EPISODE 22

[0:00:12] ST: Welcome Nation to the Financial Rockstar Show. I'm your host Scott Alan Turner, ready to help you to get out of debt, save more money and retire early. In this studio with me is producer Katie who only blow dries her hair when she has to. On the show today we'll be answering your question about money, business and life.

If you have a question you like answering on the show, visit Goaskscott.com. Today, we're in part two of the seven part series, the seven deadly sins of financial freedom. Yesterday I talked about my lust for the Bugatti Veyron. The greatest car in the world. Today we're talking about what happens when I eat two pints of Ben and Jerry's ice cream instead of just one — Gluttony.

Have you ever heard of the meat sweats? If not, let me fill you in. In certain big cities, you can find this Brazilian steak houses and their restaurants. The Texas Day Brazil is one Fogo de Chow is another. I love these places, they are my favorite places to eat but I only go there about once a year. One, because they're kind of pricey so it's a special occasion restaurant and two, because of the meat sweats.

Now, at the Brazilian steak houses, the wait staff, they walk around with different selections of meat that they cut off skewers right at your table. Some of these delectable cuts include bacon wrapped fillet, tip top sirloin, lamb chops, sausage. There are about 15 different cuts of delicious meats you can try during dinner and it's all you can eat. All you can eat meat.

It is a carnivore's dream. They also have an incredible salad bar if you're a "vegetiblarian". But when I bring my guests, I tell them, "Do not waste your time on the salad, we're here for the meat." After you eat meat for an hour straight and your pants are about to burst, you head home, it's time for bed and you can't go to sleep because you've eaten so much meat, you now have the meat sweats, you're bloated, you're awake, you're hot.

Your stomach is working so hard to digest all that meat, it's like you ran a marathon. Thus the meat sweats. The same thing happens when we don't have a spending plan, when we use credit cards; over consumption, over spending, not paying attention to what we're buying and impulse buying. You can save hundreds of dollars every month and use it for paying off debt saving for retirement, saving up for a new car, a new vacation, whatever your goals are by becoming a conscious spender.

What's a conscious spender? First, let's consider what an unconscious spender looks like. They have no idea how much to spend each month on stuff. That's simple right? They have more month than money, they live paycheck to paycheck and are constantly wondering why they never get ahead. They get raises, bonuses, tax refunds yet have zero to show for it.

A conscious spender keeps track of the money coming in and where the money is going. They make their spending decisions based on what is and isn't important to them. They might spend a lot on some things and not others but compare that to the unconscious spender who spends everything on everything. At the end of the month they ask themselves, "Where did it all go?" Does that sound familiar?

I know what you're thinking, you can feel it coming. He's going to mention the B word. B-b-b-budget. Nobody likes budgeting. Budgeting sucks. So does working out in my opinion unless it's wake boarding. But I have a spending plan because I like the results. More money to do with what I want, when I want to. Financial freedom.

I would never have been able to save so much without having a spending plan and mine isn't that complex. I don't spend a lot on things that aren't important to me like eating out for lunch. I do spend a lot on things that are important to me like vacations but without tracking how much I spend on the things that aren't important, I would never be able to know if I was spending too much on them.

It's easy for us to cut back our spending on unimportant things right? If you're spending $150 a month on cable and you don't really care if you watch TV or not, does it matter if you have cable? No. There's an opportunity to save almost $2,000 a year by cutting the cable. You might be dropping $800 on eating out, I never bothered to add up the receipts and realize that's where all your money goes.

Now, if you want to spend $800 a month on eating out, hey, great. I can understand wanting a good meal and spending time with friends. Maybe if you saw that total and you weren't aware of what it was, you might find saving for a car or retirement was more important to you than eating out six days a week.

Maybe you want to change that to eating out three times a week or skipping a wine with every meal. It's whatever works for you depending on your priorities but without knowing where the money goes, you can't have a starting point for making those good conscious decisions and not being a glutton at spending.

This isn't about being frugal or cheap. I have a cheap side, I have a frugal side and I have an extravagant spending side. You can't have and should have all three spending traits in your life. Be cheap to get the lowest price possible. Be frugal to save on things that are not priorities in your life. Be extravagant toward yourself and others on things that are most important to you.

There's nothing wrong with being an extravagant giver or an extravagant spender if you can afford it. You can't get there without prioritizing your spending and having a plan on how to spend your money, you can't spend excessively and spend more than you earn and expect to get a hit. Let's look at how we can be frugal with our money.

Number one, have a spending plan. Spending plan is the single biggest factor in reigning in an out of control spending. Number two, purchase what is necessary. Ask yourself if this is something you need or something you just want. Third, avoid waste, purchase only what is necessary and no more for things that are unimportant in your life. Four, spend your money on what you love.

