

Do This Now: Practical Money Management Advice for Your 20s, 30s, and 40s | The Informed Investor 52

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SUMMARY

The podcast discusses financial planning for individuals in their 20s and 30s, emphasizing the importance of making informed decisions about saving, investing, and managing money. The conversation covers various topics, including the benefits of brokerage accounts, the significance of understanding one's relationship with money, and the necessity of having proper insurance and estate planning in place.

- Investing extra money in a brokerage account can provide flexibility for future expenses like home renovations or vacations.*
- Understanding the purpose of money and aligning spending with personal values is crucial for financial success.*
- Couples should have open discussions about finances, including spending habits and financial goals, especially before marriage.*
- Life insurance and estate planning become increasingly important as individuals marry and have children, ensuring financial security for loved ones.*
- Disability insurance is essential, particularly for higher earners, as the likelihood of disability is greater than that of untimely death.*
- Renting vs. buying a home should be evaluated based on personal fulfillment rather than solely as an investment.*
- Financial advisors can help manage complexity and provide accountability, especially during significant life changes.*
- Young individuals should focus on building good financial habits early to create options for the future and enjoy life along the way.*

if they've got additional money and there's no job for it, go ahead and invest some more. Like, why not make that money work harder for you in the stock market and put it into a brokerage account and invest it that way? Um, and [clears throat] that can be extremely powerful for a lot of different reasons. Brokerage account money is money that you can use for anything. I mean, >> total flexibility. >> Total flexibility. You want to be smart around how and when you're taking the money out just in terms of taxes. So, there's certain things that I make sure clients are qualifying for long-term capital gains before we sell any of those assets to use, but my clients are using that money for all sorts of things. Um, I had someone take a sabbatical and they funded it with money in their brokerage account that they had been building up. I had a client do a home renovation. They use money from the brokerage account for that. um buying a new car, down payment for a new house, that money can come from your brokerage account. If you are being thoughtful early on and taking the extra that you have left

over and just shoveling it into brokerage, it can give you a lot of flexibility down the road.

>> Welcome [music] to the informed investor, where we break down the latest financial headlines, bringing [music] in research and insights to help you separate the news from the noise. If you are in your 20s and 30s, the financial decisions you make today will shape the rest of your life. That is our topic of the day. We have a special guest to talk about those key decisions that you want to make in that age group. Now, we also have a special announcement. Today is the one-year anniversary of the informed investor. We have released 52 weekly episodes and the working group that puts these together, they do an outstanding job and they have well-deserved vacations coming up this summer. So, we are taking a summer hiatus and we will come back with the show in mid August. So, thanks to everybody for watching the show over the last year. It's been really a lot of fun to put these together and we're excited to be back in August. Now, for this show, let's get into it. Here we have a special guest, Kelly Clingerman. Great to have you here. Kelly Clingerman Financial Planning, your firm name.

>> Very original. It's just my name. Yeah. >> Now, this is this is extra special for us because you were an employee here at Dimensional. you are regional director, managed a lot of our client relationships, and then you went and started your own financial planning business. >> Yeah, I was here for almost 12 years. I think I started as an intern right out of college. So, walking back into the building today was uh bringing back a lot of memories. And yes, I started my own firm about four years ago. And I work with professional women and their families. Tends to be a lot of families in the millennial generation, which is 30s to mid-4s. And I know we're going to be talking about uh like the bookends of those generations, especially the younger today with Gen Z and uh millennials.

>> Yep. And I just have to say, you mentioned you're an intern here. I think you're one of the first interns we had in our Austin office. >> Technically, that was our claim to fame. There was me and a couple other people. We were the first uh summer interns in the Austin office. >> Love it. Well, welcome back. It's great to have you back here. Now, I'm going to start with some headlines. They kind of connect to what you're describing sort of your sweet spot with your clients. I like how you said that book end of, you know, maybe a little bit before the millennials. You have some clients perhaps after the millennials, but let's start here and then I'll get your reaction to some of these headlines.

Okay, start with the Gen Z's. We'll work our way up. Gen Z is opening more credit cards and seeing their credit scores drop. Anxiety fuels Gen Z's retirement planning. And then we'll get up to the millennials. Millennials are the most underinsured generation. the average millennial 401k balance is not super bad. So I think I think that was toned down to be a little positive on that one, the not super bad part. But anyway, that kind of gets into some of these age groups, 20s, 30s particularly, maybe a little bit beyond that. What's your reaction to a couple of those headlines?

>> Yeah. Um, there's a lot of, I think, stereotypes about millennials and Gen Z when it comes to how we like to spend money, how we save money. And I think a lot of that is a distraction from some of like the core principles that we could follow in our younger years. And I'm excited to talk about a lot of that with you today. um because

there's a lot you can do when you're younger to set yourself up for when you're in your mid30s to maybe have more flexibility and I'm excited to get into those topics.

>> I mentioned this is for those in their 20s and 30s predominantly, but I'll also say too I think it's for the parents that have kids in their 20s and 30s just to maybe get some guidance, some ideas to help them make some good financial decisions along the way as well. All right, so for the audience, uh here's the flow. We'll talk about a little bit of purpose. What are you trying to accomplish with your money, your wealth, which gets into all right, what are you spending? What are you saving? And then how are you thinking about some risk management? Those are some of the big buckets here uh with that. So, let's get into it here. I know part of a big part, I should say, the way you work with your clients um really are about what is the purpose of the money? What are you trying to accomplish with savings? So, maybe walk us through how you have those conversations.

>> Yeah. Before we ever talk about how we're going to do this or that or different financial planning strategies or before I look at their investment accounts, I want to understand what my clients actually think about their money. Like what's their relationship with money? And that can get into their values and their vision for where they want to go on this journey of using their finances to support this great life that they want to live. And a lot of people just jump right into the strategies, right? like all these like terms and jargon and phrases of things that you should be doing before they even think about what they're what the reason is. And so I like to start there.

I like to ask a lot of deep questions, especially for couples, to bring those two money stories together and try to understand like what do we each value individually? What do we value as a couple? What do we value as a family if we have kids? And how do we use that as a blueprint to set up our future money decisions? And so I I think that's a great exercise for any young person to go through to really sit back and think like what is money's purpose in my life?

What do I want to use money as a tool for? Are there certain words or phrases I can assign to this purpose around my money? And then especially important again if you decide to get married, we talked about that's one of the biggest financial decisions you are ever going to make. And you really need to take a step back before you get married to have those conversations around um I think understanding like who's the spender and who's the saver. Usually those people marry each other. It's pretty rare for two savers to marry each other or two spenders to marry each other. And so understanding your tendencies around money and then taking a step back to understand like how do you really want to guide your financial decisions before you jump in to making those. I'll come back to the marriage thing in a minute, but what do you find from some of your clients when you talk to them about purpose of money? What what's what are some of the things that comes out?

Obviously, it's like, well, I got to save and grow wealth for retirement, but what comes out beyond that? >> There's a lot of phrases that I tend to hear. or you hear things that people value flexibility or freedom like they just don't want to have to think about making a decision because they just know that they have this this comfort of like money is there and available for me to do the things that I love. So freedom and flexibility um protection is another word that I hear. So a lot of times people are thinking of protecting a spouse or protecting kids and they're very driven by making sure that other people are taking care of first.

Sometimes to the detriment of their own values and vision. Um and [clears throat] a lot of that is informed by how you grew up around money. There are certain people I know who are my clients who are extremely driven and even though they I show them like hey you have enough. you you really don't have to work much anymore. You don't have to save as aggressively as you are. It's very difficult for certain types of people to turn that off and to switch gears. And that is very much informed by maybe a scarcity mindset when they were growing up. Maybe they didn't grow up with enough money. And so it's pretty impossible for them to just have enough in their older years. Um and then the opposite of this that is true too. You could have grown up with all of the advantages in the world and that can sometimes lead to poor money decisions as an adult because you maybe are used to the safety net being there and so you make quick decisions that are not always in your best interest as an adult.

