a company, a product, but that's the sort of thinking, right? Like how do we click with our target audience? That's another thing to think about. Who is your target audience?

So that's what I would do. I would just start to really explore the market, learn what's out there, what's been successful, what's missing? And I don't know what your idea is, but we'd love to hear more about it, Gina, or your friend's idea rather , and we can get more specific. But that's what I would say. Any other thoughts, Amy?

[0:14:05.0]

AM: Yeah. I think you touched on a really good point, which is how is your product different. I think a lot of times products are born out of, "Gosh! I wish somebody would do this, or I wish somebody would do that." For example, like Airbnb I think occurred after someone thinking about a need. So I agree with what you're saying. I think there isn't a new idea, but if you can come at it with a unique value proposition, I think that's key.

[0:14:30.6]

FT: Yeah. Good luck to your friend and thank you for reading O. I was really excited to be able to sit down with Melissa. She's extremely inspiring. She started Baked by Melissa after she got laid off from her job. Had a good weep over it, but then just buckled down and realized, "I have a lot of skills and talents, one was baking, and how do I leverage that?" She just hustled it and made the most of it, and it's also about surrounding yourself with good people that believe in you and can support you. Melissa recognizes that she's not necessarily a CEO type, that she really loves getting into the nitty-gritty, the creative, the baking. So it's really about making sure that's she's hiring the right people as well.

Again, further down the line, but even as you're starting your business, surrounding yourself with mentors and just getting a lot of feedback is a huge benefit to any startup.

All right, Pam has a question about financial advisors. Amy, why don't you read this off for us, please?

[0:15:38.8]

AM: I'm curious about financial advisors and what is a respectable percentage that goes back to them? I read an example of a woman having to give 1% of her $800,000 earnings back to them each year, which is crazy high. What percent is usual?

[0:15:55.5]

FT: Yes, and I think that she read that in my Mint column. So I write monthly for Mint, the blog there, and I do these audits. So actually if you're listening and you want me to evaluate your finances and you're a Mint user, get in touch. Email me, Farnoosh@farnoosh.tv, and I schedule these about once a month, and there was a woman who — This is from a woman who actually made quite a bit of money, had a lot in savings. As you see, she had $800,000 in her brokerage portfolio and she was paying advisors a percentage of her managed assets every year, which is pretty much the norm when you're at that level of money.

And my advice actually to her was to quit those people, like leave the firm, because I didn't feel she was getting a lot of value, and I extrapolated that fee. I compounded it over the — What? 25, 30 years she maybe parking that cash with them, and it was over a million dollars.

[0:17:01.1]

AM: Whoa!

[0:17:02.3]

FT: So yeah, and that was just a conservative calculation and that's not including the potential fees that she's paying within the portfolio for all the different funds that she's invested in. So it adds up, and I was like, "do you feel like you're getting over a million dollars' worth of advice? I don't think she felt that way. She just felt that she really likes these people. She trusted them. They were kind of — She said father figures. I was like, "That is no reason to keep your money, to give a million dollars to anybody."

And I think that unless you're also getting really sound financial planning advice, if these are also the same people who are helping you manage your state, set up different insurance accounts. I don't know. She doesn't have any kids or nothing, so I was like, "You don't even have like a lot to plan for yet."

So my advice was to move over to a robo advisor and automate a platform, and you can find one virtually anywhere now. There are a number of virtual advisors or rather these automated platforms, whether you're talking about Ellevest, Betterment, Wealthfront. There's even an automated platform from Charles Schwab. There's also — Gosh! Specify from where I partnered with Specify last fall, and that's through Citizen's Bank, and they actually will give you free financial planning. You can actually get financial advice for free from somebody as you are investing automatically. The benefit of investing automatically on their platforms is that there is a reduced fee.

So while traditionally in the market place where you're working one on one with a financial advisor, 1% is the norm, and I already told you how that can really add up. But if you put your money in an automated investment platform, any of the one's I mentioned, I think the fee, the management fee is on average about 50 basis points or .5%. So it's 50% cheaper to do it that way.

Now, some people like having the handholding, but if you're not leveraging the handholding, if you're not utilizing it, if you don't feel like you're getting a lot of valuable advice, then why are you getting your money away to somebody to just pocket all that cash? I feel like it's not worth it.

So to answer Pam's question, yes, 1% is the norm if you're going in that direction of working with a tem or an individual, but there are other ways to do it effectively in paying much less.

Do you have your money with a financial advisor, Amy?

[0:19:40.0]

AM: I do not. I have had a couple of appointments with financial advisors. I don't feel like my portfolio is like [inaudible 0:19:47.7] having someone manage it, but I am starting to dip into the robo advisor thing. I just signed up for Acorn's and I'm doing like little small incremental roundups and just getting my feet wet that way.

[0:20:01.0]

FT: Yeah. I mean, another thing is like if an advisor is trying to lure you into his or her practice simply based on their historical return record — Look. The studies show that picking stocks is like throwing darts on a board, and I mean, yes, there are some people out there who are making a killing managing people's money and they're doing it well, but for the average person, writing the market over decades is a proven way to end up with more money that you started with, and you can do it in a low cost, low fee way through index funds and mutual funds that are low fee and ETFs. That's my plan. I mean that's what I'm doing, and that's what I recommend, because it's a big way to safe and the results are the same, if not better than working with someone who's actively managing your account.

[0:20:52.1]

AM: Yeah. I'm kind of leery of — And there's nothing wrong with financial advisors, it's just sometimes I just like to stir my own ship and then I'll just sort of do my own research, and there's a lot of good low cost funds out there, like say through Fidelity of Vanguard that have great performance. They're not crazy expensive, and mutual funds tend to be a safer bet than individual stocks, which are more risky.

