EPISODE 959

[ASK FARNOOSH]

[0:00:34.4]

FT: Welcome to So Money everybody, Friday, November 1st, Ask Farnoosh time, can you believe it, we made it to November 1st and just a reminder, it's daylight savings this weekend. I never know if that's always like a good thing or a bad thing. I think it's a good thing, I think we get an extra hour this weekend or maybe not. Am I wrong about that Michael?

[0:00:53.6]

MR: I think it's spring forward fallback so we do gain the hour, yeah.

[0:00:55.7]

FT: We gain the hour.

[0:00:57.2]

MR: I think it's a good thing, yeah.

[0:00:58.1]

FT: It's a good thing. Everybody, Michael Reynolds is back on the show, he is the founder of Elevation Financial, he's an independent financial advisor, he's also more recently the host of a weekly personal finance podcast called Wealth Redefined. Michael, welcome back to So Money.

[0:01:14.1]

MR: Thank you, I'm glad to be back.

[0:01:16.1]

FT: Tell us about wealth redefined? Because that seems to be the most recent development on your front and I want to learn about and catch up.

[0:01:23.3]

MR: Yeah, thanks. I'm a big fan of podcasting, I love podcasting as a medium, I think it's a great way to communicate and educate so I have a lot of fun with it and I wanted to start a new podcast on personal finance to kind of just really educate and share information with my clients. It's not necessarily meant to be this big, huge marketing thing. It's really meant to just kind of share information with my listeners, my audience, my clients.

I chose the name Wealth Redefined because I think as an industry, especially younger people, we're kind of redefining what it means to be wealthy and what it means to develop wealth and to build wealth and so I just kind of like to explore modern ways to talk about wealth.

[0:02:02.5]

FT: Going on this theme of accessibility. What do you think is going to happen to the industry down the road, there are so many people that could benefit from financial advice, professional financial advice but perhaps they don't fit that kind of criteria that traditional criteria of having all this money under management or having a positive net worth yet.

So many of us still have student loan debt. How is the industry addressing this?

[0:02:28.2]

MR: Well, for a large part, it's not. I mean, industry is not really doing a great job yet at addressing it but I think there's pockets of disruption happening so I'm a member of XY Planning Network which I know you're familiar with, it's a kind of a – just a really modern, somewhat rebellious community, a financial advisor who are fiduciary and who are modelling their service in a different way and so I feel like there's a big movement in the industry to serve people in a different way.

The traditional model of course is "Hey, if you have a million dollars, you can work with me and I'll manage all your money," and that's kind of traditional. I personally have set up my firm to be accessible to anybody so I will work with anybody even if they have literally no money because I just want to be able to make financial education and especially financial coaching accessible to everybody.

I have a strong coaching component as well. I think a lot of people need coaching often more than they need investment management or planning. It all kind of fits together.

[0:03:26.5]

FT: Well, speaking of free advice, let's give some listeners some of your free advice and I'll try to chime in. I lover having cohosts that are so experienced like you, it really makes this episode so much easier and so much more beneficial. Let's start off with Florence. She reached out on Instagram and she's a Silicon Valley mom working for a rapid growth startup and she says, the podcast has really resonated with her, I'm so happy to hear that Florence, thank you so much for reaching out.

Here's her question Michael. She recently got promoted, congratulations Florence. And she says now, for the first time in my life, I'm making six figures a year. After taxes, it's more like $72,000. Oddly enough, she says, we're also now living paycheck to paycheck. Sometimes beyond that. She thinks she knows why, she says look, I work seven AM to three PM every day. I come home and I'm continuing to work into the evening hours.

What does this mean? This means a lot of takeout food, a lot of ordering in, Uber eats, et cetera. She says you know, I do this because I'm trying to make up for my absence throughout the week and so I spend a lot of money on things for our family and then also eating out on the weekend.

She's 32 and her husband's 33, they don't have anything stashed away for emergencies and they have growing debt that they now have to pay down. The question is — How can I get a handle on my spending? I have this huge emotional tie to it she says and it's hindering our financial growth.

Wow, I can really relate to this. I think a lot of listeners can too, it's this sort of vicious cycle where you're like okay great, I'm finally breaking through this salary barrier, right? I'm making now this six figure milestone, feels really great. But then, to get to that $100,000, you might be working more hours and at this point too, you might have a family so it's hard to save because you have to now pay for some conveniences to make up for the lost time so it feels like this hamster wheel and I've got some thoughts but I'd love to hear from you Michael.

