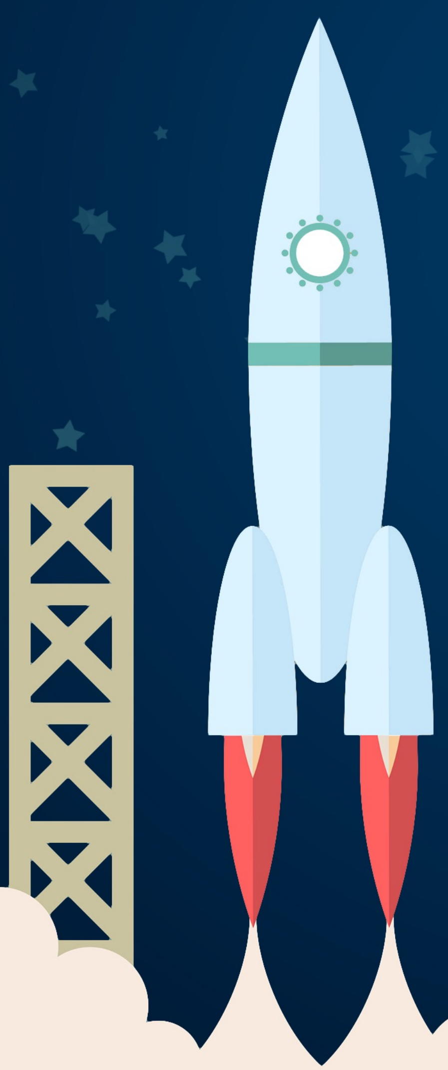
LAUNCHING YOUR PERSONAL FINANCE ROCKET



The Surprising Reason Why You Shouldn't Take Advice from Dave Ramsey, Suze Orman or the Motley Fool

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My real guru are my experiences in life - the realisation that you are alone in this world came very early to me.

Kailash Kher

What should we do with gurus?

What's wrong with following every word uttered by Suze, Dave and the Motley Fool guys? Hell, let's even throw in David Bach and Jim Cramer for good measure.

There's plenty wrong. Tread lightly when you begin digging in to ANY of the advice offered by these "pros."

I don't "hate" on gurus. I appreciate them all, and personally like David Bach. He was a wonderful guest on our podcast, and offered tremendous advice.

...but I still firmly believe that your financial success is in danger if you consistently follow any guru.

The Case Against Gurus

Let's First Talk About What Gurus Do Well

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, a topic most people don't fully understand or appreciate.

Dave Ramsey packing them in….

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 climb out of debt? Dave will show you the steps and there's a huge chance they'll work. People fight about whether Dave's methods are the most efficient, but the proof is in the number of success stories: *it just works.*

David Bach will tell you the importance of paying attention to small expenses, like a trip to Starbucks (did I say LITTLE expense? $5 coffee? That's a 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 has tracked and predicted market trends and technical investing since my college years. 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...

…and that’s where our story lies.

Disagree with Gurus At Your Own Risk

When I was a financial advisor I realized I could learn a ton from Suze, Dave and all the rest about how to present financial planning concepts.

…I learned it the hard way.

Here’s what would happen: a client would tell me they decided to take a particular action because Dave Ramsey said it was the right move on the radio.

In some cases the course they’d taken was the perfect fit. But in many cases the action didn’t make sense for their situation.

I’d jump up and illuminate every point where I was sure that Ramsey (or another guru my client loved) didn’t apply to their situation.

I’d then state emphatically that Dave Ramsey, in this case, was wrong.

Guess how that worked out?

People didn't stop listening to the guru....they dumped me.

My Megaphone Lesson

It was during those moments that I learned a hard lesson. Not only do these "gurus" know a ton about finance, but they had a far bigger megaphone than I. Dave has a national radio show, Jim and Suze national television shows....and I was a guy appearing twice weekly for a whopping total about about five minutes on local Detroit television, and 30 minutes on a tiny radio program.

National gurus had a much bigger megaphone than little `ol me.

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.

...and I also knew I needed a better way to explain myself.

Why It's Important To Know What They Get Wrong

I won't back down on my original premise:

It IS INCREDIBLY important to know where a guru is wrong for you, especially if you're leaning heavily on them for advice.

Here's why:

Unless you believe every guru is without fault, shouldn't you know their strengths and weaknesses?

If you have an advisor, and you don't know the holes in your advisor's thinking, how can you ever grow?

You won't.

Is your goal to just blindly follow one person?

I sincerely doubt it. If you're reading this (and you've been a Stacking Benjamins reader), I believe you want to walk your own path. You want to be your own person.

I've been lucky to learn from some incredible leaders, and I've found that the best of the best were people who helped you build a resume. They weren't worried about whether you'd fly past them. Most bad bosses in my career tried to keep me from growing, but the best took it upon themselves to help me shine.

What does that have to do with Dave, Suze and the rest?

I'm sure each of these gurus would like nothing better than for you to take what you've learned from them, apply it, and then grow.

...And you can't grow UNLESS you know where the flaws lie.

And that's the key: *they each have flaws.*

What do they do wrong?

Big megaphone gurus don't speak to everyone AND they won't speak to you forever if you follow them.

