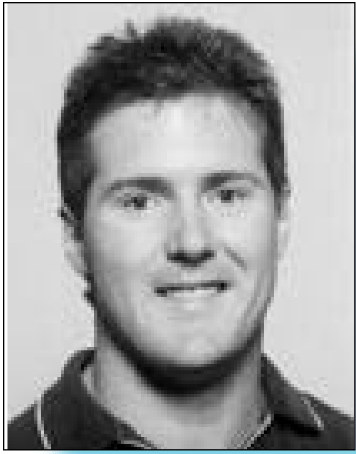
Debt-Free or Asset-Leveraged: Which is Best?



by John Fitzgerald, DC

Dr. Fitzgerald has been a full-time chiropractor for the past seven years, and he has developed and tested various ways to structure his cash flow in order to maximize his net worth. He and his business partner founded Madison Financial in 1999. Dr. Fitzgerald can be reached at 843-216-8805; exec@madisonfinancial.com; or visit the company's web site at www.madisonfinancial.com

We will be writing a series of articles on how to manage cash flow, investing in assets vs. liabilities, and which investment vehicles we recommend and why.

The first article deals with a paradigm shift from being debt free to a more powerful position of being asset leveraged.

For years, many chiropractors have listened to the echoed sentiment by many financial gurus who have preached that the path to psychological well-being in private practice is to accelerate debt repayment and to ultimately get "debt-free."

This financial school of thought teaches you to pay cash for your cars and homes, and to get that student loan paid off as quickly as possible. Teachers of this philosophy would have you believe that this approach to managing your finances will decrease your stress and put you in control of your financial portfolio.

However, there's another school of thought that focuses on leveraging assets rather than focusing on becoming debt-free.

How many of you know of a chiropractor who has paid cash for everything he or she owns, is debt-free and is financially independent? They are few and far between. The average doctor owns too many liabilities and is working his or her tail off to support them. What if this doctor's income was to decrease or somehow go away? How could he or she afford the property tax, the car insurance and the tuition payments? How will he or she ever retire?

The answer lies with investing against your debt to the degree that your investments passively support your monthly payments on your liabilities.

The key to financial independence for the chiropractor is to invest in assets, not liabilities. Let the bank own your house and car, and the government your student loan — and you will have more liquid cash at the end of each month to invest in yourself.

Would it really matter if you were $100,000 in debt at 12% but were worth $1,000,000 and had it invested wisely at 20+%?

The difference between middle class and wealthy is more than just psychology; it is a raw application of how to take an income and make it work for you. The fact of the matter is that every doctor, every day, is either getting richer or poorer.

That middle-class doctor who saw huge returns in the late '90s is now in the year 2001, starting to realize that the stock market is indeed a cycle.

It has been proven many times that a well-diversified portfolio on average will yield 8% to 10% annual growth over 40 years. Another word for a diversified portfolio is a mutual fund. Mutual funds on average won't keep up with inflation rates after you have accounted for fees and capital gains taxes. But guess what many financial advisors and brokers recommend for their middle-class clients? Yep, mutual funds. And many people choose them because they were told they were safe. That depends on your definition of "safe": There were some people who lost money in 2000 on funds that did 25% the year before.

Not only must you invest, you must seek out those vehicles that will secure you the returns that will allow you to meet your goals, yet not assume more risk.

In short, the answer is to focus on asset building, rather than being overly concerned with paying off debts and liabilities.

Consider, for example, a doctor who is $100,000 in debt and has an income of $120,000/year ($10,000/month) and fixed monthly expenses of $5,000.

If this doctor followed a plan focused on ***debt reduction:***

- After fixed expenses, this doctor would have $5,000 per month of "play money" (disposable income).
- The doctor would then take the $5,000 of "play money" and accelerate payment on a debt like a car, house or school loan.
- After 2.5 years, this doctor would be debt- and asset-free, therefore, the doctor's net worth would, for all intents and purposes, be zero.
- In years to come, this doctor would save funds in a money-market account and buy all future liabilities with "cash."
- This doctor would always be dependent on his or her current income to support the liabilities bought with cash.

If this doctor followed a plan focused on ***leveraging assets****:*

- After fixed expenses, this doctor would have $5,000 per month of "play money" (disposable income).
- The doctor would then take the $5,000 of "play money" and contribute it to an investment vehicle that could secure 30+% each year.
- After 2.5 years, this doctor would still have a debt in the neighborhood of $80,000, but if the investments made 30%, the doctor would also have an asset portfolio in the neighborhood of $180,000; therefore, their net worth would be $100,000.
- In years to come this doctor would continue to sock away $5,000/month into his/her asset vehicles, not accelerate debt repayment, and not taking on more liabilities.
- This doctor within 15 years will have an asset portfolio in the neighborhood of $1.4 million and will be able to retire knowing that all the liabilities can be supported by the passive interest made by the asset portfolio.

To sum this article up, we will list these action steps:

1. Stop buying liabilities and do not accelerate payments on liabilities.
2. Start buying true assets, which are things that make you more than 15% minimum APR with your disposable income. We like the true assets offered by GMI (currency traders) and TLA (gov't loans through tax liens). Look at our website www.madisonfinancial.com for details on these companies.
3. Sell off liabilities and take that money and invest it into true assets.
4. Turn your equity into assets. Many of you own commercial buildings or homes that could have a line of credit taken out on it. Take the money (equity) from the property and buy true assets with it. Now your money is working for you.
5. Cut out this article and keep it in a 3-ring binder for reference.

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Our mission at Madison Financial is to educate fellow doctors on the only proven way to take a middle-class income and leverage it into wealth. We show our clients how to manage their monthly cash flow to build tremendous assets while at the same time limit and control their liabilities. It is our vision at Madison Financial to see each doctor within a 5-10 year period of time be able to wake up every morning with the option to do what they "want to do" and not what they "have to do!"

A SMALL SECTION OF TOPICS INCLUDE:

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