How To Increase Your Confidence In Your Decisions

Scott A. T.: Broadcasting from One Dallas Tower, welcome to the Financial Rock Star 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 still. On the show today I'll be answering your questions about money, business, and life. If you have a question you'd like answered on the show, visit goaskscott.com and leave me a voicemail. Show Number 100. Often when certain milestones are reached people talk about everything they've learned, at least in the podcasting world, what to look forward to. I'm looking forward to eating some Ben and Jerry's ice cream this weekend after I haul about 1,000 pounds of concrete down a steep hill using a wheelbarrow. I may even eat two pints because that's a lot of work.

Truly, I thank each of you for listening to me, even though I haven't met you yet I hope we will someday so I can shake your hand and thank you in person. I am extremely grateful for you letting me in your ears, sharing the show with others, it is an honor to do the show, and though my cats chime in occasionally, and I throw in Star Trek and Kardashian references, and my commercials are absurd, know that I take your money, I take your success very, very seriously. From the bottom of my heart, thank you. Now let's get down to business. A while back we had some massive hail storms roll through our neck of the woods. We had one hail storm come through and then about two or three weeks later it was followed by another one, an even bigger one, meant that I had an out of pocket deductible to replace the roof on our home of $10,000.

I've always been a fan of big deductibles, whether that's on your car or your home. It lowers your insurance premiums year to year. When you stretch it out or consider a longer time frame, 20, 30, 40 years, those lower payments that you're paying each year makes up for the potential losses that you could incur if you have a big out of pocket expense, out of pocket deductible that you've got to pay like this. When these things happen, something goes wrong with your house, you've got to have the roof replaced, you get in a car accident and then you realize, well, I used to have the $250 deductible and now I've got the $1,000 deductible. If I had the lower deductible I ought to have more money in my pocket right now. I've got to pay out $1,000 instead of I could have been paying 250. Maybe I should have had a lower deductible.

Did I really save myself any money? What happens if another hail storm comes through my neighborhood and I've got to replace the roof again? Well, I can tell you I'm not going to get the roof inspected again, that's for sure. I'm not replacing the roof for a second time a year from now. I'll just wait until it leaks. Here's the thing, it was pay now or pay later. My roof it's going to go bad someday, it's going to start having leaks. I'm going to sell the house someday somewhere down the road, and a home inspector they're going to find the damage, probably if they're a decent inspector. I can buy myself a new roof and I don't know, maybe I'm not going to enjoy it. Who enjoys a new roof? It's not like I will drive by each day, "It's so pretty." No, it's the same roof that was there before.

I'm not going to enjoy it but I'll feel better about it knowing, well, probably not have any leaks for a while. Or I can buy the next homeowner a new roof and they get to enjoy it, so I might as well do it now. Like you the whole time I was thinking, man, if I had a $5,000 deductible I wouldn't be out of pocket so much, so I'm kicking myself, kind of like you would be, running the numbers. You and I we make decisions based on reasonable arguments and then when something comes up, there's a hiccup, a bump on the road, we're on the downswing of the rollercoaster ride, or the upswing, however you want to look at it, you get off a track or something, and then we start to doubt, what if I had done this, what if I had done that, maybe I should have done this other thing over here.

I'm going to read you something from a book called Wise Investing Made Simple, which I think it sums it up perfectly. I'm not going to read the whole thing but the backstory is there's a couple, they bought into a particular investment strategy, and then I'll pick up from there. While 1999 produced relatively better results for the fifth year in a row, the diversified portfolio, having risen 18%, had underperformed the S&P 500 Index by 3%. Mark and Larry were extremely disappointed. Mark and Larry are brothers and they both have decided to go this course of action. They told Jason, who's their financial advisor, they had decided to leave. They're going to leave Jason because they're getting poor results. What really convinced them was that they had calculated that every dollar they had invested in equities stocks with Jason had grown to not much more than $2.

