EPISODE 752

[ASK FARNOOSH]

[0:00:34.8]

FT: You're listening to So Money everyone, welcome to the show, July 6th 2018. Tomorrow is my mom's birthday so happy birthday to mom, shout out to Sheila, out west. Hope you're enjoying the weather, the new year and we love and miss you.

This week, my family and I, we were at the shore in New Jersey with my husband side of the family, we all went for a family week long trip to Avalon, New Jersey. Anybody familiar with Avalon? It's kind of what people call the Philly side of Jersey, where a lot of the Philly residents will go and vacation because it's kind of the closest, nicest beaches there and it was a lot of fun.

We had our kids which you know, both kids four and now 16 months and then our cousin, their cousin, Dillon who is also about 15 months and for the first time in a long time, the adults outnumbered the children which is always good when the adults, the older people outnumber the little people, it means that they are more hands on deck and mommy can go have a glass of wine if she wants at 4 o'clock in the afternoon on vacation.

Doesn't always happen but it was a really fun, relaxing week and of course July 4th always a fun event with the kids because of the fireworks and all that good stuff. Hope everybody had a safe, happy, July 4th week, we're back to business today with your money questions as you know, Friday's the show, it's dedicated to helping you get through some of the financial challenges you have in your life.

I encourage you to reach me through many channels, one is the website of course, somoneypodcast.com, you can leave a voicemail there which we have one today. You can write a question. But also Instagram is a great way to reach me and I just want to give a quick tip about how the best way to reach me on Instagram is first follow me, and then send me your question.

The problem is if you're not following me and you send me a question, it gets buried. It goes in to a different folder. It's easier for me to just quickly see the people who are already following me their questions. Instagram does a better job of putting those questions closer within reach and more visible.

Second, make sure that it's not too long. I'll be totally honest, if I'm reading a question that's like 500 words long or got a lot of numbers - and I really appreciate that but it exhausts me a little bit. If I'm using Instagram and I'm usually on the go, like I'm in between commutes or I'm sitting in front of the TV and using Instagram so I'm not like a thousand percent concentrated and if I'm reading something, it's going to reduce the chance of me actually replying in a timely manner.

Those of you know, if you sent me really long questions, I do respond, they just take extra long time for me to do that because it's just, it requires more brain power for me - to especially on Instagram where I have to use my phone as supposed to my laptop to type answers or – anyway, just keep them short and sweet, follow me first. If your question is particularly long then I think in that case go to somoneypodcast.com and click on Ask Farnoosh and send it in there.

You have about 200 or so characters. You could also email me, farnoosh@farnoosh.tv so keep that in your phone and send me when you got a question. But today's co-host is a fan of the show, he's a friend, he's super experienced when it comes to money. Let me just tell you a little bit about Jim Brown, brag about him for a second here.

He's a forensic accountant, he's also an investor, a securities litigation consultant, a writer. He has worked on securities fraud cases that have resulted in settlements in excess of 5.4 billion dollars. I imagine he might have been really busy during the recession when we and a lot of white collar crime. He also is the coauthor of a book called *Financial Statement Fraud Case book - Baking the Ledgers and Cooking the Books.* That's definitely a good summer time bee tree, I don't know about you.

Jim Brown, welcome to the show.

[0:04:46.6]

JB: Thanks Farnoosh, so glad to be here.

[0:04:48.4]

FT: Wow, you have a very specific career, you have a very like, interesting path. What got you interested in focusing on fraud? To me, that sounds like a job that never seizes to surprise. Just the level of maybe fraud or the way that people perform fraud, especially when it comes to Wall Street and white collar stuff.

[0:05:12.6]

JB: I began as an auditor working for a public accounting firm and it was a great experience but you kind of do the same thing year after year and I was looking to do something different and I was always fascinated by the mindset and the analysis that is inherent in forensic accounting and investigative work.

It just so happened, it was serendipitous, that I was looking at the time that all the big frauds in the financial markets began to appear WorldCom, Enron and those types of cases. I started working for a securities litigation firm that worked on those types of cases and you know, I loved it. It was a bit of an adjustment with the mindset at first because I had an auditing mindset and now I'm working with attorneys and they litigate.

