Credit Card Applications, 529 Plans, Penny Stocks, & More! - Transcript

Tim Mullooly: Welcome back to the podcast. This is Tim Mullooly, and this is episode number 199 of the Mullooly Asset Podcast.

Tom Mullooly: Joining Tim is Tom Mullooly. Hello.

Tim Mullooly: Happy to be here. We've been counting down the numbers to number 200, so next one is going to be the big 2-0-0. We're going to continue to answer your questions here that we get. We get these questions from a website. They send them to us.

They're anonymous questions from people about their financial planning questions, investment management questions, anything really about their money and their financial lives is on the table here.

So, we try our best to answer them in general terms -- nothing very specific. We don't have too many details about the people's situations, just what they give us in the questions.

Tom Mullooly: Just understand that we're not going to be giving any specific financial advice or investment advice, and sometimes the questions that we get we actually don't answer, but it gives us, as Tim said last week, a springboard to a bigger discussion that really needs to be had. Why don't we jump right in with our first question this week?

Tim Mullooly: Sure thing. Here we go. First question asks:

"How do I get a credit card with no current payment history?"

Tom Mullooly: The first thing I said when I reviewed this question -- Exxon.

Tim Mullooly: Yep. We'll explain after I read this summary. The summary says, "I want to get a credit card that allows balance transfers. I have decent credit, but since I lived in Hong Kong for so many years companies are saying I don't have a current payment history. I live in the US now, and I'm trying to get a credit score going so I can buy a home. What should I do?"

Tom Mullooly: All right. I'm a little skeptical of this person who wrote this question because they're actually asking three different things.

"How do I get a credit card with no current payment history?" Easy. Sign up for a gas card.

Tim Mullooly: Right.

Tom Mullooly: Go to Exxon; go to your local gas station and apply for a credit card.

Tim Mullooly: That's what I did.

Tom Mullooly: That's what a lot of people do. My first credit card was a Sears credit card. I grew up on Long Island. I went to CW Post, and the Sears in Hicksville had gas pumps, so I got a Sears card so I could go to Sears and buy clothes for work, but I could also get gas.

Tim Mullooly: Fill up your tank, too.

Tom Mullooly: That actually worked out pretty well.

Tim Mullooly: That's really convenient actually.

Tom Mullooly: Yeah. So, if you have no current payment history, sign up for a store card or a gas card. Don't make that, obviously, your go-to credit card because you can only use it in one place, but understand that the interest rates that are charged for those affinity services, for those niche markets, like a store card, the interest rates are high, so try not to run up balances on these things.

Pay them off as soon as possible. But as soon as you establish a few months of paying your bill on time you'll start to just, your mailbox will become stuffed with credit card applications, so it won't be very long.

But here's the other thing that kind of caught my eye with this. So, they wanted to ask about a credit card with no payment history, and then they said they want to get a credit card that has balance transfers.

Okay. So, I'm not a big fan of these balance transfer things because it's kind of like musical chairs where you've got to move your money around and you'll get zero percent interest if you transfer a balance over, and then if you pay the balance off before that, great.

If you carry a balance past the deadline, you're going to pay interest and it's a shell game. You're constantly moving money around. So, I don't know if we've got the whole story with this person who's asking the question.

And then, right at the end, they say, "I live in the US now and I'm trying to get a credit score so I can buy a home." Holy moly. You want to buy a home? Just save money. So, a lot of moving parts in this question.

Tim Mullooly: Right.

Tom Mullooly: Okay.

Tim Mullooly: So, let's just move on. The next question asks:

"Which portfolio should I choose for my daughter's 529 plan?"

Tom Mullooly: Okay. I don't want to be snippy with this, but what portfolio should I choose for your daughter's 529 plan? The main thing is to save money, so I'm delighted to see that someone is setting up a 529 for their child so they can go to college, but focus on saving the money.

A lot of these plans have age-based programs, so if you have an infant up to three years old you're going to be in a very aggressive portfolio. Actually, you should be in an aggressive portfolio until they're nine or ten, and then it gets less aggressive as they get closer to college.

The important thing, though, is to open up a 529. The earnings continue to grow tax-free or tax differed until you take them out, and college is out of hand. I mean, it just costs a lot of money. You've got to start right away.