If they had instead invested the same $1 in the S&P 500 Index it would have grown to about $3.50. Jason acknowledged that those figures are correct. He asked only that before they made the final decision, he wanted to ask them a few questions. Jason, this is Jason speaking, “Mark and Larry, I know you're both married and have kids. I assume both of you have life insurance.” Mark replies, “Sure, we do.” Jason says, “How long have you been paying premiums on that insurance?” Mark says, “In my case about 10 years and in Larry's about 20.” Jason replies, “Do you what the odds are that a healthy male your age who neither smokes nor drinks excessively will die in the next year?

I can tell you that they're extremely low, yet you both have kept buying insurance all these years with almost certain knowledge that all you're likely doing was transferring assets from your accounts to the life insurance company's accounts. Now why would you do a foolish thing like that?” Larry replies, “Because while it's unlikely that I would die, it was not impossible, and the cost of being wrong is too great.” Jason says, “Does either of you even in hindsight believe it was a bad decision to have bought that life insurance?” Mark replies, “No, of course not.”

Jason says, “So then you agree that in a world where you cannot foresee the future we should never judge the correctness of a strategy by the resulting outcome. In other words, we should only judge the correctness of a strategy before we know the outcome, not afterwards. Either the strategy is correct before the fact or it is wrong before the fact. If you disagree, then you have to say that buying the insurance was a bad decision since neither of you has collected on it lately. Do you agree?” Mark and Larry reply, “Yes.”

“Well,” Jason replies, “well, diversification is like insurance, the strategy of buying insurance is working whether you collect on the policy or not, and I hope that it is a long time before either of your policies pays off. In the case of a strategy of diversification, it too is always working. It is just that sometimes you like the results and sometimes you don't. When you don't like the results it doesn't mean the decision was wrong any more than it does in the life insurance example I just gave you. Mark and Larry, I would like you to recall our initial meeting five years ago. At that time I showed you the long term historical evidence that a diversified portfolio produced superior risk adjusted returns and you agreed with the logic.

I also told you it was quite possible, if not even likely, that you would experience periods, potentially long ones, of underperformance, and I told you that the key to being a successful investor was to have the discipline to stay the course. As Benjamin Disraeli stated, ‘Patience is a necessary ingredient of genius.’ Nothing has changed and I don't think you should change your strategy.” Okay, so what's the financial advisor saying to these brothers there? Diversification, S&P 500, risk, returns, what is going on if you don't understand some of those terms? He's saying, these guys, you came to me five years ago and we agreed on a plan. I showed you the math behind the plan, and you agreed that's sounds like a good plan, I'm going to go with it.

I even told you at the time there are going to be periods when the plan doesn't look like it's working, but the plan will work, you just have to stick with it. This is one of the core reasons why average investor loses so much money at investing. It's not because investing in a well-diversified portfolio with proper asset allocation of low cost low fee index funds doesn't work, it's because people try it and then they say, my brother over here he's getting 50% returns on Google stock this past year, that must be the way to go. Or, my coworker said this fund, he's in a 401(k), it returned 25% this year, yet my lowly old S&P 500 Index only returned 15%. That must be the way to go, let me change gears and go towards that plan instead. Or the lack of knowledge about how compound interest works.

I've been saving and saving and saving, 2 years, 3 years, 4 years, 5 years, 10 years, in my 100 bucks a month, $250 a month, it's barely grown to anything. It must not work. The strategy must not work because the money hasn't grown fast enough. Just thinking about compound interest, the point with compound interest is the big gains are at the end of the cycle, 20, 25, 30 years out, it's not in the beginning. At the beginning it does look paltry and it is paltry, and your savings will look paltry, and they will be paltry at the beginning. It's the time and the patience that cause these strategies to work. Might be trying to get out of debt and you're working on this plan. It's like I've been paying and paying and paying, it's been 6 months, 9 months, 12 months, this plan must not be working for me.

There must be something wrong with the plan. It's not the plan. If you picked a plan for whatever you're trying to accomplish, at the beginning of whatever your goals are and you don't see the results, just ask yourself, was the plan wrong or am I just not being patient enough. Final thing from the book, investors often make the critical mistake of assuming that good outcomes are the results of good process and bad outcomes imply a bad process. Finally, one cannot judge a performance in any given field, war, politics, medicine, investments, by the results but by the cost of the alternative if history played out in a different way. If you only have more confidence in your plan of action, let your plan run its course.