You have to think like them and learn to think like them and what's going to make a case successful. I love it, it was just so fascinating, it was, you never knew what was going to happen each day, what type of case would appear and it's great work.

[0:06:23.5]

FT: What's been the most interesting case and why?

[0:06:28.7]

JB: Well, Tyco securities case that involve Dennis Kozlowski and other executives at Tyco was the case I found most interesting because of the enormity of it and also the, I guess, egregious nature, some of the acts of the mishandling of corporate assets and the amount of money that was frivolously spent.

That one was actually for a whole bunch of reasons, there was also the trappings of his – the party for his wife in Sardinia and it was a real TV type of case.

[0:07:07.5]

FT: Yeah, there was that shower curtain for like I don't know. How much did he spend on the shower curtain in his office? I covered that case as a financial journalist at New York One at the time, that was like - when the headlines would come through like the wires, it was always one shock after the next.

[0:07:25.7]

JB: You have to remember, an accountant doesn't have the most adventurous and interesting life on a day to day basis. To have a case like this where there's all of this interesting events transpire, I found it fascinating. There was art work, traveling to different states and things like that. It was really interesting.

[0:07:44.2]

FT: Tell us about where you are today. I understand you're doing a lot of education and literacy around investing, what sort of made make this pivot and essentially, are you still working in litigation or is this kind of a new chapter in your career?

[0:08:01.7]

JB: I'm not, I'm actually transitioning. Why I'm doing what I'm doing now is, I want to provide investors with the roadmap I wish I had when I started, more than 20, almost 30 years ago. Because it can be overwhelming, especially if you're not in the financial industry, there's a lot to learn and it can be very simple if you know how to look and how to approach it, what strategies are more effective than others and to understand what works best for you and in the financial markets.

Both from choosing a strategy in an investment point of view and how your mindset will most work effectively in the financial markets.

[0:08:38.0]

FT: You're doing courses, YouTube channel. Tell us like how you're reaching people and then the target audience.

[0:08:43.4]

JB: Right. The way I'll be reaching people, I'll be launching a YouTube channel later this month, Your Best Mindset on YouTube and there'll be videos probably five to 10 minutes long, explaining a variety of financial and mindset topics and the way it will work is people will try it hopefully to the channel and notify.

Then if they find the stuff valuable which I think they will. I'm offering courses, I'm launching a course later this month on June 27th. Clear and Confident Investing is the name of the course. Then later this year, I'll be offering a flagship version of the course.

[0:09:21.0]

FT: What I love is that you had mentioned earlier to me before we were recording that your target customer client is a woman.

Tell us a little bit more about who is best suited for this material?

[0:09:35.3]

JB: Well, when I respond to your question, who is my ideal client, I said, a 32 year old female professional who is making - and salary isn't really a critical matter but the issue is that they value investing in themselves. They value learning and parrying themselves by understanding the things that are important like their financial future.

I think someone that has a long time horizon can leverage the inside set I'll be sharing. It's definitely broader than that, I think anyone with investment horizon of 10 years or more in equities at least can benefit from any of the information I'm sharing.

But I think the most leverage can be someone that is kind of a little past the point where they graduated school and they have a handle on their student loans and they're settled into a career and they're starting to see their earnings grow and they'll have some disposable income that they can put towards their investments.

[0:10:39.4]

FT: All right, are you ready to tackle some money questions?

[0:10:41.7]

JB: I am ready.

[0:10:42.4]

FT: All right, let's get to it. We have a lot of questions from Instagram but we also have a voicemail.

First the question from Instagram from Jing who says, "How many accounts is considered too many or adverse when it comes to calculating your credit score? What would be the ideal balance for the debt to credit ratio aspect of your credit score?"

Now, you're kind of like the investing expert, I am a very much a credit geek. It's not surprising that people have a lot of questions around credit, Jim. Because I think there's a lot of myths out there about what actually justifies a credit score.

I will just say to Jing and I let you chime in that I don't think that there is such thing as having too many credit cards, just the number of credit cards that you have alone doesn't necessarily mean that you are somebody who has a lot of debt or doesn't or that the credit score calculator is going to look at that as a negative.

