DR 069: Are Dave Ramsey's Investing ELPs Good for Your Wealth?

Written by

Rob Berger|

Modified date: December 4, 2019

Editor's note - You can trust the integrity of our balanced, independent financial advice. We may, however, receive compensation from the issuers of some products mentioned in this article. Opinions are the author's alone, and this content has not been provided by, reviewed, approved or endorsed by any advertiser.

Dave Ramsey may have helped you climb out of debt, but should you now follow his investing advice? His views on investing have come under fire lately. From his claim that stocks return 12% annually to his love of growth mutual funds, professional advisors have not been shy about their criticism. (
Save Like Dave Ramsey. . .Just Don't Invest Like Him

by CNN's Felix Salmon is just one example.)

One of the most controversial aspects of Dave's advice is his list of what he calls "Endorsed Local Providers" or ELPs for short.

I receive questions from readers from time to time about Dave Ramsey and his well-known ELP program. I received one such question recently from a podcast listener named Ace. He writes:

"If you have time to answer, I just listened to your podcast about financial advisors. I'm curious about your take on Dave Ramsey's ELPs. I really like Dave Ramsey and his philosophy, but when it comes to how he tells people to invest, I feel like he might not have everyone's best interests in mind.

From what I understand, these financial managers use front load mutual funds. For someone being so big on being smart about your money, I can't believe he would approve of this. But after doing research, I couldn't find solid guidance on any of his websites, which are about mutual funds.

I did see where he thinks retirement savings should be put into four different kinds of funds – mostly growth stock mutual funds. Then he says not to invest any more than 15%. The rest should go towards your mortgage or savings for a house, college, etc.

Do you have any opinion on the whole ELP thing? These are folks who would teach us philosophy that I approve of, but he has got to be getting a cut for advertising for them."

Ace's question is a good one. Dave Ramsey is a very popular personal finance personality who has helped an untold number of people get out of debt. He has developed a cult-like following. Once he has helped folks turn around their finances, they're probably going to listen to him pretty closely when it comes to investing advice.

That's at the heart of Ace's question, which I'm going to address here. First, let's talk about what these ELPs actually are, and then will dive into the pros and cons of using an ELP.

Table of Contents:

So are ELPs Worth It?

- What are ELPs
- So are ELPs Worth It?

What are ELPs

"Endorsed Local Providers" is a Dave Ramsey term. ELPs cover more than just investing. He also recommends local providers for insurance, mortgage loans, real estate and so on. Right now, we're only concerned about the investing-related ELPs.

According to the Dave Ramsey website, it's not easy to become an ELP. The site states that they are held to a "higher standard of excellent." Higher than what, the site doesn't say. An ELP does pay a fee to join Dave's program. Again according to Dave's site, the fee is paid "to cover website maintenance and employment costs, Dave's endorsement is not bought—it's earned." I could not find a reference on the site as to how much the fee is.

Dave's ELPs are commissioned-based brokers that sale mutual funds with front loads (known as A Shares in the business). This is consistent with Dave's investment philosophy. He believes that you should not invest on your own, should pay a commission-based broker, and shell out 5% or more just for the privilege of investing in a mutual fund.

So are ELPs Worth It?

To understand Dave's view on this, you need to begin with his investment philosophy, which he has published in a very detailed and thoughtful PDF document. This is where he lays out his views on investing, which including the following:

1. You should not invest on your own
2. You should buy A Shares of mutual funds that come with upfront fees
3. You should use commission-based brokers instead of fee-only advisors

Let's look at each of these.

Should you invest on your own?

The first and most important view, as we work through this question of whether or not ELPs are worth it, is that he firmly believes you should not invest on your own. Dave says that without a doubt, you should pay a pro. What's his reasoning? He says that statistics show DIY investors are quick to jump out of funds when they begin to underperform.

I've tried to find data to support his claim. Conceptually, I can see why that might be true. (And, in fact, I warn my readers and listeners against this problem.) But to date, I haven't found any hard data on that fact.

It's certainly true that many DIYers do what he's suggesting. When the stock market crashed in 2008, many DIY investors sold out of fear. The same is true for investors who hired a pro. I know plenty of people with investment advisors who did exactly the same thing. An advisor can't force you to stay in the stock market. They may try to talk you out of it. They may give you their best advice. But at the end of the day, you control your money.

I've talked with actual investment advisors who said that they had lots of clients flee the stock market in 2008 out of fear. Some of these people just liquidated their accounts and had their advisors move their stocks to cash.

You should have an asset allocation plan and stick to it regardless of market conditions. If an advisor or another person enables you to stick to your plan, you're better off with that person than without. But I don't agree with Dave that just because you're a DIY investor, you'll automatically make bad choices when the market underperforms.

For that matter, I don't agree that just because you hire an investment advisor means you will definitely stick to your decisions. Ultimately, you're the one who has to make the choices for yourself and your family.

I can tell you from experience that I've been a DIY investor for 25 years now, and I stick to my plan. I don't jump out when things get rough. And I don't think I'm an exception to the rule. I talk to plenty of people who do the same. In the final analysis, I have more confidence in DIY investors than Dave does. From what I understand, even Dave doesn't invest on his own. And he firmly believes no one else should either.