>> So it's a lot of grappling with your money story. When we get down to talking about what is what are your vision for your money, what's your values, what's really important to you, >> it it comes out it's a very individual decision or a couple decision, right? There's no magic blueprint to say this is exactly what it needs to be because everyone has different life experiences around that. So, let's get into a little bit of the marriage side of things. Um, I got lucky, I suppose. I'm a CPA. My wife was CPA, so we've been always fully aligned [laughter] from a spending and savings perspective, which I have to say uh was incredibly valuable because it reduced a lot of financial stress that there may have been dissension on making financial decisions. So, how how would a young couple perhaps they're dating or engaged before they get married, what can they do to have these kind of conversations and see where each side is on when it comes to money decisions?

I think, you know, if you were like me, I we took these classes at a church and there was like this guy who walked us through certain themes of like, you know, look out for this in marriage and I think there was one session where we talked about money and that was it. Um, I I being the money person in my life, having a finance background, my husband's a graphic designer, he's more of the artist. So, I kind of steered the ship on that and had a lot of that background, which was an advantage, similar to you and your wife, but I think most people don't have that sort of background.

>> And so, just like one-off conversation with the pastor who's marrying you maybe isn't quite enough. Um especially because who you marry again is technically one of the biggest financial decisions you're going to make in your life because you have to think about you know who's going to continue earning the money. Who's the higher earner who has the higher potential to earn versus who might back off of work and take care of children if you do end up having kids.

So there's a lot of intricate decisions that come down the road that young married couples are not thinking of. So, a lot of my clients these days are thinking of things like, hey, should we get a prenup? Should we have a more serious discussion in advance and use some of these tools, like legal tools that are available to us to understand how we view money now and how we want it structured as we go into our marriage.

And I think historically a prenup is like, oh my gosh, I I don't want to talk about that. Like, that's assuming that our marriage is not going to work out. >> Well, it's interesting, isn't it? because it was historically one of them

has a bunch of money >> and you just got to protect that so you got a prenup and that was probably always really hard conversations to have but it sounds like it's more common now to talk about that and how you think about some of that. Um so tell us more about where you see some of these conversations come into play.

>> Yeah. Um a lot of my clients are couples where the wife earns more actually and this was my situation coming into my marriage. I was going to work here at Dimensional and my husband had an unpaid internship at a graphic design t-shirt shop. Um, and so it was very apparent the trajectory of what was possible for us to earn. So knowing that if you come into ready to get married and you know that someone's going to be the higher earner, there's a lot of decisions you could make to protect what that higher earner is creating in terms of value and also to protect the person that's not going to ever make as much money. Um we think about like my situation, my retirement accounts are significantly bigger than my husband's because of my salary and bonus that I was able to earn versus his. And we don't have a prenup. So if something were to happen with our marriage, I would split my retirement accounts down the middle and he is um that's half his because in a community property state like Texas, anything we earn during marriage is, you know, can go to both people and you can split it right down the middle. So, a prenup can help protect certain things like that where I've heard where you can make a decision um your spouse has to agree to this where if I'm the high earner, I can say I'm going to contribute to a joint investment account up until a certain amount. Let's say when it gets to a million dollars, every dollar I earn after that, we could split it a certain way where some of it stays just for me because I'm the high earner and then some goes to the joint pot of money.

that's like if we were both continuing to work together and earn and sort of protects me as the higher earner in some ways. Um but also protects you know my husband because he's benefiting from this joint money that we have too. >> There's a lot of discussion around prenups around protecting the person who may take a step back to take care of children too. You know, one of the things you made a really um I thought valuable comment, important comment when we were kind of preparing for this and we're talking about this idea of a prenup and can you get really uncomfortable trying to bring this up.

Um it sounds like more people are getting more comfortable with it, but what you said was you have a prenup in place already. Like you just alluded to, we're here in Texas, right? So it's common law split 50/50. That's essentially a prenup. So maybe it to avoid some of the I guess the anxiety around having that conversation is say there's already one in place. Is that one we're comfortable with? And if not, then how do we want to adjust that? So, right. Interesting to see more couples getting into that >> that discussion.

>> Yeah, exactly. You have one in place based on the state laws where you're getting married. And so, yeah, in Texas, things like inheritance, if you don't if you end up like comingling inheritance money during your marriage and you don't have a prenup that protects that co-mingling that says that you can kind of claw it back if you were to get divorced, then if you do get divorced and things are comingled, it is half of each person's based on the state laws.

Um, so yeah, it just depends on where you live >> that you have something in place no matter what. So why don't you have more control of that by putting a prenup in place in advance? >> All right. So we'll come back to

some of those risk mitigations too that that it can come into play there things you're describing there. Anything else you want to add on just some of the people finding sort of their values and purpose with money then as we get into All right, let's talk about spending. Where' the money go? Well, I think as a segue into spending, most people tell me that they value certain things and then the next phase is we look at their cash flow and we get in the weeds of like where is money actually going? And many people are very surprised like oh I told you that I prefer to spend in this way and these are the things that I value but I'm actually spending money on things that don't align with my values. So it is super important to pay attention to cash flow and understand where your money is going and have more control over that. Have actual automations in place so that you are protecting the things that you said that you valued and putting money towards those buckets rather than just going by life and not paying much attention to that.

>> Do you find when you examine the spending patterns that maybe that really is their value, not what they said? Like it it's like yeah, I guess it really isn't that. It's where I'm spending my money. >> Yeah. I think this goes back to some of these stereotypes of um we think we're supposed to say that we value experiences and traveling and hanging out with friends versus things. But a lot of times people do value material things or a certain type of material thing and their spending reflects that and they don't really spend that much on vacations necessarily even though the kind of theme is that you're supposed to say that you prefer to spend money that way. So it's a lot of like cultural influence versus like well what do you actually care about? How does your spending reflect that or not reflect that and reckon with that and try to structure your cash flow so that it creates a system that reflects you and your values and this vision for where you want to go.

>> It's interesting examining the spending brings honesty almost to the conversation [clears throat] if you will. Okay. So how do you work with them to say hey we'll go out and examine your spending and maybe you create a budget or something. It it can get more complex than that where you think I don't even know where to start to put this stuff together, right? You have a great framework you use uh the clients. >> There is a good framework I like to use.

It's a three bucket system where you examine what are your fixed cost of living and this tends to be things that we can think of really quickly. It's things that we've agreed to pay for in the past and most of them are monthly recurring expenses. So, your rent, your mortgage, your gym membership, your utilities, um all sorts of >> your five streaming services. >> Your streaming services. Exactly. You [laughter] know, YouTube TV, Hulu, Disney Plus, all the things, right?

You've agreed to these expenses in the past. >> They are fixed. They're recurring. So, how what is that amount? How much is that? Most people can't tell me that off the top of their head. The next bucket is flex, flexible spending. And the way I like to describe this is Mark, think about what you like to spend money on every week. And this is where you're making a conscious decision to spend. So it's not recurring spending. It's like you're taking your credit card out of the wallet or you are clicking a button online to make a purchase. What are those things that you spend money on?

Pretty much without a doubt every se every seven days, every week tends to be for most of my clients, groceries

is a big part of this. Uh if you drive to work, putting gas in the car. Not everybody has to commute anymore, but gas. Um, eating out is a big one. How much do you spend when you eat out during the week? And then like other choices, you know, I've got certain people that like to, you know, get a massage every week or they get their nails done or maybe you golf every week, right?

>> Which I was thinking when you first said that was my trips to the liquor store for my wine, which most of my as a fixed expense. That's a must have fixed. >> That's true. Well, a lot of my clients have um you know, they're they're a member of a wine club, and so that would be a fixed expense. I would put that in the fixed category, >> but I do tend to have them break apart groceries and beer and wine, like liquor, because oftentimes that's two different trips or two different orders.

