EPISODE 764

[ASK FARNOOSH]

[0:00:35.8]

FT: You're listening to So Money, everyone. Welcome to the show, August 3rd. This summer is flying by. Can you believe it that we've already arrived to August? I've been very busy this summer, as many of you know. Obviously, doing this podcast, but traveling a little bit. Launching a podcast program, taking standup comedy class. I also just started running again for the first time in probably a decade. I kind of gave up running, because I was just tired of it. Anyone out there like feel the same way? Running, for me, it got boring, plus also my body started to hurt, and then I discovered bar, which became my new obsession, which I'm still obsessed with, but I just saw, "You know what? Let's reincorporate some cardio," and it's the summer, and I've been walking Evan to school, or camp every morning, which is a mile and a half walk, which if you've been following me on Instagram, you know, because I'm usually live on Instagram during those long walks back.

So I was already putting in the miles and I was like, "Let me see if I can run this thing." It's slow to start, but I'm hoping to stick to it. But this is my summer of stick-to-it-ness, people. So I'm hoping that you'll keep me accountable.

P.S., before I introduce our fabulous guest and go dive into our amazing theme for Ask Farnoosh today, which is all things financial planning and goal setting. A lot of you are interested in my podcast accelerator program. This is a program that I launched sort of quietly a couple of weeks ago and have been rolling people here and there for the fall.

Some of you have replied saying, "Farnoosh, I can't afford it," and I get it. It's not inexpensive. It is a premium investment and I wanted to create a program where I could be really involved, very high touch. So the price reflects that. But I also realized that there're several of you who want to start podcast and I want to help you. So I have created a more economic package, or more DIY program that I'm not blasting allover Facebook, in the social media, in Google Ads. I'm just telling you here now on the podcast, and then also if you follow me in my newsletter, that if you are interested in something economical, you saw the accelerator program price point and you're like, "Yikes!" Email me, farnoosh@farnoosh.tv, or get in touch on Instagram and let me know that you want to learn more. I've basically chopped the price in more than half, but still lots of value, and still you get some of my time. All right. I hope to hear from you if you're interested.

Now we're going to transition to Ask Farnoosh today. I wanted to dedicate this show to your questions that are all having to do with money prioritization. I think our guest today will also agree that our finances, we have a good handle on our money in the sense that we know what the right thing is that we need to do for the most part. We know that we have to save. We know that we should save for retirement. We know that we should spend less than we earn. That's not rocket science.

But we do often get stuck, and myself included, in trying to decide what goals should be met first. Where to put our money first, second, third? How do I stack my financial life? Is something that we all kind of feel we could brush up on, and we all have very specific questions related to this, which I have gathered. Thank you, everybody, for contributing. I asked on Instagram last week for your questions about this, and many of you chimed in. So we're going to try to tackle as many of those as possible.

But I can't do this by myself, because the idea actually was born out of my cohost's brain, Eric Roberge. As you've heard from him, he's been on this show before. He's a guest on So Money several times. He said to me, "Farnoosh, ever since I've been on your show, people have been writing in and a lot of times ask me about this very conundrum, "How do I begin planning for my financial life? Where do I start? Where do I go next?"

So thanks to him, we have this great idea for this show. Eric, I'm going to just brag about him for a little bit before I bring him on the stage. Eric is a certified financial planner. He's the founder of the virtual financial planning company Beyond Your Hammock. He previously worked for State Street and J.P. Morgan before launching his own business at the ripe age of 33, and now his specialty is helping people in their 30s and 40s. So sort of later millennial, early gen-x, make strategic decisions with their money, and he's been named one of Investopedia's top 100 most influential advisers. One of Investment News's 40 under 40 financial advisers, and he's a frequent contributed to Forbes, Kiplinger, Business Insider.

Eric, welcome back. It’s great to reconnect.

[0:05:38.1]

ER: Thanks, Farnoosh. I am excited as ever just to be back here and talking about financial planning, which is what I think about all the time.

