The Best of 2018: Pt. 2 - Transcript

Tim Mullooly: Welcome back to Living With Money. Last week we started a roundup of the best of the best answers from the first year of the show, 2018. We touched on a number of great answers from episodes one through 24, and this week we conclude our 2018 round up with answers from episodes 25 through 49.

It's been a wonderful experience for me going back and listening to all of the interviews throughout our first year, and I hope you've enjoyed taking a trip down memory lane as well. Similar to last week, if you missed any of the episodes mentioned here in this episode, the links will be in the show notes on our website over at LivingWithMoney.com. And you can find every episode of the show on iTunes, Spotify, and Stitcher as well. Enjoy episode 51 of Living With Money, The Best of 2018 Part Two.

In episode 25 of Living with Money, I talked with Alex Palumbo of Ritholtz Wealth Management in New York City. Alex and I are both young advisors in a traditionally older industry. So we focused a lot on the challenges and benefits of being a younger advisor. I asked Alex what some of the benefits are for clients for working with a young advisor.

Alex Palumbo: I think it's pretty self-explanatory, right. If I'm 25 years old, and you're 65, and you're retiring, how long are you planning on being retired for? 30 years? 95 maybe? That's when I'm going to be 55. So I'm literally going to be working with you, getting better and better, diligently grinding over the next 10, 20, 30 years. It's pretty obvious that you don't want to be working with someone that's your age. You're talking to your client, you know, "Hey Alex, hey Tim, I'm looking to retire next year." It's like, "Me too! Where do you want go?" It's not what's going to be the case. From your age 65 to 75, I'm going to be going from 26 to 36, 25 to 35.

Just becoming better and better, becoming more well-versed, becoming more knowledgeable, versus someone who's going 55 to 65, do you think they're going to learn new things? Do you think they're going to get out of their comfort zone? Certainly maybe, but I think that the benefits are pretty obvious, especially when we're talking about something where the people who we're working with are going from working to not working. They don't want that to be the case for their financial advisor.

Tim Mullooly: Right, I feel like that's probably the most crucial time. When you want your advisor to be on top of his game is while you're in retirement, because the stakes are potentially as high as they could get for you. You're not working anymore, you need this money, and your plan and everything to stay in place so that you can continue to live your life. You wouldn't want an advisor taking his foot out of the game and trying to maybe pass you off to someone that you're not familiar with. Do you think having that long lasting relationship too, it helps build trust over the years as well?

Alex Palumbo: Oh yeah. You hit the nail on the head. I mean, this is a relationship game. So, when you build this real- ... let's say I was 50. I build this relationship with someone for five years, then I got to retire. I can say how great the person who I'm handing you off is, but it doesn't matter. Because you don't have that relationship built for five, 10 years. I mean, I'm literally going to be working here over the next 20, 30 years. So the clients that become my clients, they become clients and then they become family, which sounds cliché. But whenever you're entrusting someone your entire net worth, you can't just be a program. You can't just be a robot. You have to have someone who you can build that trust and personal relationship with.

And again, being younger, it's kind of guaranteed that you're going to be working with them for the next 20, 30 years depending on the firm. And that's the opposite of someone who's 60 years old. They've seen them for 40 years. They only going to see it for 4 more and then they're retiring.

Tim Mullooly: In Episode 29 I had the pleasure of speaking with Jonathan Clements. All of Jonathan's books lie in the shelves here at Mullooly Asset Management, so I was very excited to speak with him about his latest book From Here to Financial Happiness. When I asked Jonathan about the cliché, money can't buy you happiness, Jonathan had this to say.

Jonathan C.: Well, we say, you know, "Money doesn't buy happiness." People say that all the time, and yet they don't really believe it. We all sort of deep down believe that if I was richer I would be happier. But the statistics prove that that is not the case. There's something called the general social survey, which has been conducted every year or two since 1972. You go back to 1972, 30% of Americans describe themselves as very happy, 30% in 1972. In 2016, 44 years later, precisely 30% of Americans describe themselves as very happy.