They like to see a variety of accounts, that's true. That's part of the calculation, they want to see that you've got credit cards and maybe also other kinds of credit and that you're managing everything responsibly. That's the key, whether you have one card or 17,000 cards, the issue is, how are you managing that credit.

If you are in debt up to your nose with just one card and you're barely making minimum payments every month, you've got maybe some late payments on your history, that's not going to work well for you, your credit score is going to definitely take a hit. Versus somebody's got five, six cards, and she's managing them all very responsibly, paying the bills on time, paying well above the minimum. If not, paying in full every month, that is going to work to her advantage and it's less to do with the number of cards that she has but more with the way that she's going about managing them.

The second question about the ideal balance for the debt to credit ratio aspect, the technical answer is 30%. And what is the debt to credit ratio first of all? Your FICO credit score, one of the big variable is your debt to credit ratio and that is basically a calculation that looks at how much money your – how much debt you're carrying compared to your credit limit on all the cards that you have.

Let's just take one card for an example. Let's say you have one credit card and it's got a $10,000 limit. You're using $4,000 of that credit limit at any given time during the month. Regardless of whether you paid off in full or not, in that moment in time, you're 40% utilized, your debt to credit ratio is 40%.

That's high, higher than probably the FICO credit score calculators like to see. The rule of thumb is to keep it to about 30% or less. I always say, if you're going to go out there and like buy furniture or get big ticket items and put it on the credit card, try to pay it off quickly.

Don't just wait till the end of the month, actually pay it off as you go because if you are in the market for another loan or another credit card and your credit score gets checked, it could happen at any point during the month and you don't want it to happen right after you've made some big ticket purchases, that's rung up your debt to credit ratio to 50% or maxed out your card.

I will also say that the people in this country with the best credit scores and this is according to FICO have a debt to credit utilization ratio of 6, 7%. Very little. Using very little credit at any given time.

Do you have a lot of experience with credit education Jim? Any insights to offer Jing as she's, I think probably, looking to improve her credit score.

[0:14:26.9]

JB: Mostly just personal and I've always tried to pay off balance in full each month. My understanding is also that if you do have a higher credit score, it will also benefit you when it comes to things like mortgage rates and insurance rates also. I think that's something to, just try for also, paying off more than the minimum or if you can't pay the whole balance off.

Also, I kind of – when people ask me this question, this is not my area of expertise at all but I ask, you know, another thing to look at is the extent to which you're living within your means because if you're maxing out your credit card consistently, that's going to affect other areas of your life with respect to, if you have enough money to invest for example and setting emergency funds and all those other things.

Yeah, I think you covered all the main points and I think you know, aiming to pay off as much as you can each month is great.

[0:15:29.2]

FT: Great, awesome. Okay, moving on, this is also from Jing but I don't know if it's the same Jing and this time the question was left on SpeakPipe which is our audio recording and let's listen to Jing.

[0:15:43.3]

Jing: Hi Farnoosh. I'm currently investing in one index fund through Vanguard and I'm contributing about 3% of my income each month into it. I intend to leave the money in there for the next 20 years for the purpose of generating income outside of employment.

Should I be diversifying and purchasing bonds and other stocks or ETFs? Thank you.

[0:16:06.4]

FT: All right, thank you so much Jing for your question and if you are the same Jing that had the credit question, you are So Money. You're asking a lot of good questions and we are appreciative of having you in the community.

Jim, you're the investor here so I'm going to let you take this question, you know, is it important to diversify, well, let me take a step back. It's always important to diversify but in this particular case, it sounds like she's got the index fund, she's not investing a ton of her money. It's just an aspect of what seems to be like an investing strategy and she's wondering if she can just ride out this index fund or should she add some more assets to this portfolio?

[0:16:45.2]

JB: Yeah, there's a couple of things. One, I think it's great that Jing is focusing on long term savings and she established that already. But to your point regarding diversification, it's actually critical to do that and it sounds like since Jing has a 20 year time horizon or at least a 20 year time horizon, that she probably want to allocate her assets a little differently.

Definitely benefiting from some exposure to equities. By doing so, she'll be able to ride out any short term volatility and really ignore it. I mean, I even do that myself. I really - when the market's down 500 points, three days in a row, it really – I really don't even, you know, not affected by it, it doesn't affect my decision making and I think that's great, have a long term horizon.