[0:05:45.3]

FT: It is. You care so deeply about this. You’re like the only person that I’ve had on the show that wrote in and was like, “I have another idea for us,” and it basically was based off of the feedback and the reaction you were getting from people who are migrating over to your site from So Money, also your existing clientele. This, you say, is a really big problem, this concept of how to plan my financial life. I mean, there are people like you out there certainly who can get us squared away.

But a lot of us are looking for some DIY steps before maybe we work formally with a planner. So that’s what we really want to focus on today. But before we get into the specific questions, I want to hear from you, if you can answer this question. In layman’s terms, what is financial planning? What are we actually talking about here?

[0:06:37.3]

ER: When it comes to financial planning, I think one of the things that people misunderstand about it is that they think that it's this onetime event, or this packet of paper that they can get, and then that is their guide to doing all things money. It really isn't. Financial planning is a process whether you use a financial advisor or do it on your own. It's a process that you have to go through and iterate and reiterate and continue to go through and adjust along the way.

So it's basically a way for us to understand how our financial decisions today are going to impact our tomorrow, and by doing this financial planning, it really puts the power back in our hands and offers us choice in life, and choices is such a great word and it's a great thing to have.

[0:07:27.9]

FT: Who doesn't want choice? Yeah. You've also talked about how there are some roadblocks to being able to successfully manage our finances, plan our finances, things like spending more than we earn, overconsumption, having unrealistic projections. Where do we get these unrealistic projections by the way? When I double my salary in two years, is that what you might call an unrealistic projection, or if the stock market's going to quadruple over the next 10 years?

[0:07:56.9]

ER: Yes, both. I mean, when you do planning, you really should be doing the most conservative planning first to see if there's a nice conservative way that you can hit your goals. Because if you can do it from that perspective, then anything else on top of that is going to be icing on the cake. But if you start off and say, "Well, I really can't save that much money. So what if I can just earn like 15% in the stock market instead and I compound that for 30 years? Will I make my goals then? Oh! I will? Great! So I'll just do that." You are setting yourself up for failure, because you're not going to make 15% in the stock market for life.

[0:08:34.6]

FT: So what are some realistic benchmarks? I got to ask. If you are being conservative with your year-over-year planning, what are some benchmarks that you use? Percentages?

[0:08:44.3]

ER: Well, when it comes to your own personal finances. So this is something that you take the financial markets out of the equation for a second and just look at yourself. This is where you can get control, because it's the things that you can focus on and you can do personally. You look at your cash flow and you understand what savings rate you have on a monthly basis.

So I have $10,000 a month coming in and I can save $1,000. So I'm saving 10% of my gross income on a monthly basis. Get that percentage and really understand what that is, because year-over-year when your income changes up or down, you lose a job, you get another one that's more money, you can't go by a dollar amount saved, because if you're earning – So for example, you're earning $50,000 this year. You can save $1,000 a month, so $12,000 year. That's great. If you're serving $12,000 a year and you earn $50,000, that's – I'm just doing some math here. That's 24% of your growth income. That's fantastic.

Now, if you earn $100,000 next year because you've gotten a raise and you've gotten a lot better in your job and you're still saving that $12,000 a year, that's not much. That's only 12% at this point. So that's a much different conversation. The money is the same, but the percentage is not. So keeping that percentage consistent or at least identifying the percentage and following that along the way is going to be really helpful in an ever-changing life.

[0:10:17.5]

FT: Thank you for explaining that. All right. So we have several questions from people who've a lot of them have written in on Instagram, questions related to financial planning, and saving up for particular goals, what should come first, second?

So the first is from bbrodine4 on Instagram. Thanks for writing in. He says, "Do you have any good resources to help build a financial plan?" He says, "We've worked really hard on our budget. We've met our short-term goals last year, including paying off the MBA, maternity leave savings, and now looking for some structure to help build a roadmap of financial plan."

