

## Diversifying

JUN 20, 2022

### Righting Your Financial Wrongs



Speakers

Delyanne Barros, Michelle Singletary

00:00:02

**Caller 1**

One of my many mistakes was to sign up for a timeshare. Probably like 15 years ago.

00:00:10

**Caller 2**

I didn't really even save properly, and now I don't even have any money to afford a home.

00:00:17

**Caller 3**

I did blow \$40,000 cash on a car and I totally regret it to this day.

00:00:25

**Delyanne Barros**

From credit card debt to bad investments to lending money. Everyone makes financial mistakes. We asked you, our listeners, to call in and tell us about your biggest slip ups. And oof, I really sympathize. So does Michelle Singletary, a personal finance writer at The Washington Post.

00:00:43

**Michelle Singletary**

I think people are afraid of money.

00:00:46

**Delyanne Barros**

Michelle's been writing her column, The Color of Money for the past 25 years and has seen just about every mistake there is. She believes it all comes down to your mindset.

00:00:58

**Michelle Singletary**

It's about the mental capacity to understand How do you handle this money thing? How do you make better decisions? How do you be okay with having enough and not doing so much and stretching yourself that if anything happens, the house of cards come tumbling down?

00:01:16

**Delyanne Barros**

She also provides financial education at her church and is the author of several personal finance books, most recently What to Do With Your Money When Crisis Hits.

00:01:26

**Michelle Singletary**

I live my life like I'm always in a recession. And the idea behind that is that if you are preparing for the worst, even if it doesn't happen, you are better able to weather that storm. So I'm very, very frugal.

00:01:43

**Delyanne Barros**

So today, Michelle is joining me to hear your stories about messing up. And to talk us through how to do better next time. I'm Delyanne Barros. This is Diversifying. So Michelle, we're going to get to our listener voicemails, but I want to know more about what you've learned in your decades of financial education. What do you see as the biggest financial issue facing the everyday American debt?

00:02:15

**Michelle Singletary**

Number one, I mean, it's just number one home debt, student loan debt, card debt, credit card debt. It is the thing that stands in the way of people building wealth. Our reliance on debt in America, we are living the American dream on borrowed money. And then secondly, inability to say and the people I had the most trouble getting to save are people who are actually doing well because they count on that paycheck coming and coming and coming. And when it stops, they're shocked that they can't weather a storm because they haven't saved. And I think third is poor decision making. So we talk about how to invest, how to get out of debt. You know how to save. But a strategy for better financial decisions would actually keep people better prepared for the next recession, the next pandemic, whatever.

00:03:10

**Delyanne Barros**

Yeah, it sounds like you're trying to show people that we need to not be reactive. Right. We can't go through life being reactive and just acknowledging an issue when it becomes an issue. Nobody goes through their entire life without having some kind of financial hardship at some point. So you were raised by your grandmother, who you've called an example of the bedrock financial principles of the older generation of African Americans. She was obviously a huge positive influence on you, but you say she wasn't always right about some of her beliefs around money. What would you say were some of her personal finance views that you disagreed with and how did you unlearn some of those lessons?

00:03:50

**Michelle Singletary**

So there were two major ones she hated renting. I rented for only one year of my entire adult life and I came out of college. My grandmother said, You got to come live with me. So I'm a dutiful grandchild. I went to go live with her for a year. She was nuts, you know. I didn't need to be to work till ten. She'd give me up at 6 a.m. in the morning. I live like ten, 15 minutes from my job. So, yeah, I had to get a place, so I didn't tell her. And I went and rented an apartment and she was so angry at me. And so for an entire year and I'm not exaggerating. Every single time I went to visit her or call her, the first thing out of her mouth was, Are you still giving your money to the white man? And so we often discourage people from continuing to rent by making them feel as if they're financial failure, if they're renting. And so while I understood where she was coming from, but I think it does a disservice to people because often they rush into homeownership or real estate investing and they really can't afford it, nor should they be doing it. And then I think the second part was my grandmother didn't believe in trust investing. I mean, I joke the only bond my grandmother had was the bond adhesive for her dentures. And so I had to overcome that, her fear of investing. And thankfully, I found a really good financial planner who kind of pulled me along out of that fear that I had. And I thank her to this day because this financial planner, my husband I saved in 529 plans for our children, they all have gone to college debt free. My last one is graduating and nobody has debt. They don't have debt. We don't have debt.