And it could be weekly, but maybe it varies a little bit, but all those things in the flexible bucket. And I ask people, how much is that number per week? Is it \$500? Is it \$1,000? Is it \$1,500? Nobody can tell me until we examine that. >> And I like to boil it down to one week of flexible spending because it's much easier for us to think about psychologically and behaviorally if we focus on one week versus like how much do we flexibly spend every month. It's, you know, four weeks, four plus weeks.

It's harder to hone in on that amount. So that's the second bucket. And the last one is non-monthly spending. So, for a lot of my clients, that's vacation spending. You know, you don't take a trip every month, but you're buying flights, you're paying for Airbnb, hotel, um the money that you spend while you're on the trip to go out to eat or buy things, buy souvenirs. So, travel spending. It could also be fixed non-monthly expenses. So, for me, I think of like my property tax bill. I pay that outside of my mortgage payment >> every, you know, it's due every January 31st here in Texas. Um that's a big bill for a lot of homeowners.

Another one could be fixed insurance premiums that you pay annually. So like my term life insurance policy is due every summer. I got to make sure I have that money available to make that payment. Um and other kind of miscellaneous things like for me I don't get my hair done every month. So my haircuts would be in the non-monthly category. Um certain hobbies that people have are non-monthly. I have people who like to do triathlons and there's like certain expenses related to being a triathlon runner and or a swimmer or things like that. And so that could be a non-monthly expense. Uh my husband's a mountain biker. He has an expensive bike and it needs repairs and that happens sporadically. So that's more of our non-monthly expense. So it could be hobbies too. Um and most people have absolutely no idea what their non-monthly spending is on average per month. they just know that it blows up their monthly cash flow because it's very sporadic. So, understanding those three buckets in taking the time to do do that with some really helpful tools that are out there. My clients, we use Monarch, which is a cash flow tracking app and platform that helps to look at all your expenses, categorize them for you, and it actually uses that three bucket system in the budgeting section.

So aligns really nicely with how I like to talk about cash flow. This platform helps to categorize it that way for us. >> Is Monarch something anybody can go probably get? >> Anybody can do it. I pay for it for my clients. It's a monthly subscription. I think it's \$8 or \$9 a month. Um but it's extremely useful especially for getting if it's a a couple. Uh especially for getting the spouse more involved who doesn't look at the day-to-day spending as

much. A lot of times one person is more focused on cash flow and the other person might be more focused on investments or if you're like me, I do all of that for our family. And so like getting my husband paying attention to our Monarch app and kind of seeing the weekly transactions and having him get in there and tag stuff to get a feel for where things go. It really helps to get everybody everybody on board with what we're actually spending and kind of gut check if that feels right, if it feels like it aligns with >> how we say we want to be spending our money.

>> One thing I'll do at the end of the year is I'll download all the bank transactions for the year and download all the credit card transactions for the year. And so I don't, you know, I just look at it kind of as a year deal. Um, and then it's easy to sort because if you sort by the bank account, I'll just sort by I guess payee, right? Then it gets you you can okay quickly get your utilities, mortgage, stuff like that.

And it's a real quick sum and then credit card. This is I'll sort it by biggest charged to smallest. And then there's some number where you're like, h everything's small, but then you add up all the small. It's kind of interesting what that number becomes in in aggregate for the year and then it'll sort it by usually the credit card companies do a pretty good job of putting some tag on it like travel or clothing or something so you can kind of get a quick quick and dirty that way and we find it interesting. We'll sit down and go over it at the end of the year and you're always surprised on the negative side, right? The stuff you're buying or what you're spending on and and that's why I mentioned the liquor store that earlier because like holy crap we spent that much at the neighborhood liquor store.

Like I guess so. Door Dash, Uber Eats, that's always the big one that surprises a lot of my clients, like how much they actually spend for convenience of eating. >> And most of my clients have young kids who are in activities and everybody, both parents work, so everyone's going a million different directions. And so that's maybe something that they want to continue spending money on because it helps make their life easier. But just even understanding what do you actually spend? Yeah. in that category.

>> If you have, you talk about property taxes or some of these big expenses once a year all your insurance premiums are due usually in aggregate stuff like that. How do you help people save for those? Like do you do you have them have separate cash accounts or savings accounts that they automatically um add to? >> Yeah. So, back to the three buckets, that's exactly what I prefer that they set up is actually having accounts that align with each bucket. So, let's say a family earns after tax and like retirement contributions, which I know we're going to talk about. Let's say their take-home pay is like \$15,000 a month. Well, I want them to split that into certain buckets and preund especially their non-monthly expenses.

So, let's say that fixed and flexible spending is about 10,000 of that. So, they've got this 5,000 extra, right? and they realize that across, you know, all these non-monthly expenses, they spend about \$3,000 a month on average. Of course, it's not all happening in in that actual 3,000 a month increment. It's maybe like \$10,000 over here and for property taxes or whatnot, but it's on average \$3,000 a month. I actually will coach them on automating \$3,000 a month from what's called like a hub account where everything pools and setting up an additional savings account, typically a high yield savings account that's going to receive that \$3,000 a month.

And so when these non-monthly expenses come up, the idea is you pay for them and you pay yourself back from this non-monthly savings account that you've been building up. And then for the other two buckets, you have money go into those as well. you have, let's say you have \$7,000 a month as your fixed and then the 3,000 is your flexible. So having that go into two different accounts sometimes or selecting a specific credit card to do each type of spending so that you keep it segmented, especially your weekly spending. Most people again have no clue what they spend when they just pull out their card or order groceries online. So, let's say on average you've spent like \$1,500 a week and you kind of want to curb that a little bit. You want to get it down to maybe like \$1,000 a week on eating out and groceries and just general shopping. So, actually having a limit in your mind of \$1,000 and using one specific credit card to do that weekly shopping and then getting together with your spouse at the end of the week, looking at your spending and saying, "Hey, you know, we we're a little bit under a,000 or we're a little bit over." Just having a conversation about it, having a little money date to reckon with that and understand why or why not you went under or over and then paying off the card right there. So, fresh, clean slate. you have a new \$1,000 to spend for the next seven days.

That has been extremely helpful for a lot of my clients because it helps with like a gut check of, oh, I'm getting really close to my thousand for the week. I can kind of put off this random thing I need to get the kids like clothing wise. I don't know. I feel like any of us with kids, they are constantly growing out of things, but they don't necessarily need that item like this week. And if I had a lot of other higher expenses for this past seven days, maybe I in my mind push that expense to the following week when I have my fresh new thousand to spend. So that has been super helpful having the three buckets actually align with specific credit cards and specific bank accounts.

>> It's a great idea um to have the credit cards used differently because you probably want a couple different credit cards anyway. Right. Right. Just >> to maximize points. Most of my clients want to maximize either travel points or, you know, they get certain points like a lot of people have a Costco credit card because they get a lot of good double points on certain things there. So, it's a nice way to create a credit card system of maximizing points which can go towards supporting, you know, you get a lot of free flights or flea free trips out of having good credit card point usage. So, it kind of all works together. And the whole idea is like have a plan, have a system in place, don't just leave it up to chance.

Yeah. All right. Um, credit cards. I'll just state the obvious. [laughter] [gasps] >> Only use a credit card if you can pay it off, right? If if you think, "Hey, I really want XYZ, a new stereo, but I don't have the money, I'll put on my credit card." That means you don't have the money, >> so you don't do it. >> Yeah. >> Well, this is where you can look at that non-monthly account. So, for us, our non-monthly account is non-monthly shopping. So, I think of that like certain times a year where I got to buy a bunch of kids stuff. my kids wear uniforms to school and so there's a certain point in the summer where I got to do a refresh of their uniforms because they need new sizes and I know that's going to be a bigger spend or another might be again kids stuff summer camps we got a lot of summer camps happening that is a bigger spend in the earlier months of the year so it's a big non-monthly expense for us and I base timing of certain things around those expenses on what is in our non-monthly savings account that's being replenished every month and some that stuff is necessary. So, we've built in to have it and make sure the money's there. But certain like shopping or certain things you don't necessarily need right now.