Basically, asking for a DIY financial plan instead of seeing a financial planner, which I know you don't like to hear, but I think you might have some advice, right?

[0:11:08.2]

ER: Of course, and stuff that I don't like to hear, that I think that certain people will always be DIYers in various aspects of their live, and there's nothing wrong with doing it yourself. The problem is that you have to make sure that you understand all of the options, all the tools, all of the rules and laws and restrictions on what can and can't be done.

Once you get that understood, go for it. Do it yourself. Keep yourself accountable. However, here's the thing though. There's no great financial planning software for retail, right? You really can't find an all-inclusive financial planning software. Inside of our industry, it's tough to find an all-inclusive financial planning software. So what you're going to find many, many calculators, and they're great. You can go to bankrate.com and just find mortgage calculators, and retirement calculators, and cash flow, and all kinds of things.

So what you have to do is understand what the goals are and then see if there are calculators that can help you run some projections. That's the how I do it perspective. But before you get into that, I think it's important to prioritize these things and understand what's most important to you and ask yourself, "If I don't do this thing, what is the negative impact going to be?" That will help you understand what should be done now and what might be able to be put off until later.

[0:12:39.4]

FT: I think it also helps to segment your goals, right So immediate goals, short and midterm goals, and then long-term goals, and then make sure that you are funneling your money appropriately. With money that's left over, that is perhaps when you can start to explore other kinds of goals, and vacations, and alternative investment, things like that.

But for me, I really like to plan my finances in the following way, like really just start with the boring stuff first. Which may be other people get really excited about retirement. I do, but it's not as exciting as going on and having a great dinner with friends, but you got to do it. You got to take your vegetables. So saving for retirement is an absolute must, nonnegotiable that has to happen every year before tax time, because I want to get the tax break. Then it's my child's college savings, and then it's also like our bills. Making sure we have enough in checking to pay for our monthly expenses that are recurring, and saving in our rainy day. Making sure that's plentiful.

I think this is the fun stuff that I think we often kind of race through when it comes to managing our money, is thinking about where you want to be in your life, really, truly, and dream big, because this is your life and this is your chance to afford it. If you start early enough and you're dedicated enough, I have no reason to believe why you can't get there.

Good luck to you. I don't know your full name, but it's bbrodine4.

Briana has a question about a specific goal, Eric, which involves home renovations. How to financially save for home renovations? So in your mind, like when you're building this financial plan for people, and let's say you have a client that comes to you and they have a lot of maybe holes in their financial plan. Again, someday we'd like to renovate our house. I'm not saying Briana has holes in her financial plan. But how do you assess this in the grand scheme of things? Where does this stack relative to everything else?

[0:14:58.5]

ER: Well, I think when it comes to home renovations, there's the question of, "Is this simply a lifestyle goal?" which are important, or is it more of a must-have goal? When I say lifestyle goal, I mean like it might work. I like it, but I don't need it.

For example, you have looked at your place and you're like, "You know what? This room is pretty good and it's fine, but if we renovated it, we'd feel so much better and we'd be able to have people over and we'd be able to enjoy it more." That's a lifestyle goal. It's not a necessity, but it's something that you want.

On the other hand, if you are having a second child and you just don't have an extra bedroom, but you have the space, but you have to make the room. Well, that renovation is more of a necessity, because you have a child on the way and it needs to happen. Prioritizing those things first is going to be important.

But then, just like you were saying, there are long-term goals that you have save for and short-term goals. This is a short-term goal. So as long as you're hitting your long-term savings numbers for retirement, because that's a nonnegotiable, you have to retire someday. Then you look back and say, “Well, we could go on vacation, or we could save for this renovation. We really want the renovation. So let’s put the extra money towards the renovation and set up an automated transfer from your checking account to your savings account, and whatever amount that is,” so that in X-amount of months, you have that balance available for you to start this project.

