# [Bad Investing Ideas And The Oprah Effect](http://scottalanturner.com/show050)

**[0:00:11] ST:** Welcome Nation to the Financial Rockstar Show. I'm your host, Scott Alan Turner ready to help you get out of debt, save more money and retire early. In the studio with me is producer Katie who will always say "yes" to champagne. On the show today, I'm talking about Oprah for a few minutes, then I'll be answering your questions about money business and life.

That was a three minute discussion about if I got the title of this segment right, effect or affect. Now, Katie claimed in an earlier episode to know the difference yet when I asked her when I got it right, effect, she had to Google it. So busted, you madam are a fraud. Moving on, I get a lot of these bonehead investing ideas for you to avoid and there are so many.

So many, I can come up with one every day for at least a couple of days and there's a story behind this but I got only the foundation of what's going on so you can understand the story. We're going to get to Oprah in a minute. Everybody loves Oprah so let's pay attention. You are probably familiar with buying and selling stocks and that's okay.

You buy an individual stock at 100 bucks if a company does well, maybe it goes up to 110, you've made 10 bucks. If a company doesn't do well, it goes down to $90. You've lost $10, simple stuff, right? That's buying and selling stock even if you've never done it, it's kind of a simple math there. Now, there's something out there called shorting a stock.

So if you have never heard of this, a lot of people haven't, I am going to explain it to you so you can understand it. It's interesting stuff. Shorting a stock is gambling that a stock price will go down rather than go up. You think something bad is going to happen so let's consider that same stock again, $100 is it's selling price, you short the stock thinking it's going to go down to $90 and you make money if it does. You're betting the stock goes down.

Why would you want to do this or you can make money? I mean it's allowed. It's legal to do this. If the stock price goes up, you lose money because you've gambled that it's going to go down. So it's going the opposite direction that you want it to, you with me so far? Okay, now unlike a regular stock, if you buy a stock at a $100 bucks and the stock goes down to zero, how much have you lost?

$100 right? That's all you can lose if you are buying individual stock. The company goes bankrupt, you lose your $100, end of story. When you short a stock and the stock price goes up, remember you're counting it to go down but it's going up, there is virtually, technically there is no limit to the amount of losses you can have because you are buying at — you're shorting a stock at a $100.

You think it's going to go down at $90 but if it's going up as you gambled against it, it can go up to $110, $120, $150, $200, $500, a $1,000 there is no ceiling how far that stock can go up. So if you are shorting a stock at $100 price point and then it's up going to a thousand, how much have you lost? You're out $900 because the guy on the phone is going to call you and say, "You know that stock at $1,000 you shorted that you owe us $900."

You only bet a 100 and you're hoping it's going to go down. Now, that's a bad thing to happen because a lot of the times what happens when people are shorting stocks, it doesn't go the way they wanted to and they do this in buying what's called margin which is the equivalent of buying on credit. They are borrowing the money to buy, they don't have the money to do this.

They don't have the money, they've better loaned the money and then that moment comes and somebody calls, "Hey, it's a $1,000, you owe us $900." "Well, I bought on margin, I bought it on credit. I cannot pay you. I don't have the money. I didn't have the money to begin with. I'm going to go and have to declare a bankruptcy and then my house is going to be foreclosed on".

Whatever the case is, you've got to come up with that money because you owe it. People have committed suicide over this stuff when it happens. That's how serious it is. Now we're using a $100 as an example but let's say you're betting bigger, 20, 30, 40, $50,000 on margin and then you lose it all and more. Well, now that you've got your lesson on shorting a stock, not too long ago in comes the Weight Watchers. A company, Weight Watchers.

They hadn't been doing very well. A lot of people were shorting the stock, they are betting that it's going to go down even more because the stock was on decline. So they're betting against Weight Watchers doing well and then here comes Oprah. Now Oprah's got power. Oprah takes a 10% stake in Weight Watchers meaning she buys 10% of the company.

And sadly, the stock sky rockets because everybody is like, "Oprah is getting in. Let's buy stock in Weight Watchers now because Oprah is there. She's got a brand behind it. She's going to turn it around," and all these people who shorted the stock, what do you think happened? The stock price shot up. All these people that shorted it betting it's going to go down, well they lost a pant load of money.

