

EPISODE 677

[ASK FARNOOSH]

[0:00:36.9]

FT: Hilary Hendershot, welcome back to Ask Farnoosh. Happy New Year.

[0:00:41.6]

HH: I love this show, I love that I'm back, and happy New Year to you.

[0:00:45.6]

FT: You're family as well. Your daughter is 1-1/2, 18 months and we were just talking everybody before we were recording how much we love being the mothers to daughters. I say this also as a mother to a son. I love my son, but very special about being a mom to a young girl and also given what's happening in the world. I was watching the Golden Globes last night with Oprah and her speech and I just kind of made everything seemed like everything is going to be okay.

[0:01:18.3]

HH: It's the dawn of a new era for women.

[0:01:20.8]

FT: It is. It's a privilege to be able to raise young girls in this era and hopefully they won't have any of the adversity that we're grappling with today.

[0:01:33.5]

HH: I sure hope not.

[0:01:34.7]

FT: Yeah. What was the thing you just taught your daughter to say when Matt's her age?

[0:01:39.5]

HH: Well, I felt like — She's 18 months old. So saying she's one-year-old isn't sufficient, because I feel like parents are so specific, "She's 19 months. She's 20 months." So I taught her to stay —

[0:01:47.7]

FT: 20 weeks.

[0:01:48.8]

HH: I know. I taught her to say 1.5. I asked her, "How old are you, Harlyn." She says, "1.5."

[0:01:55.5]

FT: I love that. What's her name, Harlyn?

[0:01:58.9]

HH: It's H-A-R-L-Y-N.

[0:02:01.5]

FT: Lovely. I've never heard that before, and I'm glad I didn't hear it before I had my daughter. I would have named her that. That's so beautiful.

[0:02:08.1]

HH: Just stolen it.

[0:02:08.9]

FT: I would have stolen it. But Colette and Harlyn will meet one day and it'll be —

[0:02:13.4]

HH: I hope so.

[0:02:14.0]

FT: It'd be a great meeting of the minds. All right, so I know that you have a very special event happening this month that I want you to tell us about, because it's happening soon and we want to get people attending if it's a right fit for them.

[0:02:29.1]

HH: Thank you. I believe a week from the day you're listening today, on January —

[0:02:34.0]

FT: Today is the 12th. Right.

[0:02:34.9]

HH: On January 19th in San Jose, California, if you happen to be on the West Coast. I am hosting a one day wealth building workshop. This is just for the ladies. So it's for women, and the reason, Farnoosh, is because whenever I stand up in a group of women and I say, "Hey, do remember the last time you had a really great conversation with your girlfriends about money?" You could literally hear a pin drop," because it isn't happening.

So I created this really intimate, I'm only selling 55 tickets. I've only got about 10 left, event for the ladies so that we can cover a framework that I call The Seven Steps to Wealth. So we'll start with your mindset and give you a chance to just look at how is money gone for you up to now. What are you committed to out of that? What are some of the mistakes you might have made? Some of the things you want to leave in the past, because we tend to drag those forward and then really declare how money is going to go for you in the future, and then from there we'll go on to some really practical steps. Everything from the difference between a Roth IRA in a traditional IRA and how to save and how to think about progressing your career, but all the way to that framework, the seven steps to wealth.

The most important thing, what we find that women mostly want, is to connect with other like-minded women. So where are the women who really want to talk about money, and you're going to know that these women are going to have your back, and then you're going to leave with a custom wealth plan. So we're going to fill out this actual document. It's a physical document with numbers. I have my whole team there to support you, and you'll figure out what actual numbers in your bank accounts it's going to take to get you on track this year and keep you there.

[0:04:17.5]

FT: Easy peasy. I love it.

[0:04:18.7]

HH: Yup. Let me give the information page, at profitbosslive.com. So it's just profitbosslive.com.

[0:04:27.0]

FT: All right. Actually I was talking to another busy working mom the other day and she said, "I love money. I love making it. I don't mind managing it, but I'm busy and I need to be able to manage my money in between and on my phone and whenever it's accessible to me. This idea of being able to like sit down for three hours on a Sunday. I appreciate that, but I just can't do it."

