Why You Shouldn't Follow Dave Ramsey, Suze Orman or the Motley Fool

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I knew that headline would grab your attention.

Now that I have it, let's talk about what's wrong with Suze, Dave and the Motley Fool guys. Hell, let's even throw in David Bach and Jim Cramer for good measure.

Before I tell you what's wrong with these "gurus," let's spend a moment on where they "nail it":

Suze Orman will teach you a TON about respecting money and financial responsibility. She also "gets" the importance of insurance, something that most people don't understand.

Read Dave Ramsey for five minutes and you'll quickly grasp that he knows the psyche of the flat-broke person.He's lived it. He knows everything about debt from a human behavior perspective. Want to get out of debt? Dave will show you how and there's a huge chance it'll work. People fight about whether Dave's methods are the most efficient, but the proof is in the numbers: it works.

David Bach will tell you the importance of paying attention to small expenses, like a trip to Starbucks (did I say LITTLE expense? Hell, I meant HUGE expense!)

The Motley Fool guys understand fundamental individual stock investing. You can make more money using individual stocks than using mutual funds.....according the them. More on that later.

Jim Cramer understands market trends and technical investing. Want good commentary on current sector and economic conditions? Cramer's your man.

These gurus each offer far more than I've outlined here, and reading their books or watching their videos is well worth your time....but I'm more interested in telling you what they get wrong.

Why It's Important To Know What They Get Wrong

When I was a financial advisor I realized that Suze, Dave and all the rest knew FAR MORE than I did. A client would tell me they were a huge Dave Ramsey fan and I'd jump up and tell them exactly what I thought he (or another guru my client loved) was getting wrong. Guess what happened? People didn't get rid of the guru....they dumped me. Not only do these people know a ton, but they had a far bigger megaphone than I did. Dave has a national radio show, Jim and Suze national television shows....and I was a guy on local Detroit television and radio. Guess who had more street cred? Yup, not me. I learned early on a hard fact from these lessons: before I talked about where I disagreed, I should know exactly what these gurus get right.

But still, it's equally important to know what they get wrong. Here's why:

If you don't know the holes in your advisors thinking, how can you grow past them? Never. Is your goal to just blindly follow one person? I doubt it. You want to walk your own path. You want to be your own person.

I found that the best leaders were people who helped you build a resume. They weren't worried about whether you'd fly past them. Most bad bosses I had tried to keep me from growing. Each of these gurus would like nothing better than for you to take what you've learned from them, apply it, and then add your own spin.

...And you can't add your own spin UNLESS you know the flaws.

And that's the key: they each have flaws. What do they do wrong? Here it is:

They don't speak to everyone AND they won't speak to you forever if you follow them.

Here's what I mean: Imagine being a new investor and trying to implement Jim Cramer's stock picks (or the Motley Fool). The Motley Fool tells investors point blank that they should start conservatively and then begin choosing individual positions. Cramer begins every show by telling you that you shouldn't be investing your financial plan money into the stocks he shares on his CNBC broadcast. New investors shouldn't start there.

Where should they begin? That's easy. They should start with Suze Orman and her discussion on respecting money. They should talk to David Bach about tracking expenses. They should follow Dave Ramsey's advice about debt.

That's why I've come up with a breakthrough money management philosophy.

I've been speaking to investors now for over 20 years and haven't ever been able to come up with the analogy that works. Don't get me wrong....I've been holding this idea about investors for years, and it's keenly developed. I've honed what I now call the **stages of saving and investing** for most of those 20 years.

I just didn't have a good story.

Given twenty minutes, I could share with someone how they should proceed. If they stuck with me through my long-winded explanation, by the end they'd be as sold as I was that I was correct. But I couldn't figure out how to wrap it into an easier analogy.

Then I heard about a simple video game called Kerbal Space Program.