Checking your non-monthly account to kind of see what's really in there. Do you have the money to buy the new stereo or to buy this or that? It's a nice way to again have some self-reflection, have a little bit of pause, think about it, and come back to that expense maybe in a few weeks when the account has been replenished some more. >> All right. Um, the accountability on spending, a big part of that is then to think, well, hopefully you have some money after all of that left over to invest.

>> Right. Right. Well, if you think about my example where we had like the \$15,000 coming in, we had 10,000 for fixed and flexible spending, we had about 3,000 for non-monthly. Well, if you notice you have \$2,000 extra dollars every month. Don't just leave it sitting there in your account. Like, give it a job. Send it to an investment account. In a lot of in a lot of places, um, in a lot of situations with my clients, it's we are taking that \$2,000 extra dollars and we're automating it into a joint brokerage account. So, they may be saving through deductions from their paycheck to a health savings account, their 401k if they have that through their employer.

>> But if they've got additional money and there's no job for it, go ahead and invest some more. Like, why not make that money work harder for you in the stock market and put it into a brokerage account and invest it that way? Um, and that can be extremely powerful for a lot of different reasons. brokerage account money is money that you can use for anything. I mean, >> total total flexibility. >> Total flexibility. You want to be smart around how and when you're taking the money out just in terms of taxes. So, there's certain things that I make sure clients are qualifying for long-term capital gains before we sell any of those assets to use. But my clients are using that money for all sorts of things. Um, I had someone take a sabbatical and they funded it with money in their brokerage account that they had been building up. I had a client do a home renovation. They use money from the brokerage account for that. Um, buying a new car, down payment for a new house.

That money can come from your brokerage account. If you are being thoughtful early on and taking the extra that you have left over and just shoveling it into brokerage, it can give you a lot of flexibility down the road. >> And that's because anything in a retirement account, 401k, Roth IRA, there's a penalty if you pull that money out, you know, before certain. you know, with Roth money any since it's after tax money, you can take from the principal whenever you want because you already paid taxes on it, so there's no penalty with that. But yeah, technically you shouldn't be you should be trying not to touch that money until you're age 59 and a half and leaving it alone. It should be invested more aggressively typically.

And so if you have all your money in cash though too and you don't really know when and where you're going to use it, that also can be detrimental because inflation is eating away at the value of that cash. Even if it's in a high yield savings account, which I definitely recommend put any cash in a high yield savings account. So having this middle ground bucket, this investment bucket that's more flexible. I see most people just don't have much in brokerage. And so that's a big opportunity I see with my clients is, oh, you've got a lot in your retirement accounts, but let's start building up brokerage money.

>> Let's I want to get into priorities of savings. Like, do I start with my company's 401k plan? Do I do a Roth? Do I pay down credit card debt first? You know, stuff like that. But before we get into that, what what do you recommend people target as a savings rate? Yeah, you hear a lot >> because I think in your example, I was just

doing the math there, like 10 to 15% is kind of what we're we're getting at there.

>> I feel like early on, like early 20s, we talked about, you know, if you're getting free money through your employer 401k plan, at the very least, the matching, yeah, at the very least, make sure you're putting enough in to get the full amount that they're willing to offer you. And you know, maybe you're able to save about 10%, maybe a little more, but probably earlier on, you know, your money has to go to other things, your living expenses. You don't have as much of an ability to save at that high 10 15% rate. But every year you get a raise, kind of inching that percentage up a little bit is a really good idea.

And getting retirement longer term money in that 10 to 15% range, I think, is a really healthy range. but then also saving in the brokerage and kind of short-term midterm bucket too. So overall anywhere from 10 to 20% and that increases as your salary and bonus and your ability to earn increases. So getting closer to that 15 to 20% range when you're maybe in your mid30s like me and you're you have excess to save like just taking advantage of that.

>> Yeah. When you talk about those percentages is that gross income or take-home pay? I mean, most people think of it as gross, but I have certain people that like to think of it as like, well, the money I actually get to take home. It's tough when you have really sporadic um earnings from year to year, especially for my business owner clients who don't necessarily have a lot of consistency each year. Their tax bracket is kind of all over the place. So, I don't want people to think too hard on that. is just like of generally are we trying to save in and around 15% then that's you're on track to set yourself up for actually having having the ability to back off of work later on in life and not be so beholden to like a corporate job that is paying you a salary because you have taken the time to set enough money aside in these investments >> creating the habit for it right and and making good decisions. I was just talking literally yesterday to a dad and his boys and a couple of them were out of college and one's kind of wrapping up college and we were just saying well they were they were talking about how some of their friends are like I'm going to give me a BMW when I graduate. Do not get a BMW [laughter] when you graduate.

Absolutely not. Get a used car or maybe something way less expensive >> and just you can prioritize as much money as you can. Get it into your savings, right? You don't need fancy stuff when you're 22 to 25 or even really till much later in life. >> Right? There's that phrase of like wealthy people buy fancy cars last. It's like the last thing they do because they've taken the time to focus more on investing and saving early on. Uh we've talked about how like cars are this rapidly depreciating asset. As soon as you drive it off the lot, it's not worth as much as you paid for it. Um so focusing on something more dependable and low cost is definitely a good idea.

And cost mean not just purchase price but the maintenance, right? New tires on fancy sports cars are >> way more expensive. All that stuff that goes into total cost of ownership, >> right, >> around that. Okay. So, walk us through it. Uh, sorry I kind of interrupted you there a little bit. You were talking about um form start with that because you want to make sure you get the full match your employer offers. >> Yeah. And there's a lot of good benefits through your employer, right? So, a 401k is this retirement plan. oftentimes they will incentivize you to put money into it by giving you free money. So let's say you know Dimensional gives 6% to their employees.

Well, you should put at least 6% in to get that full amount. And then after that, evaluate your other options before you put more. So I usually say, do you have the ability to have a high deductible healthare plan which comes with a health savings account? And if you're younger, usually you don't have as many health care expenses early on in life. Let's say you're younger, you're healthier. So, it makes a lot of sense to go with a high deductible healthare plan that has this HSA account.

>> And a health savings account. Again, a lot of employers incentivize you to put money into it by giving you free cash. So, maybe a free \$1,500 they're going to put into this account. And you as an individual this year, you can put up to \$4,400 in there. So I always say try to make up the difference. If your employer gives you a certain amount, try to maximize and put the rest in to top that off for the year cuz that's taxfree going in. It's invested within the account. It grows taxree and then you can take it out down the road taxree as long as you're aligning it with certain health care costs. And I always tell my clients to try to leave that money alone as much as possible and pay for health care costs out of pocket if you can just out of your cash flow and track it because years down the road you are allowed to pay yourself back for those healthcare expenses. It does not have to be within the same year that you earned the money which I think a lot of people don't realize. So health savings account next >> and and just keep your receipts.

>> Keep your receipts throw traditional shoe box. You know, a lot of right a lot of my clients will have like an Excel file where we'll write down the expense, the date, who was it for in the family, and who was the provider, and then maybe some of them want to keep the receipt, maybe not. As long as you have a way of going back and getting proof that you made that um that you had that expense, that's important. And then maybe after you've gotten the most out of the match for your employer, you have filled up the HSA bucket, maybe you look to starting to build up brokerage after that, right? So, you've got retirement buckets. I think of your health savings account almost like a tax-free another healthcare retirement bucket. So having some of that flexible investment money next, adding extra money to a brokerage account and then maybe eventually going back to your 401k as you start to earn more money and trying to max that out.

