

FINANCIAL NEWSLETTER

**More Income.
More Safety. More
Confidence**

September 2024



OAKTREE
PREMIUM FINANCE

The OakTree Newsletter: More Income. More Safety. More Confidence

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Hello Christina,

Not all debt is bad. While some debt can hurt your finances, "good debt" can be a powerful tool for growth, much like how corporations use debt to expand. This article breaks down the difference between good and bad debt and how you can use this knowledge to your financial advantage.

Understanding Good Debt vs. Bad Debt: Lessons from Corporate Finance

When it comes to managing personal finances, the concept of debt often carries a negative connotation. Many people view all debt as something to be avoided, but this perspective overlooks an important distinction: not all debt is created equal. Just as companies strategically use debt to fuel growth and maximize returns, individuals can also harness the power of "good debt" to improve their financial standing. To better understand this, let's compare personal debt to how corporations manage their finances through the issuance of stocks and bonds.

Good Debt: An Investment in Your Future

Good debt is borrowing that serves as an investment in your future, offering potential returns that exceed the cost of the debt itself. Think of it as the equivalent of a corporation issuing bonds to finance a new project or expand its operations. The key here is that the borrowed money is used to create value, whether it's generating income, building equity, or gaining access to opportunities that would otherwise be out of reach.

Examples of Good Debt:

- Mortgage Debt:** Purchasing a home with a mortgage is a prime example of good debt. While you're taking on significant debt, you're also building equity in a valuable asset. Over time, as the value of your property increases and you pay down the principal, you can significantly enhance your net worth—much like a corporation investing in a long-term asset that appreciates over time.
- Business Loans:** Entrepreneurs often take on debt to start or expand their businesses. When done wisely, this can lead to increased revenues and profits, much like a corporation using debt to finance a new product line or market expansion. The key is that the borrowed funds should generate more income than the cost of the loan.
- Real Estate Investments:** Taking out loans to invest in real estate can be another form of good debt. Similar to corporations investing in properties to generate rental income or capital gains, individuals can benefit from real estate as an appreciating asset that can provide steady income and build long-term wealth.
- Premium Finance:** This involves borrowing funds to pay for high-value insurance policies, such as life insurance, that can offer significant financial benefits. When structured correctly, premium financing allows individuals to leverage borrowed funds to secure large policies without tying up capital, potentially enhancing wealth transfer and estate planning strategies. Kai-Zen, for example, is a hybrid of premium finance that combines leveraging with overfunding an index universal life policy, offering more benefits with less risk.

Bad Debt: The Drag on Your Financial Future

On the other hand, bad debt is borrowing that does not generate a return and often leads to a decrease in net worth. This is similar to a corporation issuing bonds to cover operational losses or pay off old debts without any plan for future growth or revenue generation. Bad debt can quickly spiral out of control, leading to financial stress and long-term instability.

Examples of Bad Debt:

- Credit Card Debt:** High-interest credit card debt is the quintessential example of bad debt. Much like a company that borrows to cover ongoing expenses without a plan for repayment, individuals who accumulate credit card debt often find themselves in a cycle of borrowing just to stay afloat. The interest rates are typically much higher than any potential return, leading to a net loss over time.

2. **Consumer Loans for Non-Essential Purchases:** Borrowing to fund vacations, luxury items, or other non-essential purchases is another example of bad debt. These expenditures do not offer a return on investment and can leave you with debt that doesn't contribute to your long-term financial goals, much like a corporation borrowing to fund bonuses or perks without improving its underlying business.

3. **Car Loans on Depreciating Vehicles:** While a car loan might seem necessary, especially if you need a vehicle for work, it's generally considered bad debt. Cars are depreciating assets, meaning they lose value over time. Financing a car purchase with a high-interest loan is akin to a corporation issuing bonds to buy equipment that will rapidly decline in value—it's not a sustainable financial strategy.

The Corporate Perspective: Leveraging Debt for Growth

Corporations understand the strategic use of debt as a tool for growth. When a company issues bonds, it's essentially borrowing money from investors with the promise of paying them back with interest. The key to this being a successful strategy is that the borrowed funds are used to finance projects or acquisitions that generate a return higher than the cost of the debt. If the company can achieve this, it will grow its revenues, increase its profits, and ultimately reward its shareholders.

However, if a company takes on too much debt without a clear plan for growth or uses debt to cover non-productive expenses, it can lead to financial trouble. Interest payments can become overwhelming, cash flow can become strained, and the company may struggle to meet its obligations, leading to a decline in stock value or even bankruptcy.