First about just how she can get a handle on some of this spending. It sounds like they need to really sit down and budget.

[0:05:37.8]

MR: That's exactly where my head was going, I'm a huge fan of budgeting. I think budgeting is the key to just about every financial problem out there that when it comes to kind of figuring out how to intentionally manage money. I'm a huge fan of budgeting and my favorite app is, I think you mentioned last week on your show Farnoosh.

You Need a Budget or YNAB.

[0:05:57.3]

FT: Yes.

[0:05:57.9]

MR: I've been using YNAB for years now and my friend Alyssa actually introduced it to me and she made me promise to mention her name on your show because she actually turned me on to your podcast too Farnoosh. She deserves credit for that but YNAB is an amazing app that really budgets differently than traditional budgeting apps — a lot of people, they get hung up on traditional budgeting apps like mint or every dollar because they kind of make you predict at the beginning of the month, you know, exactly what you're going to be getting and then kind of predict exactly where every dollar's going to go.

That's not really how life happens and so, a lot of people are going to get turned off of budgeting because of these traditional style of budgeting apps. YNAB is different, and in that it budget's how real life happens, when cash comes in, you allocate the cash as it comes in and then as more cash comes in, you allocate more and it really encourages you to get ahead of your money and so your age of money increases and it really keeps you far away from that paycheck to paycheck kind of lifestyle because you're getting so far ahead of your money.

I found that once you start looking at exactly where you're spending is going, in the app or on the desktop app, you really start to make choices that get you in a better place. I mean, I consider, you know, we could probably both sit down and say here's how to eat cheaper and you can Google all that stuff and that's all out there, it's really about paying attention to what's happening with your money and when you see it in "black and white" so to speak in the budget, that helps you really get a handle on what's happening.

[0:07:23.8]

FT: Yeah, YNAB by the way, you can try for free for the first 34 days and there's an app and I did mention this last week on the podcast, I mentioned this as a tool, people wrote in, they were like, thank you so much for mentioning this. I'm either already a subscriber and it's changed my life or I'm new to this and I'm looking forward to testing it. Part of also what is I think helpful what would be helpful for Florence is to really create systems in her life where just hearing her talk about the lifestyle right now, she's getting home, she's crashing, she's got to continue working, she's got two kids and are probably hungry.

Pre planning, you know? The week. I'm a big believer in thinking things in advance. Every Sunday, meal planning. Figuring out, okay, what are the days that we're going to maybe order in, that's fine, we're not saying go cold turkey but then maybe three to four nights, you're prepping some of the meals ahead of time. Perhaps it's also worth the investment, you have to run the numbers but to hire someone to prepare meals for your family and there are actually services out there that will deliver meals to you and it might even be more cost effective than ordering in.

Especially when you're ordering in, it's not always healthy, you don't know what the ingredients are, there are a number of like meal planning companies and meal delivery services out there that might be actually a cost savings for you, given you know, how much it sounds like you're spending on this. But it's true, I feel like when you're making more money, sometimes you have to do invest in these systems and efficiencies.

It can continue to make the good money but yeah, budgeting is one area, planning is another area. Food is a huge part of everyone's budget. It doesn't feel like it because it's like eight dollars here, 10 dollars there, a couple of grocery runs but it is over the course of a month, it could be over a thousand dollars for a family of four.

You could cut that down by 50% with just a little bit of planning. All right, Ashton has a really good question and he wants to know, you know, a lot of people talk about – including me, how to pair a 401(k) with a Roth IRA? It's a great way to diversify your tax exposure, what if he says, what if I'm utilizing my company's Roth 401(k)? Which is sort of the hybrid of the Roth and the 401(k), what type of account should I open next?

My sense of this Michael and you can tell me if you disagree is that because with the Roth 401(k) and how it works is you can invest in a 401(k) up too what is it? $19,000 this tax year and it's the contributions are tax deductible. When you add the Roth layer to it, so the Roth 401(k) combination, it doesn't change the contribution limit, you can still contribute up to $19,000 but the tax benefit changes.

