EPISODE 980

[ASK FARNOOSH]

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FT: Welcome back to So Money, everybody. It's Friday, December 20th, 2019. I'm your host, Farnoosh Torabi, thanks for joining me. Rounding out the year here, we've got just a less than two weeks till the end of 2019. Officially 2020 begins in just 11 days and to fill the time because I want to really end with a bang here, going back in time and putting together some really interesting episodes. Some of the best conversations on this podcast from 2019. We've got some themed episodes next week and the following week. Putting together some of the most interesting conversations and discussions around various things like money and relationships, financial comebacks and also some of just my favorite, most inspirational discussions. Guests that have really stopped me in my tracks because of what they said or the perspectives that they shared. And I think it's important to reflect from time to time, right? What is life if there is no reflection?

And so that is my gift to you. My end of your gift to you. It's a tradition around here like to do these sort of yearend wraps, where we take from some of the best of the year and it's also an opportunity for you if you're new to the show and you're not sure where to begin or which shows to go back and listen to, this might give you some — might give you some inspiration and some guidance as you go back and try to listen to fuller episodes.

All right, this is going to be our last draw from the iTunes Review section for 2019. As you know, for several months now — I've been heading up the iTunes Review section to locate, identify and celebrate people like you who have left reviews and choosing one person from the review section to receive a free 15 minute money session with me, and I'm gonna take some pause after this, but start this back again in the new year and just keep the tradition going. I really like connecting with you one-on-one over the phone keeps me grounded like knowing what's on your money mind like hearing from you. And of course, I don't mind the reviews — so keep those coming. But today we're going to say Thank you to Jwrend, J-W-R-E-N-D, who left review back in November November 16th, 2019, says Thank you — five stars. Jwrend says, "My husband handles the finances, but with me turning 50 this year, I figured it was time that I started to learn more. I can listen to your podcasts and feel like, Wow, I know a little more now I'm on my way."

This is really nice. Thank you for this feedback, and it's really a testament to the fact that it's never too late to take more ownership of your financial life and I think it's fine that in some marriages, some relationships there's gonna be that one person, the one partner that does take more ownership of the finances, but it is important if you're not that partner that you're still involved, that you're still "in the know." And sometimes it does take personal initiatives. So I really commend you jwrend, for taking the lead. And hopefully listening to this podcast has given you some of the confidence. And, you know, some of the resources and the community to feel like you're not alone.

So would love to connect with you and see how things are going. To get in touch, you can direct message me on Instagram or just follow me @FarnooshTorabi. Send me a direct message. Let me know that you left the review. I'll send a link where we can find a time to talk. Or you can email me, farnoosh@farnoosh.tv, in the subject, just because I get so many emails, put a little note that says, "Left you a review on iTunes," and then I will shoot back an email with that link and we will sink up hopefully sooner than later.

Okay. Are you ready to answer some money questions? I am, Instagram was full of them and we have a question here first from Meghan. Here's what she says. Meghan says I'm a registered nurse who is starting a mobile in home ivy hydration business in Portland, Oregon. The financial backer is asking how I want to be paid, splitting profits or a salary, and by splitting profits, when there are profits, it would come down to 51% the backer 49% me. She says, it could also be a salary option where I'm making a low salary and then partial profit sharing.

Currently, Megan says, I work part time at a hospital, and eventually I want to leave this position. With profit sharing, I'd be putting in the sweat equity for free. But with the salary, there will be less tolerance for slow business, as this would greatly increase overhead costs. What would you suggest? She adds that part time she brings in about $53,000 gross. So this is a really interesting crossroads that you're at. But firstly, congratulations on one, coming up with a great business and having the gauls to go forward with it. Finding a partner, a backer to help you bring this to a life, that's great. I hope you're celebrating. So this is a little bit of a leap, right, because you don't know how the business is going to do would be a bummer if you took the salary and then it really skyrocketed in the first year and you missed out on some of that equity.

