What You Need To Know To Be A Successful Investor

[0:00:12] ST: Welcome nation to The Financial Rock Star show. I'm your host Scott Alan Turner to help you get out of debt, save more money and retire early. In the studio with me is produce Katie who is always looking for a Sunglasses. On the show today, we'll be answering your questions about money, business and life. If you have a question you like answered on the show, visit Goaskscott.com.

Last time on the show I shared some simple tips to improve your credit score. A good credit score saves you money over your lifetime so it's important to have, looking for an 800 score, check out the last show. Now Nation, I will not teach you what to think, I will teach you how to think, you go figure it out. I'll give you the tools to go and make wise decisions, you need to land on the decision yourself, there are so many important points that are not addressed in what you might be consuming each day.

Ask yourself, "Am I informed? Do I understand the issue? Have you really thought through it?" If the answer is "yes", make your decision, if the answer is "no", keep digging and learn, read, discover, find someone who disagrees with you and take him out to coffee. Get to the point where you can argue both sides of the argument. Ask, "Does this decision get me any closer or further away from my goals or desires?"

Now some of you cringe when I say the word invest. You want to know why people fear investing or why people lose a bunch of money at investing or why many of you will have to work years longer than necessary? It's because we don't follow the number one most important rule of investing: Never invest in something because someone says to you including me that includes your cousin, your coworker, the people next door any investment advisor. Get an education first, gather information, then invest in something you understand.

If you don't understand something, ask someone to explain it to you and if they don't do a good job of explaining it, ask again or go get the information somewhere else. Sometimes when learning personal finance, you come across terms others take for granted like stock, simple terms, or investment. If you don't know what those are or how they work, ask.

I have a one-step solution for you if you want to get started investing. Before I tell you, I have to alleviate any fear you might have in investing. A few episodes back we talked about what the market was, or the stock market, we hear that term thrown around a lot. When you invest in something that tries to mirror what the market is doing, you will get a 10% rate of return over time.

It's been 10% on average over the past 80 years, so that's our benchmark. If you have a 401(k), start by putting one penny of every dollar, 1% of your paycheck in the 401(k). Then you're getting started okay? That's where you put it. Now what do you put it in? Your 401(k) might have 20 different choices in it, we'll keep it simple, get started, pick what's called a target date fund if they're available.

Target date funds, they take the guesswork out of investing and help you keep on track. These funds pick a mixture of investments based on when you will retire as you approach retirement age, the mixture changes to reduce the risk of losing big chunks of money of your investments if the stock market goes way down. They're great to get started, but I don't want you to be in them forever.

They have higher management fees which eat up your investments over the long term. But they're a no brainer to get started because they require no brains. What if you don't have a 401(k), what if you don't have any money? Open a new Roth IRA with Betterment — Betterment.com. Now your Roth IRA is a retirement account you fund with your after tax dollars, your take home pay. The money grows tax free until you withdraw it. Tax free is good.

I have a video on my website, walks you through setting up an account in less than 10 minutes. Betterment, they're a robo-adviser, they pick the right mixture of investment funds for you based on your target date. I refer people to them because the cost are low and you don't have to have any money to open an account and they invest only in funds from the company called Vanguard. Betterment acts like a middleman between you and Vanguard. Again, it's a no brainer, it does not require any brains.

If you don't have a company 401(k) and you have more than a thousand dollars, you might consider opening a Roth IRA directly with Vanguard, you'll save even more money and fees by investing directly with them. But you have to have the initial investment because Vanguard minimums are higher to get started with them. Some are $1,000, some are $2,500, some are more than that. Vanguard, they also have a target retirement funds so that makes it super simple again to get started.

Now there's a common fear people have that keeps them from investing, they worry about losing their money. There are a lot of horror stories you hear about when the stock market crash happens. In that video I talk about investing with Betterment and I started my account with them just this past year as a little side test. I get people emailing me every month, like, "How's your stocks doing? What are your returns?" It doesn't matter, I'm not investing for six months okay?

