

## Book Review

# Pound Foolish: Exposing the Dark Side of the Personal Finance Industry

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Author: **Helaine Olen**

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I knew before turning the first page of *Pound Foolish: Exposing the Dark Side of the Personal Finance Industry* that it was going to be an interesting book review to write. *Pound Foolish* has been getting a lot of media attention in 2013 and has been both praised and vilified for its treatment of the financial services industry in general (including financial education) and some of its key players. In short, unlike many scholarly books reviewed in this journal that have primarily a “just the facts” approach, *Pound Foolish* is controversial, as well as insightful, and takes aim at a wide array of targets ranging from Suze Orman, David Bach, and Dave Ramsey, to financial education programs, to the Jump\$tart Coalition surveys of youth financial literacy. Not surprisingly, its content, both what is included and what is not, provides ample fodder for critical analysis and commentary.

*Pound Foolish* is 292 pages in length and consists of an introduction, nine topical chapters, a conclusion, and 43 pages of reference citations. Its content was generated primarily through meticulously referenced secondary sources (mostly online, newspaper, and magazine articles), with a smattering of government reports, empirical studies, and personal interviews with personal finance thought leaders who are generally referred to in positive terms (e.g., author Jane Bryant Quinn and Jump\$tart Coalition Executive Director Laura Levine). The author, Helaine Olen, has been a featured speaker for recent programs such as a PBS *Frontline* program called *The Retirement Gamble*, a New America Foundation webinar about the content of *Pound*

*Foolish*, and other media platforms. A self-described novice when she began writing a “Money Makeover” column for the *Los Angeles Times* in the mid-1990s, Olen is a freelance journalist whose work has appeared in the *New York Times*, the *Washington Post*, *Forbes*, and elsewhere. She has no formal education or certification credentials in the field of personal finance and gave no indication in the book of knowledge of the existence of organizations such as FPA, NAPFA, the CFP Board, or AFCPE. Rather, she tells readers that her initial source of education about financial concepts and terminology came from reading *Personal Finance for Dummies*.

In the *Introduction*, Olen describes her humble beginnings as a financial reporter, noting that she rose from “money novice to personal finance expert” in just a few months and “I am not the only personal finance writer to get her start this way” (p. 2). She also shares five “take-aways” from her experience writing the “Money Makeover” column including the fact that it gave readers “the illusion of control” (p. 4) over their financial lives and that various financial strategies suggested by financial experts often do not work out when tested in real life. “Yet, as a nation, we’ve allowed ourselves to become convinced that with just the right amount of monetary planning we can protect ourselves from life’s vicissitudes” (p. 6). Olen then refers to the personal finance and investment industry as a “juggernaut” (p. 6) and “the personal finance industrial complex” (p. 11) and provides an eclectic assemblage of statistics about topics ranging from growth in the financial services

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industry to the rising number of U.S. investors, to increasing income inequality, to the foibles of financial gurus.

In Chapter 1, *What Hath Sylvia Wrought?*, Olen traces the invention of the personal finance field to Sylvia Porter, who started writing about financial topics during the Depression era of the 1930s and continued through the 1970s. The chapter provides a summary of the ups and downs of Porter's financial journalism career as well as that of Jane Bryant Quinn. Excerpts from Olen's personal interviews with Quinn are liberally quoted and include topics such as Quinn's career trajectory, investment philosophies, and three key trends that coalesced as Quinn gained prominence: the increasing pace of financial information, the great bull market of the late 1990s, and the fact that American workers' salaries were stagnating. Olen also includes a discussion of slipshod financial journalism in general, faulty assumptions behind information (e.g., stocks frequently presented as sure things), and the influence of advertising over the presentation of financial information.