Applying the Corporate Model to Personal Finances

The lesson here is clear: debt, when used strategically, can be a powerful tool for personal financial growth, just as it can be for corporations. The key is to distinguish between good and bad debt and to manage your finances with the same discipline that successful corporations apply to theirs.

1. **Invest in Yourself:** Just as companies invest in growth opportunities, you should use debt to invest in things that will improve your financial future, like home ownership, real estate investments, or a business venture.

2. **Avoid Consumer Debt:** Stay away from consumer debt that does not offer any potential return on investment. This includes loans for non-essential items like vacations or luxury goods. These types of debt can quickly become a financial burden, similar to a corporation taking on debt to cover non-productive expenses.

3. **Have a Repayment Plan:** If you must take on consumer debt, have a clear repayment plan in place. Just as a corporation needs to manage its cash flow to meet debt obligations, you should ensure that your debt fits within your budget and that you can comfortably meet your payments to avoid falling into a debt trap.

4. **Avoid High-Interest Rate Debt:** Steer clear of debt that comes with high interest rates, like credit cards and payday loans, as these can erode your financial stability over time. Much like poorly managed corporate debt can sink a company, high-interest debt can derail your personal financial goals.

By thinking like a corporation and making strategic decisions about when and how to use debt, you can position yourself for long-term financial success. The key is understanding the difference between good and bad debt and using that knowledge to your advantage.

-Jim Barlow, MS, CFP

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What is Kai-Zen

Kai-Zen is a strategy that helps you maintain your current lifestyle in the event of a chronic illness, premature death, or an inability to sufficiently save for retirement. Protecting your earnings is critical to insuring your ability to save for retirement. Due to limitations, traditional retirement plans are typically insufficient for high-income earners. If you want to maintain your lifestyle in retirement, you need a proactive strategy that puts more money toward protecting your future income without putting a drain on your current finances.

Kai-Zen is the ONLY strategy that uses leverage to help you acquire more of the benefits you need to financially protect you and your family. Its unique fusion of financing and life insurance offers you more protections and the potential to earn more for retirement than you could obtain without leverage.

THE Kai-Zen® STRATEGY
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Quotes Jim sent his family this past month:

"You have to decide what your highest priorities are and have the courage—pleasantly, smilingly, unapologetically, to say 'no' to other things. And the way you do that is by having a bigger 'yes' burning inside. The enemy of the 'best' is often the 'good.'" Stephen R Covey

"We call it 'study,' and that's good because it implies effort. But we don't always need to learn some new fact. Sometimes reading the [scriptures] is just about feeling connected to God today—nourishing the soul, being strengthened spiritually before heading out to face the world, or finding healing after a rough day out in the world." Mark L Pace

"There is no safe investment. To love at all is to be vulnerable. Love anything, and your heart will certainly be wrung and possibly be broken. If you want to make sure of keeping it intact, you must give your heart to no one, not even to an animal. Wrap it carefully round with hobbies and little luxuries; avoid all entanglements; lock it up safe in the casket or coffin of your selfishness. But in that casket—safe, dark, motionless, air-less—it will change. It will not be broken; it will become unbreakable, impenetrable, irredeemable." CS Lewis

"People who don't fish think that fishing is lazy or boring, but it is the complete opposite. There are a hundred little

"God Knows"

"And I said to the man who stood at the gate of the year: 'Give me a light that I may tread safely into the unknown.' And he replied: 'Go out into the darkness and put your hand into the Hand of God. That shall be to you better than light and safer than a known way.' So I went forth, and finding the Hand of God, trod gladly into the night. And He led me towards the hills and the breaking of day in the lone East." Minnie Louise Haskins

As World War II was beginning, King George VI of the United Kingdom chose to use the opening lines of this poem in his Christmas broadcast to the British Empire in 1939.

decisions to be made, variables to be considered. And you're never quite sure what made the difference. Did I cast too high, too far to the left? Did I reel it in too slow, or too fast? Is the lure too shiny or too dull? Do I stay here, or should I go over there? And you know it's not luck, but you do not know by how much. ...This is why I am fishing! because I am never disappointed out here - because I don't expect anything - because anything is possible. I can be hopeful out here, even in failure, because I know if I just go out there, around that tree, it might be different, something might be different - something I do might make a difference." Joe Morton

"Attitude not aptitude determines altitude." John A Whitsoe

[Watch me on KSL!](#)



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