The Millennial Episode: Mullooly Asset Podcast #195

Tim Mullooly: Welcome back to the podcast. This is episode number 195. As Tom said on the previous episode, we're getting close to 200, so maybe we will think of something more interesting to do for that episode. We'll cross that bridge when we get to it. This is Tim Mullooly and here today with me is...

Brendan M.: Brendan Mullooly, not Tom today. I'm filling in for Tom. He is out on vacation this week, so hope he's enjoying that and hopefully I am as interesting a co-host as he is. Got big shoes to fill here.

Tim Mullooly: Yeah. We'll see how it goes. Maybe if Brendan does well, we'll have him back on a future episode.

Brendan M.: Oh, this is a tryout now. Okay.

Tim Mullooly: Give Tom a break. Hopefully he's enjoying the sun and relaxation this week. We're holding down the fort here for him. Like you guys know, over the last couple episodes we've been answering questions that we get from a website. They're asked from anonymous people. They just type in these questions and they get sent to us to be answered and they range from pretty much any kind of financial planning topic that you could imagine to stock market questions, investing questions, and we do our best to answer them in general terms. When we answer these questions, we're not giving any sort of specific advice to these people. We don't know who they are. We don't know anything about their situations other than what the email with the questions give us.

Again, it's not anything specific, just general advice on the topic. With that, we're going to jump in. We got a couple good questions for you today. The first question is, "What are some general tips for stocks and investing?" The quick summary says, "I'm a young 20-year-old who wants to grow my money successfully."

Brendan M.: Alright, sounds like a good enough goal. We all want to grow our money successfully.

Tim Mullooly: Right.

Brendan M.: I think for somebody this young, the advice is very simple but it's not necessarily easy to do. What I would recommend is getting set up with some type of account. Account type is going to depend more on their situation, so we're not really sure what that might entail, but in terms of what to invest in, I would recommend something that's broadly diversified across the globe. You basically want to get exposure to the global stock market. I would recommend dollar cost averaging and not even thinking about stopping for 30+ years, as somebody who's 20. Maybe even longer than that, but I feel safe with 30 years of buying there.

Tim Mullooly: Yeah, as a 20-year-old the time horizon for this person, assuming that they don't just want to day trade their piggy bank savings account, they said "grow my money successfully." Assuming that means over the long-term, they have a long time horizon. I definitely agree some sort of dollar cost averaging into a diversified global allocation sounds like the most logical and simplest form of how to grow your money. The only hang-up with that is, is this person going to actually continue to average in as the markets go up and down for the next 30 to 40 years? As we know, that's what markets do. They go up and down.

Brendan M.: Yeah. This is advice that is simple but not easy to fulfill, kind of like you're alluding to. I think some automation might be a good thing to include here, where if you could automate the buying that you're going to do on a monthly or quarterly basis in this account, whatever the time frame may be, if you can automate it so that you don't physically have to go in and hit the "buy" button every single month, I think it's going to make it just that much easier and you're going to be better off for it.

Tim Mullooly: I definitely agree with that. One of the strongest factors in growing your money is compound interest. With a time horizon of a 20-year-old, there's-

Brendan M.: Man, you have such an advantage over so many other people out there. You want to use that to your advantage. You may not be smarter than every other investor out there, but you don't have to be. You just-

Tim Mullooly: You have more time.

Brendan M.: Yeah. Leverage that time and let it work for you.

Tim Mullooly: Definitely agree with that. Without any other more specific information as to what this 20-year-old kid wants, that's our-

Brendan M.: We don't really know what the money is for, but those would be the recommendations, assuming this is for the long-term and they want to do something sensible with the money.

Tim Mullooly: Right. Okay, moving on. The next question asks, "Is it a bad time to invest in equities?" The summary says, "I am looking to contribute roughly $13,000 into an IRA. Since I am under 25 years old, I was going to allocate the majority of it into a US equity index fund. However, with valuation so high, should I hold off until they come down a bit?"

Brendan M.: The first thing I would want to tackle within this question here is the $13,000 to an IRA thing.

Tim Mullooly: Right, that caught my eye, as well.

Brendan M.: Yeah. If this is a rollover coming from some kind of workplace retirement plan into an IRA, then no problem. Totally cool. But if this person is looking to just make a contribution into an IRA or a Roth IRA, it doesn't really specify here, but either way it doesn't matter. My point would be that he or she will not be able to do the full $13,000 in one shot, in one year.

Tim Mullooly: Right, it'll take a couple years since there's limitations on what you can put into an IRA, $5,500 a year. If the goal is to contribute $13,000, it's going to take three years' worth of contributions to get that all into the account.

Brendan M.: Yeah. Again, I think this comes with the caveat that- We're going to assume that this money is for something long-term.

Tim Mullooly: Let's hope.