[0:16:25.4]

FT: Yeah, and sometimes it helps to go through your budget. If you feel like you don't have enough overage every month and really look at the trade-offs. If you really want to have this home renovation done in the next quarter, or six months, or a year, and that's going to require X-thousands of dollars and you’re like, where's is this going to come from? Go through your budget and start to identify things that are, again, maybe lifestyle expenses and not really necessities to consider omitting or at least turning off for a while so that you can shore up the cash that you will need for this home renovation.

Having gone through a huge renovation two years ago, I don't know if I would do it again. But I'm happy to be on the other side of things. It was a lot of headache, but it was a huge – It was like merging two apartments. It was crazy. We were displaced, and we had an infant, and it was messy. But I knew going in that the estimates that we were getting from contractors and our architect, they weren’t totally off the mark, but we were definitely prepared for unexpected expenses. So depending on the scale of your project, how old your home is, because when you start knocking down walls, you might discover like, “Oh, there's a whole other project sitting there looking at you that's going to cost money.”

So having more than just enough what you think is a necessity when you're renovating, because you never want to be the middle of a renovation and run out of money. That will be my advice to you, is take your time saving up for this renovation. Consider your trade-offs and how you can maybe reallocate money from one to the other. Depending on how this is going to add value to your home, like if you're going to be renovating bathrooms and kitchens, which typically at the most value later to your home, don't go crazy. But there are lots of great articles and calculators out there that can help you figure, “How much should I really spent on this kitchen reno in order for my home value to benefit?”

Think about maybe taking out a HELOC. I know that's kind of crazy, but sometimes a small little bit of a loan that you can pay back within six months or a year could be another way to give yourself that cushion. What do you think about HELOC's, Eric?

[0:18:46.2]

ER: I think they are a great tool. For the right situation, it works. I think the downside of HELOCS is that the rates are variable. So if an interest rate market, like a rising interest rate market that we have now, the rate is going to go up over time. So you really want to make sure you pay that off quickly, and don't take that full 10-year period that they usually offer you for repayment. So just take out as little as you need and then have a plan in place to pay it back before you take it out.

[0:19:16.3]

FT: Yeah, maybe just kind of have it there as an emergency, like in case, like I mentioned, something happens during the renovation that you weren't expecting, and oops, now you need another $10,000. That could be there for you in a bind, but I agree. Because it's just good financial – It makes good financial sense to pay it off sooner than later considering it's a variable interest rate, and you don't want to be in debt for longer than you have to be.

[0:19:42.0]

ER: Right. One thing I want to add to that too is that the other option might be like a – Like a cash out refinance. The problem with those is that if you have a renovation project that’s going to last for three years and you don't need all the money up front. When you do the cash out refi, you basically take all the money up front and you’re paying interest on that right away. Versus the HELOC, like you said, you can open it up. You don’t have to tap into it first. You don’t have to pay interest until you actually tap into it. So if you have that process, it’s going to last three years, you can just take out what you need when you need it and not pay interest on the whole lump sum as you would with the cash out refinance.

[0:20:17.8]

FT: Right. All right, Briana. Good luck to you and keep us posted. I love stories about home renovations. If you have pictures, send them to me. Someone just sent me a picture of a house that they just put an offer on. They direct message me on Instagram. Gorgeous home in Oregon, I believe. Let me just tell you, days like these, I wish I was living in Oregon when a home – Like a beautiful, in my view, like a mansion for like $700,000, where here you can't even get like a parking space for that amount of money in New York City. It's ridiculous. But I love staying connected to listeners in that way. It's special.

Okay, Eric – Not you, Eric. Our listener Eric says, "Dow do you balance enjoying life today with putting money away for the future?" I am sensing, and I'm going to make it jump here. I'm going to sense it. Eric, our listener here, is on the conservative side and perhaps feels like he needs to always be putting money. It's like the more responsible thing is putting money away for your future, right? So if you've got extra money, well then it certainly should go for your future. You should invest that. But What's the happy medium?