What you don't hear about when stock markets crash are the investors who keep investing and write out the down term. They turn a losing situation into a winning situation. The best part is, for when you choose any of these investment options I described, you will be a winner. The people who lose all their retirement money, they aren't doing what I just explained. They do silly things like putting all their money in company stock within another 401(k) or trying to time the market or paying huge management fees or big upfront commissions.

Remember, the number one reason people lose their money in the stock market, they don't get an education on how to invest. This is your money, best you learn how to manage it. A few hours a month, discovering more about investing will let you retire a few years early. That's a good investment, that time. Now, no matter what these options you choose, it's five or 10 minutes to get started, just get started with something. You can put $20 in a Betterment account today. Boom. You're an investor. One penny of one dollar in your 401(k), boom, you're an investor, don't wait, procrastination is a retirement killer.

Now, on to your questions, Robbie writes in.

[0:06:55] R: "My girlfriend and I are thinking about getting a house together, what are some suggestions for making this work?"

[0:07:03] ST: 50% of people are living together before they get married and have everyone in their 20's is going to be shacking up, which is much different than what's going on in the past. Now producer Katie always has the show stats. Coldwell Banker, they did a study of their mortgage applications and they found a quarter of people between the ages of 18 and 24 are buying a house together before they get married, that's a lot of you.

Now, the benefits of doing that, obviously you can get more house or get a house at all when you have two incomes on the mortgage application, your ability to get approved goes up. If you have two people each making $30,000 a year, the lenders sees your combined income of $60,000 a year. Whereas if you're trying to go solo and get approved for the same house with a single income of $30,000, you are much less likely to get approved. Depending on how much house you're trying to get, of course.

Now, that's a lifestyle choice if you go that route but you need to be real clear on some things before you start down that road and the cons significantly outweigh the pros. The biggest issue of course, what if you breakup? What if you decide, "This relationship is not quite how I expected it to be. He's an absolute slob, she's a complete jerk to live with, he's always up in my business, she blows all our money on stupid stuff, he blows all his money on stupid stuff."

That's what we call the, oops moment. Oops! That's a big oops because you got two names on the loan. What if he or she stops paying their part of the mortgage and just moves out? Now you've got a really big oops. I've gotten emails before and there are losers out there who will just walk away from the situation without any regard to the repercussions.

One guy, he was married and his ex-wife just said, "Screw the house," and it got foreclosed on, she would not even sign the pay over to let him sell it and she screwed both of their credit scores for seven years by making that decision. Even being married, it is not an insurance policy from that situation from happening but a lot harder to get out of a marriage than to break up and move your stuff out the next day if you're not married.

People do this all the time though, so what's the best plan to avoid the money arguments? First, I would find out how the other person handles their money, are they broke? Is one person going to end up always paying the mortgage bill because the other person blows every dollar they make, figure out the mortgage and utilities and the upkeep are going to be split?

Write it down, talk about it. Say, "Hey, what's going to happen if we decide this wasn't the best decision for us?" And that's a nice way of saying, "What are we going to do if we break up?" When you're dating and you buy a house together, you do, is it a sensible thing to do? Somebody might decide to get a job somewhere else or go to grad school in another state. Travel the world, those are all safe ways of posing the question without tiptoeing around the topic of breaking up.

Figure out, if we don't stay here, who is going to get the house, what if we need to sell the house and take a loss to get rid of the mortgage, who is going to pay the difference? Write it down, repeat what each other said. "What I hear you saying is, if you decide to move to Alaska and become a crab fisherman, we're going to need to sell this house," right? Figure out all those what if scenarios and get on the same page. Talking about it before you make the decision can help you decide if you should make the decision. Thanks for the question Robbie.

Mandy's father in law has been laid off recently and he wants to start his own business. She says:

[0:10:43] M: "My husband and I have scrimped and saved over the years to become debt free, we paid off all our credit cards, our student loans and we've got six months of living expenses saved up. We put away 15% for our retirement and just have a mortgage payment now, we also have a three year old daughter.

