Is Suze Orman's Personal Finance Advice Good or Bad?

Scott A. T.: A janitor. Broadcasting from One Dallas Tower. Welcome to the Financial Rock Star Show. I'm your host, Scott Alan Turner, ready to help you get out of debt, save more money, and retire early. In the studio with me, producer Katie. No summer fun here yet. On the show today, I'll be answering your questions about money, business and life. If you have a question you'd like answered on the show, visit goaskscott.com.

A janitor, Rafael from New York, New York wanted my opinion on Suze Orman and whether her personal finance advice was good or bad. I first heard about Suze Orman probably 12 or 13 years ago. I saw her at a seminar that was being held back in Atlanta with some other well known people in the personal finance. She is one of the top 3. She's been around for a while. She's built a massive business on helping people with their finances. She, like other people that are well known, household names, big brand names, they're not financial advisers. They're not financial planners. They're what's generally referred to as financial entertainers. That's not a knock against them. That's just kind of a grouping that they go under.

Jim Cramer of Mad Money on CNBC is a perfect example. He is a financial entertainer. His role on that show, and all he does is talk about picking stocks, stock picks of the day, what's going on in the market, is to entertain. He's got like a horn that he honks himself. I've not watched a whole lot of his show, because it's not my thing, though. Suze like some of the others, they provide broad financial advice, sometimes it's specific when you get a specific caller or question coming in. There's only so much you can do answer question for someone in 5 minutes.

There's nothing wrong with entertaining, or using a story to tell people and get your message across. If I sat here with a calculator and spat it out math for 60 minutes, non-stop to make a point, my listener count would go from 16 down to just my 2 cats. We have to make it entertaining. That's fine.

My opinion on Suze or anybody else is you can learn something from everyone, even if it's learning not what to do. I cannot give a blank statement because ... Every other personal adviser or entertainer, she has advice I agree with, and advice that we differ on. Let's dig in a little bit. Let's get specific on a couple of things. I have links to these articles in the show notes. One of them I'm going to bring up ... Suze Orman's 3 Tips for Beginning Investors. Let's look at this.

It says Suze Orman, the world's foremost personal finance expert shares her advice on how to succeed investing. Let's skip down. These are quotes from her number 1, I don't know if these are in order or not. Don't put all of your investment eggs in one basket. Her quote says, "Most people, when they're beginning to invest don't have a lot of money. You don't want to just buy one individual stock, because if that individual stock happens to go down, and it can happen, there goes all your money. Diversification is key." She goes on, "How you diversify if you don't have a lot of money, by buying either a no-load mutual fund, or an exchange-traded fund. An exchange-traded fund operates like a stock, but it's really a tracking index. Either one of those 2 is a great way to give you diversification."

That I agree with. Diversify. All right? I think everybody in the personal finance space would say diversify. That's a good thing. Next, she goes on, "Dollar cost averaging is the key to success." Her quote, "Nobody is going to be able to call the market correctly at the moment it's happening. You'll never buy at the lowest point, and you'll never sell at the highest. What you will do to be a winner is to do dollar cost averaging." Then, she goes on to explain that. I completely agree wit that. Written about it on the website extensively, giving you an example on that.

Next, "Start early and start right." Her quote was, "The sooner you can start investing, the better you are. There's the timing of the market when to buy and when to sell. The most important time in every single one of your lives is the time to start investing. Time is the most important ingredient in any financial freedom recipe. Time will determine how much money in the long run, and really, you get to keep as well. The sooner you begin investing, the better off you'd be." All right. Those are all great things. That's not the end of the story. Let's keep going on.

She has on her website, I want to bring it up here. Suze Orman Financial Solutions For You. She's talking about specific funds, and exchange traded funds in her index investing section. Let me see if I can read some of this from the top. I know you don't have the time or interest to wait through of mutual funds and ETS in search of the right investment. Who does? Below are some of my mutual funds and exchange-traded funds. Then, she lists them. She has Index Investing. She's got Vanguard Total Stock Market Index Fund, and a couple of others, I'm not going to list, ETF's, another Vanguard fund.