However, I think with going to your retreat, it kind of gives you kind of the — Gets the engines going and kind of identifies all the things that you need to do, plus you have the community, which is so valuable.

[0:05:05.3]

HH: There's so much momentum, right? I think that's what women do best. We get together in circles and communities and meet ups and we make things happen, and it's powerful. I know I have powerful business masterminds, and so I created this to be a powerful wealth mastermind.

[0:05:21.0]

FT: Just to remind our listeners about you, Hilary, although you've been a guest on the show many times, that if you're catching so money for the first time, you're adding it to your new year podcast regiment and you're not familiar with Hilary Hendershot. She's the founder of Hilary Hendershot Wealth Management, your base physically in the Bay Area, but you have a lot of presence online. You have a podcast, Profit Boss Radio, and we're just really, really fortunate to be able to call you a friend of the show.

[0:05:51.8]

HH: Thanks. I'm fortunate to be able to call myself a friend of the So Money Podcast.

[0:05:55.6]

FT: A friend of Farnoosh and a So Money friend. Yes, absolutely.

[0:05:59.1]

HH: FOF.

[0:06:00.2]

FT: FOF, I like that. We have a number of questions, Hilary, from listeners that you could probably tease some of the stuff that you'll teach even more at the workshop, but there are questions about retirement. There are questions about just investing, basic investing. So let's start with — Her name is — I don't know if it's a he or she, but V. It's just "V". It's fine to be anonymous. I don't mind. The question is that I am a new listener. This person loves the down to earth advice and real advice, down to earth-ness and real advice. Has two daughters, 12 and 14. How do I teach them to invest?

[0:06:48.2]

HH: She's forward thinking, isn't — I'm assuming V is a woman. I don't know.

[0:06:51.0]

FT: Yeah. I'm like, "This has to be a woman." Who are we kidding?

[0:06:53.7]

HH: What man would ask that?

[0:06:57.2]

FT: [inaudible 0:06:56.8] for two daughter. No. Yes, we don't know, but we are bias.

[0:07:03.2]

HH: I think that's really forward thinking. I think it's great that that would get asked at the daughters' ages of 12 and 14.

[0:07:09.6]

FT: Absolutely. Really, the goal, I don't think is to really get them investing necessarily, but to introduce some of the principles and benefits of investing. A lot of people on this show come on

and they say, “One of the things they wish they learned when they were younger were just the basics; compound interest. How the stock market operates? What is a stock? What our shares? How do we value stock? How do we invest? The how to is more important than the here’s how you do it. Here’s like money to go and do it.

Although there are a lot of programs, software, apps out there that can allow you to play around without any risk, simulations, things like that, but I think —

[0:07:57.1]

HH: It’s good to have skin in the game, right?

[0:07:58.9]

FT: A little bit. Sure.

[0:08:00.0]

HH: A little bit.

[0:08:00.6]

FT: A little bit. Maybe a little birthday money.

[0:08:03.4]

HH: Right. It’s going to be hard to teach her daughters to invest if you haven’t taught them about money, and so when I talk about teaching kids to invest, I always say the first thing to teach them is trade-offs. They have to understand, you can have this or that, but not both, depending on how much money is in the pool. So if they’ve got, that kind of basic, “Okay. I get that. Money is a scarce resource.” I mean, wealth in the world is infinite, but money in my personal ecosystem is a scarce resource, and so then they sort of start to think, “Okay. More is better.”

I think I wrote down, just to instill the idea that investing is for girls. Investing is for women, because I don't know if they've got the message that investing is for boys, but that's still pretty prevalent out there. It's not disappeared at anyway. I think that you could sit down at your monthly family money meeting and show them the investment statements. You could keep a little keep a little bar chart or keep a record of where the investment statements are over time so they can see it's up some months and down some months, but mostly, hopefully you've got a good investment portfolio and it's up more than it's down.

