EPISODE 803

[ASK FARNOOSH]

[0:00:33.8]

FT: Welcome to So Money, everyone. It is the first Friday of November. Hope you had a good Halloween. Looking forward to this time of year, right? This is when we're almost at the end of the year, so that's a good thing, bad thing I guess depending on how much you have left on your checklist, your to-do list. I know for a lot of us, this means holiday shopping, family dinners, Thanksgiving, travel. It's a busy time of year, and so I think we got a lot of money questions on our minds, right?

This is an emotional time of year and your money issues can get very heightened and I want to be here for you. Be sure that you are taking advantage of the Ask Farnoosh Friday episodes. Go to somoneypodcast.com, click on Ask Farnoosh. You can leave a voice-mail, you can text me your message, you can also go to Instagram and follow me there and send me your questions. I try to get people squared away on the go and then save some of these questions for this episode, for the Friday episodes.

Joining us today is a friend of the show, Eric Roberge. He is the Founder of beyondyourhammock.com. He's a certified financial planner. We're so lucky to have him back. Welcome Eric.

[0:01:45.1]

ER: Thanks Farnoosh. Thanks for having me here. I feel like it's home now.

[0:01:49.0]

FT: Oh, well that's a nice thing to say. I'm glad this does feel like your home. Big news for our audience who want more Eric and more of Eric's advice in their lives, you're launching a podcast. Tell us about it.

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[0:02:01.9]

ER: I am. Yes. My wife and I actually do a lot of work together talking through what we do for our money and how other people can look at things from a different perspective and different than maybe societal norms, typically layout. We write about it now and we wanted to bring that to life, so we're going to start a podcast I think soon. It's going to be beyond finances, which means it's going to bring life and financial conversations together, so we can use our money as a tool to really live a fantastic life.

[0:02:32.9]

FT: Wow. You're really going above and beyond money. You're going to talk about relationships. What else?

[0:02:37.5]

ER: I think it's just a spider web of whatever comes from the money conversation. It is relationships and money, it's living today and money and savings and investing and really bringing all of my CFP knowledge to real life in real conversations.

[0:02:53.6]

FT: What made you want to do a podcast?

[0:02:55.6]

ER: Many things. I think it was just a different medium to start things off, because again, we do a lot of writing now, but not so much audio or video and I think a podcast is a great way to start that conversation to bring, I think my personality out more that does come from writing and really just – you have people understand that I'm human too and there are things that I do that aren't great about money and I want to be able to share those things live with an audience.

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Coming from the FinCon world, there's a lot of great podcasters out there and I've got a lot of tips from them. I'm excited.

[0:03:31.2]

FT: Well, we're very excited. Congrats on that. This is a beginning of what's going to be a pretty stressful time of year, I think. I was just mentioning in the intro Eric, that these last couple of months of the year we have a lot going on and for a lot of reasons, whether it's deadlines, family obligations, we have some spending in our futures and all of that can really add up and weigh us down.

Question for you, what do your clients normally grapple with this time of year? Where is their headspace when it comes to money? What are you finding yourself helping your clients with a lot right now?

[0:04:08.5]

ER: I think it's the age-old focus on what you can control, because my goal is to throughout the normal parts of the year, give people a guide to be able to function in everyday life. They have their savings plan set up, they have their spending plans set up. Then when we come into this part of the year, we know that the cash flow situation is going to get juiced, right? We're going to spend more money. If we just stick to our plan, hopefully we plan for spending more money this time of year, because it's not a surprise that the holidays are coming around. We know that's happening.

If we just stick to the plan and everything should go smoothly. That doesn't happen. No, because we have emotions and other things that come into play. I think it's really just making sure that people keep a level head and focus on what they can control, focus on what they've been practicing all year and get through the holidays and enjoy it.

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FT: Cool. One of my tips for those of us out there who feel it's just too much money, too much spending going on around the holidays, so many people, so many gifts, my family and I, now it's almost two years. I think maybe we did it last year. I can't remember. Definitely this year, we drew names out of a hat and that really brought down our spending levels. I think we committed to $75 or a $100 per person. I have two people to buy for and it’s great, done.

I mean, we're going to get stuff for the children, but for the adults we're limiting it to just names drawn out of a hat. Personally I like this, not just because it limits the spending but I think it also allows for more focus on spending time together and less about the frenzy that comes with what am I going to get this person? Are they going to like it? Just throwing that out there. Maybe this is the year you just pick a name out of a hat and call it a holiday.

