Financial Advice: Generic Is Not Better for You

The Financial Procast—episode 110

It's time for the financial procast. On today's show, you ever wonder what that generic financial advice is really for you? Today we'll discuss why you might want to second-guess that. That's today on the financial procast.

The Financial Procast – Episode 110 – Average advices for average people

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Brandon: Hello and welcome. This is the financial procast. It is Thursday May 22nd, 2014. This is episode 110. I am Brandon Roberts.

Brantley: And I'm Brantley Whitley.

Brandon: I just realized that May is almost over.

Brantley: Is that a bad thing?

Brandon: It's bad when winter seems to have lasted until at least the middle of May.

Brantley: You didn't have much of a spring because it went straight to 80, right?

Brandon: You got it. I'll tell you want though. The trees and flowers, it did not take much to get those guys to bloom. In one day in the 80s, and it's like poof!

Brantley: That started here about two months ago.

Brandon: I'm aware there were many places in the united states that have much better weather that had bloomed trees long ago.

Brantley: I did see some places in the Midwest were having snow just a couple days ago or something like that.

Brandon: That storm system is going to bring plenty of rain my way.

Brantley: Just what you needed. Perfect for someone who has a gravel driveway. It's mostly mud and holes.

Brandon: We could get some really big fans and try to blow it back down into San Diego where they need rain.

Brantley: There you go. Take that southern California.

Brandon: We're trying.

Brantley: Really big fans. That's always a great plan. What are we going to complain about today?

Brandon: We're not complaining about anything today.

Brantley: Awesome.

Brandon: We're simply asking a question.

Brantley: What's the question?

Brandon: Here's something that I have long wondered. There's a multitude of financial press media outlets out there. There are a lot of them. We don't even need to name them. They are very willing to throw out generic financial advice to everybody who’s willing to listen. There's a lot of people who have things like little personal finance blogs and they write a lot about generic financial advice to people and it always follows the same line of thought; max out your 401k, contribute to an IRA.

Brantley: Spend less than you make.

Brandon: That one’s a pretty good one; don’t run up debts, contribute to a qualified account to reduce your taxable income.

Brantley: And not all of the advice is bad advice by the way.

Brandon: No.

Brantley: It’s just vanilla.

Brandon: A question comes up from that, which is as anybody who’s ever taken a writing class before, either in high school or college knows, that traditionally one of the very elemental pieces of advice that is given to anybody when it comes to being a writer is know your target audience. A question that comes to mind when I read through the multitude of personal finance, articles or blog posts that exist out there-

Brantley: Financial porn.

Brandon: To whom are these people marketing or targeting their advice?

Brantley: I know.

Brandon: You do know?

Brantley: This makes me go back to a conversation that we had a long time ago that was centered around a statement that someone who's relatively popular in our world of media said about brands. Do you remember what that was?

Brandon: Marketing or branding is the refuge of the weak minded?

Brantley: That wasn't exactly what they said. It was along that line. Brand is the refuge of the ignorant. I believe that was correct. What I'm saying is you have to always remember that the financial press has one goal in the world, and that is advertisements, because they need to sell ads. Ads are why they exist. That pays the bills, that brings home the bacon, that keeps the lights on; all of the above. They are trying to appeal to the biggest advertisers who want the largest set of eyeballs because they can command more money for that. The only way they can do that is talk to the largest segment of the population.

Brandon: You need volume because we sell ads based on the number of impressions. It's been that way forever, whether it was newspaper, print or now the Internet, it's always been based around "I've got X amount of people who read this thing every day, week, month, whatever" and this is the going rate for you to advertise here because advertisers want exposure.

Brantley: It used to be paid circulation in newspapers. That was their metric and on web forms, it has to do with impressions and some other metrics that don't matter for this conversation. The point being it's eyeballs. It's how many people look at this on a daily basis because that translates to higher ad revenue. The other caveat that I want to throw in there and then I'll shut up is that this is a two-prong problem with any sort of financial press. The other thing you have to remember is that they have no responsibility. There's no accountability at all.