[0:09:15.5]

FT: Right. Sometimes the best stock advice, the kind of buy-and-hold stock advice is choose the stocks that you — The companies that believe in, that you really are a consumer of and you believe in, and maybe pick a few, like you mentioned, and track them as a family once a week, every day, however you want to. Download the appropriate apps to be able to follow the stock prices. I think that what sticks more at this stage, and really at any life stage, are stories as supposed to numbers.

[0:09:47.8]

HH: Exactly.

[0:09:48.3]

FT: Understanding how this company got built. What is the mission of this company? How do they make their money? Who works here? Do we know anybody who works in this company? To create a fabric of stories and application around what is otherwise a very hard to decipher thing, it's not a very tangible thing. Stocks, what are they? A 12 years old, even as an adult sometimes, you're like, "It's so abstract."

To create stories. I remember David Bock came on the show way back when and he remembered his Bock and how she took him to McDonald's and she said to David, "David, there are two types of people in the world. There are the people who eat at McDonald's and then

there are the people who are invested in McDonald's." There are more than those two types of people in the world, but she was simplifying it. I think he was like six.

[0:10:38.7]

HH: He told that story on my show too.

[0:10:40.8]

FT: He did? Okay, so clearly it's a story that he likes that stuff —

[0:10:45.0]

HH: Tells that to all the ladies.

[0:10:46.6]

FT: It's his icebreaker. It's, again, these stories. I have a friend, Susan Beacham, who runs Money Savvy Generation. I'll give her organization a plug. She's invented the Money Savvy Pig, where it has those slots. You can save your money, you can spend it, donate or invest. When she first launched her company, her nonprofit and her company, she took — I think it was a bunch of first-graders to a McDonald's shareholders meeting, and then took them to McDonald's afterwards for lunch and they kind of got to see like the inside and outside of how a company operates. Those kids, 20 years later, remember that experience.

Creating experiences and telling stories around the stocks that you choose will become a more lasting experience for them in memory, and I think when they're older it will become less of a scary thing or less of a foreign thing to them, that they'll will feel a lot more able to do approach investing with confidence and with comfort.

[0:11:49.8]

HH: Sure, and they'll have attained that thing they call unconscious competence. Their friends will be spending all their money on makeup and they'll be checking their stock portfolio. So, kudos to you.

[0:12:02.8]

FT: Yeah. Thank you V for your question, and please let us know how things shape out.

Moses wants to know, does closing a checking or a savings bank account impact your credit score? He wants to know because he's thinking of switching to a bank that has no fees or minimum balance requirement. The short answer is no, right?

[0:12:23.5]

HH: No, it doesn't. Not at all. I wanted to kind of address something he said. He asked because he wants to switch to a bank with no fees or minimum balance requirement. Okay, so go ahead and close whatever bank account you want to close, except for there is no such thing as free. If you go to a bank that doesn't charge fees in the account, you're getting charged somewhere. You just don't know about it.

For me, banking services have value. I'm okay to pay for value. I think it's odd that millennials, some millennials I talk to want to go to a custodian that charges zero fees, where you only get to access your money on your mobile device. That you don't even get a web portal, and it's like that's your money. Go ahead and pick an institution that has longevity, that charges small fees.

I mean, again, it's a for-profit business, so they're making their money somewhere and it's probably in whatever money market fund, or wherever they're putting your money is, charging you fees that are not transparent to you. So that's kind of what I picked up from what Moses asked.

[0:13:32.0]

FT: That's a really, really good point. Yeah, always check for those potential hidden fees. But one thing I will say is that if he has any credit cards attached to this bank. Let's say along the way he closes his checking and savings account and then maybe inadvertently closes a credit card account, because it was affiliated with this bank. That could impact your credit score, just to clarify. Just because we know that when you close a credit card, there is the potential for you to lose that access to credit, that history as well, and those are all good ingredients for a healthy credit score, having longevity in the account.

[0:14:12.1]

HH: I think the common rule of thumb is creditors want to see you having 3 to 5 open lines of credit.

[0:14:18.6]

FT: All right. Yeah, that's a good point. I didn't know the number attached to that, but you heard it here. Hilary [inaudible 0:14:25.1].