Let's move on to one of our questions here from Mac, Mac Claus on Instagram who wants to plan for the inevitable things that we don't like to think about and that is death. I know that Eric, you're the planner with a capital P and specifically this question is about should I have a will? Mac Claus is asking. He says, “I'm single. I have no debt. Do I need a will, or she?” I'm not sure if it's he or she. What do you think about that?

[0:06:24.8]

ER: Well, I think the answer is it depends as it does with most things, but when I hear should I have a will, I think of should I have an estate plan? I think the answer to that is yes, you should regardless of how much you have in assets, or debt, or anything else. It's really important to make sure that you tell people, tell the court system where money should go through the will, but also that you have a healthcare proxy, which means that someone else can make medical decisions for you if you are incapacitated and have a durable power of attorney, which means that someone can make decisions for you from a financial side if you are incapacitated.

Because there's a lot of times when you may still be around, you just can't make decisions and if you don't have these things in place, no one else can have a say in the matter and it's just up to doctors and banks to make those decisions for you.

[0:07:19.5]

FT: I know you're single and you're young. You're thinking a estate plan. That sounds really fancy and that sounds like I needed a lot of money in the bank to really have that, to qualify for that. I think that Eric, would you agree that that is a myth, that it's just a fancy word, but at the end of the day everyone needs an estate plan, i.e. a plan that discloses how they want their finances managed, their assets managed if you have a home, if you have a car, if you have even social media is an asset now, all this information that we're keeping online, all this data. How's that going to be arranged?

If you have savings, where is that going to go? There is this false sense that you have to have all these millions of dollars before you have a bonafide estate and therefore, the need to have a will. Actually, it's a lot simpler than that, right?

[0:08:07.6]

ER: Yes. Very much so, talking to other people one financial planner told me. He said, “It's not about the size of your estate. It's about how much you love your family,” because when you can provide a very clear understanding about what you're thinking about your assets and your health and your just general estate, people can then not have – they don't have to make up things, or guess about what you wanted, which can add a significant amount of stress to people if they're trying to say, “Well, I think Eric wanted this thing, but I don't know. If I say this and he didn't want that, then that whole conversation comes up.” Clarifying things for people is what an estate plan can do for you.

[0:08:48.8]

FT: I would just layer on to that. That's really good advice, that although this person is single now and they're going to create this will, this plan that if and when they couple up, or their life becomes a little bit more complex, they have dependents, or they get into a relationship, have children that they would want to adjust the will, that your will is this living breathing thing, which reminds me and we need to update our will. We haven't done so since our daughter was born, this is why I do the show. Thanks for that reminder Eric and Mac Claus. Yeah, the show keeping me honest. I love that.

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All right, next up is Tyler on Instagram. He has a question about where to park his emergency fund and his savings. In particular, he is saving up for a house down payment and he says he doesn't plan on touching this money for about five years at the soonest and then maybe go and buy this house. He's torn between having a high interest savings, versus a money market account and he wants to know is there a big difference? Is one better than the other? He says,, “I know there are some higher barriers to entry with some accounts and the transactions are limited to six per month.” He says, “I can't figure out which is a smarter option.” Can you go wrong with either one? We're talking money market account, or a high-yield savings account.

[0:10:08.4]

ER: I don't think so. I think it was also when people ask these questions, so much more comes into my head as far as what to think about. Just specifically on his question, when it comes to money market accounts versus savings accounts, both of them have restrictions on the transactions out of the account. Money markets I think are six and I think six per month and also savings accounts are six per month.

Regardless of what type of account you use there, you have to limit the transactions which should be fine because you're not supposed to take the money out. It's a savings account. When it comes to money market, accounts versus money market funds, those are two different things. Money market accounts are FDIC insured through the bank. Money market funds may be SIPC insured, but that's not the same. Although they won't necessarily lose money, they could.

You just want to understand what you're actually getting yourself into when it comes to a money market. If you can find a savings account, 1.9% is on the higher end of interest rates right now, so if you can find an account and there are many. If you go on to Google and search best savings rates, you're going to find bank rate and nerd wallet and other lists that continually update on the best savings rates out there that'll tell you how much you need to invest, or put into the account to open it. A lot of them are $1, some of them are $10,000.

