

From the *New York Times* bestselling author of
The Value of Debt

THE
VALUE
OF
DEBT
IN
BUILDING
WEALTH

THOMAS J. ANDERSON

WILEY

The Value of Debt in Building Wealth

The Value of Debt in Building Wealth

*Creating Your Glide Path
to a Healthy Financial L.I.F.E.*

Thomas J. Anderson

WILEY

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FOR ROWAN, RORY & REID

I love YOU more ;-)

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Foreword

Like many Americans, I have a complicated history with debt. In my 20s living in New York City, I spent more than I could afford, borrowing to fill the gap and running up my credit card. I was living above my means, digging myself into a hole of debt with no experience of knowing how hard it would be to climb out.

I couldn't get out of it on my own. Eventually, I met my future wife, and after we married, she pulled me out of my debt with her savings—not a great way to start a marriage.

Debt also helped me build my wealth. In the mid-2000s, when my wife and I bought our house, we took out the largest mortgage we could afford. What's more, the mortgage we took out was interest only. We had no plans to pay off our mortgage and we never have. Today, the house is worth more than twice as much as it was when we bought it (at least according to Zillow). And that money we saved by not paying down any principal on our mortgage, roughly \$8,400 a year, or \$96,600 by now has gone, in part, toward renovating the house. We have a new kitchen and a finished basement. Without that savings, we also likely wouldn't have felt comfortable maxing out our 401(k)s and contributing to our kids' college savings accounts.

I'm not sure exactly where I got the idea that it was OK to take out a huge mortgage and go for a home loan that—at least at the time—other people were saying was too risky. But I know at least some of the courage to do so came from Tom Anderson and the conversations we have had over the years, often late at night when we should have been talking politics or sports. We are fellow finance geeks.

A quick disclaimer: I have known Tom Anderson for more than 20 years. We met in college, became quick friends, and have stayed friends ever since.

As unbiased as I can be, Tom is one of the most insightful and original thinkers among the financial planners I have known. And having been a personal finance and investing reporter for a good portion of my career, I have known many.

What you have here is a powerful tool to increase your wealth, lower your stress about your money, and create a happy future. Do the worksheets; they are great. Like me, you may not get all passing grades, but what you will get is a sense of what direction to go and how to get there. And I certainly got a lot more confidence I could get where I wanted to be.

Most personal finance books are really works of pop psychology—a bag of tricks to make you feel better about your finances, not actually improve them. Paying off your lowest balance credit card, for instance, instead of your lowest rate credit card, may make you feel better about your finances, but in the long run it will actually make you poorer. And, as Tom shows in this book, having no mortgage or debt might make you feel better, but it may also cut off your best path to wealth.

Tom lays out how to move into a better financial position without needing any tricks.

Tom does make one point in the book I would quibble with: He says that stock market valuations are so high, and the prospects for growth are so low, that U.S. markets in general are likely to disappoint. I have a more optimistic view of U.S. market growth. But we always engage in friendly debate and, in the end, he is right—none of us knows the future. Even if interest rates stay low for longer than expected and stock market returns are better than expected, that makes now an even better time to follow Tom's advice on how to convert debt into equity on your own personal balance sheet.

What you have in front of you is a true gift: A powerful guide to your financial future at the exact right time in history when the advice it has to give is most likely to generate the biggest reward. Use it wisely.

Stephen Gandel
Deputy Digital Editor, *Fortune* Magazine
September 30, 2016

Acknowledgments

It is with deep and sincere gratitude that I want to recognize the Museum of Science and Industry in Chicago. While standing at an exhibit on the Fibonacci sequence, the golden ratio and balance in art, life, music and nature, a wave of inspiration came over me. It took much longer than I would have anticipated to take the initial inspiration and turn it into a specific and actionable plan, but it never would have happened without that special trip to the museum. I also want to thank the Adler Planetarium, which serves as a constant source of inspiration. I am a finance nerd who knows virtually nothing about art or science, but the museums of Chicago are my temples—my life would be incomplete without you.

The seeds that were planted at the Museum of Science and Industry would not have had soil in which they could grow had it not been for my time at Washington University, the University of Chicago, and brief time at the University of Pennsylvania and London School of Economics/City University. Thank you so much for your contributions to this book and to the broader field of finance. In particular, I want to recognize Dr. Mahendra Gupta and Dr. Anjan Thakor at Washington

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Sticking with the theme, the seed needed water, sun, and fertilizer to grow. The initial version would not have been possible without Jordan S. Gruber, who once again helped me structure my initial ideas. He magically brings order and structure to my crazy, random thoughts. Robyn Lawrence then refined it and gave the book the shape it has today. I love working with you.