They weren't counting on Oprah to come in and buying a 10% stake in Weight Watchers and turn that stock around. There's a lot more to the story, but don't short a stock. You don't know what's going to happen. It's just another form of gambling. For 99.999999% of people, it just doesn't pay off. It's just is gambling. You could just go to Vegas and betting it all on black, you don't bet against Oprah.

And do you know where all the gamblers are that bought at the peak? Well, they're down the tubes. The stock dropped $5 a share and lost 20% of its value recently so it sounds like a winner to me. I've shorted stocks before in the money moral days. I've never bought on margin though. That I at least, I figured out was too risky. Now onto your questions.

Ayana had a follow question. I gave her my thoughts on paying down some debts and suggested to unload your cars. She had a $1,200 a month in car loans. She writes:

**[0:06:45] A:** "The cars will be hard to off load because their financed. Can I sell them without the titles since the banks still owns them?"

**[0:06:52] ST:** So many people who sell their car do it by posting and add to Craig's List, Facebook, a site like Auto Trader. But if you don't have the title because you finance the car to the bank or credit union, how can you sell the car? Now first, why would you want to sell a car on your own? One reason, you make more money.

If I'm a car dealer or an auto lot, to make money I have to make a profit. I have to sell a car more than I bought it for and I can't sell a car for more than the market value. I'm not going to sell a car worth $10,000 for $25,000 right? Nobody is going to buy it. If the car is worth $10,000, I have to buy it for $9,000 so that I can make a $1,000 profit and I really want to buy it for $8,000 so I can make a $2,000 profit or $1,500 because a buyer may try to negotiate me down to $9,500. Plus there's paperwork, I've got to pay employees and all the other stuff.

You can use Kelly Bluebook, kbb.com to check the value of the car. See what dealers are selling those vehicles for and compare that to what the vehicle is going for on average from private sellers in your zip code. First, you want to figure out what the payoff amount is going to be by calling your bank or credit union. While you're on the phone, ask if there's any special procedures that you're going to need to follow for this transaction.

Ask them for step by step instructions on what the bank wants you to do. You get the details on if the buyer is paying you for the vehicle in full or if the buyer is going to be financing the car. Even before you have a buyer, ask what the procedures are for the two different cases. Buyers, sometimes they can feel uneasy, rightly so.

They are putting a lot of money for the vehicle and they're counting on you to transfer the ownership to them often well after the money has been paid. It takes a lot for that title to transfer if you don't have it in your hands. If the buyer is financing the car, both banks are going to be involved. The buyer's bank is going to pay off the current finance company directly. Then your finance company is going to turn the title over to the new finance company. Once they do that, you're done.

Now, what I recommend, I've done this myself, you do the transaction at your local bank branch or credit union. You can then have the title transferred to your local branch and meet the buyer at the bank after you have done the haggling and negotiating they do and the inspection that they want. You get the payment to pay off the car loan from them at that time, you sign over this title at that time, you hand in the car keys, the sale is complete, you're out from under the car loan, they have the car and you're done.

A little tip here, make sure you meet in the morning or early afternoon not before closing time. When I sold my car, I was scheduled to meet the buyer an hour before the credit union closed. These guys are from out of town, they got stuck in traffic, they showed up five minutes before the credit union closed, I had to beg that teller to log on back into her computer and help us out and thankfully they did or this guy was going to have to get a hotel or something to stay the night and try it again the next day.

It is a little more leg work when you're selling a car and don't have a title but it's not that big of a deal. It's not difficult. It involves a little extra paperwork. A little extra time, people do it every day. You can save big bucks when you sell the car yourself compared to unloading the vehicle at a big car lot or at a dealer. Cars.com has a great resource about selling a car yourself. I will include that link in the show notes. Its step by step instructions, everything you'd expect. How it works, don't be afraid of it. It's easy to do, you'll save money. Thank you Ayana and yeah, good luck selling the car.