My father in-law knows we have done well and he wants to borrow money from us so he can start his business. His idea sounds reasonable and he has a good business plan which he's excited about, should we consider it as an investment opportunity?"

[0:11:11] ST: Now, excitement and good business plans are wonderful but neither guarantees a business is going to make it. Half of all small businesses close their front doors within the first five years, they close their back doors too. Not good odds! Way to start a business is by growing up from a position of strength not a position of weakness. When you have to borrow to start a business, you start from a position of weakness.

It means you can't afford the business. If you have to go into debt to try to get ahead, you are already behind and the numbers favor the business failing. Not only do you start from behind, you finish from behind too with a bunch of debts to pay off and no money to pay them off with. The way your father in law or anyone for that matter should be thinking about starting a business is on a shoestring budget.

He either needs to live off of savings while he grows his business slowly or find another source of income while he grosses his business slowly on the nights and the weekends. This is how you increase your odds of success, this is how you stay out of debt, this is how you build wealth, this is how you preserve the relationships with your family and friends. By not asking them for money.

You don't need to get a loan from your family or the bank to get in to business. If you need that much money for equipment, inventory, product development, you need to save up first so you can pay for it in full. You're not helping him fulfill his dream by becoming a business owner. You're hurting his chances by him not learning how to pinch a penny, save up for things he needs to buy and be smart with money.

With the exception of liquor stores and doctor's offices, every business is susceptible to down turns in the economy by getting started slowly, without debt, it's much more likely to weather an economic store. No, I wouldn't do it, not with a family member. I've had people I know approach me about investing in my business but I stay away from them. It just makes things more complex in both business and with the relationship.

You're always going to be thinking about the money. He's going to go take a Friday off to play golf and you'll be wondering, "Why isn't he working harder? What's he doing with that money? Why did he buy that $500 office desk when he could have gotten one at IKEA for a hundred bucks?" Now, if you have money and you don't mind losing it after you've already putting away 20% for your retirement, you have everything else in play with your finances, I don't object to investing in a high risk business ventures for the fun of it.

As long as that money you're not going to cry about losing because chances are, you're going to lose it, just don't get the firm, smaller amounts are okay, no more than 5% of your net worth if you don't mind losing it. That's 5% total, not 5% per bet. Thanks Mandy for the question.

Roberto says:

[0:13:56] R: "I bought my house with a 10% down payment and I've been paying PMI for the past four years, I have a 30 year mortgage, my house has gone up in value a little bit and I think if I refinance I can get rid of the PMI, I don't have money for the closing costs, what are my options?"

[0:14:12] ST: So PMI, Private Mortgage Insurance, that is 2% of the value of your loan. Now first, you want to check out your credit report for applying for a refinance, make sure that's all cleaned up, there's no errors on it, get a decent credit score. Your lenders are going to rely heavily on your credit score to qualify you in the price on the loan's interest rate.

Get your free credit report, which you're legally entitled to get once a year, check out if there's any errors that you need to correct first. Now you can also pay for your credit score, usually for a fee, it's not super expensive, you might want to check out that and see where you're at. Now what about the term on your re-fi, should you get a 15 or a 20 or a 30 year? I'd go for 15 or 20 year payment rather than 30 year myself.

Getting the shorter term cost more each month because of the reduced timeframe compared to the 30 year term and it's going to save you tens of thousands of dollars in interest over the life of the loan. Now, lenders are going to offer a lower interest rate on the shorter term loan as well, lower upfront cost or points. Now, should you do the 30 year to get rid of a PMI? You know, if the math is in your favor, why not? The caveat, you're going to pay more on the mortgage and more in interest.