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Rowan, Rory, and Reid—this book is truly dedicated to you. Should anything happen to me, I hope you will keep this beside you as my guiding advice. I want you to enjoy the present, be prepared for

emergencies, and be on track for the future. Debt can be a powerful tool to help you in so many ways—but you have to use it responsibly. I hope this book can serve as a glide path to help you navigate life throughout the many different phases, curve balls, and ups and downs that we all experience. And, if you wake up and find you are 60 years old and you still need more advice, I hope you will turn back to my last book. This way, I will always be by your side.

About the Author

Tom Anderson is the founder and CEO of Supernova Companies, a financial technology company that provides a comprehensive platform focused on managing both sides of an individual's balance sheet.

Tom is a *New York Times* bestselling author and nationally renowned financial planning expert. While traditional wealth management focuses primarily on client assets, Tom challenges conventional wisdom by demonstrating the value in evaluating individuals' complete financial picture. He has trained more than 10,000 financial advisors nationwide on how to implement his balanced, holistic wealth management strategies.

While he was Executive Director of Morgan Stanley Wealth Management, Tom was recognized as one of the top 40 advisors under 40 years old by *On Wall Street* Magazine. Throughout his career he has been named multiple times by *Barron's* Magazine as one of America's Top 1,200 advisors: State by State. His first book, *The Value of Debt*, is a *New York Times* and *USA Today* bestseller and was named the #2 business book of 2013 by WealthManagement.com. His second book, *The Value of Debt in Retirement*, has been featured in the *New York Times*, *USA Today*, *Forbes*, the *Washington Post*, CNBC, Fox Business, and Bloomberg.

Tom has his M.B.A. from the University of Chicago and a B.S.B.A. from Washington University in St. Louis, where he achieved a double major in finance and international business. During his undergraduate years, Tom studied abroad extensively, participating in programs at the London School of Economics and the Cass Business School at City University London, and he spent a year at ESCP Europe on their Madrid campus. In 2002, he attended the University of Pennsylvania Wharton School of Business, obtaining the title of Certified Investment Management Analyst (CIMA®), sponsored by the Investment Management Consultants Association (IMCA). Additionally, Tom has earned the Chartered Retirement Planning CounselorSM (CRPC®) designation through the College for Financial Planning.

Prior to his career in private wealth management, Tom worked in investment banking in New York. He is fluent in Spanish and has lived and worked in Spain and Mexico. His extensive academic studies at some of the top schools in finance and economics, international experiences, and institutional background deliver a unique perspective on global markets.

Tom lives in downtown Chicago with his three children and his beautiful Goldendoodle, Harry, who is named after one of Tom's greatest influences, Nobel Prize-winning economist Harry Markowitz.

About Supernova Companies

Supernova is a new way of thinking about your world, challenging conventional wisdom yet representing Theory Implemented™. What began as an education company evolved to a comprehensive platform that centers on the effective management of both sides of the balance sheet and the delivery of balanced, integrated, holistic wealth management services.

The mission of Supernova Companies is to empower individuals to live their best life possible. We believe that the path to financial freedom happens through the effective management of both assets and liabilities, working together as part of a common plan and a bigger picture.

Supernova believes that by managing your life in an interconnected and holistic way, you will have a better chance of living a balanced life

where you can not only enjoy the present, but also are prepared for the future and the curve balls life sends all of us along the way.

In the short term, we assist borrowers with refinancing to debt that has lower rates and better terms, striving to save consumers tens of billions per year in unnecessary interest expense.

The long-term vision of Supernova is to Revolutionize Debt™ by making the world safer for savers and to lower costs for borrowers. Supernova envisions a future where people throughout the world have access to borrowing money at rates lower than most governments and companies. Rather than having many loans, borrowers will have a loan—a single lending solution for all of their needs.

Through this process, Supernova envisions a world where interest rates start at zero percent for all borrowers, where there are zero inefficiencies, and where all people will have the biggest pie possible. A world where there is zero risk in the financial system and where you are more concerned about your grocery store having food on the shelf than you are concerned about a financial crisis, recession, or depression.

Supernova: knowledge empowering life.

SupernovaCompanies.com

Introduction

“The best preparation for tomorrow is doing your best today.”

—**H. Jackson Brown Jr.**

There is considerable value to using debt in building wealth. Not credit card debt. Not payday loans. I’m talking about the right debt, positioned the right way and used in a thoughtful, balanced way throughout your life. Like chocolate, coffee, or red wine—a little bit can be a good thing, when handled responsibly.

