A Cautionary Tale You Need To Hear

Scott A. T.: Broadcasting from One Dallas Tower for the great country of Texas, welcome to Financial Rockstar Show, I'm your host Scott Alan Turner. Ready to help you get out of bed, save more money and retire early. In the studio with me is producer Jet, filling in for Katie who is taking off on a plane right now. She just texted me.

On the show today I'll be answering your questions about money, business, and life. If you have a question you like answered on the show visit goaskscott.com and leave me a voicemail. Jet, we will not reveal if that's your real name or not. Nation, if you weren't aware many radio personalities use fake names, almost always on rock stations where it's, you can kinda figure that out, that's a no brainer, but even on the family-friendly shows as well. I've known a number of DJ and it's like, "What do I call you? Your radio name or your real name?" I missed out. I should have picked a different moniker, five dollar word, moniker, different moniker when I started down this path. I could've been Mick Money for example, Danny Dollar, or, what's another good one? Freddy Finance. Freddy finance. My real name is Scott, otherwise I would've picked something more cooler. I'm going to continue on from the last show a little bit talking about this book, Pound Foolish, in case you don't want to read it, so there might be a little page flipping in the next few minutes.

This is the author writing this, right here, "In their late 50s," she's talking about this couple that she was helping, "with more expenses than income, they sought help with managing their cash flow and their investment portfolio. 'I wanted someone who would take a holistic luck, not just look at however much money we would invest with him or her.' Linda told me. They agreed to pay $1600 to a broker at a well-known firm at a friend recommended for a financial plan under the impression that the man was a fee-only planner. Unfortunately, Linda had been misled, something she only realized when she received 80 page financial report containing the broker's recommendations which leaned heavily on commission laden strategies and products that would likely enhance the broker's bottom line. As Linda said, 'He recommended some very unusual things, like options trading, and annuity from a company I had never heard of, and a very expensive life insurance product that would help our daughter our estate taxes. When I asked him why, given our inability to make ends meet, he was recommending a life insurance policy costing thousand dollars a month, his only answer was you don't have to do it.'" Oops, went a little high-pitched there, "You don't have to do it."

The book again, is Pound Foolish: Exposing the Dark Side of the Personal Finance Industry. A lot of great information in here and this lady, I guess she's a reporter or something like that, back in the day, she talks about the big people in the industry, Suze, Dave, Robert Kiyosaki, the Rich Dad, Poor Dad guy, selling personal finance book of all time. I've been reading it over the past week, my highlighter is getting a workout as I go through this. What is your favorite financial guru selling you? I don't mean to say, selling stuff isn't wrong, I believe in capitalism, I believe in sales, we have to make money to pay our bills, each of us, no matter what you are doing. That's capitalism at work. People can sell what they want, but I just have issues with people selling crap. Especially crap that you don't need, or higher-priced products when lower-cost alternatives exist that are comparable. All right, I'm reading from page 72.

We are talking about ELPs, you may have heard of those before, those are investment providers that are referred to by one of the popular personalities. It says, "How much vetting is going on is an open question because these companies have to apply to be an endorsed provider. One former ELP I spoke with who asked that his name not be printed described it as a five-minute process, where the employee doing the review basically told me how much it cost, which in his case was thousand dollars a month." It continues on, "We have," and this is the quote from the company that got approved, "We have experienced about a 3.5 to 1 return and revenues compared to the cost of the program." It basically says, it's worthwhile to spend 1000 bucks a month.

"Getting involved in the ELP program is one of the most significant things we have done from a marketing perspective." Okay, well that's not a rip on the products or services they are offering, that's just the vetting process isn't really that difficult, and they pay for the referrals. All right, that's capitalism and marketing at work. Let's continue on, "Your retirement and their money," reading from page 84 here ... This is getting into 401(k) fees, which we mentioned on the program many, many, many. 401(k) fees, how you got to watch out for them. "In 2008, Bloomberg magazine polled a number of pension consultants and came to the conclusion that 401(k) fees alone totaled $89.1 billion annually. Some places peg it at much higher. BrightScope," one of the services we talked about in the past, you can use BrightScope to analyze your 401(k) program and see what they think of it, "found that participants in 401(k) plans with less than $10 million in assets will spend on average, 1.9% on administrative fees annually."