Our self-reported level of happiness has not budged over that 44 years, despite the fact that US per capita inflation adjusted disposable income has more than doubled. We are 120% better off today than we were 44 years ago, and yet our reported level of happiness has not increased. So, money has not bought happiness, but I do believe it can if we spend it properly. And when I talk to people about this, I really emphasize three points. First, money is sort of like health, it's only when you're broke that you realize how great it is to be solvent. Similarly, by the same token, it's only when you're sick that you realize how great it is to feel healthy.

So, what you want to do is make sure that you don't feel broke. You want to get to the point where money is not something that's detracting from your life, where you're not worrying about paying the next set of bills, you're not worrying that the check is going to bounce. So that's step number one in getting happiness out of money. Two, tons of research shows that we get more happiness from experiences rather than things. You know, if you're going to spend your money, you're much better off taking the entire family to Paris than going out and buying a new car. Yes, if you take the entire family to Paris, you know, the trip is soon over and the money is gone, but you will always have fond memories, and those fond memories will, if anything, grow fonder over time.

By contrast, if you go out and buy the new car, you know, you're going to get this thing that you think is going to have lasting value, but the problem is, it has lasting value, so you have to sit there and watch it deteriorate over time, and it goes from being a source of happiness to a source of unhappiness. So, the virtue of possessions is also their downfall. They stick around and we have to take care of them and watch them deteriorate. Experiences, by contrast, are time limited, and then afterwards all we're left with are those fond memories.

And the third thing that money can do for us, it can allow us to spend our days doing what we love. True financial freedom is the ability to get up in the morning and say, "I can do anything I want with this day." And what people realize pretty quickly is what they want to do during the day is not nothing. They don't want to sit around and relax, what they want to do is spend their days doing stuff that they love. They want that sense of purpose. They want a fulfilling life. They want a reason to get out of bed in the morning, and that's what you get with financial freedom. Most of us get that when we retire, but ideally you reach that point earlier in your life, you get to the point where you can spend your days pursuing the career that you love rather than the career you need to pursue in order to make money.

Tim Mullooly: In Episode 30, I talked with my good friend Anthony Cinelli. Anthony has his master's degree in psychology and is a school counselor here in New Jersey. I asked Anthony about a very important but not well-known concept called self-compassion, and he described it like this.

Anthony Cinelli: It's something I learned through my graduate school years. I'll touch on this a little bit later too. Self-compassion is just kind of this idea that you would treat yourself the same way you would console a friend, and we don't do that. For whatever reason our internal dialogue, our self-talk with ourselves when we have a setback, or a mistake, or a fallout or something is very critical, and self-destructive. Whereas if a family member, or a friend had the same kind of setback, we would never approach them in the same way that our internal dialogue approaches our self.

So self-compassion is kind of literally changing the talking in your head, whereas if your self-talk is saying, "I'm a failure, I'm going to let my family down." If it's very negative, and self-destructive, the only way to kind of recycle that is to stop it, and change the thought to something that's more rational. I've had this one setback before, and I've rebounded from it, my family's not going to disown me because this happened. That is a rational belief, whereas the thoughts before were just hurricaning, and you would never say that to a friend essentially. That's also something that goes back to the learning, and unlearning, and re-teaching because for years, and years, and years your thought process is like, "I should be my biggest critic, I got to be super hard on myself to get to the next level."

Tim Mullooly: Right, people say that to kind of motivate. The only way to get better is to kind of be tough on yourself.

Anthony Cinelli: Yeah, and sometimes people don't buy it because like, "Oh, self-compassion, you're not hard on yourself, you don't work hard." People think it's fluff, but there's a handful, I mean more than a handful. There's an abundance of research out there about productivity, and efficiency in work, or athletic performance where obviously athletes have a lot of internal dialogue about their performances, and it shows that being super critical of yourself takes away your focus from the task that you need to complete. And being able to kind of forgive yourself momentarily, and then refocus on the task at hand lends to a better outcome.

Tim Mullooly: In episode 31 of the show I talked with Christine Benz. Christine is the Director of Personal Finance for Morningstar, and has written a number of great books and blog posts over the span of her career. I asked Christine what it was like writing a book about personal finance during 2009, right after the financial crisis, and she had this to say.