00:05:37

**Delyanne Barros**

That's incredible. I mean, congratulations. It sounds like you've set them up for life. Being able to, you know, leave college debt free is a huge accomplishment. And what was your grandmother's name?

00:05:49

**Michelle Singletary**

Well her, her government name was Marie Kelly, but we called her big momma. Everybody called her big mama.

00:05:55

**Delyanne Barros**

If we don't have a grandma, Marie Kelly in our life, what can we do if we're someone looking for financial knowledge or if we're dealing with a traumatic financial upbringing, what can we do to change our situation?

00:06:08

**Michelle Singletary**

So I understand that I had the benefit of my grandmother, but I think everybody ought to find that person who could be their financial sounding board or program. And you need to look for someone who isn't selling you something. They don't benefit from your financial decisions. Stop listening to your coworkers who may not know the full situation of your finances or they. They always there's a they. Oh, they said I was like, who is this? They so don't listen to they listen to someone who shares your financial values but also can look at your situation and give you fair, unbiased advice.

00:06:53

**Delyanne Barros**

That's great advice. And I usually tell people not to rely on any one source of information that really what you wanted. Always look for patterns. Some of my favorite resources are Investopedia, the Bogleheads community that's BOGLE, Bogleheads and anything on Nerdwallet are great starting points. But switching gears here a little bit, what have you noticed about different approaches to money and personal finance across different racial and ethnic communities?

00:07:22

**Michelle Singletary**

Listen, I've spoken to black folks and white folks and red folks and purple folks, and they all have the same issues. We have issues around debt. We have issues about inability to say we have survivor's guilt. If you come from a minority community and you've done well for yourself, you always feel this guilt of trying to help other people. One of the ways we were able to send out three kids to school debt free isn't because they were super smart or that we saved. We saved really well for them. But we didn't save like Harvard save. So what we did was we managed our expectations, okay, this is what Mommy daddy can save. We have University of Maryland College Park because we live in Maryland money. We don't have Harvard money. So if you get in Harvard, unless you get everything free, you going to go to the University of Maryland College Park. And someone said, Michelle, if your kid got into Harvard, wouldn't you do everything possible to get them to go? I said, absolutely not, because we make enough money that we wouldn't qualify for any aid. And so I'm not going to sentence them to decades of debt, nor was my husband and I are going to sentence ourselves to, you know, decades of debt.

00:08:31

**Delyanne Barros**

I love that whole answer because it touched on a lot of the episodes that we've already recorded around, you know, student loan debt, homeownership, money trauma, psychology around money. That's not like a guarantee that just because you go to an Ivy League that you're set and it's also not a, you know, a death knell. If you go to a state school and then that means like you're not going to be successful in life, it's that's not it at all.

00:08:58

**Michelle Singletary**

Yeah, I agree. I think it sets up a false narrative and it's really your kids ability rather than the school that they go to. And I think we need to tell more of those stories. My kid wants to be a teacher. I'm immensely proud. But one of the first things people say to her is like, you know, you're not going to make a lot of money as a teacher. And I just want to slap them because every one of us has benefited and where we are because of a teacher. And so why would you devalue her like that? Now, I've trained my child to live on a teacher's salary, and she probably going to have more money than your kid who's a stem major that went to an Ivy League. She got more money, more happiness and be well balanced. And that's the story I want to get out there.

00:09:44

**Delyanne Barros**

Wow. As a community college grad that spoke right to my heart. Tune in after the break to hear Michelle and me respond to voicemails of our listeners. Biggest money mistakes. Before we take a quick break. I have a favor to ask. We want to know what you think of diversifying. What do you love about it? What do you want to hear more of? And what do you think we can be doing better? Please visit CNN dot com slash finance pod to take a quick survey and share your thoughts. We read everything and we'll use what you tell us to make the show the best it can be. Once again, that CNN dot com slash finance pod. Thanks. Welcome back. I'm talking to Michelle Singletary, author of The Washington Post's Color of Money column. We're about to hear from listeners. But first, Michelle, I'd love to know what are the biggest errors you've seen people make?