Brandon: It still doesn't answer my question.

Brantley: Which was?

Brandon: Whom are these people targeting?

Brantley: They're talking to the average person. They're talking to the middle 70%.

Brandon: Which means for those who are on the outside of that curve to the right, and even to the left, there's less focus and less attention on them. What they talk about is less applicable and less useful to them.

Brantley: Absolutely.

Brandon: The problem with the majority of the "advice" that exists out there is that it's really not intended for those who are either ends of the spectrum when it comes to economic achievement. The truth is it's just supposed to be this broad appeal.

Brantley: It's very much a [shot down] approach to advice.

Brandon: At the end of the day, 20% of your income for somebody who makes $70,000 a year and then they'll get them in the neighborhood.

Brantley: 10 times your income and life insurance and death benefits, there's all the little rules of thumb.

Brandon: It's not deeply profound information, it's not known for its depth or longer term strategic thinking; it's just a "how can we make you happy about yourself today by giving you something that you can easily implement tomorrow and say 'I'm doing a better job than I was yesterday'?"

Brantley: I'll add this little caveat as well. It's something that usually won't hurt anyone either. It will make things marginally better for you.

Brandon: Is that necessarily true?

Brantley: Yes it is. In that middle, I'm not talking about the ends; I'm about in the middle. In the people they're targeting, I'm not saying it's going to make profound differences for them.

Brandon: It doesn't mean it's going to reach their definition of success as an investor from yesterday.

Brantley: But it probably, for a lot of people, will help them do better than what they were doing prior to.

Brandon: Is it dangerously for the people on the upper end?

Brantley: Very dangerous.

Brandon: Why?

Brantley: Because it's very incomplete. I'm not a person who thrives on complexity but it way oversimplifies things for the people that are to the far right of the curve. Don't you agree?

Brandon: Yes.

Brantley: Very much so. It leaves a lot undone and off the table.

Brandon: Because there's some intricacies in that discussion that need to take place.

Brantley: Their problems are far more complex than the average person's. Is the average person though benefitted from getting more complex? Do they benefit from adopting a strategy that is more in likeness to what the more higher achieving economic individual should adopt? Or should they just stick with generic advice and move forward?

Brandon: I think it will be beneficial for people to understand some of the complexity of the people to the further right of the curve if they have hopes of moving out of the middle. I think understanding that will help you give you a greater probability of getting there. However a lot of times being able to actually implement those strategies when you're still in the middle is not going to be possible.

Brantley: I want to dive into a discussion about some of the generic advice that exists and how that realistically is applicable to people with higher incomes, but before we do that, we do need to take a break so we will do that and we will be right back.

[Break]

Brandon: We are back. This is the financial procast. It is Thursday May 22nd, 2014, episode 110. We're talking about the plan vanilla of financial advice that exists and how it is to be applied and that where are many people who probably shouldn't necessarily take that advice at face value at least because their circumstances are far more complex just because they are higher achievers.

The big takeaway is if you fit into a more upper middle class or upper class circumstance, and people always want a definition, I guess we could suggest that it starts around a personal income of something in the neighborhood of $125,000 a year. That's a number we picked because that's where you start to become mostly fazed out of Roth IRA contributions.

Brantley: In other words, if you're reading something talking about Roth IRA contributions and you make more than that-

Brandon: But there's other applicability to that number. That also puts you typically within the category of a higher compensated employee under IRS guidelines, which means your ability to max fund a 401k becomes wildly different. It's very dependent on how much everybody else who works for your company contributes to a 401k. Maxed out means something differently to you at that level than it does to people under that income level who are not affected by the highly compensated employee number.

Brantley: Even further on that, there are quite a few people who are allowed to max it out by IRA guidelines. That dollar amount is not necessarily a real significant portion of their overall income. I don't want to make it sound like $20,000 is not significant because that's a substantial amount of money for anyone, but it may not be anywhere close to adequate for someone in terms of retirement savings who makes $500,000 a year.