Christine Benz: It's interesting because at the time when I was working on it, the market was beginning to recover but you're never quite sure. Is this the start of something lasting or is it just maybe a head fake or something like that? When I was working on the book intently in the summer of 2009, we weren't quite sure and we had talked about addressing the financial crisis more specifically with the title of the book. Making it kind of a market recovery sort of book. And I'm glad that we decided not to be so anchored. For one thing, the book would not be so evergreen had we gone that route. But also, I think it just would have made it a little narrower than it is. We toyed with making it more specific to how to recover any losses you've had, but stepped back from making it so time period specific.

But definitely it was an interesting time to be working on something like this. Lessons of the financial crisis were fresh, which was good. We were able to talk about important topics like diversification and making sure you're not taking too much risk if you have a goal that's very close at hand. Which was something a lot of people approaching retirement during that period experienced or even people saving for college for their kids. Many of them found that their portfolios were too aggressively positioned. So we were able to stitch in some of those lessons of the financial crisis. But it's really not a book that hinges specifically on financial crisis.

Tim Mullooly: In Episode 32, Brynne Conroy joined the show. Brynne runs the blog Femme Frugality and is the author of the recently released book, The Feminist Financial Handbook. We talked all about Brynne's new book and I really enjoyed Brynne's answer when I asked her to describe the term judgment free budgeting, here's what she had to say.

Brynne Conroy: As women there's often a lot of judgment on how we either spend or save our money. We're either that coupon clipping lady, ultimate frugality, just that weirdo who must not know anything about investing because she uses scissors. Right? Or when we spend money like let's say that we spend money on a quality item, there's a lot of judgment from society at large and this includes women judging other women and us judging ourselves like, "It must be nice to go on that vacation or it must be nice to drive around in a Benz."

Tim Mullooly: Right, exactly.

Brynne Conroy: But that same judgment isn't always there for men. In that chapter when we're dealing with budgeting, I really wanted to stress that you can spend your money on whatever you want as long as it fits within your budget and I think you're going to be happier if you spend your money on the things that you value most in your life with your priorities. But whatever your priorities are, are none of my business as long as you are not going into a massive amount of debt you can't handle, then we kind of outline different modes of budgeting and like how you can kind of achieve that.

Tim Mullooly: In episode 35, I talked with Peter Lazaroff. Peter is the Co-Chief Investment Officer for both Plancorp and BrightPlan. We talked about Peter's upcoming book as well as a number of different personal finance topics. Peter's answer about reverse budgeting was really great, and here's what he had to say.

Peter Lazaroff: Reverse budgeting, I first have to point out, I don't know where the term came from, but I definitely did not make it up myself. I have no idea where I came across it in my career. But whenever I came across it really early in my career, I said, "That makes sense. That's what I'm doing." The idea is that I had been sitting in front of spreadsheets once a week. I had such detailed Excel spreadsheets. Again, I'm into personal finance decisions, I have been since I was a little kid. So here I am ultra-committed. Most people are not committed enough to make weekly updates to a spreadsheet for a budget. It also feels really limited. Traditional budgets you might say, "Okay, I have $250 to eat out this month," You come to week four of the month and you're already at your budget and somebody has a birthday party at a restaurant. You're going to go, you're not going to not go because you've hit your budget number.

So reverse budgeting is really this idea of figuring out what are your goals, figuring out how much you need to save per month to hit those goals, and then automatically sending that money out towards the different accounts that are funding the goals. Then just kind of spending the rest as you please. I think if you have a spending problem and you're carrying credit card debt, reverse budgeting is probably not for you. If you're worried about, or particularly if you're married or in a relationship where you feel like, "Oh, we want to make sure that we're both meeting our goals." After that, you don't want to have to keep tabs on each other. Well, if everything is going out and you know that you're on track for your goals, you don't really have to stress about specific purchases.

It's generally been something … This is what BrightPlan has really built on, is the idea that, "Look, if I have goals of saving for retirement …" that might be max out Roth IRAs or IRAs, or 401Ks, or 403Bs, whatever. So max out retirement accounts every year, build an emergency fund, pay off student loans, save for a down payment, go on a big vacation, if those are all the goals, and I know one's due in June of 2019 and the max out retirement goal is every year. The down payment for home is 2022, whatever, and you divide all of your expected costs by 60, then what you get for the next five years is what you need every month to hit these goals. So just trying to figure that out, because when you, I think by focusing on saving, rather than spending. You can't spend what you don't have. That's generally something people can deal with more.