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ER: That's one of the big questions. I think one person actually reached out to me in Twitter and was talking about the negatives of traditional financial planning, and one of the things he said was that traditional financial planning can actually build in that you never really spend and enjoy the money that you have. I argued that that's exactly what I help people do, but it is true. A lot of times we just are so focused on the future, we save, save, save and never actually think about today. Before you know it, we've missed our entire life.

So instead of doing that, I think you just have to make sure you always have to run the – It's like an echo that you send off the end of life and say, "If I'm saving this amount of money, am I going to be okay down the road? Okay, I am. If I don't save more, maybe there's a risk that I don't retire exactly what I want to and I have to work a couple of years."

If that's okay with you, then you don't have to save as much, and then you can put more of that in the short term and balance it out and live for today and do some traveling, because there is that give-and-take relationship with all things money and you just have to make sure that you're doing a little bit of both. Everything in moderation is one of the phrases I love to use here. Don't go not to just spend all your money today. Don't go nuts and save all your money for tomorrow. Have that balance. Live a little bit. Enjoy yourself, but always keep your eye on what your saving and never dip into that savings if it's earmarked for something long-term.

[0:23:06.1]

FT: Everything in moderation. I would add, everything with intention. So if you really want to have a fruitful life today, then do that purposefully and save for that with intention. Create an account that is for your enjoyment, your pleasure, your trips, your restaurant outings, your et cetera. So your miscellaneous so to speak and really budget for that. Make a commitment to it.

All right. Reza has a question, and I know a little bit about Reza. He is a pal on Instagram and he's an immigrant pursuing the American dream in the West Coast. I guess he's interested in buying a first home and wants to know, “Is it realistic to think of this home that I want to buy as a retirement investment?” I mean, certainly if he holds on to it for 20 years with real estate prices historically speaking, chances are it’s going to appreciate even if there are dips along the way. But I never like to look at home purchase as like your primary home as an investment. If it does appreciate, that’s icing on the cake.

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ER: Yes, I love it. That is exactly right. I never know what people are going to say when that question comes up. But I agree completely.

[0:24:25.3]

FT: Oh! Really? Okay. So we can move on.

[0:24:29.4]

ER: Game over.

[0:24:30.1]

FT: Dido! No. I think Reza is – I think he's also Iranian, like I am. So in our culture, I know my parents were all about buying real estate as soon as they could when they came to America. In Iran, a country where there's really not really an opportunity to invest in say a stock market, like there is here, people really value things like real estate, land, and they start businesses. That's how they grow their money. SO that mentality coming to the states I think carries over and it's no coincidence that a lot of Iranians would say, and I'm going to generalize, but real estate is a great investment. Even though they're going to live in the house for many years, they still see it as an investment vehicle. They just really believe in that, the power real estate.

I'm an Iranian, but I also have experienced life. For me, real estate's been a great investment, but not that I like did it because of the – It didn't necessarily need to make me money in that way. I needed to first buy something that I could afford, make the monthly payments and enjoy and all of that. I've been lucky – Lucky, really, that the market has done well. But I'm also realistic. I know that it could tank as well. We can have another recession. But as long as I'm living below my means, then this home is a fit for us.

[0:25:56.5]

ER: Yes. If you have that conversation going on right now where it's do I buy a place? Please don't look at it as an investment. If this is your home, it's a single family, you're going to live in it. You're not renting it out. You're not doing it for investment purposes. You're doing it for utility, to live in it. If you look at historical residential real estate growth over the past hundred years, it's about 3%. When you take away inflation and cost of upkeep, you're talking maybe 1%.

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FT: is that it?

