Andrew 0:05

Hello, and welcome to the JGUA Financial Commentary Podcast. I'm your host, Andrew Baron and in this episode, I talk to Sarah Collier about money, lifestyle balance, and enjoying life now and preparing for later. But before we begin a short disclaimer, the contents of this podcast are strictly for informational purposes only, and nothing said should be taken as investment tax or legal advice. Any strategies discussed may not be suitable for listeners specifically, and JGUA encourages consulting with your advisor before implementing any strategies to ensure that they meet your individual objectives.

At JGUA we primarily work with families. So what that means is even if only one member of the household has an account with us, the family unit of spouse, kids, grandkids, has the opportunity to be incorporated and become clients as well. A lot of what we're going to discuss today might be more pertinent for these younger generations--either early in their careers, maybe even just beginning.

And with that, Sarah, what can you do with money?

Sarah 1:15

There's basically two things you can do with money, either spending or also consumption, or you save. It's really important to build savings. Whether you're saving a small amount every paycheck, or saving your bonuses, especially if you are someone who is likely to be spending what they have in their checking account, you know, we have the debit cards and makes it very easy to just ring up and walk out with whatever you decide to buy at Target for that day. So having savings automatically come out of your checking account, right out of your paycheck can be really beneficial, to establish that habit.

Andrew 1:58

I wanted to go back to that word you used at the beginning: consumption. I think that's a really good word, because it incorporates some things. If you just say spending, you think of your regular bills, and things like that. But consumption, think about the big picture, all the things that come out of your pocket, that you don't necessarily have accounted for the budget items that are miscellaneous, at the end of the month.

I think it’s a good point about segmenting different types of savings. It's especially early on, you're told that you need to have all this money in retirement to start saving now, but it can be hard just because when you're first starting your career, there's lots of costs that are you've kind of paid for when you're more established in your middle of a career.

Sarah 2:44

Exactly, I find that a lot of clients, you know, especially if you're early in your career, you're not gonna be retiring for another 20, 30, maybe 40 years depending on how old you are. And telling them that they need to have a decent retirement life can be very overwhelming to someone very young, especially when it's more about tangible items versus a long term goals. Maybe not necessarily less important, but a little less material for them.

Andrew 3:13

I also want to emphasize what you said about the habit of saving, until you've really grown, you know, hundreds of thousands of dollars, you really don't see investment performance, having as much effect as the actual savings habit itself. You can just think about this mathematically, if you only have $1,000. How hard is it to save $1,000 over the course of a year, let's say. It's truly not that much money, it's less than $100 a month.

If we're talking about $10 million, it's really hard to save $10 million all at once, right? So the scale really matters a lot. You could have 100% performance on your investment, but on a small amount of money, it's really not going to matter as much as having that much larger amount. Our firm, our minimum investment is $250,000. Because the way we invest, we feel that's the minimum amount we can show our value with our investment philosophy. Let's get back into consumption a little bit. I want to talk about budgets.

Sarah 4:18

Yeah, so when it comes to budgeting and saving for financial goals, it really is a lot about the individual psyche as it is about the numbers. As a financial advisor, of course, the first thing we do is we ask for the numbers and put together a nice fancy spreadsheet and we show it to our clients and having the conversations with our client and figuring out where we can coach them. So that way they can eventually reach their goals. And there's kind of two different schools of thought. There's the live wealthy today because you don't know what tomorrow will bring and the live life frugally and save for tomorrow. They both have pros and cons.

Living wealthy for today, places an emphasis on enjoying yourself in the present, which can be good for your overall well-being, however, can be very detrimental to your future by putting yourself in a position to incur debt, the inability to cover emergency expenses, and unfortunately, prolong your plans for retirement.

By saving for tomorrow, this has a really good strive in trying to plan ahead and put you in a good position financially in the future. But for many, this can be very difficult and overwhelming, especially if you're looking at it to the extreme where someone's trying to save all of their money. And prior to they were someone who was spending all their money. So they're trying to go from one extreme to the other. And it's not good necessarily for the individual's mental health. So there's really a balance that has to be done.

