

Financial Deception—Smart People Use Other People’s Money

Many people believe it is good financial thinking to use borrowed money to make a lot of money. In other words, “smart people use other people’s money,” not their own. This is a lie from the world and Satan. The only way that is true is *if* you can predict the future—that is, know with certainty the direction of markets and the economy.

The biblical truth is that only God knows the future. Humans can make our best guess about the future, but frequently we are wrong. The past 100 years have shown that no human being can consistently predict the direction of the markets. For example, from 1993 to 2000 the value of most stocks in Canada and United States increased significantly. With false confidence, many people “used other people’s money”—that is, borrowed capital—with the objective of increasing their returns. From 2000 to 2002, on average, the shares on Toronto and New York exchanges decreased about 50 percent in value. People who used debt lost a lot of money. Some lost not only their original capital but ended up in a deficit as their stocks’ value dropped below the amount they had borrowed.

The same principle applies to real estate. During the middle and late 1980s, the value of real estate increased significantly in the Toronto area. Many people believed it would never go down. However, between 1990 and 1995, the values dropped drastically. Some commercial real estate decreased by 75 percent in value, and residential by 50 percent. People with a lot of debt were hurt badly, and in some cases lost their home or investment property.

Over the years, I’ve seen many business people try to use significant debt to their advantage. Although there may have been periods when they benefited as the company expanded faster than it otherwise would have, in due course, every business encounters difficult times, and generally it is companies with a lot of debt that suffer the most, and some are forced into bankruptcy.

The Biblical truth is that we do not know what will happen tomorrow. Proverbs 27:1 states, “Do not boast about tomorrow, for you do not know what a day may bring forth.” *In other words, there are no “sure deals.”*

The same principle applies in business. God warns us,

Now listen, you who say, “Today or tomorrow we will go to this or that city, spend a year there, carry on business and make money.” Why, you do not even know what will happen tomorrow. What is your life? You are a mist that appears for a little while and then vanishes. Instead, you ought to say, “If it is the Lord’s will, we will live and do this or that.” (James 4:13–15)

In summary, we do not know what will happen tomorrow—only God knows the future. Therefore, we should utilize minimal debt—or ideally carry no debt—in regard to investments and business expansion. Overall, the instruction in God’s Word is toward

minimal debt, not maximum debt. (Please see my Financial Moments on borrowing for further details.)

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