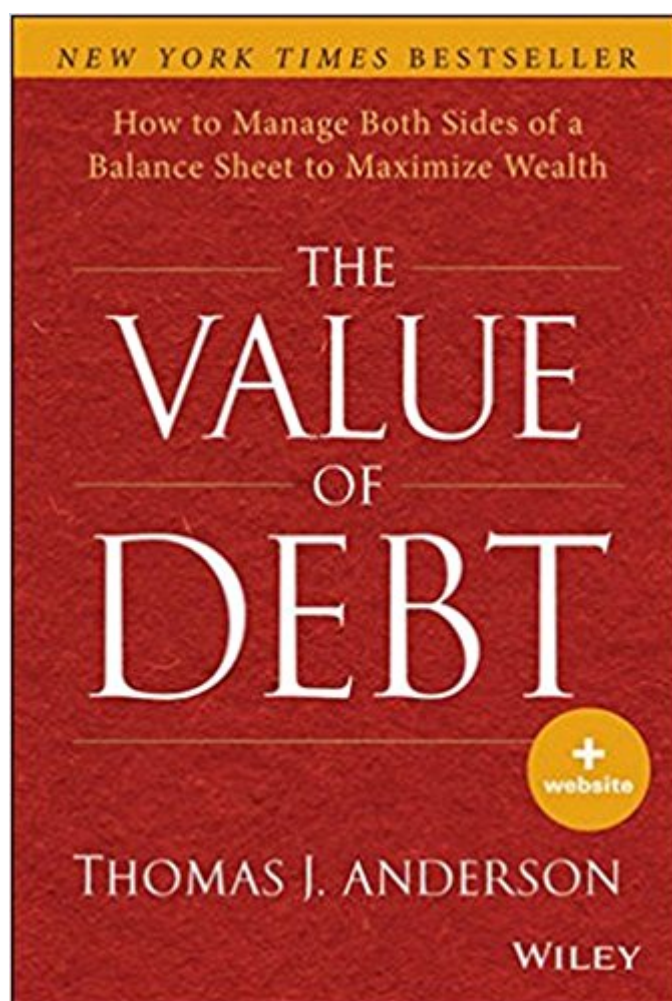


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The Value Of Debt: How To Manage Both Sides Of A Balance Sheet To Maximize Wealth



Synopsis

A New York Times bestseller and one of the Ten Best Business Books of 2013 by WealthManagement.com, this book brings a new vision of the value of debt in the management of individual and family wealth. In this groundbreaking book, author Tom Anderson argues that, despite the reflex aversion most people have to debt—an aversion that is vociferously preached by most personal finance authors—wealthy individuals and families, as well as their financial advisors, have everything to gain and nothing to lose by learning to think holistically about debt. Anderson explains why, if strategically deployed, debt can be of enormous long-term benefit in the management of individual and family wealth. More importantly, he schools you in time-tested strategies for using debt to steadily build wealth, to generate tax-efficient retirement income, to provide a reliable source of funds in times of crisis and financial setback, and more. Takes a "strategic debt" approach to personal wealth management, emphasizing the need to appreciate the value of "indebted strengths" and for acquiring the tools needed to take advantage of those strengths. Addresses how to determine your optimal debt ratio, or your debt "sweet spot." A companion website contains a proprietary tool for calculating your own optimal debt ratio, which enables you to develop a personal wealth balance sheet. Offering a bold new vision of debt as a strategic asset in the management of individual and family wealth, *The Value of Debt* is an important resource for financial advisors, wealthy families, family offices, and professional investors.

