# Why Dave Ramsey is Wrong

Mr. Ramsey gets a *lot* of things right, and regardless of what you're about to read, I'm actually a fan. If you took no other financial advice, his Baby Steps are a safe and effective path to financial security. However, some aspects of his teachings are not ideal, and this article is intended to offer counterpoints and alternatives.

The typical argument for Ramsey's method is that it works for those who don't have the discipline to take a more conventional road. However, that assumes other approaches are more difficult or even harmful, which is not always the case.

## *Debt Snowball Method*

Ramsey exclusively recommends this method of repaying debt, which focuses on paying off the debt with the lowest balance first. While there is nothing wrong with this strategy, there are others that may be more applicable to your situation. We've outlined the pros and cons of each in the article *Debt Payoff Methods*.

## *Emergency Fund*

The first step on Ramsey's list is to set aside $1,000 for a starter emergency fund. Early in your journey to being debt-free, you may not have that luxury. This is where the *cash flow* debt payoff method may help, depending on your debt situation.

In step 3, he recommends saving 3-6 months for an emergency fund. I would argue that it's a good start, but ultimately not enough, especially if you follow his advice about not having or using credit—which brings me to my controversial opinion that credit cards (with no balance, of course) function perfectly well as a *temporary* emergency fund. There are caveats to this, which will be covered in a future article.

## *Credit is Unnecessary*

Ramsey advises that having credit *at all* is unnecessary and that achieving high FICO scores costs money. Neither is true, and in fact the former assumes that people listening to his advice *don't already have a credit history*, which is almost never the case. The few lenders who provide funding without a credit check also charge much higher interest than a conventional bank.

## *Credit Cards are Evil*

Ramsey argues that using credit cards always results in a net loss and that doing so is never acceptable or useful. When faced with the opposing view that reward programs can be used to your advantage, he frequently lumps those rewards into the category of travel benefits—using that as an opportunity to segue into scolding you for even considering taking a vacation.

The reality is that cash rewards are a thing, as are cards with no annual fees and lengthy introductory interest-free periods. Paying interest is completely unnecessary if you are debt-free and your income supports your spending.

### *Pay Cash for Autos*

While paying cash for a 3-year-old car is the ideal scenario for avoiding the bulk of depreciation as well as saving money on interest and catching the tail end of a manufacturer's warranty, there are other factors to consider. The most obvious is how much (or how little) money you have to spend. Unless you are a professional mechanic who can acquire parts wholesale, spending $2,000 for a car that you will depend on daily for work and school is *never* a good idea, regardless of brand. A $2,000 Honda or Toyota is *not* a reliable car. If you already own such a vehicle, start tracking every penny you spend on maintenance and fuel, as well as instances of missed work and other inconveniences. You may find that a $200-300 car payment is not only a worthwhile tradeoff, but a necessity. Modern cars are also significantly, undeniably safer than their 20-year-old high-mileage counterparts.

### *You Should Only Have One Mortgage*

Dave begrudgingly allows taking out a 15-year loan for your first property, but insists that any additional properties be purchased using cash. This is a natural extension of his anti-debt stance, but the reality is that *if you minimize risk*, leverage works, and the math proves it. You can see this for yourself by using a spreadsheet to calculate two different scenarios for a decade or two into the future. In one scenario, you'll be paying cash for all additional properties. In the other, assume a 25% down payment (a common lender minimum for investment properties). To play it very conservatively, you can leave out any potential appreciation entirely. At the end, you'll find that your net worth is not-insignificantly higher in the leveraged scenario.

The average young worker already has a difficult enough time buying their first home with a 30-year mortgage, so we can enthusiastically opt out of his 15-year mortgage decree as well. Yes, you'll pay significantly more interest. However, the long-term benefits of home ownership far outweigh that penalty.

In conclusion, math, common sense, and your own due diligence are tools that should take precedence over any financial advisor's charisma, whether you pay for their advice or not.