00:10:43

**Michelle Singletary**

Actually, we've been talking about it, but there are school choices. Take it on a lot of student loan debt that's probably be in the top three, not taking advantage of their income and still living below their means. Every time people get a pay raise, they elevate their lifestyle and then they look around and they've obligated all of their paycheck and then they can't retire or they don't have a lot of money. They look up and they're 50 and they're thinking they got like, you know, \$50,000 or \$100,000 save for their retirement. And then, you know, not understanding, investing, you know, being so afraid of it. So even if the market is kind of janky right now, it's okay. We're not, like, sweating it. I mean, I would like for it not to be where it is right now, but at the end of the day, we're still going to retire quite well. And so I think that's the mistake that people make. They don't understand how the markets flow. And then, you know, not diversifying, being too conservative, being too confident, like they had too much in equities. So, you know, and then honestly, just not knowing what they're doing, just not taking the time to inform themselves.

00:11:52

**Delyanne Barros**

Absolutely. I always tell people having too much fear or too much greed is never a good thing. You don't want to be on any one end of those spectrums and the way that you manage fear and greed, because it is unfortunately part of our human psychology is with knowledge. And that's what we're trying to do here. So let's get to our listener stories. What we're going to do is play some of these voicemails that we have of people who called in and we're going to talk about, you know, their quote unquote money mistake. So let's play some tape here.

00:12:25

**Caller 1**

So my biggest money mistake has been lending friends and family money because I felt guilty, you know, being an immigrant, being first generation to like make some a little bit of money. But I learned that I come first and that I need to take care of myself first before I can help anyone else. And please don't judge me y'all I bailed someone out of jail. I was like the cosigner person for the bail bond. Everything was going good at first. He was paying the bails bondsman without any issue, but towards the end, he kind of just, like, stopped paying. And I was stuck with like a remaining \$1,000.

00:13:07

**Delyanne Barros**

Okay. So the main theme here, as you can see, Michelle, is about lending people money. I'm an immigrant myself. I help my mother. I support her financially. But what's really important for people to know about that is I didn't start doing that until I was financially stable myself. I always tell people, you cannot pull somebody into like a leaky lifeboat if your lifeboat is sinking. Like there is no point in pulling somebody up there with you. So I stabilized myself first, and when I took on that responsibility of helping my mom, it was very intentional. I was like super clear with her. I'm like, This is the amount of money I'm going to be sending you. It's going to be once a quarter. This is the amount, and maybe that sounds cold and transactional, but that's how you keep these situations from getting messy, in my opinion. Tell me your take on this.

00:13:54

**Michelle Singletary**

No, I agree. I think as a woman of faith, I believe to whom much is given, much is required. So my paycheck isn't all mine. It is to help my extended family and friends. And so I speak in terms of my husband and I, because we we run our money together and we make financial decisions together. And so I was the survivor, financial survivor in my family. I was the one who went to college, got a degree, got a good job, good pay. I was always a super saver, so I always had money even as a child. And so I felt like I had to bail everybody out. Now, I never got into the business of lending anybody money because I didn't think that's a recipe for disaster. So you should never, never lend people money. You should give it to them and only give that you can afford to lose. So if that's your \$500 for your rent, you can't give it to them. But if it's an extra \$5, you can afford to never see again. Then by all means, help them out. But you also have to be discerning about who you help and how you help. And so my husband, I've created a family and friends fund, and we actually put money into that on a fairly regular basis. And so now what we did is we created rules around giving. So, A, we don't lend anybody money. B, we ask you, what is it you need the money for? What's happening? Let me see your budget because we want to make sure that we're not enabling bad financial decisions. And I don't know about the, you know, the bailing situation, because sometimes the system isn't fair to people, you know? And so I get that she might not want someone languishing in jail who could then lose their job. And, you know, we don't know all the circumstances about it. However, if you are going to bail somebody out, you better, better make sure you have the entire amount that you are obligating for so that if they don't come through with it, you have that extra money. So I guess what I'm saying is you give from your extra, you don't give from your basis.

00:15:53

**Delyanne Barros**

I agree. It's a hard rule for me. I don't lend money to friends and family. I give it. So the money that I'm giving to my mom is given. It was that was always 100% clear. I asked a friend once if they would cosign for a student loan for me because I was desperate to get the student loan just to go to school. And they were like, Listen, I wish you all the success. I love you as a friend. I cannot sign this loan for you. And was that hard to hear? It was so hard to hear. It was so embarrassing for me. I was so humiliated. But it also taught me that, you know, I got to do this on my own, that I was on my own and eventually I was able to get the loan from another bank. But it taught me a valuable lesson and it didn't put my friend in an awkward situation had she said yes and God forbid I defaulted on the loan. So really, really important to have boundaries. Next up, some listeners were smart about opening Roth IRAs, but missed one crucial step.