Eric is up next, he says,

Eric: "My main concern is creating an effective budget. I'm looking for recommended percentages of income for various categories like housing, food, restaurants, et cetera, and helpful tips on maintaining that budget." Eric, sometimes the best way to find out what works is to first look at what doesn't. What's an ineffective budget look like? Well, number one, if you don't do any budget that's being pretty ineffective. The issues people run into, one is it's too restrictive. There's no give and take, there's no fluff, there's no buffer. People are treating it like it's cast in stone. A budget has to be a living, breathing thing for it to work effectively.

Scott A. T.: Next one that it's hard to maintain. If you pick a software product to maintain your budget that doesn't work for you or that's hard to use, that aggravates you, if you like pen and paper, use pen and paper. If you find a software solution that you like to use, stick with it. Another one is budgeting that takes too long. I have used several budgeting software products and some take longer than others. I would not use pen and paper for me because I'd rather plug it into a tool and have it do all the math on my behalf. Something that's a timesaver is more favorable to me. Another one is something that is too granular, and this is going to end up getting back to something that will take you too long. If you have a category in your budget for toothpaste, if you have a category in your budget for cereal, that is too fine-grained, too fine-grained. You just need the food category.

I throw toothpaste in our food category and I throw cereal in there too. Try to have as few categories as you can that make sense to you. If you are married or in a relationship and you don't agree on the budget, it's going to blow it up. You have to have a shared set of goals and have buy-in from your significant other to get the budget to work. A budget that is unrealistic is going to be ineffective. You will eat out, you will eat out. Going from $700 a month eating out to $7 a month, that's unrealistic. You've got to carve out things that you know you're going to do, try not to be unrealistic. Finally a budget that's boring. I like the little green bars that are in mint.com, the software tool for budgeting. I don't like the red bars that are in them, that means you're going over your budget categories.

A budget should be fun, it shouldn't be boring. You want to challenge yourself to follow it, and it's fun logging in and saying, "Yeah, I'm making progress." What's an effective budget? Number one, you're planning your spending before you spend. Plan your spending before you spend it. What is our grocery allowance for the month? Well, you take that in cash at the beginning of the month or when you get paid. Plan your spending before you spend it, that's number one. Putting your priorities first is number two. Housing, utilities, food, transportation, clothes if you've got kids, because kids need new clothes. Mom and Dad don't. Clothes are not a need unless your kids are outgrowing their clothes. If they can't fit the shoes on their feet, yeah, you've got to have new shows. Mom and Dad, we've got shoes already, we can get by.

Then either your debt payoff or your savings goals, those have to be high up on the priority list, because if you put savings last, you're never going to save. Some people are going to say pay yourself first, take out the savings and then figure out how to make everything else work. That may or may not work for you, but if you put your priorities first and then save, then work out everything else, that can also work. Either way, whatever works best for you. If you say to yourself, I'm going to save someday, some day is never, never going to happen, so put it up on the priority list. After that, what about specific percentages? Each person needs to decide what is important to you. I could tell you, hey, only spend 20% of your take-home on an apartment, 20%.

If you live in New York City, if you live in Boston and you want to spend 50% to live next to a park or close to your job or in a penthouse suite and that makes you happy, be happy. As long as in line with your goals you're saving enough for your retirement, you've got your emergency fund going and fully funded, if you've got your debts paid off. Some people want to spend $1,000 a month on eating out. Who am I to say that that's silly? Some people want to spend $2,000 a month eating out. Who am I to say that's silly? I don't know what their goals are. Some people want to buy $400 shoes. I don't. Who's right? Well, if we're both out of debt, if we're both saving for retirement, if we both have an emergency fund, if we both make identical incomes, if we're living in the same apartment complex, if someone chooses to blow their cash on eating out and I choose to blow mine on a trip to Disneyland once a year, who cares, who cares.