Then it's also low maintenance. So I kind of went back to the idea that a lot of my financial advice recognizes that we're all human. If you're human, you probably don't like budgeting. There's not evolutionary pointing thing to specifically … but I know a lot of humans, and none of them like budgeting. I think the lack of ongoing time commitment makes it more likely that you're going to stick with a reverse budget. I think, would you count pennies and end up with more money at the end of your life? Yes, you definitely could. But this is a way to live your life, spend less time focused on the financials, but also know that the good decisions you made setting up the system are going to help you meet your goals.

Tim Mullooly: Ashby Daniels was the guest of the show in Episode 37, and I asked him about his widely shared article, A Letter to Grandparents. If you haven't read the article, you can find it linked in the show notes of episode 37, I highly recommend it. So here's what Ashby had to say about writing that piece.

Ashby Daniels: What's funny about that post, and this is I guess what a lot of kind of at least in our financial blogger-sphere have observed is, that I didn't think it would be nearly as influential, I guess you could say, as it's been. I'm still getting emails about that piece from people that I've never met. I guess what makes that even funnier is that I never really set out to write a post about 10 lessons from my grandfather. It actually started out as kind of a letter to my grandmother, hence the name a letter to grandparents. I started out just thinking about the most impactful observations and interactions that I guess, more specifically I kind of had with my grandfather, but also with my grandmother, and I just kept typing. Realizing kind of in that moment, excuse me, how influential he really was to me, kind of all the way through his final days. My grandfather was my hero growing up. He was a kind of larger than life figure in a lot of ways and was a true patriarch in our family.

In our industry, I just felt like there's so much focus on money, and what's interesting is that once people pass, so few people ever talk about the money. I found that to be a little ironic, because while my grandparents, I'm thankful to say paid for my education, which is unquestionably the greatest financial gift that could have ever been given to me. The legacy that was left behind had almost nothing to do with the money whatsoever. It was all based around the time that we spent together and the lessons that I learned from them.

On my blog at least, I write specifically to retirees. My hope in writing that article was simply, my hope was that grandparents would really take stock, no pun intended, take stock of their time and how they're allocating their time and realize what impact they might be able to have on their grandchildren, just by spending more time with them and taking a real interest in them. I wanted them to think about how they're going to spend their time at least as much as how they're going to spend their money.

The legacy that my grandparents are leaving with me, and I say leaving because I'm blessed that my grandmother still around, is that they truly invested in me personally. Don't get me wrong, they were generous financially, but certainly it's the memories and life lessons that are going to stick with me forever and even be passed along to my kids. Really, it was just an article to hopefully encourage generation that would be our grandparents to really think about what level of impact they can make throughout their retirement just by spending time with their children and grandchildren, I guess, more specifically in the article.

Tim Mullooly: In Episode 38, I had the pleasure of speaking with Daniel Crosby. Daniel is a PhD Psychologist and a New York Times Best-Selling author. We talked about Daniel's recently released book, The Behavioral Investor. The Behavioral Investor was released October 16th, 2018, and has received rave reviews ever since. Here's what Daniel had to say about the book.

Daniel Crosby: Sure. So what I did was I took the universe of identified investment misbehavior, sort of all the biases and heuristics that have been identified by people smarter than me, and there were over 100, and as I looked to them I started to say, "Look a lot of these share sort of a common core, a lot of these are under-gird by similar things, they may be slightly different but there's a common mechanism at work." So I broke them down by their common underlying mechanism, and I arrived at four primary psychological tendencies. So they are as follows. The first of those is ego which is our tendency to be overconfident and to think that bad stuff won't happen to us. The tendency to think that bad things won't happen to us and also the tendency to think that we're better than our neighbors. This leads us to make all manner of bad financial decisions basically because we think that the rules don't apply to us.

The second of these is emotion which is the tendency for our fleeting affect to color our perceptions of risk and reward, so when you ask someone who's having a good day, how risky something is, and they're going to say it's much less risky than someone who's having a bad day. Even our appraisal of activities is highly contingent on emotion. You look at something like boating. Boating is super dangerous but no one thinks it's dangerous because it's fun. You're having a good time when you're boating but it's actually quite dangerous. That danger is to you by the fact that it's fun and you're emotionally up.