Obviously, I don't agree that this is applicable to everyone. If you think that you need help sticking to your asset allocation plan, maybe you do need to hire an advisor. But if you can stick to your plan, DIY investing can be great. And even if you *do* decide to hire and advisor, that doesn't mean ELPs and commission-based brokers are the best option.

Should you invest in A-shares?

Even though Dave thinks you shouldn't invest alone, he does recommend specific types of investments – specifically front loaded A shares.

In the PDF on his investing philosophy, he talks about why. He says, "Generally, I recommend choosing A shares (upfront commissions). I personally do not choose fee-based planning – paying 1 to 2.5% annual shares for a brokerage account. Many financial planners suggest fee-based accounts, but I still choose traditional A share mutual funds."

That's his view. Not to be picky, but I personally don't think of A share mutual funds as "traditional." Vanguard, for instance, has been in the business since the 1970s. They're about as traditional as it gets. And they don't sell A shares.

But if you work through the numbers Dave is proposing, there may be some initial appeal to investing in A Shares rather than using a fee-based advisor. Sure, you pay 5.75% up front, but you don't pay the 1-2.5% every year. So one might reason that if they leave their money there for six years, you will have broken even.

There are a couple of things wrong with this scenario. To start, let's talk about the difference between a fee-only advisor and a fee-based advisor.

What's the difference between a fee-only advisor and a fee-based advisor?

A fee-only advisor is someone who is a registered investment advisor. That means that they cannot make commissions off of the investments they sell you. They can't get paid from a mutual fund to sell you shares of that fund. It's not allowed. These people have to be paid by you and only you. Why? The rule is to ensure that they have your best interests at heart.

A commission-based broker, on the other hand, is a salesperson. They are trying to sell you something. They'll get a commission from the mutual fund when they sell it to you.

What about the fees?

Isn't it better to pay 5% up front than 1% to 2.5% a year forever? Probably not.

First, commissioned investment salespeople have a reputation for moving your money around a lot. Yes, in theory, if you park your money in an A class mutual fund, and you paid your 5.75% and left it there 40 years, you might do better than if you paid 1% each year.

But you have to be careful about these commission-based advisors. They call it churning the account. It means changing the investments frequently so that they clip you for another 5.75% each time you make that change. And here's the problem. When a commission-based broker calls and recommends that you make a change, how will you know whether he or she has your best interests at heart, or theirs? You won't.

Second, it's important to look at the expense ratios and the actual costs of the underlying funds they're putting your money into. In other words, on an A share fund, that up front 5.75% isn't the only fee you'll pay. Most of these funds are actively-managed mutual funds with higher expense ratios than a passively-managed index fund from someone like Vanguard.

I've looked at a lot of these funds, and, of course, you have to looks at the specifics. But, in general, the expenses for these underlying funds are going to be higher than 1%. So you're paying a lot of money just to invest in the fund, but then you're paying high expense ratios for the fund as you continue to invest in it.

Third, you need to consider the hidden costs of mutual funds that aren't captured in the expense ratio. For instance, you must pay the transaction costs that the fund incurs when it is buying and selling shares. These costs are not reflected in a fund's expense ratio. While all funds incur these costs at some level, actively managed funds typically have much higher transaction costs. For actively-managed funds, the fees not included in the expense ratio can be huge. For index funds, the hidden costs are quite low – almost nonexistent.

Fourth, not all fee-only advisors actually charge 1% to 2.5%. That's the range I see in Dave's investment philosophy document. And while I do think 1% is the norm, there are plenty of advisors and tools out there that charge a lot less.

For instance, I use Personal Capital. They offer a free online tool that will track all of your investments and show you their individual performance. I use that tool on a weekly basis. You can check it out here (affiliate link). I've been using this tool for about a year now, and I really like it. Through Personal Capital you can hire a fee-only advisor, and they charge less than 1%

Another company, Portfolio Solutions, was recently featured here on our podcast. I interviewed Rick Ferri, the founder of Portfolio Solutions. His company charges less than 1% (in fact, they charge just 37 basis points). Again, 1% is the norm, but if you shop around, you can do much better than that.

Finally, you don't have to hire an investment advisor – whether fee-only or commission-based – if you need some help with your investment choices. You have other options, especially with the new technology that's out there online.

Betterment is one example of this. I've mentioned this tool many times. Another option is the mutual fund companies, like Vanguard. Vanguard offers free help; you just need to give them a call. Other big mutual fund companies, like Schwab and Fidelity offer the same kind of assistance.

Obviously you should look at the details and costs of all of these services. But the point is that you shouldn't assume that you must either invest in expensive A shares or hire a 1% fee-only advisor for investing. There are many other great options.

So what about the ELPs?

By now, you can probably guess what I think about Dave Ramsey's Endorsed Local Providers for investing. By and large, I'd avoid them. I simply disagree with Dave. I just don't think it's smart to hire a commission-based advisor to sell you expensive A shares when you're going to pay 5.75% up front and probably pay more expensive expense ratios throughout.

That being said, I'd love to year from those who have used or even talked to a Dave Ramsey ELP about investing. Share your experience in the comments below.

Audio Player
00:00
00:00
Use Up/Down Arrow keys to increase or decrease volume.

Podcast: Play in new window | Download | Embed