Um this [clears throat] year you can put up to \$24,500 into a 401k and that amount goes up slightly every year. And so getting to the point where you can max that out is another choice on that ladder of priorities. >> Where would you throw a Roth IRA in there? What you're just going to talk about? >> Yeah, that's kind of the next layer is um a lot of 401ks have the option to put it into a Roth 401k. So if you're younger, you generally are in a lower tax bracket like when you're right starting off and that's a great opportunity to prioritize a Roth 401k.

So when you're making the choice selecting that you want the money to go into the Roth side because you're paying taxes first in this lower tax bracket and then it goes into the Roth bucket and it's invested and you never pay taxes on that money again. So you have this great tax-free growth, then it's like a yearly check-in, right? As you earn more money and your tax bracket increases, especially bringing in a spouse who's maybe a high earnner and you've got you're filing jointly, it may come to a point where putting money into Roth 401k doesn't make sense anymore. A lot of times if you look at the tax brackets, kind of like 24% or lower, I tend to say that's a pretty low tax bracket historically speaking. So, I would feel good about paying taxes now, putting it into Roth. And once you get above 24%, once you get into the 30s, that's where you may want to evaluate whether or not

you want to switch to pre-tax contributions to your 401k. Now, a lot of my clients are kind of at that point now, and they still have extra money and they're like, "What do what do I what else can I do with this? What other retirement buckets can I put it into?" And that's where you hear a lot about the backdoor Roth contribution.

So, let's say you're maxing out your 401k. You're doing all pre-tax because you're a little bit higher tax bracket, but you still have extra cash. You can do what's called a backdoor Roth contribution into an IRA, an individual retirement account. Convert the money automatically to Roth. You don't pay any additional taxes on that. And then you get this money in the Roth side of the account. It's growing taxfree. So there's no tax break to that in the year that you do it, but it is a nice way to build up the Roth money over time. And then some 401k plans even give you the ability even give you the ability to do a mega backdoor Roth contribution where you can put up to I think quite a bit of additional money just you've already paid taxes on it. depends on your situation, how much you're earning, but you can put quite a bit of additional money into the Roth portion, the after tax portion of your 401k plan. So, that's kind of the final step. And then like sprinkled in there, continuing to build up brokerage, just because you can use your brokerage money now, you can use it when you retire, too. It's completely flexible, and that flexibility is really nice to have.

>> You've used that term flexible. I think about is options too depending on year to year your tax situation, your cash flow needs. You have a whole bunch of different buckets you can really optimize if you will when you get to that point. Exactly. >> One of the things that was interesting on my form, so for many years it was just a pre-tax option was the only thing you had available, right? Then later they made the Roth >> contribution available >> of which I then started using. So I'll have the two pools. But it's interesting in mine how just compounding over time even though it was much less dollar contribution on the pre-tax it dwarfs >> now my Roth balance just become a compounding for a number of years before the Roth became available. So >> yeah when we talked about that just if you can start automating money into those accounts early on >> and benefit from compounding over time it gives you more options maybe in the middle of your career to pivot and do something else. We talked about I did this. I worked here for 12 years. I saved aggressively. My husband and I decided about halfway through my time here that I was going to leave and start my own business one day. And I had a plan to do that and we agreed together.

And we started setting even more money aside in investment and cash buckets. And then I was able to leave my job here and felt comfortable doing that because I had saved more aggressively in my earlier years. So, I just encourage any young people to you don't really know what you're going to want to do in the middle of your career. You don't know that you're going to work at the same place forever. Most people don't. Most people do not do what I did, right? They have all my friends have worked at multiple corporate jobs by the time they turn 30. And it just gives you more options if you have investment balance built up, especially brokerage account.

>> Well, and you had a plan, right? So, the plan aligned with your goals of savings and and that worked really well >> for you. Um, okay. Sometimes there's credit card debts, student loans, they probably have a lower interest rate sometimes though, but whether car loan, let's say car loans at 9%, obviously credit cards, call it 18%. >> Where does that come into play in your cash management versus savings? >> Well, this sort of gets into I know we're going to talk about investing a little bit more. All right. Like what can you earn from investing in the

stock market versus the interest rate you might be paying on any debt like credit card debt, a car loan, student loan debt. And so it's a very much it depends situation because you have to evaluate the interest rates on that debt. So I have a client right now who's trying to decide if they want to pay off a car loan versus invest that money. And so we're looking at the interest rate and the interest rate is, you know, 7 8%.

Well, I sort of assume based on historical evidence that my clients can earn about 8% in the stock market. That's sort of building in an inflation assumption. So 8 to 10% when you look at the numbers. So when your interest rate is really close to what I expect the stock market to provide, that's an indication that you may want to go ahead and just pay off that debt versus piling extra money into the stock market because it's sort of a wash and >> there's more certainty. You know, you're going to get that 8% payout by paying down the debt. Right.

>> Exactly. So, paying that down versus if your mortgage rate if you got if you got your mortgage a few years ago when rates were pretty low and it's at 2% or so, I would recommend you not try to pay that off really quickly because you're borrowing money at a very low rate. If you do have extra money, rather than put it towards the mortgage principle, why don't you invest that invest the difference and earn potentially earn this 8 to 10% in the stock market based on what we've seen historically.

>> And then if you have credit card debt, let's call it 18%. Knock that out. >> Knock that out, right? Uh any type of credit card debt. And this is where like coming into a marriage a lot of times you're not really aware of what you're each bringing in. And so someone could have gone through a time where they racked up some credit card debt. And so reckoning with that and coming up with a plan to get rid of that as quickly as possible is a really healthy way to start that marriage together. Um, but yeah, credit card debt is very predatory and like I said, like the um article you read or the name of that article about taking out lots of credit cards and I know a lot of people trying to play the credit card game and get lots of points and that can get you into trouble with this debt that's just piling up when you're only making those minimum payments.

>> Hey, you talked about knowing if your spouse or partner has credit. Would would you recommend doing a credit check >> premarriage? Yeah, >> just just do it. It's a matter of policy. >> Yeah. >> Yeah. >> I mean, just understanding, right? Like because you're going to try and maybe buy a house. Maybe you're going to rent for a while and then maybe one day you want to buy a house. Um, and they're going to run your credit for that, both of you. If you're both going to be on the deed, they're going to look at both of you. And if you're not, if you don't know that your partner got into some trouble a while back and their score is much lower than yours, that could prevent y'all from doing some of the things that you want to do as a family. So understanding that in advance is really important. Most people don't think of that. You know, they're just like on this high of getting married and they don't want to get into the financial details, but it's probably in our best interest to do that.

>> All right. Uh Kelly, you mentioned investing. >> Let's dive into that. Let's talk about when you're talking about your brokerage account, investing the money. What are some of the things that are really important for you that you take into account for your clients? >> Well, most of my clients are younger. um even kind of those in their 30s, they they tend to be okay with the idea of investing fully in just global stocks. So having that exposure gives them the benefit of like long-term compounding and kind of trying to earn that 8 to 10% on

average per year. And with brokerage account money, that's where we see maybe a little bit of difference in what we do there. There. That's a bucket that they may be pulling from a little more periodically for all the reasons that we've talked about, taking a sabbatical, putting money towards a home down payment or certain purchases. So, sometimes I have some clients where we will add in a little bit of a buffer to that account specifically based on its purpose. So that buffer being some bonds or some fixed income, uh, however you want to refer to it, just to help temper down the more ups and downs of the stock portion, but it's still mainly all stocks for the majority. Um, and having that global diversification is really important, right? Like we're not just invested in the United States stock market. We're invested globally. 44 countries, 12,000 stocks. You put the odds more in your favor. Um, not trying to mess around with picking who the next winners are going to be, just investing it and hopefully not paying too much attention to it since a lot of times we're not going to use this money for a while.