That's a lot, fees add up. You may have experienced this, I do any time I go to the monster mega bank that I go to, "Even a visit to a local bank can turn into an unexpected sales experience thanks to marketing consultant companies like Simon Kucher and partners that explicitly offer tips on how banks can increase revenues by telling their customers how checking account fees can be reduced if they sign up for brokerage or savings account, a technique known as bundling." Sounds like cable TV or the cable companies rather. Continues, this is a quote, "'The consumer is simply an income stream and exploiting that is the purpose of the banking organization.' Explained David Mooney a former JP Morgan Chase banker to routers."

Ever go to the bank, do a little business, as soon as you walk on, "Hey want a great mortgage rate or do you want to refinance something?" No, I always love the look on their face when I say,"I don't have a mortgage." Then they go, "Uhhh," they don't know what to say after that so I get to just leave. How about stocks? They talked about stocks here and investing as well, "The recent predictive record of Ira Sohn investor conference, an annual gathering of hedge fund stars is dismal, with the vast majority of 2011 pitches revealed as losers when analyzed one year later. Even Harvey Houtkin," not sure how you pronounce that last name, "the father of day trading made his millions, not from successful stock picks, but from convincing others that they had the ability to make such picks themselves, racking up millions in commissions from customers of his day trading firm while losing hundreds of thousands of dollars on his own investments."

I think it was in the book, The Millionaire Next Door, when one of the people being interviewed, and very wealthy person, it would get approached by investment advisors or people who wanted to control their money and his response was, "Show me your past three years tax returns and let's see how you did compared to how I did." No one would ever give him information, what was the point? They couldn't do better than he was doing in his boring old investments, whatever they happen to be. Point being, are people making money because they are good investors, they know what they're doing, or are they making the bulk of their money selling products and services?

Quick example, say somebody's holding a real estate seminar and they owned one rental house that they bought for $100,000 and they're selling the seminar for $500 a seat, so they're getting the bulk of their money by selling you on the idea that they know what they're doing when they really don't. I think the most eye-opening stories in this whole book were about Robert Kiyosaki, Rich Dad, Poor Dad, which I've known about some of his stuff in the past, but this puts a whole new light on it. "And so here, in August 2011, sitting into a hotel ballroom, listening to a two hour pitch for it three-day rich dad academy, where if they sign up, it will begin to learn the secrets of Robert Kiyosaki, the creator of the highly popular Rich Dad, Poor Dad series of books, DVDs, board games, and other assorted products designed to teach us a new way of thinking about money and real estate. A way guaranteed to ensure that we will never need to rely on a traditional 9-to-5 job again.

Robert Kiyosaki is only here via a prepared video though. Continues on page 184, "Kiyosaki claims a fortune in real estate, a fortune by the way that no one has ever been able to prove existed before his best-selling book turned into a multi, turned him into a multimillionaire. In the original Rich Dad book, Kiyosaki helpfully suggests several actions we can take including networking lunches, picking friends who speak constantly about money, and making frequent offers on homes. He also suggest one action that will help his bottom line if not yours immediately, 'Take classes and buy tapes,' he writes. 'I also attend and pay for expensive seminars on what I want to learn. I'm wealthy and free from needing a job because of the courses I took.'" Those are his words. Now I don't agree with his wealth building strategy of being highly leveraged and borrowing a bunch of money from banks.