I'm going to give myself away here, but I'm a geek. I love reading about video games (wish I had time to play them more than an hour or two a month!). I was already fascinated by space, but when I heard about this game that simulated a space program for kids I had to try it out. I'm not the only one. Recently, NASA paired up with Kerbal to help kids grasp how rocketry works.

I'll say this: it doesn't just grab kids. I was sold.

When you build a rocket, there has to be several parts to successfully launch into space. (As an aside, although I didn't "get" that initially, I did understand that a good parachute would save my little cartoony astronaut's bacon!).

They call these separate rockets "stages."

I started off with just one stage. I used the biggest stage the game would give me and powered it full of fuel. I loaded my little astronaut onto the ship (the game names him Jebediah), and lifted off. After a few tries where I learned about how a launch pad works, I finally achieved liftoff.....only to fall WAY short of making it out of the atmosphere.

Simply put, one stage couldn't carry enough fuel to get me there.

So I unloaded the little green dude from the cockpit and went back to the drawing board. Now, I upgraded to two stages. To keep this story short I'll say this: I discovered why the Apollo missions relied on three stage rockets. That's how much it took to get into space.

...And that's the issue with following one "guru" approach. Sure, it's easy to buy into one person's soundbites, but there just isn't enough fuel to get you to your goal most of the time. If your goal is sub-orbital, you'll need more.

Don't Hold Back On Your Goals

You deserve to lift off into outer space if that's what you want. Not to get too corny here, but I've witnessed too many people selling themselves short to believe that you shouldn't shoot for the moon. Hell, shoot for Mars or beyond! You've got one shot, so let's go big, right?

But I'm also bearing great news for people who didn't love that last paragraph: *you don't have to shoot for the moon if that isn't your goal*. Some people prefer to live a life that's in the service of someone else shooting for the moon. Some don't care if ANYONE is shooting for the moon, they just don't want to crash. On our Stacking Benjamins podcast recently I asked author Greg McFarlane (one of our panelists) when and why he started saving money, he said he was always afraid he'd be destitute.

Avoiding "being destitute" is a perfectly good goal. Actually, it's better than that. It's a great goal. But is it YOUR goal?

Where you start and which gurus you choose to listen to depends *completely* on your goals and your current situation.

So let's dive deeper into each "stage" so you'll know who to believe:

The Launch Pad

There are many basic terms and ideas you should know before setting out on your journey. It doesn't matter where you're traveling....you have to know how to read your controls and "the map." If you can't operate the machinery, how can you maneuver toward your destination?

Goal based planning - By focusing on your goals instead of on current market conditions, you're likely to achieve positive results. Too many people focus on how to beat the market. Instead, spend your time creating benchmarks toward your vision. Only once you have a plan to reach your goals should you consider economic forces.

This is an area that many people want to skip. It seems "foo foo" and "boring" to people when I talk to them about planning. On the contrary, done correctly, setting up your work flow can be the most rewarding part of the plan. The problem? You won't be able to see just how important it is until you're well on your way toward liftoff.

Probabilities - Many of the best investors are also good poker players. You'll need a strong grasp of statistics and probabilities before you begin your journey toward your goals. Why? It'll affect your decision making. Many of the biggest "risk takers" will tell you themselves that they take very little risk. In fact, they're so keenly aware of how risky the markets are that they do MORE research and preparation to minimize risk.

It's important to understand just how risky your mission is going to be. Only once you grasp the likelihood of success will you then devote the time and energy into turning your dream into a reality.

The First Stage

Getting off the ground takes a whole separate set of controls than maintaining a system that's already in place. At this phase, there are a TON of important gauges to check.

Here are a few:

Cash flow. Without a basic understanding of just how to control cash flow so it's in your favor, you won't be able to ever lift off.

Budget. Your budget needs to be more firm at this stage than at any other. By focusing on creating and maintaining a great budget you'll be able to begin the long process of creating wealth.

Debt management. You'll need to handle your debt like a pro. Many people don't believe just how easy it is to tackle debt once they learn how to make business decisions and to place emotions in check.

