EPISODE 871

*"**EL:** We really do a disservice to ourselves when we play the game of, "Oh, well. I'm 25 now. I'm not making a ton of money, so well when I'm 35, I'll definitely have it together at that point and that's when I'll start investing, or putting money into a retirement account."*

[INTRODUCTION]

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FT: Investing is not just for the wealthy. It is for broke millennials too. Welcome back to So Money, everybody. I'm your host, Farnoosh Torabi. We're welcoming back on the show my friend Erin Lowry, who is a personal finance expert. She started the crazy, popular blog called Broke Millennial years ago as a way to share her own useful financial tips with her peers.

The blog blossomed into a book by the same name, *Broke Millennial: Stop Scraping By and Get Your Financial Life Together*, which came out in 2017. After the success of that first book, Erin is now back this year with her second book called *Broke Millennial Takes On Investing: A Beginner's Guide To Leveling Up Your Money.* It just came out.

In many ways, this book complements the first, which is all about helping millennials level up and realize that investing can be simple, it can be done, it's approachable, it's fun, all the things. Such a needed book, because I know a lot of you have questions about where to begin when it comes to investing; what stocks to pick, where to put your money, 401K versus IRA, Roth IRA versus traditional IRA.

Erin's going to help us dissect all of this. PS, she's embarking on a multi-city book tour to promote this book. We're going to talk about where you might be able to meet her, including at Stacks House in Los Angeles. Very excited to welcome her back on the show.

Here is Erin Lowry.

[INTERVIEW]

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FT: Erin Lowry, welcome back to So Money. Congratulations on your second Broke Millennial book in a series. *Broke Millennial Takes On Investing,* which came out yesterday, April 9th. How's it feel to be another – another author, another baby you've birthed?

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EL: Well, I'm so glad to be back, first of all. Thank you for having me. Oh, it feels good, but so tiring, so thrilling, all of the emotions just running through me right now.

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FT: You were on 300 episodes ago. I did a little back check and 300 episodes ago, a lot of time has passed. You've also been working furiously in that time since Broke Millennial, the original, the OG book came out; *Broke Millennial: Stop Scraping By and Get Your Financial Life Together.* This book, really the culmination of your body of work over at brokemillennial.com and was such a hit, obviously led to this second book about investing. Why did you want to approach investing in the second book?

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EL: It really just was a natural progression that at first, I wasn't aware of being the natural progression, which sounds funny. It came out of getting a lot of questions and especially direct messages on Instagram and e-mails and tweets and people just kept asking about investing.

One thing that I found incredibly fascinating is the first book does have a very small investing chapter in it. It's a very high-level overview, pretty brief, mostly focused on retirement because that's how most of us start investing in the first place. At the bottom of that chapter, I recommended some here is other reading if you're interested in furthering your investing knowledge.

I got some responses that said, “Hey, I took a look at those books you recommended and they're honestly all too complicated.” The thing is those were the books that were geared towards beginners. I don't disagree. Even though a lot of them are great books, they are written in a way that assumes you have this base level understanding of the stock market. Even if it's something like, they just think that you know what an index fund is, or a mutual fund, or an expense ratio, just that common language that gets used. Yeah, we don't necessarily know that information. I certainly didn’t when I started investing. That was the inspiration for the second book. I wanted what I call a true beginner's guide to investing.

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FT: Where do you start if it's not with the assumption that you know what an index fund is? How far back do we have to go? First of all, also love the fact that you're doing a book on investing, because I also hear this from a lot of So Money listeners, how do I start investing? How do I start? How do I start? How do I start? That's the first question. It's the best question. You should be investing. What's the baseline – what's the 101?

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EL: Well for me, I took a few different paths early on in the book. First one is explaining why you should be investing. A lot of people I think will pick up this book, because they're interested, but there's still that intimidation factor. Part of the beginning, I spend talking through why it's important to be investing, how when you invest your money is doing some of the work for you and that's a really critical thing to understand and getting into a little bit of the nitty gritty about compound interest and time and inflation and all of that.