After you've saved money by eliminating expenses and purchases that are not important, spend your excess on things that are important in your life. Remember, you can afford anything. You just can't afford everything. Now on to your questions. David asks,

[0:07:00] D: "I'm about to graduate college and I've never had a credit card. How can I rent an apartment when I have no credit history?"

[0:07:06] ST: Well somebody taught you right, you didn't fall prey to the credit card vultures hanging around campus trying to pick your wallet clean. Kudos to you for making it four years without taking on credit card debt. Renting can be particularly hard if you haven't established your own credit history. Students like yourself, immigrants, people who might have gone through a recent divorce. They can find themselves in this situation.

Landlords might be willing to rent to you if you provide a co-signer on the lease. If you have a parent or a relative that can vouch for you, that's one option. Another option is if you don't have a credit history is landlords might be open to renting to you if you pay the first and last month's rent along with a security deposit. The extra month of rent gives them the warm and fuzzies. If you miss a month's rent, they have an extra payment in the bag.

If you can find a place to help build your credit, there are several companies that when you pay through one of their online platforms, they will report your credit payments on your credit reports. That's one way you can go credit. Clear now is one, William Paid is another and Rent Track I'll put those links in the show notes. Tenants pay through one of those online platforms and then the payments are reported to the credit recording agency. It's a free service. Your rent payment show up like an auto loan or a credit card on your credit report and they help you establish a credit history. Thanks for the question David.

Next question came in during one of my Periscopes. If you're dying to see my ugly mug on video, you can watch my live periscope broadcast and chat with me in real time. Plus sometimes you get to see the cats make an appearance on the video, not so much the dog, he's evil. Occasionally I serenade my guest with a guitar, no, I don't do that. Periscope, look me up so I can meet you and say hello in person. This question was, "Should I take out a 401(k) loan to pay off my credit card debt?" That is a terrible idea. Terrible

It's a common misconception that when you borrow against your 401(k) that is not as bad as getting a regular loan because you're paying yourself back the interest or you're borrowing your own money. You borrow money from your account then you pay back money as a contribution to your 401(k). But it's really a loan payment, you pay back a pretty low interest rate, typically prime plus 1%. Certainly nothing like the 12, 18, 22% you're paying on a credit card.

But there are several reasons not to do this. Financial planners point out that taking money out of your retirement account will make it grow more slowly. Can't argue with that. There's less money to grow, less in retirement. Most people have nothing saved for a retirement and slightly more than that, I have barely enough in the first place.

When you take the money out from your 401(k), it's no longer growing for you when you need it the most, when you're retired and not working. Next, if you're laid off or you quit your job, the entire loan balance is due usually in 60 days. The last thing you need when you've lost your job is a huge loan to pay off. You will leave the company at some point.

You will go get a better job somewhere else or you'll get let go or an asteroid falls on your head. You're not going to be there forever. When you do leave, the 60 day clock starts ticking, what's that look like if you borrow $25,000 from 401(k), then you're let go, you owe that $25,000 in 60 days which you don't have because if you did, you wouldn't have borrowed it to begin with.

If you can't pay back the money it's treated as an early withdrawal. You'll have to pay taxes on a $25,000 and a 10% penalty. That's going to be $8,000 or $9,000 you have to come up with. Guess what? You don't have the money go pay the taxes, you don't have the money to pay the penalty. Because if you did, you wouldn't have had to borrow the money to begin with.

A study by the Pension Research Council found 86% of workers who leave their job with a 401(k) loan balance end up and default. Never ever borrow against your 401(k) to pay down credit card debt. Now, to avoid foreclosure, stay out of bankruptcy, those are a couple of times I might entertain borrowing 401(k) and that's absolute last resort.

You want to stay out of those catastrophic financial situations. Not for consumer debt, you might hear people argue otherwise and they will wow you with their math skills, this is not a math solution. Yes, the math is there for you just looking at the debt part of the equation. You have $50,000 in credit card debt, 18% interest and you can borrow up to $50,000 from 401(k) to pay it off, you're saving 18% interest, right? That is a good thing. And you'll pay back your 401(k) loan in a much lower interest rate.

But a 401(k) is for retirement, don't treat it like your personal bank account. That money is there to compound for years and years, it's to take care of you in retirement so that you don't rely on the imperial federal government to feed you in the golden years or so you have to buy the cheap cat food.

When you borrow from your 401(k), you create a bad habit that it's okay to use this money for emergencies or pay down other debts. You think it's not going to hurt you and you have plenty of years to make it up, it's not the case. If you're 35 years old, you take out a $30,000 loan, you could lose up to half a million dollars in retirement. Half a million dollars because you borrowed $30,000 for a couple of years.