It becomes more of a Roth IRA in that sense where you pay into this account with after tax dollars, you then get to pull out this money in retirement after age 59 and a half. Without any tax exposure. Given that, then I'd say, the best next vehicle would be a traditional IRA because then you're getting the other side of that tax benefit which is you get to deduct your contributions today. Lower your taxable income today with a traditional IRA where you don't get that with the Roth 401(k) but let me know if you think that's wrong or maybe there's a better solution.

[0:10:54.0]

MR: Well, there's no really right or wrong because everyone's situation is different. I personally would lean Roth for both accounts. But it really depends. So I mean, if you have a reason to do a traditional IRA like you want to actually lower your taxable income for other reasons then yeah, traditional would make sense but in general, assuming Ashton's kind of on the younger side and all the things are kind of – there's no other glaring details that are factors here.

I'm really a pro Roth. I mean, I'm leaning toward doing the Roth 401(k), as well as the Roth IRA because I'd rather pay taxes on the seeds than on the harvest. Usually, the analogy I use with clients a lot is you know, if you have a harvest, you want to pay taxes on the seeds now or do you want to pay taxes on the harvest later that's worth a lot more and the analogy is very easy to get, because it's like yeah, I would pay taxes on the stuff that's worth less now because I want to save that money and then have it tax free later.

I'm really a pro Roth — so again, if the assumptions are correct h ere in my head on what Ashton's situation is then I'm going to go Roth 401(k) and Roth IRA because I want this tax free growth.

[0:11:56.5]

FT: So then to be clear, you can have both a Roth 401(k) and a Roth IRA?

[0:12:00.8]

MR: Yes.

[0:12:01.7]

FT: Without any problems with IRS?

[0:12:04.2]

MR: Correct.

[0:12:04.9]

FT: Okay, cool. Yeah, you're right. I mean, assuming he can qualify for Roth IRA because there are income restrictions whereas there aren't any for the Roth 401(k).

[0:12:15.6]

MR: That's correct, there's lots of details we don't know about Ashton so those are kind of the caveat and disclaimers but yeah, in general, yeah.

[0:12:20.9]

FT: Perfect. I hear what you're saying. I like what you're saying and I'm – you've changed my mind. If that is the case, if all these details are actually true but I guess, Ashton, the short answer is you've got options and really just depends on what your situation is and then you know, where are you think your income level is heading if you think you're going to be making, if you can qualify for the Roth IRA, I think you should do it.

Okay, Quiin with two I's. Actually her name is Kate but her Instagram is Quiin — 29 years old, she says, finally I've been able to start a small emergency fund for myself and payoff some debt. Clapping for you Quiin. She says, I'm now down to a federal student loan, a refinance private loan and my car loan. I rent my apartment, I don't have a 401(k), I've only had jobs that do not offer this benefit.

I've had multiple part time jobs at once including being self-employed. I haven't had any extra money to put into savings and towards debt until now. So my question is, do I continue to really attack the debt while putting what I can into my emergency fund. I plan to eventually open up a Roth or a SEP IRA because she's self-employed or both but I feel like I should try to get rid of my debt first.

Should I open one now or focus on building my emergency savings first? Retirement or emergency savings? If we're talking basics here Michael, I feel like the next step is at least like a month or two of emergency savings.

[0:13:56.7]

MR: Yeah, I agree, that's the first step, you want to have the buffer against a rainy day.

[0:14:00.9]

FT: Yeah, if there is a hierarchy here, what would you recommend?

[0:14:05.0]

MR: I'm definitely going to build up the emergency fund first, I want to be sure that that's kind of designed to keep me from going into debt further so I certainly don't like to have some – the car breaks down or something happens and you know, then she has to go further in debt to address this.

I definitely want that emergency fund there first and after that, I wish I knew the amounts because the amounts of the debt would definitely make a difference in my mind. If it's – let's say it's a reasonable amount that can be paid off in two to three years. I'm going to attack the debt next. I'm a big fan of wiping out debt as much as possible, as early as possible because then, your income is freed up to do the investing you want to do.

My order of operations in general, if the debt is easily paid off within two or three years is going to be emergency fund first, then wipe out the debt, then, start leaning heavily into investing. Now, if the debt is larger, let's say it's going to take five to 10 years to pay off. Then that opens up some other options I would definitely look at but if those assumptions I'm thinking of are correct, that's kind of the order I would go in.