>> Yeah. Not trying to time the market, control your emotions, stay invested, all that kind of stuff. Yeah. Which is true to our heart, >> which you know, sometimes it when it comes to some of those dips and swings, I've got clients who just they like to have extra cash. It just makes them feel a little more comfortable. But I'll talk very candidly about when the market has dropped that everything's on sale. And if you feel like you don't need as much in cash, you could put a little bit more into brokerage because you're buying things at this lower price. And so sometimes I have clients who who will warm up to that idea.

>> Yeah, it sounds like you're rebalancing approach too, right? When the value of the equities drop, time to add to them, >> right? A little bit less from your bonds. >> Okay, let's talk a little uh risk mitigation. uh incredibly important and one of those headlines talked about how it's probably not properly used particularly on some of the insurance side. So let's get into that. Now here's what I want to do for that is I I got this matrix in my mind and I'm going to go through the matrix and just ask you questions. You can fill in the blanks for me here and I think I'm even going to write them as we go along here.

>> So here's my matrix. I want to talk about I'll call it risk management in terms of let's get into some things like life insurance estate planning stuff having a will power of attorney medical power of attorney we'll get into that that's incredibly important disability insurance umbrella >> and why don't we do the matrix >> as a single person >> married no kids which means you still have a good life and you're happy uh as we've all been through and then married with kids >> and let's create the matrix if you will. Uh, with that in mind, so let's start. You're single and do you need life insurance?

>> It depends on does anyone benefit from your income in any way? If not, probably not. Um, but I do have some clients who don't have kids. They're single and they pay for certain things for nieces and nephews. they contribute to college savings accounts for those people or they help pay for child care. And so in that case, if those kids are depending on your income, getting a term life insurance policy to help protect if your income were to be gone so that those nieces and nephews would have the benefit of the policy, that could be important. So that might be an instance where a single person does have life insurance, but >> typically it's more for when other people depend on your income, which could be a spouse or your children.

>> Okay. How about estate planning for a single person? And I'll start with uh let's just start with a traditional will if you and let's assume they don't have a house in this example. >> Don't have a house, >> no home ownership, >> right? If you don't own a home or have a complicated asset, um, let's say you're just like a W2 employee for a company, you don't own a business, maybe don't need a will yet, but I know we talked about this. It is still important to make sure your various investment accounts have proper beneficiaries listed. You know, who you want those assets to go to.

>> It does get a little more complicated with the probate process if you have more complicated assets like a house or a business. And that may be an instance to have a will in place. >> And you go back to the beneficiaries. It's a good reminder for all of us, any any stage of life you're in to make sure all of those accounts have proper beneficiaries. So if you're single, >> maybe it's your parents, maybe it's siblings. Do you see anybody else usually added to >> Oh, I see all sorts of things. I see for my younger clients, you know, their parents are still relatively younger, so they'll often times have parents listed.

Um, maybe they're dating someone so they feel comfortable having boyfriend or girlfriend listed. Um, could be a sibling. Uh, could be a really good friend if you don't have siblings. So, all sorts of things. The nieces and nephews, too, if you don't have anyone else, like maybe you're wanting your assets to go to them. >> Okay. So, just make sure you got it properly listed there. >> Let's talk about the house. If you do have a house, just expand on that probate. So, I I I guess I'll tell a story to set that up. Um had a friend once who owned a home but they were single, didn't have a will, but you still have to maintain the home, pay some expenses. The family couldn't get to those assets until it got through probate, which took a while. So that's the value of the will in that instance, right? It just avoids a probate process.

>> Exactly. Depending again depending on the state that you live in, the probate process which kicks in when you pass and like your assets kind of go into that and are held for a certain amount of time. You know, if you're in California or New York, the probate process can be years. And so, if you think about you need to make those payments, your heirs can't get to your assets to do maintenance on your home or to pay certain things on your home, that could be a real problem. So, if you have things in place, a will in some of those states, even a living trust, which I know we'll get to, that creates instant access to the accounts and to the house despite what the probate process might be. All right, let's get into you're married, no kids. You have done credit checks each other. You've had counseling, financial counseling. You're aligned financially. You have your goals aligned. We're going to assume all of that's in place here.

>> Let's run through it. Uh let's start with what we were just talking about there with some of the estate planning and a need for a will at that point. >> Yeah, I mean it starts to get more important. Um and also [clears throat] some of the other documents that come along with estate planning. So, a financial power of attorney. Do you want to you want to list your spouse on that? Usually to be able to make financial decisions for you if you are unavailable. Um what's called a health care proxy, someone to make healthcare decisions for you if you are unable to.

Who do you want to choose for those things? Um even having a living will in place. Like how do you want your

body to be treated near the end of life? You know, if you're on life support, do you want to be kept on life support? Do you want to be cremated versus buried? Having these things ironed out and put in these documents so that your spouse is not left wondering how am I going to make these choices for you get puts things at ease when you have those basic estate planning documents in place even if you don't have any kids yet.

>> Yep. And those situations can arise. So as you think through who you want to be making those decisions perhaps usually in our experience in that it's you usually have your spouse is number one first >> two it can be friends family just make sure they are aligned exactly what your wishes are um particularly on that medical end of life stuff >> and when you create those documents communicate that you've created them and chosen people like go tell those people that you chose them to be on the document a lot of people don't do that and then it's like a surprise um you want to use a estate planning to avoid surprises and to have a specific plan in place.

>> Well said. Uh life insurance married. We'll assume there's a mortgage in this case. >> Yeah, I would say that's where it starts becoming more important to have term life insurance on one or both people, especially if you're um especially if one person is not earning as much as the other person. Because if you think about it, again, in my case, I was I'm the higher earner compared to my husband. And so if he had to take over payment of our mortgage and all the various other things in our life, could his salary handle that alone?

If not, having a term life insurance policy that kicks in if I were to pass is going to help him to make those payments in my absence. >> Is there a certain dollar amount you think about? I mean, obviously the mortgage, whatever that value is, u anything buffer zones you have in place around that. There's there's different ways you can calculate that depending on how precise you want to be. You could add up a lot of those liabilities and kind of back it out of the investment assets that you have to arrive at a number. A lot of times you just look at kind of five to 10 times your annual income and that could be the amount that you purchase. And then the length of time depends on a lot of different things. So, I was getting into like if you have kids, maybe you want that policy to be in place as long as your children are dependent on your income.

So, maybe until they graduate college or that could be undergrad. It could be an assumption that they go to grad school and maybe you still want them covered. So, the term and the length of the policy is very dependent on your personal situation. >> Well, maybe we go into that then. Let's assume now you have the kids. Well, just going back to the life insurance part of that. So mortgage cover that cover any educational needs from >> could be growing up up to college masters all that stuff uh you want to have in there and >> you know I think another one too might be let's just say you have kids spouse dies >> you might need help >> right so you might need a little life insurance for opair or something or even if you need a year off just to kind of get through that that's always a challenging time period too so >> probably would you suggest go on the higher end because term insurance is pretty cheap >> it's very affordable It's very affordable.

>> Maybe inexpensive is a better word than cheap. >> Depending on your health, of course, if you have pre-existing conditions and certain things, there is a health check involved. Sometimes you have to see a doctor, sometimes it's just a questionnaire, but depending on that, you could have a higher premium, but usually they're pretty affordable, pretty reasonable. And so getting a little bit more could be a good idea uh just to help cover

some of the unknown.

And yeah, especially with I have a lot of clients where the lower earner is maybe also the person that does more of the home production, manages the kids, does a lot of the things around the house and the other uh spouse is outside the home more earning that higher amount. Well, the value that that spouse managing the home, that value can be extremely high if you think about replacing what they are doing. and if they pass and you're now on the hook to take care of the kids, take care of the house, and you're hiring those things out, that could be quite a bit of money out of your pocket. So, having a term life insurance policy on the lower earner is also really important.