Then, here's where we differ. She's got some actively managed mutual funds that she recommends. The first one I dug in ... Bringing up my notes here. Let's see. First one, underperform the market by almost 2% in the past 10 years. It has nearly a 1% annual operating expense. That is very high. Academic data shows actively managed funds don't beat index funds over time. There's a differing in opinion there. Suze recommends you do both. My investing philosophy is low cost index funds that are passively managed, not actively managed mutual funds.

Then, this third article ... here was the kicker. The title was Suze Orman Follow Her Example, Not Her Advice. The quote, it starts out with ... This is from something else. Not Suze or anybody else's, says, "We place a lot of stock in the so called "Experts in financial celebrities." Unfortunately, what they do and what they say are of 2 opposing philosophies. You're going to find one that comes to investing what people tell you they do, and what they actually do are, and can be significantly different. Here's what this article says, "In Suze Orman's case, there is also a distinct gap between what she advises and the actions she takes. A gap that is so wide that one blogger stated "She must hate the financial advice she doles out through books and TV."

The article says, "In October of 2008, when the stock market was halfway down its disastrous slide, a 50-year old woman asked Suze for advice. Stressed out by the unpredictability of the market, she had moved all of the money in her retirement accounts from the stock market to cash. "I sold everything in January. I couldn't take it. My stomach was in knots," said the woman. She expressed that she wanted to put her money somewhere safe, and didn't know how to tell it was a good time to get back in the market. Orman confesses that, "We don't know if the markets are going to go up or down from here." In that quote, "The hardest thing in life is to time a stock market." She didn't hesitate to launch into her typical pro-stock pitch. She urged her guest to get back in the market right away, recommending that she invest every dollar she had pulled back into the stock market over the following 12 months.

It says, ironically, though the woman had already saved many thousands by doing just the opposite. "The biggest mistake you will make is if you stop contributing to the stock market," asserted Suze while the screen below emphasizes the words in bold letters. However, just 1 month later, Orman told a New York Times Journalist where she has her own money invested, safe, slow growing, couldn't lose it if you tried, municipal bonds. In Orman's words, "I buy 0 coupon municipal bonds. All the bonds I buy are triple A rated and ensures that even if the city goes under, I get my money. I take a little lower interest rate to make sure my bonds are 100% safe and sound." When the reporter asked if she had played the stock market at all, Suze dropped this bomb, "I have a million dollars in the stock market, because if I lose a million dollars, I don't personally care."

The article goes on, "Why doesn't she care? Because at the time, her assets were estimated about 25 million, plus another 7 million in real estate. 1 out of 32 million equals about 3%. She has 3% of her net worth in the stock market. Yet, she's telling this other person go in 100%. Last part of that article says, "Suze recommends putting your money at risk and out of your control, when she practices the opposite, only putting in what she can easily afford to lose in the stock market."

Suze was saying one thing, and doing another. That's one issue. Was her point wrong that that person should not have been in the stock market? Well, there's being in the stock market period, just being out of it completely, and then getting out as it goes down. Really, it's hard to say if that woman should have been in it or not because we don't know her complete situation. We know that she was 50. We don't know if she was going to be retiring in 6 months. If she was going to be retiring in 6 months, she shouldn't have been in 100% stocks anyways. That's completely different scenario than somebody who's age 50 and retiring in 15 years.

Yeah, she should have stayed in the stock market and ride it out, because you cannot time the market and know when it's going to come back up. If you have a long term horizon, you just ride it out. If that 50-year old woman had a proper asset allocation between stocks and bonds, she would have had less of a gut-wrenching experience.

In Suze's defense, if you have 32 million dollars, do you need to have money in the stock market? Well, if you're living on peanut butter and jelly sandwiches, and driving a used car, no. Unless you just want to make more money to give away or whatever. If you have a 32 million dollar net worth, and you only need 40, 50,000 dollars to live off of, probably not Suze Orman's lifestyle, but just saying, then no, you don't need to be in the stock market. It's perfectly acceptable saying "Here's what you should be doing. I don't do this. Here's the reason behind that." That's no different than me suggesting, "Hey, Vanguard is a great place to invest. Check them out. By the way, I don't invest at Vanguard because my funds are at TD Ameritrade, because that allows me to get into dimensional fund advisor funds, which you probably don't have access to unless you work with a financial adviser who can buy them for you on your behalf, and you have to have a certain amount of assets in order to be able to do that.

