5 Ways To Handle Unexpected Cash

Scott A. T.: Broadcasting from One Dallas Tower, welcome 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, back is producer Katie, back from spending two hundred dollars on Kobe beef.

On the show today I'll be answering your questions about money, business and life. If you have a question that you'd like answered on the show, visit goaskscott.com and leave me a voice mail.

If you got shot in the arm, just forget about the situation and why this would happen, just say all right you got shot in the arm, somebody comes along and they say, "Here's a medical kit." You say, "Thanks, I know I'm bleeding, but I'm not going to use this medical kit. I want to hang onto it just in cases I get shot again."

I had a counselling call the other day on the phone, background is, younger person, single mom with a child, making 34 grand a year, she's a teacher, has some debts, working on Public Service Loan Forgiveness to pay off her student debts, she's got a car loan she's upside down on, owes 8 thousand dollars on it, got a three hundred dollar a month car payment, three percent on interest rate through credit union, got a bunch of medical debts, a lot of medical debts some of which are in collections from her being sick or child being sick, about 6 grand in medical debts.

She sold her house, got 19 thousand dollars from the sale of the house, equity that had built up in it, and some of the advice that she was being given is keep the money, just keep it in a savings account. She went to her credit union and said what can I do with this money and the credit union recommended. "Well you could do some CD laddering." If you're not familiar with that, that's getting a 3 month CD, 6 month CD, 9, 12, 24 months and then you always have some cash on hand because you don't have to cash them out early and penalize them because you can cash them out as time goes on, but CD's are going to get you about 1% in interest max right now.

So aside from the student loans which are kind of off the table because she's doing PSLF, 8 thousand in car, 6 thousand in medical bills, 14 grand in outstanding debts that is accruing interest and she's got 19 thousand dollars sitting in the kids savings account, so she's bleeding, bleeding money with the interest charges each month and then somebody's recommendation was, "Here's a medical kit, you've got a medical kit over here, but don't use it, just keep bleeding."

There are a lot of ways you can come into unexpected cash, you can get an inheritance, judgement from a law suit, sale of a home, that's appreciated, stock options you may have been given at work, Christmas bonus, random spot bonuses, lottery if you're a lottery player, hopefully not, professional athletes who score big contracts. 1 in 3 people who get some type of inheritance end up blowing it within 2 years and you don't have to look farther than professional athletes who have wasted their incomes by buying cell phones for every 2nd, 3rd, 4th, and 5th, 6th cousin, homes for their parents, home for the brothers, home for their sisters, it's easy to blow through unexpected cash.

Let's look at some ways you can preserve that money that fell from the sky. First suggestion is to do nothing, you sit on it, because when you get it, very emotional, probably more money than you've ever had in your lifetime if it's a big windfall. You sit on it you won't make any rash decisions. The bigger the windfall the more bad advice you're going to get from relatives who are going to come out of the woodwork telling you what you should do, you should do this and you should do that, and you could go invest in your brother's business over here, or mom and dad are in deep debt, you should help them out. You should do nothing, just pick a period of time, minimum 30 days, maybe 60, maybe 90, just to get the emotions calm and check, or relax we're going to think about it, and think about what you might want to do with that money.

Next you want to plan it on paper, maybe during that time. What do I need to do with the money, do I have some high interest credit cards that would be wise to pay off, maybe they're charging 12%, 18%, 22% interest, maybe I have a car payment, car loan I can pay off, do I have an emergency fund or not, maybe I could fund that. Put those things on a column on a piece of paper and then another column, what do I want to do. Do I want to go out and buy a new wardrobe, do I want to go on vacation, do I want to buy everybody in my family a cell phone, oh wait, how much is that going to cost me each month. Planning can help you decide, "All right, I've got this amount of money.", start divvying it up into different buckets and see if it's a plan that makes sense to you.

Paying down debts is super important, stop the bleeding. Cash is a nice pillow to sleep at night but if you have debts eating up interest your pillow is slowly disappearing, stop the bleeding. It never makes sense to have cash sitting over here earning 1% when you've got any other debts over here that are costing you more than 1%. Maybe the exception might be student loans if you're in one of these Public Service Loan Forgiveness programs or you've got that worked out where you're just going to take forever to pay off the student loans and invest the difference, and you're okay with that. Having a paid off car, that's a nice pillow. The cash over here and the potential for the repo man to come get the car, that's not as good of a pillow, that's a hard pillow, that's a concrete slab that you're sleeping on.

Next, save some. Start or fully fund your 3 to 6 month emergency fund, or if you're a single income earner with a big family maybe you want a 12 month emergency fund. Write it down, figure out what you're comfortable with, what's going to work for you.