He goes on, the book goes on, "He's not telling you to give up your daily latte, he wants you to buy the ground underneath the café where the latte is sold so you can have cash flow to buy as many lattes as your heart desires." Continues on, "But no one mentions the little details like the fact that in a market that is heading down and not up, land and residential units can be mom the most illiquid of illiquid assets. They don't say you can suddenly lose your job or encounter an unexpected medical expense and not be able to keep up with your mortgage." Final thought from page 239, "The gurus of personal finance also continue to be less than helpful even as they insist that they have our best interests at heart." Some people names on her review this book called the author a socialist. I found a lot of valuable warnings in the book as I read it. Bottom line, be careful out there.

Humberto from Oakwood Georgia wants to know if he should sell his car. Alright first off, thank you for what you do, you clearly help open up the eyes of many listeners. You teach us stuff that has never been and probably won't ever be taught in our education system. Thank you very much Humberto, my pleasure.

Humberto: "I don't have any credit card debt, paid it off from the sale of the house I owned. I try to live below my means. The only that I have is a carload of about $18,000, it's a 2012 Camaro which I bought brand-new in 2012. Biggest financial mistake of my life!!

It should be illegal to let a 20-year-old walk into a dealership and walk out with a $45,000 car loan with a foreign half percent interest. Aside from the fact that even $3500 down and financed it for six years and got the extended warranties, I was prey to them. Anyways, in October 2015 I refinanced my loan with a 3% interest rate to save on interest and lower the monthly payment. I was paying 655 now paying 355, we actually 455, I give an extra hundred towards the principal. At this rate I'm on track to finish paying in 2019 according to a goal I set up in Mint, which I heard about from listening to your show. Correct me if I'm wrong on the math, the original maturity date is 11, 11 2020. I've done the math and if I dump the car this year I could have an extra $2700 in my savings account, or my roth which I opened up in betterment.

This car has held me back from pursuing my dreams of an entrepreneurial path because I do not want to end up jobless, and not being able to give the payment, thus ruining my excellent credit score which I work so hard to achieve. My score is 753. I understand how important it is especially since in the future, I want to start building homes or crating rentals to bring in passive income. My question is this, if I'm more than halfway done paying this car loan, it has been a rough ride, but is it worth dumping this car when I'm so close to paying it off? The car is in excellent shape, but it is not my daily driver. 54,000 miles on it, brand-new tires, doesn't see the light of day.

Done some research on Kelley blue book, if I sell it to the dealership they'll give me 16,700 which places me upside down. If I private sell it, probably going to be a hassle since it's financed and I don't know where to start. Private value is 19,500 so I could make some money off it. I guess not driving it and keeping the miles low came to my advantage. I really can't decide what to do. Super reliable car, I told myself if I end up paying it off, never

ever again am I buying new car or used car unless I need a used car. This car will last me a lifetime if I keep up with the regular maintenance since I paid so much for it. I know it's a long email, but I figured I get specific so you can really give me your opinion on it. I'm at a standstill. I really can't decide if I should keep it since I've had this long and the thought of losing all the money paid in payments over the years really makes me question, is it really worth dumping at this point?"

Scott A. T.: Humberto, there's a financial component to this and then there is the emotional component of this. Financially, what you figured out, it rarely makes sense to ever get a new car. There might be an exception if you're a farmer, maybe you want to go buy a new $200,000 tractor which you plan on driving for 15 or 20 years and then you can depreciate it through your farming operation. I don't know how much tractors cost. Or your long-haul truck driver, maybe you want to go out and spend quarter million dollars on a Peterbilt or a Kenworth and then drive it til it has 400,000, 500,000 miles on it. Generally new cars for 99.9% of the rest of us, don't make sense financially. The first part was he said, "The thought of losing all the money paid in payments over the years really makes me question is it worth dumping at this point."

You have what we call a sunk cost. Let's say you're running a business and you go out and spend $1 million building a factory. The factory's not done. You can't run the factory and produce everything, but that million dollars, that's gone. We can get that money back. You got to decide at that point, "Am I going to keep on building, and finish up this factory, and make some money, or am I just going to say, 'No,' and we're going to shut it down and I'm going to go do some other business thing?" That cost is gone, it's sunk for the incomplete factory. We all run into this with the stuff that we spend money on. Money's gone so why we have that emotional attachment, because we have invested in it, we've worked for that money to whatever we bought.