It's what is important to you. The budget is a living, breathing thing. It changes, sometimes monthly. It's always wrong the first few months when you first started budgeting, that's just normal, but it becomes less wrong over time. Next thing is you want to make sure you update it at least once a week, you're checking it to make sure you're in line with whatever your spending plan is that you laid out at the beginning of the month, because that's going to help. If you set it up one time and then just never review it again, that's a recipe for failure. Then finally you go to the ATM every pay period or before the month begins and get on the envelope system to pay cash for your stuff because it just makes you a better spender, a wiser spender. It keeps you from going out into debt. Thanks, Eric, for the question. Happy budgeting.

Trey writes he's getting laid off and wants to know where to roll his 401(k) to. Says,

Trey: "I have a healthy 401k) I feel for a 21-year old. It's valued today just shy of $50,000. I take full advantage of my employer match of 6% and contribute another 4% of my own wages as well. Also no matter if I participate in the match program or not they add another 4%, so 10%'s from me, 10%'s from my employer going into the 401(k). Bad side is I know I'll be laid off in the next year or so. They have been pretty good about warning us about what's coming up. What is a surprise is that it keeps being extended, but I'm not complaining. My financial advisor wants me to roll this into a traditional IRA since I won't have a 401(k) match anymore, but I currently fund a Roth.

Would it be better to put this in my Roth rather than a traditional? I know I'll pay taxes and a penalty if I withdraw but I don't think I'll be adding to the traditional IRA when I go back to the family business after I'm laid off. What is better to add to? My financial advisor isn't very helpful and I think I'll be looking for a new one soon." $50,000 at age 21, holy cow. Fifty grand, if you just did nothing, you would end up with a million dollars when you're 51. If you just left it there, you'd have a million dollars. What about age 61? $2.7 million, that is insane. That's if you invest nothing ever, ever again. Trey, you might be getting laid off but you could be retiring very, very, very early. Well done. Let's talk about your advisor.

Scott A. T.: If you're thinking they're not helpful, I wouldn't waste any more time on them. I'd fire them and I'd find somebody new. You're 21, I would look at the XYPlanningNetwork.com and you could find a fee-only, hourly rate, or a flat fee, meet with them virtually and get some good advice. They are certified financial planners and they are fee-only so they have a fiduciary duty to do what is best in your interest, they're not going to try to sell you junk. Here's the thing, nobody can predict the future or what taxes are going to be when you start pulling money out of this 401(k) IRA or Roth IRA in 40 years. If all you do for the next 20 years is fully fund a Roth IRA each year you'll be covering your bases. The 401(k) is going to grow and it'll be taxable, the Roths will grow tax-free.

No matter where you sit in retirement, what taxes are, you have both tax-free and taxable investments. That being said, within 60 days after you leave your company your best bet is going to be to roll the 401(k) into an IRA. With your stash I would definitely go with Vanguard. Now should you convert is the next question. The thing about converting, you can choose to convert as little or as much as you want once it's in the traditional IRA. With that flexibility, that lets you manage the tax costs of the conversion, so you could do a little bit this year, a little bit next year, maybe some five years from now, that way you can manage your tax bracket. If one year you're bumping up to the next higher tax bracket, you wouldn't do the conversion because that conversion is going to put you over into the next highest tax bracket, you'll only pay more in taxes.

If there's a year where you get a house, you have a child, you end up with all these deductions, and you find out you're getting a huge tax refund, you could do the conversion that year, you can do them up till April 15th. I'm just making out numbers but let's say you found out you're getting a $3,000 refund. Well, before you file, you can convert 10,000 of the traditional IRA to a Roth, the conversion is going to cost you about 3 grand in taxes, so you end up with no refund, so your out of pocket costs are zero in that situation. Now deciding whether to convert it's not really a straightforward decision, as you can tell. It's a lot about taxes and what you think taxes are going to be in the future. I suggest you carefully assess are your situation, check with a tax advisor because you want the best possible advice.

We're doing some conversions this year ourselves because of where our tax situation is, but we haven't been able to do them past because of a different tax situation. We're doing a little bit, not everything. Every situation's different. I'm blown away, $50,000 at age 21, nice, nice work, Trey. Thanks for the question. Back in two shakes of a lamb's tail, you're listening to Scott Alan Turner. Hey Nation, Scot Alan Turner here. Now 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 trying to get you to buy high fructose corn syrup or recommending you buy the DVD collection for Star Trek Deep Space Nine. No, I have a name to uphold to you, the Rock Star Nation.