Also, I'm not sure if her fund, it sounds like you know, it's a bond fund is in a retirement account. I think that's something Jing may want to strongly consider because she'll be able to leverage from the benefit of tax deferral and compounding those techs to programming's in her account.

One thing to look at would be index funds, she's with Vanguard already which is a wonderful company to invest with. Two options. She may want to look at or the SMP500 funds either the mutual fund or the ETF version and there is numerous equity based index funds that Vanguard offers. So that is a place to start, Fidelity is also very good and several other ones. Low cost is one of the keys to look for and tracking that they track the indexes accurately.

[0:18:23.9]

FT: Right on, okay I am not sure if she is investing in a 401(k) or something like that at work or what the rest of her retirement or long term investing strategy looks like but it sounds like I got the sense that this is just an aspect of it right? Because maybe I am wrong but I am being optimistic.

[0:18:44.6]

JB: No, I agree and I agree because I think she answered in a blurb in there about generating income outside employment meaning she would have access to this money while she is employed right? So that's –

[0:18:55.7]

FT: All right, good advice and Jing thank you for your question. Love that you used SpeakPipe, I am trying to encourage more listeners to use it because I love hearing your voices. It makes me feel like you are right here.

Okay, this is a great person on Instagram, their name is – I couldn't find the actual name but the name on Instagram is Team Donut Hole, it sounds delicious. "What are the best books to teach little ones about money?"

Now I have some favorites and I know you do too Jim so I would say depending on their age, it sounds like little ones could be five, six, seven, I'm guessing, *The Millionaire Kids Club* is great. It is a series of books that tackle different aspects of money and it was written by two guests who have been on the show before, not together but separately. They're both phenomenal financial experts in their own right. Susan Beacham who actually owns a company called Money Savvy Generation and her whole career in life has been dedicated to financial literacy for kids. So she's got these series of books that she co-authored with Lynnette Khalfani-Cox who is another financial expert who's been on this show. Susan again runs Money Savvy Generation and through that you can find *The Millionaire Kids Club* books.

You can find her award-winning 'Money Savvy Pig', which is this really cool piggy bank that has four slots: Save, spend, donate, invest, her mission in life is to really teach kids that they have options with money, really empower them and the way she started her company, true story, is she took her daughter's, I think it was kindergarten or first grade class to a McDonald's shareholders meeting. She's from Chicago and so she went to the shareholders meeting with the kids.

And then took them to McDonalds to connect the dots and I think she has caught up with those kids now 20 years later and they still remember that experience. It was one of their favorite field trips and they will say it was the beginning of opening up their minds to money. So I would say in addition to books, Team Donut Hole, look for these teachable moments and this experiences. We can't all take our kids to shareholders meetings.

And I don't think that is always the best way to do it. But McDonalds for sure because kids can get it but involving your kids in your day to day decision making around money, the spending decisions that you make, the saving decisions that you make, when you go grocery shopping have the list, show your kids that you are being really thoughtful about your purchases, all of these things. You know I always say that literacy starts with witnessing experiences.

Witnessing people relate to money and it's not these sort of formalized instructions about compound interest necessarily at five years old. That is going to make or break your financial life but it's what you have been witness to and what has been explained to you as you've witnessed these things it's really important but books are a great start too. Check out *The Millionaire Kids Club* series and Jim, what are your faves?

[0:21:55.7]

JB: Well first of all I want to say, I love the name Team Donut Hole, it's amazing.

[0:21:59.5]

FT: Yeah, right? I mean come on, it's like the best.

[0:22:01.3]

JB: Coincidentally my son came home from school last night with some extra donut holes they had as snacks. So anyway, the other thing I like is about the things that you said Farnoosh and the question, starting sooner than later is one of the best things you could do as an investor. Just start that compounding machine working, start saving and you'll appreciate that years down the road. Your children will appreciate that tremendously.

One of the books that is my favorite book is by National Geographic. It is called *National Geographic Kids - Everything Money* and the reason I like this book is it's filled with pictures and graphs and photos so it is very engaging and it is at a level enough so kids can understand and learn from it but it is even, I have actually learned a few things about the history of money by reading it.