You can find one for 1.9% and $1 opening. There's no reason why you can't just start the savings account and push it in there. There are other ways to do this though. If it's five years, I mean, I would argue that you could actually invest it if it's more five years down the road.

[0:11:47.1]

FT: I would also think about a certificate of deposit, a CD if you're not tapping this money for a while and you're not making any withdrawals, a CD could be good for you. You lock in a rate for a certain period of time. Maybe it's 12 months, maybe it's two years. It could go up to five years. Behaviorally, I think this is a really helpful way to make sure that you do stick to your goal, because you're really not encouraged to withdraw this money. If you want to earn that rate, you have to keep the money invested for that period of time.

I'm just looking at bank rate. Bankrate.com which is a great resource to look up rates. I'm looking at CD rates for up to three years and you can get from let's see, almost 3%, 2.7. There's a few 2.7 and then the minimum deposit is anywhere from zero dollars and up. Just putting that out there is another option. I just did this for myself and I put some money into a CD, because I didn't want too much cash sitting just in a bank account.

[0:12:48.2]

ER: I agree. CDs can be great, because they're offering better rates than they have in the past, several months to a year. The one challenge is that if you lock in a CD for say five years and then interest rates go up in two to say 5%, you're missing out on that extra rate. You just want to make sure that you identify a shorter period of time to lock in that CD money floor so you don't miss out on higher rates down the road.

[0:13:15.6]

FT: That's a good point. Maybe do it for two years and then see what happens and then transfer it over to another CD that may be a little bit more advantageous in terms of its yield. I think the bottom line Tyler, is that you can't really go wrong. Just save it. Do your research as far as

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interest rates go and watch out for any other kinds of requirements that will work for you, limited minimums, or withdrawal limitations.

It sounds like you're just looking to park this cash, keep it out of your hands and that's all you need sometimes to get you to your savings goals. Thanks for your question. I hope you get closer and closer to buying that property, if that's what you desire. I think the good news is that home prices are cooling, so maybe you won't need as much as you think when you're ready to make the purchase. I have found that New York prices are coming down. What about you Eric? You're up in Boston, right?

[0:14:06.6]

ER: Yes. They are hovering. I think they're not going up as much as they were. I mean, they went up across the country. Home rates went up 14% last year versus rent rates at 4%. Definitely, there's going to be some peak coming. Who knows when that will be? Five years from now, it's going to be a completely different scenario though.

[0:14:30.5]

FT: All right, another question from Instagram, from Cass who says, “I'm currently investing primarily in myself. I am in college and also flight school. I am 30-years-old.” She doesn't want to neglect opportunities to save for retirement and invest. So far Eric, she's opened a Roth IRA and an IRA through her job. She feels good about her contributions there, but feels like she should do more. She's also signed up for apps, like Acorns and Stash which let you invest automatically.

Here's the real question. She said, “I was surprised that I found an article that stated that Stash is not a smart move due to its expenses. Not sure where to really be leveling up.” She says, “I have no debt.” She really wanted to point that out. She's living off of her savings. “I'm wondering, should I drop the issue as far as investing goes for the next year?” She wonders.

My initial thoughts just on the Stash question Eric, and I've heard this before and some of these other apps that invest your money on the go, nominal amounts initially that offer these low fees,

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dollar a month whatever to get you started, that in the beginning it can be relatively more expensive than working within a financial advisor, because maybe they're charging you a couple bucks a month, or a dollar a month and if you've only got $500 in there, that's percentage-wise a pretty higher percentage to invest your money than working with a financial advisor. I'm still in support of these apps, for those of us who just need the push to get started get into the behavior of investing regularly. What do you think?

[0:16:15.8]

ER: I think there is – this is a great question and there's a couple pieces to it. The first of which is it sounded like she was concerned about maybe falling behind, because she was focusing on school right now. I think that's really an important piece, because if you're – I actually wrote an article about this at one point. If you're in your 20s and you are working and starting to save, that's great, because you want to start early in the idea of compound returns will help you out significantly down the road.

However, if the choice is well, I can either save now, or I could go to school, or get more skills to help me get to a better job or one that I really feel passionate about that could earn me more money, then investing in yourself is extremely important, especially early on. Don't give that up just because you think you have to save right now.

