A Different Kind of Student Debt - Transcript

Tom Mullooly: Welcome to The Mullooly Asset Management podcast. This is episode number 251. I've been told I've been leaning in too close to the microphone, so I need to back away a little bit. I am one of your hosts. This is Tom Mullooly. With me is Brendan Mullooly. We are ready to poke holes in some of the media stories that have been terrorizing investors for the last couple of days. Just kidding about that.

Brendan Mullooly: I think a lot of times if you only read the headline that gets slapped on an article, you think they're terrorizing the readers out there, but oftentimes they have a well thought out thesis that is stated in the post, and most people don't bother to read the post.

Tom Mullooly: I think what bothers me is the fact that one of the things I've heard, you've probably heard it too, is that the author of the article rarely gets to write their own headline. So, you write a really good post or a good story or something with a really good message, and then it gets a brand new headline that's oftentimes click bait-y.

Brendan Mullooly: That's our fault because they create things that we as, I'm using we as the human species here, will be interested in clicking upon. So, if they stated the more level-headed views that the author expresses in the post, then people wouldn't click on it. So, we should click on things that sound boring more often, and then we will stop getting click bait articles.

Tom Mullooly: Probably a good idea. Something that not click bait-y was an article written by Doug Boneparth.

Brendan Mullooly: Yeah, so under the category I would say of easier said than done, Doug tackled the generational buying opportunity. I used air quotes on that, that phrase there. That people talk about when, at the lows in 2009, or after the big crash in 1987, or after the dot coms blew up. In hindsight, we have this great opportunity to put money to work.

Tom Mullooly: What's wrong with you people that didn't-

Brendan Mullooly: Buy the dip, yeah.

Tom Mullooly: Go in with both feet.

Brendan Mullooly: So, great line from the post, "We often fool ourselves into thinking we'll be more prepared to deal with a situation having already lived through it." So this goes for investors who have now experienced a bear market or two or three, and think that since they've seen it before, that they'll be prepared to capitalize upon that next time, and to that I say phooey.

Tom Mullooly: Phooey, that's the professional term. No you won't. It's impossible to do.

Brendan Mullooly: Right.

Tom Mullooly: It really is. It's very scary and it's hard to do. It's just something that we're not, as humans we're not geared for that.

Brendan Mullooly: So, you hear phrases like buy when there's blood in the streets kind of thing. All sounds great. Maybe some very disciplined people with nerves of steel out there can do it. I think that it's hard enough to stay the course with your investment plan, let alone capitalize on opportunities like this, because we never know that it's an opportunity while it's occurring. In hindsight, it would have been great to move a bunch of money out of your savings account and plunk it down in the market on Christmas Eve or the day after Christmas when stocks opened back up, but nobody knew at that time that that was the bottom and that we were going to rally 20% from then until now. So, to say so now in hindsight is disingenuous because anyone who says that they weren't worried at that point in time is full of crap, in my opinion.

Tom Mullooly: Just thinking of periods of time where there was not a recession, but something really stock specific back in my career. I'm thinking of people using that phrase to buy when there's blood in the streets, and I think of Lucent, how it had fallen from $60 to $19, and everybody used that, I mean everybody used that buy when there's blood in the streets line. It's ridiculous. This thing had already lost two-thirds of its value. Then in 2000, was it 2000 or 2001, we heard the same thing with Enron, $19, buy when there's blood in the street. It had been down from 90. Then it went to nine. Then it went to seven. Two firms still had buy ratings on the stock, by the way. These stocks went to zero. Whose blood is in the street? Yours.

That's the part that I think keeps people away from doing this, is they say, "I'm not sure that this is going to be the bottom and that it's in hindsight going to be a risk-free opportunity for us to get in.

Brendan Mullooly: Yeah, I think that take that you're not sure this is the bottom is the more honest opinion than the person who says in hindsight, "Well we knew that that was overblown. We should have been buying, and if you weren't, you're a fool." That's BS.