[0:15:05.2]

FT: I love that, that was really great specific advice. Kate, I'm sure you're going to have questions as you enact this plan so be sure to keep listening and keep your questions coming for us, this is a weekly episode so we want to make sure that you know, you're getting support along the way. Okay, Nelly has a question and she says, hey Farnoosh, my husband has a mortgage, $145,000 on an out of state rental property. This is in Georgia. This rental property.

He's got this property with his uncle and then aside from that, the two of them have a home mortgage. She and her husband in New York where they live, that totals $350,000. Okay, we got that math, it's about $2,700 a month, the mortgage. She says, the renters pay the Georgia monthly mortgage in full which is about $1,200 a month. The mortgage on the rental property is taking care of by the rental income, that's great. The question is she says, "We want to know what is the best approach to pay off these properties sooner rather than later? Do we start with the rental, which is a lower monthly cost and would then provide with residual income to help pay off our New York home or do we pay our huge mortgage first?" she says, "We've got goals to help our kids with college."

"Which starts in about six years, so being mortgage free could really support us with that goal" she says, "We have a combined income of $175,000. I alone are saving for retirement pre-tax at 19%," that's great, "and I have two months' worth of emergency and I am aiming for a six month emergency." Hearing her Michael, you know she is comparing these two mortgages by what seems to be the monthly amount.

She is like the Georgia is like the smaller monthly payment, smaller balance and then the New York primary residence has like almost, well I'd say more than double of the balance but should she be more concerned about the interest rates on these mortgages as far as which one to pay down more rapidly? What is your philosophy when it comes to this situation? You got two debts, two similar types of debt, which one should be priority?

[0:17:26.7]

MR: This is an interesting situation isn't it? It is kind of unusual. So I guess what I am thinking is there is a big unknown here with the rental. The rental is owned by the husband with an uncle, which is a little bit of an unknown, a little bit of I would say a little bit of risk, however it's cash flow neutral. So it is not bothering me necessarily, it is just hanging out. So for me what I would do is I would lean toward focusing on the personal mortgage first.

Your primary residence, I divided that by six, it's roughly $50,000 a year. So in six years, if you want to start helping kids with college in six years, you would be paying off the mortgage at a rate of about $50,000 per year, which on your income is technically doable. It is tight but it is doable so that could be a route to go. Now here is what else I'm going to do as it is probably not what is realistic here and probably not what Nelly wants to do.

But you know I am going to probably unload the rental. It doesn't sound very useful to my situation. Maybe there is some equity, maybe we can sell to the uncle and just get out or maybe sell the whole thing and take the proceeds. If it is possible to cash out equity in that rental, what I am going to consider is cash out the rental, cleanup my life by getting that out of the picture, get that risk, get that complexity out of the picture.

Take the equity from it, throw it the personal mortgage and then get closer to paying it off and then potentially in six or seven years, you are mortgage free and can really do a lot of good towards helping your kids with college, which is your goal here. So that is one scenario I would strongly consider.

[0:18:59.8]

FT: I think that is brilliant. I think that is a really great plan. It does obviously depend on what kind of equity we're talking about in that rental property but you're right. It seems like it is a neutral cash flow but then I don't know, are we factoring in the taxes? Are we factoring in the maintenance as well because this could actually be a negative?

[0:19:20.8]

MR: Yeah it's possible. Yeah we don't know a lot of details here so a rental can seem cash flow neutral on the surface until something breaks or it sits vacant for three months and then suddenly you've got issues.

[0:19:30.8]

FT: Yeah and you got to pay taxes on the income and then the other thing is that I am going to guess that depending of course when this was – when they have created this mortgage but the interest rate on second homes is typically higher than primary. So if this is even the more expensive debt, yeah I'd say think about selling it even to either the uncle or just putting it on the market and parting ways with it because –

[0:19:57.6]

MR: Yeah, it is just cleaner that way.

[0:19:58.8]

FT: Yeah, you could probably do more with the equity and in this case if they do want to aggressively pay down their mortgage there is no better way than having a lump sum to be aggressive about any financial goal. Okay, next question here is from Brianna. Brianna says, "I've recently discovered your podcast and I've binged on every episode since and I realized I need to start taking control of my finances."

