EPISODE 941

[ASK FARNOOSH]

[0:00:34.3]

FT: Welcome to So Money everybody. September 20th. How are you? It's Ask Farnoosh Friday and I'm recording this a few days ahead of Friday, I just got out of a very long car ride coming back from giving a keynote at Warner Media, very excited to speak to everybody at Warner Media. Warner owns CNN and Turner and HBO.

This invitation was part of a big themed week at Warner Media called Make You Matter. Which is great that the company's investing in these programs, there was like wine and yoga, it's one session and then the money session, which was me so I'm not as cool as wine and yoga but we had fun, we had fun in our session and thanks to everybody who joined and finally back at my desk, excited to introduce our upcoming cohost.

He's waiting patiently on the other line but before I get to Tom, I want to just shine a light on some of the episodes that we had this week that if you haven't yet listened to, would really encouraged you too go back and check him out. On Monday, we had Kelly Brogan, she's actually a guest on the show a couple of years ago when she had her first book out, she's got a new book which is all about how to move on with your recovery if you've been through some sort of recovery.

Whether that's a mental health recovery, addiction, how to own yourself is the name of that book and of course we talked about the correlation between owning yourself and your identity and your path and the financial benefits of that. Wednesday we had one of the cofounders of Netflix on the podcast.

Very excited to have Mark Randolph on the show. Mark was the first CEO of Netflix, the cofounder with Reed Hastings of Netflix and his book, *That Will Never Work,* Is out this week and it's all about the history of Netflix and how it came to be Netflix. I think it's like 150 million subscribers. Takes us back to the beginning and how they raised money, Mark's mother was an investor, that was an awkward conversation he had with her.

Then of course, that interesting meeting with Blockbuster, right? Because you can only imagine what Blockbuster was thinking and feeling at the time when they say Netflix come to the scene and there was a period of time when they actually were hoping that Blockbuster would acquire Netflix and that didn't happen but it takes us back to that boardroom meeting. Really interesting stuff with Mark Randolph.

Now, today, we have a number of questions that have come through the various channels, on Instagram and the email. We've got questions from Ronald and Natasha and Jessica, if you're hearing your name, I've got you. And we have a special cohost, Tom Bonsaint, joining us and I want to just let everybody know that Tom and I go way back to – I knew Tom, we were just 18 years old, back at Penn State university.

Tom, welcome to the show.

[0:03:30.5]

TB: Thank you for having me, Farnoosh. I guess you're right. It's been more than half of our lives at this point.

[0:03:34.8]

FT: More than half of our lives? Wow, when you put it that way, that's intense. Tom and I, we met in college, Penn State, we were both political science majors at the time. Tom graduated international poli-sci. I graduated in finance. Tom is now – you work in strategy and business development for an aerospace company.

Also, I'm learning that you're interested in becoming maybe a financial advisor, you're sort of more interested in money which I'm happy to hear. Okay, here's the one question I want to ask you. Your greatest money moment since graduating from college, let's ask that.

[0:04:15.1]

TB: I think it was the realization that I had the flexibility to make some of the decisions I wanted to make in life and that it have to be concerned monumentally about whether I could afford them. I think about people talking about the fire movement and things like that, I think a lot of it just comes to getting to the point where you feel comfortable, that you're able to live comfortably within your means and have a little fun here and there.

[0:04:39.9]

FT: Yeah, how are you having fun these days? It's hard to top the fun that we had at Penn State but -

[0:04:44.4]

TB: Of course, different kind of fun now at 40 but I had a lot of travel, a lot of good restaurants and hanging out with friends. I've been living in the Washington DC area since let's see, May of 2014, no, 2004, 15 years now. I have a pretty good group of friends established down here and a good life down here and it's been fun kind of getting out and seeing the world a bit.

[0:05:08.8]

FT: All right. No, I've been following you on the gram and Facebook, I'm going to actually be back at Penn State this homecoming. You'll laugh at this because you probably don't remember me as much of a football watcher but I'm coming back as the grand marshal.

[0:05:24.6]

TB: I know, I saw that, it's pretty exciting. It's quite the honor.