Tom Mullooly: The longer I hang around the markets though, I do seem to believe more and more in The Fed put. It just seems so ridiculous that anytime the market gets down to a certain point, we start to hear from Fed governors about how the economy's doing. It's amazing how this thing has snapback features.

Brendan Mullooly: Yeah, I don't really have an opinion on that. I think point of this article for me was more you're not going to capitalize on these big draw downs by stepping in and being the hero that buys the bottom or near the bottom even. I think that if you have a logical game plan and a diversified portfolio, Doug alludes to in his post, doing things that are within your control that are actually reasonable when things like this are occurring, a lot easier than to say that you're going to time the market and be number one, or whatever the case may be. Focus on things like your overall allocation remaining close to what you outlined. If stuff's getting dicey, maybe you make some minor tweaks. Don't go all in or all out of stocks based upon what has occurred over a six or 12 month period of time. Keep saving money. Don't stop saving money, or turn your contributions in your 401(k) to stable value because the market hasn't been good for six or 12 months.

Brendan Mullooly: Again, continue doing these things that we know are right, and don't worry about is this the bottom, should I be moving cash off the sidelines and into the market, because this is an opportunity for me.

Tom Mullooly: It's unfortunate. Brendan had to sit through meetings early in his career where he would hear me talk about dollar cost averaging. Some of the stories that I would share with folks are, look dollar cost averaging works if you let it, if you let it work, because what typically happens with dollar cost averaging is people start out with the best of intentions and then 6, 8, 12 months later, they're not really seeing the progress. Then the market starts to go down and then you get that phone call that says, "I'm not sure this is really working out." What's the line from My Cousin Vinny? The laws of physics cease to exist in your kitchen. It's just not going to work for you.

So, people quit usually at the worst possible time. It doesn't matter if you're doing it in your 401(k) or a Roth IRA or just in a regular savings account. This is something that you sign up for and you have to stick with it. You have to commit to doing this. It's like breathing. You have to commit to doing this. Otherwise, you're going to really struggle.

Brendan Mullooly: Right. Well, we talk about buy and hold investing. That's predicated upon both buying and holding. So if you have an investment plan that involves you buying at regular increments, like a monthly basis or whenever it may be, you need to continue doing that part of the equation, and you also need to hold. Easier said than done, as we led into this with. It's a lot easier said than done to do those things.

Tom Mullooly: Some people with that buy and hold approach have fat savings accounts.

Tom Mullooly: According to Market Watch, the number one thing people with fat savings accounts scrimp on that you likely don't, a perfect click bait-y type of headline, but there really were some nice little nuggets in this story. Do you want to share some of these things that we pulled out of this?

Brendan Mullooly: Yeah. The article was basically about how people who save more than 20% of their income, they deem them super savers. This was from a TD Ameritrade survey that they brought into this piece. People who save more than 20% of their income only spend 14% of their income on average on housing, which is this big thing that the people who have big savings accounts probably do different than most was their point because the average group, not including these super savers, was spending something more like 23% of their income on housing. So, they talked about a family, I think they were in Portland Oregon, who cut their monthly payments more than, or close to in half by downsizing their home. Another thing that I looked at in this article, they had a cool chart from the TD Ameritrade survey, and they looked at not only the percentage that these families surveyed were spending on their housing, but there were some ancillary areas, you could call them, that I think are also affected by their housing that the super savers were spending less on.

So, they're spending less on their housing and I think by association, they're spending less on utilities and other household expenses, which were also categories here.

Tom Mullooly: Every group seems to have people, a subset of their group, it's whether they're people in their 30s, people in their 40s, 50s, and 60s that seem to be mobile in the sense that they never stay in one place very long. They'll buy a house. They'll fix it up. They're almost quasi flippers, and they're getting progressively larger homes as they do this, but they're getting progressively higher mortgages as they're doing this too. To me, it almost seems like a game of musical chairs in the sense that sooner or later, real estate acceleration that you're expecting is not going to be there, and then you're stuck in a house that you may not have researched as well and said, "Yeah I could live in this house forever."