00:16:53

**Caller 2**

I got a Roth IRA through Chase my bank and didn't understand. Not only did you need to put the money into it, you needed to invest, but fast forward 11 years. That money sat there, \$3,000. Nothing happened to it. It was almost embarrassing when I realized that I had stranded that money in that account.

00:17:12

**Caller 3**

My money mistake that I still kicked myself over, but that when I first opened my Roth IRA about six years ago, it was not actually invested in the market. And it sat there for approximately five years doing nothing except receiving what I contributed to it.

00:17:31

**Delyanne Barros**

Oh, it hurts me to hear these, and I get these messages almost daily from people. So, first of all, I don't want you to beat yourself up about it. I know it's hard to say that, especially when we're talking about 11 years, but it is a common mistake. This is why I tell people it's not enough to download an app and just start putting money into an account. You have to learn the language of investing. It's a lot less math than you think. It's about learning the language of investing so that you don't make these kind of mistakes that you're going to regret years down the road.

00:18:02

**Michelle Singletary**

No, I agree. We try we really do try to tell people about these vehicles, but they don't really understand how they work. In the case of the Roth IRA, they don't understand that that's just a pot. That's just a bowl. If you want to make apple pie, you just can't put the apples in the bowl. But then you got to bring all these other things together to actually make the pie. And this happens with Roth IRAs. It happens actually even with 401k's, people don't understand what they're doing. And I understand why they don't, because all they've heard us say to them is, you've got to invest, you got to invest, you got to invest. And they don't necessarily take the next step to understand what that means. And so that's why when I speak, I never say knowledge is power, because it actually isn't, because what if what you know is wrong? And so knowledge is only power. If you act on it and you understand what you're doing, then it's powerful. And so what we can do is just continue to explain to them as best that we can what these vehicles are, why they're important to invest in it. And that's all we can do, really. But I'm glad that they're at least getting the message that they need to put money away. I think our next step, our challenge, is to continue to educate them about what these vehicles are.

00:19:22

**Delyanne Barros**

Okay. Our next voicemail is about such a classic money trap.

00:19:27

**Caller 4**

A mistake I made was using 0% credit cards to transfer balances for a period of time. That actually kept me in debt, and I thought it was a winning solution for when I was in debt. But it sort of made me deprioritize paying off the credit card debt. So I was able to keep my FICO score, my credit score pretty high. Even though I was in credit card debt, my expenses were fairly low, my income's fairly high. So I thought I was doing well, but I was staying in credit card debt.

00:19:59

**Delyanne Barros**

So I am so conflicted about this one with the 0% credit cards because I have recommended this strategy to a lot of people, but I am so careful to tell them only do this if you are actually going to pay off the debt within that time period. So if you get approved for a 0% credit card deal, that is usually limited to like 12 to 18 months, I doubt you can even find the 24 months anymore. The plan is that you're going to pay off that debt within that period of time. Right. This is supposed to be a very limited band aid solution to give you a little breathing room so that you can knock off those credit cards. This is not supposed to be something that you're like hopping from one credit card to the next and just kicking the can down the road. I think that's my thinking behind that is like, don't think of the 0% as an escape route. It's literally just to give you a little breathing room.

00:20:53

**Michelle Singletary**

Yeah, yeah. I approach it even a little differently. So when people were asking me about strategies to pay off their debt, specifically using the 0% credit card offers, my first question actually to them is what changed? Why are you in credit card debt? I asked that first. And so to determine why they got there. So are they in credit card debt? Because they lost their job. And so they were just trying to make ends meet. And so now their habits will be going back to where it was before once they've been employed. Okay, then you can do that because you got into debt, because you lost your job. Did you get into credit card debt because you just overspent? And if you're overspending, has that stopped? Have you changed your behavior? Have you taken a course? Have you seen that therapist? What has changed? Because if you have not addressed the underlying reason why you and credit debt. Those offers are gonna keep you in debt. So I start there, and if your answer to me is not satisfactory, then I'm like, No. You don't need to get that offer. You need to suffer. You need to try, even if it means paying more interest rate. Because it's not until you have that pain of paying it, painstakingly paying it, that you're going to change that behavior. Because oftentimes what happens is when people clear off credit cards and then put them on the 0% card, then they charge up the other card. It's the same reason why you don't want to use home equity to pay off credit card debt. If you have not addressed the underlying issue of why are you going to get in the debt in the first place, you're going to repeat the process.

