

Pound Foolish
Helaine Olen

What Hath Sylvia Wrought?

- p.14 Sylvia Porter: "mother of the personal finance industrial complex"
- p.15 "Porter was among the first financial writers to understand that people without megabucks needed help managing their money too."
Distilled complex topics into easy to understand advice
- p.18 Jane Bryant Quinn (CBS MoneyWatch, Newsweek), coined the phrase "financial pornography"
- p.19 Several trends in American life ensured the personal finance industry would grow
- 1) Pace of financial innovation and complexity of our financial lives
 - 2) Bull market of 20th century
 - 3) Salaries were not keeping up with the broader economy
- p.21 "We believed it when experts told us we too could become the millionaire next door if we saved and invested just right..."
- p.22 Popular personal finance does not view our failure to keep up as a social justice problem, but instead as a knowledge problem
- p.23 Personal finance describes the world of economic relationships in terms of "what's in it for me"
- p.24 Personal finance genre was initially viewed as a way to give something interesting to readers and viewers without offending car dealers, retailers and real estate brokers (their main advertisers who were offended by the consumer movement)
- p.25 At the very least, little critical thought goes into personal financial media, at worst it is advertising that promotes the benefits but fails to mention the true risks

The Tao Of Suze

- p.28 Contradiction of Orman's advice: paying down credit card debt vs. building up cash savings
- p.35 "...Orman's ever growing oeuvre argues that we need to confront our monetary fears and traumas, which will allow us to find our way to literal--or at least spiritual--riches."
Appears to extrapolate from her experience that anyone can get ahead and that financial failure is equivalent to personal failure
- p.36 Contradiction: Believes people are perfect as they are, but yells at those on air that got themselves into too much debt
- p.37 Blames consumers for the financial crisis, buying too much house, but promoted the Occupy Wall Street movement and called for mortgage principle write downs
- p.38 Expect normal stock returns of 11 to 12 percent over the next 30 to 40 years, but could lose more than 100% of their money in the same market
- p.40 Suze's riches came from our financial woes, not her own investment savvy
Suze Orman "Approved" Card
Conflicts of interest:
- 1) GM
 - 2) FICO
 - 3) General Mills
- p.44 Money Navigator Newsletter

-Actual investment advice was farmed out to Mark Grimaldi

-Number of issues and inaccuracies

p.47 Orman puts the responsibility for financial management on individuals and doesn't focus on the broader economic conditions

"To expect Orman to make the leap from articulating the problem--your salary is not keeping up!--to suggesting how we can solve the problem on a societal basis is to misunderstand the phenom that is Suze Orman, the self-help industry, and, yes, the personal finance industrial complex."

The Latte Is A Lie

p.49 David Bach, former Morgan Stanley VP, math behind saving \$5/day at Starbucks

p.51 Basic idea of "The Latte Factor" was that much of what we waste our money on is small stuff (coffee, lunch, etc.)

p.52 Errors and embellishments of Bach's calculations

p.53 Bach and other financial gurus argued that wealthy people know how to maximize their earning power and don't waste money on frivolous things

p.55 Obsession with entrepreneurs ignored the fact that most of these businesses fail within a few years, are started by people who don't have or can't find work, and are disproportionately represented in bankruptcy court.

p.56 "Yet "The Latte Factor," The Millionaire Next Door, The Difference and all the rest of the personal finance polemics certainly sounded spot on. The fed into the American streak of can-doism, our Calvinist sense that money comes to those who have earned it and treated it with respect. A penny saved is a penny earned, after all."

p.57 Jeff Lundy: spending was a problem because it decreased our cash reserves

p.58 Elizabeth Warren: main problem is the rise of fixed costs. Things like housing, health care and education

p.59 Average wages decline, Americans turn to debt to finance their lives

p.62 Dave Ramsey background

"Ramsey's take on borrowing money is both simple and extreme: Just say no. No to credit cards, thirty-year mortgages, home equity lines, car loans, and anything else that permits you to live beyond your means. Debt is failure, both in the financial and moral sense."

p.63 "Ramsey's appeal is that he tells people a soothing, simple message they want to hear: when it comes to debt, you can be born again."

p.65 Dark side to Ramsey

-Authoritative nastiness

-Doesn't believe income inequality is true

-People use the economy as an excuse for failure

p.66 Ramsey's debt snowball technique for paying down debt: don't worry about interest rates, pay off the smallest loan first

p.67 Orman and Ramsey don't practice what they preach

-Orman suggests investing in stocks, but doesn't own many equities herself

-Ramsey advises against bankruptcy, but he himself filed

p.68 Ramsey got into trouble with debt because he took on too much leverage in his real estate businesses and failed. His followers are in debt not because they want to get rich, they just wanted to get by

p.69 Most of the personal finance industry doesn't want you to waste your money, except on their products--that's OK

