



Debt Isn't a Bad Thing

by Cullen Douglass, CFP®

Depending on who you talk with, and which radio programs you listen to, you may hear debt is bad. You'll be told to make sure, first and foremost, you pay off all your debt. Do not pay interest. Eliminating debt should be your first and most important financial goal.

Why do credible people take this as a fact and repeat it in such a black and white manner? Shouldn't we determine if it's good debt or bad debt? If you can leverage debt and earn a higher interest rate than the cost of borrowing, is that bad debt? If debt allows an individual or business to grow faster and increase profits, is that a bad thing?

As an advisor, I feel a responsibility to differentiate good debt from bad debt. Making blanket statements that all debt is bad debt doesn't line up with the basics of financial planning. If all debt is bad debt, then how do we grow our economy except by cash? How does a young student pay for college or medical school if he or she can't use debt? How does an entrepreneur start a business if he or she can't use debt? If debt allows for quicker, sustainable growth, I am a believer in using it. If debt is for consumables to allow you to live a richer lifestyle than you can afford, that is not a good thing. Today, credit card and consumer debt are higher than they were at the peak of spending before the economy cratered in 2009. Today, consumers have 35% more debt in auto loans than they did in 2008. This, I would argue, is almost all bad debt. Living above your means is not a good financial planning strategy.

Because debt isn't black and white, I feel it is crucial to get a third party to help you evaluate it. Bad debt can cripple a family for years and keep it from reaching important financial goals. But good debt can propel a family quickly toward financial independence.

Sources:

Richter, W. (2018, February 08). America's consumer debt keeps skyrocketing. Retrieved November 7, 2018, from <https://www.businessinsider.com/americas-consumer-debt-keeps-skyrocketing-2018-2>

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