Talking Real Estate and 401k with Katie Gatti from Money with Katie

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Dave

0:00

All right, folks. Well, welcome to investing for beginners podcast. Tonight we have a very special guest. We have Katie Gotti with us today. She is the host of the extremely popular podcast money with Katie. By the way, if you have not heard this, I highly recommend it. It's a lot of fun. And there's a lot of knowledge that she brings to talking about money. Katie also runs a Personal Finance Blog and is joining us today to discuss all things investing personal finance, and some other fun stuff. So Katie, thank you very much for coming to join us today. We really do appreciate it. And I guess, if you don't mind, could you kind of give us a bit of a background? Like how did you get into the personal finance investing bug? How did that bite you?

Katie

0:37

Yeah, who the heck are you? Yeah, so my background is professionally in something totally different. It's in public relations, marketing, user experience, like kind of ran the gamut. But I got into personal finance the same way; I think a lot of people get into personal finance, which is out of sheer necessity because you have a paycheck, and you're like, I don't know what to do with this. So I got really interested in it early on, probably six to 12 months into working full time, because I very much had that realization of the kind of like, I'm like wasting this money and should probably be doing a little bit more with it. But the difference between, I think, my experience and most people's is instead of being like, Okay, I'm gonna learn the bare minimum. And then, like, move on with my life. I was like, Oh, actually, I'm obsessed.

So I really just dove headfirst into personal finance, world investing, economics, and taxes; it all just fascinated me. And to this day, I'm not even really sure why but it just really gripped me. And so the more I learned, and the more interested that I became, I kind of was like, Alright, I've been reading and learning

about this stuff for a few years; I would like to add my voice to the conversation because I feel like I have some things to say. And there are some things that I disagree with, right about the fundamental advice that we're all told and some additional nuance that I think I can bring to the table. So money with Katie was born in April 2020. But I think I didn't really like to start consistently posting and treating it pretty seriously until around July 2020. So about two years ago now. And it's just been one heck of a ride. We started with the blog. And that added kind of the social media presence. And I say we like it was more than just me, it was me, but and then I added the podcast most recently back in October. And that's been fantastic and a lot of fun. So it's just slowly evolved.

Andrew

2:27

That's awesome. Well, thanks for joining us. Katie. I'm curious; you mentioned some of the things that maybe you don't, some things that you maybe disagree with? I'd be curious if there's one year like that really fires you up, or it gets you really angry that you could just hit us right out the gate.

Katie

2:45

Oh, for sure. All right, let's alienate half the audience immediately. So we're the one thing that comes to mind, really, there are other things about, you know, misconceptions that kind of get under my skin. But I think the one thing that stuck out to me early on was this advice that everyone should buy a house as quickly as possible. When I was starting my career and starting to have some money in starting to pay rent on my own, I felt like I was badgered, but that message pretty frequently and pretty heavy-handedly, that you need to own property as quickly as possible.

And so I would calculate, like all the money I was throwing away on rent, and oh my god, I can't believe this, that if I rent for X number of years, and then I've spent $90,000 on rent over the next decade, whatever. And so I started looking to buy a condo in Dallas, Texas, and I'm like, alright, well, you know, I'm arbitrarily deciding how much I can spend based on I don't even know what it was based on, to be honest with you probably a number that I thought was reasonable. At the time. I think my budget was like 250,000. Well, in Dallas, even back in 2017 and 2018, when this was that gets you a rundown two bedroom condo, you're not gonna get anything, you know, single family for 250k in Dallas.

And oh, by the way, the property taxes are 2% per year of the property value. Oh, and by the way, the insurance is expensive because they're, you know, Dallas is known for foundation issues and floodplains and whatever. So I basically quickly realized, like, oh, I, under no circumstances, can afford to own even a cheap condo. And I'm going to be spending way more to own that condo than I'm spending on my rent. And I think that was one of the first like riffs that I got into with like traditional money advice and the way reality actually is for homebuyers in the, you know, two decades into the 21st century, and just all the associated unrecoverable costs that conveniently get swept under the rug, whether that's maintenance or taxes or insurance or interest, what have you. So that was one of the first ones I think that really got me fired up. And I definitely made some enemies early on with very anti-ownership rhetoric, and I've since come back to a more reasonable position. Yeah, that was. I remember I published something that was like hot takes, keep renting, or See something like very click Beatty, but that was definitely one of the first things.