Brendan M.: A good thing to consider is that if this money isn't for something that's long-term, then it shouldn't go into an IRA anyway. That's a retirement account.

Tim Mullooly: That's a whole other question in itself. But if it's something short-term, it should probably just be in a taxable individual account, something not with the word "retirement" in the name of the account.

Brendan M.: Yeah, you don't want to have penalties or anything to access your money if you need it over the shorter term.

Tim Mullooly: Right.

Brendan M.: Honestly, if it's for something shorter term, it may not even be something that is appropriate to put into the stock market at all.

Tim Mullooly: Right.

Brendan M.: But we're going to tackle the bigger part of this question, which I think was there concern about valuations, which is something a lot of people have been talking about now for the last several years, which leads me to my point here. I think there are two dangers in the "hold off until valuations come down" thing, the first being that the valuations don't come down over the shorter term here. We know that over the longer term, valuations tend to ebb and flow. Expensive becomes cheap, cheap becomes expensive, and if you have a long enough time horizon, it's not going to make too much of a difference.

But mentally, if you say, "I'm going to wait for valuations to come down" and a year from now they're even higher and the stock market has run away, how are you going to feel about that? You're probably going to feel kind of stupid.

Tim Mullooly: Yeah.

Brendan M.: Which nobody likes.

Tim Mullooly: Serious FOMO there.

Brendan M.: Yeah.

Tim Mullooly: At that point, fear of missed out.

Brendan M.: Yeah, yeah, because it's done. You missed out. Maybe "missing" still.

Tim Mullooly: Yes.

Brendan M.: I see that as one danger. The second danger of waiting for valuations to come down a bit is that they do. I'm not so sure that valuations- Valuations come down, I think, inherently that means that stocks have probably gone down in price. Everybody says they're going to buy when blood is in the streets and be that person who steps in fearlessly to buy the stock market on a dip, and I'm not sure that many are actually capable of that. Will you actually buy if valuations come down?

Tim Mullooly: Right, it's definitely easier said than done in that case. The gut feeling when the market is down is not to buy. If everyone else's stocks are selling off, people are afraid, it's hard to do something in a contrarian sort of view.

Brendan M.: It's easier to be a part of the herd at that point and turn into a panic seller with everybody else despite that probably not being what you want to do. My solution, again, kind of like the first one, it's a boring and rational solution, is to average into positions. If somebody's really that concerned about valuations and the effect that it's going to have on their investments over ... I would say the more intermediate term is where valuations might have an effect over a decade or so. I would say to average into positions.

A final point I would say for this person, too, is to not ignore international stocks when thinking about their equity allocation. While US valuations are high compared to historical measures, lots of international markets are not. Something to think about.

Tim Mullooly: Right. Just like valuations in the US ebb and flow, international versus US ebb and flow, as well. Again, it's not a bad idea to have exposure to both. At one point, one could be doing better than the other and then vice versa. It's not a bad idea to consider having both of those in your account, as well.

Brendan M.: Yeah, especially when you got-

Tim Mullooly: If you're a 25-year-old-

Brendan M.: -30, 40 years like this guy.

Tim Mullooly: If you're a young 25-year-old such as myself.

Brendan M.: Yeah, good point.

Tim Mullooly: I did not ask this question, by the way. Another 25-year-old out there. Got a lot of time left.

Brendan M.: Yeah. I would feel pretty safe saying that at points over the next 30 to 40 years, you're going to wish that you had money in both US and international stocks. To combat that FOMO, why not on both?

Tim Mullooly: Agreed. Okay, moving on. The next question asks, "How do I invest with minimal net worth?" The summary goes on to say, "How can I enter the investing world with the small amount of money I have available? I have heard of penny stocks, but not completely sure what they are. Also, I need to know what is the smallest amount of money that can be used to invest?"

Usually we get, with me and Tom, we get one big sigh an episode. The comment here about penny stocks made me do a big sigh when I first read it.

Brendan M.: I think it's okay that they don't know. They're not completely sure what penny stocks are. You should keep it that way. You don't want to find out what they are.

Tim Mullooly: Understood. My first reaction is if you're someone just trying to enter the world of investing, you don't know much about the markets in general, penny stocks not the way to go. I say to people, they're penny stocks for a reason. They're worth five cents a share for a reason. Just consider that if you ever think about penny stocks. I wouldn't recommend that for this person.

Brendan M.: Boiling it down, though, I suppose I understand where they're coming from, thinking, "Hey, I don't have a lot of money, but I would like to buy a nice amount of whatever investment I can put my money into."

Tim Mullooly: Logic is there.

Brendan M.: Yeah, if they can buy ...

Tim Mullooly: They can get a lot of shares of a penny stock for a little amount of money.

Brendan M.: Let's dispel that myth. If you buy 400 shares of a $1.00 stock, you put your $400 to work, and in a different account you put another $400 to work all in one share of a higher priced stock or a mutual fund or something, and both of them go up 10%, you've made the same amount of money despite owning more shares of the penny stock.