So it is a great resource to learn about what money is. The history of money, global currencies, investing with money and financial markets and again, if you think your kids like books with photos and learn well that way, they are visual learners I highly recommend that book. It's probably geared towards the middle school level, older kids can benefit as well. Younger kids will find the visual aspect interesting. For younger kids, there is a book by Kumon.

It is called *My First Book of Money Counting Coins* and this is more of a workbook. So this is very interactive and you are counting coins of various quantities and combinations, nickels, dimes, pennies, quarters and it is a great exercise to have your kids learn about math and while doing so learning about money.

[0:23:38.5]

FT: I love this question so much and Evan and I, speaking of experiences, he and I went to the local grocery store and redeemed our coins and I think that came to about $240 before fees. I said that on Instagram, I put that on Instagram and people were really curious as to where I've gone to redeem these coins. Apparently coin machines are nowhere to be found anymore. TD Bank has ended its machine or coin counting machines.

They don't have those anymore which I find so disappointing in general because for me as a kid, that was such a great fun thing to do and it is an opportunity there right? To talk about why is it important to save and what are we going to do with this money and he knows that we got this money and we are going to use it towards his birthday and he is going to be able to have a party with his friends and have gifts.

So he is seeing the connection. He is only four, anyway if anyone is interested in redeeming their coins in Parkslough at the Key Food grocery store on 5th Avenue they still have a machine. Thank you for your question Team Donut Hole, keep them coming.

Also on Instagram, Jim we have a question from Darcy and she wants to know if there is a tool or a calculator that could help her figure out whether to continue maxing out her 403(b). Which she says admittedly, it's got lack cluster options, high fees but it is tax deductible so that is a benefit but is there a calculator that could help her figure out whether to continue that path versus putting money in a taxable account maybe an index fund like Jing is doing but again, taxable accounts, they're taxable but the benefit is that typically they have lower fees and way more options as far as where to invest.

So I think that - and tell me if I am wrong Jim, I think to the extent that she can invest in this 403(b) where she is getting any kind of match would be smart. Take advantage of that free money and maximize that opportunity if it is there.

[0:25:42.3]

JB: I strongly agree, that is probably the most important points aside from the tax savings. So one is it depends on where she is, how far away from retirement but you really have to think seriously if you are going to invest money in a taxable vehicle versus a tax deferred vehicle for those reasons that you pointed out.

One, if there's any matching that's free money added to your account and as long as the fund is not losing money or is closely tracking the relevant benchmarks, those are many things to look for. The fees are high, it depends on how high.

So one, I would check the returns compared to the benchmarks. I would check the fees compared to comps and benchmarks and you know maybe investing if she has additional disposable money to invest in a taxable account and index fund, I think that is a great idea depending on the options.

So additionally one more point, if the 403(b) she said there is lackluster options, if they are just fixed income options for example that may be a reason to invest in a taxable account that would expose her to equities. One other thing to check out is if there is an option for a self-directed 403(b). So when I was in corporate I always self-directed my 401(k) because you can invest in anything because you borrow latitude with your investment choices.

So that is something to look into and or if it is possible to roll over all the portion of her funds to a self-directed 403(b), Vanguard offers those type of services. I will pass the link along to you Farnoosh if you like to post it in the notes but that is something I would look into.

[0:27:31.4]

FT: So a self-directed 403(b) just want to be clear, wouldn't be necessarily something she could get from her employer but she could roll it over into a separate place like a brokerage firm that offers this.

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JB: It depends, the employer may preclude a participant from a self-directed choice and or from rolling over while she is employed. So it's something to look into that's all I am offering. I'm just saying that there is that option there to look into. If it is available, great. If not, if she is limited to only fixed income for example, investments in the fund then it may be a good idea to invest a portion of her funds in equity if she has a very long time horizon before retiring.

[0:28:16.9]

FT: Okay, got you. All right, I would also say Darcy if you have more questions, maybe you should hook up with Jim. I know you're starting a YouTube channel which is free and you can get a lot more insights on investing with him.

Okay last but not the least, Sabrina on Instagram is considering graduate school for an MBA in about a year which means that she would start in two years. So applying in a year and then starting in two years.