The goal of this book is to illustrate what a balanced and comprehensive path may look like throughout the time that you are accumulating wealth. I will demonstrate the power of debt and compare

it to conventional wisdom. The goal is to empower you to make better and more informed decisions. After all, as I will prove to you, the decisions you make with respect to debt are likely to be the biggest financial decisions you will make in your life.

My books *The Value of Debt* and *The Value of Debt in Retirement* were critically acclaimed because they sparked new ways of thinking that helped wealthy people work both sides of their balance sheets—just as corporations do—to become even wealthier. I understand that people are not companies, but that doesn't mean we can't learn from their ideas.

I wrote my first books as guides for people who have \$1 million or more in assets, and back then I was pretty sure that people needed a net worth of at least \$500,000 to implement my concepts.

A funny thing happened. People with much less money started playing with the concept of a strategic debt philosophy—and it worked. I realized these are not just concepts that make rich people richer. When used responsibly, debt can help anyone with discipline and the right disposition build enough wealth to live the life they want and put themselves on the path to retiring comfortably and productively.

If the very phrase “intelligent use of strategic debt” sounds heretical to you, you're not alone. The concept of “good debt” shows up as counterintuitive and even disruptive in a world that scolds us for taking on personal debt. We're blasted with horror stories about people who get buried in oppressive, high-interest debt (unfortunately all too easy to do, especially when you're young and inexperienced). And we've all taken in the popular advice about becoming debt-free as the first step to financial freedom.

This is unfortunate. Debt is a powerful tool that corporate financial officers have understood since capitalism was born. Savvy use of debt provides liquidity and flexibility, allowing smart companies to jump on opportunities and ride out emergencies. Why wouldn't smart investors who are building wealth do the same?

For the past two decades, many people have learned (and benefited) from Dave Ramsey and Suze Orman's advice. These financial authors have helped many people get out of debt, especially out of the oppressive type of debt I agree should be eliminated. However, they often assume people are irresponsible and almost scold them. I approach things

a little differently—I give you the credit you deserve. I assume you are disciplined, smart, and rational.

I will provide a glide path for your financial journey. Glide paths are traditionally buoy lanes for ships and runway lights for airplanes. They are crucial for success and survivability. If captains and pilots don't stay within their confines, they could crash. Glide paths set a course and provide necessary boundaries. This book, your financial glide path, will help you set your course and provide you the necessary boundaries to get you on track for a comfortable life and secure retirement.

This book isn't for people who accumulate wealth to acquire more things. I believe happiness comes from relationships, experiences, and giving back, not things. I believe things and trying to acquire them can become a trap.

Living simply is, simply, more satisfying. I was born and raised in the Midwest, and I learned that early on. I know that no matter how much I amass, someone will always be richer than me. In my business, I see far too many people who have \$5 million comparing themselves with people who have \$15 million and people with \$15 million comparing themselves with people who have \$50 million. It goes on and on, exponentially upping the ante and limiting their ability to enjoy life's real blessings.

This book is for people who want to build wealth so they can pay for education and experiences that will enhance their lives and those of their family members, protect them in emergencies, help them seize opportunities, and allow them to retire comfortably and productively. It's for people who understand that they can't buy the good life but who value liquidity and flexibility as important tools to create and maintain it.

My ideas aren't for everyone. I will suggest that you live in the smallest house you can manage rather than the largest one you can afford. I'll show you why renting can be smarter than buying a home, especially early in your financial life. I'll ask you to give up on buying the latest-model BMW and to think long and hard before jetting off to Tulum. I'll ask you to buy less and do less than you can afford. That's not the American Dream, but it's a foundational pillar when using strategic debt to build wealth. Don't even think about using debt as a tool to build wealth if you can't follow this rule.

You must be willing to live below your means if you want to build liquidity and investments. You need a financial ecosystem that could survive a crash like 2008 or, as is my prediction, something worse. You need a mind that's open to debt as a tool that can work for you as well as against you and a team of financial and legal advisors who think along these same lines.

On your glide path to financial security, working both sides of your balance sheet can give you the liquidity and financial flexibility to lift off and land with ease, elegance, and grace. If you think you have what it takes, take the wheel of your financial life and steer it into the prosperity you deserve.¹

Endnotes

1. Author's note: The information in this chapter is to be considered in a holistic way as a part of the book and not to be considered on a stand-alone basis. This includes, but is not limited to, the discussion of the risks of each of these ideas as well as all of the disclaimers throughout the book. The material is presented with a goal of encouraging thoughtful conversation and rigorous debate on the risks and potential benefits of the concepts between you and your advisors based on your unique situation, risk tolerance, and goals.