

47: What's Better Than Being Debt-Free?



Full Episode Transcript

With Your Host

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Welcome to The Wealthy Mom MD Podcast, a podcast for women physicians who want to learn how to live a wealthy life. In this podcast you will learn how to make money work for you, how you can have more of it and learn the tools to empower you to live a life on purpose. Get ready to up-level your money and your life. I'm your host, Dr. Bonnie Koo.

Happy Wednesday everyone. I hope you're having a wonderful February so far. So if you've been in my world for some time, you know that I've always talked about writing a book, or that's actually one of the first things I wanted to do when I first started learning about all the things about money.

But it wasn't until relatively recently that I finally pulled the trigger. And so I'm super excited to announce that I am writing a book and that the book will be available probably this fall. I know it's February, it's super early, but the reason why I'm finally saying this is because we just locked the title and I'm super excited about it.

So the title of the book is Defining Wealth for Women: (n) Peace, Purpose, and Plenty of Cash. And so kind of hard to see since you're hearing me talk, but after Defining Wealth for Women, there's a colon, and then in parentheses it says N for noun. And so we're basically defining what wealth means.

And so that definition for the book is peace, purpose, and plenty of cash. And so this book is a culmination of sort of everything I've learned about money, pulling in the psychology of money, pulling in the strategy of money, and spending some time sort of dissecting why we as women have money issues.

Because there's many reasons for that, and so that book will go into that and I'm sure I'll be diving into those specific topics on this podcast as well. And so just want to let you guys know that is happening. I don't have a firm date yet but once I do, I will let you all know.

So today, I want to talk about debt. Now, I've talked about debt at least a few times on this podcast and I think you guys all know my stance on debt,

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that I don't think it's bad and I think this whole rushing to pay it off as soon as possible is horrible advice. I don't think it's horrible advice in itself, but I do think it prevents people from really working on buying and growing assets.

And so this is always something I'm thinking about, this is always I'm figuring out how I can teach this concept better, how I can explain it better, and I just realized why debt is so easy to pay off, versus buying and growing assets. And so that's what I want to talk about today.

So even though I've had a few podcast episodes already on debt, I want to bring you up to speed just in case you haven't listened to them. So let's just first make sure we're all on the same page and define what debt is. Debt is simply money that you bought.

Basically it comes down to two things. You either didn't want to spend the money or you didn't have the money, and so you bought the money and the price of the money is the interest. I'm going to say this again. All debt is is money that you bought and the price of the money is the interest.

Okay, now that we're clear on that, now I want to move on to why so many people have so many negative emotions about debt. And hopefully you know by now that your thoughts create feelings, meaning that debt cannot jump into your body and cause a feeling, meaning that debt itself does not make you feel stressed, does not make you feel anxious or whatever you think debt is making you feel. It's what you're thinking about the debt.

Specifically, the story you made up about debt. Now, the general public, all the other financial bloggers pretty much all say that debt is bad, and you should pay it off, right? And on first glance, it kind of makes sense why people would say that because having no debt is better, or things like having debt means you're not great with money.

There's all sorts of weird stories about debt out there. Now, I'm specifically talking about lower interest student loans or a mortgage. I'm not talking about high-interest credit card debt or other forms of consumer debt. It's

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not that this concept can't apply, but generally speaking, when you go into a lot of high-interest consumer debt, that's usually a different problem.

So somehow, we've all agreed that debt is not something good and so you should get rid of it as much as possible. And people love to say they're debt-free, people always say, "It feels so free, it's so liberating to be debt-free." And it's not that I don't agree with that. It's just that there's something even better than being debt-free. Something even more liberating than being debt-free.

And that is to have income-producing assets making money for you while you sleep. Now, that is freedom and that is liberating. But now I want to go into and explain to you why it makes sense for you to pay off debt as much as possible and why it's so satisfying to pay off debt. There's a very good reason for this.

So you may have heard me talk about the motivational triad. Now, just visualize a triangle. So there's three parts of the motivational triad obviously. And so this is how we explain what drives your primitive or toddler brain.

Now, let me just back up a second just in case you're new to me. Your brain's primary goal is to ensure your survival. Let me repeat that again. Your brain's primary goal is to keep you alive and it's done a pretty good job because if you're listening to this, that means you're alive.

Now, that might sound really silly but that's literally all it's really designed to do. To keep you alive. It makes sense. And this aspect of our brain has clearly been working for hundreds of thousands of years since the humans are still here on Earth.

The motivational triad describes the three sort of driving innate forces of human brains. So I'm going to say them all at once and then I'm going to go through them one by one and give you examples. Number one is that the primitive brain loves things to be easy. Remember, the brain is

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interested in survival and the brain does not like expending energy if it doesn't have to.

Remember, the brain is a huge glucose hog. It wants to conserve energy because we might have to fight a lion. Remember, we want to stay alive. And so if things take too much energy, at least initially, the primitive brain is going to be like, "That seems really complicated. Let's go watch Netflix instead." And so I like to joke here that basically, our primitive brains are really freaking lazy. They are lazy as F.

Number two is pleasure. Now, this is dopamine hit pleasure. I also like to put in parentheses progress. Making progress is a form of pleasure for your brain. And so in the context of paying off debt, as you pay off the debt, as you see that debt decrease, the number, that is progress to your brain. That is a form of pleasure to your brain.

