"The Malevolence of Debt"

Before getting to the main topic, I want to address another issue. The most frequent feedback I have received from these Editorials has been, somewhat dismissively, ''Your advice is just common sense." I would note. First: What is obvious to some people is not obvious to most. If common sense was so obvious, we would all be rich. Second: If you had not appreciated it before, in retrospect it may seem to be common sense, but it is as valuable as any advice you might receive. Third: To be Warren Buffett or Bill Gates requires genius. For a physician to attain financial security, which should be your goal, to provide a superior education for your children and the finer things in life for your family, and to be able to retire when you wish rather than work because you must, common sense goes a long way, and should do the trick. Lastly, taking advantage of common sense advice requires discipline, which can be easier said than done.

Back to our discussion. I will tell you straightaway the main point I wish to make:

Debt destroys wealth

Debt is a financial 4-letter word. Think of debt as slavery. On the first of every month, you must send your master a check, or you could lose your home or your vehicle. You may not have much, you might not have anything, but it you have no debt, you cannot be forced into bankruptcy. Debt makes you vulnerable.

Those who lived through the Great Depression came out with an overt fear of debt. They remember the pain of their parents or friends losing their home or business or farm. When I was growing up, all I heard was "Stay out of debt, clean your plate, stay out of debt, turn out the lights when you leave a room—and stay out of debt." It was incessantly repetitive. In recent generations, this fear of debt has been replaced by a more casual attitude, to the point that some now almost seem to embrace it. Within barely a decade, the pain of the Great Recession of 2008/2019 is already forgotten.

Until recently, bankers required collateral and actually expected the borrower to be able to repay, in full, and on time. As the now old saying goes "Bankers loaned money only to those who didn't need it." What is scary is that they now loan money to people who actually do need it. And to quote Gomer Pyle "surprise, surprise," they can't pay it off.

Debt is far too easy to obtain. You just sign your name. It seems like all that matters is where you put the decimal point. You should promise yourself that you will only take on debt to buy a home or to fund your education. Otherwise, you are asking for trouble.

Credit cards are a fixture of modern life. You must have a credit card to travel. Two or three credit cards should be quite enough. But they make it far too easy to spend money (that you often do not have). If you had to pull cash money out of your pocket to make every purchase, you would make fewer mistakes. Credit cards are very convenient, but you should only use them if you know there will be funds available when the bills come due. One of the most important points of this Editorial: No matter where you are in life, if you have credit card debt, you are spending too much, and you are in big trouble.

Einstein called compound interest the Eighth Wonder of the World. Debt is compound interest in reverse, working against you. Purchase your home with a 10 or 15 year mortgage. The vehicle you drive to work every day is a depreciating asset. It will eventually be worth zero, nothing. To purchase a vehicle on credit is doubling down on a loser. The vehicle you can afford is the one you can purchase for cash.

There are few better investments than the early repayment of debt. Consider the payoff. Your position is more solid, you are less vulnerable. Every dollar paid off saves you the interest. But like the TV commercials: wait, there is more. Say you are paying on a 5% note, and you can generate a 5% return on your investments. The money that you saved by paying off a note early can be reinvested to generate a return of $5\% + 5\% = 10\%$.

(Note: I had previously recommended that student loans also be paid off early. However, as mentioned in previous Editorials, I cautioned that student loans would become politicized. There is now serious discussion of partial, or even total, student loan forgiveness. You must continue to pay your student loans in a timely manner, but I am now hesitant to recommend that they be repaid early. Use your own judgment).

You open a futures trading account with a deposit of \$50,000. Your first trade is a winner, and you now have \$55,000. You are fooled by randomness (you got lucky[1]) into believing you have what it takes to beat the market. You leverage up and take a position of \$200,000. Reality rears its ugly head. Your next trade is down 30%, for a loss of \$60,000. The broker is forced to liquidate your position, and you receive a margin call that another \$5,000 must be wired today. Debt can make otherwise solid investments unstable.

I have recently come to the realization that someone owing you money can make you just as vulnerable. Say your stock portfolio or your farm is valued at \$100,000, and you owe the bank \$50,000. Someone owes you \$50,000, or, God forbid, you co-signed a note for \$50,000 (There is never a reason to co-sign a note. Never). The economy softens, there is the inevitable bear market, and your investments fall in value to \$40,000. The bank calls your loan. The person who owes you \$50,000, or for whom you co-signed a note, cannot repay. You could be forced into bankruptcy.

Neither a borrower nor lender be.

When times are good, everybody is happy. You must protect yourself against that one (inevitable) time in your

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life when you could get wiped out. Debt makes you vulnerable.

Disclosure

Dr. Doroghazi is not a registered financial advisor under federal law or any state law. The advice provided is of a general nature, and should not be interpreted as personalized or individualized to your specific portfolio.

Acknowledgment

Dr. Robert Doroghazi is a retired cardiologist who trained at the University of Chicago, the Massachusetts General Hospital, and Barnes Hospital. Warren Buffett said his book *The Physician's Guide to Investing: A Practical Approach to Building Wealth* should be "Required reading at med schools". To sign up for a free trial to *The Physician Investor Newsletter,* visit www.thephysicianinvestornewsletter.com

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