If you cannot do that, Vanguard is one of the next best things, Betterment, one of the next best things. It just depends on your personal situation. Wrap this up with a quote from Jeff Rose over at Good Financial Cents. He had an article on Suze, and it says, "All advice has to be taken with a grain of salt regardless of the source. A lot of people pass themselves off as experts, when in truth there are no experts, only practitioners. Nowhere is this more true than in the financial realm. There are dozens, maybe hundreds of subtopics in the area of personal finance. There are multiple opinions about every single one of them. Complicating this is the fact that no 2 people have the exact same financial situation. You should consider financial advice, and use the knowledge you gain from it as the basis to help you make decisions about your financial life. You should never mindlessly take action based on someone's advice, least of which that of a financial guru, that includes Suze Orman."

That also includes advice from Rycker Market and yours truly. Never believe anything I, nor anyone else, tells you about money without doing your own research trust.

Nicolene asks what I would do if I had to start all over. It says,

Nicolene: "Let's say lost all your money from a bad business. Now, you want to start all over again from nothing. Any advice on how to go about it?"

Scott A. T.: There's a guy named Lee Ayo Cocoa, he rose to the top of Ford Motor Company. This happened a long time ago.

He was like the number 2 or number 3 guy at Ford. He clashed with Henry Ford Jr., the company's CEO and chairman at that time. After a string of unused and bad ideas, Aya Cocoa was given the boot. They said, "See you later." Aya Cocoa was courted by the Chrysler Company, another big auto company. Chrysler, at that time, was about to go out of business, took out a big loan from the government, and completely turned that company around. He brought it back from the brink of destruction.

Many, many books have been written about him as a leader and a business person in just the business practices that he had. Being fired, that's not the same as losing a business, but in both cases, you have to redefine yourself and start over. I like that story of Lee Aya Cocoa because he took this mammoth company that was in the pits and brought it up to something amazing.

What would I do? Number one, I would be sad for about a day. That's just me. Some people get kicked in the gut. They never recover. I tend to get sad or depressed for a day. Then, I regroup. Yet, you choose whether you're going to stay down or whether you're going to get up. The biggest part of success is often failure. From failure comes experience. From experience, you build success. You cannot succeed without failing. It's not possible. Greatest baseball players in the world. They fail 2 out of every 3 times they swing a bat. You have to get your mind right, and see this as an opportunity, because years from now, you're going to be thanking your lucky stars this ever happened to you. It's going to redefine you. It's going to make the next business better.

From a practical standpoint, if I had no money and lost everything, I'd do the same thing I did in the past, get a regular job. Excel at it, make more money at it. Get promoted, raises, bonuses, et cetera. I'm a computer guy. It's always going to be my fallback. I can go somewhere and write some code for somebody. Every night, every weekend, every vacation day, I'd be spending time working on my side business or thinking about it, whatever that happened to be, planning, creating, deal making, just depends on what your business is. Is that going to mean the next business is going to be successful? No, but I'd be working on it.

When my savings aren't enough to support me, and my side business is growing to where the income is close to, or at, or more than my day job, I'm quitting my day job, or enough to support me. Let me rephrase that. Doesn't have to be as much as you make. It just has to be enough to pay the bills, and then you want to have a little bit in the emergency fund for a fallback in case you fallback. This is how small businesses are built with low financial risks, slowly over time, one day at a time. You risk time instead of your money, because it preserves your sanity.

I love Aya Cocoa's story because he basically said to Ford, "I'm going to show you, buddy. I am going to show you." Nicolene, you need to show everyone who doesn't believe in you. That is a very powerful driving force. Thanks for the question.

Danielle from Chandler, Texas wants a recommendation on getting started with real estate.

Daniel: Because I'm very interested in investment property, I feel that would be a good fit for me as I have a background in construction, plumbing. I'm currently a land surveyor, and generally, I'm handy. Doesn't seem to me to be a good investment to buy property unless I can make cash for the property. Am I correct in thinking this, or is there a way to get started without having tremendously deep pockets? My wife and I currently contribute to a retirement fund, have an emergency fund, and no credit card debt. Any recommendations on getting started?

