BONUS EPISODE

[ASK FARNOOSH]

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FT: Surprise, we have a bonus So Money today. It's Ask Farnoosh with our special guest, Joe Benvenuto from Charles Schwab. As many of you know, I'm working with Charles Schwab to help spread financial literacy to the masses and it's been a really great collaboration so far. I'm a Charles Schwab customer and I have been for many years.

Before we get started, I just want to thank Charles Schwab for helping get this financial education content to you. Our special cohost is Joe Benvenuto, he's a chartered financial analyst and he manages two of Schwab's branches in the bay area. He has been with Schwab for almost four years and he's been in the financial services industry for more than 10 years.

He served as an infantry officer in the United States army from 2002 to 2007. He also got his bachelor's degree from West Point Military Academy and his MBA from New York University and so really excited to share the stage with Joe, go through your money questions, we have questions here about investing for retirement. About affording an MBA which Joe knows all about and much more.

Here we go, here's Ask Farnoosh with Joe Benvenuto.

[INTERVIEW]

[0:01:48.6]

FT: Joe Benvenuto, welcome to So Money, very excited to have a partner in crime for this questions, a lot of important money questions you want to answer, really grateful to have you join us as someone who is an expert in personal finance.

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JB: Well, thank you so much Farnoosh, I'm really excited to join you here today.

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FT: Joe, tell me a little bit about what you do at Charles Schwab. I understand you are branch manager, you're also a chartered financial analyst. Did you grow up thinking this was going to be the space you wanted to get in to? Were you always interested in finance?

[0:02:23.9]

JB: No, not at all. Actually, I grew up wanting to be in the army. Wanted to be an army officer, career army officer and that's where I started my career, was actually in the military for five years. I went to WestPoint Military Academy and then graduated and then immediately became an army officer.

Actually where the passion for finance came from was my second tour in Iraq, there's this book about owning your financial freedom and we were all saving a lot of money overseas because you have very few things to spend your money on and I was reading through this book I thought wow, this is really interesting stuff, it's like, investing in ETF's, exchange rate funds and mutual funds.

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FT: Was it Jeff Rose who wrote the book? Do you remember the author?

[0:03:16.0]

JB: I can't remember. I think it's – is it Dave Ramsey, *Total Money Makeover*? I believe?

[0:03:22.7]

FT: Okay, yeah, perhaps. Jeff Rose is another author who has been on the podcast, is from a military and you wrote a book for his former military compadre just because to your point, there's a lot of unique circumstances that people in the military have when it comes to money.

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JB: Right. Yeah, I'm pretty sure this was Dave Ramsey but it was the idea of like savings and you know, owning your financial future and getting out of debt and those sorts of things. That really inspired me and definitely shaped my career. For me, the logical step leaving the military was to pursue a future in finance and yes, I've been in the financial services industry for the last 10 years.

Currently working at Charles Schwab as a branch manager. My job here is to lead 30 financial planners and operations personnel and conducting financial planning with our clients here. That's our most important thing we do here in the branches. Yeah, I absolutely love what I'm doing.

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FT: Going back a step. Talking about the unique circumstances that military and ex-military individuals have when it comes to money. What do you – besides of course the fact that you're not spending a lot when you're in the military. I would also say, there are a lot of families, militaries members who have family members back home. You know, sometimes the income doesn't go very far, maybe they have or they have a parent at home working and it's a lot of struggles sometimes.

What are some of the other unique challenges you find for those individuals and maybe some resources or solutions that you've discovered that would help them?

[0:05:12.1]

JB: Right. I think there are two things. First thing is budgeting, you know, savings and then spending instead of buying, impulse buying on credit card, accruing high interest rate debt, you know that's the really the first key and you know, here at Charles Schwab, we have four fundamentals for savings and it can definitely – we have those resources online at schwab.com but the other thing is impulse buying.

For a lot of our military, they've been deployed overseas. When you're away overseas for six months, sometimes a year, sometimes a year and a half, the first thing you want to come home to is just do an impulse buy and reward yourself for all the hard work.

That's not always the best decision. I think that's why the army bought a lot of those books from Dave Ramsey is really to curb that impulse and to use this money that sometimes, generally, tax free. To use towards the savings ad longer term smart purchases like funding at an education, paying for child that goes to school or even buying a house.

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FT: Well, this is all really helpful and I'm sure you're going to have much more to provide us as we get through these questions. We pulled people from Instagram and my website and we've got a bunch of good questions here. The first one is from Christopher and he's a young guy, 23 years old, recently graduated undergrad. Congratulations Christopher.

He is – has always been interested in making smart personal financial decisions which is pretty exceptional. When you were 23, when I was 23, I wasn't really in that headspace.

[0:07:09.2]

JB: No.