>> Yeah, that's a great point. And then how about an estate planning perspective? Um, married with kids, I think you'd have everything in place we just talked about, but now you've got, okay, who's going to watch the kids if something happens to the couple? >> Yeah, I think at the same time, right? I do think the biggest decision and where people kind of get into some arguments is who's going to be the guardian of our kids and in what order and you even have to think about um if you sort of select a couple to be the guardian of your kids. Well, what if something happens to one person and the couple, would you be okay with the kids going to the other person or do you want to create an instance where it would skip that person, go to the next guardian on your list? Um, and I see a lot of family, young families come in who don't have any of those documents in place. And if you don't, you're just leaving it up to the state to make those decisions for you. And again, that can be time where you need to grieve. You need to, right, family members are grieving the loss of, you know, you passing away. And they also are left figuring out where the kids are going, who's taking care of them, what your wishes are, trying to make an assumption of what you wanted.

And that puts a lot of pressure on family members who are grieving the fact [laughter] that >> a lot of pressure. >> Yeah. >> Who may be taking kids on or trying to find a place. I mean, that that's that's a must do. Get that ironed out in >> your will. And and once it's done, it's not done forever, >> you know, cuz things change as the kids get older, friends, different scenarios. Um, probably every three, five years, probably go in and update the thing.

>> Yeah. I'll share a personal story on this, too. For one, I usually say check it every other year. Um, I had an instance where my entire family, everyone listed as guardians for my children were going on a trip out of the country. We were going to be on the same airplanes and staying in the same place. And I was like, what if something happens? And my kids were staying home with the other grandparent. So, it was like, what if all of my guardians pass away? Who is in line next for my kids?

So, we had to redo our documents to add some other options based on the fact that we were taking this big trip together. >> Love it. Great example of just being really thoughtful and careful. But sometimes those bizarro low probability things do happen, you know. >> Yeah. >> Okay. One of the things I want to get your thoughts on uh disability insurance and I I've heard this that's disability insurance is actually or having an incident where you're disabled is way more common than needing life insurance.

So, walk us through sort of short-term, long-term disability from the single through married with kids. >> I think when you're single and you're younger and you have a corporate job, a lot of times your employee benefits cover good long-term disability and short-term disability. And so, there's really not a need for you to get an outside policy. Also, short-term disability is usually something I recommend that people self-insure with like an emergency fund. So, building up back to that earlier discussion of if your expenses are, you know, 10 to \$15,000 a month, make sure you have three to six times that amount set aside in a high yield savings account. And that could kick in in a short-term disability type of emergency. As you go from being single to married, married with kids. You're maybe progressing more in your career. You're earning more. the long-term disability coverage through work often doesn't account for enough of what you would need to cover your expenses. And so that's the time to maybe shop for a standalone policy. This is especially important for small business owners. I'm a small business owner. I cannot claim long-term disability coverage through my husband's employee benefits. Right? So, I have a standalone long-term disability policy.

And again, you're much more likely to become disabled than you are to pass away unexpectedly. So for our family as the higher earner, that was extremely important. So small business owners who don't have the benefit of employee coverage, you really have to think about that type of uh policy. Well, and then in in theory, if you are a early saver and a good saver and disciplined saver, um over time you should have an investment balance to where later in life you then can turn off the disability insurance or the life insurance because it's just not going to be necessary. That's kind of the goal, right?

>> That is the goal. As you get more into financial independence, retirement, um that's where those things can lapse and you don't really need them anymore. And you can self-insure through accessing money in your investment accounts. Your health savings account could be used for various healthare expenses. Right? If you've been building that up and not touching it and it's growing tax-free, that's a perfect bucket to pull from later in life when you may have higher healthare expenses.

>> All right. And then to wrap it up, uh we talked about the beneficiaries on the single side. Obviously, the same thing [clears throat] for if you're married, usually it's the spouse, it's the primary beneficiary and then you can put the kids or I guess other people on the secondary, right? >> Well, and this gets into maybe putting a living trust in place when you have kids. Um, especially again if you're a business owner, you want to protect the business interest um and not have that tied up in probate and, you know, figure out how that's being disseminated to your heirs. or if you have young kids and you want family members and guardians to have pretty much instant access to your money to take care of them. If you have a living trust in place that owns all of your assets, that is immediately accessible if you were to pass and is not locked up in probate. So having this trust document put together is another layer once your situation becomes more complex. All right. So, must dos [laughter] as I go back to this. Depending on that matrix, fill the matrix out and make sure you got your beneficiaries organized. Get your life insurance, disability insurance is appropriate depending where you are on that matrix.

And the living will, medical power of attorney, all that stuff. Absolute must >> dos. Okay. I got another question for you. We'll step out of risk management. And this is one I I get asked quite a bit from my kids and and their

friends is this debate of buying versus renting a home. >> And the traditional view is, well, why would you want to buy a home earlier because when you're renting, you're just paying money to somebody else. Might as well pay yourself. Yeah. But >> I think there's a lot of studies that may have different views than that. How do you think about that with your clients?

>> Yeah. I think the biggest uh viewpoint I have is that your home is not an investment. Your primary home is not an investment. So when you're thinking about I have a lot of people be like, "Well, I need that. I need to build equity. I want to have this. I don't want to be throwing rent money away every month." Your home is something that you should find fulfillment and joy from just being there. The time that you're there.

That's the return on investment. It's not really about it growing in value over time. Although that very well can happen. And a lot of people have been very successful because they've bought a home and then sold it later on and it's appreciated in value. But I would come into this with the assumption that what is the purpose of purchasing a home? A lot of times it's you're starting to settle down with young kids and you want them to be in an area where they can build friendships and you can have neighbors and community. And a lot of times that's not when you're younger, when you're single or even newly married. And so instead of getting into this asset and owning a home, which comes along with so many other things, right, property tax bill, homeowners insurance, maintenance, I tell my clients to assume anywhere from 1 to 3% of the home's value per year as a maintenance cost and to set aside that money because depending on how old your house is, like mine, your HVAC is going to go out in August and it's hot in Texas and you have to throw down 20 to 30K to fix that pretty quickly. And you just sort of start creating this list of, you know, who's the HVAC guy, who's the plumber, who's the guy that's cleaning the gutters, guy or girl, you know, all of this list of different people that you have to shell out extra money for. And when you think about all of those expenses versus the equity in the home, a lot of times it's a wash.

How much you have put into property taxes and insurance and maintenance versus what you think you're earning when you turn around and sell it. And so I think it's a very much a misconception and younger people are probably better off renting until you really understand where you want to live and why you are set on purchasing a home. And for us it was very much driven by a need for our kids and kind of wanting to feel like we were settled in a community for that portion of their life. Kind of elementary school and high school, middle school and high school days.

>> Yeah. You you'll hear people say, "Well, I [clears throat] sold my home. I did really well. I made 300 grand on it." like, okay, to your point, how much did you spend on property taxes, the new AC, all this stuff adds up and it literally is a wash when you think about it over time. >> I've done it for us. I do it as like a just a working experiment like how much we've I have a Excel file where I keep track of all the little maintenance expenses versus like market value and like subtracting our mortgage out of that. And it's I think more people need to do that calculation to really understand. I don't do it because I'm terrified of the number cuz our house is 20 years old. Everything's breaking down. You know, >> and again, it's more about the joy and fulfillment that you've had like the memories you've made being in the home.

And it's very tough to put a number to that versus the actual numbers on paper that have gone into maintaining the home. >> Okay. Joy and fulfillment. So, I want to wrap it up with this idea of finding that balance that we talked about earlier of sort of spending versus being responsible with your investing. >> Right? We're talking about investing and I'm a huge advocate for starting early and really being aggressive with your investing because of the compounding interest over time and the flexibility that gives you later in life. But, >> um, with that said, you still want to live your life.