Brendan Mullooly: Yeah, I don't enjoy the take that says you're throwing away money on rent. If you are going to buy a place and not live there for five to seven years, you're flipping houses and you might as well be timing the stock market, because that's basically what you are doing with your home, which is incredibly illiquid, and you don't know what it's going to be worth when you try to flip it, which is how you can end up playing this game of musical chairs where you end up without a seat eventually if things don't go as planned or forecasted when you initially buy these homes.

Tom Mullooly: There was something else that I saw in that article that I thought was pretty interesting. Hadn't really thought about it, but the living space per person has doubled in the last 40 years.

Brendan Mullooly: They had the stats since 1970. The average new home being built today is 1000 square feet larger than it was then, I think speaks to another point. Maybe some people want to buy reasonable homes, but builders don't build reasonable homes is what I'm getting at. They build homes that maximize their profit on the initial sale at least, when they're trying to offload these properties, and so they're making these McMansions and ever bigger homes that no one needs. I would imagine, I don't have any statistics to back this up, but the average home is 1000 square feet larger than it was 40, 50 years ago, and I would imagine the average family is smaller, which means not only have the houses grown to include your stat that you said about each person getting more square footage in each home. By definition, if you have a family of four, and you have a 4000 square foot home, then you each have 1000 square feet, is the way I guess they're doing math in this case. But what if instead of a family of four living in that house, now there's a family of three?

Tom Mullooly: Or a family of two.

Brendan Mullooly: Right, exactly. So all of these things are ... I don't know where the point is where you fix that because I don't think anyone's going to start building smaller homes and people are just going to be ... So do people get forced, I guess is what I'm getting to. Do people get forced into buying bigger homes? What if there just isn't one available?

Tom Mullooly: Well, the other question then is what do you do with these little mini neighborhoods, these areas that have these McMansions that are four and sometimes five bedrooms, four bathrooms, basement-

Brendan Mullooly: Double garage.

Tom Mullooly: Three car garage, right.

Brendan Mullooly: It's ridiculous.

Tom Mullooly: And a big yard with a pool and all this other stuff. And yet, families are getting smaller and smaller and smaller. My first thought is who are you going to sell that to?

Brendan Mullooly: Maybe if your plan was I'm going to buy this and sell it for a profit later on because I'm not going to calculate the cost of owning real estate, maybe that demand isn't there, and at some point that does affect the real estate market. Maybe the buyers aren't there and maybe that's when the tide turns and we get smaller homes.

Tom Mullooly: Well, I'm going to pull an audible on you and bring up a news article that was in the financial bastion New York Post last week. I get all my financial information from them. But there was a story about people who were selling condos and townhomes in Boca Raton for $1. $1.

Brendan Mullooly: Why? Why was that?

Tom Mullooly: Turns out that these 50 something year old kids were now inheriting grandma or their mom's place down in Boca. No takers for this thing because it's in one of these clubs that's got golf, it's got tennis, it's got pool, it's got workout places, and all the social stuff. You have to pay the $40000 initiation fee to join the club, and there's homeowners' fees, and the prices of these units just kept shrinking to the point where people are now selling them for $1. I think this ties in perfectly with what we were just talking about, that we're going to get to a point where ... we might get to a point where there's too much capacity for what we're trying to do. What's going to happen to the market?

Tom Mullooly: Just for fun, I went on Zillow yesterday and put in Boca Raton, two bedroom, two bath, and I thought that was a fluke in the New York Post. There are dozens and dozens already listen for sale on Zillow for less than $5000.

Brendan Mullooly: Wow.

Tom Mullooly: You pay the $25000 initiation fee to the club or $70000 initiation fee.

Brendan Mullooly: So, all in. I mean, you're getting the rights to the property for that, but there's some strings attached to it.