[0:07:11.3]

FT: He goes on. He says, "I've managed to land a job at Stanford, doing clinical research in dermatology." Also fantastic. He says, "The pay isn't bad, it's about $59,000 with full benefits, good vacation plan, good retirement plan. He is beginning a retirement account along with a few investments."

Now, Stanford he says, does not contribute to the right retirement account unless you work there for a year. He's figuring that a Roth would be the obvious choice for the time being. But, he also wants to go to medical school and so he's thinking of maybe putting some of that money that he would otherwise invest into a high interest savings account or a fund so that he can go to medical school and come out with less debt.

If we were in his position, what would we recommend, you know, tough because it's true that medical school is extremely expensive unless you qualify for a scholarship or grants or some sort of more affordable track but I've had a lot of post-doctoral, post medical school doctors on the show and it's a lot of years of saving and over working to be able to pay down to sometimes 200, $300,000 in medical school debt.

I get where he's coming from but I think you're going to give them a little bit of unconventional advice maybe here. Take it away.

[0:08:40.8]

JB: Yeah, right. I know exactly what it's like to take on those debts. I attended NYU Stern, MBA program full time. Yup, I leveraged –

[0:08:52.8]

FT: Say no more.

[0:08:56.0]

JB: The way I paid for it is I leveraged a mix of savings and students loan to help finance my education. Also, with any of these programs, there are scholarships and grants that are out there so Christopher, I highly encourage you to leverage those as well if you can.

Back to your question about your first year, the retirement savings is not yet an offered in a 403(b). yes, I highly recommend you start putting away for your savings because you know, when you look at retirement, in your 20s is exactly the right time to start to prioritize both the retirement and your savings. The longer you invest and the longer that your money is put to work, the higher the outcome.

There's this thing called compounding growth. When you're investing or savings, the interest you earn each year on whatever your savings, is added to your principle. That balance just doesn't grow. They grow it in increasing rate. Really important kind of fundamental rule that two always preach to our clients is the value of compounding.

Starting early and starting to save for both your retirement and your medical school is really important to start now.

[0:10:27.7]

FT: He also mentioned maybe investing in a Roth IRA which might not be a bad idea as we know, the Roth IRA, you can fund that with post tax income and remember, Roth is flexible in its use, right? He can save for the attention of saving in a Roth for retirement but if let's say, I don't know, for some reason, he needs to pull out his contributions, part of that for purposes of fueling his student loans. I know it's not ideal but it can –

That is something that the Roth can do for him in the event that he wants to take the money out without penalty.

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JB: Right, that's correct.

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FT: I really appreciate your advice about picking a school that ultimately choosing the medical school path, that is the best ROI. Whether that's getting your dream school which may be expensive but you've got scholarships, grants, work study, all that stuff. If it's maybe not your first choice school but it's a free ride, that's something you got to think about, really think hard about that.

[0:11:33.2]

JB: Yeah, absolutely. But, you know, the value of the education. My cousin, he also had that interesting kind of situation, either go into Stanford MBA but have to pay for it or another college on the east coast for an MBA program full time where the full ride.

There is that choice that you need to make, either the top MBA or top medical school in the country and having to pay for it where you look at the ROI over the entire life. Because there's only one, you only go to medical school once. If you're able to get into that top program and you can see the value of the rest of your life, that's a decision you have to make.

[0:12:19.8]

FT: Yeah, I would also recommend Christopher that you go back and you listen to some of my episodes where I've talked to for example doctors Dee and Rene Darko, sorry, Nii and Rene Darko. They're a married couple, both went to medical school and got their MBA's and really worked hard to pay down $600,000 in total student loan debt.

That's an extreme but I think that it's good to hear their story just to kind of hear what it's like to walk out of programs like medical school with a lot of debt. Good luck to you Christopher and great job so far. He's on such a great track and I feel very far – It feels like he's really ahead of the – as I say, the financial eight ball so many millennials come out of school with.

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JB: Absolutely. At 23, thinking through this, that's absolutely amazing.

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FT: Yeah, it’s fantastic. All right, next question is Charlie and he says that his coworker is about to receive a large sum of money from a lawsuit. He’s asking this question for a friend I guess. He says, "I don’t know the details but I recommended for her to invest that money, unfortunately," he says, "I don’t know anything about investing but it was the first thing that came to mind." I love that he’s concerned about windfall.

Just thinking out loud here. Any tips he says, "What advice can I share with her so she doesn’t burn through her money? Would really like to guide her, super awesome person." That’s so sweet. It’s really sweet that he’s looking out for her. Windfalls, I mean, this is the sort of thing where you really, I almost say, don’t do anything for the first month because it’s very easy to emotionally do something irrational.

I often ask this question on my podcast, you know, what would you do if you won the lottery and I really appreciate when some guest are like, I would do nothing. At least for the first year, right? Just catch up to the – the adrenaline can kind of die down a little bit and then I can maybe make some moves with some clarity but what would you say to our friend here who is generously concerned for his colleague?