>> Yeah. >> And create memories along the way. So, how do you how do you kind of coach people around that idea? It's okay to spend money and take some trips, >> but also be responsible with your investing. And I kind of equated to my kids went to school, college. Yeah. >> It was like go have fun. That's the whole point of college. It's one of the points of college is to go have a great time. The other point is to you got to keep your grades up because you got to get a job after, right? And learn some lifelong skills you can. So, I kind of think about that too, right? Go enjoy life, but also save. Um, >> yeah.

>> What do you talk to your clients about with that? So, I I take them through a series of questions that are probably questions that they've never had to answer before that kind of get at the heart of what's most important to them. It's called the Kinder Three questions. I'm a registered life planner, so it's like a part of the process I bring clients through. And the extent of the questions is kind of like the world is your oyster. You have unlimited funds.

How are you spending your money? And then you go down the funnel to a situation where your life is over and you're looking back on your life. What did you not get to do? Who did you not get to be? What did you miss out on? And it's a very quick way to show you that like life is short. We're not promised tomorrow. So, how can we create some sort of balance with how we're saving and spending and investing our money?

And working with a financial adviser makes that very helpful because there's actually ways to chart out, okay, you're saving and investing and your investment accounts are growing. What is the point where you can reasonably stop working or coast and not need to save anymore if you do want to keep working? And so seeing that gives my clients a lot of permission to spend more now and not just keep everything so tight and think about the future because what if something happens to them and they don't make it to that point? Also, when you're younger, you are more fit, you're healthier, you feel better, it it's more fun to do a lot of the things that you enjoy versus when you're older.

>> And [clears throat] so a lot of people in the millennial generation and Gen Z are much more about like living now. I think that's a general theme that I see from my friends. I think about myself, me and my husband. So creating some sort of balance to understand and give yourself permission to spend now rather than save everything for later on. And it's a really tough conversation because again, it gets at people's money story and their inclination and need to want to save so aggressively to where they just sort of bypass the now.

And I think it's so important to help people realize that there there is a way to keep this in balance and to give yourself that money and the permission to spend it earlier in life when you can really enjoy it. >> Enjoy it along

the way. >> All right, one more for you that's a little I'll say out of the blue kind of, but I see it with my kids and their friends. uh the increase the rise of sports betting, online sports betting and and in fact I kind of I don't do it myself but uh we joke and you know the players are betting on the teams and they're having a lot of fun with it but it's small dollars like \$10 on this one 10 bucks on this one but have you seen that I [clears throat] guess one and two just be careful it's okay to have fun >> but be careful so how do you how do you coach around that >> I think about I immediately thought of couples where someone in the marriage has a tendency to want to do that. You want to know about that before you get married. So make sure that again importance of having those conversations early and I think creating some boundaries around it for the sp for the partner that is interested in that right like oh you want to do sports betting or you can bet on anything these days right and giving them a designated amount of money that they're allowed to do that and then when it's gone it's gone and you don't get it again until you know next year if it's an annual budget and that kind of could go into your cash flow for the household And I think that's a healthy way to deal with it in advance of the habit becoming something pretty detrimental to household finances. And you see this not just with sports betting or or betting in general, those markets. You see it with things like crypto.

>> You see it with just stockpicking in general. I've got clients who just want to kind of play and we say, "That's fine. I'm gonna manage the majority of your money in the kind of old-fashioned way like straightforward global stocks, global diversification, low cost, emphasize higher expected returns, and you can have this little portion to play whether you're picking stocks, buying crypto, and again, if you use all that, that's it for the year. We kind of come to that understanding. And we also pay attention to the value of those things in their net worth. If it's inching up closer and closer to over 5% of their net worth, we have a conversation about that's a pretty concentrated position.

How do we want to maybe back out of that a little bit and diversify this money some more? >> Great advice. I love how you brought it back to the cash planning as well. And it's almost like going to Vegas. It's great to go have some fun and do some things. Just here's how much money I'm going to lose, which >> I typically do. Yeah. >> And then you kind of call it a day and go do other stuff.

>> Yeah. Exactly. [laughter] It's great. you see it as a hobby and as long as you can recognize it as a hobby, I think that's that's a healthy thing to do. >> Sometimes it's expensive entertainment. >> Yeah. >> All right. Great answer. Thanks. Last question for you here, um, Kelly. So, when when should somebody reach out and get a financial advisor >> because we talked about some of this. You gave great advice to younger folks like, okay, investments, go out there and just buy a globally diversified tax efficient portfolio. you know, if it's a brokerage account, you gave them ideas on priorities and and they can do that themselves, right? They can go create a will themselves. Um, make sure they have life insurance, but at what point do you find where it gets a little too complex?

>> Yeah. >> Where you need some financial advice. >> Often time it's this big inflection point, whether you're getting married or you're having kids or you're about to make a big purchase. A lot of time that triggers people to contact me and want to explore working together. I think we start to have so much more complexity that we lose hours in our day to do this stuff ourself. So a lot of my clients just do not feel that they have the time to do

the research around these different areas. Even in the age of artificial intelligence where you can ask your favorite LLM to create a financial plan for you. What I feel the value of a financial adviser is really around the implementation piece, the accountability. If you're looking for someone that's actually going to get you to accomplish the things on the list and save you the time and energy of trying to create that yourself, I think that's that inflection point is maybe a time to think, oh, could I hire a third party professional person to come in and do this with me? I see it really important when you have a spouse who is maybe not as interested in the finances as you and you're starting to worry about their knowledge of all this work that you've put into making your finances look a certain way >> and what if something happens to you and they don't have the resources. So having a financial adviser come in and work with the the two of you together early on to be that third party person to understand what you value together and to be there if something were to happen to the person who's handled it handled most of it themselves.

>> It's a great summary. The continuity in case something happens the complexity which does get very complex uh particularly when you start thinking about some of the tax options within these buckets of assets but then also time. You're absolutely right. Particularly as you elevate in your career, time becomes very very valuable, >> right? And let the experts kind of go [laughter] take on that time for you. Uh, all right. Here's what we want to do. This has been absolutely fantastic.

Thank you for all of your time. I'm going to read a couple lines that I came across recently related to this and then I'll give you the last word on anything you want to add to it. So, this is going to be more oriented towards the 20 to 30 year olds we started with. Two lines I want to highlight here. Wealth isn't an age, it's a habit. And the second one, the future you is watching. >> So keep that in mind. If you're 30 and you're like, "Yeah, I'm not worried about getting life insurance right now."

What would your 40 45 year old person say if that is needed at that time? >> So I love the way that one was phrased. >> Last word for you on anything we talked about here. Any reaction to those couple comments? Yeah, it just makes me think of my own personal story of like being able to take a risk to start a business or do something different than the typical path. If you can focus on your finances earlier on, it gives you the option to choose that later on in life and kind of go off the beaten path, right? We're all told this is how you do things. You graduate college, you get the corporate job, you maximize those benefits. But there is a way to stray from that kind of create your own path based on what truly brings you a lot of joy and fulfillment. And for me that was, you know, starting from nothing, starting a business. And I think I see that from a lot of my clients. And they're so grateful that they started early on and then brought in the help of a professional at the point where it got too difficult for them to manage.

>> So thanks again, Kelly, for being on the show here. And what a fantastic way to wrap up our oneyear anniversary here with this last session. incredibly valuable, super good information here, uh really for everybody, the 20 to 30s, but again, the parents of the 20 to 30s. So, really appreciate your time here. Thanks everybody for tuning in to the informed investor here today. Thanks for all your support over the last year. And be sure to go hit the subscribe button and you'll know when we come back in mid August. Have a fantastic rest of summer everybody. Take care.

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