Dave

5:03

So what do you recommend people do now, then? So at first, you are more revolutionaries. What is your take now?

Katie

5:09

Yeah, I think I've come back to this sense of like, I think the right time to buy a house is when you can comfortably afford to do so regardless of what the market is doing, whether it's down or it's up, if you can comfortably afford it, and you really want one, then great. But I do think about a home as prepaid consumption; I don't think about it like an investment in the traditional sense, first and foremost, because there's really no guarantee that it's gonna go up in value; it'll probably keep pace with inflation.

And depending on where you live in the world, it might go up in value. I mean, someone in San Francisco who bought in the 2000s like probably scoffing at this, but the reality is that my parent's house and Kentucky, it went up like two or 3% per year; they owned it for 25 years, and they lost money on it. So I think this concept that we have this recency bias, that real estate only goes up and it goes up 10% per year. And if you don't own a house, you're never going to be wealthy. Like, I think those are all things that very much keep the lucrative real estate, machine running, and rental property investing totally different story, but I don't consider a primary residence and investment, I think, you know, you'll probably get your money back out. But I wouldn't think about it or go into that decision thinking like, Oh, it's okay, if I spread myself really thin because it's an investment. I think we forget that those associated unrecoverable costs are also proportional to the value of that property.

And so I think it's just one of those decisions where you really have to run the numbers and not be biased one way or the other; I think I'm still a little bit biased toward renting because we are able to rent really nice places where we live for a lot less than we would have to spend to buy, particularly in this market. And I do think that for young people who have no equity right now, it's a hard market to buy into. So I get nervous about people who are like, oh, I'm gonna cash out my 401 K to buy a house. It's like, oh, I don't know that. That is when I wouldn't suggest doing but to each their own right, like people's priorities with them.

Andrew

7:06

I think that's a super valuable thing, maybe to dive deep down, especially right now, with home prices, just, you know, it seems to have cooled off now, and people seem to have chilled out. But you have lots of stories about people offering crazy amounts above asking, and a lot of just FOMO fear of missing out; I kind of get the sense that maybe if you've been thinking about this for a while, you have other creative or, you know, like, it seems to be such a black and white conversation, you rent, or you buy, and you're almost like, subject to whatever market you're in.

But I mean, you mentioned San Francisco with about, like, Southern California, where I was born and raised; I see a lot of friends and family first starting their careers and being like, this is insane. I don't know what to do. What would you speak to somebody who's in that situation? Having been somewhere similar, you know, five years ago?

Katie

8:01

Yeah. So I think if you want to get like really conspiracy theory about it, sorry, my cats attacking me, this is what we do all day long. Because I sit here and try to work, I think a large part of the prices we're seeing right now. And obviously, this is going to be exacerbated in the desirable places to live right where I use the Bay Area because it's just like the most kind of stereotypical example of, like, really inflated cost of living. But I think it all comes back to 2008. And I think the great financial crisis and the response from the Federal Reserve and the government to the right of the mortgage-backed securities and kind of bailout the economy; things would have gotten much, much worse had they not done that and written off all that bad debt.

But I think as a response, it introduced this period of monetary policy where the response to everything was money printing, and it's like, I mean; obviously, they're not literally printing more money, but injecting more liquidity into the system to try to keep things propped up. And I think what we saw post-2020 2021 was the Federal Reserve and the government basically saying, you know, the entire global economy is screeching to a halt, or did screech to a halt. We need to inject liquidity so that things don't collapse. But then they kind of overdid it, in my opinion, you know, this is my subjective opinion. But I do think that, you know, they kind of overdid it, and they overreacted a little bit. And so all of that money found its way into assets, both stocks and home prices.

And I think the real estate market does lag the stock market; it's less real-time. But I think the same kind of downturns and softening that we see in equity markets are gonna play out in the real estate markets as well. I think it just takes six months or 12 months. It takes a little bit longer for that to really, like, infiltrate in the same way. But I do think that the reality that we're facing now is that those who did not already own homes before the money printed print thing started and didn't benefit from that asset inflation are now further behind the starting line. And so I do believe that there might have to be a bit of a recalibrating of expectations.