[0:05:28.6]

FT: It's quite the honor. Last person on earth but I'm happy to go back, it's been a while and looking forward to connect with everybody at Penn State. Tom, before we get to the questions, I owe everybody something which is to go to my iTunes page and pick a reviewer. I have been encouraging people to leave reviews because reviews are one of the most important ways to allow your podcast to shine in iTunes and get people to learn about you for the first time.

iTunes puts a spotlight on podcast that seem to be getting reviews and so to encourage reviews, I pick one person every week to get a 15 minute money session with me as a thank you. This week, we're going to the iTunes page and picking Allie Holder. Allie, if you're listening, thank you.

She wrote that the podcast has been an anxiety reducer. She says, "This podcast has changed my life, it's allowed me to take charge of my financial life and set me on a road to financial freedom. The most important thing this podcast has brought me is peace around money and this alone has reduced my overall anxiety by a third. Thank you Farnoosh."

Wow, that's a really different kind of review. I have to say, I'm really honored and just so grateful that you have been inspired in this way that the podcast and the people that come on the show and share their stories have been reducing your anxiety and it's for me, this is evidence of why I got to keep marching. I got to keep doing this podcast.

Allie, thank you so much as my thank you, I'd like to invite you to have a call with me, you can email me, farnoosh@farnoosh.tv. You can go on Instagram and direct message me there and let me know you're the Allie from iTunes who left the review and we will get it on the calendar. Thank you so much.

As a reminder, if you want to leave a review because you have thoughts about this show, I encourage you to do that. If also you'd like to increase your chances of having a one on one chat with me, also a great way to do that, is to leave a review every week until the end of the year, I'll be picking one person from the review section to get that opportunity. I look forward to talking to as many of you as possible.

All right Tom, let's go to the mailbag shall we? You've been more and more interested in personal finance, why is that?

[0:07:55.0]

TB: You know, I have to say, I've been a listener since day one and part because of our friendship in college but in part because if I could echo what Allie said, you know, a lot of what I've learned over the years about money has made me feel more confident and more relaxed. I think there is a lot of taboo that remains in American society of people talking about money or admonition that they don't know the answer to a financial question.

We don't really do a very good job of teaching people about this or creating culture that encourages people to have these kind of dialog. By reading some of the books and listening to some of the guests and for of course hearing a lot of Ask Farnoosh over the last several years, I feel like I've learned a lot. I now enrolled in university of Virginia's CFP program which they teach kind of as an adult ed program up here in False Church Virginia.

It's been great interacting with the other students in the class, learning about their stories and really just getting more of an academic footing on some of these personal financial topics.

[0:08:54.3]

FT: Awesome, that is so great to hear. Quick story, I attempted to take the CFP exam, I got all the books, I signed up for the course. It's really great, you can kind of do it as whatever pace you want, you can actually go and be in a classroom, you can do it online, you could do a bit of a hybrid. It's really great program in the sense of how flexible it can be for people who often are taking this – or setting for this certification mid-career or like they've got a lot going on.

Long story, I didn't end up doing it, I think because ultimately, I just figured, I don't see a day where I want to just work with people one on one and like have an office, right? I like kind of giving the advice through media and wide platforms and you don't' really need the CFP for that.

It's not a requirement and I was also like six months pregnant coming out of the book and I was like, I think I'm taking on too much.

[0:09:47.6]

TB: Yeah, absolutely.

[0:09:48.5]

FT: This was five years ago, I still get all the kind emails from them. They're like, how about now Farnoosh? Maybe, I haven't totally taken it of the table but we'll see and I encourage you if this is something that you're interested in, great to have you cohosting with me because we do have a lot of questions, I could use your perspective.

The first is from Ronald and Ronald says, "What are our thoughts on robo-investing?" He says, "I currently have one and a half million dollars in an actively managed IRA. It bothers me paying the 1% annual fee. I'm thinking of switching to a robo account with fees of only .3%. What are your thoughts? Would be appreciated."

Well, I don't like the fees either, I have to say. I think we know now, given all of the studies that have been done around actively managed portfolios versus passively managed portfolios that are filled with say, index funds that just track an index. That the passive portfolios do just as well, if not, better. Then actively managed funds which also yes, carry a higher management fee because you've got somebody there actively managing it.