And the moment you've all been waiting for, spend some, spend some. Hey, if it was an inheritance the person who gave it to you was thinking about you, they don't want you to hide it in your backyard. Rule of thumb Katie and I use is 10%, that works for us, we have generally stuck with that over the years. You may want a higher percent, you may want a lower percent, but just have some fun. You get a 500 dollar Christmas bonus, end of year bonus, spend 50 bucks on something, do something else constructive with the other 450. You get a $5000 tax refund because you just bought a house last year and you've got a bunch of deductions, blow 500 bucks on a couple nice dinners out, do something constructive with the other $4500.

The exception we've found in our lives to that rule is, you know, we've got a lot of things already in place, the debts are gone, the homes are paid off, we're saving as much as we need to save based on our goals, so if we get some type of windfall we may pick a larger portion of that and just give it away if there's something, charity, person who might need that money more than the stuff that we would probably just end up buying.

The longer you take to plan and decide what you want to do with your money, the more you get advice from, or the more you can, get advice from a disinterested 3rd parties, and the better decisions you're going to make. Now who would be disinterested, is a car, if you ask a car salesman they're going to tell you, "Ah, you should get a new car." You've got a friend who's a realtor, "Oh, you should get a house now because interest rates are low." They're not disinterested, they have an interest in separating you from your money, which is why it's important to separate the needs, separate the wants, take a little time, figure it out. When I sold my expensive car many years ago it was kind of like getting a little mini windfall. I went out and paid cash for my truck. I paid off my furniture bills, my no, no, no plan, and then I started my emergency fund. So I did 3 things that helped me improve my financial condition.

Emergency funds very, very important, don't get be wrong, but sitting on cash when you have high or even low interest debts to pay off is like hanging on the to the medical kit waiting for the next bullet to hit. Get patched up, stop the bleeding, if you get shot again take care of that if and when you get shot again.

Moving on, I was in Costco the other day, behind a gentleman in the tire or garage repair shop, whatever you call it over there at Costco, he was talking to one of the techs there getting a price quote, I guess he had something wrong with his tires, $950 for a new set of 4 tires he was quoted, no actually, I remember, it was 950 and then the guy said, "Oh no, there's some discounts.", like 850 for a new set of tires. My last set of tires was 350 I think, less than $400. When you are considering any type of vehicle it's important to find out what is the true cost of owning that car. You can ask yourself, "What does a car cost?", that's the sticker price on it, but then there's also, well how much does it cost to own that car for however long you're going to have it. 2 completely different questions. On one hand you have the purchase price and financing, if you're going to take that in consideration, and then you've got, are you going to have to pay $900 for a new set of tires every time.

Edmunds.com has a tool on their website, Edmund's, a well known auto search website, auto tracking, reviewing website, find out everything you want to know about cars. They have a true cost to own tool it's called, and you can get a very clear picture of what all the costs are associated with a vehicle. It will show you the insurance cost on average, fuel cost, taxes, maintenance, repair, depreciation, all those go into the output that they spit out so you can see what is the true cost of owning the vehicle that you're considering. It helps you make a more informed decision when you're shopping around for a new vehicle. If you've got 2 similar vehicles, maybe you're looking at a Toyota Camry and a Ford equivalent of whatever the Ford equivalent of a Camry is, you can see which one, well we know the Toyota's going to be more reliable, but if you really like that Ford and the way it looks you can see how much more it's going to cost you over the life of the car.

A shout out to Jay Cummings and Megan, thank you guys so much for subscribing to the show, if you want your name heard around the world by my 2 cats all you gotta do, take a screenshot showing you're subscribed to the show, email it to me scott@scottalanturner.com, and your name can be heard as well.

Brian from Pittsburgh, Pennsylvania has a fun budgeting question, he says,

Brian: "Do you have advice on double checking your budget against your actual bank account ledger? When my wife and I sit down to create and update our budget and every dollar all the numbers add up fine, when I go to double check our math with the actual ledger balance in our checking account at the start of each month everything also works out. Where it gets confusing is about midway through the month when I go to double check our ledger balance math with what we're going to keep spending for the rest of the month and Everydollar shows that we're going to be fine but right now my spreadsheet reconciling with my bank account shows we're going to overspend by about $120. For what it's worth, I don't subscribe to the paid version, it's possible that I'm missing a transaction that still needs to be manually entered into the software. I haven't convinced my wife that spending the 100 bucks on budgeting software is worth it yet, maybe next month. I nerd out a little bit too much with the budget and have the tendency to drive her nuts with my constant money chatter. Maybe I should just sign up for the paid subscription so these transactions automatically show up to prevent me from missing one in the future."