You'll probably end up with 26 years left on it so you've got to have that discipline. Should you go for a no cost refinance where you're going to have no out of pocket expenses on a re-fi, your closing cost, you're looking at about $2,500 to $4,000. You can roll that into the loan, it's very easy to see what the payback is going to be on that. If nothing else changes and your PMI is $125 a month or $1,500 a year. If your closing costs are three grand, you roll them up, payback's two years. Simple math. All you gotta do is stay in your house for two years and you'll make that money back. Stay in longer and then you're coming up ahead. Thanks Roberto and good luck.

Alison writes,

[0:16:06] A: "How do I know when to save for a crisis versus paying off debt?"

[0:16:11] ST: Right, so if you try to save for two or three or four or five or 10 things at the same time, you're never going to make a dent in any of them and it's going to take 10 times longer, not two or three to make any progress. If you have debt, the first step is put aside a little bit of money for your cash emergency fund. Maybe a thousand dollars maybe that would work for you.

Some people having a thousand dollars is more than they've ever had but it's important to do this first step because you cannot get out of debt by taking on more debt. You got to put aside the credit cards and if an emergency comes up, you have a little cash on hand to pay for them. Hot water heater's going to break or the car alternator goes out, which has happened to me on the side of the interstate in the middle of the night.

That's where hitchhiking can come in handy if you need to get a ride home. Little Johnny or Suzy gets hurt, those are some medical bills that need to be paid now, those are all urgent needs. So if you've got that little bit of cash lying around, a thousand dollars, it can take care of those minor crisis that pop up without you going into more debt.

Quickest way to come up with that is to sell stuff, pause any type of 401(k) savings or retirement savings you've got going on. If you're still short, pick up a part time job for a few weeks to get to that thousand dollars and when you have that small amount set aside, gives you a little bit of breathing room and reduces your stress level. Once you get your initial emergency fund filled, then you can focus on paying down the consumer debts. The cars, the student loans, the credit card bills, the medical bills.

I have the step by step instructions on the website, "How to get out of debt quickly in four simple steps", that link will be in the show notes. Get those paid down, start saving three to six months of expenses, after that they'd be fully funded emergency fund and you'll be on your merry way to financial freedom. Thanks Alison 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, you can also leave me a voice mail, please contact me, I am here to help you.

[BREAK]

[0:18:14] ST: All right, our next tip is how do you know about pricing your home so that it sells? You're probably working with a real estate agent, here's another tip from my friend Jeff who has sold 400 homes in 11 years. According to statistics, 30% of homes will get sold in their first listing. Now 40% will get sold in their second, third, fourth, fifth or how many listings that they need and 30% go unsold. Now why do they go unsold?

Well, the list price is not in line with what other homes are selling for, you've got to look at home sales in the past 30 days, that's what the mark is willing to pay, if you price your home 5% over, you're not in line with the market, your home is not going to sell, if you price it 5% under, you're more likely to get multiple bidders competing. The price of the home is going to come up to what the market will bear.

If the market is selling homes at $250,000, you can't price your home at $290,000, you're going to be in that 30% unsold category or have to re-list it again. It's overpriced, you can't expect it to sell right? You want to be at or below market value in a short period of time. When you're meeting with your real estate agent, you want to keep that in mind. Now, back to your questions Nation.

Joan asks:

[0:19:35] J: "Where do people get started with paying off debt? I want to start but every time I think about it, I just want to cry. My husband understand when I tell him we don't have money to go out, buy a project car or a boat and various other things that he's been wanting to do. We need to replace a car that was totalled and I don't see us getting financed. We bought one outright but there were too many engine issues. I'm so overwhelmed, I just don't know what to do."

[0:20:01] ST: Now overwhelm is that feeling that there is so much to do and you don't know where to begin. Then we end up staring at the wall and doing nothing because we're overwhelmed. I've been in overwhelm before and it is a crippling feeling. You're right Joan, you will feel like crying. "It seems like there's a thousand things to do, where do I begin?" Let me give you these simple steps to get started.