It's no secret that I'm very vocal about how I like robo advisories, I think that they solve a lot of the problems which is one, the cost. It makes it more affordable for more everybody to get in on the investing strategy and then two, it kind of gets rid of the middle man so to speak, you have a direct lens into seeing your portfolio and a lot of these robo-advisors, whether you go with a Schwab or Betterment, Elevest, Wealthfront, Vanguard, there's so many. The selection of investments are also really affordable and the right ones I think, you know? There are exchange rate advance, ETF's or index funds which they themselves carry low fees and they track an industry or an index.

They do this sort of broad approach to tracking and writing a market which I like, still diversified but there is no sort of active management that would sometimes be unnecessary frankly as far as performance goes and also more expensive. I do like the idea of robo-investor or advisor that you go to. What about you Tom, what's your approach?

[0:12:08.8]

TB: I would wholeheartedly agree. Echo everything you've just said. I think robo-advising really is the future. I think what we've seen recently is another trend is a lot of the robo-companies are realizing that they might have lost a little something by not having the personal touch.

I think there's more and more options out there you can do sort of a hybrid approach where most of your money is being managed by the robo-algorithms that are kind of designed to match your risk tolerance and you know, you really get to outsource that kind of that side of investing.

But some of them also have an ability for you to call up and speak to somebody and you know, get a little bit more comfortable human side of a connection and make sure that the decisions you're making are matching kind of where you are in your life, your risk tolerance, the time you have to rise and et cetera.

[0:12:52.4]

FT: No, you said it, there is something to be said about still working with a human being for part of your financial planning. I think when it comes to the investing component, leaving that up to a robo-advisor, a platform that automatically invest for you based on things like your age, risk tolerance and then chooses this really low fee cost efficient ways of doing that index funds, ETF's, great, done. Then on the other side of the equation, maybe you've got questions about you know, estate planning and insurance and you know, your overall strategy or approach to retirement.

In that case, yes, talking to somebody, getting an expert's advice, that's valuable but is that worth a 1% fee of your assets? Now, I think in that case you pay a retainer, you pay by the hour or whatever and more and more advisors are waking up to this hybrid approach and I think the ones that are going to be continuing to work in this field and being successful are the ones that are –

Outsourcing may be the investing component of the plan that they're creating for their client to a robo-advisor and then reserving the rest to one on one consultations that have their own pricing tier. You can go to a site like XY Planning network, you can find a lot of quality advisors that are following that format. I think it's the future like you said. He's got one and a half million dollars in this portfolio. Find a robo-advisor that you like and talk to somebody there about how to do the transfer cost efficiently. Good luck to you Ronald and let us know how things go.

Natasha on Instagram. Great way to reach me folks, love talking to everybody on Instagram, it's a fast way to reach me. Her question is about also investing, she has $8,500 save don the app Robin Hood and it's all an individual stocks and these are all companies that she likes and uses but she doesn't know if it makes sense to own individual stocks.

"Should I," she's asking. "Sell them or those that have increased in value and put this into an index fund and just leave it there and then invest the new money that I get somewhere else? Would love your advice."

Look, I am not against investing in stocks, I think though, that's really not something that you would benefit from doing until you have other bases covered. It's really risky, right? TO invest in an individual stock. You have it really diversified here and she's just talking about a few companies, probably not a lot of diversification. That said, if Natasha had said to me, Tom. I'm maxing out my 401(k), I've got an IRA, I have no debt, I have a rainy day account and I want to get a little bit more into the stock market and I understand the risks but I just want to do this because I enjoy it, I think just as a don't invest in stocks is like kind of silly.

But you have to do it responsibly and knowing what you're getting yourself into. I might just not continue to contribute if you have other accounts to fill. If you've got maybe an IRA or a 401(k) that you can better fill before you start investing more in these stocks.

If you are going to start another portfolio, maybe start it with an index fund or an ETF, a bunch of ETF's. What do you think, what's your philosophy on individual stocks, Tom?

[0:16:25.6]

TB: I don't have any individual stocks, you know, I do kind like you said in the beginning, I have index funds and very passive. I really focus on fees, there's a great website, I don't know if you've mentioned on the podcast before called feex.com.

[0:16:41.0]

FT: No, I haven't.