00:22:27

**Delyanne Barros**

So I save the most controversial topic for last. This one is such a personal pet peeve of mine and I feel like I'm always talking about it on social media and I get a lot of heat for it. But I stand by my position. Let's play the message.

00:22:46

**Caller 5**

My biggest mistake was getting sucked into life insurance. When I got a big raise, it scared me how much money I was making and no one in my family has ever invested. Everyone only gets life insurance. And so I signed up and I was putting \$600 a month into this life insurance policy. But after a little over a year, I finally canceled it. And now I'm finally putting all of my money into index funds.

00:23:18

**Delyanne Barros**

Okay. So I want to clarify that what she's talking about is probably whole life insurance or indexed life insurance or MPI or whatever other name that people have come up with these days. Literally, the marketing is out of control. But we are not talking about term life insurance, which usually costs anywhere from like 20 to \$40 a month, which I recommend most people have if anyone is dependent on your income. And, you know, very inexpensive, nothing wrong with term life insurance. This is specifically about whole life insurance, which tends to mix insurance with investing, which is problematic. Right. You want to buy insurance? Go buy insurance. You want to invest, invest. Once you start mixing those two products together, that's when you get into trouble. Because why? So many whys, but the big, big, big, why is the fees. The fees that are baked into these policies are incredible. And any amount of money that you're going to be making inside the policy is going to be eaten away by the fees. This is such a problematic product.

00:24:23

**Michelle Singletary**

No, I agree. Generally speaking, life insurance is for income replacement and term is the best policy for most people because you can get more insurance through term than you can through cash value your whole life, which is what this person was talking about. She sounded awfully young. She probably didn't even need life insurance because it's income replacement. Is there someone who is relying on your income so that if you pass away that they need to have that money to live? And you're absolutely right. You know, Whole Life Policy's cash rise high. So very complicated. Tons of fees. And if she was only in it in a year and a half, that means she has surrender charges. So whatever she had in there, she had to give back to the insurance company because she canceled the policy. Now for a small portion of the population. They make sense because what appeals to them is the sort of the guaranteed part of that, that no matter what happens. So, you know, for those people who can't either trust themselves to have a whole bunch of money and they just want, hey, give me just a monthly payment or give me a payment that I know that I don't have to worry about what the market is doing, but the vast majority people can do much better for themselves. And just a low cost index fund and dollar cost averaging, which all that means is you put some money in on a regular basis every month and whatever investment vehicle you choose and you just do it. No matter what the market's doing, you're going to get a good return, you're going to get a decent return and you won't be subject to a lot of fees.

00:25:54

**Delyanne Barros**

Thank you so much, Michelle. I really appreciate having you on and I hope that people get a lot of value out of all of the knowledge that you shared with us.

00:26:02

**Michelle Singletary**

Well, thank you for having me. I think it's been a great conversation.

00:26:07

**Delyanne Barros**

And another thank you to all the listeners who called in and were vulnerable about their money missteps. I've made some of these same mistakes myself. And look at me now. These things are impermanent and can be fixed. If we've learned anything today, it's that you're not alone. Next Monday, is there a recession around the corner? We're going to talk about what you can do now to prepare yourself. And we're bringing back one of my favorite guests, the couple from Rich and Regular. Diversifying is a production of CNN audio. Megan Marcus is our executive producer and Haley Thomas is our senior producer. Our producers are Alex Stern, Eryn Mathewson and Madeleine Thompson. Our associate producer is Charis Satchell and our production assistant is Eden Getachew. Mixing and Sound Design by Francisco Monroy. Artwork Designed by Brett Ferdock. Original Music by Andrew Eapen. Our technical director is Dan Dzula. Rafeena Ahmad leads our audience strategy. With support from Chip Grabow, Steve Kiehl. Anissa Gray. Abbie Fentress Swanson. Tameeka Ballance-Kolasny, Lindsay Abrams, Lisa Namerow and Courtney Coupe. I'm Delyanne Barros. Thanks for listening.

