Concept Sheet

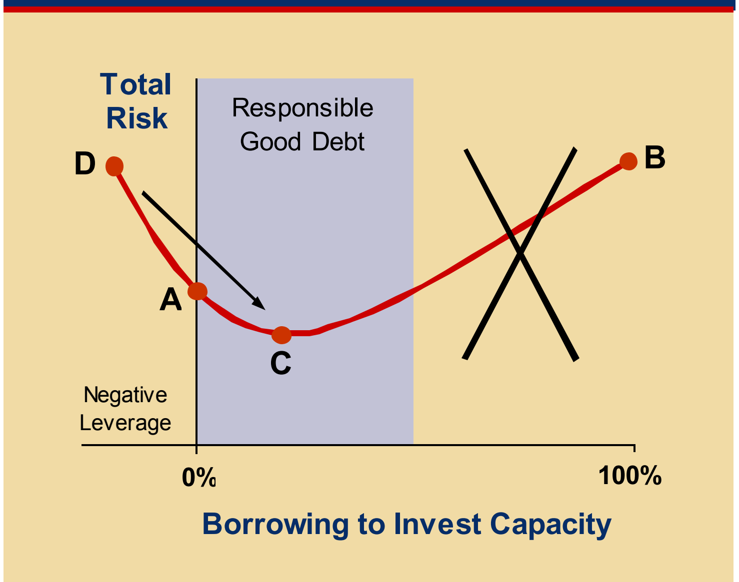
Is Some Investment Debt Less Risky Than None?

Evaluating the use of investment debt should not be an "all or nothing" decision.

The total risk of borrowing to invest is the sum of the financial risk of losing money, the emotional risk of stress, and the shortfall risk of not having enough money to meet your retirement goals.

Unless you're already financially independent, using no investment debt results in some shortfall risk and thus some level of total risk (point A). Borrowing and investing the maximum that you can results in high levels of financial and emotional risk (point B).

Talbot's Debt Risk Theory



Understood and implemented responsibly with long-term time horizons, investment debt should magnify positive returns and decrease shortfall risk.

Consider the risks of using such a small portion of your borrowing capacity, say 10-30%, that there are negligible financial or emotional risks.

If the shortfall risk goes down and there is almost no financial or emotional risk, the total risk of borrowing to invest a small portion of your capacity (point C) is lower than the total risk of not using any (point A).

Many people use bad debt or negative leverage which produces high financial, emotional, and shortfall risks (point D). Avoid negative leverage and never use the maximum you can. As an integrated part of your financial plan, only consider using a small, comfortable amount of investment debt that results in negligible financial and emotional strain.

Ironically, a small, responsible amount of investment debt could be less risky than none, and as a bonus, produce higher returns.