Assessing Your Debt

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Many consumers find themselves falling into the traps offered by the appeal of easy credit opportunities. They are dazzled by payment plans for tech purchases, zero-percent loans on major purchases, credit card-funded vacations to faraway locations, and blowout sales that tout incredibly long delays before any payments are due. Before long, the spending spree turns from satisfaction into the need for a second mortgage to consolidate and manage the debt load.

Canadians entered 2016 with the highest burden of debt in history, with Statistics Canada reporting that the ratio of household credit-market debt to disposable income has risen to 165.4 percent, which means that average Canadian households carry $1.65 in debt for every disposable dollar to their name. Additionally, household debt rose 4.9 percent in 2015, the fastest rate in four years. Included in this figure is a 6.3 percent rise in mortgage debt, which also marks the fastest rise in four years.

Meanwhile, banks continually encourage their customers to build up debilitating levels of debt. Advertisements entice individuals and families to acquire everything they want now without ever having to give up anything else. This is a dangerous mindset, one that can have long-lasting consequences. Debt should not be looked at solely as something that allows you to get anything you want, but rather as a rare acceptable risk for acquiring something that will eventually increase in value over time.

Consider the housing market. Over the past 12 months alone, cities like Toronto and Vancouver have experienced home price increases exceeding 30%, which forces families desiring to live in these communities to take on larger and larger mortgages just to find a decent place to live. Because of these pressures, more and more Canadian families are living beyond their means, which unfortunately often leads to even more debt to support their lifestyle. These factors lead to a dangerous cycle that can be difficult to break, especially in a low-interest environment like the one we are currently experiencing.

Conversely, however, not every kind of debt is bad. Wise investors know that the most effective use of debt is in acquiring assets that might eventually be worth more than their purchase price, including houses, business investments and equities as well as other types of investments. The best way to know whether a certain debt burden is a negative or a potential positive is to ask a professional financial advisor—take the guesswork out of debt.

When borrowing money for anything, the best strategy is to always proceed with caution. Making a commitment to cut back on unnecessary borrowing and spending can help to ensure long term security and happiness. If you have concerns that debt payments are beginning to have a negative impact on your cash flow, seek out the assistance of a professional financial advisor who can help you assess the impact of current debt payments against your long term financial goals.

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