[0:16:42.8]

TB: What they do is they essentially analyzes a fund that you put forward or that you currently have in your portfolio and suggest funds that have similar strategies that have lower fee. If you're saying I want to buy, say the 500 largest companies that exist in S&P, the S&P 500 and then you can buy that in the form of an index fund from who knows how many companies, probably 50 or 60.

So you can go in and put one of those funds in there and it will say yes buy this one or you could get this one and a version of an ETF or this one is a lower fund for Vanguard or Fidelity. Unless you have a strong preference in you want to investing house, you really want to look at what is my strategy and then look at the fees max.

[0:17:27.7]

FT: That is a great tip. It is also a really good resource for Ronald to ask earlier about maybe making some transfers. I would also say Natasha that Robin Hood, while I am not familiar they do have ETF's. So it could be that you don't abandon this Robin Hood account but rather you maybe liquidate or not liquidate but you sell some of these stocks and use that money instead to be in an ETF what would be a much broader way to invest.

And ETF's work like stocks, you can buy and sell them pretty quickly but they work like mutual funds in the sense that it is a basket of stocks that typically track some sort of theme like it could be energy or socially conscious companies. It might be a more diversified approach risk manage approach to investing than just putting all the money in the stocks. So I would call Robin Hood, maybe get on the phone with somebody and talk to them about your options.

[0:18:29.6]

TB: Absolutely, the caller is going to look at only liquidating some of the funds in the account. They could look at the funds that they own for more than one year and they'll be taxed at the long term capital gains tax and so that could save them some substantial money.

[0:18:44.3]

FT: Very, very good point. So when you make that call Natasha to Robin Hood team, the service team, bring that up and if they bring it up on their own even better. That proves that the really know what they are talking about like Tom here. Okay, anonymous on Instagram has a question about what to do with the proceeds of a recent home sale. Do you own Tom? Are you a renter or an owner?

[0:19:07.5]

TB: I do own, yeah. I have the same level of passion of real estate that you do but yeah, I do own my home.

[0:19:14.1]

FT: Cool, all right let us help out anonymous here. She says that she is closing on her home pretty soon. She says, next week and she's going to walk away with about $300,000 in proceeds. She is moving from Boulder, Colorado to Los Angeles and then when she gets to LA, she wants to rent for two years until she gets a good grip on where they want to plant themselves. No consumer debt, student loans are paid off.

She and her husband run their own business, cash flow is a little bit all over the place so sometimes payroll she says can feel like feast or famine but she says, “Our game plan is to use this $300,000 to first max out the Roth IRA’s and our health savings accounts, throw a healthy check at our new baby’s college savings account, boost our emergency fund from six months to one year and then from there," she says she’ll be left with about 200 grand.

That she’d like to remain semi-liquid for when they want to buy a home again in the next couple of years. So where should they put this money? She’s been looking around. She found this thing called a no penalty CD and wondering what is the catch. She also wants to mention she’s 29 and truly her question is just where is a smart place to park this money so that we are not missing out on interest but we also have the agility and liquidity to make a move quickly if we want to take this money and use it.

So firstly, I just want to say I feel like you’re my kindred spirit because we are also in the process of trying to sell our apartment. We haven’t quite started, we haven’t listed it yet but we are soon going to do that and in my head, I am already doing all of the calculations. So okay, if this is our theoretical cash out, what are we going to do with this money and it is so exciting, right? You have options now finally as oppose to just having all of this money sitting in your home.

And so now just like you, I am thinking I am going to do all the responsible things first. I want to put more into our retirement accounts, I want to put a little bit more towards college saving. I want to definitely have a bigger emergency savings buffer because I am also an entrepreneur and the breadwinner in our family and while we have been very fortunate every year to have healthy cash flow and we have never gone without, it is still always an insecurity of mine.

That oh my gosh, what if I make no money or very little or much less than what I did this year? I always prepare for the worse. So I am looking forward to really plumping up all of these accounts and then yeah, they’ll be some money left over what do we do with it, where do we put it. Well part of it will probably go to a down payment on a home, our next home and like you we’ll probably rent in the interim because I think it’s smart.