And whether that means you are living in a place like Southern California or the bay area, or New York City. And you might even have the fancy tech job or the hedge fund job that pays hundreds of 1000s of dollars a year, even though you may feel like you cannot afford real estate. And I think that is the position that you know; it feels really unusual and really paradoxical. To find yourself with a really high income objectively and still kind of being like, I make $250,000 a year; I can't afford to buy a house. But that is kind of the reality of those cities. And I think, in a lot of the cases, particularly San Francisco, if we look at the price-to-rent ratio in that city, the price-to-rent ratio is 50, which means for the price you could pay to rent for 50 years, that's how much you would need to buy a house, as opposed to like Detroit, Michigan, where the price rent ratio, I believe, is six, where you could rent for six years, or outright purchase a home.

So I think it's such a hyperlocal decision that that price-to-rent ratio is really, really helpful for localizing it and helping you understand, like, whether or not it is actually net cheaper to rent, or not cheaper to buy. And I know it sounds really counterintuitive that it would ever be net cheaper to rent anywhere. But really, if your price-to-rent ratio is at or below the low 20s, like at or below 22 will say or you know, maybe all the way up to 25, then it's probably going to be cheaper to buy. But if you're gonna price to rent ratio that's in the 30s, 40s, 50s, almost under no circumstances should you be buying if you're really worried about like the financial implications of that decision. And I think you could say that the longer you stay somewhere, the more it kind of evens out. And I think that's fair, like if you intend to buy a home and then pay it off and live in it for the rest of your life. All right, that's a different story. But we know that that's not how Americans actually typically live.

Like, I think the average time in one home is 13 years. And I think for the first 10 or 12 years of owning a home, your payments are primarily interesting anyway. So you're really just relying on appreciation, outpacing kind of everything else, because you're really not paying much towards your principal. At that point, you're not making much of a dent in the first ten years. So I think timing obviously plays a really big role. But I really liked that price-to-rent ratio metric for helping to localize in those situations where it's like, okay, it feels like, you know, a lot of the appreciation in this area has already happened. And sure, it might continue to go up. But if your price to entry is ten times higher than the person that lived there before you, Well, that means it has to go up a lot more for you to get the same types of returns in the future that they got.

Andrew

12:52

So kind of like a shot in the dark. I mean, you're talking about flexible expectations. So I don't know if this is something that you have an opinion on one way or the other? Is it possible maybe if you are stuck in an area like that, where you feel like there's no way you're gonna get into a home is a possibility, maybe putting more into a 401k and thinking, hey, I can maybe be a homeowner much later stage of life than traditionally, people have always said you should buy a home. I mean, we look at like the stereotypical 1950s where it was like, you know, you had one breadwinner, and everybody seemed to get a home with any sort of job.

That doesn't seem to be the reality today. So, you know, can maybe people think about recalibrating in that way and still not be a financial feel like they're behind the ball financially?

Katie

13:44

Oh, 100%. I think that I love that you phrased it that way. Because I think it is very reflective of, like, America has evolved, the prices of things have evolved, whether that's thanks to late stage capitalism, or monetary policy, like whatever you want to call it. We live in a very different time. Now, we don't own any property; we have a million dollars in the stock market like I would, under no circumstances, consider myself financially behind because I don't own any property. And I know I'll own a house eventually when I decide, you know, I'm ready to settle down and live in it for 10 to 1520 years.

But at this point in our lives, we move around a lot still, like every couple of years, we're moving somewhere else. So I think the difference really between the 1950s family and the family of today, the modern American family or person is that in the 1950s, you couldn't click a button on your phone to invest in a cheap broad-based index fund. The index fund didn't even exist yet. So in some ways, we have far more wealth-building options available to us today than any other generation in history. It's never been easier. It's never been more accessible, and you've never needed less money to get started. So I think the reason we get that kind of traditional conventional wisdom from generations past that, like the home is the ultimate wealth-building machine, is because, for them, it was that was true for them.

For us, I don't really believe that that's true anymore. And I think you know, the benefits of investing in something like the stock market where your capital is a liquid, you've got that flexibility. You can deploy it when you want, how you want, you are not tethered to one place, like, I can't really even fathom the, you know, the only way I can build wealth is if I live in one place for 30 years, like how limiting is that? I think in a lot of ways, we have it better than previous generations did. But I know that that's hard to kind of reckon

with or except if, you know, you've been socialized your entire life with this idea that unless you are a homeowner, you have somehow failed at adulthood or failed at like this big financial stuff. You have to

Andrew

15:55

I love that idea. Wow, that was great. That's great. Oh, thank you.