[0:14:26.7]

HH: I used to sell mortgage loans. So I've seen hundreds of credit reports. Back in the day, that was the magic number. I haven't done that for a decade or more, so it could be different, but that's what I know.

[0:14:39.7]

FT: Yeah, things take a while to change.

[0:14:42.4]

HH: I know.

[0:14:45.5]

FT: All right. Mel is wondering, should — Again, I don't know if this is a woman or a man. Mel could be —

[0:14:45.5]

HH: Mel or Melanie.

[0:14:53.0]

FT: Mel or Melanie. Is a Roth IRA or 457B, government deferred compensation plan better for a 27-year-old who's just starting to save for retirement? I'm going to go with the Roth IRA.

[0:15:07.9]

HH: 457B is in large part just like a 401(k). Deferred comp plan, you're not going to get matching inside it. It is attached to a government institution. So if you're working for a for-profit company, you're going to get a 401(k). If you're working for a government institution, you might get a 457B. From a tax perspective, it works just like the 401(k), and so the net answer to that is the Roth IRA is better for you if your taxes are higher in retirement, and the 457 is better for you if your taxes are lower in retirement than they are now in the year when you deferred the compensation.

I think that's something that even a lot of financial advisors really don't understand, is that in a parity for purity tax environment, the Roth IRA and the 401(k) accounts, traditional IRA accounts, are the same. There's no net benefit. It's just that a lot of people think taxes are going up, and so — Actually, this year taxes —

[0:16:08.1]

FT: I wish they are.

[0:16:09.9]

HH: Well, most marginal tax brackets went down. Where we lost is the mortgage interest deductions, state income tax deductions.

[0:16:15.9]

FT: Yeah, you're itemizing. Typically, you're going to have to pay more taxes if you're used [inaudible 0:16:20.5].

[0:16:21.7]

HH: Exactly. That's the answer. I think, Farnoosh, your advice is probably correct, just because there are so much more access to contributing to accounts like a traditional IRA, 401(k), 403(b), 457. Those are all the same. People have so much more access to those accounts versus the Roth. So if you have the ability to contribute to a Roth, go ahead and do it.

[0:16:44.2]

FT: Just to reiterate the other benefits of our Roth IRA, in addition to the fact that it's a tax deferred, you can take your contributions out after you've basically been invested for five years and you won't be penalized for that.

[0:17:04.2]

HH: Yeah, I don't know why that's a benefit, because you've taken the trouble to say it for yourself.

[0:17:09.0]

FT: Here is why, because for example, people who want to save for college, there's the 529, and some people they'll use a Roth IRA, because it's kind of a vehicle that they can use either for retirement or for other big savings goals, like college, whereas the 539 might have more restrictions and that your kid has to go to college, an eligible college, or if your kid gets a

scholarship, what do you do? Then there's the Roth IRA where there's more flexibility. In other words, you can use that money for higher ed, but it doesn't necessarily have to be a traditional college.

[0:17:48.9]

HH: Yeah, I know that the perfect shouldn't be the enemy of the good, but investment strategies for college savings should be very different than investment strategies for retirement. Again, in a perfect world, you would definitely have separate accounts for college savings and retirement savings. But I do know how life goes.

[0:18:07.1]

FT: People like the flexibility. I keep it real here.

[0:18:12.1]

HH: Down to earth-ness.

[0:18:13.4]

FT: It's true. You are absolutely right. It should be a last-ditch effort to remove money from a retirement account for other purposes, but life happens.

[0:18:26.1]

HH: #lifelifehappens.

[0:18:27.3]

FT: Yeah, #lifelifehappens.

Another similar question. Again, this is a retirement question. What are your thoughts in contributing to a 403(b)? This is Jen asking. She says, “My employer also has a 401(k) and I currently contribute 4% of which 3% is matched.” So total 7%. However, she says, “403(b) contributions are not matched. So should I participate?”

I kind of feel like maybe she should go now for some tax diversification in retirement. Like you talked about —

[0:19:04.0]

HH: They're the same.

[0:19:05.6]

FT: What's that?