Tim Mullooly: The percentage return on that is they're the same.

Brendan M.: Right.

Tim Mullooly: It really wouldn't matter at that point.

Brendan M.: Yeah. In my opinion, you would want to own ... I would rather own one share of something like a diversified mutual fund that owns something like large cap stocks or mid-cap stocks or something rather than put my money into more shares of a potentially-

Tim Mullooly: Riskier.

Brendan M.: -really risky company doing a penny stock.

Tim Mullooly: Yeah.

Brendan M.: That's something that I think not a lot of individual investors understand, that concept of your dollars earning the same amount regardless of the number of shares that you own. Just wanted to bring that up here.

Tim Mullooly: The second part of the question asks, "Also, I need to know what the smallest amount of money that can be used to invest."

Brendan M.: Right.

Tim Mullooly: What would you have to say to them about that?

Brendan M.: There are a lot of different platforms out there, whether it be direct with a mutual fund company or through a discount brokerage firm online or something that you can begin investing with very little money. It's not going to be a huge concern how much you have. A lot of mutual funds will even let you buy fractional shares if you can't afford to buy an entire share. There're a lot of very low-priced ETFs out there that you can buy for not a lot of money at all. As long as you have enough money to buy an entire share of an ETF, you can put in an order.

In fact, you can even get a lot of these things commissioned free, depending on the platform that you're using to invest. The small amounts of money shouldn't be a big deterrent, if you're willing to do a little homework out there on the web and find out what the costs are to open accounts at some of these different mutual fund families or discount brokerage firms. You should be able to do it regardless of what you're looking to put to work.

Tim Mullooly: Right. Another quick point about that real quick. If this person has only a small amount of money available, another question that I would ... I don't like to answer a question with a question, but I would like to know how their finances are aligned outside of the investing world on a cash flow basis, month to month, if they have any debts that they should probably be paying off first or at least have under control.

Brendan M.: Makes total sense to me, because they say "minimal net worth" and a lot of times for people the reason for that, especially for younger people, may be something like student loan debt or maybe first home, you just took out a mortgage. Hopefully not something like credit card debt, and you just want to make sure that cash flows are good enough to be saving and that any debt is being managed appropriately before you're sending money into an investment account. As long as the bases are covered there, then the small amount of money shouldn't be a big issue in terms of getting started with an investment plan.

Tim Mullooly: Right. That thing that me and Tom always harp on every week is that important safety net, as well. You got to make sure that you have one of those in place before you do any investing, in my opinion. We got a couple more questions left on this episode. The next question asks, "Should I rollover my 401K from my previous employer?" Goes on to say, "I'm currently 21 years old and a senior in college. I started working at a job back in December of 2016, opened a 401K with the company. I did this so I could begin saving for future expenses. This job was only meant to be temporary. Within the next month, I will be starting my new career at a different company. Should I rollover my 401K? Are there any other options other than this?"

There's a couple different parts to this question that we want to pick apart, but first I think we can just answer that last part. Are there any other options other than rolling over your 401K? Yeah, there are a couple other options. Bren?

Brendan M.: Right. You are perfectly within your rights to leave the 401K where it is. Depending on the balance and the plan, they may ask you to move it if it's a low balance. Sometimes they will do that. But generally speaking, you can leave your 401K where it is. You can roll it into a new plan if you're working somewhere else, like this question kind of alludes to. You can roll it into an IRA, an individual retirement account. Or you could even take the money. All of them are on the table and some I would probably recommend before others. But those are the options in those terms.

Tim Mullooly: This person does have options. The first option that I would probably look into is seeing if the new employer allows rollovers from the old job into the new plan. That would probably be-

Brendan M.: You do have to check on that.

Tim Mullooly: Some plans don't allow that to happen.

Brendan M.: You probably want to talk to somebody in human resources who can answer that question for you appropriately, if your new plan at this new place of employment will even accept the old money from the other 401K.

Tim Mullooly: Right.

Brendan M.: Shouldn't be a problem, but you have to ask.

Tim Mullooly: Yeah, definitely double check on that first. The other part of this question that kind of made me and Brendon shake our heads a little bit, just because we didn't have any other sort of clarification on what this person meant, but the part when the question-asker said, "I did this so I could begin saving for future expenses."

Brendan M.: Yeah, I don't want to assume too much and assume that "future expenses" means retirement, because again, we're getting back to the same thing that a previous question was covering, which is, is this money for retirement? If the future expenses that this person is referring to are not retirement expenses, then a 401K is not a great place to save money. You just want to be sure that you're sending money into an account like this that you can afford to leave there for a long time.

Tim Mullooly: This person, again, it's strange. A lot of these questions coming from young people, but this person's 21 years old and a senior in college.