Dave

15:58

So if you were talking to somebody in there, so I have a future daughter in law that is going to graduate from college next year. And, you know, gonna be 22 getting out of school, and she's going to be a nurse, so she's gonna have a pretty decent income. How would you tell her to start building her wealth? I mean, we've kind of talked about kind of the housing situation, and whether you rent or whether you buy, you're gonna have to have a roof over your head.

So that's, I mean, one way or the other, you're gonna have to pay for that. But beyond that, how do you suggest that people kind of start moving in that direction? Because, as you said, there are, it's never been easier today than it was five years ago. Ten years ago, I was the oldest person in the room. So I know that it's gotten easier as I've gotten older. Um, so yeah, what would you tell people? What would you tell my daughter-in-law?

Katie

16:45

Yeah. So I would say that I think it's a pretty simple three or four-step process; I think, first, you know, she's got the source of income locked in, that's great. That's sometimes the biggest hurdle; right is like getting the job and getting the paycheck. From here, you're kind of uneasy, straight, because I think First things first is figuring out how much of your income you need to create a lifestyle that is amenable to you. So I think most 22-year-olds probably are not going to be, you know, flying first class to Tahiti and living in the penthouse. I know I wasn't. But I do think that there are some good rules of thumb that we can use to follow, especially when we're in our early 20s. Early in our career, we're probably not making a ton of money yet. I don't know what you study to become like the 23-year-old consultant who charges $300 an hour; I definitely did not get that degree. But I was, you know, looking at my income. When I started working, I was making $52,000.

And I was gonna have a roommate. So that I think the number one thing when you're young has a roommate is objectively more fun in your early 20s. And it takes a huge financial burden off your shoulders. So I had a roommate, and it was actually a guy from home, my girlfriend, who made a lot more than I did; I think he made twice as much as I did. And when we were looking for a place, I didn't know how much to spend. This was a pre-personal finance awakening; I didn't know what was like a reasonable amount of money to spend on the roof over my head. And I had friends that were making very similar incomes to me. So 52,000, give or take, who were spending 1500 1600 $1,700 a month on these one-bedroom apartments, it was eating up in some cases; one of their two paychecks was just going to rent. And so that was kind of the baseline I was starting out of like, Alright, maybe that's normal, like spending half your income on rent.

And then I talked to him; he's like, I'm not spending more than $1,000 on my half of this apartment like it needs to be under 1000. So then that recalibrated me completely where I was like, Okay, well, if he makes over 100,000 and doesn't want to spend more than 1000, that means I need to be spending way less than 1000 if that's going to if I'm going to be kind of in parity with him. So I started looking for two-bedroom apartments that were cheaper and maybe not in like the hottest neighborhood and didn't have granite countertops. But it's like you're 22, like you probably just moved out of a dorm room. So who cares, right? I think like not feeling like you need to immediately ascend to like the nicest apartment and drive the best car. It's like if you can keep those structural expenses low and have housing be 25 to 30% car less than 10%. And then, you know, at least try to be setting aside like the minimum 10% into the 401 K, you know, whatever else you can manage to save, you're not going to be probably rolling in it, but I think that's where a lot of young people go wrong early on is they like handicap themselves right out of the gate by signing the most expensive least they can possibly afford to get the new car and like just diving headfirst into like consumerism.

I think that even just delaying that by seven Real years can give you such a good head start. So I definitely think that's where it has to begin getting those structural expenses and like baseline spending to a point where you are able to save 10 to 20% of your income, because I think if you can do that from the beginning, you're never going to save less than that, hopefully, your Savery will only continue to go up as you earn more. But if you come out of the gate with the Mercedes and the fancy apartment, one bedroom with the view, it's like, you're gonna have to be working pretty hard to get to the point that you can even feasibly afford those things comfortably. And you're just, you know, kind of hurting your progress in the long run. So I think that's kind of, that's what I would have told myself and what I would have driven home for myself even more at the time. And I do think that one of the best things that I did at my mom's constant badgering was just day one of work, putting 10% into the 401k. And like never even allowing my full paycheck to hit my account, like the temptation was never even there. Because from day one, 10% was going into the 401k.

Andrew

21:03

Pay yourself first, right? I can say from personal experience that once you sign your name to something, whether it's the car or the apartment, whatever it is, it's very hard to kind of undo the consequences of something like that. And it's much more painful to go back a step or two than it's fun to go up a step or two if that makes sense.