[0:19:05.8]

HH: A 401(k) and a 403(b) are the same.

[0:19:08.5]

FT: Yeah, they're the same.

[0:19:10.5]

HH: I don't know — She seems to be working for a very interesting organization that offers her a 401(k) and a 403(b), because 401(k)s are for for-profits and 403(b)s are for nonprofit. So I don't know if she's working for a think tank or some kind of — I'm not quite sure. But, 403(b)s can have lower costs, because they are subject to less reporting requirements. So I get to see lots and lots and lots of 401(k) plans and most of them are really, really expensive with crappy investment selection list.

So my basic assumption is always that the 401(k) is really top-heavy and expensive. So if you can save some cost, maybe the 403(b) would be good. Also, some 403(b)s allow you to do catch-up contributions after 15 years of service, whereas in a 401(k) you don't get to do a catch-up contribution till your age 50. So that could be a benefit. It may be better to go with the 403(b), but were you recommending looking at a Roth?

[0:20:10.2]

FT: Only because of the ability to have some tax diversity, tax exposure. Like you mentioned, we don't know if taxes are going up or down, so you arrive at retirement, you got this 401(k) which will be taxed. Those allocations will be taxed, but a Roth wouldn't be. At least you're, in some ways, diversifying your tax exposure.

[0:20:32.0]

HH: Yeah. She didn't say that the Roth was an option, so I assume she makes too much money.

[0:20:37.4]

FT: Okay, so maybe I was just wishful thinking on my part. I was like just creating options for her that probably don't exist. If you do have the opportunity to invest in a the Roth IRA, maybe that could be something to explore. But yeah, I'm also so just confused, because I don't if many companies that would offer both simultaneously.

[0:20:59.0]

HH: She's taking advantage of her match, and it sounds like she has additional savings funds left over. So that's great. I mean I guess given the option, I would go with the 403(b) just because most 403(b)s are less expensive than 401(k)s, but I think you're spot on. If this person were in my office and and her income qualified her to contribute to a Roth, I would definitely steer her that directional.

[0:21:24.5]

FT: What about a brokerage account? Just like going on some automated investment platforms where she can just put some money into a few index funds and pay a smaller management fee than she would've — Maybe a firm. She's just looking for a way to put that money to work.

[0:21:44.5]

HH: Yeah, because she gets to deduct the 403(b) contributions from her income in the year she contributed. That's basically like a 30% net jump over contributing to brokerage account. To put it in a brokerage account, she would have to pay the 25 or 30% net effective tax rate. So it would be like putting \$100 into the 403(b) or \$70 into the brokerage account, and you just have to have so much additional growth to make up for that loss that I would say if you can contribute in a tax-deferred way, that's always preferable.

[0:22:16.6]

FT: All right. Thanks for that advice. Last but not least, Steve have a question not about retirement, but about emergency funds and he has heard the adage that it's important to have a six month emergency account. He says that can be a lot of money. In some cases it could be thousands of dollars, depending on your expenses. So how do you make a six month emergency fund work and that you're leaving the money in there to serve you in the event of a 911, but I guess he just wants to how you get there and how you maintain it.

[0:23:00.1]

HH: How to make it work for you?

[0:23:02.2]

FT: Yeah, how to make it work for you? I'm not really sure what he's asking, to be honest.

[0:23:07.9]

HH: I think he doesn't like letting his money sitting cash and he wants to know if he can make his money make money for him.

[0:23:14.3]

FT: I'm thinking how you can make it work. How do I make it work? You just put the money in the bank account.

[0:23:22.5]

HH: I know.

[0:23:23.5]

FT: Sorry, Steve. That was my goal.

[0:23:24.6]

HH: That's always my reaction when people ask how do you pay off debt? I'm like, "Well, you write a check, you mail it in." No, but he wants to know if he can have his money working for him, and you could consider some CDs. Honestly, interest rates are so low right now. It's almost a moot point.