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JB: Yeah. You hit it right in the head initially is first of all, Charlie, tell your coworker to slow down, you know? At the first rush of excitement, you know, it’s really easy to burn through that windfall, expensive car, fancy new clothes or extremely expensive trip.

Even I, went through something similar but not necessarily win fall. We were provided an extremely low rate unsecured loan in college and my first instinct is to buy a Harley Davidson motorcycle. I actually loved that bike. It was an awesome bike and a few of my friends took it a little more easy and they started investing in some tech stocks especially this online book retailer called Amazon. So I do have a few regrets there so.

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FT: Oh my gosh.

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JB: So yeah, this is what 20 years ago. So like I said, first thing just take it easy slow down. Also, while she is thinking things through, I recommend that she puts her money somewhere safe like a money market account. At least for a few months while she explores her options. So that is definitely the next step and next, she's got to figure out how to pay her taxes. Now you receive a million dollars that is great but sources like illegal settlement. Or any kind of work related bonus or short term capital gains, they're taxed at like ordinary income tax rate which kind of pop out at 40%.

So I recommend that she works with our accountants and figures out how much she needed to set aside to cover that win fall because trust me, come April she does not want to be looking to pay Uncle Sam because that could be a significant amount of money right there.

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FT: Yeah, so well her friend here, Charlie, I think it sounds like he wants to ultimately get her to invest some of that money. You are recommending some steps before that, which is one just set aside maybe, I don't know, 30% of it or more but depending on her tax rate for the ultimate tax penalty. She has to pay taxes on this then you know maybe putting the rest in "safer investment vehicles" or even just plain old vanilla saving vehicles.

I mean I would look at also, you know in everyone's financial plan there is some basics right? If they want to cover rainy day savings, they want to make sure they are paying off their debt. They want to make sure at least high interest debt that they've also perhaps started on some consistent retirement strategy.

So I would also say that Charlie just add to what you have said Joe is just ask your friend, are there any holes in your financial plan that need filling, right? If you don't have an emergency fund, if you haven't started investing for retirement. If you have some credit card debt, I think those things also in addition to the taxes it is a great opportunity. Now you got a windfall kind of fill that, fill those buckets immediately.

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JB: Nope, absolutely I totally agree and especially when it comes to that, we are in the Bay Area, it is very, very expensive to live here. A lot of individuals out here carry some credit card debt. Some of those credit card debts kept out of 15, 18% pays those things off first that's definitely should be a part of the plan but getting back to Charlie's questions talking about actual investing, once she fills all the gaps in her finances, we have several investing principles.

And the very, very first one is establish a plan. She definitely needs to think through and writes down our goals and knows what she's investing for if that is something that she does pursue. Also we don't recommend just putting all the money into one particular stock. So she should build a diversified portfolio that is all based on how much risk she can handle. So there is so many different asset classes out there.

But the two primary ones are that stocks and bonds and they behave differently. So they definitely need to – we definitely have to figure out a mix based at her risk tolerance and her goals.

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FT: And I love that you also encouraged her. I mean we were talking earlier about this before we were taping but treating herself right? Like okay, so you have done all of the important responsible boring things first, good job and if you've got some money left over then enjoy it. You've earned it.

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JB: Absolutely, we highly encourage that. Just don't go overboard.

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FT: Yeah within reason, exactly.

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JB: Within reason, yes.

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FT: Okay, awesome. Okay so next question here also along the lines of investing this person wants to know, AG wants to know, "How useful will the auditory balance feature be on my 401(k) fund in terms of managing my 401(k) funds. Should I use the auditory feature, is it helpful?"

I am going to say yes to this.

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JB: Yes I agree and it is one of our seven investing principles. So for getting to rebalance your 401(k) you are in a boat in a river and you are letting the currents steer your boat. You are going to end off off-course if you are not using your steering wheel. So if you want to keep your portfolio lines with your goals and risk tolerance, letting ethic lessons drift can definitely expose your portfolio to level all risk. It can feel uncomfortable and cause you to make some real knee jerk and potential cost of decisions.

So I was thinking through this and we look through a hypothetical portfolio that was 60% stocks and 40% bonds 10 years ago. If you look at it now because of this drift, now we are up to 83% stocks and 17% bonds without rebalancing. Think about all that risk that you pick because you are just letting it. You are not managing your 401(k) and rebalancing your funds. So my long winded answer is yes. Definitely that auto rebalance feature is super useful.

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FT: And the auto is the key right because left to our own volition, even if you know the good practice of going in there and trying to re-allocate your portfolio on your own, who has the time? Really, I mean I can think of a million other things I'd rather do.