Scott A. T.: Brian, you're probably right, some type of missing transaction. If you're doing everything manually you're processing a 100, or 100's of transactions each month if you're a heavy credit card or debit card user, possibly easy to miss one. If you're manually doing it and that's something that you like to do, save the $99. Some people prefer to do the manual transaction entries so they can get their hands on everything that goes into it rather than doing the auto-imports where you don't have as much, you're not paying as much attention to it. Another option you might consider is checking out Mint.com which is free. I just switched back from Everydollar, I tried Everydollar for a year, paid the $99, I don't want to spend the $99 a year. Primarily it didn't have the reporting features I needed so I decided all right, I'm going to go back to Mint since they're comparable, Mint is free, neither of them reconciles with your bank accounts, they both lack that feature. I think You Need A Budget does, but again, that's another paid piece of software. I've never been able to figure out that new online version so I have nothing positive to say about that, some people like it.

Something else that you might consider is print out you statements, debit card statements from the bank, your credit card statements, just walk through them 1 by 1, transaction at time and check them off if you find them in the software, see if you're missing something that way, and if you don't then you're probably going to have to go back to the software and walk through those transactions and see if you double entered something, or because you're doing it manually your finger hits a 2 instead of a 1 and a $100 charge becomes a $200 charge, that can foul things up as well. Thanks Brian for the question.

Rob from Los Angeles, California is considering paying off his car versus investing for retirement. He says,

Rob: "I'm 44 years old and I'm trying to decide whether to pay off my remaining car loan or keep paying the car loan and begin investing a small amount every month into my retirement account, which is comprised of, you guess it, index funds." Way to go Rob. "I have an approximately $11,000 car loan, pay $200 a month towards the note and it's a little over 3% interest with a local credit union, take advantage of making biweekly payments and through extra towards the principle on a semi-regular basis. I have a 800 credit score, north of 6 months of emergency funds in my savings. In order to pay off my car loan entirely I'd have no more car loan but have little to no money to funnel into my retirement savings on a monthly basis, at least not for the immediate future. So should I pay off the car debt and enjoy having no car note plus the interest that it accrues or should I keep the car loan and start making monthly deposits into my retirement account with the money I was planning to pay off the loan with, which do you think would be better as a long term path to take?"

Scott A. T.: Index funds, good for you Rob, keeping the fee robbers at bay. Funneling into your own retirement account, so I'm going to assume we're talking about an IRA or just an individual brokerage account, different from if you had an employer sponsored plan, if you have that then I'd say at least get your company match. If you're paying 3% on a car loan, or really any type of loan, you're investments could earn how much, that's normally the comparison that people make, what else could you do instead, what is the other opportunity, what are the options. If we're talking investments in the stock market, are you missing out on making 10%, or 25%, or -10%, or 0%, but who knows, who knows over the next 2 years what it's going to do. We just call it an unknown, unguaranteed return, unlike your car loan which has a 3% guaranteed return of investment, because that's the cost. If you were to turn around and start investing and make 20%, you would think, "I'm brilliant, this was the smartest decision ever.", but if you turn around and invest and you lose 20% over the next 3 years, you'd wish you'd paid on the car instead. Only over that long period of 10 years do we know it's going to go up 10% on average every year, but we can't use that as our talking points because we don't know over the next few years.

What if the car loan was 0%, what would we do then? Well you pay the minimums and probably invest, because it's 0%, there's no cost to borrowing the money, and if it were 0% at a relatively small amount you might invest the difference, if it were 0% and it were an obscene amount, might rethink that. Now what if the car loan were 13%, well that's a no brainer, you'd definitely be paying it off as fast as possible, because it's 13%, that's a big cost. You're in the low zone, it's more of a gray area. $200 a month payment, probably got a 5 year term to pay off that 11 grand, the total interest you're going to pay on that loan, sorry but it ain't jack in the grand scheme of things, 1500 bucks or something if you pay the minimums and nothing more. You pay it off in 2 years maybe you save $700. I mean in the 20 span of years you're going to be working towards investing that's a very, very minute amount.

So there's the dogma out there of some people that all debt is bad, never use a credit card, then there's the reality of people who say they believe in those principles but then they don't follow them 100%, people who use credit cards as an emergency safety net, people who use HELOCs, Home Equity Line of Credit, as an emergency safety net. Can you face plant on those? Well sure and people have but plenty of people have used that strategy effectively in bad situations and recovered as well. Since you have a sizable emergency fund earning 1% I'm probably going to take that to wipe down the 3% car loan, you save a little bit of money, but not only that, you just get rid of the debt, it's a better feeling, you knock out some or most of all of it.