- Jean Chatzky products
- p.70 David Bach products
- p.71 Dave Ramsey products

Slip Slidin' Away

- p.76 Do-it-yourself retirement trend started in the early 1980s when 62% of workers had a pension, by 2007 the same number only had access to a 401(k)
- p.78 Teresa Ghilarducci, employee benefits for AFL-CIO, criticisms of modern 401(k) plans
- p.80 German chancellor Otto von Bismarck develops state-sponsored pension system
Most workers died before reaching the minimum age for payout
Set stage for FDR and social security system
- p.81 Federal government attempts to support private pension system by establishing Pension Benefit Guaranty Corporation and passage of Employee Retirement Income Security Act (ERISA)
Early 1980s: IRAs and 401(k)s
- p.82 Optimism with 401(k) as an investment vehicle
- p.85 "Until the summer of 2012, the Department of Labor, which has jurisdiction over retirement savings plans, did not require the people who were in charge of managing 401(k)s to inform account holders how much money they were being charged for the privilege of saving their own money."
Brightscope
- p.87 OpenSecrets.org: lobbying expenses paid by financial/retirement firms
Companies including Walmart, Caterpillar and Ameriprise Financial sued over placing employees in poor investments
- p.89 Automatic enrollment
- p.90 Problem with target date funds is that they are all subject to the future expectations of the firm or fund manager
- p.91 Fees associated with target date funds
- p.92 Target date funds are a fund of funds (double dipping on fees)
Problem with saving and investing over the long-term is that life is lived in the short-term (we encounter emergencies)
- p.94 Problems with investing for the long-run (challenge to Siegel)
-Survivorship bias (companies that are no longer with us)
-Declining dividends
-Uncertainty of world events and impact on business and markets (WWI, WWII, German hyperinflation, etc.)
-Small differences in long-term ROR mean big differences in final value
- p.96 Zvi Bodie and risk: stock market is just as likely to crater in year 1 as year 30
-Recommends must-have retirement money allocated to TIPS
Kitces: what matters most is the performance of the last 10 years of an investor's strategy
- p.97 Biggest problem with target date funds and automatic investment strategies: "The problem is that they perpetuate the idea that we can become a nation of well-funded retirees at little or no cost."
- p.98 401(k)s are expensive. National Institute on Retirement Security's "Decisions, Decisions" (October 2011) found pensions offered better returns at lower costs
- p.99 Ghilarducci suggests shifting funds from commercial sector to the institutional sector and hedge funds (claims lower costs!?). Ultimately wants funds in low cost fixed annuities!?

p.100 Ghilarducci advocates opening up state pension system to private sector workers

The Road To Pas Tina

p.103 Variable annuities

- 1) Increasingly marketed to baby boomers
- 2) Incredibly complicated (Suze Orman advises against them)

p.105 Commission-free investment world held to fiduciary standard, while brokerages abide by a suitability standard

Annuities, high cost mutual funds, and other products can all be "suitable"

p.107 Personal finance gurus have no fiduciary responsibility: "All this points to the fact that despite being idealized by many fans, both Ramsey and Stav--or their employees--have nothing in the way of a fiduciary duty to anyone who invests via their networks, something most of their fans are quite likely unaware of.

"Under the suitability standard, there is no legal requirement for a broker to tell you how much you are paying for the service, or if there is a better product available at a lower charge."

p.109 JP Morgan brokerage pushing poor funds on customers

p.111 Fees for variable annuities

p.113 Conflicts of interest between industry and research

-Employee Benefits Research Council at University of Pennsylvania-Wharton receives donations from financial services sector

-National Retirement Risk Index at CCR (Boston College) is sponsored by Prudential Financial

p.114 Fees on annuities and confusion/lack of transparency in providing them to consumers

p.116 How companies frame sales pitches for annuities

p.118 Free dinner seminars for luring potential clients (invites contain misleading information?)

p.123 According to FINRA, 9 percent of those attending a "free lunch" seminar will purchase the financial product being promoted

I've Got The Horse Right Here

p.128 Barber and Odean at University of California

-Most investors miss no opportunity to make a wrong call

-70% of traders lose money

p.129 "Even Harvey Houtkin, the father of day trading, made his millions not from successful stock picks, but from convincing others that they had the ability to make such picks themselves, racking up millions in commissions from customers of his day-trading firm while losing hundreds of thousands of dollars on his own investments."

p.131 Growth in options trading despite customers pulling funds out of the stock market

p.132 Most stock speculators are people who experienced serious fiscal calamities (i.e. lost a job)

-Marketing of trading strategies and systems targets the hopes and fears of these people

p.136 Marketing of "latest and greatest" from financial services shows/conventions is really meant to serve customers to exhibitors

p.139 "Almost all sellers of doom are excellent marketers."

-Peter Schiff

-Nouriel Roubini

-Howard Ruff

-Harry Dent Jr.