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Today Bestseller"Debt is a very useful tool and, far from avoiding it, many clients and their advisors would be better served by thinking more holistically about debt and the long-term benefits it confers on the management of individual and family wealth." Wealthmanagement.com

Why I Wrote This Book I have been teaching the ideas and practices you'll find here for a number of years now. Excited and even somewhat amazed by the Value of Debt--how to strategically use one's Indebted Strengths to be in a much better long-term position--I have been asked many times for a detailed treatment of these ideas. Well, I looked high and low, both online and offline, and couldn't find one, so I felt that given the incredible value that people are already finding in these ideas, I would go ahead and take the plunge and do my best to write it all up in an easy-to-understand book (although you will still need--and most certainly will want--the help of the right financial advisor to fully understand or implement any specific actions). Structurally the book starts out by laying the foundation for a solid strategic debt philosophy. It then transitions to understanding a key building block, which is the incredible benefit of having an Asset Based Loan Facility at your disposal. With these tools in place, I then explore scenarios for success and present specific case studies. A solid foundation is essential to all things in life, but is particularly necessary with respect to formulating and implementing a strategic debt philosophy. I would encourage you to not skip ahead to the case studies regardless of your level of education or familiarity with the subject. Case studies are complicated in a book such as this. The material is difficult to understand without examples but there is risk that somebody could look at a simple example and try to apply that to their complex life. Individual situations are unique and multifaceted. It is worth noting that all case studies presented in this book are for educational and illustrative purposes only and should be used to help trigger meaningful conversations with your advisors about your individual situation. They cannot be - and are not intended to be - advice that you can directly apply to your situation. There are many risks to these ideas and of course all loans are subject to eligibility and approval by the lender. Because of the risks involved I can't stress enough the importance of reading the appendices, end notes, stress testing your philosophy, and becoming as prepared as possible for a wide range of outcomes. Moreover, never underestimate the importance, necessity, and value of working with an outstanding group of professional advisors to implement these ideas according to your individual needs, goals, financial condition, and risk tolerance. Some readers will undoubtedly desire more detail than a book such as this can provide while still be appealing to general readers. If you have an academic or financial background, you will find that this book's theoretical basis can be found in finance and accounting materials that are taught in graduate and undergraduate business

courses throughout the world. You may also recognize that several of the most famous theories in finance are directly or indirectly referenced. In order to keep the material appealing to readers of all levels, however, most technical finance references have been placed in the endnotes. A quick note on interest rates and the global economy will also be helpful at this point. The ideas expressed in this book are designed to transcend political borders and to transcend time. Clearly, over multiple countries and multiple economic conditions, the range of outcomes we will see in our lifetimes may be vast. In the text I use interest rates that represent the current economic environment, but these ideas could have been applied equally in 1980. I've done my best to be world neutral, but there are a number of U.S. specific references, particularly as to taxes. The vast majority of these ideas can be applied around the world in virtually any economy. I hope you find a great deal of value in these pages and that they inspire you to create and implement your own strategic debt philosophy.-- Tom Anderson

“The truth is, we live in a world that tends to have two types of people: those who are very highly leveraged and take on way too much debt and those who are totally debt adverse and don't have any debt whatsoever.” Tom Anderson from The Value of Debt

Reading the previous quote, you may wonder how anyone could expect to sell a book written on the idea that personal debt can be a good thing. If you're like me, right about now you may be hearing the voice of financial radio guru Dave Ramsay or a penny pinching elder lecturing you that all debt is bad, rotten, and evil. Debt is not just a four letter word but for many a conditioned negative response. Blame our lingering, unresolved federal budget deficit or the throngs of people who lost fortunes in our recent economic crisis. Wealth manager and author Tom Anderson's challenge is to convince us that if approached correctly, debt, as it is for businesses can be leveraged for the better good. His recently released book The Value of Debt takes the fundamental concepts of debt that many companies use every day and applies them to personal finance. Anderson takes the first few chapters to lay the groundwork for his work. He begins by laying out Five Tenets (or Action Principles) of Strategic Debt Philosophy which include the adoption of a holistic approach, exploring the idea of thinking like a company, understanding your limitations, finding your optimal personal debt ratio, and staying open minded. The fundamental problem here is that individuals who will find debt enticing are also the ones who shouldn't be playing around with debt in the first place. At this point I have to provide my own disclaimer for this book review: I am not a financial advisor, I do not play one on TV and well, you know the rest. Fortunately, The Value of Debt cautions readers