I kind of like the combination. You know me, I like a little bit of both, right? If anyone asks me, should I get out of debt first or try to save first, I'm like, let's assess the situation. Can you do both? At the same time, it might take you a little bit longer to achieve both of the goals, but least there's some satisfaction in knowing that you're hitting both of these buckets. In this case, yeah, I would like to learn more about what a scenario where you are earning a smaller salary plus equity would look like. The good news is you have a salary. You have $53,000 a year. You plan to work at this job — eventually leave with the hopes that you can leave sooner than later. Because this business does take off. You don't know that's the risk, right? You don't know if this is gonna take a year or could take five years. And how long will you be needing to bring home a full time income?

I think that it is important for you to have equity in this business because it's your business, you started it. It would be such a shame to sort of give it up at this point, so early on. It's unlikely for, I think, for founders to give up complete control of their businesses in year one. So holding on to at least half of a stake 50/50 or 49% and then making you know something that you feel good about that would compensate you for that sweat equity. So if you are gonna be putting in, you know, 10 hours a week or 20 hours a week for this for the startup, realistically, it's probably like all your time, right? But if you could put a number to that, what would make you feel good? So this is the negotiation really — if you're at a negotiation phase, I don't think that this financier, this person, this partner would expect for you to just come up with a decision right away — that there should be a discussion. So I think if I were you, I'd like to go in and learn a little bit more about okay, well, what would a scenario look like, where I have equity and I'm making some money?

Something that is consistent and predictable. Maybe it's a fraction of what the salary would be, but in lieu of the full salary, you get to have a stake still in the company. But really, this is exciting. I think this is fantastic. And, I want it to as a sidebar — have you go and check out if you get, if you have Netflix — so, Jerry Seinfeld does these comedians in cars getting coffee, and he recently did one with the star of Portlandia, Fred Armisen. They talk about some of the nuances that are so special and what makes Portland unique. Go back and watch that, because I thought it was really funny. And you might not think it's funny because I also hear that people who live in Portland hate that show. So I apologize in advance. But I thought it was interesting, Fred was describing the small business culture in Portland being such that — well, it's sort of unique to Portland that you can come up with a very specific business, and it will thrive. All this to say that Portland is fertile ground for small businesses, and I wish you the best. But just for some comic relief, check out that interview. I think Fred Armisen's really, really funny. Even if you don't like Portlandia, I think he's pretty funny guy.

Okay, moving on to our friend Christina, who is a longtime reader. She's got a question about real estate, and she knows that I'm in the process of selling. Correct. We are in contract now, so cross our fingers that we go to closing on a timely basis. How do you decide how much to spend on your primary residence? She says, “We bought our first home in 2017 which was great for our little family. We have two kids, ages three and five. However, as they get bigger, I'm drawn to buying a bigger house with a bigger yard. We put in an offer yesterday, and I'm stressing over whether buying a new house is the right thing to do. We live in a high cost of living area, so price points are high. On paper, we can afford it but I have gotten used to living way below our incomes, so this feels extravagant and risky. On the other hand, my kids will only be home for the next 15 years. Life is short and I want to enjoy our home. Any thoughts? Thanks so much in advance, Christina.”

Christina, I can relate a lot to you. So our kids are five and two and we live in an apartment. It's fine for now, but I'm always thinking ahead. I do think there is some value in forecasting what is likely going to be your future and making some changes now so that you don't feel like you're kind of making this 9-1-1 emergency step. At the point where the house has really gotten too small, you're at each other's necks and throats. You may have a different financial circumstance. You're thinking, “Ah, two years ago, I could have more comfortably afforded a bigger place, but I wasn't accounting for this change, and here we are.” So I do think there's a lot of value in having foresight, knowing what your goals are and planning for that. I've had a lot of realistic experts on the show to be able to now believe, I didn't always believe this, but I I am confirming now because I've just heard it from so many real estate agents who, by the way, may not be incentivized to give this advice. It's a little counterintuitive to how they operate, which is commissions and selling and selling it now. But they say, you know, move when it's right for you not because the market is right, not because it's a buyer's market, but if you just — if you think that this is where your life is going, that you want this for your family as it grows that you're gonna want more space, you're going to want more yard space. You're going to want a neighborhood with a better public schools or whatever it is — that it is always wise to make a decision based on exclusively what you want, and you obviously do the math, figure it out.

