Case Study: Jill and Jack

Can risky investments be justified in response to a crisis?

Background

Jill and Jack live in Orange County, New York. They are 45 and 47 years old, respectively, and have been married for 12 years. It is the second marriage for both of them, and between them they have four children. Jill’s 17-year-old daughter, Chloe, lives with them. Chloe has been an outstanding student. She is applying for financial aid, including loans, to attend Cornell and major in engineering. Jack supports a 14-year-old son and 17-year-old daughter, both of whom live with his ex-wife. His daughter has been a so-so student, but is a gifted artist. She wants to be a fashion designer and has been accepted at a private art school. Jill and Jack have an 11-year-old son of their own.

Jill is a high school graduate without professional training, though she has just returned to work as an aerobics instructor—a steady source of part-time income until last year, when she herniated a disk in her back. Jack is a college graduate who has risen steadily in sales for gas and oil companies. Most recently he was the very successful sales manager for a construction company and made about $200,000 a year. The couple owns a home. They have about $100,000 equity in a house that was valued at $400,000 when they bought it. Similar houses are now selling for $300,000. Jack has accumulated about $150,000 in his 401(k). Otherwise, the couple has no significant savings. They carry about $50,000 in credit card debt, most of it incurred paying for medical expenses not covered by Jack’s health care—much of it the extended physical therapy needed for Jill’s back injury.
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Dilemma

The year is 2009, and the economy seems to be in free fall. Jill is teaching only two aerobics classes a week and, without significant warning, Jack’s company went bankrupt when the three major condominium projects they were working on were abandoned by their owners. Jack feels lucky that he can get any severance. He is given a small package—12 weeks of income and 6 months of healthcare coverage. Even with the unemployment insurance Jack will begin collecting, within a matter of months, he and Jill will not be able to cover all of their day-to-day living expenses. Longer-term, they face the loss of health insurance, the loss of their home, and the loss of the prospect of sending their two daughters to college. Even nearer at hand, they face credit card payments, utility bills, and mortgage payments. Jack never had difficulty transitioning from one job to another in the past, but this time he has been looking for 4 weeks without so much as an interview. Both Jill and Jack are proactive by nature, trimming their day-to-day expenses while looking at other opportunities.

Jack loves to cook and has always made excellent fresh salsa. He and Jill host many barbecues, and for years, friends have told him he would make a fortune selling it. Although he will continue to look actively for a new job in sales, this seems like the time to borrow from friends and family and finally follow through on that dream. Jill has a sister who seems moderately well-to-do and has helped them from time to time. She is in her late 50s. Jack’s father is retired and lives in the house Jack and his three brothers grew up in. Jack believes it is fully paid for. Jack asks himself, “If not now, then when?”

In the meantime, Jill attends a Mary Kay party hosted by Maria, a fellow aerobics trainer. She is thrilled at the prospect of becoming a Mary Kay representative and comes home with a backseat full of samples. She has paid the $100 required to become a Mary Kay representative with their debit card and used a newly opened Mary Kay Visa card to place an order for $250 worth of wholesale product.

The future looks bright. The party was co-hosted by a senior sales representative who was able to give Jill a full orientation to becoming a Mary Kay representative. She told Jill that she could make an executive-level salary if she was willing to work at it. Holding even one skin care class a week, she would make $17,500/year, and a “lot” of consultants were making $100/hour. To get started, Jill had needed to buy inventory. The $250 recommended amount seemed reasonable, although she was leery of new credit
card debt with no income. However, Jill accepted the reassurance that merchandise purchased on the card should be considered an investment rather than debt.

Maria has been in the program for 6 months. Although she has not yet made up her own $250 investment selling product, she is shifting her focus to recruiting others (like Jill) to join the program as sales personnel. Going forward, whenever Jill places a wholesale order, Maria will get a commission.

**Task**

Jill and Jack are faced with an uncertain job market and weeks, if not months, of unemployment for Jack. You are a financial advisor for Neighborhood Trust, a nonprofit that provides financial advice to low-income people in New York. Jill and Jack have come to you to ask whether Jill should continue to invest her time and money in Mary Kay or if Jack should start his salsa business.

You look at the materials you have brought to this first meeting. Your playbook for people who have lost their jobs is pretty standard. It varies by client, but to cover near-term expenses, in addition to a review of discretionary spending, it always includes some mix of help from family, a renegotiated mortgage, home equity or other low-cost loans, drawing down a 401(k), and (unofficially), if the bank won’t deal and a house is worth less than is owed on it, walking away. Longer term, you usually suggest job counseling (maybe this time for Jill) and community college for kids starting school if there are no good financial aid packages to be had. No magic bullets in any of it. But here are Jill and Jack. They are attractive, well-spoken, extroverted, and eager to do something. Should they consider salsa and Mary Kay?