Katie

21:27

Exactly. I always say that, like lifestyle, a little bit of lifestyle group is okay, but you better be careful because it's really hard to go back like you are going to adapt to your circumstances. When we first moved into this house, it was three bedrooms; we came from a two-bedroom apartment. Oh my gosh, the first week I lived here, I was like, I live in a palace and live in a mansion. Oh, my God, look at what I think the kitchen is now. I'm like; this is just my house; I could go bigger like, you are going to get used to whatever you introduce yourself as the baseline. So it's like just be very intentional about what you are kind of committing to.

D

Dave

22:04

That's great. So I guess moving to the investing part, we talked a little bit about the 401k. I mean, I think that's an underused asset for people. And it worked in the banking world for a little while. And I would constantly talk to people about if you start nowhere else, start with a 401k. For whatever reason, people think they have to go dive right into buying stocks. And that's the only way that they can invest. But the 401k is such a great vehicle. And by and large, most companies offer a match. And if you're not taking care of, you know, the advantage of that match, what what are we doing here? So I guess what your thoughts on the 401k are? And how can people embrace that to the best of their abilities?

Katie

22:41

Yeah, love the 401k. So in my mind, I think I want all the tax advantages I can get right. Like I want to capitalize anything the IRS is telling me there's a limit, I'm like, That is a signal to me that this is some good stuff. So I prefer the traditional 401k over the Roth 401k. Personally, because that high contribution limit means you can sock away 20,500 and defer taxes on that amount. I think that we don't talk about that enough. And I like coupling the traditional 401k with the Roth IRA to get the tax diversification and take full advantage of those two buckets that the IRS is going to ignore for the time being. I think, especially during your mid to high earning years, I think it makes a lot of sense to focus on the traditional pre-tax account, like the 401k 401k being the most popular one. If you earn an income in the 24% tax bracket, for example, you are going to save over $4,000 Every single year on your taxes if you max it out. That is huge to me. And so often, we do emphasize that employer match is like the best part of a 401 K.

And that is part of your total compensation. So you should absolutely be getting it. But I think that tax break is oftentimes just as substantial, if not more so in some cases. And I think illustrating that more emphatically for people is something I've tried to really drive home because if you think about it if I can create another $4,500 of investable income every year just by being able to allocate 20,500 to this pre-tax account, you're getting immediate like 20% bump or 25% bump on the money that you're putting into that 401k Because now the taxes that you would have paid on that income stay in your pocket, you can turn around and invest that in a Roth IRA and get damn near close to maxing that out too. So I love the 401k, and it drives me crazy when people disparage that lovely pre-tax account.

Dave

24:45

The thing I love about it is it's so easy, and it also helps you know we were talking earlier about creating that habit of setting aside money for the 401k. Like you said earlier, it allows you to invest without seeing the money. It's a lot harder once it's in your checking account, too. Yes, set it aside, and save it for later are all the excuses I heard when I was talking to customers. That's what I love about the 401k is it automatically takes the money out. That's it for you. And it creates that habit of investing and saving money, and the company does it for you. You don't have to literally have to do anything. And it's just anything that being said, what are some of the bigger mistakes, you see people with 401 K's? Who?

Katie

25:28

Yeah, big mistakes, I think; well, the obvious one is not using it or not utilizing it enough. But if you are using it, I sometimes think what I noticed is I would talk to people about the 401 k's, and they'd kind of be like, I don't know what to invest this in. I don't know what to choose. And I think that is a kind of an ironic problem if you think about it because I feel like, in every other area of life, we have this paradox of choice where we have too many options. 401 K is kind of the opposite; you usually have like four to 12 options within a 401k that you can choose. And I think I've seen both people through no fault of their own.

So like, definitely not assigning any shame, blame judgment whatsoever. But I think the thing to look out for is, when you sign up, there may be a like, Oh, do you want the professional help? Or do you want this to be actively managed for you where it's like an add-on product where you, unbeknownst to you, are paying a manager 1% per year? I think that's something to look out for. So high fees and the 401 K plans, which you really don't have control over because you know your company is, are managing it for you. I think the other thing would be too conservative of holdings. So young people that are in 50% bonds are in like a target date fund 2040 or 2030. Because they just don't know what they're choosing. They don't; they aren't adequately educated about their choice.