Tim Mullooly: Right. So, it doesn't necessarily matter which one you choose as long as you get going.

Tom Mullooly: I think the original person asking the question said that they had a daughter who was two years old. Like I said before, most of these states that have these plans offer an age-based program -- just get in that.

Tim Mullooly: Yep. Okay. Quick and easy. The next question here is:

"Is it worth investing in penny stocks?"

The summary goes on to say, "It seems like with every penny stock there's a speculative bubble and potential risk. How do you find the perfect penny stock, and how do you avoid a loss?"

Tom Mullooly: Oh, boy. Yeah, that's the one big sigh that we got this week. "It seems like with every penny stock there's a speculative bubble and a potential risk." I think there's a potential risk in everything.

Over the years as a broker, clients would call me and they'd say, "I got a tip from my idiot brother-in-law, and he's talking about this stock and it's a dollar. It's supposed to get some FDA approval and it's going to go to," ... and I laugh because when people tell me, "It's supposed to go to $25."

How are they going to know where a stock is going to go? That is the first red flag.

Tim Mullooly: They saw it in their crystal ball.

Tom Mullooly: Yeah. How do they know that it's going to go to $25? What if it only goes to $24? Was it ... it didn't work out?

Tim Mullooly: Was that a disappointment?

Tom Mullooly: Yeah. If it goes to $26 is that wrong? So, I don't really ... Every time a client would call and tell me, "I heard this stock is supposed to go to this price," I immediately smell a rat and my BS monitor goes off.

But we would have clients that would call us periodically and they would say, "My idiot brother-in-law told me about this stock. It's only a dollar," and here comes the punchline, "I mean, what could I lose?"

Tim Mullooly: The answer to that is pretty obvious. You can lose your money.

Tom Mullooly: 100% of it.

Tim Mullooly: Yeah. It can easily go from one dollar to zero dollars. And we were talking before this ... If you buy 2,000 shares of a one dollar stock and that goes to zero, you just lost $2,000.

Think about all the things you could do instead of gambling on a penny stock that you know nothing about. You could take $2,000 and go to Atlantic City and pretty much have the same odds and have a way better time.

Tom Mullooly: Yeah -- much experience. I mean, you could take a nice vacation for a couple of grand. You could do a lot of things that have longer lasting enjoyment than doing something like this.

I am always ... I get worried about people who call me, or call us, and ask about these penny stock ideas. Penny stocks are penny stocks for a reason.

Tim Mullooly: I feel like sometimes it says a little bit more about the person's personality than anything when they start asking about penny stocks.

Tom Mullooly: Yeah.

Tim Mullooly: Got that little gambler's itch deep down inside of them sometimes.

Tom Mullooly: Yeah.

Tim Mullooly: You never know.

Tom Mullooly: So, "How do you find the perfect penny stock?"

Tim Mullooly: If you figure that one out, let me know.

Tom Mullooly: Right. And the other part, "How do you avoid a loss?"

Tim Mullooly: If you figure that out, let me know.

Tom Mullooly: I love the folks who tell me, "You know, it's never really a loss until you sell." No. No, we have people who remind us every month when they open their statement that they're losing money in something.

Tim Mullooly: Right.

Tom Mullooly: So, "How do you avoid a loss, and how do you find the perfect penny stock?" Two unanswered questions from today's podcast.

Tim Mullooly: Yeah, sorry about that.

Tom Mullooly: Yeah. Let's move on.

Tim Mullooly: Sure. Next question asks:

"Is an irrevocable trust right for my relative that recently lost his wife?"

The summary goes on to say, "I have a relative that lost his wife and has limited experience with finances. He is dating and is very susceptible to the influence of others.

I think he could be talked into spending a lot of his assets on this person he is currently seeing. Would an irrevocable trust help in this situation? What is the best way to explain the benefits to this person?"

Tom Mullooly: Okay. So, with an irrevocable trust, you're setting up a wholly separate trust, and you're taking assets, and you're taking them out of your name and you're putting them into a trust that you no longer control the asset.

It's going to be very difficult for someone else to get you to spend down the assets, so on paper, I think, this person who wrote in has an interesting idea. There's a few other things they could do as well.

They could just learn to say no if they're worried about spending money. But we were debating, Tim and I, about whether to include this question in our podcast today.