Brandon: If you are to do what most financial planners would consider a very solidly good number to save, which is 20% of your gross income, the current max for a 401k contribution is $17,500. $17,500 is 20% of $87,500. If you make more than $87,500, it becomes very tricky for you to save 20% of your income in something like a 401k and practically impossible. There are IRAs, that's another option, but that's only another $5,000. If your income is $200,000 a year, you start to run out of options when it comes to where you're going to put that $40,000. There are those that would say start with the 401k because that's tax deduction, and then move to the traditional IRA because that's tax deductible, and then you can go elsewhere. You could do that.

There are reasons why qualified money may not be the most optimal choice, we've discussed it numerous times in the past, but there are a lot of other considerations that people with those kinds of incomes need to start thinking about. There are things like estate planning considerations and things like transfer considerations. People who have that kind of income, unless they go out and spend all of it, have a tendency to save a little more money than most other people. When you're in that circumstance, you have to figure out what you're going to do with that money at some point because having no plan at all is typically the most expensive approach of them all. Realistically, the generic financial advice that exists at a lot of the very well known financial advice media outlets is not intended for those who are higher economic achievers.

Brantley: The planning that you need to do involves some greater considerations and they don't necessarily have to be complex from a standpoint of really having a hard time grasping-

Brandon: You don't need three trusts and two LLCs.

Brantley: It's not "if this, then that" logic. We hate that.

Brandon: It's not so much the complexity of it; it's just there's more strategy involved. There are more things that need to be thought about. It's not necessarily the case that we need a team of attorneys and accountants to write up all these complex financial documents, but there's a little more conversation that has to take place. There's also a little more of contemplation. I've said this before, just because you save money and save more than the average person doesn't mean that you're necessarily doing the right thing if your income is significantly larger than the average person. I don't see this often, but there are sometimes a disconnect with people who lets say make $300,000 a year and they look at their savings of $15,000 per year and say they're doing a lot better than the average American and the reply to that from me is always "that's true, but you are not proportionately doing better based on the amount of income that you have and if you want to continue to maintain some semblance of the lifestyle that you have with your current income, you got to do a lot better than you are now." In other words, it's not enough to just do better than the average American; you have to proportionately do better based on your income to continue the trajectory and the success that you have now.

Brantley: You don't want you basis to be compared to the average.

Brandon: You don't want to compare your savings success to some guy who makes $50,000 a year because the fact that you're doing better than him is always going to be a given.

Brantley: And it's not going to help you at all when you need more money.

Brandon: Saving a tiny fraction of your income and just putting it in the bank and receiving an interest payment is always going to be doing better than him.

Brantley: When you get down the road to the point that you need the money for retirement income or whatever it is saying "I did better than most people, not going to put more money in that account."

Brandon: You know what I've always looked at as an admission that the typical media press is just not that interested in wealthier people is that fact that they'll talk about their generic advice in somewhat big detail, but when they get to more complex subjects that are very important to people with higher incomes or higher net worth, they're very [cop out] about it. That's a complex subject.

Brantley: They always do that; that's always the cop out.

Brandon: I suppose some of it is just talking to your more peer group. Unless you ascend to a very unique circumstance like anchor of NBC's Nightly News, journalism is not a super lucrative career. For most of those people who are writing for resources likes CNN Money, not to be particularly obnoxious to them and just an example, those people are not making a whole lot more than the typical person for whom they're giving that advice. The big takeaway from this is if you have a higher income or a higher net worth, you should be a little bit more discerning about where you're willing to accept the advice and it needs to be a little more comprehensive than the very generic vanilla advice that comes out of some of those media outlets.

Brantley: This is absolutely true.

Brandon: Big important incomes or net worth require a little bit more time and attention.

Brantley: A little more attention to the details.

Brandon: Let us make you feel more important. I don't think there's a whole lot more to be said about that. And it's the end of the week. We've wrapped up another fun session of the financial procast, and with that I am Brandon Roberts.

Brantley: And I'm Brantley Whitley.

Brandon: We will be back next week with three new episodes and three new topics. We will see you then.