Rafael asks:

**[0:10:25] R:** "I know that you push open to invest in index funds. My question is which is more liquid in case of an emergency, an ETF or a regular index fund? I currently have some money invested in the S&P 500 but in case of emergency where I have to take it out which I am planning to hold for a long time, I want to know how liquid it is so if it's not I can switch to an ETF?"

**[0:10:46] ST:** ETF stand for Exchange Rate Funding. Okay, so if you ever listen to talk radio, sometimes you hear a regular caller hop on the line and chat with the host. It's like, "Hey, how's it going?" Rafael is my number one question asker so I appreciate him for all the questions he writes in and he has some good ones, which you should all be doing, sending in questions, ask, ask, ask. That's how we learn and improve.

As long as the fund and shares are regular brokerage account, meaning a non-IRA, liquidity of an ETF and index fund are pretty much the same day. If you sold shares on a mutual fund, the brokerage will sell the shares at the end of the day. The share value will be placed under a cash account at the brokerage.

If you sold shares of an ETF, the brokerage will sell the shares immediately instead of the end of the day and the share value would be placed into a cash account at the brokerage minus the trading commissions. Now, once the money is in cash, your brokerage can transfer to you at your bank. They can send you a check, it depends on what you want to do.

Transfers usually take two to seven days depending on your bank — business days. For emergency funds or short term savings, money you need within the next five years by certainly and regular putting in that money in an online bank rather than the stock market. Emergency happens the day after the stock market drops 25%, well, it wouldn't drop 25% in a day when it's on that but if it dropped 10% of the day, you'd have 10% less money.

They will be able to cover the cost of the emergency. If you are saving for a house down payment, a new car, vacation, you wouldn't want to run the risk of having those savings go down in value while you are saving up. Thanks for the question Rafael, keep them coming.

[BREAK]

**[0:12:35] ST:** We are once again back to LifeLock. LifeLock in the news recently, again, not for good reasons. In 2010, LifeLock settled with the Federal Trade Commission and nearly three dozen state attorney general's over fraudulent advertising and they paid $12 million to settle those charges. Now, the Federal Trade Commission has announced LifeLock will pay a record $100 million to settle a complaint that they did not follow through what they said they were going to do in 2010.

Now, LifeLock released the statement quoting, “Well as part of the settlement, LifeLock neither confirms nor denies the allegations of the parties.” But we’re going to pay the money anyways! That’s my emphasis not theirs. LifeLock charges between 10 and $30 monthly. We don’t care about monthly fees, we care about yearly and lifetime fees. So it’s a $110 to $330 a year for its services depending on what level of services you get. Most recently, LifeLock booked a revenue of $152 million, 64% increase year over year.

Now, I’m going to hop on these types of services until I am blue in the face. Sadly, you have to keep hearing about them. If their revenue increased 64%, the marketers at LifeLock are doing a heck of a job pilfering you out of your hard earned money. Go back to episode 29, listen to that. You want identity theft protection, $30 bucks one time and better protection than what you can get from these services. Now, back to your questions.

Theresa says:

**[0:14:29] T:** “My husband gets a large end of year bonus each year from his job, often it’s in the thousands of dollars, we’re just now getting our spending out of control. We’ve cut up the credit cards and we’re paying down debt. When our next bonus comes in, what is the best thing to do with the money? Pay down more debt or save some of it? In the past, we would spend it all and have nothing to show for it.”

**[0:14:49] ST:** Now, for most people tax returns are the same way. It’s like a bonus that comes in and you end up spending it. All right, you’ve got a bonus let’s say you worked hard, let’s blow no more than 10% of it. You give yourself a little reward at the max end preferably less. Put the other 90% to work for you. You are trying to get out of debt, so for you guys I might say give yourself a $100 buck each to do with whatever you want. Take the rest and pay down those debts.

Some of you are at that thing and, “A $100 bucks, that’s it?” Yeah, that’s it. When you’ve got that debt hanging out there and those high interest payments, that’s costing you money every month, costing a lot of money, hundreds and thousands of dollars in interest payments. You don’t celebrate being in debt, you try to get out of it. It’s going to be hard not to spend it and I recognize that it is easy to say and hard to do.