The emergency savings, while it feels good having that as the safety net, you can build that back up. Having no debt also feels good, it's actually a little bit better of a feeling I would say, but you don't know that until you actually do it, don't have a car payment each month. Take from your emergency fund, you replenish it, after that then you invest. If you're feeling like you have to invest, put a portion into your long term investments and a portion into the emergency fund after you get the car loan knocked out. Worst case, you pull money from your investments to cover an emergency, people have done it. Keep in mind that investments might go down when you need it, that's why you don't treat long term investments as an emergency fund, that would be a mistake.

For me, what worked for me from a perspective of this is the thing I did that made me feel the best, get rid of the car loan, build up the emergency fund and invest. Thanks Rob for the question and for supporting the show.

Let's pay some bills. Back in a moment. You're listening to Scott Alan turner.

Hey nation, Scott Alan Turner here. Now for those of you that are my long time listeners, you know I'm not one of those guys on the radio who promotes every product that shows up on their desk, but today I have exciting news to share. We got together as a team and the vote was unanimous, there's just way to much money on the table being turned away, so starting now, we are going to start promoting every product that shows up on my desk, beginning with the fine services of Quilt Kitten, for all your quilting needs. The fine staff at Quilt Kitten have an affinity for quilts and kittens, fabrics, patterns, bedding, books, sewing supplies, quilts and more, and they have just had some great new fabric come in from mother Russia. Don't stab your own fingers with a needle, let Quilt Kitten do it for you, meow.

Someone should be hiring me to work on sitcoms, or as the rhythm guitarist for Alice and Chains, Danny, "Switched to Vanguard, now what?", says,

Danny: "First off, thank you so much for your podcast and your inspiration, guidance and knowledge, been super helpful and I've learned tons that I never knew before. Since becoming a follower I've paid off my credit cards and just paid of my signature loan for my credit union and the loan I had from buying a scooter, now wanting to sell it, and I paid back my dad money he loaned for a new car I bought in 2015, also what to sell that. I put some money away on the side hoping for a ring for my girlfriend, a wedding, and to buy a new home here in the next few years, Just started the process this morning of moving 14 grand from Charles Schwab, it was just sitting there making no money, into Vanguard. Based on everything I hear from yourself and others, professionals, coworkers, and friends this seems like the best bet. I'm wondering were I should put this money to benefit me the best. I want to leave it there forever and not touch it. I already have a retirement account and thrift savings plan with my employer, so this is just extra money that I wanted to save for the future. Also I've started using Acorns, the new app that uses roundups in smaller deposits to invest. Currently deposit $10 a week to that and also want to leave that alone and forget about it. I know this won't generate much, as it's small amounts, but my question, is the app worth using or should I cancel that and put the money to Vanguard, can I even deposit $40 a month into a vanguard account automatically? Sorry for the huge amount of questions, however, I trust you and I'm just getting into this money saving game, 33 years old, single, no kids, full time job for the government."

Scott A. T.: My pleasure Danny, and thank you so much for being an active listener, not just listening, but taking action. Congratulations on paying off your credit cards, wicked awesome, and your loan. Get rid of that scooter, those things are death traps, I owned one so I can say that, almost crashed mine within the first 5 minutes of owning it. My motorcycle helmet was super cool though, that was the best part of having the scooter and that is the only thing I miss, the helmet, because it made me look cool.

With the thrift savings plan and other investments, you're big concern is your asset allocation, and this is true of anyone who's got different investments in different aspects of their lives, whether that be a 401k and a Roth IRA, or another type of plan that you've got at your 401k wherever your money is allocated there and you've got some other individual brokerage accounts, all these different places, you asset allocation, how much you have in stocks, how much you have in bonds within those as well, it's very hard to say, "Well go invest in X.", without knowing what someone is doing everywhere else.

Give you an example, thrift savings plans, they have really good target-date funds, very low fees because they take care of you guys. If you're in an 80-20 target-date fund, meaning 80% stocks 20% bonds, with $10,000 invested in there, within the plan, so that would be 8,000 in stocks 2,000 in bonds, let's say you take your 14 grand and you dump it into somewhere else in a stock index fund. Well now you're not 80-20 anymore because you've got all this money you just put in stocks, so you're almost 90-10, that's significantly different in asset allocation, and that's one of the downsides of target-date funds, no matter where they are you can't adjust your ratios. You could do a Vanguard target-date fund on top of that, and that's assuming you're in a target-date fund now, but I probably wouldn't do that. You're 33, you have to look at your risk tolerance, how you're going to feel about wild fluctuations in the stock market, are you a risk guy or are you not so much, want to be more conservative. That's going to define your asset allocation. From there you can pick what other type of low cost index fund, in addition to your other investments, that will keep you in your comfort zone.

