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Do We Need to Fire the Entire Financial Advice Industry?

Ahh, Financial Media. It is a key cog in today's ever-churning news machine, because hey, who isn't interested in *money*?

Everyone has a go at it, from the tanning-salon-smile hosts of the regional news shows reporting the daily close of the Dow index, up to the Ph.D. credentialed economists who debate economic indicators and fiscal policy on Wall Street Week.

The New York Times is fond of publishing mature-sounding, sympathetic stories about the hard times we as a culture have with money, with nary a face punch in sight. Other newspapers do their own take on things, usually with a slant towards the sensational rather than the practical. And a zoo full of financial advice peddlers, Mr. Money Mustache included, has filled up the bookshelves with all sorts of advice on how to get ahead.

There are some great writers, researchers, and reporters out there. With a mixture of pedigree, brilliance, sharp wit, burly work ethic and even good looks, the collective abilities of these people put a blog like Mr. Money Mustache to shame.

And yet almost all of this financial writing is lacking an absolutely critical underpinning. Without this foundation, the rest of their arguments are rendered floppy and useless, and thus the entire financial media industry is mostly wasting everyone's time. This is a pretty monumental accusation for a lone writer to make from the vantage point of his living room couch, but here I am doing it, and with good reasons to back it up.

Are you ready to hear what they're missing?

It's the fact that most of our modern assumptions about money are bullshit.

To illustrate this in a particularly grating way, let's review a little video from a big-time personal finance guru named Suze Orman:

http://video.cnbc.com/gallery/?play=1&video=3000143270

In this clip, an earnest 48-year-old woman dutifully reports her financial stats to Suze. It turns out she has $1.4 million dollars in net worth, $7500 per month in income, lives in a reasonably-priced house, and would really like to know if she can retire in seven more years at age 55. You know, seven years – about the **total career length** of some Mustachians who maintain a 75% savings rate?

The professional's advice? "You're at a D Minus right now, as you'll only have $1.6 million (plus a paid-off house) by age 55. I advise you to work *just an extra fourteen years instead of seven*, so you can have $2.5 million saved (plus, presumably a lot fewer of those pesky expensive "years of life remaining" that you need to fund).

I hope I am not the only one who finds the above advice *fucking insane*.

Really, there are two factors at work here: Suze Orman uses ultra-conservative withdrawal assumptions for retirees, assuming they will forego the better returns of stocks and hold only government bonds, which pay almost nothing these days. This leads to roughly a 2% withdrawal rate assumption, versus the 4% I am fond of here. That's fair enough – to each their own assumptions and I'll happily stick to my stocks, rental houses and Lending Club, where I could easily maintain 6% or higher withdrawals while the principal keeps up with inflation.

But that still leaves the fact that the caller listed her current monthly expenses at $6100. This was probably including income taxes, but I found it interesting that the figure was left unchallenged, as if it is reasonable and essential for a household of two to exist on $73,000 per year (and she's in friendly old low-cost Colorado, no less!) And of course there was no allowance for lower costs when her 17-year-old son strikes out on his own.

And it's not just the boisterous gurus with books and DVDs to sell that follow this trend.

This New York Times piece states that "deciding to take your lunch to work or cutting cable won't help as much as you think." (to which I say, "It will probably help a lot *more* than you think – unless you consider $60,000 every ten years to be chump change.") Instead, we are encouraged to blame the rising cost of school tuition and medical care for our financial problems. The same author pops up again here, repeating the message that it is *our world* that has become difficult, and we are not at fault for financial problems.

Look, if it really was so much easier for our parents' generation to stay out of financial trouble, great, good for them. But given the fact that I was able to retire about 25 years younger than my own Dad, who is himself an intelligent and frugal man, I'd say the crushing forces of society on today's middle class are still not overly powerful.