The third of these is attention. Attention is our tendency to conflate or to confuse rather probability and salience. So salience is something like how vivid it is, how easy it is to recall something and probability being how likely it is to happen. So my favorite example of this is that in the last year way more people have died taking selfies than with shark attacks. I think it's 5x the number have died taking selfies as shark attacks. Yet, if you ask me to take a selfie I would, and if you ask me to swim with a shark I wouldn't because one seems scary, one is more salient, one's more vivid as a risk and so we confuse the likelihood. You're far more likely to try and take a drunken selfie and walk into traffic.

The last one is conservation which is our tendency to privilege the status quo and what we know over what we don't. I think one of the easiest examples of this is home bias. People invest in their own country, disproportionately, and even if you look at different parts of the US, people in the northeast are overweight financial stocks, people in the Midwest are overweight agricultural stocks. We think that because we are familiar with something that it's safer and that's again simply not the case.

Tim Mullooly: In Episode 40 of the show I talked with my older brother, Brendan Mullooly. Brendan is a CFP and an advisor here at Mullooly Asset Management. We talked about a number of blog posts that he's written over the years, and I asked him about his article called The ETF Disease. Here's what he had to say.

Brendan M.: In the post I started off by sharing a passage from a book called Factfulness, and it talked about how many years ago in Europe the disease, like syphilis, was just coming out, all of these different countries had different names for it. So the Germans called it the French disease, and the Italians called it the British disease, and they basically all said it was, "Oh yeah, that thing that's going around from-"

Tim Mullooly: From somewhere else.

Brendan M.: ... "From the foreigners," yeah, blaming it on someone else just to show that we have been looking for and creating scapegoats since the dawn of time probably, before even that example. It's in our nature to want to put the blame for something that happens on something specifically because it's neat and it's tidy, and it explains everything, when in reality a lot of times things are just more complicated than that. It's not so simple. But it feels better to us to do it. I was joking with a couple people on Twitter that I could have taken the intro that I wrote for that post and made several different posts, because we're always, people in our industry are always looking for scapegoats that confirm whatever view of the world they want to believe in.

Tim Mullooly: Right. Especially in the markets, people are always like … They need a reason why something happened.

Brendan M.: Yeah. So I could have written this post and it could have been about the fed, or algorithms, or politicians, or whatever, but I settled on ETFs and index funds because I've seen so many articles floating around over the last year or so, and they'll continue forever, I don't think I'm going to change anybody's minds with this post that I made, but a lot of people think that ETFs and index funds are going to be to blame, or they have been to blame for things that are going on in the market, like large companies becoming bigger and bigger shares of an index, or market declines being exacerbated by people in index funds, people using passive vehicles in not passive ways.

And I think largely this is just bologna. I referred to a BlackRock study that was from the end of last year, so 2017, and they looked at the percentage of assets across the world that are either … They lumped together ETFs, index mutual funds, institutions who self-index, and SMAs that also replicate an index. Out of the entire global stock universe, that ended up being something like 17%. And so the other 82%, 83% of the world, the way this worked out, is either in active mutual funds or people who own the individual stocks directly. So just active stock selectors is the way that they turned it.

Tim Mullooly: So it's not even close to a majority.

Brendan M.: No, and so this is being described as an epidemic because flows have showed over the last decade that people are pulling money from things like active mutual funds, and beginning to favor things like ETFs, or index mutual funds, mostly for cost reasons, but also kind of because of performance.

Tim Mullooly: And that's true, but-

Brendan M.: Yeah, totally. The flows are the flows, but it's still a drop in the bucket in terms of where … We're not even approaching 50%, maybe, there's got to be some kind of a threshold where-

Tim Mullooly: Maybe the argument changes a little bit once it gets closer to 80-20 right now.

Brendan M.: Yeah. So there's definitely a threshold, I understand that not everybody can index. There has to be active management out there, trading and doing what people in our industry call price discovery, active management has a value. But I think that the meme of index funds taking over the world, they're definitely getting a ton of flows but we're not even close to being there yet in terms of people only getting exposure to the markets via these vehicles.