Tim Mullooly: The answer that we wanted to give is not necessarily financial in nature.

Tom Mullooly: Right. The answer is mind your own beeswax.

Tim Mullooly: Right.

Tom Mullooly: I've had to say this to a few people over the years, but it's none of your business. You can't control it. I think if you try to control someone else's behavior, or tell them that they're making a mistake or doing something that may ultimately harm them, you are, I think it's nice of you to tell them that, but you can't really do much more than that. So, it's hard to give other people advice especially when it comes to matters of the heart.

Tim Mullooly: It's a slippery slope. There's a fine line. You could potentially end up damaging the relationship with that person if you try to get too controlling with their life.

Tom Mullooly: Right.

Tim Mullooly: Ultimately, it comes down to it's their life. They're going to make the decisions that they want to make.

Tom Mullooly: Right. That's a very tough one. I've had to be the bearer of bad news to tell people, "You know what? Just get your nose out of that. Get your nose out of someone else's business because you don't belong in something like that," and even though you have their best wishes in mind, it's, like Tim said, a slippery slope.

Just steer clear of it. If they ask you for your advice, be ready. Be ready to offer it, but you're also making a judgment just by reading the way this question was worded, you've already made a judgment about who this person is spending time with.

That's always dangerous. Be very careful.

Tim Mullooly: Okay, so, the next question is going to ask:

"How can you determine a company's intrinsic value based on recent stock prices?"

Tom Mullooly: Okay. So, the intrinsic value of anything is the value of the assets less any kind of debts, liabilities. So, the problem that you run into is that ... Let's just look at a company like Kellogg's.

What is the value of the Kellogg's brand? What's the value of Pop-Tarts? I know what they're worth to me. I love Pop-Tarts. I can't eat them anymore, but you'll not find the value of Pop-Tarts or Corn Flakes on the Kellogg's balance sheet because it's not listed as an asset.

So, the way you determine a company's intrinsic value ... the intrinsic value is what can you liquidate ... That's a liquidation value. What can you liquidate the company for today?

So, you're taking the assets; you're subtracting out any liabilities; what is left is the intrinsic value of the company. Divide that by the number of shares outstanding, that's your intrinsic value.

I would venture to say that nearly all companies that trade on a publicly traded stock exchange today are trading far, far, far above their intrinsic value.

So, I don't think this is going to be helpful for what this person is looking for because they said in the summary, "If I find a company that I think is undervalued and its stock price is dropping, what's the best and most efficient way to calculate or find the intrinsic value of the stock by using financial statements or current stock prices?"

So, the stock price is not really going to be a factor in determining what the intrinsic value is, or the liquidation value of the company.

I would also venture to say a lot of technology companies, their biggest asset goes down in the elevator every night -- it's the people. They leave every night. How do you put a value on that?

Tim Mullooly: You can't.

Tom Mullooly: You can't it's really hard to do. So, I think what this person may have been referring to ... is a lot of times we can find the intrinsic value of options.

We can look at the value, or the price of a put or a call and determine against the current value of the stock if there's an intrinsic value in the option, but to use that same kind of approach to value stocks is not ... It's kind of a fruitless exercise.

I don't think you're going to come up with numbers that make much sense. Interesting question, though. So, Tim, what else do we have?

Tim Mullooly: Got a couple more questions here. The nest question asks:

"What triggers a broad sector sell-off?"

Tom Mullooly: Okay. So, the person writes, "I'm interested in the triggers for a broad sector sell-off such as we witnessed with technology on Friday."

This goes back a couple of weeks. "Is it one or two enormous funds that suddenly move and we all follow like lemmings? I'm a casual investor at best for the past 30 years and would love more insight." So, Tim, what triggers a broad sell-off?

Tim Mullooly: It wouldn't necessarily be one or two enormous funds. It would most likely be all of the stocks within the funds within the sector selling off at the same time.

Not to get political or anything, but the first thing that comes to mind is back a year or so ago when Hillary Clinton was talking about healthcare, and all of the biotech and healthcare stocks plummeted for a couple days.

In the opposite direction, when Trump got elected, the financial stocks jumped up 20% in a week. So, different types of news surrounding the sector can affect the different stocks and cause them to go up or down.