Chapter 2, *The Tao of Suze*, provides a full frontal assault on financial media personality Suze Orman who, like *Pound Foolish* itself, has been the subject of both praise and scorn. There seems to be no "middle ground" when it comes to Suze. As Olen colorfully explains, "Many adore her...but there are others—those to whom mentioning the name Suze Orman will set off the same reaction as tossing red meat to an underfed pit bull" (p. 27). The chapter includes Orman's background, family money history, rise to fame, speaking fees (\$80,000 and up per engagement), and "scolding" presentation style. Also included is a discussion of inconsistencies in Orman's messaging and unflattering comments about her products (e.g., Approved Card debit card and Will and Trust Kit), sponsorship deals, and conflicts of interest. Of particular interest was Olen's description of Orman being completely out of her element (read: without adoring fans and in a setting where she clearly did not understand the personal finance challenges of the assembled audience) as a panelist at a poverty symposium. Having seen Orman several times in action at a New Jersey personal finance conference where Rutgers exhibits, I would have loved to have seen that. Olen takes particular exception to Orman's often simplistic "money management is the answer" solutions.

*The Latte is a Lie*, Chapter 3, continues the tirade against simplistic, sometimes erroneous, advice given by financial gurus, some with checkered pasts and expensive products to sell. This time, two main subjects of inquiry are David

Bach, author of *The Automatic Millionaire*, and *Financial Peace* author and empire builder Dave Ramsey. In the section on Bach, Olen debunks the math behind his infamous "Latte Factor" illustration. Since the potential savings possible by skipping a daily coffee and snack is based on an 11% average annual return, a challenge is certainly in order. According to Olen, even Suze Orman disputed the numbers! The section on Ramsey's path to fame from former bankruptcy filer to head of a lucrative privately-held financial media empire called Lampo Group was eye-opening with numerous details gleaned from print and electronic media sources. Not surprisingly, people in the book who were portrayed in a negative light were never personally interviewed. Other topics discussed in this chapter were the book *The Millionaire Next Door*, author (including the book *The Difference*), and product salesperson Jean Chatzky, and rising expenses for housing, health care, and education that far outpace the amount that can be saved solely by following simplistic budgeting strategies.

Chapter 4, *Slip Slidin Away*, is subtitled "The Coming Retirement Train Wreck." Rather than expose the foibles of public figures, here Olen targets the impact of the demise of defined benefit pensions that provide predictable income streams in later life and the high expenses associated with many employer 401(k) retirement savings plans. Other topics covered in this chapter include the fear felt by real people about the inadequacy of their retirement savings, research findings about retirement savings, the creation of Social Security and IRAs, examples of "retirement porn" advertising, the rise of target date mutual funds and automatic retirement plan enrollment, and the viewpoints of vocal 401(k) plan critic Teresa Ghilarducci.

In Chapter 5, *The Road to Pas Tina*, Olen takes on the culture of commissions for the sale of financial products. It begins and ends with a description of Olen going undercover to attend a "free dinner seminar" at a restaurant called Pas Tina. The dinner arrived very late because, as she later learned, "no one should ever pitch product over clanging forks and spoons" (p. 126). In between, the chapter covers a wide swath of related topics including financial product sales techniques, the difference between an investment suitability standard and a fiduciary standard in providing investment advice, commissions and high expenses associated with many annuities, and seminar marketing techniques. Citing a statistic from FINRA, the book notes that "nine percent of those attending a "free lunch" seminar will purchase the financial product being promoted" (p. 123).

In Chapter 6, *I've Got the Horse Right Here: The Hopeless Quest for the Perfect Investment*, Olen continues her discussion of the promotion of investment products. The chapter starts with her attending the World MoneyShow, an annual investment convention held every February in Orlando, as well as in other locations across the U.S. and in other countries. She reports first-hand about exhibitors and mostly male conventioners she met such as "Oliver Velez, a day-trading guru peddling an \$8,000 two-day seminar (\$7,500 if purchased at MoneyShow)" (p. 127). Other topics covered in this chapter include behavioral finance research results, online investing and the Online Trading Academy, demographics of and marketing to MoneyShow attendees ("exhibitors are not paying for booths; they're paying for bait. They serve customers to their exhibitors," p. 136), various "doomsday" financial gurus (Peter Schiff, Howard Ruff, Harry Dent, Jr.), and CNBC investment guru Jim Cramer who, like Orman and Ramsey, has both fans and detractors. Olen rightly concludes "Most people will not beat the stock market indexes. Period" (p. 149).

