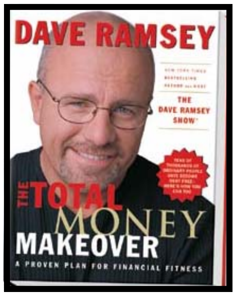

Review of Total Money Makeover– Dave Ramsey

Dave Ramsey is a marketing genius. He shrewdly gave away hundreds of books at the Christian Financial Professional Network conference where he was a guest speaker. This built goodwill with many financial planners- including myself. He has built a financial empire on advising people to get out of debt. He connects with the overspent American with his message of attacking debt with missionary zeal and then paying cash for everything. His philosophy is: "Live like no one else so that you can live like no one else."

In this short review, I will examine the financial planning advice that he gives in this book.

GOOD ADVICE

⇒ Cosigning for loans is a very stupid financial decision.
⇒ Leasing a car is a bad financial move. You are generally better off buying a 2-year old used car rather than a new one. Buying a new car versus a 2-year old used car is akin to throwing a $100 dollar bill out your window every week– good word picture.
⇒ Don't take out mortgage debt that is more than 25% of your take home pay.
⇒ Credit card users spend 12-18% more than cash users when spending– Dunn & Bradstreet study.
⇒ Giving a teenager or college student a credit card without proper financial training is foolish– 19% of all bankruptcies are filed by college students.
⇒ 20-year term insurance is a much better financial move for the majority of people than whole-life or variable life insurance.
⇒ Health Savings Accounts with the highest deductible and 100% coverage above that high deductible is a terrific deal for most self-employed people who are not covered by group health plans.
⇒ Getting out of all debt is a good thing and gives you freedom. The book doesn't present easy ways to accomplish this– just good old fashioned sacrifice and delayed gratification.

POOR/QUESTIONABLE ADVICE

⇒ The investment advice is suspect. He recommends saving 15% towards long-term goals. His asset allocation is 25% large cap value stocks; 25% large cap growth stocks; 25% international stocks; 25% aggressive growth stocks. This is a portfolio that is likely to take some double digit losses in bad years. 13 years experience in financial planning has taught me that people will sell if they have double digit losses– this is why the average investor makes 4% while the markets average 12%. Most investors need to be more broadly diversified to avoid panic selling.
⇒ This brings me to another point. He bases his calculations for saving and income distribution on 12% per year growth and a 8% withdrawal rate. Good luck with that. You should use 8% as a projected growth rate and 4% as a withdrawal rate. An 8% withdrawal rate is a recipe for financial disaster.
⇒ He throws out Bible verses throughout the book but I wouldn't confuse some of his advice with biblical counsel. Most advice lines up with Scripture. But the idea that we are free to spend lavishly on ourselves after we are debt-free is popular in American culture but not biblical. The biblical mandate is summed up by George Müller's life who housed, fed and clothed over 10,000 orphans. Müller said, "My goal was to be more frugal to self and generous to others." This is hard teaching, but it is clearly what the Bible teaches. John Piper, Randy Alcorn and Crown Financial Ministries are much more grounded in the truth of Scripture on this key point.

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