Scott A. T.: Your background certainly sounds good. If you're into construction, you can do your own home maintenance, land surveyor, so you know about property, and looking at stuff. Certainly, those are all very beneficial attributes to have for somebody who's getting into real estate. Now, there's 2 schools of thought. They're on completely opposite ends of the spectrum. You'll find people who say you can do it with no money down, take all the risk that you can. Here's an example, let's say you owned a free and clear a $200,000 house, mortgage was paid off. You can certainly go out and find somebody who will loan you $100,000, if you put up your house as collateral. I mean, that makes sense, right? If you're putting up a $200,000 house? You're going to find somebody who will lend you $100,000 for you to go out and buy a rental property. You need to have a no-money down rental property kicking off some income. You'll help.

Then, on the opposite end of the spectrum, you have got the camp that says, "No, you shouldn't have any debt whatsoever, because there's a risk associated with that to some degree. The more debt you have the more risk you're at with your livelihood. Risk is bad. It can lead to terrible financial situations. You should save up as much as you ... Well, save up 100% for the down payment on a rental home completely opposite ends of the spectrum. Then, somewhere in the middle there is you. You. You've got to ask yourself "What do I want? What am I most comfortable with? Or in this case, you have a wife, what are we most comfortable with?" Because that is the most important thing for your relationship, not the rental income. It's "Are you on the same page?" You don't show up home one day and say, "Hey, honey. Guess what, I just went out and bought us a rental home." Then, you get this nasty ... You get stink eye.

You don't want that. You've got to be on the same page first. Part of the decision is figuring out how much risk you're willing to take on. What is the worst that can happen. Well, what is the worst that can happen? If you lived in Detroit when the auto industry collapsed, if you had a house on the mortgage, and you had several rental properties, and then everybody who was renting to at that time got booted from the job when the auto industry collapsed, you lost it all, pretty much, because not only did the real estate market tank, and all the values of the homes tanked, all of your renters would have gotten kicked out at the same time, because they have no jobs. They're moving on. Then, you cannot pay your mortgage. At that point, you're bankrupt, you're toast.

That happened to plenty people. You have to consider that. I'm sure, if you ask those people at that time, they're like, "Everything is going great. The economy is going great. We're doing well." They didn't see it coming. From a risk standpoint, the safest thing you can do is have no mortgages, no mortgage on your primary residence, no mortgage on a rental property. That usually means you've got to save up so that you can have 2.

The second less risky thing is having one mortgage, so you've got your primary residence paid off. Then, you've got a mortgage on the second home. Then, third risk is to be having a mortgage on both places. Then, after that, it's being 100% in debt on one or both of the places. First, you sit down and say, "What do we want? What are we comfortable with? Then, start putting a plan together."

For me, I like having no debt. If I was in that situation, I think I'd be just nervous having 2 in the mortgages. I'm a bit of a warrior, and I've done some stupid stuff, too. I would try to avoid getting into more, what I would consider, stupid situations for me. General guidelines, plan for the worst. If you've got to rent a home, you've got to plan for maybe 12 months, 2 years of not having a renter in it, in case something happiness, that worst case scenario. Same thing with your home, if you've got a 3-month emergency fund, you've got to beef that up to at least 12 on your own side, in case you're out of a job. Then, once the worst case sets, you're out of a job and you're out of a renter, what are you going to do at that point?

I've never been super gung ho about saving up for if you've got one house paid off, saving up for 15, 20 years, so that you can afford the second house. That seems a little too extreme for me. I don't think I'd go that route. That's just me. Some people certainly do that. It works well for them. They sleep fine at night. I prefer having no debt, financial freedom. Now that I'm out of debt, I'm not going to go out and get back into debt, I'm not going to be taking out any mortgages. If I go and get a rental home, I guess pay cash for them. If and when I go that route. Yes, you can get started without deep pockets, but I would have much of a safety net as you can in order to do so, so that you can sleep well at night. Thanks, Danielle for the question.

Back after the break. You're listening, Scott Alan Turner.

Hey, nation. Scott Alan Turner here. Now, for those of you that are my long time listeners, all 14 of you, you know I'm not one of those guys on the radio who promotes every product that shows up on their desk. If you're a new listener, well, I apologize in behalf of your friend who recommended you to listen to this garbage. At least the cat appearances are entertaining, unless you're a dog person. Then, that's just another reason to unsubscribe.

