



Practical Wealth Creation Ideas

...for Simplified Financial Success™

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What are the warning signs of OVER-INDEBTEDNESS?

Too much debt can threaten your future and destroy your peace of mind. Here are five warning signs to watch for:

1. You are spending more than 20% of your aftertax earnings on debt.

Total up all you owe, excluding your mortgage, e.g. student loans, car payments, and credit card bills. Now total up how much of your aftertax income is dedicated to servicing this debt.

2. You are paying for daily essentials with credit instead of cash.

Consequently, you are skating close to the credit limits on your cards. Credit cards charge notoriously high interest rates increasing

(especially if that interest is compounding) your actual gross cost of goods purchased.

3. You are deferring important expenditures.

You may need maintenance work (on your car, your home, your teeth) as you struggle to get by.

4. You seem to spend your pay-cheque the day you get it.

This may be a sign that you're also over-spending, an activity that leads to debt.

5. You are not differentiating between 'good' versus 'bad' debt.

Good debt is money borrowed for productive purposes that hopefully will help generate wealth over time. These include debts that help you acquire an education, build a small business, or purchase real estate. Avoid running up debt for fancy cars, expensive vacations, restaurant meals, and overindulgent gift giving. Bad debt creates a lifestyle not justified by your pay-cheque and will eventually catch up with you. If you are in serious debt, consult a debt counselor who will arrange a repayment schedule with your creditors.