Now, I forgot to mention how debt and easy go together, but you already know how to pay off debt. You send a payment every month, you've been doing that already I presume, and so paying it off faster is just doing more of the same. It's easy. You don't have to learn something new. You just shovel more money at it, right?

So we've covered easy and the pleasure principle. Okay, number three is pain. Specifically, your primitive brain wants to avoid pain. Now, talking about perceived emotional pain. Remember, all of us think that debt is bad and that we shouldn't have it and it's hard and all this other stuff.

And so paying off debt is a form of reducing that emotional pain. So as you can see, paying off debt literally hits the jackpot in terms of satisfying your primitive brain's wants. It's easy, there's progress as you pay it off, which is a form of pleasure, and because you're decreasing that "bad" debt, it's decreasing the emotional pain.

Now, you may have heard me talk about the one rule of wealth or the only simple rule of wealth, which is basically that the key to creating wealth is to

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buy and grow assets, and that assets put money in your pocket. And so how does that relate to debt?

Well, I think it's pretty clear. Any extra money you put towards debt is money that is not going to buy and grow assets. I'll say it again. Any extra money you put towards debt is money that is not going to buy and grow assets.

Now, when I say this, people tend to agree with me and nod and agree logically. Like, okay, that makes sense, I get it. But then they get a little stuck because this whole paying off debt thing is so ingrained in our belief system. And I just told you why our brains love to pay off debt.

Now I'm going to show you why our brains have a hard time with this whole concept of buying and growing assets, even though logically it makes sense. And basically, it's because of the motivational triad. It basically is the opposite of paying off debt in terms of the motivational triad.

So let me go through that with buying and growing assets. Alright, here we go. Remember, three things. Easy, pleasure or progress, and avoiding pain. Okay, buying and growing assets. So let's just pick an example like investing in real estate, but you can use it with any type of buying and growing assets category.

So is it easy? Well, at first glance it probably isn't because it's something new because you probably don't know how to buy and grow assets or buy real estate. Because if you did, you'd be doing it already probably. And so at first glance, it seems a little complicated. It's definitely not easy. And like I said, our brains are really lazy, it doesn't want to spend the time to learn it, and so it basically suggests you eat a cookie instead.

Okay, number two, pleasure or progress. There is no immediate pleasure or progress when you're buying and growing assets. You can't start day one and day two be a millionaire. This is delayed gratification. So there's no immediate pleasure and it usually takes time. Longer than we want.

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And then we've got the whole thing about pain, avoiding pain. Buying and growing assets, investing in real estate seems risky, meaning you could lose money. That is a bad thing. And so the potential to make a mistake, the potential to lose a lot of money, obviously, your brain is not interested in doing that.

So as you can see, it basically is a big X on all those three things of the motivational triad when it comes to buying and growing assets. So of course, your brain's going to think, hey, paying off this debt is so much easier and it's safer and let's do that instead. And we can deal with buying and growing assets later, we're already doing some 401K stuff, we're fine.

I'm not saying that's not a good plan. I just want you to understand why you probably chose that plan. So here are the most common things I hear from people when it comes to debt. This is the most popular one. It is a guaranteed return, meaning if you pay it off, then that interest rate, the price of the money, you get that back as a return.

So that is sort of true but not really because it is a very short-sighted way to look at paying off debt quickly. Sure, I guess you save money because you're paying less interest, but the last time I checked, paying off debt is not the same as buying and growing assets. The last time I checked, paying off debt doesn't start sending you checks in the mail, right? There's no continued interest coming back to you.

Number two I hear is that it's safer. So I'm not even sure what that means exactly, but I'm guessing it means that it's guaranteed. If you pay it off it goes down, whereas investing is risky and may or may not pan out. But that, in my opinion, is not a good reason not to invest.

A lot of us are so terrified of losing money but we all know that nothing worth doing is without risk, without effort. We didn't become doctors to torture ourselves for decades of training. We did it because of the reward of helping people.

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The last thing I hear a lot is it's better to be debt-free. Now, I sort of debunked this earlier in this episode but that's because people think debt is bad and so being debt-free must be good. But most of us haven't considered what's even better is to have income-producing assets, a.k.a making money in your sleep, or not having to see patients because you have to. And that is available to you.

So that's all I have for you today and I do want to say that I did actually pay off my debt a few years after residency and that was before I understood the difference between debt, assets, and all that stuff. And so I don't regret my past decision, but if I had that debt today, because let me tell you, that debt was like at 2% interest. I definitely would not have rushed to pay it off.

And now that we're investing in real estate, that involves going into debt. Taking out a mortgage to make money. And I don't have any problems with that because I don't look at that as bad debt. I look at that as leverage. I look at that as allowing me to invest and make money.

So there are many ways to make money and I just want to hopefully introduce the idea that labeling all debt as bad is just kind of silly. I'll talk to you guys next week.

Hey, if you're a woman physician who is ready to practice medicine on your terms, then you've got to check out my program, Money for Women Physicians. It's part course and part coaching and 100% guaranteed to put more money in your pocket. Go to wealthmmommd.com/money to learn more.