So that brings us to your big question, which is how much do I pay? I can speak generally, and I'll can also give a personal anecdote. So generally, the rule of thumb and this is anyone out there listening — who's interested in renting or buying that your housing costs should not exceed more than 28 - 30% of your gross pay. So if you make $100,000 a year, that's $28 grand a year on housing, divided by 12, is $2,300 a month. If you live in a high cost of living city, you might want to add another $500 to that another $500 - $1000 to that because that's just your reality. But then you got to find how to make up for that elsewhere in your budget.

So when you moved into this home in 2017, your salaries may have been less, your housing costs may have been even lower than 28% of your combined incomes. Now, if you were to do the math, how much are you making today? You know, combine your incomes, multiply that by a factor of 0.28, what does that get you annually? What does that get you monthly? And that, I would say, is the most you would want to spend on your mortgage every single month. And then you can reverse engineer that to see okay, what kind of loan amount are we talking about? And, I think that's where you would feel kind of quote - unquote in the safe zone. How do you justify this while you have to look at all of your other expenses and maybe what would you save to buy moving?

You know, we're moving out of the state. We're moving to New Jersey, and we know that there we can bank on better public schools. Here we are, footing private tuition. So we won't have that expense when we go to the suburbs. And you better believe, I'm factoring that into our savings and the ROI of moving. And then I'm justifying paying a little bit more for housing while we're out there, because not just because I'm not paying for school, but because we are also going to increase our living space, which is important to us. You know, we wanna have room for everybody. We wanna have a family come over. We want to be able to have a little bit of a yard so that we don't feel so trapped. A lot of that does weigh on our stress levels. We have learned, and we think that it will have a huge payoff.

And I hear what you're saying. You know, you wanna have a good life, you want to enjoy your life. You want to feel fulfilled. You don’t want you want to feel trapped, your home — is where the heart is, as they say, but it's also like the center of where a lot of your happiness, conversely, your stress, can stem from. If you're not happy at home than it could have a domino effect on other aspects of your life. But you have to still be smart about it, right? You don't want to go overboard. My husband and I are really being careful about how much we spend when we go out into the suburbs because it's tempting. You can see bigger houses and oh, well, you know we can justify this. We could, theoretically, pay for this. But do we want to? Because there are other things that we want afford, right? We want to still go on vacation. We want to still be able to save more for retirement. We want to get really aggressive with actually saving for retirement over the next 10 years. So the money that we're not spending on education, for example, we're going to try to put more of that in the market.

So those kinds of conversations you have to have with your partner, thinking about what are the trade offs? Where can you find savings and how can you actually put that savings to work. And what will maybe spending more result in? What will that yield? If it's happiness, I think that's worth something. And look, when your kids are in college, moved out of the house, you can always downsize, then two and go back to living a little bit more below your means because you don't need all the overhead. You know you don't really need the backyard anymore, or you don't need the four bedrooms because your kids are out of the house. You can go back to a two bedroom or one bedroom. So things to think about, that this could just also be a temporary shift. As your family is growing in, the needs of your family are changing. So I really appreciate this question. It does hit home for me, and I'd love to know where you guys end up let me know if you need more help along the way.