Then I also really break down terminology very quickly in the book. There's a whole chapter that's exclusively dedicated to just decoding the language of the stock market and the terms that you're going to need to know. The thing that I think is really critical is this idea that I like to position as putting on your financial oxygen mask. You think you're ready to invest, but the question is are you really?

I take people through this whole process of figuring out am I actually ready, as one of the experts quoted in the book, he likes to call it “Earn the right to invest,” Douglas Boneparth. I really love that language and that idea. I have a checklist that I actually have people go through to figure out if they're ready or not to actually start investing. Now there's a huge caveat in this entire conversation and that is of course, retirement. If you have access to an employer mass retirement plan, yes, please be taking advantage of it. When we're talking about earning the right to invest, it's really more about this idea of taxable accounts outside of retirement.

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FT: Right. When do you feel you've earned it? Because a lot of us in your demographic too, millennials are saddled with student loans, they're maybe not making what they would consider to be enough to support their living expenses, some of them are living at home with parents, they're not saving. What are the bases you have to cover before you're ready to invest? By the way, Douglas was a guest on So Money. He's excellent, great financial planner for millennials. Love him.

[0:07:02.8]

EL: Yes, he is so good. He's actually going to be at my New York event, so I'm very excited for that. In terms of earning the right as he says it, or putting on the financial oxygen mask as I like to say, there's a few steps that you can go through. One of the first ones is if you're still in the scraping by phase, so kicking it back to the first book, then no, you're not ready to be investing outside of a retirement account.

The first couple of things that you need to do is you need to set goals. That sounds so simplistic. With investing, goal setting is critical, because that actually dictates everything about how you are going to be investing. It lets you know how much risk you can afford to be putting on your money and lets you know if you should be investing that money in the first place.

If one of your goals is in the next one or two years, if it's more of a short-term goal, well, you probably shouldn't be investing that money. If it's 10 or 15 years away, then it might make more sense. Goal-setting is a big thing and number one. Then everybody's least favorite word, budget. I like to rebrand this as cash flow. You do need to make sure that you know how much money is coming in, how much money is going out. Without that level of control over your financial life, you really don't even know how much you can afford to be putting into investments. That's a very big first step.

Also, the almighty emergency fund is critical if you're going to start investing. You need to make sure that you do have that cushion. I personally do not advocate forever investing your emergency fund. That needs to be somewhere locked away in a savings account, preferably with far more than 0.01%. You honestly could be earning 2% or more at this point on your savings account, but make sure you've got I would like to say a minimum of 3 months up to 6 months' worth of living expenses in a savings account.

That can be a really big barrier for people in terms of getting started. I think that's one of the biggest ones that people feel overwhelmed about. I do like to reiterate this concept of it being bare minimum living expenses you need. It's not your current lifestyle, it's if everything goes sideways tomorrow, how much do you need to pay rent or your mortgage, keep the lights on, pay all your bills, including any debts you might have and put food on the table? Just that bare-bones budget; that's the amount that you need.

[0:09:14.9]

FT: Yeah, that's a good reminder, because sometimes people believe that when we say six to nine months, or years' worth of savings, we're thinking basically your salary for those three months, or six months, or a year. No, we're just saying bare bones. Just to keep the lights on like you say. It is possible if you are a young person with student loan debt, but you have a job and your job has a 401K that you recommend doing a little bit of both, like administering the debt, but also putting some money away in the 401K. Because as we know, the younger you start, the better. Time is a very important asset here.

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EL: Huge. It is hard to play catch-up. That's something that I think we really do a disservice to ourselves when we play the game of, "Oh, well. I'm 25 now. I'm not making a ton of money, so well when I’m 35, I'll definitely have it together at that point and that's when I'll start investing, or putting money into a retirement account.” The problem is life tends to get more complicated, not less complicated in a lot of ways. While you might be making a lot less money when you're younger, when you're older maybe you've started a family, maybe you own a home, there could be very different financial demands. Yeah, you might be making a lot more, but it doesn't mean that there's a ton left over every month. It is an important habit to start early.

Also when you run the numbers, if you double down on how much you're putting into a 401K in the future, it doesn't necessarily mean that you're going to catch up to your younger self. That's another great plug for why it's great to start early. If you haven't started and you feel a little panicked about it, now is a great time to start too.