The targeting of women for the sale of investment products is the topic of Chapter 7, *An Empire of Her Own; The Truth About Women and Money*. Olen begins by discussing results from a Prudential study describing women's lack of confidence in managing money despite the fact that "more than five of six married women surveyed reported they are either jointly or solely responsible for their household finances" (p. 150). She rightly criticizes financial services firms for using research results like this to encourage women to "turn their financial lives over to professionals" (p. 151) instead of increasing their knowledge to build confidence. Also included in this chapter is a discussion of the pay gap between men and women (with Olen calling it "a hell of a lot of lattes" in reference to David Bach's advice to save money previously spent on coffee, p. 154), bank outreach efforts to women in the 1920s and today, a "Sex and the City" approach to female finances in personal finance books, the off-putting language of the financial services industry (e.g., technical terms and sports analogies), and research findings about differences between male and female investors. It concludes with a list of three things that women say they want from the financial services industry: "low and transparent fees, clear explanations of products and advice, and a lack of sales pressure" (p. 171).

In Chapter 8, *Who Wants to Be a Real Estate Millionaire*, the target of Olen's outrage is real estate hucksters who promote the purchase of real estate as a fast track to

wealth, especially *Rich Dad, Poor Dad* co-author Robert Kiyosaki, who, like Ramsey and Orman, sells a variety of products and services including books, board games, DVDs, and high-priced seminars. Like the investment seminar at Pas Tina, Olen attends a real estate "seminar" run by Kiyosaki underlings to experience it first-hand. The program turns out to be an infomercial for another class costing several hundred dollars (\$595 online and \$199 for people who sign up on the spot). According to Olen, approximately half the people in the room sign up. Other topics included in this chapter are Kiyosaki's background, messages, marketing methods, and accusations against him, U.S. homeownership trends, the dangerous use of real estate speculation by some people to hedge stagnant or reduced wages, more unflattering revelations about David Bach, various failed real estate speculators, and the 2000s housing bubble and collapse. Olen also raises an interesting point about Kiyosaki's revered (but anonymous) money mentor; "Just who was Rich Dad, after all? Surely his name should be common knowledge. But it's not" (p. 189).

Perhaps the section of *Pound Foolish* that will interest (and anger) journal readers the most is Chapter 9, *Elmo is Brought to You By the Letter P: The Myth of Financial Literacy*. Here Olen takes aim squarely at the financial education providers, primarily those in the private sector (i.e., financial services firms that are underwriting financial education curricula and media presentations). She states, "no one has been able to prove financial literacy actually works" (p. 199). The chapter begins with a description of a Capital One bank branch in the Bronx, New York City. Other topics that are discussed in the chapter include the launch of the Jump\$tart Coalition by Ford Motor Credit chairman William Odom, controversy surrounding the Jump\$tart Coalition's survey of youth financial literacy, corporate branding in Junior Achievement Finance Park, the "marshmallow experiment" study of delayed gratification by children, and financial education provided via the *Sesame Street* children's television show. The latter was sponsored by PNC Financial Services Group, thus explaining the "P" in the chapter title. The chapter concludes with comments by several financial education critics most notably Loyola law professor Lauren Willis. As Olen explains it, "In Willis's view, financial literacy is at best a doomed crusade, and at worst a cynical ploy by financial institutions to head off legislative protections that might actually help consumers" (p. 216).

The *Conclusion* is titled *We Need to Talk About Our Money*. Unlike many books with alarming statistics about

personal finance trends that have been reviewed in this journal in the past, *Pound Foolish* does not conclude with a well fleshed out list of action steps and/or policy proposals. Rather, this chapter, and thus the book itself, concludes with rather vague suggestions that readers embrace the potential benefits of financial therapy (with sessions with a professional coach costing \$50 to \$350 an hour), collective action to improve America's financial ills, and government as "the back-stop enforcer of everything from the rule of law to insurer of last resort" (p. 235). Specific topics mentioned in the concluding chapter include a description of a "How to Romance Your Money" class, the origins and benefits of the Financial Therapy field, weaknesses of standard financial advice, a poverty simulation role-playing game called *Spent*, linkages between food and money and a repeat of Olen's frequently cited thesis that "Americans were sold on the idea that good financial habits and a well-balanced investment portfolio could compensate for stagnant and falling salaries" (p. 234).