We have a question from Danielle, who is a Penn State alum. Fellow Penn State alum. Hey, Danielle, she says. I would love to come on your show and discuss how people can go to graduate school for free. I got my Master's and PhD paid for by the school. I'd love to share with people how they can get their advanced degree paid for. I'm only 31 and I have information to share with undergrad students as well. Danielle, this is your invitation to So Money, and I would love to learn about your tricks and how you got both a Master's and a PhD paid for. You know, before I read this thoroughly, I thought you were asking a question about how to pay for

Master's and, you know, a PhD for free. I didn't realize you were the one that had all the answers, so I was prepared to give some answers to the audience. But I think I'm gonna wait until you come on this show and we can talk all about it. And if anyone wants to know right now how to pay for higher ed. I've got a few ideas. I mean, just generally speaking, applying for scholarships, right? Applying for grants, applying for scholarships. Talking to your employer because sometimes employers may not give a full ride, but they do do tuition reimbursement. So would that help to supplement some of the cost? Could you do that while living at home, while working, and then through that, effectively pay your way through college without at least coming home with any debt and not just college, but we're talking about master's programs here. PhD programs.

Sometimes schools will also offer work study programs. You can work at the university while going to complete your education. That again doesn't always come with a full ride, but you hear often about so many millions of dollars worth of scholarship money that goes on unawarded. So we've had many — we've had a number of people come on the show not to talk specifically about this, but through the conversations we've discovered that they did go to college for free, or they got their Master's for free because they widely applied for scholarships. Some would say it's just a numbers game, you know, once you kind of fill out one application you can copy paste a lot of other applications for free money. And if you make that your mission, if you dedicate time and resources to doing that, it would likely lead to some free money. Maybe not a full ride, but some free money — but I'll take some free money than no free money. Danielle, thanks for bringing this up. And we would love to have you on the show. I'm going to get in touch with you and we'll have you on So Money in the new year. Thanks so much.

A question here from Jeanne Paulette or Jean Paulette — I'm going go with the French version because you've got a Paulette in your name. Jean Paulette. "Hey, Farnoosh, my dad created savings bonds for my brother and me when we were in elementary and high school. A few of the bonds are fully mature and the others will fully mature in the next 10 years. What should I do with the fully matured bonds? Should I just withdraw all of the bonds and invest it elsewhere? Thanks for all you do!"

Well, really, this is your call. I think whatever you want to do with this money is right. If you want to use it to invest in something else, maybe a little bit more aggressive, because bonds, we know they probably don't have a huge ROI, but if you do feel like maybe your retirement portfolio is a little underfunded — this would be a great place to transfer the money. And assuming you don't want to touch this money for many years to come, if you have more immediate needs for this money, I wouldn't invest it. If you want to use this to, say, buy a house in the next couple of years, buy a car, go back to school, start a business. This is where I would not put the money in the market, instead, I would put it in something a lot more liquid and safe, like an online checking account or a very low term CD six months, a year.

Yields on CDs aren't too bad right now. You know, interest rates are dropping, but you can get a pretty decent ROI, I think I mean what's decent, but I think 2% is something to write home about considering you know where we've been. 2% on a one year CD is better than just leaving it in your bank account, earning nothing, especially if you don't need this money for the next 12 months. So I think it really comes down to one, what your goals are and two, what is the timeline of those goals? If it is that you don't need this money for the next 20 years, 10, 20, 30 years, sure, put it in an index fund. Put it in your IRA, put it for retirement. If it's something that you want more short term for a goal that is more in the next zero to five years that I would say park it somewhere safe and liquid, FDIC insured and then use it at your discretion. Whatever you want and good on your dad for creating these bonds. That's super cool. Free money, right?

And that's a wrap, my friends, thank you so much to our listeners for their great questions. I hope that was helpful to you and everybody listening. I hope the end of the year is treating everybody well. It’s been a pretty crazy week. I won't lie. Lots to do as we head into the holiday week and we're also going to be traveling over New Year's. So had to really just get all my assignments finished before today, and I made it! I hope you enjoy the upcoming episodes that I especially planned for you, these nice little patchworks of episodes, of excerpts, that I thought were extra special in 2019. And after that, we'll see you right back here in the New Year. See next year, everybody. And in the meantime, I hope your weekend is So Money.

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