One, just write down a spending plan, now the reason most people don't know where to get started is because they have no idea where their money is going. Too much month and not enough money. At the end of the month, we throw up our hands and wonder, "What the heck happened? Where did all that money go?" So you gotta write down your plan. Next thing to cut up your credit cards.

You can't get out of debt while taking in more debt. Moving to a cash budget and the envelope system that keeps you from overspending. Even if you're not in debt, the cash budget will help you spend less, spending cash instead of credit has been proven to psychologically cause people to be more aware of their spending thus you spend less. Now with your spending plan laid out, you can figure out how much money to put towards paying out debts each month.

You prioritize your debts either from smallest to largest or from the ones with the highest interest rate to the lowest, whatever method makes the most sense for you. Next you just start paying, you might have 20 different debts, you might have $200,000 of debts and yes it looks daunting, I get emails from people with quarter million, half million dollars worth of debt. Overwhelming, impossible, sad but you can do it! You chip away at the debts little by little, month after month, you will become debt free.

Start with one debt and attack it, then you move on to the next one and slowly but surely you build up momentum until they all get paid off. It's simple, right? Yes, on paper it is, it didn't take you 30 days to get in to debt, it's not going to take you 30 days to get out but you have to create a goal and stick to it that will get you out of debt because if you don't make that a goal, and have a spending plan to achieve it, you will be in debt forever until you die. Choose to be debt free and choose to start today and choose to be rich. It is a choice. Thanks Joan for the question.

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

[BREAK]

[0:22:27] ST: Hi folks, 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 who promotes every product that shows up on their desk. You're never going to hear me try and get you by crochet needles because I don't sow or recommend you buying a pool cleaning service from someone that's never cleaned my pool, if I had a pool.

No, I have a name to uphold to you, my Rock Star listeners but if I were, if I were to recommend something to you, I would tell you about milk. It's delicious, it's nutritious. I have milk every day in the form of yogurt that I make myself from milk. If I'm feeling like a big bowl of cheerios, I don't add water or soda or bear, I add milk! And once a week I'll have a bowl of Ben and Jerry's ice cream which is made with you guessed it, cream, which is a form of milk.

Next time you're buying groceries and you're at the checkout counter, when they ring up the milk, tell the Scott Alan Turner sent you and ask for a discount.

[CONTINUED]

[0:23:23] ST: Welcome back Nation, I got an assignment for you today, it's going to take you 30 seconds and you can do it right now after this show ends. Easy stuff, right? Think back to a time when you grew. I'm not talking as a teenager or if you took a five day cruise to the all you can eat anytime pizza buffet ordering three entrees and five desserts of dinner each night just because you can and doesn't cost any more if you do. Why not? Because all those desserts are awesome, if somebody doesn't eat them, they're just going to go to waste anyway and show up tomorrow morning in the breakfast buffet.

No, we're talking about the kind of growth that at the end of the day before your head hits the pillow, you say to yourself, "I did that. I did that! Pat on the back to me, I did that." The reward of growth is priceless because it's hard to achieve and there are no shortcuts to achieving it. When you challenge yourself to grow just a little each day, you'll find more and more of those priceless moments, it takes a keen awareness of yourself and breaking out of autopilot to get there but if you make that commitment each day, grow thy self, you will see the rewards. Those are the words.

Next time on the show, have you ever gotten sick of calling a company and being transferred around only to be hung up on? Or what about waiting on a hole for 30 minutes on an hour just to speak with someone. I've got the best way to deal with customer no service, guaranteed to save you time and get results. That's it for this episode, I'm your host Scott Alan Turner, Rock star Katie is my producer. All the links mentioned in the show are available on the show notes at Scottalanturner.com. Today's episode is powered by Ben and Jerry's ice cream. Thanks for listening.

[0:25:08] ANNOUNCER: Okay nation, for your free copy of the guide, how to save $1,000 in one week, simply subscribe to the podcast right now on iTunes and text the word "saving" to the number 33444 to prove that you did it. Subscribe now to get out of debt, save more money and retire early. See you next time.

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