And so they're picking things that are way too conservative. And I think when we talk about like risk tolerance, in general, within this broader conversation of like in a taxable account, then you've got a lot more wiggle room, right, because I don't know if, like you, Andrew needs that money in five years from now or 50 years from now like we'd have to have a conversation about that. But I'm pretty confident for a 401k for a 25-year-old, like, pretty sure you're not going to be using that for 25 or 30 more years, like pretty sure you can, you can be a little bit riskier. So to speak, in that account, you probably don't need a 50% bond allocation. And I think it can unintentionally temper the growth in those accounts, just because people are maybe investing in things, you know, haphazardly that really isn't a great fit for them.

So I am a fan of target date funds; I just think you want to pick one that has an adequate risk profile for how old you are and when you're going to like your retirement timeline. But I think you get a lot of goodness in the target date funds. And most 401k providers custodians like have those as an option. So you've got your domestic and international stocks, a few bonds, and then that glide path to where you do not have to do the rebalancing yourself. I think it's really good, like 8020 solutions. And I think Vanguard did a study where they looked at 401 K plans that were within their kind of purview and were like people that were in target date funds versus people that picked their own stuff. And I want to say the target date funds outperformed by one or two percentage points per year, the people that, rather than people that had the target date funds outperformed those that did not buy one or 2% per year. So as Chris Peterson says, he came on the show recently, and he said, you know, we criticize the target date fund as if it's like an off-the-rack suit, but most people look better and an off-the-rack suit than nothing at all.

Andrew

28:43

That's funny. Can you maybe for some of these tuned in for the first time, or have they opened their 401k? And then closed it because it was really confusing. Can you give us just the basic nuts and bolts? What's a target date fund? And what's an example one that's like, Alright, maybe this is too conservative, and maybe, you know, if somebody's like 35 years old, what would be a good target date? Totally?

Katie

29:05

That's a really good question. So a target date fund is effectively a mutual fund that a brokerage is putting together where they are baking in the diversification for you. They're picking the fund allocations on your behalf based on how old you are and how long you have until retirement. So when we talk about index funds, like the s&p 500, that's something where like, that's I'm using that one because it's probably the most common or the most familiar. That's something where it's the, you know, the 500 largest companies by market cap, and you've got the bigger companies like Apple and Google, and you know, the thing companies are making up a lot of

I think the s&p 500 Today is like 30% tech out of all 500 companies or 504 companies that are in it. The target date fund, on the other hand, is going to have something like that in it. But it's also going to introduce other things like international stocks and domestic bonds and international bonds. And the intent there is that you are getting some diversification. And they can toggle things up or down based on how conservative or how risky you want to be. And typically, how you know, your risk tolerance is determined by how long you can stay invested in the stock market. So even though every 20-year period that you could find in the market, I think you would lose money 0% of the time over a 20-year period, it's a pretty safe bet in the long run. If you're talking six months out to a year, that's like a coin flip whether or not you're gonna make money or not. So I think when we think about something like a target date fund in assessing risk, and how risky we want to be, whether we want to be heavy in equities, or heavy in bonds, something that's like a little bit less risky, we just are really focused on the year, which is why most target date funds have the goal retirement year, in the name of the fund.

So, for example, I'm 27, I'm going to not even make myself too fast math here, I'm just gonna do some quick keyboard math; if you assume that I want to retire at 65, prayers up that I can retire a lot sooner than that. But if you are saying, okay, Katie's retirement at age 27 is 38 years away. Well, it's 2022. Right now, in 38 years, it'll be 2060. So the year 2060 is probably the appropriate time frame to be telling this brokerage account; that's when I'm going to retire. And then the name of the fund itself would be like, for example, Vanguard target date, fund 2060. So you really just want to think about the year that you would be approaching traditional retirement and tell, you know, that's what you would go in and kind of look for on your list. So if you're 50 years old, and you're going to retire in 15 years, well, then you're looking at target date fund 2037, or 2035, maybe, or 2040. So that's where the numbers come from. And that's how someone could assess which one might make sense for them.

And if, if you want to be even riskier or more conservative, you can fudge it a little bit. So I might be like, Well, yeah, I'm gonna retire in 20 years from now, but I don't think I'm even going to be tapping this account by then. I'm gonna continue to let this ride, and I'm going to use another account first; well, maybe you can choose 2070, then like you can push it out and really personalize it and customize it in that way.