[0:21:28.7]

JB: Absolutely and you know we try to look at it every six months and look at the rebalance but you know we are almost halfway through the year right now. So if anybody hasn't done the rebalancing that we should or use this auto rebalancing feature because the market has been moving in different directions and you definitely want to make sure you are back on track. So yeah, AG definitely use the feature.

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FT: Awesome, last question here from Katelyn and she is going to be pursuing her CFP, certified financial planner education, congratulations Katelyn and she wanted to know what are the best loan options for this. She needs about $3,500, she had great credit so would it be better to put it on a no-interest credit card? So not talking tens of thousands of dollars here. There are definitely credit cards out there where she could open up say zero percent balance transfer card.

And you know put this on there for a minimum of – I think a maximum of 12 or 15 months, Chase slate for example has a card like that at zero percent interest. The trick here is that you got to pay it off by that term limit before the interest rate increases and then you are back to almost using an old credit card with a high interest rate.

So if she can commit to paying it down within that time frame, I would say that kind of a card could be good. It could be better than say a card that has an interest rate month to month but what do you think?

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JB: Yeah, so you hit it on the head. As long as you can pay it off before the offer ends that makes sense but once that rate kicks in, that rate can go up to 15 even 25% and that could really make it difficult to pay down that loan even if it is $3,500. So there is also other options depending on if she can get a student loan for this. If she works in the financial services firm. Oftentimes the firm offers some type of payment for education.

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FT: Reimbursement.

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JB: Reimbursement, yeah absolutely. Also that is free money right there from the employer. Also 3500, we don't want a letter removed from motivation for pursuing this of course but as you see wait a little bit and save up for the 3500, she can pay cash for it but I like that she is going to going to pursue this. I did the charter financial analyst damnation, the CPA designations. I paid for both of those and I definitely recommend those investments of both time and money in those. So kudos to her.

[0:24:24.7]

FT: Yeah, kudos and I will say personally speaking, I am embarrassed to say I pursued the CFP and never finished it. I was over extending myself. I was pregnant, launching a book, running a business and oh, maybe I will pursue this CFP and so I bought the course. I bought all the books and of course the books are collecting dust now but the real reason I want to tell you this story is not to discourage you but to say that sometimes you may be able to find discounted books for the course online.

Because like someone like me, I ended up donating the books but maybe you can go get these books for a fraction of the price online which could help to save for the expense of this course and then also shop around for this course because I looked at different ways of doing this, they were on strictly online programs. There was the option of going to a class every week plus an online component and so the prices are different for these different tracks.

So you could probably just see also what else is out there. There is not only one price to pay for this. I don't remember what I end up paying, I think it was around $3,500 but it might even be less because it was strictly online. So maybe just also keep looking and seeing if you can find something a little bit more affordable but I like your idea of just saving up for it. If this is something that you don't have to do immediately, the CFP test is multiple times a year.

So it is flexible as far as I understand it is pretty much learn as you go sort of thing and if you wanted to take the test next year, you could slowly start to take the course later this year and that could buy you time to shore up the money to pay for at least half of this without getting too far into debt.

All right, how did you do your CFP Joe? You have a CFA.

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JB: CFA and a CPA.

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FT: And a CPA.

[0:26:25.0]

JB: And so I was a little partial funding through my employer and then partially I paid for myself. Like a lot of other candidates of the CFA, I didn't make it through the first time all the way through. So unfortunately the employer only covers the first time go. So I had to pay for it out of pocket but again, it was an investment in the future and definitely not like paying for a very pricey MBA program or medical school.

But it is worth it in the long run for my perspective to go through this, the curriculum that the CFP, the CFA or CPA has and then as long as you meet the requirements of continuing education that is a designation you keep forever.

[0:27:14.8]

FT: Yeah and then one last, last thing I want to say is I remember when I had a financial planner and I would go into her office there wasn't a member of her staff who was a junior analyst there who was getting his CFP on the job. So that is another path and maybe you have already considered this but you could transition your job first if you are somewhere where they are not going to pay for this sort of vacation.

Go work somewhere where they would on the job the training but also an opportunity to get this reimburse and then maybe go back to this employer and continue to work there and that is a very specific strategy and maybe you don't have a lot of options that way but just another thing that I know that I have seen and I have witnessed. So good luck to you and thank you for your question. Joe it was so nice to hang out with you on the podcast.

[0:28:09.4]

JB: Yeah, same here. Thank you so much Farnoosh for having me on here today.

[0:28:14.4]

FT: Absolutely and thank you for all the resources. Everybody listening to learn more about Schwab and how to work with them, head over to schwab.com/somoney. I am a customer of Schwab so I am a big fan. The company offers a range of services for people looking to invest and plan for their future whether you want to invest on your own with the help of do it yourself tools and educational resources.

Get some periodic guidance from a professional or work with someone in a branch. You can get it all at schwab.com/somoney.

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