Tom Mullooly: Sure, so here's another example. Suppose that you have a product, you have competitors in your field, and everybody uses oil to manufacture their product -- maybe you make plastics, or chemicals, or something like that, but you need oil.

If the price of oil is going up, the cost of your raw goods is going up for everybody across the board. That could affect the earnings for every company in the sector.

When that discovery comes to light, or when it's announced in earnings, it's easy for people to say, "If it happened to this company, then competitor B, competitor C, competitor D ... they all have to go through the same problems. We're going to sell the entire sector"

Tim Mullooly: Whether or not that turns out to be true, these people just assume that it's going to take part in the entire sector, and one by one causes the entire sector to sell-off.

Tom Mullooly: It is interesting now that we have sector exchange traded funds, sector ETFs. It's a lot simpler to just buy a sector or sell a sector all at once with a push of a button. It used to be that if you liked the oil companies, you would buy Exxon.

If you liked the chip makers, you would buy Intel, or Advanced Micro Devices if you thought semiconductors was going to do well. But, now, you can buy the entire sector because the sectors move ... If you've ever seen a school of fish swimming by, the sectors move quite the same way.

When a school of fish wants to change direction, what happens? It's not one or two fish leading the way -- the whole school just goes whoop. They all switch at the same time, and they all start going in a new direction -- same thing with the sectors.

So, when a sector is out of favor – whoop. They're all going to move in a new direction. Interesting question.

So, Tim, I've got one for you.

"Can an employer prevent a Roth IRA withdrawal until I've left the company?"

So, this person goes onto to explain, "I'd like to withdraw my Roth IRA contributions as soon as possible for educational expenses, but my human resource department is telling me that I need to wait until my termination in a month or so before I can get in touch with the broker to withdraw my funds. Something doesn't sound right about this. Why would they tell me this, and are they being truthful?"

Tim Mullooly: First thing's first, I think this person is confused as to what type of account they have. You don't have a Roth IRA.

Tom Mullooly: We're pretty certain about that.

Tim Mullooly: Right. The company would have no say over your personal Roth IRA account. That's not tied to your work at all. You might have a Roth 401k account or some kind of Roth retirement account at work, but it's definitely not a Roth IRA.

Tom Mullooly: The other thing I'll add is if you work at a company that has a Roth 401k don't quit. That's a good company.

Tim Mullooly: Yeah.

Tom Mullooly: That's a pretty forward-looking company. A lot of employers in the last few years have been adding Roth accounts -- read it very carefully.

It doesn't say Roth IRA, it says a Roth account, which means money can be added on a post-tax basis. It is not an IRA. An IRA is something you own.

Tim Mullooly: We get a lot of clients who are trying to transfer accounts in, and they just unknowingly, most likely, use the wrong terminology, and it sometimes throws us for a loop until we look at the statement and say, "Oh, this isn't a Roth IRA. This is a Roth 401k, or a SEP IRA," or some other type of account, which then makes their question make more sense.

Tom Mullooly: Right. So, to go back to the original person asking the question, "Why would they tell me this, and are they being truthful?" I think they have a legal obligation to tell you the truth. That's the first thing.

I wouldn't be so suspicious of what they're telling you. So, yeah, this is money that is rightfully yours, but they have to go through the process.

It's not a Roth IRA. If you've got questions like that, wouldn't it be easy to just pick up the phone and ask your investment advisor?

So, the problem is that we've got folks that are writing in to a website with questions like this, and I feel bad. I think I mentioned this on the previous podcast. I feel bad that these people don't have anyone in their lives who can help them with what may be some really straightforward answers.

I mean, we've answered probably six or eight questions today that we're glad to help people with.

So, if you've got questions along these lines, get in touch with us or reach out to your own financial advisor, or financial planner, investment advisor for help with these sort of things.

If you don't have a relationship with one of those people already, a lot of times you can call in and just ask. If you get the right person on the phone, you'll be able to get a pretty straightforward answer.

With us, it's no cost or obligation, and I'm sure that would be the case in many places as well. Ask. Ask and you'll get the answers.

So, thanks for listening to episode 199 of the Mullooly Asset Management Podcast. We'll have to think of something special to do, Tim, for episode 200.

Tim Mullooly: I'll start racking my brains now. We'll see you next week.