It is a huge cost to borrow from your 401(k). There is a 401(k) borrowing calculator online you can use to see how much it's going to cost you to borrow against your 401(k), I will include that in the show notes to that link. At the end of the day, it doesn't fix the one thing that has to be addressed first. Bad spending habits. Thanks for the question.

If you have a money related question you like answered, please visit goaskscott.com to get in touch with me. That website has my email address, twitter and you can also leave me a voicemail. Please contact me, I am here to help you.

[BREAK]

When you're thinking about investing, what's the deciding factor where you put your money? For most people, it's taking a recommendation from someone they trust or someone they've gotten good advice from in the past on what may be an entirely different topic. We look at the relationship we have with someone first.

Well what should be looking at first? With any place you're considering putting money for retirement, a Roth IRA, an individual brokerage account, Rollover IRA. There is one thing that will have a bigger impact on how well you'll be set for retirement or how many peanut butter and jelly sandwiches you'll be eating and how poor you're going to be. Or if you can retire at all and you'll be working until you die.

What's the one thing? It's the upfront and yearly cost you have to pay for your investments. The upfront cost some companies and brokers will charge you are called commissions. You probably know what a commission is. When a sales person sells you something at the car dealer, clothes if you shop at the mall or investments from a commission based financial adviser or retirement adviser, they get a cut of whatever you buy from them.

Every index fund or mutual fund or mutual fund out there has what's called the expense ratio. It can be small or it can be big. When it gets paid every year, year after year for as long as you're invested. It gets taken out of your investments automatically, you never write a check for it. You don't see it being taken out like social security in your paycheck. It's huge but you never pay attention to it. When you invest in low cost index funds and low cost mutual funds that don't have a big upfront commissions, you're likely to be able to retire years earlier than you would otherwise. Now, back to your questions.

Anton has been out of school for a couple of years and saving for college.

[0:14:58] A: "Will I have better job opportunities if I go to a name brand school and get my degree?

[0:15:04] ST: Get MBA's for it because they are easy to compare even though you're an undergraduate. If you're getting an MBA, you can get a good $15,000 MBA, that's how much my wife Katie paid for hers at Georgia state university. You could also get a $70,000 MBA too. That's not even at a top tier school. Now, I've interviewed over 100 people for IT jobs. Where they got their degree was never as important as, "Hey, do you know your stuff?"

95% of the schools, people had listed on their resume, I had never even heard of. Now that's just me, other people may have a different opinion. Harvard, Yale, MIT, those are prestigious schools with name brand recognition. There are a handful of elite schools, a handful where you can go to school and write your ticket anywhere. Those schools are A, hard to get in to and B, very expensive.

Producer Katie has sent me the US news and world report top business schools. University of Texas, Dallas, which is where we live is $15,000 a year. They are ranked number 33. Ohio State University ranked number 30, $30,000 a year. You pay twice as much money for a school ranked slightly higher and those are in state prices. Out of state prices, those are ridiculous.

Harvard, they're number two on the list, $60,000 a year. Now again, go to Harvard, you can write your ticket anywhere. I personally, I don't believe the people in the HR department are consulting the US news and world report list of top schools when they're sifting through resumes. In fact I bet if you look at Career Builder or Monster.com and the job listings, you won't find any job listings that say, "You must have received your degree from a top 10 school as listed in US news and world reports annual college guide." No.

It's just marketing, not important. The piece of paper's important, the fact that you have the degree. You can't get an interview or can't advance in some career paths without that piece of paper. MBA, again, that's a good example, some jobs require it. How you got it, how long it took, where you got it, nobody really cares 99% of the time.

You'll get asked where you went to school in the interview, why did you pick that school. So you better have good reasons or good answers for those questions. You can say, "I picked the best school I could find at the best price I could afford while I work 40 hours a week." That is a fantastic answer. The piece of paper doesn't even prove you know anything, only that you made it through class.

Now the name brand school, it might prove you no little more, not always. There's this old joke, "What do you call the med school student that passes his exams within 80%?" Doctor, right? Whether he passes with a 100% or passes 80%, you're the doctor. School in the real world, they are completely different, you learn most of what you need to know on the job when you get thrown to the wolves. Piece of paper doesn't prove you a good job. It prove you have some foundational skills. That might come in handy if they get hired.

You get better job opportunities by showing how you add value to the company, how are you going to make them more money, how are you going to save the money. Those things require critical thinking beyond what you'll learn in undergraduate degree. Most of that comes in practicing your craft over time but you can accelerate that while you're the school by doing internships, working on side projects and learning all you can about the industry you're getting in to.

You show up to an interview with some ideas of how you can add to the company's bottom line, you've leap frogged most every other candidate applying. Most people think the degree entitles them to the job, that there was going to be a path to the door and throw money at them and that's not the way it works. If you got a name brand school, that's not how it works. You still have to prove yourself in what you can offer. There are bad candidates from name brand schools just as there are bad candidates from community colleges.