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FT: One of the questions I often get Erin is, well, I just got $10,000 because I don't know, it was an inheritance, or a bonus, or a tax refund. What should I do with it? I want to invest it. Perhaps they have a 401K, or they don't. Maybe that's where they start. If they don't have the 401K – and more specifically, where in the 401K should they be putting their money? That's part of it too. It's like, okay, I know there are these vehicles like IRAs and 401Ks, but what specifically am I investing in?

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EL: That's such a great question. I actually do like to mention target-date funds, all-in-one funds, lifecycle funds, pretty much different words for the same thing, because it's a way to just get you started and it's a way to make sure that your money is invested. What these funds do is it's tied to an approximate year that you would be retiring. Hypothetically, let's say that you think you'll be retiring around year 2063. Well, you would probably pick target date fund 2065, because they tend to work in increments of five.

Over time, what's going to happen is when you're younger, this fund which is actively managed by a human being goes in and builds this portfolio, it's going to start you out in a more aggressive, which means more heavily weighted toward stocks. Then as you get a little bit older, it's going to go more moderate. Then when you get closer to retirement, it's going to go more conservative.

It's just kind of and I don't like to use the word ‘mindless’, because you always should be engaged in your investing strategy, but it's a way for you to get started without you having to go in and pick the funds yourself and build the portfolio. Because I can remember trying to open my first 401K and feeling super overwhelmed at the name of everything. I didn't know what any other terms meant and I just clicked out and walked away, because I didn't know what to do.

A target date fund is a great way to get started. Now, I will say there are definitely some criticisms of target date funds that are not unfounded. One of them being because it is actively managed, it does cost a little bit more. Something that is passively managed, which means there's not a human in there tinkering around with it, it follows an index of the stock market, that's going to be a little bit cheaper. You are paying a higher fee.

The other thing is it's a one-size-fits-all solution. It's not uniquely tailored to you, the individual, which could mean that your investments are not perfectly aligned with you and your time horizon, which is just a fancy way of saying when you need access to your investments, or what your overall goals are. The reason I like to bring them up is because you're just feeling completely overwhelmed about how to get started, it's an easy way to make sure that your money is actually invested and not just heaven forbid, sitting in cash in your 401K. There's no rule that says you can't go in there and rebalance your portfolio and build it to your own customizations in the future.

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FT: You're right, because often, we have this confidence gap and it's not unfounded. We have a lot of questions. To your point and to your story, you can get to the point of overwhelm where you do nothing and that is worse than doing something. That may not be perfect, but at least it's getting you on the right path.

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EL: It does. If you reach a point where you are just a far more educated investor and you want to go in and do it yourself and build your own portfolio, you can. Maybe you hire somebody in the future to help build a plan for you, in which point you can also go back in and you can leave the target date fund and build your own very customized investment portfolio that way as well. In the interim, you want to make sure that your money is not sitting in cash.

I heard a few horror stories when I was doing research for this book about people who for 40 years had been putting money away into retirement plans and called up and yeah, they had saved a nice chunk of change, but nowhere near what it would have been if they actually had the money invested. They didn't realize it wasn't invested. It was just sitting in cash the whole time.

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FT: Oh, no.

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EL: Yeah, it's just awful. You don't want that to happen to you.

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FT: Yikes, yikes, yikes, yikes. *Broke Millennial Takes On Investing* is out everywhere. We look forward to having you at Stacks House, Erin. One of the thing – well by the way, we're selling her book at Stacks House. You can get it everywhere, but we thought it was important to offer this book to our women at Stacks House. Because you're right, there are not many books that are as easy and an approachable and interesting as yours. I mean, a lot of them are written by people our dad's ages, or they're – My dad gives great advice. We should listen to our parents. I think that it's another to hear it from someone like you, who is so close to the generation and really has been there, done that.

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EL: I appreciate it. I will say there are people in the book who is my dad's age, or older. The reason I think it is important to include those voices, because I interviewed so many experts for this book. I always find it important to say I am not an investing expert. I like to position myself as a translator. I went out and did the research and figured out how to put it in a digestible, easy package for everyone.