Tim Mullooly: In Episode 41 of Living With Money I talked with Douglas Boneparth. Douglas runs Bone Fide Wealth in New York City and works with high net worth millennials in the city. Douglas believes that financial planning first is the way to go. When I asked him to explain his thinking behind that, he had this to say.

Douglas B.: How can we invest towards anything? How can we get anywhere, just even in traveling or jumping in the car without knowing where we're going first? And financial planning is that roadmap right? How cliché at this point to say blueprint, roadmap and all of that. To us it is. Many people have never even heard of financial planning and they're like, "Yes, I want a detailed guide to navigate my financial life, that sounds amazing." Yeah. "Wow, how much does that cost? Oh wow, I can afford this. This is great." You know, they change their life, that's what we're hoping for. So I don't mean to sound less than enthusiastic about saying financial planning first.

I put it out there because it means a lot of things to me. It means number one, we're getting away from old school, transactional brokerage type models right? We're putting the financial planning piece up front as the way … Basically that will dictate all recommendations from a product side. It will give us a full view of what is going on in someone's life. It will basically empower and educate someone of what's going on and ultimately help them make smart decisions. Smart decisions around what to do with their money. Whether it be investments, buying insurance policies, save additional cash, pay off their student loan debt or any other debt on an accelerated basis.

So that's where we start. I do it because I want everyone to know that if you're approaching this from the product side first, or the investment side first, you're just playing the wrong game. It's just not how it's done. And what are you aiming for? “I want large returns.” That's the stupidest thing I've ever heard.

Tim Mullooly: So does everyone else, but what do you need it for?

Douglas B.: Yeah. What do you mean by that? How much risk are you willing … Do you need to take that much risk? I'm looking at a document here that it says if you can achieve 6% over the long term, by the way, that might be achievable based on what we've seen historically, and you keep saving like this and inflation is this and Social Security is there or not there and all these other assumptions … And you and I do this all day as retirement planning. Then here's something that works within your tolerances, within your abilities. Let's get after that and people get excited about that. They see a pathway.

And now talk to them about. Okay, here's this plan, now what do we do? Okay, well we need to now actually invest that money. The 401k needs to have this much risk so we can have this much reward. Well this is what that allocation looks like. I only have these 20 investments to choose from. Let me help you with that. Things get easier. It's easier to educate, so financial planning first, that's the way to go. I hope it's not a differentiator. I hope everyone's doing that, but it still might allow for a little bit of differentiation at this point.

Tim Mullooly: In episode 43 I talked with Lorraine Ell. Lorraine is the CEO of Better Money Decisions and the author of the recently released book, Bozos, Monsters and Whiz-Bangs. I asked Lorraine how clients can tell if they're working with the wrong advisor, and she had this to say.

Lorraine Ell: You know, I have often heard that someone would say, "Lorraine, tells us how you really feel?" Because I tend to have very strong opinions about things, but you know I think trying to get a grasp on whether you're working with the wrong advisor is really a difficult question to answer for most folks because people who come to me for one reason or another before they become clients, they all say that their advisor is their really good friend and that they really like them. And then I look at their portfolios and I'm thinking to myself, "With friends like this, who needs enemies?" The stuff that I see in there is just horrific.

So, I think in general, investors need to really expect more from their advisors. They need to expect more help and more concern and some of the things that I always caution people to look for or to really think about, is your advisor speaking in jargon to you? I mean, that's just not necessary. Are they speaking more than listening? Have they really stopped talking long enough to hear what you're trying to communicate to them? Are they trying to beat the market? Is it all about performance and the investing or is it about your financial life and how these investments can work to make you live the life you want and be able to do what you want in life?

So, those are some general guidelines. It's not an easy … When you're involved with someone, you almost can't see the forest for the trees and it's difficult to pull yourself out of that and say, "You know, I'm really not getting what I need here and I bet there is some place better," and I think your firm is probably like that and I know ours is because we look at this as really a partnership with our clients.

Tim Mullooly: In Episode 44 I welcomed Conor Richardson back to the show. Conor was also our guest in Episode 19 of the show. And in this episode we talked about his book, Millennial Money Makeover, which was just released a few days ago. We talked about how the book addresses student loan debt, and how millennials can go about eliminating their debt quicker.