Imagine yourself as a new investor, trying to implement Jim Cramer's stock picks (or the Motley Fool). You don't know the difference between a mutual fund and an IRA, and The Motley Fool is telling you to choose individual stocks.

I find it interesting that Jim Cramer's wildly popular CNBC show begins with a disclaimer reminding you that you shouldn't be investing money into the stocks he speculates about on his CNBC broadcast, if you'll need it to reach your goals.

Cramer is telling you that his show is about entertainment.

What's the lesson?

New investors shouldn't start with Jim Cramer or the Motley Fool.

Does that mean that Cramer or the Fools are horrible? Not at all. They just aren't appropriate for a debt fighter who's trying to figure out the difference between a net worth statement and a budget.

Where should new investors begin? That's easy. They should start with Suze Orman and her discussion on finding a healthy respect for the power of money. They should read David Bach's advice on tracking expenses.

They should follow Dave Ramsey's guidance on debt management.

That's why I've come up with a different money management analogy (and philosophy): building a rocket to your goals.

Building Your Rocket

I've been speaking to investors now for over 20 years and haven't ever been able to come up with an analogy I love. Don't get me wrong....I've held this idea about why investors are wrong when they blindly follow gurus for years, and I can't wait to share it with you. 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 lay out the argument about how an investor 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 (currently it's in beta, and with their sense of humor they've subtitled it "Beta Then Ever". Love it.)

I was already fascinated by exploration, 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 with Kerbal to help kids grasp the science behind rocketry.

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

...and that's when I realized, building a rocket is a ton like good financial planning.

It takes several key parts to successfully launch a rocket into space. When my kids first messed around with the game, I jumped in wholeheartedly.

It turns out (and you may know this, but old fashioned rockets used pieces referred to as "stages." Each one was full of fuel and helped propel our ship toward outer space.

Playing around with the game, we began with one single stage. I loaded my little astronaut, Jebediah, onto the ship and lifted off.

After a few tries learning how a launch pad works—it was more difficult to get the rocket to fire in the right direction than we'd ever imagined—we 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 us close to outer space.

We unloaded the little green dude from the cockpit and went back to the drawing board. Now, we upgraded to two stages....

…and 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.*

The Part Where Joe Has a Breakthrough

Sitting with my kids I realized this was my analogy. This is precisely the issue with anyone following a one "guru" approach to money management. Sure, it's easy to buy into one person's soundbites, but there just isn't enough fuel to get you to your goal….unless it can be reached by that single rocket.

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. Why shouldn't you shoot for the moon, if that's what you want? Hell, shoot for Mars or beyond! You've got one shot, so let's go big, right?

But I also bring 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. His answer was illuminating. He said he came from a poor family and 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?

Choose Your Gurus Carefully

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 Stages Of An Investor:

Choosing The Right Gurus To Match Your Goal

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?

We couldn't figure out how to get our rocket off the ground. These are the necessary terms and concepts you'll need to know to point yourself in the right direction:

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 maintain- ing 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 be- gin the long process of creating wealth.

Debt management. You'll need to handle your debt like a pro. It's amazing just how easy it is to tackle debt once you learn how to make business decisions and to place your 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. Risk? Plenty. Reward? Enormous.

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 - While Dave Ramsey will tell you leverage is dangerous, most “stage 3” investors will tell you it’s the difference between moderate and huge success.

Options - While seen by new investors as aggressive investments (and they can be), options allow seasoned investors to cover their risky investments and to speculate with smaller amounts of money.

Selling short/derivatives - Some top traders make lots of money on either betting against the market or in packaging "baskets" of financial products. While the payoffs are huge, the risk is nearly limitless.

Individual stock trading - Buying individual stocks isn't aggressive. Trading frequently can be a recipe for danger. Unless you're ready to focus on your portfolio daily, stage one and two gurus will tell you to stick with broad based ETFs, mutual funds, or other diversified strategies.

"Do It Yourself" real estate - While I love real estate, it takes a special person to buy a property, fix it, rent it, flip it, or manage it. It's an excellent way to make money, but not for someone on the launch pad of life.

Owning a business - I'm sickened every time a new business opens here in Texarkana and I walk in to discover that the owner hasn't researched systems and processes. Maybe you love making tacos, but that doesn't make you a business owner.

I could even break these strategies into "easy" (an orbital trip around the Earth trading individual stocks) and "advanced" (heading for Mars by leveraging and using options)...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 concepts carry more risk than stage one or stage two strategies, but with knowledge, you can substantially mitigate that risk.

Okay, So What Do We Do With This?

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 if you first 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.

There It Is: Why You Shouldn't Follow Orman, Ramsey or Cramer.

Just like my high school girlfriend said, *it isn't them, it's you.* These gurus might be talking to someone in a different life stage than you.

This analogy has become the backbone of everything I've helped clients, readers and listeners achieve during my career. It allows me to quickly filter advice when I first think to myself, "Who is this person on the television actually addressing?"

You should do the same: When you hear advice on the television, radio or from gurus like Orman, Ramsey, Cramer or the others, think first, "Is this meant for me?" If it's for someone in a different stage, filter it out.

Questions?

Feel free to email me at joe (at) Stacking Benjamins (dot) com

Resources:

Books by the authors mentioned in this book, with notes from me on each: Stacking Benjamins Amazon Guru Page

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