Dave

32:33

That's awesome. So I guess the question that springs to mind for me is, let's say that somebody is looking to start investing with a 401k. But maybe the target date fund is not something that they want to pursue. I know HR, but from my experience, they can't give you any guidance. And depending on where you work, I don't really have anybody that can really give you advice. So, where can we point people? Where can people go to learn more about, you know, these are the options they have? What can I do?

Katie

33:01

Yeah, so a couple of things come to mind. I think first and foremost, if you don't have access to a target date fund in your 401k, kind of like a workaround, that'll get you similar results, I think would be doing like a 90, and this is again, for someone in the 20s 30s age frame. But you know, if you say you're setting up a 401 K for the first time, you could do something like a 90% total stock market fund and a 10% bond fund or 95%, total stock market 5% bonds, if you have something like a small cap value or something with that small cap moniker, and the fees aren't too high introducing that can be interesting, too, from a risk perspective, because over time, small-cap value has outperformed the large-cap growth funds like the s&p 500 in the total stock market, but it is more volatile.

So like, it is a riskier choice. I think the best research that I've seen and some of the most easy-to-digest research comes from Paul Merriman. And the thing is, the Merriman Foundation for Financial Education is the name of his organization. But he wrote a book recently called we're talking millions. And I think that's a really good place to start. Suppose someone is trying to understand asset allocation. He has a lot of work on it too. Like if you just went to his website, I think he does some really interesting work, and Chris Peterson and his team with respect to running backtest to see what asset allocations I've done over time, and you can kind of educate yourself that way.

But I assume if someone's listening to this podcast, they are interested in educating themselves. I think if you were like, I just want the easy answer and then never think about this stuff. Again, I would say you probably will get decent results just by going, you know, some combination of the total stock market index fund and bonds. But if you are interested in digging deeper, I think their work is very interesting.

Dave

34:55

Alright, so I'd like to segue into something completely unrelated; one of the things that have always puzzled me is why aren't there more women in finance? And how can we encourage more women to get into finance? And when I was in the banking world, I noticed that kind of, I guess, strata, like a lot of the tellers were women, and less of the bankers were women, and even less of the financial advisors, slash personal bankers were women. And just kind of as you went up the scale in the retail banking world, there were fewer and fewer women. And I don't know why that is. And even in my own life, talking to family members and friends that are female, they'd have little to no interest in it. And I'm curious what your take is on it. And I'm also curious, how can we change that? Because it needs to change?

Katie

35:43

Yeah, well, the first thing I'll say is that what you observed is true of every industry, where like you have mostly women in the bottom and mid rungs. And then, as you get, I think, 4% of CEOs in the US are women. So it's, it's definitely pervasive. But it's an interesting question, right? Because I think if you surveyed a representative sample of men and women, they would be equally interested in having money. I don't think men like money or want money more than women do. But I do think we should divide it into two questions. Because I think it's like, why are there more women in finance as a profession?

And why aren't there more women retail investors, and Deloitte did this study where they found that 24% of leaders in financial services are women? Whereas when you zoom out and look at the female leadership, like in the broader workforce, across every field of aggregate, it's actually only around 21% are leaders. So the financial services industry has more female leaders than the aggregate, interestingly enough, and this is, of course, you know, specific to the United States. In China. Women hold 51% of leadership roles. So they're far more egalitarian from that standpoint. Those latter statistics come from Forbes, by the way, in case anyone's curious, but so yes, women are underrepresented in the financial services industry. But I would argue like no more underrepresented than they are in every other professional field. And at a professional level, I think women in financial services are up against the same challenges that women in all careers are up against, which is just that, relatively speaking, we are newer to the industrialized workforce than our male counterparts are.

And I think there's still a motherhood penalty that persists for women in a way that like there is really no commensurate fatherhood penalty like women are statistically more likely to do the unpaid and underpaid labor of maintaining a household and raising a family alongside having a career, they typically bear the brunt of child-rearing. And that often takes them out of the workforce for months, if not years; if they choose to take a break when their child is younger, they can stay home. And I think in the aggregate, that means women earn less over time and progress more slowly through the ranks, and may get taken out of the workforce before they have the opportunity to continue ascending. So I think you rarely hear a man wringing his hands and being like, Oh, should I prioritize my family are my career in the same way that women are kind of faced with that false choice.