So write down what your plan is, agree on it when the money comes in, it hits the bank account, send it where it’s supposed to go the same day. Don’t dawdle, don’t mess around, just get rid of it then the temptation won’t be there. You can spend more when you have more. Right now, you have a deficit. Pay it off first, you’d be in a better situation later on.

Kyle from Omaha:

**[0:16:05] K:** “I like your idea of paying cash for a car. What’s the best way to save for one? It seems like too much money to be sitting in a savings account for the amount of time that will take, five to 10 years and I figured the money could be working for me during that time. I’ve already had a car that I’ve had anyway but I realized it won’t last forever.”

**[0:16:21] ST:** You know who else is from Omaha? The Band 311, some of my favorite mosh pit memories from 311 concerns and Green Day but I digress. In some way, the five year number between short and long term savings is arbitrary but here’s the rationale behind it when we say short term savings to be, short term savings should be in savings account and it’s defined as five years or less.

Anything over that is a long term saving. The reason is, the longer the time period, the less chance the market is going to be down. If you’re investing long term, your emergency savings need to be in short term as well when you’re looking at the stock market, the S&P 500 are benchmarked, it’s down one of every three year period approximately. It’s down one out of every seven, five year periods.

So look at any five year period over the past eight years, it's down one of every seven of those and then, if you're looking at a 10 year period, any ten year period over the past 80 years, it's down one out of every 10 of those. One out of every 10, 10 year periods. Sorry for the confusion there.

Now keep in mind, we don't know what's going to happen tomorrow or next year, if you had all your money in the S&P 500 from '06 to '09, remember in '08-'09, the market dropped 50% and you would say "goodbye" to your house down payment and "goodbye" to your car down payment, "goodbye" to your college fund if you have it all in the S&P 500.

Now, if you were split in stocks and bonds in some portion, people in bonds made money during that time. Now, if that sounds overwhelming, stocks and bonds just pick a target date fund. The target date fund we talked about as before, then you don't worry about stocks and bonds just yet, you want to learn that stuff later.

If you have kids, college funds need to be more conservative. You've got zero to 18 years. You don't want to be losing that money as they approach their graduation date from high school. Retirement you can be more aggressive. You've got 30 years to go, more long term. Good investing strategy for the short is to invest in things that have less risk like an online savings account.

Put your cash under your mattress and bury it in the backyard, send me a box of cash and I'll hang on to it for you if you want. You can stick it in an account in the Cayman Islands, those are all low risk. The more important thing is, to hit your savings deadline, the more conservative you should be with where the money is stored to do that.

You don't want to run the risk of losing the amount that you need, that's just as bad as not saving enough. The good news, you control those situations. If you're looking at five to 10 years, you're over the five year mark, we're talking about for short term, I'd probably put in cash depending on the condition of your car when you think you might want it. So thank you for the question.

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

[BREAK]

**[0:19:30] ST:** Hey Nation, Scott Alan Turner here and now for those who are my long term listeners, you know I'm not one of those guys in the radio who promotes every product that shows up on their desk. You'll never going to hear me trying to get you buy enriched white flour, delicious or recommending you buy Windows, blue screen of death. No, I have a name to uphold to you Rockstar Nation.

But if I were, if I were to recommend something to you, I would tell you about Himalayan cats. No other cat requires as much brushing as a Himalayan. You can spend hours of peaceful time brushing, brushing, brushing, brushing your Himalayan cat and with all that extra fur you collect, you can stuff your own pillow saving you money from that expensive down pillow you've been considering. Win-win.

If you can figure out how to spell Himalayan and type it into Google, tell them Scott Alan Turner sent you.

[BREAK]

**[0:20:22] ST:** Welcome back Nation. Eric asks:

**[0:20:25] E:** "I work in a call center business in the Philippines and I'm on an X-pact assignment over here. I signed up for two years and it's now going on six. I'll either be ending my assignment coming up or signing up for another two years. I am scoping out cities and states to live right now. Nashville is leading the pack because of the low cost of living, low tax burden and to be close to my family and Dallas always pops up on my searching as does the entire state of Wyoming. Do you feel it still out ranks these cities in the south?"