Asset allocation is one, if not "the" most important investment decision anyone can ever make. A 20 year old with 80% bonds 20% stocks is not going to grow money at all hardly. A 75 year old with 100% stocks could lose half their money, that's not a good place to be either, especially if they might live to 95 and they need to live off of that money.

If you have at least $10,000, which you do, you can get into Vanguard's Admiral Shares, those are the higher end type of shares. What's the difference between Admiral shares and non Admiral Shares? The yearly expense ratio. With the admiral shares though, because they do have a $10,000 minimum, you can only get into one. Whereas the other funds, they usually have a $3,000 minimum pay to play to get into them. The difference, yearly expenses, Admiral Shares are just much less. Which funds do you want to pick? Again, it gets back to your asset allocation of what are you in already. You could look at, I'll give you just 3 to pick from, Vanguard Total Stock Market Index Fund, the Vanguard Total International Index Fund, the Vanguard Total Bond Index Fund, those are 3. If you're looking at something called the 3 fund portfolio, which is a good starting point for most people, those are the 3 funds that they invest in, and how much goes into each one gets back to asset allocation and your level of risk.

Acorns, I don't think I'd bother. If you're automatically investing, you've got a good plan, which you do, you're learning this stuff, you're making changes, automate save, spend the rest, I don't think I'd bother with Acorns. It's great for people who are new to investing, they just need to get started with a little bit, but for somebody who's doing the retirement plan and they've got a plan, and they're putting money away for it, and they've got money to put away for it, it's just peanuts compared to the great investment that you could do. Not that there's anything wrong with it, it's just that it's not going to make you rich. That's really a personal position though, I like saving my spare change, we cash it out and then we go out and eat dinner once in awhile with the pennies and nickels and quarters that we've accumulated over how ever long it takes to pay for a nice dinner. If you want to put your pennies, and nickels, and quarters, dollar bills into Acorns and save up for a vacation you can do that too. Thank you for the question Danny and I appreciate your trust, but always make sure when you trust, you verify. You protect yourself, you protect those around you. Rock on dude.

Oldie but a goodie from CNBC, Ronald Reed, a former gas station employee and janitor who died in 2014 at age 92. Known as a private man who led a modest life in Brattleboro, Vermont, Reed had a hidden talent for picking stocks. A talent that became public after his death when he bequeathed, $5 word there, bequeathed $6 million dollars to his local library and hospital. Known as an intensely private man who loved to chop wood and drive his second hand Toyota Yaris around the Vermont town of Brattleboro, Reed didn't' strike locals as the type of guy who had a lot of money to throw around. When the 92 year old passed away most Brattleboro residents were shocked to learn his estate donated 4.8 million to the local hospital, 1.2 million to the town's Brooks Memorial Library. Real estate attorney Laurie Rowell said she could understand why everyone in town was surprised by the news. "Initially he told me he had money, I didn't really think so because of the way he was dressed.", she said critical citing his typical ensemble of of a well worn coat, flannel shirt, and baseball cap. "Never judge somebody across the table for that they look like", she said.

How did he become a millionaire? He was a whiz at picking stocks, transforming his humble savings into about $8 million by the time he died according to Rowell. "Most of his investments were found in a safety deposit box.", Reed's attorney told Laurie A. Rowell. Those investments included AT&T, Bank of America, CVS, John Deere, General Electric, General Motors. He only invested in what he knew and what paid dividends, that was important to him.

Ladies and gentlemen, the man was a janitor, a janitor at JC Penney, a janitor, who amassed $8 million. You don't have to learn how to pick stocks successfully to do this, 300 bucks a month, 8% conservative investment, which you can get simply in some low cost index funds, for 62 years comes out to $6.26 million. 8%, very moderate risk, very conservative, it's just time and consistency. He saved, well he was super frugal obviously, wearing a well worn coat, and flannel shirt, and baseball cap, and driving a second hand car , but he saved for 62 years, he was a janitor. This is how you build wealth, consistently, month after month, year after year, decade after decade, it really is that simple.

Those are the words, that's it for this episode. A janitor! I'm your host Scott Alan Turner, Rock star Katy is my producer. A janitor! All the links mentioned in the show are available on scottalanturner.com, including the link to that story about the janitor. If you have a question you'd like answered on the show visit goaskscott.com. Thanks for listening, $8 million, janitor.