[0:23:44.1]

FT: Yeah. You don't have a safety — Like you said, compartmentalize. Your strategy for retirement is different than it is for college, which is going to be different for your emergency fund. Your emergency fund is not an investment account. It's not where you're putting money away to be able to gain. The purpose is to have access to cash quickly in the event of an emergency, like your car breaking down, you're losing your job, your roof caves in, whatever, all the above. And so it's not about making money on your money. It's about having your money there to serve you.

[0:24:21.8]

HH: Yeah, I remember when I first — First of all, I don't call mine an emergency fund. I call it a curveball account. I don't choose to have financial emergencies anymore. I had them in the past and they're not fun. When life throws me a curveball, I have my curveball account, and I remember when that dollar amount seemed like a lot of money. I can get the perspective from which he's asking, and I guess Steve my core communication to you is if you've taken the time to save up six months of expenses, kudos to you. Pat yourself on the back.

Then my second message is just there will be a time in your life that that amount of money won't seem like that much. It won't be that big of a deal, because if you're saving that much, now your six-month curveball account is filled. You can focus on other savings goals, your next car, retirement, maybe you have a wedding coming up or you want to pay for a kid to go to college. Those numbers are going to get bigger and bigger and bigger over time and that's just sort of a right of passage financially and it won't — That amount money sitting in cash won't seem like that big of a deal.

But that's the whole thing with a curveball account, is I think Schwab reports that something like 18% of our spending is in lumps, so these big lumps, and you hear people complaining that, "Well, I try to get ahead financially, but life just eats away at it. Here, I need a root canal, and now my brakes are bad," but those aren't emergencies. We know that were going to have to have the brakes done. We just don't know when, so you've got to have enough cash sitting around to handle that so that it doesn't bring you to your financial needs. So kudos to you. You're doing the right thing, and I guess my messages is sooner or later you'll just be really comfortable with that amount in cash.

[0:26:05.7]

FT: I agree. There's nothing like seeing your money pile up and knowing —

[0:26:10.9]

HH: Like scrootch.

[0:26:15.3]

FT: Oh my gosh! My son's favorite character over the holidays, Mr. Grinch.

[0:26:20.7]

HH: Oh, nice!

[0:26:22.5]

FT: He loves the story. The mom that's hoping he's not a Grinch or a terrible person, is that I think he likes the ending, when his heart grew three times bigger and then he goes and sings and eats the — Whatever, all the food.

[0:26:45.8]

HH: Well, I'm turning into the mom that won't let her kid watch the Princess, the Disney princess movies. So I completely get it.

[0:26:52.1]

FT: Oh! I have some months, years before that becomes a crossroad. I don't know. Hopefully by then there'll be some solutions.

[0:27:04.1]

HH: I am in no Frozen. So far we're watching Nemo. We're watching Nemo in my house.

[0:27:07.3]

FT: It's so great. You know what? Frozen is special, I think, because when she is supposed to get that true love's kiss, it's her — Or true loves — I don't know. True love's kiss or something to do with true love. It's the sister bond that saved her life. It's not the dudes. It's not the princess.

[0:27:28.7]

HH: I think so. I can see your perspective.

[0:27:31.9]

FT: I appreciate that. It's a nice tweak.

[0:27:33.2]

HH: The dresses and the helplessness. I prefer strong models.

[0:27:39.2]

FT: Yeah. I mean relatively though, Frozen, I think is better than, say, Rapunzel.

[0:27:43.9]

HH: True. You're 100% on.

[0:27:46.3]

FT: Hilary, you're amazing. Tell us how we can get more of you. Again, remind us about this retreat that's happening later this month.

[0:27:53.2]

HH: Sure. Again, just for the ladies, in San Jose California on Friday, January 19th, 2018. If this is the year you're going to take control of your money, let me walk you through the seven steps

to wealth in a small, intimate setting with just 50 other women, and you can find out more about that at profitbosslive.com. If you have room in your podcast lineup, check me out at Profit Boss Radio, and I'd love to see you there.

[0:28:18.3]

FT: Awesome. Thank you so much, Hilary, and we'll see you on the best. We'll have you back soon.

[0:28:23.6]

HH: Thank you.

[END]