The best way to summarize this review is to say that I had a "love-hate" reaction to *Pound Foolish*. Parts of the book were informative, eye-opening, and spot-on while others left me vehemently disagreeing with its content and underlying premises. Let's start with the positives. *Pound Foolish*, as noted earlier, was derived from interviews, field visits, and a large number of carefully referenced data sources. This, combined with a colorful writing style that is frequently entertaining, holds a reader's attention, especially Olen's descriptions (although many were not new because they were published by cited sources) of the dubious practices and products of well-known financial gurus. Olen is also quite correct to point out Americans' stagnating incomes and increasing retirement insecurity, shortcomings of 401(k) plans, hype and faulty assumptions underlying many financial advertisements, the practice of marketing "helplessness" to women, rising costs of education and health care, and high-pressure sales techniques used at financial trade shows and "free meal" seminars. For journal readers who are asked "What do you think of (Dave Ramsey, Suze Orman, etc.)?" questions by consumers, *Pound Foolish* provides information, collected in one place, to provide an informed response.

On the negative side, *Pound Foolish* has a rather abrupt and unsatisfying ending with few specific policy solutions or action steps provided to address the issues that it so skillfully exposes. Rather, Olen seems to suggest that some combination of financial therapy, collective citizen action, and government regulation will cure Americans' financial

ills. The last time I checked, the financial therapy field was in its infancy, the "Occupy" movement had virtually petered out, and gridlock in Washington, DC is ongoing. So how is that working? More fundamentally, I have an issue with what was *not* included in *Pound Foolish*. For a book that purports to expose the dark side of the financial industry, some key topics were omitted. Examples include the alternative financial services sector (e.g., payday loans), shady for-profit credit counseling and viatical settlement firms, and investment scams. Clearly, the focus was on skewering celebrities and undercover reporting of high pressure investment sales pitches.

In the chapter on financial education, there were references to questionable corporate sponsorships and controversy over administration of the Jump\$tart youth financial literacy survey ("Lew Mandell has gone rogue," p. 207) but absolutely no mention of the high-quality (and increasingly rigorously evaluated) financial education work being done by, among others, non-profit credit counseling agencies, military personal financial management program (PFMP) staff, FINRA Investor Education Foundation grantees, and Cooperative Extension educators. Even the venerable National Endowment for Financial Education (NEFE) is barely mentioned in *Pound Foolish*. Either Olen did not take the time to investigate positive examples of financial education or she chose not to include any because a) they do not sell books, or b) fit her premise that financial education does not work and we should just abandon it. Financial education (like most human endeavors), can certainly be improved (e.g., better target audience delivery, more rigorous evaluation) but doing nothing is *not* a superior alternative!

A related quibble pertains to Olen's critique of the financial services industry (including investment firms, gurus, and financial educators) for emphasizing the role of individuals in securing their financial future. Is self-responsibility with respect to personal finances (e.g., saving money, reducing debt, developing financial plans) not a good thing? What people think about, they often bring about. Certainly, as Olen indicates, America has a number of structural problems that should be addressed legislatively to help people prosper, but self-responsibility and individual or family financial planning and action are also critical for financial success. Also, contrary to what Olen believes, I have seen "you can do it" messages work for many people when they are delivered at the grass-roots level by caring and talented financial educators serving as positive role models using interactive and personalized instructional design methods

(versus flashy product-centric gurus). While not nearly as “sexy” to report as a Suze Orman production or Money-Show, it works! Three decades of work in the trenches of financial education have shown me that Americans are not entirely powerless victims of greater economic forces as Olen seems to repeatedly portray. Rather, we have the ability to improve our lives and take control of our finances and financial education is a valuable tool for doing so. Further, regulation and education should never be viewed as “either/or” solutions to America’s financial ills. In fact, we need both!

Consider reading this book for the interesting insights that it provides but be prepared to disagree with some of its content and/or underlying assumptions. I cannot help wondering how different *Pound Foolish* might have turned out if Olen had talked to some of the country’s top financial counselors, planners, and educators.