Insurance. Especially when you're short on assets you need to have every base covered. Whenever I hear a story about someone suffering a disability from a "tragic" accident, and that they didn't have insurance, I feel horribly about their situation and how they'll now have to fight against this new challenge...but I feel equally badly that they could have insured themselves and decided against it. (Remember how I wrote above that you needed to understand "probabilities" when you're on the launch pad? Once you do, you'll be running for the right insurances!)

Who should focus on stage one: Anyone without a financial plan, with debt, or without basic financial controls.

Gurus for you:

Dave Ramsey
Suze Orman
David Bach

The Second Stage

The second stage of money management is the quest to achieve financial stability. Most people I worked with as a financial advisor were in this bucket. While I enjoyed helping people with stage one, it was most exciting and rewarding to help them now focus on those activities that would give them the security they really wanted.

At this stage, there's no question your rocket is going to lift off (in fact, in many cases, it already HAS lifted off). You're going to be able to pilot it around the world, if you want.

Key concepts:

Retirement plans - You'll need to know the difference between Roth and traditional strategies and which ones work for you.

Investing - Now it's time to tackle fun concepts like stocks, exchange traded funds, and mutual funds.

Tax strategies - Many advisors will tell you that you'll need certain products to reduce your tax liability. By expanding your understanding of how taxes work, you'll see that many of these are a sham, while other, less-often-used strategies can help you achieve your goals more quickly.

Government programs - If you're saving for retirement you'll need to understand Social Security in the United States or the equivalent programs elsewhere. If you're saving for education, you can save tons of money by understanding federal student loan programs and how to use them most effectively.

Who should focus on stage two? Anyone who's graduated from the "lift off" stage of planning and who wants to have a broad portfolio that will avoid financial mistakes.

Gurus for you:

Ric Edelman
David Chilton
Jean Chatzky
Liz Weston

The Third Stage

Aim for Mars. Build Serious Wealth. Create an awesome legacy.

People often ask me, what's the key difference between the second stage and the third? That's really easy. Stage three people are going to use tactics and strategies that cannot and won't work well for people aiming for stage two. In fact, people aiming for stage three realize something that might be terrifying to someone who's looking for financial security. Stage three can be dangerous.

Sure, anyone trying to launch a rocket or to fly one experiences risk, but the biggest threats occur when you try to penetrate the atmosphere and then, once you do, you find yourself in a wholly foreign environment.

As a testament:

- Most people would see Donald Trump as successful. Did you know that he's fallen into bankruptcy with many properties and businesses?

- Walt Disney would be a success by any measure of the word. He declared bankruptcy in 1932 and his company experienced serious financial troubles.

Just like being an astronaut is dangerous, so are stage three tactics. Here are some:

- Leverage

- Options

- Selling short/derivatives

- Individual stock investing

- "Do It Yourself" real estate

- Owning a business

I could even break these strategies into "easy" (an orbital trip around the Earth) and "advanced" (heading for Mars)...but you get the point. These strategies take a concentrated effort and knowledge that goes against much of what you learned in stage one and most of the success strategies of stage two investors.

All of these strategies carry more risk than stage one or stage two strategies, but with knowledge, you can substantially mitigate that risk.

Do You Have To Follow the Stages?

In other words....like a rocket, do you go from stage one to stage two to stage three?

Nope.

Sure, that's the safest way to success. Build your foundation (stage one), work toward security (stage 2) and then use additional money to shoot for Mars (stage 3). But if you do decide to use every stage, you should be aware that it's going to cost you a valuable commodity: time. But just like I fell into some serious holes in my personal plan because I didn't follow every stage, if you take shortcuts you should also expect to fall along the way.

Go ahead and skip stages, but realize that you're creating potential problems in your plan if you do.

These stages are the backbone of everything I've helped clients achieve during my career. When you hear advice on the television, radio or from gurus like Orman, Ramsey, Cramer or the others, think first, "Who is this meant for? If it's for someone in a different stage, filter it out.

Questions?

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