When you do realize that you're saving and you want to choose these different vehicles, as you said Farnoosh, the percentage of what you're spending on I think the cost of the program may be significant early on. In the case of Stash, I think if you have under $5,000 then they charge $1 per month to keep you in the account. If you only have $500 in that account, that's 2.4% of in fees. That from a comparison to 1% for an advisor is more money from a percentage basis. The most important thing to do is build the habit. Get in the market into a diversified portfolio.

If Stash or Acorns or whatever other app you find can help you do that when you otherwise would not have done it, then it's a win. As long as you continue to put money in there and you hit that $5,000 mark, well then it drops down to 0.25%. It starts to reduce over time and it grows your money. I think it's good to go.

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[0:18:07.7]

FT: Okay. Thanks for that Eric. Good luck to you Cass. Moving on to our voice-mail inbox, we have a question here from Sarah. Sarah has some questions about raising money for her company. Let's take a listen.

[0:18:18.5]

S: Hey Farnoosh. My name is Sarah. I live in Los Angeles and I am 20-years-old. I recently started a new business. We're about eight months in. My business partner and I have been bootstrapping it, but we are looking to raise capital so we can grow and we can sustain growth. I have no idea where to even begin on something like this, so I was curious if you had any tips or resources that you'd recommend. Also, we're looking into business credit, but I don't know how it affects your personal credit, so I was curious if you had any thoughts on that as well.

Thank you so much for your amazing podcast. It's a part of my morning routine. You're awesome. Thanks so much.

[0:19:03.8]

FT: All right, Sarah. Thank you so much and congrats on starting your business. Wishing you all the best and good vibes, 28 and entrepreneuring it. Got to love that. Eric, her question is about raising money and it sounds like she and her partner have done the good work of bootstrapping for some eight months. I think it's a good question. a lot of entrepreneurs arrive at a similar point wondering should we be raising money from investors? Should we get a bank loan maybe? Because we just feel that maybe we can't grow this on our own, or we can't sustain the growth with the current cash flow.

How do you mitigate risk, right? Because there's a lot of risks when you potentially take on other people's money and put it into your business. I will just start by saying Sarah, that I have invested in a couple of businesses and in each case, they were female entrepreneurs, they first did a friends-and-family raise. They looked at their expenses. They looked at where they wanted to invest the money for the next year or two. Just short-term needs. That's how they identified

how much they needed to raise. It's not going to be millions of dollars necessarily. Could just be 50,000. It could be 75,000. It’s enough to get you from point A to point B.

It's a manageable amount of money to raise from just your network, without going to the big banks, or the professional investors. I think that you've done a really good job Sarah, of putting your own skin in the game. That's extremely important for everyone listening. Anyone out there who's starting a business, if you really want to attract investor dollars, you want to show that you have also invested in this business. That you believe in it and that you're putting some money on the line.

Just like when you're getting a mortgage, banks want to know what's the down payment and the bigger the down payment, usually the better the terms. First, I would suggest a friends-and-family round of fundraising. You could do it on Kickstarter, you could just do it by Thanksgiving dinner chatting with your rich uncle, or rich aunt at the dinner table. Maybe you have previous colleagues who are now investing in businesses. I would suggest also Sarah that as a female entrepreneur, while it is true that still only a very small amount of venture capital dollars goes to female founders unfortunately, I am seeing a rise, a trend in organizations and movements that are popping up to support female entrepreneurship. Incubators, funds just for female startups, female founded startups.

Rent the Runway for example, has an incubator program. You can apply for it. They give you money, plus counseling and coaching. I know this isn't maybe your forte Eric, but you're an entrepreneur and I'm sure you know, you've thought about some of the ways to raise money for yourself, or maybe some of your clients that are coming to you that are business owners.

[0:21:52.0]

ER: Yeah, this is certainly something that's very familiar to me in essence, because I went to Babson College, which is an entrepreneurial business school, so this is the conversation that everybody had. I just didn't have it much for me and certainly not when I started my business. I didn't want to raise money. I wanted to do it myself. There's a lot more questions for me than answers when it comes to this particular question. It's a great topic. You covered a lot of it.

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What I want to just ask her to ask herself is what type of business is it? What industry are you in? How big do you want to get? Do you want to maintain 100% of the control of the business decisions? Because the answers to some of those things are going to determine whether you bootstrap it, whether you get a loan, or whether you go out and get funding. When you get a loan, you're going to add debt to your balance sheet and that doesn't go away. When you go out and get funding, well you lose some control potentially, but if your business goes under you don't owe anybody anything, because that's the risk of people investing in your business.