Well, I am so glad that you had that breakthrough. This is really great. I love hearing this Brianna. She says, "I graduated with a business degree and around $50,000 student loan debt. Since then I have been working retail management jobs making $35,000 a year at most." She's gotten married, two kids, they have accumulated even more debt. Currently not including the mortgage, she and her husband have around $75,000 in debt.

The majority of that is her student loans. Her husband makes three times as much as she does so around I guess a $100,000 a year and he has an awesome retirement package. She has about $5,300 sitting in a traditional IRA. "I am wondering what is the best option for this money right now it is just sitting and being charged $25 a year." So this traditional IRA we should mention, she converted after she left a job where she had a 401(k).

Converted that into an IRA, which you can do, but it sounds like the bank is charging her $25 a year for maintenance. So wants to ask us I guess how to take control of her debt and it just seems like they need a break. I am kind of stuck on this only earning $35,000 a year. How about you Michael? I feel like that was the big wait a minute for me.

[0:21:45.8]

MR: Yeah, for me with a business degree, I would want to look to increase my income. I would be focusing on that part among other things but I would really want to focus on that. If I were sitting down with Brianna, I would say, “Hey, let us talk about how do we get your income higher.”

[0:21:57.8]

FT: Yeah, if you took out $50,000 to get the degree I would want you to make at least $50,000 in the early years of being in the workforce. The potential is really there for her maybe it means switching industries, maybe getting out of retail and going into another industry or looking to become more of a manager in those positions because you have a business degree and that is worth something and I think if you even maybe took some online courses.

If you feel a little bit more education to get to those positions I think it is worth the investment because to me it just sounds like your worth it and you should be making more. It is not going to be a quick fix, obviously they’ve got some other more urgent things they want to take care off like the debt and you know I guess she wants to figure out what to do with her retirement account, any advice around that? It seems like $25 a year isn’t crazy high but is there a way to even avoid that.

[0:22:55.6]

MR: So part of what I try to be good at is to read between the lines on what is happening here and without more details, it is a little bit tricky but what I am seeing and hearing here is I hear a lot of default kind of language meaning the IRA was automatically put there when I left the job from an old 401(k) and so what most people do with our 401(k) and I don't know if this is true for Brianna or not but they take the default investments.

Maybe it is a target date fund or something and then when it goes into an IRA, it was automatically put there, which kind of tells me that it sounds to me like the language being used implies sort of a hands off approach to what happened so far. So that tells me that it may not be invested terribly appropriately for Brianna. So what I am going to suggest is I would encourage you to take a look at it and intentionally chose the investments you wanted it in.

Do a risk profile, talk to an adviser, at least do some research, figure out what investments makes sense from you from the younger side you know probably pick equities for the most part, maybe even an index fund something that is a little more reasonable when you actually make it a conscious decision as oppose to just automatically letting it just sit there by default. So I am going to do that. The fees aren't outrageous.

I mean you could definitely get that $25 a year gone but it is not outrageous. So I'd be more concerned about the investment itself. So that is kind of what I would do with that is put it into an account that you have made an intentional choice perhaps with some help.

[0:24:17.4]

FT: Yeah and actually start re-contributing — if possible.

[0:24:20.0]

MR: Yeah, if it is possible. I think it is tied to income though and I know that we talked about that already and from what I understand, retail management is the compensation tends to be lower than in other industries and so I like what you said Farnoosh about let us explore other industries. Let us explore you know maybe even being, yeah tech or being flexible and maybe a project management in a software company.

Or maybe something using a business degree is so flexible, you can do so much with it. You can do project management, you can customer service, you can do sales, you can do all sorts of things and so there are lots of other industries out there that I think your business degree might be really well suited for.

[0:24:55.4]

FT: And I am just going to throw this out there because I just interviewed her on my podcast. It is going to air let's see, ooh, well it actually aired Wednesday. I am looking at my calendar now. Check out, I know you have been binge listening to the podcast but if you want to fast forward a little bit and just go to episode 958 with Samantha Ettus. She started a company called Park Place Payments and it is really designed to support educated parents.

Who perhaps have children at home, they have taken time off the workforce, they want to get back in but they don't want to go back in this rigid corporate environment where they have to be accountable 10 hours a day. They get home late, it is not really a suitable for their demands given their demands at home and so she's created a model where you can actually work as an account executive in the credit card processing industry.