The tourism board of Andorra invites you to visit this tiny 468 square kilometer independent municipality, situated between France and Spain in the Pyrenees mountains. It's known for its ski resorts, and a tax saving status that encourages duty free shopping. You can also experience a delicious casserole that tastes of the high mountains. I guess it either tastes like snow or dirt, depending on the time of the year. Visit Andorra. Tell them Scott Alan Turner sent you.

Adrian has a credit card question.

Adrian: Currently paying off credit card debt. My mother mentioned to me that paying it off in full would be bad for my credit score. My credit limit is $500. She says to leave at least $140 in the current balance, and not have a $0 current balance. Is paying this debt off in full a bad idea? If it is, is there a way to get around not paying the interest fees?

Scott A. T.: Sorry, Adrian, but mom is not correct on this one. Carrying a balance and paying interest does not improve your credit score. I know this for 2 reasons, number 1, personal experience. Katie and I both have 800 credit scores. I haven't carried a balance in 15 years. I paid it off in full every month. A few times, yeah, I forgot to, so I get hit with the late fee. I have to call up and have it waived, which they do, because I'm a good customer. I do not carry a balance. The second reason I know this is from FICO, the people who issue credit scores. There'll be a link to their website in the show notes where it shows how they come up with the credit score, what are they looking at.

The 2 most important things which account for 65% of the score, the first is your payment history, paying on time. That is 35% of your credit score. The second is the amount that you owe your credit utilization. That accounts for 30% of your score. Where your mother is getting the 140 out of 500, she's talking about utilization. What lenders like to see is that you're utilizing 1/3 or less of your available credit. If you have a $500 credit limit, they don't want to see you carrying a balance of more than $140. They want to see it less than that. 0 is less than that. They like that. If you had a $10,000 credit limit, lenders don't want to see you charging more than $3,000 at any one time, or rather, carrying balances of more than $3,000. Not 3,500, not 4,000, not 5,000. They don't like to see that. When you go beyond that 30% utilization ratio, that impacts your credit score in a negative way, straight from the FICO website.

Something interesting which is notably missing from myFICO.com, their website. I did dig around quite a bit is how does carrying a balance and just paying the minimums impact your score. When you're just paying the minimums, that's when you're going to accumulate interests, and waste a lot of money. They don't address that that I could find, which I think is a little seedy. That's my opinion.

What do credit card companies want you to do? They want you to spend money on their cards. What else? They only want you to pay the minimums. That's how they maximize their profits. They want you to have interests payments, and late payments. That's how you lose money, paying interest charges. What I would want for you is to maximize your money, and not pay interests. You do that by paying off the balance every month in full. Nowhere on their website can you find where it says carrying a balance improves your score. Doesn't exist. You can check it. Please correct me if I'm wrong. I couldn't find it.

Next part of your question, is using a credit card to buy small things that don't cost a whole lot, like snacks and household items and hanging them off right after a good idea? It is the easiest and one of the least riskiest ways to build credit if, if you have discipline. The issue many people run into, half of people is getting ... where the credit card debt comes from, is undisciplined, uncontrolled spending. The majority of the time. There are some instances where someone might have an emergency, medical emergency, or some other type of emergency. The credit card is, they feel, the best way out to pay that bill for that unexpected expense. That's not lack of discipline. That's just, "We didn't learn this stuff in high school and college." I certainly didn't.

If you have a credit card, you can go to the gas pump and charge gas once a month for 20 bucks, and then pay it off at the end of the month every month. It's pretty hard to get in the credit card debt on the $20 a month bill. Not impossible, not impossible. I mean, if you're unemployed, not making any money, paying off the 20 bucks can be a challenge. If you have a job, $20 is not that much to pay off each month in order to build your credit. Credit scores matter because it gives you choices that can ultimately save you money. Lenders, when it comes time to buy a house, a lot of them look at your credit score. In order to get you the best possible mortgage rates, that's one thing they consider.

The vast majority of lenders will look at your credit score. There are some newer ones that do not. There's some other ones that do, what's called "Manual underwriting." I don't know if you get better, the same, or worse interest rates than if you go with somebody who does manual underwriting on a house, compared to a traditional lender that's going to look at your credit score. The time you don't want to find out is when you're getting ready to get a house on a mortgage if you don't have a credit score. It's too late to get one.