There are also stellar candidates from name brand schools. You can find stellar candidates from community colleges. You can find stellar candidates who have no college degree at all, it's harder to break through if you don't attend college but it's possible. I would save your money and attend a cheaper school, spend more time at figuring out how you can improve yourself outside of school to potential employers, that's time well spent. Thanks for the question Anton.

Richard asks.

[0:19:33] R: "Is it better to have a high or low insurance deductible on a house?"

[0:19:37] ST: Your deductible is how much you pay out of pocket for a claim before your home insurance coverage kicks in. Higher deductible, the less you'll pay and yearly premiums for your insurance. A study by insurancequotes.com found you can save up to 25% on your home owners insurance by raising your home insurance deductible from $500 to a thousand dollars.

25% was a high end and the exact amount varies state to state by the size of your home. On average, the savings were 6% by going from $500 to a thousand dollars, save 20% by going from $500 to $3,000, you save 28% a year by going from $500 to $5,000. No matter what type of insurance you have, the higher deductible, the lower your premium will be.

If you raise your deductible, your payments will be lower, you got to save money but don't raise the deductible beyond what you can pay out of pocket. If you have a $2,500 deductible in your home owner's policy, you best have $2,500 in cash set aside if your house gets flooded by the washing machine. For most people, having a $2,500 or a $5,000 deductible. That would be too much to handle.

Now you might be in the insurance situation right now but if you keep at it in listening to the show, I will get you there and you'll have that money available. If you don't have enough savings, you have to cover a higher deductible. Keep it lowered until you have saved enough in your emergency fund. Until then, you're much better off paying the higher premium.

If you want to save money on your home insurance, make sure you shop around your policy every couple of years. Ensures account earning not being proactive in comparing rates. You would think the best way is go to the oldest and best customers. That is not always the case. They noticed you've been with the company for a while and they figure they can sneak the rates up on you and you're not going to be shopping around.

New customers may get better rates for the same policy. Make sure every couple of years you get at least three home insurance quotes to make sure you're not overpaying. You like your insurer, you can always ask some price match, the quotes that you did find. If they won't do it, leave them. Thanks Richard for the question.

Okay, quick break. Back in 30 seconds and I'll be answering more of your questions, you're listening to Scott Alan Turner.

[BREAK]

[0:21:52] ST: Hey Rockstar Nation, Scott Alan Turner here. Now folks, for those of you that are my long time listeners, you know I'm not one of those guys in the radio who promotes every product that shows up on their desk.

You're never going to hear me try to get you buy wine from Texas, recommending air conditioning service of some company in a city I've never lived in. No, I have a name to uphold to you my valued and awesome listeners. If I were to recommend something to you, I would tell you about Public Bread. If you needed to make a sandwich, bread pudding, stuffing for a turkey, bread crumbs for your parmesan chicken.

What else do we use bread for? Toast. Feeding the ducks, you can't go wrong with public bread. Twice the yeast and half the sugar of normal bread. You can taste the difference, public bread is made by the brotherhood of Millers and the brotherhood uses only the finest flower. True Roman bread for true romans. Available in the bread section of select grocery stores. Tell them Scott Alan Turner sent you.

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[0:23:00] ST: Welcome back everyone. You ever had a situation occur in your life where something bad happened? Job loss? Failed relationship? Financial hit? In months or sometimes years later, you think back and say, that was a tough time but it was the best thing to ever happen to me. I hadn't gotten fired, I would have never landed this dream job. If I haven't gotten fired, I would have never gotten off my butt to start my business.

If that girl or guy hadn't dumped me, I would have never met my current partner. If I hadn't had all that debt, I never would have figured out how to improve my finances and save. That door hadn't shut in my face, bringing me to the lowest point ever in my life, I never would have seen there was another door wide open waiting for me to walk through.

If you hadn't gotten sick or she hadn't gotten sick and been in the hospital for so long, I never would have realized what's truly important in life. Marylyn Monroe once said, "Sometimes good things fall apart so better things can fall together." Those are the words. Tomorrow we continue our series with envy, are you green with envy? I am sometimes.

That's it for this episode, I am your host, Scott Alan Turner, Rock Star Katie is my producer. All the links mentioned in the show are available in the show notes on Scottalanturner.com. Today's episode is powered by Ben and Jerry's ice cream. Thanks for listening.

[0:24:32] ANNOUNCER: You're not alone on your journey, deliver financial rock star life. That's why we put together a free eBook just for you. Go to financialrockstar.club to receive your free guide on how to save $1,000 in one week and start getting out of debt, saving more money and retiring early. See you next time.

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