Tom Mullooly: You still have to pay. Oh, yeah you still have to pay, but they show you these-

Brendan Mullooly: But who can ... The point being who can afford all of these extras, and they have to drop the price that much to entice somebody or to allow somebody to be able to even afford or think about being able to afford living in that neighborhood. I don't know. I'm not forecasting some gigantic collapse in the real estate. I don't have a crystal ball or anything, but if you don't need a 4000 square foot home with six bathrooms, then you're not going to buy one. Who does need that? Are there families of 10 people walking about that I'm just missing, because I don't see them that much anymore.

Tom Mullooly: I haven't seen them. I haven't seen them. So, sorry for the audible, but it tied in perfectly with what we're talking about in the sense that there's a glut of these ... Honestly if you look at the pictures on Zillow, it looks like the buildings from the outside look like college dorms. Apartment buildings, they're eight, 10 stories high. There's a couple units on each floor. They're all going for $2500, $4000, $5000.

Brendan Mullooly: Just to put a bow on the actual, the first article that we were talking about here. The point was that if you can right size a big decision like what you're spending on your housing, it can have ripple effects on the rest of your spending. I tend to agree with that. So, maybe it means being a little pickier about what kind of house you end up with. But if you can make that decision correctly or modestly, then you're not going to have to sit down and make an in depth budget where you can or cannot afford a cup of Rook coffee if you want it. That's my personal method. I don't want to have to think about that.

I have discretionary spending that I allow myself to splurge on something like a nice cup of coffee if I would like it, and I have right sized bigger decisions like what kind of thing I'm driving around outside or where I live because those are these fixed giant things, and I don't think you're going to nickel and dime your way to financial success when you have a gigantic mortgage that you cannot afford or you could barely afford, you could barely qualify for it. They're not telling you ... It's not a recommendation when they tell you what you can qualify for in a mortgage.

Tom Mullooly: They're telling you, this is-

Brendan Mullooly: This is the maximum. You should probably sit down and plug these numbers into your overall budget to see what it would look like, at least on paper, and then add some fluff because if it's on paper, then we all know that that's going to be BS in the real world.

Tom Mullooly: I think the thing that also skews people is like at our house, HGTV is on all the time. So, they talk about two people who work part time and they're looking to buy something in the suburbs. They work part time, and they have a kid and their budget is $970000. Like, come on.

Brendan Mullooly: We've all seen these memes now that make fun of them. It is ridiculous.

Tom Mullooly: So ridiculous.

Brendan Mullooly: But the point is, I think that these shows are entertainment. You don't get to see them signing the contract at the end of it.

Tom Mullooly: Yeah, they never tell you that part.

Brendan Mullooly: In many cases, I don't think these people are actually buying these homes. These shows are entertainment, and yeah it's great to watch these shows about home improvement or to watch people shop and to look at what different neighborhoods look like all over the country, but it's tough to watch that and not allow it to seep into your subconscious, I guess. But we don't need these gigantic homes in many cases, or we should at least be thinking more about the ramifications of them on the rest of our finances.

Tom Mullooly: So, I have a confession to make. After my first year of St. John's, I transferred to CW Post. They held up my transcript because I had a $15 parking ticket.

Brendan Mullooly: You're not alone apparently.

Tom Mullooly: Apparently.

Brendan Mullooly: Another Market Watch article in the last week was talking about the obscure debt that is holding back thousands of students. Again, click bait. It's like, well what's happening to these thousands of students. I've got to know. So, I'm going to click on this. But what the article actually talked about are schools doing just what you described, where they're withholding transcripts of former students because of things like parking tickets, library fines. The little nugget in here that I thought was the most interesting was they talked about this return to Title IV thing.

Tom Mullooly: This is actually really big. This is, I mean you can literally throw away the library overdue charges and the parking tickets. Get to this because this was really eye opening.