You cash out, you rent a little bit, you get a lay of the land especially if you're thinking about going to a new place you never want to make several hundred thousand purchase or over a million dollar purchase in some cities quickly, you know? Like not in haste. You want to spend some time in the region, get to know it, renting for a year or two is so smart. So good on you so where to put this money?

First question was, what is the catch to a no penalty CD? Let me take a step back, a CD, a certificate of deposit there are many kinds. They differ by their terms and their interest rates. A 12 month CD may now carry like 1.5% interest rate. A five year CD might be closer to a 2.5% interest rate. I am just thinking off the top of my head, don't quote me on these rates people. Go to bank rate for that but the catch to CD is typically is that you have to leave the money.

In the account for that term in order to earn that full interest and to not also incur any fees early withdrawal fees. A no penalty CD says look, here is our interest rate and you can withdraw the money at any point no penalty and so this allows you to take out the money if you need to maybe put it in a different CD that might be bearing a higher interest rate in the middle of investing in these other CD or use it to buy a house or whatever you want.

And I think the one thing that would be different here is that the interest rates probably is not going to be as attractive as a CD that has penalties for earlier withdrawal, right? That would probably be my guess. I would look into it for sure. The one thing you don't want to do and I think you know this is to put this money somewhere that will get tied up or will get put into risky proposition. You don't want to put it in the market by any stretch.

Not if you need this in two years. The rule of thumb is if you need any money in the next five years, put it somewhere liquid and safe. I think she is getting warm to where she should put this money. I would say a 12 month to a two year CD, a no penalty one is probably even better because if you find a house that you love in three months, you can take this out and not pay a penalty. You could also just put it in an online interest bearing account. What do you think, Tom?

[0:24:14.3]

TB: I agree. I think you brought out all the right points. You know she needs some flexibility right now and so I think that CD that as you say is no penalty or a high yield savings account, which everyone is going to give you a better rate, some of them will be fixed rate, some of them will be variable rates that will adjust and reset in periods of time. So there is a little bit of homework you need to do there but I think you can deal a lot of it as you said on bank rate.

Now the anonymous also mentioned that an interest in finding the 529 plan for their newborn. I think that is a great idea. I did look it up and readably, California is one of the states that does not provide a state tax benefit for contributions to 529's but I am trying to think also even though they didn't mention this as a consideration, what sort of retirement situation they have I think the Roth is great. I think the HSA is great.

I love all of that but if you are running your own business, what sort of retirement plan do you have in place for yourself. There is a lot of flexibility you can have as a business owner as I am sure you well know. So I would encourage them to also think about talking to a retirement specialist that could help them identify what sort of a plan would work well with a company like theirs that has a regular cash flows but if they're the sole proprietorship, it is just her and their spouse then that could be pretty interesting as well.

[0:25:29.5]

FT: Yeah, they mentioned an IRA, is it a SEP IRA that would be great. You can contribute over $50,000 that is tax deductible, which would be a great tax savings but also a great way to – it is a lot of money that you can put away. You did mention the 529 and I will just say that even if they live in California, they don't have to do the California plan although it would be awesome if they did and they could get the tax benefit, the state tax benefit.

Perhaps before you move, I don't know what's Boulder, let's see Colorado 529 do they have a tax benefit for the state? Let me just quickly look it up.

[0:26:04.0]

TB: I did recall reading that there are only seven states that don't provide the benefit with California being one of them.

[0:26:09.2]

FT: Okay, so maybe Colorado does. I can't find it on the Google. Okay well look it up because if that is the case that you can get a state tax benefit then you have a Colorado 529 I would invest in that before you move before your address changes and get as much as the benefit as you can this tax year. All right, well good luck with your move anonymous and thank you for your questions.

All right Tom, let's round it out here with Jessica on Instagram. She is two years out of college, debt free. She works as a financial analyst at a company near her home. Still lives with her parents, no problem with that and so as a result able to save a good amount of money. She is contributing six percent to her company's 401(k) they match 3% so I am guessing that is a total of 9%, which is solid.

She also has savings and a high yield account, which is getting about 2% in interest. She wants to invest some of her savings and something a little more risky but doesn't know where to begin. So what do we recommend for her? Should we have her talk to a financial advisor? I think it is early to get talking to a financial advisor. Look, there is no harm in talking to a financial advisor but entering a relationship with a financial advisor right now, you know I wouldn't say really necessary.