If I were, if I were to recommend something to you, I would tell you about Spoon City. Many of you are sitting there right now listening to this mindless drivel at home eating a bowl of cereal for breakfast, and unless you're like my two-year olds using their hands, you're using a spoon to shovel in those chocolate marshmallow Sugar O's. Spoon design has remained unchanged for hundreds of years until now. The fine folks at Spoon City have come up with the first ergonomic spoon to take your eating experience and health to a whole new level. Eating with a non-ergonomic spoon can cause side effects such as headaches, nausea, cramping, bloating, lightheadedness, stuffy or running noses, chest pain, and in some rare cases, spontaneous combustion. Head down to your local Spoon City today, your mouth deserves the best.

You will at some point in your life or perhaps a loved one that you know will receive a phone call from an unscrupulous individual trying to separate you from your money. I could probably spend the next 50 shows just on my personal life experiences and all the things that go on and the things that I've learned. Had another one happen just the other day, out of the blue I got a phone call from someone. I didn't recognize the number, and when she started speaking I didn't recognize the name either because it was a really long name and she was a little hard to understand over the phone connection. It was like Mother or Mary something or another, it was either a church or a hospital or some other charity perhaps that I didn't recognize. She says, "Hey, I have a refund check for you. I need your address so I can send it to you."

Well, I don't know who this person is, so I'm like, "Well, I don't know who you are." I said, "What address do you have on file?" Then she goes into, "Well, can I verify your date of birth?" I said, "I'm not sure who you are, so I'm not going to give you that personal information over the phone even though you say you've got money for me." I said, "Give me the year I was born and I'll give you the month and the date." I figured that's a fair trade, maybe she's got … because most of the time you can google anybody's birthday on the internet anyways. I certainly wasn't going to give this person my social security number or anything like that, but if she can come up with a birth year, I'll flip her the month and the day. She did, I gave her the address.

She said, "All right, can you give me your updated address?" Sure, I'll give you my new … she gave me an old address that I used to live at when we lived with Katie's parents, so I gave her my new address. She said, "All right, I've got this, they're going to mail out this check. You'll receive it in two or three weeks." I was like, "All right." Also she said, when I said I don't know who you are, her response was, "Well, I'll give you my number you can call me back." You know, that's not going to prove who you are, so don't fall for that either. If you get a phone call somebody's asking you for personal information, you never, ever give out your social security number.

You should not give out your birthday or really any personal information, address, people can find that out anyways, so that's really not that big of a deal, but if it's something like this, you want to get something in writing, even if they're offering to give you money because you don't know if that person is legit or not. You certainly never want to give out your credit card, never want to give out your checking account number. If someone had said, "Hey, I've got a refund for you from the electricity company, you just give me your checking account number and I'll make the deposit for you." No, no, mail me the check, mail me the check, got to be careful.

Ivan from Massachusetts is supporting his family in Uganda and needs some financial knowhow.

Ivan: I'm going to paraphrase this a little for brevity but this is a very kind and well thought out question. I'm really so thankful and pleased that I came across your website today. I enjoyed spending time reading every piece of your content. Your advice is so practical and on time. We all need this knowledge if we're to handle our future finances. Thanks for being so inspirational and above all for being a very good example and a true great resource for the people that come to your website for your advice. Thank you so much, Ivan. I am 30, single, originally from Uganda, which is another pin on our map, work fulltime and take care of my family back home. I want to create a better future for myself and for my family but I'm aware that will begin with the way I make decisions with my money.

I’m very willing to take the next step if I can get someone to mentor me and show me the right way to go. Really don’t want to live the same life I had back in Africa and I am kindly asking you to mentor me. I am willing to learn and above all I’m very focused and ready to put into practice all the necessary advice I can learn. I also have dreams and visions but I know there’s no way I can make it if I don’t learn how to budget and utilize my finances very well. Help me live a fulfilled, satisfied financial life. I’ve heard a lot of stories over the years, not me personally, not sorry, about me but on the news, reading, people come to the United States, they send money back home to their families. Back in the corporate life I worked for Western Union, the big money transfer service.