And work with local businesses in your town, kind of design your own hours too and I would imagine it pays a lot more than $35,000 if you really want to take it by the reigns and that is the beauty of it too is I think you make as much as you put into it. It is really merit based — so check it out and if you want there is a $100 coupon for the training that you can get online to apply for this position and I think the code is "Farnoosh."

So go to parkplacepayments.com and check that out, just throwing it out there. I have no idea if you are interested in this but this is the sort of stuff that I think is out there a lot of times we just don't know. We are used to working in a one particular industry. We only know one way of working, we assume everything is like this, we assume everyone pays $35,000. Not true, I think you have a lot of potential out there.

[0:26:46.8]

MR: Agreed.

[0:26:47.8]

FT: So thank you Brianna. Thank you for joining the podcast and being so dedicated to listening. Michael, what are your plans for the holidays? Can you believe we are already in November?

[0:26:58.4]

MR: I know, it's crazy. We have, my four year old has been living his best life this Halloween. We've had a great time, he dressed up as Miles Morales, Spider Man from Into the Spider verse and he wore it like 10 times at so many different Halloween events and we've been having a blast. So when you have kids the holidays is just fun. So we had a lot of fun with that doing a little bit of traveling as well but just getting together with family. So what about you?

[0:27:22.7]

FT: You basically took the words out of my mouth because my five year old was also Miles Morales, he was also – I mean I am terrible like I really give into the creative desires of my kids. He wanted to be Miles Morales and then he turned around and he goes I want to be a Transformer and then I want to be Woody and so we have a lot of costumes that we've been doing a lot of costume changes throughout the month of October.

[0:27:49.2]

MR: There is nothing wrong with that, yeah.

[0:27:50.6]

FT: Halloween for us actually starts around October 15th where we got to get the costumes early and then he can't wait to wear them.

[0:28:00.2]

MR: Yeah, the whole month of October is Halloween as far as I am concerned.

[0:28:02.3]

FT: And four or five years old is peak Halloween. I think I don't know, maybe it just gets more dramatic over the years but it is always something we look forward to. One thing I forgot to do while I have you is you know I have been offering these free 15 minute money sessions with listeners who leave iTunes reviews and maybe this is something you can start offering on your podcast. It is a great way to really get in touch really in touch with your listeners.

Because what is more in touch than a voice to voice phone call, which I mean when is the last time you got a voice to voice phone call? I am all about text and it is funny I communicate on like Facebook messenger more than I probably call people.

[0:28:40.6]

MR: Oh I still like talking in real time. I talk to people on the phone via Zoom, yeah Zoom.

[0:28:45.7]

FT: Well good for you for doing that. It is really special you know even considering where we are today in the world of technology and we've lost that human element in so many ways but I've been offering these free 15 minute money sessions once a week, I pick somebody from the iTunes review section. My goal when I started this many, many weeks and months ago was to get to a thousand reviews and guess where we're at?

[0:29:08.8]

MR: Probably a thousand reviews?

[0:29:11.3]

FT: 999.

[0:29:13.5]

MR: Close enough, close enough — one more.

[0:29:14.7]

FT: Maybe by the time this airs it will be a thousand but I am not going to stop. I am going to keep going because I really do enjoy hearing from everybody and I am sorry I can't do it with everybody but this week, we are going to announce a winner as we do every week. We have been doing this for quite some time. Alexandra Stockwell, she left a review on October 23rd, five stars, she calls us the podcast for smart woman who haven't always made smart choices.

And I don't want to keep – these kind of make me uncomfortable reading out loud so I am just going to stop there and just be so grateful for Alexandra because she goes on with the most generous review but really, this is more for me to give back. So Alexandra, get in touch please. Email me at farnoosh@farnoosh.tv. Let me know that I read your review and we will get a time on the calendar to connect and talk more about how I can help you.

And I am offering this again every week. So if you are so inclined to leave a review, now is a better time than any because you might actually get a chance to get some personal one on one help from me and if you don't feel like it, no problem. Please keep your questions coming, anonymously if you want. I am here for you and Michael, thank you for being here for us. I really appreciate you and want to remind everyone to go back and check out your podcast.

Your website by the way is elevationfinancial.com. Your podcast is Wealth Redefined. Thank you for your work.

[0:30:36.0]

MR: Yeah, thank you Farnoosh. Great being here as always.

[END]