Conor R.: Sure, I want to address your first comment, though. The reason millennials get such a bad rap in the news is because it's our parents and basically our older brothers and sisters still running the show. When millennials are in the seat, I think that this whole trend will start to alleviate. But back to your question about student loans. So 42% of millennials have student loans and 54% are highly concerned about their ability to pay that balance off. The student loan balance, as any balance in this country, is ever growing. It's standing around $1.48 trillion or something like that right now, which is just massive.

In the book, I tell people if you have student loans, you need to be smart about how you're paying that back. I'll take you through just a step-by-step process of what I mean by that. The first one is to pay off your smallest balances first, so in the Millennial Money Makeover we take advantage of research and there have been studies at Northwestern University that if you list all of your debt balances in ascending order, so the smallest one first, and you start by tackling the smallest one first and work your way to the biggest, you have a greater chance of knocking out all of the student loan debt in your life. So we take advantage of that and we use the snowball method.

The second step is to make sure that you're always paying more than the minimum. You might need to pay the minimum to not let the whole rush flood over you, but when you're serious about paying off your student loans, you want to be throwing as much cash as you can at it. Then, the third step is to help with paying more than the minimum, you need to find ways to make extra money. That can be maybe you get a bonus at work and you put that extra cash towards paying off that balance, or you're focusing on a side hustle, whether that's a blog, a new business, driving for Lyft or Uber, or one of the things that people don't necessarily think about is extracting value from the assets that you already have.

That can be intellectual capital, if you have student loan debts, most likely you can help somebody else in tutoring or something like that. Or, if you live in an apartment or a house, extracting value from that by maybe listing a room or the house on Airbnb to help pay off those loans and alleviate some of that. The fourth thing is to make sure that you are rewarding yourself throughout this process. Paying off student loans can sometimes take a long time, and it's incredibly important to give yourself a gift. Once you pay off a student loan, pop a bottle of champagne, go out to eat, do all that with cash, but still do it.

The fifth thing is to determine your timeline. One of the largest mistakes people make is equating long term debt with long term payments. That couldn't be farther from the truth, because the longer you don't pay off your student loans, the longer the student loan has to balloon out of control. What that means is the total cost of attendance, let's say you have a $50,000 loan, that thing can turn into you actually paying back $80,000 for the $50,000 worth of education. Create your timeline, and decide whether you want to be aggressive or maybe you need to be a little bit more flexible at this point in your life and stick to that plan.

Tim Mullooly: In Episode 48 of the show, I talked with Ashley Feinstein Gerstley. Ashley runs the website The Fiscal Femme, and is the author of the recently released book, The 30-Day Money Cleanse. The book was just released, so be sure to look in the show notes for how to pick up a copy. Here's what Ashley had to say about a few of those 30-day cleanse steps.

Ashley: I would say one of the first things we do in The Money Cleanse is start to get conscious. It can sound silly, but most of us have no idea where our money is going. We have a tendency to not want to know. We just don't want to look at it. Then technology makes it that much easier to not look at it, because we are hopping in and out of Ubers without paying and online shopping. You hit a button and something shows up at our door. So it's very easy to not know where our money is going.

So one of the things we do is, keep a money journal. Where we write down or type out what we spend and earn. In the beginning of The Money Cleanse we start listing out everything that we spend. There's a lot of exercises around aligning our expenses with our values. Because they're often … When we look at what we spend, it often tells us nothing about what's most important to us. But that's something that, if we're maximizing the joy we get per dollar spend, we want to really align that.

Those are a couple. Then I have people have money parties in the book, because we often don't dedicate time, or I call it showing our money some love. We have these financial to dos that keep getting to the back burner and not getting done. If we scheduled and have time occurring in the calendar to deal with them and to check in our expenses. Actually make it fun like a party, we'll be more likely to do it.

Tim Mullooly: That's going to wrap-up episode 51 of Living With Money. I hope you enjoyed our round up of our favorite answers from 2018. We hope that you continue to tune in throughout 2019 and beyond. Thanks for listening, and we'll see on the next one.