Budgets are a lot like diets, there are so many different diets out there. But you have to really look at the individual to see what diet is going to fit them. So when it comes to creating a budget, there really should be an individualized budget. Everybody has their bad habits that need to be trimmed that should be incorporated into that plan. But that plan should also emphasize on their good habits. So it's just trying to figure out a way to take all those different components of a budget and a good financial health to the client feels confident in what they're trying to accomplish, with their new budget.

The common example of not buying the coffee, but unfortunately oversimplifies the actual living of a life. The example commonly is put where a $5 cup of coffee over 20 working days a month, times 12 months is about $1,200 a year. Saving from $0 adding $100 a month with a 5% return, that person would accumulate $153,237.86 over 40 years. The coffee example unfortunately fails to consider two other assets, time and mental health. And this kind of leads to the idea of it's okay to enjoy the small pleasures. So it's okay to enjoy that cup of coffee once in a while. It's okay to get an order of takeout once in a while, especially if you're having that crazy day and knowing that you're that type of person. Incorporating those days into your budget is really good for your mental health, but also it will help you take ownership and control over your budget.

Andrew 7:54

I like how you said that kind of in the same thought for people who do spend a lot or feel like they're disorganized with their finances, there can be a lot of pressure that you need to suddenly, you know, change your ways and be this different person. And that can be very overwhelming. One of the things we as planners do a good job of is taking priorities and taking it a step at a time to make it bite size and manageable for clients.

Sarah 8:20

Exactly! I think trying to make it as manageable as possible. Even if they have that large ticket item that they spend on, like a monthly subscription. And when you look at the overall budget, maybe that's something that's slim and we figure out something else that they can do you know if they're looking for exercise. Maybe instead of using the peloton they go for walks.

I think it is also important to look at some of your larger ticket items so you're right maybe you're spending too much on rent in that particular area that the clients living in and trying to find a way to not sacrifice their lifestyle but finding a location that might saving them $100 a month and then use that savings I'm saying that in quotes to then fund their actual savings account to build up their emergency fund or a larger purchase for their retirement or other individual portfolios.

Andrew 9:17

I agree with everything you just said. Things like housing, those big ticket items, are clearly bigger money pits, so to speak, then getting those coffees. Finding rent that's $100 cheaper, I'd rather see you do that then sacrifice your monthly coffee habit because you know it's your only your quality of life being too different especially all at once.

There are obviously some people that can be extremely frugal and you know, I don't think anything wrong with that if they're happy but I think as humans we can kind of regret and feel miserable for, you know, punishing ourselves. You don't want to take too much away from yourself. I guess is my point.

Sarah 9:56

Right, there's a happy medium that I feel like a majority of individuals fall into, because you're right, there are some people who are very frugal, and they enjoy being frugal. They take pride in that. And that's great. But then there's individuals who go to the other extreme and say, you know, sometimes we're working with those individuals and, and trying to help them reach those goals by slimming down their consumption.

Andrew 10:28

In some of our other podcasts, I think with Nora, and maybe John talked about showing value over a lifetime. And that's another thing where anyone who has some good math skills can do a rough, napkin-math financial plan, but evaluating what you want to accomplish over a lifetime, it changes. I think a lot of people understand when you first retire, you have the go-go years where you can really take advantage of things that you couldn't do when you were working. But that isn't permanent, you're not going to spend the remainder of your life with that capacity. So getting, let's say, bucket-list level things done. And then moving on to more legacy planning type of items. That's where I think we've helped a lot, and really brings the value of having a relationship with a financial planner.

Sarah 11:16

Right, I think that's a good point to hit on. Because when it comes to saving, there's different pockets. Within that you have your above monthly average expenses. So when people get married, or you know, gifts, holidays, vacations, especially when you're first starting out, even your monthly utilities, you know, certain times in the summer, you're gonna be spending a lot more on utilities versus the fall or the spring. So that's one thing, you have to think about the short term. You have your emergency savings for your unexpected accidents and unemployment. But then you go on to some of your larger purchases, you know, new house, a car. And oftentimes, when you're working, you're going to want to put some money away, you might have a couple years where you're starting to save a little less on retirement. So maybe instead of maxing out your 401k, you take some of that money, and instead put it towards a new roof on your house or new siding, home improvements and investing in your property.

And that's important before we move into retirement, you're at least paying for them to upkeep it while you're working. And then when you retire, you can use the money that you've saved for retirement, for enjoying your retirement instead of having to use it for maintenance.