We can only look at from where we are, what is and what could be. Well what is? Well, that's where I am today. It's what's on the table. In your case, if I dump the car this year, I could have an extra $2700 you mentioned. Okay that's what is. Now what could be? You keep the car, you have to pay off 18 grand more on the car, plus the upkeep, it's a secondary car, it's not going to go up in value, it will continue to be a liability. It's not an asset. Then we've got to look at what's the opportunity cost? Let's keep it simple, 18 grand is what you got left on the balance, if you took 18 grand over 20 years, earn 8% in investments that's $88,000. Over 30 years, keeping it in a little bit longer, comes out to $196,000, if you invested that 18 grand.

Are you going to get $196,000 worth of fun out of that car over the next 10 years you own it, or the next 20 years, how ever long you keep it? You know what, you might say, "Yeah I am absolutely going to. That's worth it to me." If that's the case, then keep it. You might say, "I want to be young, I want to look good in the car. It is worth it to me. I am having fun driving it. The money doesn't matter that I would lose over the 20 or 30 years." You might say, "You know what? $196,000, that's a lot of money," and it is a lot of money, "so I'd rather have that money and invest it. Then when I'm 50, I'll go out and buy a new Camaro in cash with my 200 grand that I've invested and be one of those old dudes driving around in a muscle car, wishing he were 20 years old again." You look at them both ways. You also said, "This car has held me back from pursuing my dreams of an entrepreneurial path." If it's holding you back, I would say get rid of it.

Now why is that? Because if you had taken the money that's already gone into that car or the money that's outstanding on the balance and put that into a business, if you went out and took the 20 grand put it down on $100,000 rental home then you've got an asset which generates money and generates income for you. Then maybe in 10 years, that home gets appreciated, the mortgage is gone or whatever, and it's kicking off $1000 a month. In a few years, you've got this pile of cash and you go out and buy cash for whatever car that you want. The difference there is you're just delaying gratification until later on, delayed gratification. Somebody listening

might think, "Dude, you are never going to own that car for a lifetime, just sell it, get rid of it." Well, I can't tell you that you are going to want to unload this car in 10 years or not because my brother, he owns a Trans Am, I think he still owns it, and even if he didn't, he owned it for 30 years, he had that car. You might very well keep it.

Here's how I would phrase it though, if you didn't have the car or the debt, you got an $18,000 bonus at work, would you go out and buy the car in cash if the price tag on it was $18,000? Would you do that? You have no debt, you don't have the car, someone hands $18,000, which is what your outstanding loan is, would you go buy a new car in cash and put that down? If the answer is no, get rid of it. If you look at that, and then you look at the opportunity cost of the long term gains you could have of doing something else with that money, like investing, I think when you look at those two questions, you're going to come to the pretty clear answer real quick.

Now on privately selling a car, it is a little more work than running into the dealer, but you get a couple extra grand, usually depending on the value of the car. In the show notes, I'll include a link to a guide ... What is the name of this guide? Sell your car yourself guide, it's a step-by-step guide. It's got pricing your car, prepping the car for sale, placing an ad, finding a buyer, selling the car if you still owe money, which is you, dealing with fraudulent buyers, meeting a prospective buyer for test drive, safe payment transferring ownership, and turning over your car to the buyer. I've been on both sides of this, buying when someone didn't have a title and selling when I didn't have a title. There's no issues if you follow that guide and you're just careful.