**[0:20:57] ST:** So if you're making a big move and can live anywhere, what would you use as the criteria to decide? On a high level, you look at taxes. Your retirement taxes if you are approaching retirement whether that's important to you, you do outdoor activities, you don't like the cold or you prefer the cold. Health care, what's going to be available to you?

If you have children that are going to be going to college, what are the colleges around so that you can pay that in state tuition which is going to be cheaper. Down to the local level, we're going to be looking at the crime in the area. Schools vary, if you have young kids and no kids, who cares. Live where you can be happy or save money or both.

Cost of housing of course is a big issue, if you're going to be buying the house or renting the property taxes. Transportation, you want to look at that. Are you going to go in public transportation or are you going to buy a car and use the highway system? If you're going to buy a car and use the highway system, how is the highway system?

I mean is it the worst traffic in the country or is it got a really good highway system with lots of alternatives. Food, I find that to be important for my personal life. What are the grocery stores in the area, down at the local level? Entertainment, eating out, outdoor activities, if you like to go out to unique bars. If you live in a small town, you may have many less choices.

If you like to ski, you don't move to Florida. If you like to wakeboard, like I do, you don't live anywhere where it's cold nine months out of the year. So it's the little things like that. Now, I would include some of the links to some of the best cities to live in the US but the change every year. US news and world report comes out with an issue on that.

Kiplinger is another one, they always change it up. If the same cities are always on the top, the magazines would have nothing new to talk about right? I've never heard a bad word about Nashville. I lived in Atlanta for 10 years, the National is just north, the weather is comparable. Great sea for music, festivals, outdoor activities, business-friendly.

You mentioned you need access to an airport, I'd avoid Atlanta if that's what you're looking for. Atlanta has terrible traffic too. Nashville has a low cost of living as you mentioned, forget Wyoming. Sorry if you live in Wyoming. Sorry if you're in the government and trying to attract people to Wyoming. My brother and his wife lived there for several years and commented that it's cold, extremely windy, not much to do.

And my brother travelled to far as work and frequently found himself to going to Denver to get the flights that he wanted which is a four hour drive if I recollect. Dallas, I can't say enough good things about Texas. They have no state income tax is number one. Property taxes is 2.5% on average. If you live in a smaller home, you can bank some money. Highway system, awesome.

There are multiple ways to get everywhere in the city. Awesome traffic not so bad, Dallas is pretty good. Business friendly in the state and cost of living is relatively low. Negatives on Dallas, it's hot. It's hot, no kidding there but great airport, nice area. I don't think you could go wrong with either choice. So thank you for the question.

[FINAL MESSAGE]

**[0:24:20] ST:** Are you a pack rat keeping those boxes of bills and receipts from your entire life? Even if you're not, I hope you have some tax returns from five years ago. You do want to keep those. If you've been budgeting for a while, maybe you have some old budgets. If you have a bank account or a credit card account, I bet you can find some statements dating pretty far back.

Now, I just checked my Capital One 360 account and it goes back three years. My credit card goes back four years but my budgeting with my old Mint.com account that goes back eight years. So that's a lot of history. So some time next weekend, this evening if you have the time, go through your old financials as far back as you can get the information.

Two, three, five seven years, or whatever you got then go on my Facebook group. You have to join it first, Scottalanturner.com/community and post what you find from far time ago. Is it good, is it bad, is it ugly, does anything stick out? And I want you to ask yourself, are you in the exact same place now as you were then? And the big question I want you to answer is, how does that make you feel?

How does it make you feel when you look back, look at your expenditures, your income, your savings from years ago and how does that compare today? You get in the community and write your thoughts on that subject. I want to hear from you guys. Those are the words. If you have a money related question you like to get answered on the show, please visit Goaskscott.com to get in touch with me.

That website has my e-mail address, Twitter, you can also leave me a voicemail. Please contact me. I am here to help you. Next time on the show, a four part mini-series we're starting on how to get financial freedom. How I got it, how you can get it, step by step. That's it for this episode. I'm your host, Scott Alan Turner. Rockstar Katie is my producer. All the links mentioned in the show are available on the show notes on scottalanturner.com. Today's episode is powered by Ben & Jerry's ice cream.

Thanks for listening.

**[0:26:25] 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 "with 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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