And I think also another thing to think about is getting rich is not the goal. It's not ascertainable, it's not a number. It really is about the lifestyle and the experiences that one enjoys, and there are people out there that that is their goal is to get rich, but it's our job as the financial advisor to really hone down on what really is your goal? Is your goal, mostly to retire to Florida? Or is it to have this large estate? You know, trying to hone in on those, and looking at what the type of luxuries they might want, you know, now into the retirement as well,

Andrew 13:23

You want to talk more about different levels of saving? Just because you'll hear to have six months of emergency funds and then have X level of salary for your retirement account at certain ages. And then in real life, how life gets in the way. Emergencies do pop up. And maybe the day you finally get to that number you were looking for your savings account, you get hit by a big emergency and you're back to zero.

Sarah 13:52

I mean, I think when it comes to those bumps in the road, always keep a goal in mind. But also realize that it's not going to be perfect, you're going to find some months where you might quote: fail. That's normal. Of course, if you're finding yourself fail month to month, those are when you need to really look at your plan and reassess, you know, if you for example, finding having to spend a lot of money on your vehicle because it's breaking down? Well, maybe you should reassess your priorities financially and see if you can buy a newer vehicle because most likely, if you're spending a lot on maintenance, you probably have an older vehicle. You fail your plan. Once in a while, think about how you can fix it.

What I like to encourage individuals is don't get discouraged on when your plan does fall. Really think about what financial aspects you have going for yourself and I do this myself. Think about your credit score. You have maybe in last couple months, you've really boost your savings, or you've increased your retirement savings deferral, and then think about how you can fix the failure. So if you had to take out $1,000, for a major car repair, maybe over the next year, you put an extra $50 or $100 per paycheck back into your savings account to replenish it, it might take a while. But at least it's a way for you to mentally think about, okay, this is what I'm doing to replenish this, instead of thinking of, oh, gosh, I messed up, and I’m back to square one.

Andrew 15:44

One more thing on that, especially the younger generations, with that debt is held in such a stigma that I think a lot of people have the mentality that they need to just take every extra dollar and put it towards their debt. But long term, or maybe even short term, this isn't quite a good strategy, just because like I said, earlier, life happens. And if every little emergency, you're unprepared, and you're putting it back onto a credit card, doesn't really matter if you're paying off every extra dollar if you're always up and down, up and down, up and down.

Sarah 16:16

Yeah, I think the debt analogy is huge. Because you really have to look at what the interest rate is. I think that's the big part. If you have a large chunk of debt, which to a young professional, let's see if it's $100,000, that might feel like a lot of debt on that individual shoulders, depending on the individual, it might not make sense for them to try and pay down that debt as quick as possible. And it might make more sense for them to start putting away money their savings account exactly for the point that you made, that if an emergency were to happen, yes, your debts paid down. But how are you going to pay for your trip to the emergency room or for buying a new vehicle, because unfortunately, your vehicle was totaled.

Those are all things to really think about. And you know, that's not necessarily a bad thing, especially with school loans, as long as you're making the minimum payment, and occasionally trying to make additional payments, when it's financially makes sense, then that's fine, having that debt there. But if you have debt, for example, credit card debt that has an interest rate of 20%, you'd really want to talk with a financial adviser in trying to accelerate paying down that debt. Because having that debt is going to cost you much more with interest charges, in the short term, that you could be using that money for groceries or putting gas in your vehicle. So it's really hard to say whether or not having that debt is a good or a bad thing. You have to really look at the type of data to and how it's going to benefit the individual with paying it down either way,

Andrew 18:03

For those that are stretched, so thin that they really don't have anywhere to save. How can they save in the future?

Sarah 18:13

If you're someone who finds it right now currently difficult to contribute to a savings account, things you can consider or if you were to get a raise, or a bonus, you can contribute to a savings and also, depending on what your income tax return looks like you can use some of that refund to find your savings account.

Andrew 18:37

Thank you for being part of this Sarah.

Sarah 18:39

You're welcome. Thank you so much for including me it was great to be on.

Andrew 18:43

We went through a lot of information on this. If you want to check out our additional content, please follow us on social media or check out our website and thank you to all of our listeners. Until next time, everyone, stay smart.