

Zee's founders owned 41% of it in early 2019. Borrowing left them 6%

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Maxim: *Never use borrowed money to own stocks.* — Warren Buffett, in substance

Shares that fall can recover, if you are still holding them. Borrowed money is what takes them away from you at the bottom.

A falling share price is a temporary loss; a forced sale makes it permanent, and borrowed money is what forces the sale.

Warren Buffett made the case with his own company. In his [2017 letter](#) to Berkshire Hathaway shareholders, he listed what he called the "gory details" of four truly major dips in Berkshire's share price: 59.1% between March 1973 and January 1975, 37.1% in a few weeks of October 1987, 48.9% between June 1998 and March 2000, and 50.7% between September 2008 and March 2009.

Berkshire is one of the most successful companies in history. Anyone who bought its shares and simply held them did extraordinarily well. Yet four times, the shares lost somewhere between a third and three-fifths of their value. "This table offers the strongest argument I can muster against ever using borrowed money to own stocks," Buffett wrote. "There is simply no telling how far stocks can fall in a short period."

The logic is brutal and simple. An owner who paid in full could sit through every one of those falls. An owner who had borrowed against the shares would, at some point in each of them, have received a call from the lender asking for more money or more collateral. Without either, the lender sells, at whatever price the market offers that day. The investor is not just hurt by the fall. He is removed from the recovery.

The day the lenders sold

India's clearest modern example involves not small investors but a company's own founders. At the start of 2019, the promoters of Zee Entertainment, the Essel group led by Subhash Chandra, held about 41.6% of the company, and had pledged roughly 60% of that holding to raise loans, according to an [Invest Yadnya analysis](#) at the time. The borrowing funded the group's other ventures, not Zee itself. But the collateral was Zee's shares.

On 25 January 2019, those shares fell as much as 37% during the day and closed 27% lower, [BloombergQuint reported](#). As the price collapsed, lenders began selling pledged shares; one lender's sale alone made up nearly 30% of the shares delivered that day. Each sale pushed the price lower, which weakened the remaining collateral further.

The next day Chandra released an extraordinary open letter. "For the first time in my career of 52 years, I am compelled to apologize to our bankers," he wrote, as [Business Today published it](#). He described the group's habit of servicing its debts "by borrowing funds against our shareholdings in Listed Companies", and said the IL&FS crisis had stopped the rollovers that kept the arrangement going.

The rest of the year was a slow unwinding. In November 2019, with about 96% of their remaining stake pledged and around ₹7,000 crore of loans to repay, the promoters agreed to sell another 16.5% of Zee, leaving them with about 5.9%, [Business Standard reported](#). The company survived. The founders' control of it, built over decades, largely did not.

How borrowing changes the nature of risk

Without debt, the risk in shares is mostly about time. A good business whose price has halved will often recover; Berkshire did, four times. The owner's job is to wait, which is uncomfortable but possible.

With debt, the risk becomes about the path the price takes, not where it ends up. A loan against shares, a margin trading account or a pledge carries a trigger: if the value of the shares falls below a set level relative to the loan, the lender can demand more collateral or sell. The investor may be entirely right about the business and still be wiped out, because being right eventually is no defence against being sold out this week.

Borrowing also changes behaviour. Buffett, in the same 2017 letter, quoted Kipling's advice to keep your head "when all about you are losing theirs". That is hard enough with your own money. With a lender watching the price and a margin call on the phone, it is close to impossible. And the arithmetic is unforgiving: borrowing magnifies a 30% fall in the shares into a much larger fall in the investor's own capital.

The same mechanism works on a smaller scale for ordinary investors. Margin trading accounts, loans against shares or mutual funds, and personal loans taken to buy into a rising market all carry the same hidden clause. They are easiest to obtain in good times and most dangerous in bad ones, which is precisely when lenders become least patient.

What this means in practice

For most people, the rule can be taken literally. Do not buy shares or equity funds with borrowed money, whether a margin facility, a personal loan, a credit card or a loan against other investments. If an opportunity seems too good to miss without borrowing, it is worth asking why the urgency feels so strong; that feeling is usually the market's mood, not the opportunity's quality.

Check the products you already use. Many trading apps offer margin or pay-later facilities at the click of a button. Know whether yours is active and what the trigger levels are.

If you own shares directly, look at promoter pledging before you buy. Companies must disclose how much of the promoters' holding is pledged, and it appears in the shareholding pattern on the stock exchange websites. A high and rising pledge means the company's share price is also its owners' collateral, and a sharp fall can turn into forced selling, as Zee's shareholders discovered.

And if you have a home loan or other debt, recognise that you are already, in a sense, investing with borrowed money whenever you invest instead of prepaying. That can be a sensible choice when the loan is cheap and long-term and your investments are not pledged. It is very different from borrowing specifically to buy shares.

If you do one thing: Open your trading account settings today and check whether any margin, pledge or pay-later facility is switched on. If it is and you do not need it, switch it off.

Zee's business did not disappear in 2019; it kept broadcasting, and its shares had good days again. What disappeared was its founders' ability to wait for them. Berkshire's shareholders who owned their shares outright waited through four collapses and were rewarded each time.

That is the whole of Buffett's argument. Falls in the price of good businesses are survivable. Falls combined with debt often are not. Keep your shares paid for, and the market's worst days remain only bad days.

Sources

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