Brendan Mullooly: I think that this is the bigger part of this obscure debt, if I had to guess. They didn't break it down, but what this is alluding to, this return to Title IX, if you drop out of a school mid-semester, and that's technically if you have not completed 60% was the number they were throwing around here, of a semester. In many cases, any federal aid that you were given is owed back to the government. What the school will do often is they will give the government back the money because those were the two parties transacting in the first place. You don't get a check for your federal aid and then give it to the school, so these two settle that on their own terms. The school gives the money back to the government, but then they add to your tab, student who did not finish semester, this gap or whatever money they had to give back.

Tom Mullooly: The grant money, yeah.

Brendan Mullooly: In many cases it's, in the article, they said even Pell grants.

Tom Mullooly: Which is advertised in many places as free money.

Brendan Mullooly: Right. It's a grant and it's income based, if I am not mistaken. So, this is money that people qualify for on a needs basis.

Tom Mullooly: Correct.

Brendan Mullooly: It is presented as free money because it's stated that it's a grant, which that's how most people take the word grant, at least in this context. I think that a lot more people are probably struggling because of stuff like this. You think of, I mean this may not be the case for everybody. Maybe I'm generalizing here. But if somebody dropped out mid-semester. They are now coming back to get their transcript because they do want to finish school in some capacity, but ... and a lot of times there's some kind of hardship going on.

Tom Mullooly: Or they're applying for a job.

Brendan Mullooly: Right. For whatever reason, the student wasn't able to finish the semester. That's a pretty big decision to just stop mid-semester. I mean, people transfer or take breaks in between years of school or semesters, but to stop mid-semester means there was something serious going on, and you find out that you owe this money back to the school. I didn't know that this was a thing. So, I think that the point that I would like to drive home is I think, like many aspects of this borrowing for college situation that is so talked about these days, things like this really need to be discussed. What are the ramifications if I drop out mid-semester or I don't follow ... Nobody reads the fine print. I think that blame falls on everybody obviously.

Tom Mullooly: Everyone involved.

Brendan Mullooly: The person accepting it, the person dolling it out. I had no idea that this was a thing. I have student loans for school. This could have been me. It's not as if I'm smarter than anybody else. These people are not dumb for being caught up in this. I don't think many people know that this is something to worry about.

Tom Mullooly: So, I know that when you go through the process for FAFSA and some of these other things, you have to click unending number of screens to get through it, and after a while, it's like do you accept these terms, click yes.

Brendan Mullooly: Sure.

Tom Mullooly: And you just click, click, click, click.

Brendan Mullooly: It's like the iPhone updates.

Tom Mullooly: Yeah. I agree.

Brendan Mullooly: Yeah, you're not sitting down to read that.

Tom Mullooly: I agree. I'm giving all of my-

Brendan Mullooly: Just turn my phone back on. I'm missing notifications.

Tom Mullooly: Exactly. Right. So that really is how this goes. It is the equivalent of, for some people, ripping open presents, ripping up the wrapping paper on their birthday or Christmas because it's like let's just get through this, so I can get to what I really want, which is-

Brendan Mullooly: Literally anything else.

Tom Mullooly: Going to school. Going to school. So yeah, it's a problem. I think it would be better handled if it were a one-on-one conversation with anybody, and have a face-to-face conversation and say, "Hey, you're going to get this grant, a Pell grant, which everybody thinks is free money, but there's an actual big string attached to this."

Brendan Mullooly: It is free money if you follow these rules. Here are the rules. If you want to make this decision that would break one of these rules, just know that this money is going to need to be repaid, really something that you should think about.

Tom Mullooly: It's too bad that that was buried really in the bottom of that article.

Brendan Mullooly: Yeah, you really had to dig for that one. Really good find there by the author. I liked that point, and I learned something from it, despite the click bait-y headline. So, not bad.

Tom Mullooly: So, friend of the firm, Ashby Daniels, wrote a post on Retirement Field Guide. I think we'll link to that in the show notes.

Brendan Mullooly: Yeah, Ashby has been crushing it with the content game lately. I know we talked about one of his posts just a few weeks ago. His niche is really retirees, so this post also focused on the retiree space. He was talking about-

Tom Mullooly: It sounded to me like he was pitching for a trip.