Brendan M.: It's a theme today. It's because I'm in for Tom.

Tim Mullooly: Right. Got the two young guys in here.

Brendan M.: Mullooly has to have millennials on here so that we can answer all the young people's questions.

Tim Mullooly: That's right. But yeah, a 21-year-old in college putting money into a 401K for retirement, assuming that the money is for retirement and they have everything else ironed out on a month-to-month basis for expenses, if they're already saving for retirement at age 21, that's great. Good for them.

Brendan M.: Yeah, I'm just thinking back to senior in college Brendan and I don't think he had money to send into a 401K.

Tim Mullooly: Yeah, I know. I definitely did not.

Brendan M.: I'm just hoping that they really have their act together, so to speak, in that this really is money they can afford to sock away for something years off. If it's not, maybe they want to consider something along the lines of a Roth IRA, which can be an in-between where they can ...

Tim Mullooly: Invest it, but still be able to get the principal back.

Brendan M.: Yeah. You don't want to do that, but some people feel more comfortable with that. Even if they don't have an emergency fund, then ...

Tim Mullooly: Build a savings account.

Brendan M.: Yeah, you have to build up something else before you start sending it to the 401K.

Tim Mullooly: Yeah, just make sure your priorities are in line before you start funding a retirement account at such a young age. But to get back to that original question, you do have other options other than rolling that 401K over. But if they can roll the money over, might not be a bad idea.

Brendan M.: Right.

Tim Mullooly: Okay, last question for the, as Brendan just put it, the millennial Mullooly episode here. The question asks, "How can one contribute to a Roth IRA for a child?" The summary goes on to say, "I want to open a Roth IRA for my son, who is only six months old at this time. Obviously, he's not earning any income at this time, so all contributions would be from my wife and I and possibly his grandparents. Are contributions allowed in that manner? I know that if it's a Roth, then that money is already taxed, so I feel like there would be no issues when my wife and I file taxes."

Brendan M.: Right. Simplest and most direct answer for this situation, being that the child is six months old with no earned income, is that you can't use a Roth IRA for that. This isn't a bad thing to think about. Maybe when your kids start getting older and they maybe do have a couple thousand bucks-

Tim Mullooly: Just a little bit of earned income.

Brendan M.: -or something coming in, yeah, they're doing a summer job or something on weekends or after school. It's always good to-

Tim Mullooly: Little side hustle.

Brendan M.: Yeah, first jobs, stuff like that in high school. At that point, you would be able to have a Roth IRA for them since they would have earned income, and that could be something cool where you set up some kind of mom and dad match based on what they're throwing in there. I think that's a cool idea.

Tim Mullooly: Give the kid a little incentive to earn some money and cut a deal with them, saying, "Hey, if you earn this much, we'll match it in your account. Then when you get older, you'll have all that money there waiting for you."

Brendan M.: Yeah, if they're making $3,000 a year working at the supermarket bagging groceries or something, then they can put up to $3,000 into a Roth IRA that year. Having said that, in this particular situation, six-month-old, little young to be on the payroll even if it's a family business.

Tim Mullooly: Can't really put that kid to work yet.

Brendan M.: Yeah, not yet, but maybe something for the future. I would say at this point if the parents and maybe grandparents, I think they mentioned, want to start saving money for this child, two things to consider would be a UGMA, UTMA, a custodial account, or a 529 plan. Those are both fine options. One is specifically for college, one can be for anything, really, but aside from just sending money to a savings account, if you want to invest for somebody who is a minor with no earned income, and those are generally going to be your two best options.

Tim Mullooly: Right, and like Brendan said, if you're considering those custodial account or 529 there are different limitations as to what you can and can't use the money for and contributing and how everything works out with those accounts. Definitely do your homework on those accounts before opening them to make sure which one is best for you going forward.

Brendan M.: You want to make sure they're going to serve the purpose that you want the money to serve.

Tim Mullooly: Right. I think that's going to wrap up episode 195 here.

Brendan M.: How'd I do?

Tim Mullooly: I think he did alright.

Brendan M.: You'll get back to me?

Tim Mullooly: Yeah, you know, I'll talk to Tom, I'll show him the game film.

Brendan M.: Review the game tape and let me know if I made the cut?

Tim Mullooly: Right, yeah, we'll be in touch.

Brendan M.: Sounds good. Your people can call my people.

Tim Mullooly: Exactly. Thanks to Brendan for coming on, filling in for Tom. Hopefully we'll have Tom back on here next week on episode 196. If you have any questions that you listened and it jogs your memory, you wanted to talk to an advisor about, you can definitely get in touch with us about that. Our phone number here is 732-223-9000, or you can find us on the web at Mullooly.net. That's M-U-L-L-O-O-L-Y.net. We'd be happy to go over any questions you might have. That's going to do it for this episode. Thanks for listening.