One of the reasons I think it's critical that we talk to people who are older is not just because perhaps they are wiser, but also because they have weathered the ups and downs of the stock market in a very different way. I am 29-years-old. It is almost exclusively been a bull run in the market for me as an investor. I've never totally had to deal with the shock of a big dip or a big recession. It's really important to talk to people who have. Some of the people I spoke with, they went through the dot-com bubble burst, they certainly went through the Great Recession, some of them also dealt with the crash in the 80s. It's really great to get those insights as well.

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FT: So important. Begs the question, what did they say about with the foreseeable future where we probably will see a big pullback, a lot of people are throwing out the R word, as we've had such a crazy bull run for the last 10 years. What do we do?

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EL: It is such the cliché, but effective advice; you just stick to your plan. One of the favorite things that a woman I interviewed said is she goes, “Just don't look.” She works as an investment analyst for one of the biggest brokerage firms in this country. She said in 2008 when everything felt it was falling down around her, she just for a full year did not even check in on her investments. The reason was she said, “Listen, I had been investing in a way that was completely aligned with my goals and my risk tolerance. I knew it wasn't going to be pretty if I looked, but I also was confident it was going to come back around. I just didn't even take a peek and I just stayed the course and kept investing.” Since she did keep investing when the market was down, she made a pretty good profit when it came all the way back up.

She also brings up a good point in the book about the problem is if you start to panic and if you start to sell and pull your money out, you're having to make a bunch of decisions. It's not just when are you going to sell. It's also trying to time when to buy back in, which also means that if it's on the way back up, if the market is starting to correct itself, you're really losing out on good earning opportunities if you wait too long to get back in.

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FT: Such a good point. One of my proudest moments recently was somebody was like, “Did you see how far down the Dow went today?” I said, “No.” I got enough to worry about, okay?

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EL: A 100%. I will say another thing about this book. It's very tailored to the millennial experience. You've brought up student loans; there's a whole chapter about should I be investing when I have student loans? There's also a whole chapter just dedicated to dealing with the fear of the stock market. One of the things I love to talk about is the fact that media loves an inflammatory headline. I get it, it's click bait, I work in a very similar field. I totally get – I mean, broke millennial itself is such a click bait-y type of headline, so I totally understand.

The problem is if you're a novice investor, that can be really intimidating, because you can see a flashy headline that says something like, “800 point drop. Worse drop in history.” Well the thing is, the point drop might be the worst drop in history, but the percentage drop is not and that's what really matters. Because when those headlines started flashing around at the end of 2018, the Dow Jones was also at the highest point average it had ever been in history. An 800 point drop, actually the Dow is still higher than what had been just a few months prior even with an 800 point drop. That context is not given to you in a headline. If you're new to the game, it can be really intimidating and trigger you to want to go sell, or just take all your money out.

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FT: All great points. Now Erin, since we last spoke you also got married. Congratulations.

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EL: Thank you.

[0:19:46.3]

FT: So much has changed for you. Give us some marital advice too, money marriage advice, maybe something that you and your husband learned that was a really interesting lesson for the two of you that maybe was unanticipated, but you worked your way through it.

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EL: One of the things for me is language is very important. Obviously, I'm a bit of a word nerd because I'm a writer. I talk a lot in my first book and on social media and even on my blog about how I had avoided debt my whole life. I made my college decision plan completely based on wanting to avoid student loans. My dear husband did not have the same fortune. He did graduate with a significant amount of student loans. When we got married, I knew I was marrying into debt.

One of the things that I have tried to do is position the language that I use. I don't like to call it his debt, I do now like to call it our debt. It does create this team mindset for us about paying it down. We are now banking jointly for us and for our financial situation, it's what works best. I will say to anyone who is dealing with the early throes of trying to join your finances together, it takes some time and I highly, highly, highly recommend each of you has your own separate checking account for a monthly amount of spending money, because that is the one thing I have learned. We each need a little amount that we can spend that the other person cannot be constantly checking in on and nitpicking you about. It has reduced our money fighting and our marriage significantly and I really think it's a great way to still be a team, but have a bit of autonomy as well.