Brendan Mullooly: I don't think so, but maybe. That's fair because I thought this was a great idea. He just talks about giving money to your children, especially once you're in retirement. There are a couple ways that you can approach it, and Ashby had a unique one that I think is a great idea more people should consider. If you give money to your children, a lot of people like to first and foremost because they can ... A lot of people will say, we've heard clients say this too, "I want to give money to my kids while I can still see them enjoy it," kind of thing. It's like, "Yes I could leave them money after I'm gone, but this will bring me more joy, getting to watch them use the money to do different things." But Ashby broke it down. He was like, "Well let's think of it this way. If your kids are responsible, they're probably going to use this money to either pay down debt, bolster savings, or invest for their future. That's not going to bring you any joy." I mean, if it does, great.

Tom Mullooly: Well great, okay.

Brendan Mullooly: I'm a nerd, so maybe it would bring me joy. Like, "Oh nice, they're paying down that debt."

Tom Mullooly: That's good.

Brendan Mullooly: 100% return on investment there, good stuff, kids. But, I don't know. I mean, I don't think that's what most people have in mind when they give a gift to somebody, even though that's a great responsible thing to do. Flip side of that coin is maybe you have irresponsible kids and you would like them to do something responsible like that, but instead they go out and buy a Lambo or some ridiculous thing that they don't need.

Tom Mullooly: We've seen it happen.

Brendan Mullooly: Yeah, we've seen all sorts, all over the spectrum. These things really do happen. I think Ashby has a good handle on that. So what he recommended was what about experiences. People always talk about giving experiences instead of things. But his idea specifically was what about an all-expenses paid trip for the entire family to somewhere. What about that? That's pretty cool. Think about all the different things you could do. You can maybe spend a week with your family at a location where you're going to have fun. Maybe your kids and their kids, three generations of family all getting together, and you just cover the cost of that. Instead of gifting them money, it's a trip, and everybody can spend time together. I think that that is a way better return on your money. I mean, you can't get a return like that in the market or anywhere else. That's time that you can't put a price on that.

Tom Mullooly: That's right.

Brendan Mullooly: What do you think about that? You're older than me. Can you appreciate this a little more than I can maybe?

Tom Mullooly: Yes, up to a point, where it's not going to be feasible for someone who might be 82 years old going on a trip. It really has to be well thought out. Folks in their 70s can definitely do it and folks in their 60s ought to do it. I had a client a long time ago, doctor here in New Jersey. He's retired a long time ago down south. His whole approach towards business was I'm going to work my butt off until I'm 60, and then I'm going to retire because at 60, I know that my kids will be through school and my wife and I can finally retire, and we'll be able to travel, and we'll both be healthy enough to travel. He said from 60 to 70, that's when we're going to do it. He said, "I don't know what's going to happen once we get into our 70s." So, I thought he had the right approach. I really admired that.

Brendan Mullooly: Yeah, and obviously I think the approach Ashby would take, and I think we would take too, is we have discussions and we're doing planning for clients and they express an interest in doing something like this. It's something that you could build into your financial plan. I'm not suggesting that if you have retirement savings to blow all of it in your 60s on trips.

Tom Mullooly: Oh no.

Brendan Mullooly: Right. So, that's taking this to the extreme. That is not what I mean. But to say, hey if you were planning on gifting $10000 this year to your kids and you're capable of traveling, and it would be-

Tom Mullooly: Yeah, let's talk about this.

Brendan Mullooly: Maybe we can go on a vacation and I can pick up the tab for everybody instead. We can all spend time together. I don't know. I thought it was something I hadn't read about before, and I thought it was a nice post from Ashby there.

Tom Mullooly: Good approach.

Brendan Mullooly: Thoughtful, yeah.

Tom Mullooly: That's going to wrap up episode 251. Thanks for tuning in. We will catch you on the next episode.