Analyze the opportunities and risks presented by the dilemma Jill and Jack face. Pursue what you believe to be their best and worst options in enough detail to present them with a preliminary picture of their range of options. Identify what else you would need to know in order to make a final recommendation.

What one or two insights should Jill and Jack share about personal finance with their daughters who are getting ready to begin college?
Marketplace Business: Life Not So Rosy for Women Selling Mary Kay Cosmetics
What image pops into your head when I mention Mary Kay Cosmetics? The pink Cadillac, right? Well-attired women holding parties with potions and lipsticks and all manner of beauty aids to sell. It’s an almost mythical success story in the annals of American business. But there’s more to that story and not all of it is pretty. Virginia Sole-Smith wrote the cover story for the August issue of Harper’s. It’s title is “The pink pyramid scheme: How Mary Kay cosmetics preys on desperate housewives.”

http://www.marketplace.org/topics/business/
life-not-so-rosy-women-selling-mary-kay-cosmetics

MarketWatch: 10 Things Direct Sales Marketers Won’t Tell You
[Direct marketing] . . . business is booming: U.S. sales totaled nearly $30 billion in 2011, up 4.6% from 2010, according to industry group the Direct Selling Association. Indeed, during a poor economy, it’s not unusual for the direct-sales business to perform well, says DSA spokeswoman Amy Robinson. Individuals looking for extra income are drawn in by the promise of potential earnings, such as those advertised on Avon’s sales site: “Choose to work as little as 20 hours a week—and you’ll probably earn more than from a ‘regular’ part-time job.”

Can I Sell My Home-Canned Salsa, Jams and Other Preserves?

Have you got a great recipe for home-made salsa, jam, jelly or other home-canned food? Your friends and family tell you that you should go into business selling it? And now you’re wondering what it would take to actually sell your award-winning tomato salsa, apple butter, applesauce or strawberry jam? This page should answer your questions to help you decide if it’s right for you!

The production and sales of processed foods is governed by state and federal regulations. Each state is different, so proper advice is needed from a specialist in each state. Some states allow sales at farmer’s markets of select foods; others prohibit sales altogether.

http://www.pickyourown.org/sell_your_homecanned_food.htm

USA.gov: Foreclosure Resources

If you miss your mortgage payments, you may lose your home through foreclosure. Your lender can use foreclosure as a legal means to repossess your home. If you owe more than your property is worth, a deficiency judgment is pursued. Both foreclosures and deficiency judgments have a negative impact on your future credit. You should avoid foreclosure if at all possible.

These steps can help:

http://www.usa.gov/Citizen/Topics/Family/Homeowners/Foreclosure.shtml

Making Home Affordable: Refinance and Loan Modification Program

The Home Affordable Refinance Program (HARP) is a federal program that makes it possible for homeowners with little or no equity in their homes to refinance their mortgage loans at lower rates to save money. It is a temporary program that has been extended, and is now scheduled to end on December 31, 2015.

When mortgage interest rates are very low, homeowners can potentially save thousands of dollars per year by refinancing to lower interest loans. Many homeowners do not qualify for refinancing, however, because the drop in housing prices has left them with too little equity in their homes. Lenders do not usually approve refinancing for homeowners with less than 20% equity.

Home Affordable Refinancing allows homeowners who lost equity when their homes dropped in value to take advantage of low interest rates. The program is for homeowners with satisfactory credit who have been making their loan payments on time.

http://www.massresources.org/making-home-affordable.html
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Six Keys to Saving by Starting at Community College
When Rich Johnston started college in the 1970s, four years at a standard university was out of the question financially. So he worked, knocked off two years of community college credits in 19 months and then worked some more.

He ended up graduating in 1981 from the University of Puget Sound, a private college in Tacoma, Wash. “Nobody ever asked where I went the first two years, and I don’t think anybody cares,” he said. “And I bet I saved myself $30,000.”


Students Find It’s Tough to Graduate in Four Years
Studies show that students who fail to get a degree do no better than those who never went to college at all, and may be worse off if they accumulate student debt.

http://www.npr.org/2012/05/21/153213338/students-find-its-tough-to-graduate-in-four-years

Completing College: A State-Level View of Student Attainment Rates
Six-Year Outcomes for Students Age 24 or Younger at First Entry
Total 4-year completion in New York starting at a 2-year public institution: 18.79%
Total 4-year completion in New York starting at a public 4-year: 57.89%
Total 4-year completion in New York starting at a private, non-profit: 85.14%

http://www.studentclearinghouse.info/signature/4state/NSC_Signature_Report_4-StateLevel.pdf