You got to think about a lot of different things. Keeping it simple is best. Making sure that if you can bootstrap it because you don't need to explode all at once it just might take a little bit more blood, sweat and tears, that may be a good option too.

[0:23:11.4]

FT: That's a good point. When you start to accept other people's money, you have to be ready for a certain level of scrutiny into your company and how you're managing it. There will be some investors that will be more demanding than others. They want to know how the money's being allocated specifically, they want updates, they want reports. Sometimes that's a good thing. It helps you to make sure that you are also holding up your end of the bargain and everybody is on the same page.

All right, one more question Eric. We're going to go out to Instagram. Maria has a question about credit. She has multiple credit card accounts, store cards, bank credit cards. She wants to know, does it hurt to have multiple credit card accounts, or does it only matter that you pay your bills on time and the percentage of the limit that you use, she said that she has heard that it's recommended to use no more than 30% of a limit on a card at a given time.

Well, I spend a lot of my time poring through credit information. I am a little obsessed with the intricacies of credit scores and all of that. I would say that it doesn't really matter how many credit cards you have as a factor of your credit score. Your credit score actually likes to see that you have a variety of credit. You have credit cards, maybe mortgage, car loan, etc. The most important thing when it comes to your credit health is your payment activities specifically. Are you paying your bills on time?

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It's not the only factor. It's not the only thing that counts, but it's important. It's a big chunk of your credit score. It's like 35% of your FICO credit score is your bill payment history. After that, it is your debt to credit ratio, which is how much of a balance you're caring on those cards at any given time relative to the limit on those cards. It is true that you don't want to go above 30%. I will say too that the people in this country with the highest credit scores have a debt to credit ratio of less than 10%.

The only thing I would say as far as how this may hurt you is if you are opening all of these cards within a short period of time. It's the holidays coming up. A lot of stores will be insisting that we open up their store credit cards to get the discount and it can be tempting. I've done it and I've regretted it. I was in my 20s. I thought I wasn't doing any harm to my credit, but the problem is if you do this multiple times within a span of a week, or a month, that all of those openings, all those card openings take on a hard inquiry, right? The bank, or the lender, the creditor has to check your credit. That's a hard inquiry and every one of those has a potential negative impact on your score. Multiple ones can really bring your – drag your score down. Just be aware of that.

Eric, a lot of people have this question. Is it okay that I have a dozen credit cards? I would say it's not about quantity, it's about quality.

[0:26:08.6]

ER: That was really a great response, Farnoosh. You know your stuff about this stuff for sure. Maria, go back and listen to that a couple times, because there's so many good nuggets in there. She's right, the amount of credit cards doesn't necessarily matter. I mean, the more you have on paper, the better your credit score could get, because you have – you're showing them that you have different types of use of your credit and also you have potentially more credit, which means that your debt to credit ratio might go down as well.

That ties in to your comment about the 30%. Keeping your total balance under 30% of your cards is really good, because it'll keep your credit in check. Your credit score will appreciate you for doing that. Really when it comes down to it, just make sure that you keep track of whatever

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you open, that you don't have too many, that you start getting at risk of someone finding your card and you forgetting about it and then there's a fraud. There's all kinds of bad news to come with opening a credit card. Don't open your credit cards to boost your score.

[0:27:16.6]

FT: Yes. Open up a credit card, because it's going to be a vehicle for you, a way to achieve your goals, whether that's to establish credit, buy a big-ticket item, go on a vacation and pay it off when that balance comes due in full. That's about it. I hope this cleared up some confusion for you and others Maria.

Eric, my gosh. Thank you so much for joining us. As always, I'm really excited for your new venture, this podcast with your wife. Tell us again how we can find you and where we can download this show.

[0:27:47.4]

ER: Well, you can find me on my website www.beyondyourhammock.com. That's certainly going to have information about the podcast. I don't know exactly where it's going to land, but it's probably going to be on iTunes. It's called Beyond Finances, and it's going to be my wife and I teaming up to have great conversations. Kelly Roberge and Eric Roberge talking about money and life and just normal things that human beings do with every day.

[0:28:13.4]

FT: Well, good luck and congratulations to you and Kelly. We will surely keep an eye out for your show. Thanks so much Eric and everybody. I hope your weekend is so money.

[END]

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