[0:21:15.5]

FT: Exactly. Okay, we have two more questions. Really quick. Gill says, "I'm in my mid-50s and I have $200,000 in a home equity loan at 2 and 3.25 of a percent," and he says that he won't have to pay any interest on it for 10 years. Then the next 20 he will be paying the principle down. He says he's going to be getting a $200,000 bonus shortly, so the equivalent of this home equity loan he's getting in a bonus. Should he invest the money or wipe out the debt?

Purely mathematical equation, calculation, I think that to invest is better, be if you invest in the long run, historically you should earn more than 3%, 2 and 3.25 of a percent just based on how historical stock market returns. Now, total disclosure, historical returns do not predict future outcomes, but I think we can say that if you plan to invest this money for the long run, that you will do as well, if not better. That's really the trend.

So mathematically, that's what's going to probably be the best option, but if you are someone who hates having debt and this debt is keeping you up at night, you could maybe do some sort of rationing, where you take some of that bonus, you pay down the home equity loan including the principal to get that stress of your plate, a little bit off your plate, and then investing the rest. As far as mutual funds or other kinds of investments, I think index funds and ETFs, other kinds of low fee investment options, probably be the way to get good bang for your buck.

Amy, what do you think?

[0:23:01.5]

AM: I would agree with you. I would maybe do like half and half. I might pay down that home equity loan like maybe by half and then invest the other half overtime. I just feel like —

[0:23:15.6]

FT: Overtime [inaudible 0:23:15.1].

[0:23:16.3]

AM: Yeah, if you could — Dollar cost average, maybe not all at once, but if you can pay down the principle and not have to pay that interest, and I believe I don't think it's tax deductible any longer probably as of next year. I think that would be like maybe a safer bet, but that's just me.

[0:23:35.1]

FT: Yeah. I mean, the tax deductibility, I believe in the next tax plan, it's up to $750,000 worth of mortgage. You can deduct the interest, but after that you cannot, and I don't how that applies to home equity loans. Do you know?

[0:23:57.1]

AM: I think I read that home equity loan interest will no longer be deductible. I could be wrong, but I believe that's what I read.

[0:24:05.4]

FT: Something to look at. There are so many changes in the new tax plan, but Gill, I think that maybe — I like your idea, Amy, doing a half C, a 50-50, paying down the heloc, investing, could be a way to kind of serve both of your needs.

[0:24:21.2]

AM: The one last thing I would say is because Gill is in his mid-50s, he probably should be conscious of nearing retirement age. So with that [inaudible 0:24:28.8] invest, be somewhat conservative.

[0:24:31.6]

FT: Yes. That's right. That is actually a really good point, Amy. The fact that you are approaching retirement, we all want to hopefully be debt free by retirement. So having that off your plate would be great. Again, we don't know where he is in terms of his investments for retirement. Has he saved enough? So that is something to keep in mind. As you approach retirement, what is your hope? Is it to be completely debt free before you have enough money in the bank or to make sure that you're catching up appropriately to have enough in the bank to retire well? The heloc, the interest rate is not that significant.

I think that if you can knock it down sooner than later, great, but if you're really behind on having enough money for retirement, that may be something to focus on as well.

[0:25:27.7]

AM: That's true.

[0:25:28.4]

FT: Don, last but not least, she's leaving a job where she recently combined her 403 (b) and annuities in one place. Should I leave the money there or take it to the new job where after a year the company will max at a high percentage.

First, I think that sounds like a good idea. The match is unbeatable. If you get an opportunity to have you their money matched, that may be something to consider. Now, the money that you're bringing over is not going to be matched. New contributions will be matched.

But other considerations to make is do you like the investment choices in this new retirement account at this new employer? What are the fees? It's not going to be an apples to apples comparison. You're going to really want to be aware of what is in this new plan. Traditionally, like 403 (b) plans tend to have lower fees than 401 (k) plans, but some people like having everything under a one roof. So these are the considerations that you would want to make. Do I want to be able to streamline everything? Are the fees better or worst at the new employer with their particular plan?

What did you do, Amy, when you switched jobs?

[0:26:43.4]

AM: I'm actually very much like Don. I just joined a 403 (b) as part of a nonprofit and I just started there, but I have a 401 (k) that I have parked at an investment firm, and it has a lot of great fund choices. So I'm not sure if I'm actually going to combine them even though it would be nice to have it all in one place.

Having two accounts for me is not like a big deal maintenance-wise, so I might actually leave my funds at the prior employer just because they have a lot of great choices.

[0:27:15.4]

FT: There you go. Yeah, I mean that's — So there's Amy walking through her real-life decision, and I think that hopefully will shed a lot of light, Don, on your decision. It's really about examining this new portfolio that you're going to be able to invest in. Is it going to be beneficial to your money? Definitely, I think your new investments will be benefiting, because there'll be that match, but whether you bring over that old money is not a — It's not an assumed yes. So just ask a lot of questions about that new portfolio.

All right Don, thank you for your question, and Gill, and Pam, and Gina and Maddy, and especially to our special cohost, Amy. Thank you so much. Amy, what are you working on this year, in the New Year? Do you have any financial goals?

[0:28:00.9]

AM: Actually, I do. My goal is to pay off my house in the next three-ish years. So I'm hoping to pay that off like I would pay off a car, which is really ambitious, but, hey, that's my goal.

[0:28:13.7]

FT: Awesome. Set the goal, automate the savings and you'll get there, no doubt. Amy, thank you so much. We really appreciate you listening to the show and all of your help and advice and insights. Remember everybody, if you want to send me a question, just go to somoneypodcast.com, click on Ask Farnoosh. You can send me your questions there, and also there you can let me know if you'd like to cohost.

Thanks to everybody for tuning in, hope you have a great Friday night and hope your weekend is so money.

[END]