But on the retail investor level, I looked into a few studies recently that were thinking 2021; they found that 48% of women in the US invest compared to 66% of men, but that women investors tend to outperform male investors by roughly 40 basis points per year. And I think we have these narratives around women that women are not risk takers or that we're not interested in money. And I think those narratives place the blame on the women. And there will always be some level of like personal responsibility and agency that you have to assign, right? Like you have to take responsibility for yourself at the end of the day. But I think you get a more nuanced and interesting picture when you zoom out and you look at this broader environment, that these things are happening within and these decisions are being made within because women have not traditionally been encouraged or socialized to build the wealth of their own in the same way that men have. And I think, up until 1974, a woman couldn't even open a line of credit without her husband's signature.

And even earlier than that, in the 20th century, women considered property like women were an asset that a man owned themselves. So I just think it takes time to achieve parity and that true equality, and I think we're making strides, but assuming that only after, you know, a few decades really of being in the workforce, accumulating wealth through things like homeownership or through stock ownership, and feminism kind of becoming like a mainstream noncontroversial perspective that like women and men should be equal. I think it's just wishful thinking to think that we're going to level the playing field, you know, just after 20 or 30 years. Well, okay, more than that. But you, I think you understood what I'm saying. But I think the more that we frame wealth acquisition as something that is for everyone, and not just for a certain type of person, the more progress I think we'll see. But at the same time, I want to caution this idea that, like, wealth acquisition in itself is progressive. Like, I think that idea is capitalism's way of fooling all of us into just working harder, and it's worked pretty well on me; all I do is work, but that's not great. So I don't think individual wealth acquisition is the answer and how we achieve a more egalitarian society. But I do think when people of all races and sexes have commensurate levels of wealth at the aggregate level; then you'll start to see the shift. And I say all of this, wanting to emphasize, though, like this is not to vilify the white man; I don't think that's productive. But I do think you can realistically look at the history of our country and say, from day one, there has been one race and one gender that has historically always been valuable.

And over time, as we've progressed to begin recognizing people of color and women as equals, like, that has been wonderful. But we haven't had the same 250-year headstart in the same way that our white male counterparts have had. And that's not to say that there's something wrong with them or evil or wrong about our male counterparts. But just that if you have always been historical, the most important, or the only important one, the only one that got access to opportunities, that compounds over time, and it's going to take time for us to achieve that equality of opportunity for everybody. And I think sometimes I'll hear pushback that like, well, not all white men are rich. And I think that that's true, but most rich people are white men. And I think that's the key, like if you look at the upper strata like they all kind of look the same by and large. And I think it's just going to take time for, you know, the rest of us to catch up, frankly, like at an aggregate level.

Dave

42:08

It's interesting, very interesting.

Andrew

42:10

Yeah. Well, Katie, I want to thank you for your time. This was a lot of fun. Yeah. And I find it applicable for a lot of people, especially with the environment we see today. With the economic uncertainty, we see the craziness in real estate and the opportunities there in the stock market today that people hopefully are taking advantage of. I know you have a great podcast. Can you talk about your podcast, and like a 32nd? Elevator Pitch for what you tend to cover on your show?

Katie

42:41

Yeah, sure. So on the Money with Katie show, I try to focus on the topics that will have a substantial impact on your life, whether financial or otherwise. And so, you know, my show is not the one where we're going to talk about like ways to save money on your car insurance. But we are going to talk about childcare, and how that impacts your average family or the healthcare system and how you can navigate that to avoid medical debt, so I really tried to focus on the big picture stuff and talk about things that I don't necessarily hear in the personal finance realm elsewhere. So we do get into spending habits, financial psychology, taxes, investing, all of those good things, but we do tend to try to broaden the conversations a little bit and bring in more nuance than just kind of the math and the numbers.

Dave

43:32

As a listener of the show, I think you do a great job of that and educating people about all those important topics. You're welcome. I know that I appreciate listening to your show. Because, you know, the more you can surround yourself with smart people, the more I can help you. So I want to hear you also have a great blog. You're also on social media, Instagram, Twitter, and all the important places.

Katie

43:55

Yes, unfortunately, I'm everywhere on social media.

Dave

43:58

So again, Katy, we do thank you for your time; this was a lot of fun. I learned a lot, and I know our listeners will as well. And if you guys I've said it before, I'll say it again, if you guys haven't checked out her show, please absolutely go check out her show. It's definitely worth your time. So without any further ado, I'll go ahead and sign us off; you guys go out there and invest with a margin of safety. Emphasis on the safety. Have a great week, and we'll talk to you all next week.

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