

# From the Mailbag #1 - Savings, Investments, Credit, and Debt

Today we start a new series that I thought would be a fun and interesting addition to the blog. As the blog has continued to grow over the past 15 months, the amount of emails I receive from readers has sky rocketed in volume. I started to think that if one reader has these questions, then there are probably others that have the same questions, but are too shy to reach out.

So, "From the Mailbag" is born. I don't know how often I will publish these just yet, but enjoy them as they come.

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## From Chas

I am 28. I make around 40k after taxes. I expect a 2 percent increase per year. I have 3k in my 401k. I get a 4 percent match, so I have the 401k set at 4 percent (at 50 cents on the dollar). I have a 5k cd. I have about 15k in a money market. I have 1k automatically going in to my money market and plan on leaving it this way. I pay 1300 in monthly rent and bills.

I have 36000 student loan debt with 6 percent interest. I have no other debt but I have no other assets except an old paid off car.

My credit is 629 and I'm using a secured credit card with a \$300 limit to increase credit score. I pay off what I spend on a daily basis.

Any advice on improving this mess and setting myself up for a wealthy financial future? My goal is to live a comfortable life, travel some, and retire with at least 2.3 million. Of course I would like to be debt free and have good credit.

I'm considering investing in a Wealthfront personal investment account and government bonds to offset inflation from my savings. Would I be better off paying off all student loans or focusing on investments? Should I increase savings in my pre-tax 401k? Do you recommend better ways to use my

money? Any ideas on increasing credit?

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Hey Chas,

Thanks for reaching out. The first thing I would do if I were in your shoes is open up a FREE account with Personal Capital in order to easily see and manage all of your financial information in one central place.

**Income** - I think you can do better than 2% raises every year. That is what the average person can expect, but I don't think you want to be average. Otherwise you would not have reached out to me. What line of work are you in? Why do you only expect 2%? Have you thought about starting a side hustle? Start thinking about ways you can increase your income both from your day job and on the side. I don't know anything about the company you work for or how long you have been there, but sometimes you have to leave the company in order to get a higher salary.

**401K** - I like that you are taking advantage of the FREE 4% match. You are better off than a lot of people I talk too. Most people can't seem to understand that a match of 50% on 4 percent of your income is still a 50% return. There are not many places you are going to get that kind of return.

**Money Market** - This is essentially your rainy day fund that is super liquid and low risk. Based on your monthly expenses of \$1,300/month you have almost a year's worth of expenses in the bank. I think you need to redirect the \$1,000/month to either your 401K or your student loans or split between the two. I am partial to the student loans because I like to see people get out of debt, it's a very liberating feeling. Remember that interest saved is the same as interest earned.

**Student Loans** - As I alluded to above I think your \$1,000/month automatically going to your money market fund should be redirected to your student loans. Here's why, you're making less than 1% in the money market, when you could be saving 6% by paying off your student loans. Like I said above, interest saved (or not paid) is the same as interest earned.

**Credit Score** - Not sure what happened that killed your credit, but your taking the right steps to improve it. Paying off those student loans and keeping them in

good standing (always on time) will go a long way in improving your credit score. This is really a time problem. The more time that passes the better your score will become (holding everything else constant). I recommend that you sign up for a FREE account with [Credit Karma](#) to keep up to date with your credit score in real time.

I think your number one goal needs to be paying off those student loans. Keep the 401K contribution at 4% of your income so you get your full match. Paying off those student loans is equivalent to earning a 6% return in the market, and given the market is overextended it's the better option in my opinion.

If all you do is redirect your \$1K/month from money market to student loans, you will have everything paid off in less than 3 years. Realistically if you also throw that \$5K you have in a CD towards your student loan once it matures and take another \$5K from your money market you could probably have everything paid off in 15-18 months.

Then you free up at least \$1,000/month to invest (plus whatever your current monthly student loan payment is).

And if you want to be super aggressive you can find ways to increase your income to get that debt eliminated even quicker.

I hope all that helps.

Cheers,

- Gen Y Finance Guy

*Readers: Would you recommend anything different to our friend Chas?*



## Gen Y Finance Guy

**Hey, I'm Dom** - the man behind the cartoon. You'll notice that I sign off as "Gen Y Finance Guy" on all my posts, due to the fact that I write this blog anonymously (at least for now). I like to think of myself as the *Chief Freedom Officer* here of my little corner of the internet. In the real world, I'm a 30-something former C-Suite executive turned entrepreneur turned capital allocator. I am trying to humanize finance by sharing my own journey to Financial Freedom. I believe in total *honesty* and *transparency*. That is why before I ever started blogging, I decided that I would share all of my own [financial stats](#). I do this not to brag, but instead to inspire motivate, and also to hold myself accountable. My goal is to be a beacon of hope, motivation, and inspiration for *you*, the reader, by living life by example and sharing it **all** here on the blog. My sincere hope is that you will be able to learn from me - both from my successes and my failures! [Read More](#)