- p.140 Doomsday gurus appeal to those who traffic in such ideas
"Technological and economic progress occurs, and markets go up. Cyclical storms occur, and the markets go down. Doom gives it ballast, making it seem like rational activity."
- p.145 Critique of Jim Cramer
- p.147 "A highlights reel could be put together of Cramer's massive misses. Cramer's post-hedge fund successful stock picking career is more bluster than reality."
"...listeners would have been better off promptly shorting any stock Cramer deems a buy."

An Empire Of Her Own

- p.153 Women earn less than men
-Longer life span
-Take time to have/take care of children
- p.158 "Unable to offer either enough investment advice to counter women's second-tier financial status, and unwilling to take a position on what--if anything--should be done for women endangering their financial futures by taking on caretaking roles, more than a few female-friendly investment initiatives instead base their appeal on the supposed financial ignorance of the second sex."
- p.161 Women treaded like second class citizens even when they seek help from financial services
- p.166 Julie Nelson, UMass-Boston, analyzed two dozen papers and found researchers were making a big deal over very small differences between genders, and ignoring significant overlaps
- p.167 "Moreover, the objective evidence shows it is men, not women, who are more emotional and less strategic, to steal Barbara Stanny's turn of phrase, about their investments and money, something anyone who has ever had the misfortune of hanging around a group of Wall Street investment bankers comparing notes during bonus season might guess."
- p.168 Women's self-perceived financial ignorance might be a benefit--knowing what you don't know
- p.169 Reference to John Coates and the influence of testosterone through the "Winner Effect"

Who Wants To Be A Real Estate Millionaire?

- p.175 Modern home ownership started with the thirty year mortgage during FDR's administration (home ownership first grew above 50% in 1950)
- p.176 "The real reason home ownership worked, at least in a financial sense, is that it was an automatic savings plan before such a thing existed--"forced savings," as Porter had put it."
Modern home ownership, second mortgages, property holding periods decline
- p.180 David Bach promoting real estate while being a partner with Wells Fargo
- p.183 Robert Kiyosaki story
- p.184 "Kiyosaki claims a fortune in real estate--a fortune, but the way, that no one has ever been able to prove existed before his bestselling book turned him into a millionaire."
- p.186 Majority of time in Kiyosaki's seminars is not devoted to real estate investing, but signing attendee's up for the next course
- p.191 Real estate appears to offer a better deal, unlike a mutual fund, you can see it and touch it
Real estate locks you into a location, some other risks
-Difficult to move for a new job
-Maintenance and upkeep costs
-Might not be able to refinance

-Property value may decline

p.193 Most American households have a large percentage of their wealth tied up in real estate, which was a huge contributor to the 40% decline in median net worth during the 2007-2010 financial crisis

Elmo is Brought To You By The Letter P

p.199 Claims that financial education and financial literacy don't work

Movement is led by those who have the most to gain from financial ignorance

p.200 Ford Credit enters subprime auto loans

p.204 Many financial companies sponsor financial literacy programs, especially in the earlier years of childhood education--an attempt to create lifetime brand loyalty

p.207 Lew Mandell, a former public face of the financial literacy movement, became a huge critic

-test scores on financial literacy exams declined despite the proliferation of courses

p.210 Problem with financial literacy is very few actually show up

p.211 Marshmallow experiment (self-control)

p.212 Impact of genetics on self-control and investment outcomes

p.213 "For Me, For You, For Later: First Steps to Spending, Sharing and Saving" from Sesame Workshop, financial literacy campaign sponsored by PNC Financial Services Group

p.214 About half of Sesame Workshop's board of trustees has significant ties to the financial services industry

p.216 Lauren Willis: "Financial literacy is an ideological belief rather than an empirical belief"

-At best a doomed crusade. At worst a ploy to satisfy legislators and head off consumer protections that would actually help

"Willis argues financial literacy cannot be empowering. She believes this is deliberate. After all, an educated consumer is, for many firms, their worst customer."

p.217 "These critics are pointing to an uncomfortable truth you don't have to be an expert in financial literacy to understand. If the financial services industry were truly interested in promoting financial literacy, they would offer up products that are easy to understand."

We Need To Talk About Our Money

p.220 Financial therapy

p.222 "Yet the financial therapy movement has hit on one universal truth: when it comes to money, the vast majority of us are nuts."

p.223 "Almost everyone who writes about personal finance is absolutely convinced that if they can just explain to you why their advice makes sense, you will follow it and all will be well."

p.227 Our greatest economic wound is a dysfunctional relationship with social class. There is a low degree of class mobility in a country that prides itself on the American Dream

p.228 The more decisions you have to make the more likely those decisions will be bad. Poorer people have to make more decisions about what to spend money on

p.230 Link between health/obesity and money

p.233 "...to speak about our money solely in a personal sense is to miss the nature of the problem. We needed to discuss our money collectively because our financial lives were not falling apart one by one. We were--and are--going down together, but most of us just didn't realize it."