In a Marketwatch story called "Retire early? There's one big catch", they say *"Uhh.. yeah, you could save your money and retire early, but you might wish you still had a job, or you might day-trade away all your investments and end up broke!"* In another Marketwatch article, they say *"Work until you're 67 and hopefully have 8 times your salary saved up by that point"*. (Hello? Does your annual spending factor into your retirement needs at all here?)

In a 2008 CNN story about a 27-year-old couple known as the Rodrigueses, they pull the lever on the Financial Pro Advice Machine, and it spits out this: "You'll have only $2.9 million by age 40. You can't retire on that! Stuff might happen! Plan on working an additional 5 years!" – while totally missing the fact that this couple really has a base cost of living of of only $25,000 per year right now, even living in the Bay Area, with a WRX Sti rally racing habit. Realistically, they can retire earlier than planned, not later.

So what would I change, if I could start an imaginary school for financial advisers? I would start by ensuring that every curriculum in monetary matters begins with this overlooked concept:

Right now, we are already living at a level far beyond the basics that are required to maximize our happiness. You don't have to feel guilty or run out and change that, but just acknowledge it, because that knowledge is freedom. You *could* live on much less, and with the right tricks, end up even happier than you are now. It's true for virtually everyone. So what is more efficient and satisfying: keeping an unwanted job for 20 additional years to earn more money, or learning the right tricks?

The answer to that should depend on how much you like trading your time for money at your job, versus how much various material conveniences and luxuries are worth to you.

For example, it takes a lot of time to fetch and carry your own water from a stream every day, and only $25 per month or so to have clean drinking water piped right to your kitchen faucet. For most of us, this is a worthwhile trade and we'll flip burgers or sit in the cubicle as required to get the need covered.

But it takes only a few hours to learn to drive a manual transmission car, and yet the skill will save you many thousands of dollars in car purchases and gas every decade. Is it efficient to trade hundreds of hours of work to avoid this single 4-hour lesson? At least 200 million Americans have missed this little bit of math.

There is no difference in the speed at which a 2004 Honda Civic and a 2013 Honda Accord will get you to work, but the difference in operating costs will add up to many hundreds of hours of your work over the cars' lifetimes. Bikes improve your life even while reducing your need to pay for cars. Bringing your own lunch to work provides you with healthier food while allowing you to keep much more of the money earned while working. Spending a few hours learning about investing, debt, and frugality *before* borrowing $50,000 for a university education cuts years off of the debt a young person needs to incur.

This list could go on and on, until we simplified the typical person's life down to something that would cost between $5,000 and $25,000 per person per year in the US, without compromising their ability to live a happy life. Most of the remaining things we have in our lives – even ones we happen to enjoy – aren't fundamentals for human happiness. They are just cultural norms, programmed in differently for each country by the marketing of corporations who sell the non-fundamental products.

But the assumption by financial advisers these days is that **consumption is just a personal choice, all of it is reasonable and none is ridiculous, and more is naturally better if you can afford it**. Frugal people are written up as mildly entertaining oddities – "Wow, things sure work out well for them – too bad you can't do that in real life".

These aren't really personal choices, they are fundamental financial rights and wrongs, which should be considered just as core to good financial advice as "don't use lottery tickets and casinos as your investment vehicle". If you converted this financial advice into medical advice, you’d have doctors advising patients to start missing sleep so they can spend 50 hours per week running on a treadmill – just because they happen to like eating 5 gallons of ice cream and a deep-dish pizza every day. Nobody would dare mention the pizza and ice cream, because that would be “preachy”, or promoting “scrimping and saving only to live a deprived lifestyle”.

A more useful type of financial advice? *First* get your shit together (develop a life where you can live happily on *any* amount), *then* from the vantage point of financial maturity, you can decide if you want to go on to become Mr. or Mrs. Fancypants by branching out into some extreme form of extreme consumer connoisseur specialty like 250-horsepower vehicles or 5-star hotel hopping.

To do it the other way around is just to create a lifetime of unnecessary monetary stress – which is bad advice.