



(UBS)

Is borrowing worth the risk and cost?

18 February 2025, 7:10 pm EST, written by US Editorial Team UBS Editorial Team

Before choosing whether to borrow or not, investors should address the key question of whether a particular borrowing strategy would increase the probability that they meet their financial goals. However, this alone does not provide a “green light.” Investors should also stress test their portfolio for risks that could derail any borrowing strategy.

To evaluate the potential pitfalls and merits of borrowing, we must first assess **cost** and **robustness**.

Cost is the first consideration. In particular, it is important to evaluate the difference between the estimated interest rate on any loan versus the expected return of the asset in which loan proceeds are invested.

If the expected return of the intended asset is lower than the borrowing cost, then borrowing clearly does not make financial sense. If the expected return is higher than the borrowing cost, then taking on debt could make sense. It is important to remember that short-term returns often deviate significantly from long-term expected returns, and this borrowing cost-to-“expected-carry” analysis will almost always appear favorable. As a result, cost should not be the only criterion for deciding when to use liabilities.

Robustness is a crucial second component. Borrowing that results in an investor being forced to sell assets to make a loan repayment is almost never a good idea. There are usually two main culprits that can lead to this scenario materializing: *market risk* and *spending plans*.

Market risk and margin calls. If the value of a loan's collateral falls, breaching agreed loan-to-value ratios, and a borrower lacks alternative funds, they may be forced to sell assets to meet a margin call or repay debt.

One method to assess this risk is to consider historical “maximum drawdowns.” Any estimate of potential haircuts should also account for illiquidity. Stocks, bonds, and many investment funds tend to be fairly liquid, while property, private business interests, and other illiquid assets could fetch far less if it became necessary to sell in a rush.

Loans against less liquid assets—such as property, private market fund holdings, yachts, or aircraft—aren’t directly subject to the potentially damaging margin calls that can impact credit backed by stock portfolios or single stocks, but these loans may be callable on short notice. Investors should make sure not to borrow beyond their liquidity capacity; being forced into a “fire sale” of liquid assets can be damaging to long-term growth potential.

Spending plans are equally important. If a family or investor expects to tap a portfolio for large expenditures, such as university tuition for children or a home purchase, an important consideration would be how long the portfolio could take to recover (the “time underwater”) and the impact that spending might have on a projected loan-to-value ratio.

If, after making such planned expenses, the investor’s assets will still hold enough value to avoid a margin call in a worst-case scenario, a borrowing plan can be considered robust. If, however, the plan leaves little margin for error—or there is a projected shortfall—it may be necessary to reduce leverage.

For much more, see [The potential role of borrowing in a financial plan](#), 17 February 2025.

Disclaimer

This document is prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland), its subsidiaries or its affiliates (“UBS”), part of UBS Group AG (“UBS Group”). UBS Group includes former Credit Suisse AG, its subsidiaries, branches and affiliates. In the USA, UBS Financial Services Inc. is a subsidiary of UBS AG and a member of FINRA/SIPC. Additional Disclaimer relevant to Credit Suisse Wealth Management follows at the end of this section.

This document and the information contained herein are provided solely for your information and UBS marketing purposes. Nothing in this document constitutes investment research, investment advice, a sales prospectus, or an offer or solicitation to engage in any investment activities. This document is not a recommendation to buy or sell any security, investment instrument, or product, and does not recommend any specific investment program or service.

Information contained in this document has not been tailored to the specific investment objectives, personal and financial circumstances, or particular needs of any individual client. Certain investments referred to in this document may not be suitable or appropriate for all investors. In addition, certain services and products referred to in the document may be subject to legal restrictions and/or license or permission requirements and cannot therefore be offered worldwide on an unrestricted basis. No offer of any product will be made in any jurisdiction in which the offer, solicitation, or sale is not permitted, or to any person to whom it is unlawful to make such offer, solicitation, or sale.

Although all information and opinions expressed in this document were obtained in good faith from sources believed to be reliable, no representation or warranty, express or implied, is made as to the document’s accuracy, sufficiency, completeness or reliability. All information and opinions expressed in this document are subject to change without notice and may differ from opinions expressed by other business areas or divisions of UBS Group. UBS is under no obligation to update or keep current the information contained herein. **The views and opinions expressed in this material by third parties are not those of UBS.** Accordingly, UBS does not accept any liability over the content shared by third parties or any claims, losses or damages arising from the use or reliance of all or any part thereof.

All pictures or images (“images”) herein are for illustrative, informative or documentary purposes only and may depict objects or elements which are protected by third party copyright, trademarks and other intellectual property rights. Unless expressly stated, no relationship, association, sponsorship or endorsement is suggested or implied between UBS and these third parties.

Any charts and scenarios contained in the document are for illustrative purposes only. Some charts and/or performance figures may not be based on complete 12-month periods which may reduce their comparability and significance. Historical performance is no guarantee for, and is not an indication of future performance.

Nothing in this document constitutes legal or tax advice. UBS and its employees do not provide legal or tax advice. This document may not be redistributed or reproduced in whole or in part without the prior written permission of UBS. To the extent permitted by the law, neither UBS, nor any of its directors, officers, employees or agents accepts or assumes any liability, responsibility or duty of care for any consequences, including any loss or damage, of you or anyone else acting, or refraining to act, in reliance on the information contained in this document or for any decision based on it.

Additional Disclaimer relevant to Credit Suisse Wealth Management: Except as otherwise specified herein and/or depending on the local entity from which you are receiving this document, this document is distributed by UBS Switzerland AG, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA). Your personal data will be processed

in accordance with the Credit Suisse privacy statement accessible at your domicile through the official Credit Suisse website <https://www.credit-suisse.com>. In order to provide you with marketing materials concerning our products and services, UBS Group AG and its subsidiaries may process your basic personal data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can optout from receiving these materials at any time by informing your Relationship Manager.

Please visit <https://www.ubs.com/global/en/wealth-management/insights/chief-investment-office/marketing-material-disclaimer.html> to read the full legal disclaimer applicable to this document.

© UBS 2025. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.