I think you are doing a lot of smart things on your own Jessica. It sounds like you know a lot and if it really your question right now is just about how to do a little bit more with investing, the truth is, she is in her early 20s. You should be taking on more risk than somebody who's say in their 40s or 50s. It doesn't sound like you have any dependents. It is just you. So where in your 401(k) I would just be sure that your allocation reflects that.

You've got a really long investment horizon. You are in your 20' you might not need this money until you're in your 60s, 40 years. So your tolerance for risk is much higher and the rule of thumb and again, just a rule of thumb but a lot of people just benchmarks to give them a place to start is to take a 100 subtract your age and what that number remains is the percentage that you want to be in stocks versus bonds and cash.

So if you're let's say 25 then I would say at least 75% stocks maybe even 85, 90% stocks at this age and the rest in bonds and like fixed income stuff but start with your 401(k) and make sure they are risk tolerance, your risk allocation is aligned with your appetite right now and what you can really afford. From there, if you've got more money to "play" with open up a Roth IRA and do the same thing. Make sure that the majority of the investments in the Roth IRA are in equities.

And not to say you're picking individual stocks but you are picking funds that track stocks as oppose to bonds. What do you think Tom? She should take on risk right now, right?

[0:29:13.3]

TB: Absolutely, there is no better thing to have when you are saving money than time. So if this person is in their early 20s they have a lot of time to see that money compound. So I would look at as much as you're able. Certainly continue doing the 401(k) because you want that match. You want that free money from your employer. That is a great benefit to have. It is great that you already have a high yield savings account and you are getting some interest on there.

But I think a Roth IRA is really the logical next step and if you are looking to get something that's going to give you a high return up over the long term, then yeah, maybe you go into something a little bit more risky. You could look at emerging stocks, international stocks even a real estate investment trust or REIT. There is a lot of things that you could do out there that I think present some interesting in the long term implications.

You know you are going to have a year or two when things probably things go down or they could go down way a lot like they did in 2008 and 2009 but you have a long time and so you are going to need this money and right now you are being taxed likely a very low rate, historically low rate. So capture that benefit through the Roth IRA by making those after tax contributions. It is a great strategy.

[0:30:20.9]

FT: Yes and later on if you want to be more of an investor and diversify where you are investing beyond stocks I mean they're you can look like you mentioned there is real estate, there is businesses, you could be a startup investor but there you know the rule of thumb is to not bet the farm. You know those are all risky propositions and no more than 10% of your investable money should be going towards anything that's super risky.

That is like putting all of your eggs in a restaurant investment or an art piece or something like that. The most sophisticated investors are not over exposing themselves to this singular investment ideas and even with real estate, you know diversifying that. Getting a couple of properties and I would love to someday get my hands on something like rental properties and make them nice and go on the Airbnb where all the kids are going and cash in but I always got time, right?

[0:31:22.7]

TB: Absolutely just like this caller, they got plenty of time.

[0:31:25.8]

FT: Got plenty of time. Well I like where your head is at Jessica. Great thinking, great doing, really appreciate you having in the audience. Let us know what you decide and everybody, thank you for your questions. Tom, how is your fall shaping up? Do you have a lot going on this fall?

[0:31:41.8]

TB: No, I actually had a pretty big summer, a lot of travel and so I am happy to just slow a little bit around fall and enjoy those fall flavors, enjoy the colder weather, get out, carve a pumpkin, do all the things.

[0:31:54.5]

FT: Oh carving a pumpkin, I am excited for that too. I love Halloween as a mom. It is like one of my favorites, just like experience that with the kids. We are already talking about costumes and apple picking so yeah, thanks for that reminder. Thanks for putting me in a good mood. Tom Bonsaint, great to catch up with you. I hope to have you back on and maybe when you start getting into that CFP having you back and schooling us on all the things.

[0:32:20.1]

TB: You never know, it's certainly been fun preparing a bit for this call and great to connect with you again. I am so glad to see you've had so much success and I am sure Penn State will continue to involve you in events going forward.

[0:32:30.3]

FT: I hope so, I'll be there. Thanks so much and everybody listening, I hope your weekend is So Money.

[END]