[0:21:30.9]

FT: Amen sister. So important. So, so important. Our sponsor for this show is Chase. As it's Financial Literacy Month, your book is out at a very timely time, we wanted to ask guests about their biggest money lesson and where did you learn it? Where did you get all your knowledge, in particular with this best money advice that you want to share? Because so many of us don't get it in school. A lot of us if we're lucky, we get it from our parents.

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EL: My parents are such a critical part of everything for me in terms of learning about money very early on. I tell a lot of stories in both books all about how my parents taught me about money. I would say one of the best lessons I learned was – and I'm not always perfect about it, but learning how to control impulse purchases. I remember being a really little girl, I love stuffed animals. I don't know about you and the listeners, but I was obsessed with stuffed animals. Even still today, I have a couple that stay on my bed. I just love them so much.

I have this very distinct memory of wanting this one particular stuffed animal. I believe we were actually at a TJ Maxx and my parents, the deal always was if you wanted something, you had to pay for 50% of it. I just can remember carrying this stuffed animal around the store. It was actually a lynx, if you know what a lynx is, it's like – it's in the big cat family. I remember carrying it around TJ Maxx, debating in my little brain how much it would take for me to – there are very few earning opportunities, so whatever little hustle I could devise at 7, 8-years-old to earn money, how much work it would take for me to be able to spend 50% on this stuffed animal.

I actually did end up buying it. It is still sitting at my parents' house. I think that a lesson really stuck with me and I still today will calculate things by if I want this, how much work will it take for me to be able to pay for it?

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FT: That's right. Yeah, did you ever – How did it end with the story with the cat, with the stuffed animal?

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EL: I purchased it. I paid for my 50% of it. Notably, I had a similar scenario, I think it was probably about six months later, clogs were all the rage when I was in third grade. I remember them being a really big deal shoe that everybody was buying. Since I was a little kid and my feet were growing so fast and my parents were like, “No, we absolutely are not spending money on those, because you're just going to outgrow them so quickly.” I think it was $13.50, went to Payless Shoe Store, which is also now out of business, but I remember going to Payless and buying with my own money a pair of clogs.

I went to a Catholic school at that phase of my life and they banned them and said it was against uniform within a week of me buying my shoes. It was also a lesson. I know, I had them for a week. I got to wear them for a week and then game over. I wasn’t allowed to wear them anymore and I did quickly outgrow them. Also, learning how to value purchases that's in my mind just so tied into any time I think about the value of a purchase.

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FT: I love that. Such a great story. Your parents must be so proud.

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EL: I think so. I think they also feel that they're portrayed as villains in almost all of my financial stories, but just never the intent. I was like, hey listen, it sometimes takes some tough love to make sure that you're getting these lessons the right way.

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FT: I love that. Now tell us about the tour. You briefly alluded to it that you're going to have an event. You're having a lot of events around *Broke Millennial Takes On Investing. T*ell us where we can find you and a lot of us are on the East Coast, but some of us are all over the country and world, so tell us where your book tour is taking you.

[0:25:19.9]

EL: I'm very excited. You can get all the information at brokemillennial.com/tour, also all over my Instagram and Twitter. I am kicking it off actually today in New York City on April 10th. Then I'm going to Atlanta on April 17th. I'll be in Seattle on April 25th. Portland on April 28th. San Francisco on April 30th. LA in early May. Then I will also be in Toronto on May 7th. In Chicago and Detroit, which as of this recording we're still figuring out the dates for those, so definitely check in at brokemillennial.com/tour, or on my Instagram @BrokeMillennialBlog, sharing all the details there as well.

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FT: Amazing. Congratulations. PS, what is the next Broke Millennial book? Have you been starting on it?

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EL: I have started on it. It is going to be about relationships and money. Not just romance. We're talking all sorts of relationships and I'm so excited. It is definitely my favorite thing to talk about.

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FT: I love it. Well, we'll see you back here when that airs, or rather when that publishes. Congratulations again. We'll hopefully see you at Stacks House. Thank you.

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EL: I can't wait to be there. I'm so excited to check Stacks House out.

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