If you decide to a private sale, first things is you call up your lender and say, "Hey I'm thinking about doing a private sale, how's this title transfer going to work?" Because that's one of the first questions people ask when they call you up and see your ad for a private sale, "Do you have the title?" You're going to want to be able to answer them,"No I don't, but I called my lender and here's how they're going to do it," give them that information. Hey, if you keep the car, enjoy the ride. Muscle cars are cool looking, but if you really want to get into rentals sooner rather than later, then I would definitely, fire in your shoes on getting rid of the car and focusing on learning everything I can about rentals and having that cash ready for when those deals pop up. Thanks Humberto, for the question.

One of the biggest private pension funds in the country is almost out of money and fresh out of options. It's called the Central States Pension Fund, they have no new plan to avoid their insolvency, does benefit pensions for about 407,000 workers, or retiree workers could be reduced to virtually nothing. They're working with the government to reduce pensions of 115,000 those people by up to as much as 60% to avoid the insolvency, but that didn't work out. They're running out of options. It says here a retiree would receive a maximum of 35 bucks for each year working which comes out to $1000 a month for retiree who worked 30 years.

The Central States Pension Fund covers workers and retirees from more than 1500 companies across a range of industries, but mostly retirees are truck drivers. The important note in this article a lot of the funds companies went bankrupt after the trucking industry was deregulated in the 80s. As part of the reason the fund is in trouble now, it's currently paying out three dollars for every one dollar it takes in, sound familiar? Maybe not, it's kind of similar to social insecurity. Here's a different pension case 22,000 Delphi salaried retirees had their pension benefits cut, in some cases as much as 30% or more.

Delphi was one of the companies that did business with General Motors which went bankrupt in 2009. There's a big ongoing lawsuit involving that case between Delphi, and GM, and the bankruptcy, and the pensions which is been going on for years. People are not getting the pensions they were promised. The government nation that does not have your back. It doesn't. Your employer doesn't have your back. At the end of the day, you're get the

shaft before the owners get the shaft. If you pension, I'm not saying to bail on your job or have a pity party, but just be aware of what could happen. You've got to look at your industry. Have a plan B or what's even better, is a plan Y-O-U. You guess wrong without a safety net and you're toast. You guess right or wrong and you have a safety net, you at least don't hit the pavement.

Back to your questions. Dennis from Arkansas is researching if he should keep his TSP account. He writes,

Dennis: "I use my thrift savings plan, TSP, account as my de facto IRA. I kept the TSP account because of the low cost of the services. I'm considering whether it makes sense to roll my TSP into a Vanguard IRA or a wealth front betterment account because the costs are similar, but maybe I'd have some flexibility beyond target date funds. Should I leave good enough alone? As I did some quick research, TSP's website has this page up encouraging people to stay. Should I stay or should I go now?" "If I go, there will be trouble, if I stay, it will be double, so come on let me know." Famous lyrics from The Clash thanks Katie for the lyrics.

Scott A. T.: Anytime you make a career move to another job, you retire, you decide to live on $100 a month in the Philippines, you might be faced with what to do with your employer retirement accounts. It is not a light decision because there's no going back. The big deciding factor is, what are you being charged for that retirement account? The vast majority of them suck. Too much money. That is why there is legislation currently going on through our government making its way, requiring 401(k) plan administrators to do what's in the best interest of employees. Right now they're doing what's in the best interest of the brokerage houses, the Wall Street people that are responsible for those plans. You're getting charged high fees. You start by looking at the annual fees, the commissions, and the charges you're paying in your plan, ask your HR person, call the plan administrator, and you look at the alternatives.

So, Dennis, the Vanguard target retirement fund which I looked at, the year 2050, I don't think the year matters, but that's the one I picked out. The management fee per year is .16% for every thousand dollars for your account, thrift savings plan, .29%. $.29 of every thousand dollars so it's twice as much. That doesn't mean you switch though. Let's keep going. Those fees compound every year, which is to be true of wherever you park your money, and it adds up to tens or hundreds of thousand dollars over decades and decades and decades, if you've invested for that long. Using my handy calculator scottalanturner.com, if you got an 8% return each year in your thrift savings plan, and we're just going to compare that to 8.13% in Vanguard. That's the difference between the management fees.