Scott A. T.: Their biggest profit center was people in the United States sending money back home to Mexico, sending money home for a better life for their family. Now even without an audible voice, I can hear the want in your words, Ivan. What I do, show the website, it does not scale very well to one-on-one mentoring. Right now again it is just a show in the website. A certified financial planner, they can manage about 40 to 50 clients on a personal level and provide that level of service before they get overwhelmed. You go to a virtual certified financial planner that has a monthly retainer, they might be able to scale that up to a couple hundred clients. The lower the monthly fee, typically the less time, the less personalized service that you’re going to get.

Now what do you do if you can’t afford to work with someone? Ivan, it's exactly what you’re doing, you listen to shows, you visit websites, you go to the library, you read books for free, skip the nightly news, forget CNBC, MSNBC, Fox Business, whatever that show is on PBS, that's just the screaming memes, they’re after the ratings, trying to sell you the greatest hot stock tip. I’ve got how to start budgeting on the website, I’ve got how to get out of debt on the website, I’ve got how to get started investing on the website, I’ve got how to buy a car on the website. If you’re in the city you take public transportation. Those are your starter guides in the foundation of the show. If you have a question, do what you did, you ask, you asked me. I’ll give you my best opinion.

If I don't know what you’re talking about, I’m either going to make something up or talk about my cats. I think it is wonderful you support your family back home. It's a huge sacrifice and it can’t be easy. Your family, they are very lucky to have such a wonderful son, so I applaud you on that. Saving, investing, education, they are marathons, they are not sprints. You learn a little each day, you get a little smarter each day. You do that and you’ll avoid the big pitfalls and you’ll be just fine. You’re 30 years old, you've got time on your side. You've got the knowledge that you need to do something. You know what you don’t know, which is a starting point, and more importantly, you are not afraid to ask questions, so keep them coming. While I can’t personally mentor you one on one, I’ll answer any questions that you have. Thank you, Ivan, for the kind words and taking the time to write in.

Does Changing Lanes Really Save You Time? This was an article from a CBS news station which I’m going to read from. It says there are two kinds of drivers, those who pick a lane and stay in it and those who obsessively change lanes looking for an advantage. Does changing lanes during rush hour really save you time? Dr. Bryan Dawson is the Chair of the Math Department at Union University in Tennessee. He wrote a study on highway relativity, checking whether we perceive the speed of lanes of traffic around us and the accuracy of those perceptions. Researchers call it lane envy. It's the feeling we look around and everybody else is driving past us and we seem to be driving slower.

As the University of Minnesota Civil Engineering Professor Gary Davis, he suggested if you've got a 10-minute drive at 60 miles an hour but you end up going 50 miles an hour, we think it's a really long delay, but it's only a difference of two minutes. Because we’re going 50 instead of 60 it feels like we’re being delayed 12 minutes, because we only observe what's out our window, and we extrapolate, according to the article, to have some meaning about the average speed for the entire trip. The reality is according to the size our lanes move about average. When I read that, someone sent it to me, I think they made the same observation, it sounds like investing or this guy that I know he flipped his house and he made 25 grand. That must be the way. Or the guy at the office is taking everyone out for drinks after work because his Amazon stock doubled. Amazon must be the way.

Next time you drive, look around for the lane weavers and count how many seconds are they getting ahead. For all the work they do, do they get an extra minute out of their commute? You might be the weaver, sometimes I'm the weaver because I can't stand driving behind that old person in the big Cadillac with the handicapped sticker hanging out, driving 45 in the 60, got to weave around them. When is that solid line going to change to stripes so I can go around them? Hey, I might even whip around them on a corner if it's on because I just can't stand it. No, not usually. Here's your action item for today, ask a coworker if they have lane envy and then explain to them what it is. Then ask them if they have investment envy. Those are the words.

That's it for this episode. I'm your host, Scott Alan Turner. Katie, still out. Our martial arts trainer is Anita Degroine. All things mentioned in the show are available in the show notes at scottalanturner.com. If you have a question you'd like answered in show, visit goaskscott.com, leave me a voicemail, and rock on.