She wants to cash flow this as much as possible meaning doesn't want to really take on debt. Is there any compelling reason to open a 529 Plan for herself knowing that the timeline is just two or three years? So I talk about 529 Plans a lot on the show. We have one each for our kids though my understanding is that start early because you want to allow this money to grow and there are a lot of tax benefits along the way.

Is it still something that you would still benefit from doing if it is just for two or three years Jim?

[0:29:20.4]

JB: So the answer I think almost always whenever I make an investment decision, the initial answer is always it depends. So what type of returns can you expect to generate in that short period of time. That's really the obvious question so I would be hesitant. I love this question by the way, this is an awesome question. It is right on my alley with making important financial decisions. This is an investment in my view.

When you are investing in the financial markets and you are investing in an education there is a few things going on. One is the tuition, two is the opportunity cost. You will be in school you're going full time rather than the workforce full time and I think it is important to consider what you expect on the backend. What do you think your earnings potential will be and those are really the big ticket items?

To Sabrina's question though, if she was to open a 529 Plan, I would do the education savings plan because it offers the flexibility as oppose to an estate plan or you walked into a specific college.

[0:30:26.7]

FT: Yeah, I really recommend the state plan unless you are really going to force your kid to go to that state school or state school options, yeah.

[0:30:35.0]

JB: Exactly but I think they are great if you have a lot of time, the 529 plans are fantastic but I think the bigger, hopefully this is not too outside the school, I think the bigger issues is the earnings potential on the other side of the MBA and just doing that analysis is what's the tuition that chances fades, what is the starting salary and I could send a few links over to you for PayScale. PayScale is a great resource to determine salary.

Search by location, schools attended, even some corporations, give the salary ranges for MBA grads that they hire and also US news and world report provides some great salary data for

MBA grads. I will pass that link along too if you find that helpful. So I wish you luck, I think it's great. An MBA is a great thing to have and it opens up a lot of opportunities.

[0:31:22.5]

FT: Agreed and I would also add that unless you're looking at a school in the top 10 for MBAs I wouldn't get into too much debt or any debt frankly. I'd rather you look for ways to get scholarships, work while you are getting this MBA part time because the ROI and this is generally speaking but the ROI in terms of salary is not going to be as high unless you went to Wharton or Harvard or Stanford or any of those top 10 schools.

I have friends who have gone to those higher ranked schools and they will take on a 100,000 if not more in debt but when they graduate, they're making 200, $250,000 in some cases. So the loans can be quickly managed and perhaps even erased within five years or so but that is not a good amount of money to take on as debt if you are going to a school that is not Stanford or Harvard and even then I would say be careful.

It's not like "Hey, just take it because you're going to Harvard," but like you said Jim really analyze that ROI and even if it takes you an extra year to get the MBA because you're maybe taking part time classes and you are working, if you can do it without getting into debt even better. If you can do it and pay your way as you are going even better.

Jim, thank you so much. Tell us a bit more about where we can find you.

I am going to put everything on the site as well but while we have you, tell us the best ways to reach you.

[0:32:54.4]

JB: Right, so right now the best way to find me is on clearandconfidentinvesting.com. Right now it is a landing page and you'll find information there about my upcoming course that I am launching and I will soon be launching a YouTube channel, Your Best Mindset.

[0:33:11.5]

FT: We'll be there, we'll catch you. Thank you Jim for all of the work that you are putting out there in the world, the help and the support. Investing is something that is just too important to not learn about.

A lot of us I think come on this show as guests and listeners have said that is the one area of growing up that they really feel they didn't get a rudimentary education on. So it's never too late, you've always got people like Jim on your side. Thank you so much.

[0:33:37.5]

JB: Thank you Farnoosh, it was great being on and I actually learned something very valuable from you which was when you travel with your kids on vacation bring lots of adults to help.

[0:33:46.1]

FT: Oh yes, the adults must outnumber the children.

[0:33:49.8]

JB: I love it.

[0:33:51.4]

FT: For no one's benefit except mom. So that she can leave and everyone will still be safe.

Thank you again Jim and to everyone listening, I hope your weekend is So Money.

[END]