We're going to start out with, again making up numbers, you invested 100 grand, from day one, 8% for 20 years you come out with $492,000. 100 grand, 8.13%, 20 years, $505,000, so the difference between the two, 13 grand in that example. Not a super significant amount over a 20 year period using those numbers. What you could say is, the fees in your account at the thrift savings plan, they're quite low, they're quite low. After that, we would look at the available investment options that you have. I picked through the funds available in the thrift savings plan. They're using index funds, that's why your costs are low. The lifecycle funds they have, which are their words, their description of the target day fund, they're calling them lifecycle funds.

If you went that route, TSP or not, every vendor out there, their target date fund is just a little different. It's a little bit different in how they allocate stuff between stocks, bonds, and cash, the different underlying mutual funds that they invest in. All kinds of differences, those make it very difficult to compare one target fund to another. You're getting down to the weeds at that point, figuring out which target date fund is best. In my opinion, there's really no way you can tell. The past performance of those funds, doesn't equal what's going to happen in the future. I would look for a target fund that has low cost index funds within it, like those in the TSP, is run by reputable company,

TSP probably is, you've got Vanguard, Schwab, T. Rowe Price, Betterment, Wealthfront, those are all good options.

Target day funds, they're really relatively new in the grand scheme of things. They have no long track record so who cares what they did in the past 10 years or who had the best performance. For the research, T. Rowe Price had the best performance over the past 10 years, their target retirement funds, but the clocking a .75% expense ratio. Vanguards is .18%, so you have more flexibility if you moved out, but what I'd probably do is use that investment calculator and just plug-in the different percentages based on how much money you've got on that account, how long is good to sit there, what's the difference between the two expenses between the accounts, and see what the price differences over a period of however long you have it in there. From that, you can make an educated decision based on how much money would save.

Part two of your question, "My retirement account from my last job is an expensive plan. I was very frustrated when this new service provider was announced months before I left the job. I want to roll over this money into my IRA, but the work plan is currently down. Should I wait until I'm in positive territory and incur the fees, or cut bait and consolidate into my IRA?" First question is when is it going to be in positive territory? If you can tell me the day, we can make billions. No, there's no point waiting. Your selling Home Depot to buy Lowe's, it doesn't matter. If you're an expensive plan, you're really selling a Lexus to buy a Camry but you're saving the insurance premiums in the process. It's the same car with a different logo, you just payed more for one, the one that you're in now. You're going from one mutual fund to another that's cheaper. If you lost money or you gained money, there's no tax implications on the rollover, there is really no advantage to waiting. Thanks Dennis, for the question.

Got a win from Aubrey to wrap up the show today.

Aubrey: "I've been listening for a while and heard you talk about how much you could save avoiding the junk fee of PMI, private mortgage insurance, but had not investigated PMI until I recently listen to the episode on things that homeowners should know. When I looked in the PMI I was being charged, I found that I did not have PMI, but rather MIP, mortgage insurance premium. For the reading I have ascertained," well there's a five dollar word, "I have ascertained that these things are relatively the same. I read the fine print and determined that I can request the MIP to be canceled in October of this year, which will save me $990 per year." Awesome. "I suppose we all harbor money morons, but I am determined to have financial freedom. I also just protested my property appraisal and gathered evidence to dispute the proposed 17.54% increase in my property value." You must be living on a goldmine.

Scott A. T.: The hearing is coming up, I'll let you know how it turns out. Thank you for the valuable information Aubrey from Liberty, Texas. So awesome. $990 per year saved from mortgage insurance premium junk fees. Those are the words. That's it for this episode, I am your host Scott Alan Turner. Rock star Katie is out of the country, but she is my producer. Also I'd like mention the show [inaudible 00:30:20] scottalanturner.com. You have a question you'd like answered on the show visit goaskscott.com and leave a voice mail. Thanks for listening.