multiple times throughout the book that most of the discussed strategies should be discussed with a qualified financial advisor. Anderson makes it clear from the start that one has to have accumulated financial assets and a limited debt in order to leverage those same assets with favorable rates and terms. Anderson spends time early in the book introducing this concept of an "asset-based loan facility" or "ABLF". In layman's terms this is borrowing against your own investment accounts. These are usually non-retirement funds that have a value of \$200,000 or more. It is then possible to borrow against these assets at rate of interest that is favorable to a bank loan (and without amortization or loan fees of a traditional loan). Anderson goes on to explain that the direct costs (high priced capital, lower credit rating) and indirect costs (worry, stress, diminished lifestyle) of financial distress can be minimized with the availability of ABLF funds. In other words, using debt properly can provide the liquidity and flexibility to lessen the impact of unforeseen events and provide money for opportunities that may come along. Andersen applies his idea of incurring low impact debt to the purchase of a second-home, the purchase of a car, handling a financial windfall, working out a divorce situation, assisting with the care of elderly parents, and producing retirement income. Even if you are not in a position to take advantage of the strategies prescribed in *The Value of Debt*, the author does a good job of laying out basic personal finance principles so people can position themselves going forward. Although there are parts of the book where readers wade through detailed financial verbiage, Anderson does a good job keeping the narrative interesting and conversational and includes well explained diagrams that make sense of it all.

After reading all of the positive reviews for this book, I was expecting a more sophisticated analysis. There are a couple of good, basic ideas presented around thinking about debt similar to the way corporations think about debt. Sound thinking and there is no doubt that many could benefit from asset based loan facilities to improve liquidity and perhaps improve portfolio returns. But, the analysis on these ultimately levered portfolios only looks at an upside average case. While he author notes the risks, a more sophisticated analysis (egg. Monte Carlo) would unveil more path dependent risk using some of the (somewhat) levered approach the author advocates. Having an ABLF available to deal with emergencies is a good idea for most people. Taking advantage of it may be advantageous for many, but there are more risks than are apparent from this very cursory analysis.

For too long and repeated too often, people for years have been told "debt is bad" and it has been

assumed by the masses to be true. Tom Anderson does an excellent job in this book explaining why this is not necessarily true and under what circumstances debt can actually be put to good use by individuals/families. In a clear and an easy to understand way, the author has illustrated many examples and the math behind it to show how people are able to use similar debt techniques as successful and highly respected companies around the world have been utilizing for decades to help expand and grow their own personal net worth. There is a right and a wrong way for taking on debt as well as right and wrong situations in doing so. Mr. Anderson explores various situations people face in different periods in their lives and helps the reader understand when and how it may be appropriate to utilize debt strategically and in a responsible way. This book has change my thoughts about personal debt and I will be having some very in depth talks with my advisors as a result to see how I too can use both sides of the balance sheet more efficiently as a result.

This book is very complex reading. The author brings concepts from corporate finance to personal finance. However, I think it could have been "dummied down" just a bit more to attract the common reader. This author explains why and how debt should be an important tool in personal financial management in the sense of how a "balance sheet" should ultimately function. This book challenges the conventional wisdom that all debt is bad. Several financial experts have written positive reviews of "The Value of Debt": Anderson uses a holistic approach and provides an assortment of visual "tools", checklists, summaries, etc. In fact, it's possible to learn a lot just by leafing through the book, looking at the visual highlights included therein. He also uses provocative questions to get the reader into a thoughtful mode regarding his/her finances. Now I truly get the balance sheet concept and the fact that credit and debt are on opposite poles. In his book, Thomas Anderson fully explains How to Manage Both Sides of a Balance Sheet to Maximize Wealth. I learned a lot, and will never look at debt the same way again.

This book provides valuable ideas for higher net worth individuals and professional financial advisors. The book provides a formula to calculate a personal debt ratio and gives the reader the range of an "ideal debt ratio". Anderson also very clearly states why nearly everyone should have an Asset Based Loan Facility in place (a line of credit) for emergencies. The book tells us that debt is not an abhorrent concept (in fact, it is a very useful tool), when used in an appropriate ratio and at favorable terms for the investor.

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