[0:26:23.7]

ER: Bottom line? Yes, and on average. People will argue that it's like, "Well, look at a different timeframe. Look at 5 years. Look at 10 years." Well, I'm just looking at the big picture here. If you're going to look at investments, you probably want to find an investment that's going to give you a better return than that. Therefore, look at it as utility. Know that you're building equity, but also know that if you're not staying in there more than seven or eight years, which is the average turnover, you're not really building much equity. You're paying a lot of interesting and then you turn it over to a new mortgage and you're paying a bunch of interest again. So there's a lot that goes into it.

[0:26:58.6]

FT: 3%. That sounds weird. I mean, that's like 1916, if you bought a home. On average, it would appreciate 3%? I'm pretty sure $100,000 in 1916 was not $100,000 times 1.03 today.

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ER: Well, 3% yearly.

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FT: Oh, yearly? Oh, okay.

[0:27:26.7]

ER: Yeah, not over the entire span. It's a 3% annual.

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FT: I just got back from a run. So my head is a little – My brain is not really all there. Okay, that makes sense. I was like, "Wait a minute! Stop it." Okay. Okay. Sorry, everybody. Okay, last but not least, Peter has a question here about retirement vehicles, like a 401(k). He says, "Beyond those kinds of vehicles, what's a good way to invest extra funds of about $10,000 per year?"

I think this is where you can put back on your financial planning hat and you go, “What is your goal? Where do you want to be in five years or next year or whatever? What's important to you?”

[0:28:06.0]

ER: Right. Exactly. Before you even find that out for most people, when they ask that question, I say, “Listen. You want to have money in a retirement account, which is a 401(k). You probably want to have some money in a Roth IRA, which allows a little more flexibility in there, some tax benefits to that. You also want to have some nonretirement investment money. So this is just great investing in mutual funds, in a nonretirement account, there’s no restrictions on it, which gives you some flexibility.”

Depending on what your goals are, you’d save more or less in one of those things. If you have a 10 year goal and you’re 30-years-old and you want to save X-amount per the next 10 years. A brokerage account, a nonretirement, invest individual investment account or a joint investment account with your spouse is a great way to go, because you have the flexibility. You’re going to pay taxes along the way in capital gains, in dividends, but that's fine, because you're making money and you’re paying taxes on that money you made.

[0:29:00.6]

FT: Perfect. Maybe an index fund? What's in that brokerage account specifically? You think you like index funds?

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ER: For the do-it-yourselfer, I can't give specific investment advice, but I will say that places like Vanguard and Black Rock, they have some great index funds. You just want to make sure it's not S&P 500 only, because that's not diversification. That's only halfway there. You want to make sure it's a broad, globally invested fund, like a life strata – Vanguard life strategies funds will – It's a fund of funds. They invest in U.S. stocks, international stocks, U.S. bonds, international bonds. It really gives you all in one in one single vestment, and that could be a good place to check out.

[0:29:49.1]

FT: All right. Thank you so much for these resources, Eric. By the way listeners, if you want to reach Eric as another resource, go to beyondyourhammack.com. Love that, by the way. He's on Twitter @BeyondFinances. Are you on Instagram as well?

[0:30:06.3]

ER: I am. I think it's the same thing. I don't even know.

[0:30:09.1]

FT: Beyond Finances.

[0:30:10.8]

ER: Yes.

[0:30:11.0]

FT: Well, we'll be putting that over on So Money podcast in case anyone missed any of this, and we encourage you to continue sending us questions on Instagram. You can go to somoneypodcast.com and click on Ask Farnoosh. You can get in touch with me there. If you're interested in the podcast program, farnoosh@farnoosh.tv or DM me on Instagram. Hope to get in touch.

Eric, thank you so much for thinking – You thought ahead for me, which is such a gift. I'm busy and the fact that I have people like you out there thinking what could be good content for So Money, I really appreciate that. It just shows how connected we are as a community and how much we really, really are interested in this topic and want to help people. So hope you have a wonderful weekend and hope to have you back soon.

[0:30:59.3]

ER: Thanks, Farnoosh. This is always fun.

[END]