Next part of your question, I hear sometimes in the podcast that you should cut up your credit cards. Wouldn't that bring your credit down, because you're not using them and keeping them open? If you're in debt, you cannot pay your bills, something has to give, something has to give, has to give. A good credit score doesn't matter if you're having trouble making ends meet, or living paycheck. A new house and a good mortgage rate is irrelevant because you're not in a position to afford it. Cutting up the credit cards, it breaks that cycle. It's one way to get out of it, gets back to credit utilization if cutting up the card doesn't decrease your utilization. Cancelling a card outright does, because then that credit goes away.

Quick example is I've got 2 credit cards. One has a thousand dollar limit on it. Another has a $9,000 limit. If I take the one with the $9,000-limit and I throw it in the desk drawer, or I cut it up, or I freeze it in a block of ice ... Ice cream. That would be great. Let's freeze it in a block of ice cream. The maximum amount of credit I have, or available to me, is still $10,000. If I go max out the card that has a thousand dollars on it, my credit utilization ratio is 10%, because I've got a thousand dollar balance, at a 10,000 total, 10%. That's okay, because it's below the 30% threshold.

Now, let's say I go out and cancel the $9,000 card, but I've still got a thousand dollar balance on the other one. My available credit has gone from 10,000 to 1,000. If I've got a thousand dollar balance, my credit utilization ratio is not 100%, because I've used 100% of my available credit. That's over the 30% threshold lenders like to see. That's not where you want to be, which is why sometimes just throwing it in the desk drawer, cutting it up, not using it instead of cancelling it, can be a better option until you've achieved whatever goal you're trying to get at. Get into a house, and then you can cut it up and decrease your available credit lines.

Finally. This is straight from myFICO customer care, because I emailed and asked them about it. It says, "Paying all accounts to 0 balances and, or closing the accounts, not having any active credit over a 6 to 12-month period will result in your score becoming unscorable, which simply means that by not having any active credit, myFICO, and possibly the credit bureaus will not be able to calculate a credit score. It does not mean you do not have a credit score, or a score of 0.

That link to myFICO will be in the show notes showing how they break down your score. Again, mom got it almost right with the utilization portion of it, but no. Absolutely do not carry a balance on your cards in order to build up your score. That's not the way to do it. Thanks, Adrian, for the question.

In Memphis, a city sometimes filled with crime, violence, and negativity, there are several shining lights serving as beacons of hope for those caught up in the daily struggles of life. Kevin Des King, a 17-year old says, "I just stay away from the negativity, and always be positive." He started selling newspapers on a street corner when he was 12 years old, with a goal of one day going to college and paying for it himself. Now, he's about to graduate from high school and go off to college.

Growing up, King said, he was raised in a single parent home with just his mother. He says it was her influence that would shape the rest of his life. "She taught me how to be independent," he said. "For the last 5 years, I've been selling newspapers." His goal was to make enough money so he could not just go to college, but also pay for it. Says, "When it came down to school, my mom didn't have to come out of pocket to do anything, or I didn't have to take out any loans to go to school." He earned about 200 bucks each Sunday for the last 5 years. He'll be attending Tennessee State University in Nashville.

King says, "Make sure you surround yourself with people that are trying to go up in life and not trying to bring you down. Just stay positive. Always believe in yourself, and push forward." 200 bucks a week each Sunday. He earned $10,000 a year working Sunday mornings. That's 50 grand over 5 years, he was able to earn towards his college. One Sunday morning, one day a week. I delivered papers, too, when I was around 10-ish, I think, 6 days a week. I made nothing even remotely close to that. It did get saved. I'm sure some of it eventually went towards school, whatever I didn't spend on candy and toys, anyway.

You can pay for college without taking out student loans. Your children can pay for college without student loans. Your grandkids can pay for college without taking out student loans. Even if you come from a bad neighborhood, even if you have a single mother, even if people around you are constantly trying to drag you down, you've got to choose to go up.

Last time, we had a janitor that died with 8 million dollars in his pocket. This time, a teenager paying for college by selling papers on Sundays. You are either really depressed right now, or really inspired. Hopefully, the latter. Those are the words of this episode. I'm your host Scott Alan Turner. Rock star Katie is my producer. All links mentioned in the show are below in the show notes, scottalanturner.com. If you have a question you'd like answered on the show, visit goaskscott.com. Thank you so much for listening.