



CHICAGO PARTNERS | WEALTH
ADVISORS

Young Investors Series

Investing in Your Future

Understanding Good Debt, Bad Debt, and the Volatility Tax





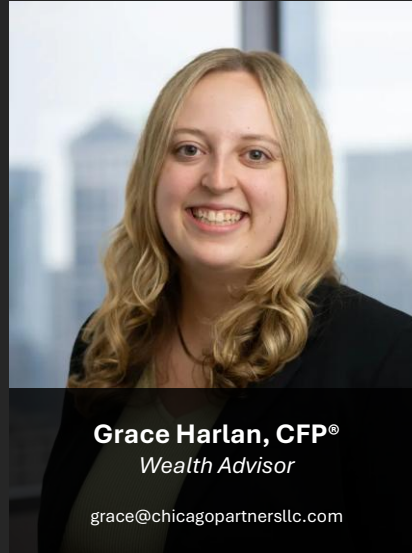
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Meet the Team

Today's Speakers:



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What is Chicago Partners?



Anna Read

Senior Client Services Associate

A **Registered Investment Advisor (RIA)**
headquartered in downtown Chicago

Also known as a “**private wealth manager**” for high-net-worth individuals and families

A **fiduciary** advisor, or an advisor always acting in the best interest of the client

Builds financial plans, makes investment recommendations, and provides account oversight

Works with over 2,900 clients and \$8 billion in assets under management



Today's Agenda



Anna Read

Senior Client Services Associate

Part I

Good Debt vs. Bad Debt

Part II

The Volatility Tax

Part III

Q&A and Next Steps



Part I

Good Debt vs. Bad Debt

Not all debt is created equal. The right kind, used wisely, can help build wealth. The wrong kind can quietly and quickly drain it.



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Wealth Advisor





Definition

What is Debt?

Debt is the borrowed money you'll pay back over time, with interest. It is a wealth tool, and like any tool, the outcome depends on how you use it.



Principal

The original amount you borrowed.



Interest

The cost of borrowing or what the lender charges, expressed as a rate.



Term

The time you have to repay. Longer terms mean smaller payments but more total interest.



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Good Debt vs. Bad Debt

Will this debt make me wealthier?



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YES – Generally Good Debt

- Builds an asset, skill, or income stream
- Carries a manageable, often lower interest rate
- Has a clear, finite payoff plan
- Expected return exceeds the cost to borrow



NO – Generally Bad Debt

- Funds depreciating assets or pure consumption
- Carries high or compounding interest
- Has no clear repayment plan or strategy
- Cost of borrowing eats into future income



Bad Debt

Bad Debt In Action



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High-Interest Credit Cards

Carrying a balance at 20–28% APR. The interest often exceeds anything your investments can reasonably earn.



Oversized Auto Loans

A vehicle that depreciates 20% the day you drive off the lot, financed over 6–7 years at high rates.



Lifestyle / “Buy Now, Pay Later”

Financing vacations, clothing, electronics, or experiences. The purchase fades; the payments don't.



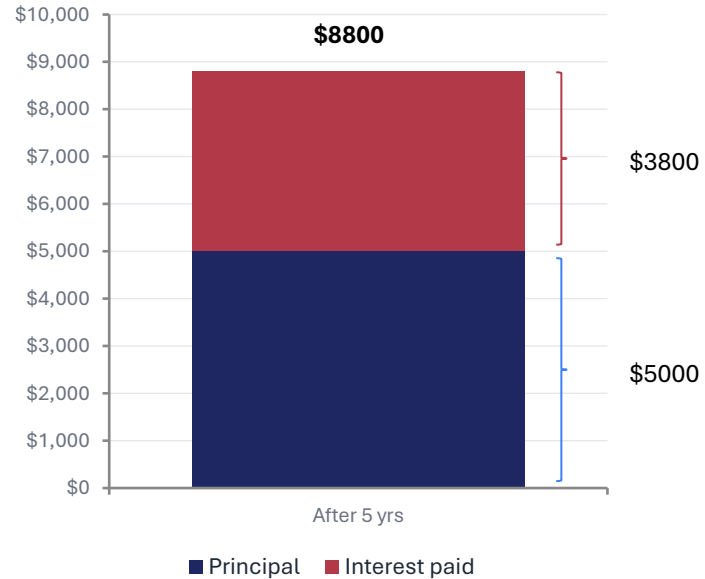
Bad Debt

Managing Bad Debt



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Paying only the minimum at 22% APR — total cost over time



The Bottom Line

\$8,800 paid in total to clear a \$5,000 balance (nearly \$3,800 of it in interest alone).



Good Debt

Good Debt In Action



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Student Loans

Investing in education that meaningfully raises your lifetime earning potential, when the degree's expected return exceeds the loan cost.



Mortgages

Buying a primary residence with a fixed-rate loan can build equity, hedge against rising rents, and produce long-term net-worth growth.



Small Business/Career

Borrowing to start a business, fund certifications, or develop a new income stream that produces a higher return than the interest rate.



Good Debt

Managing Good Debt



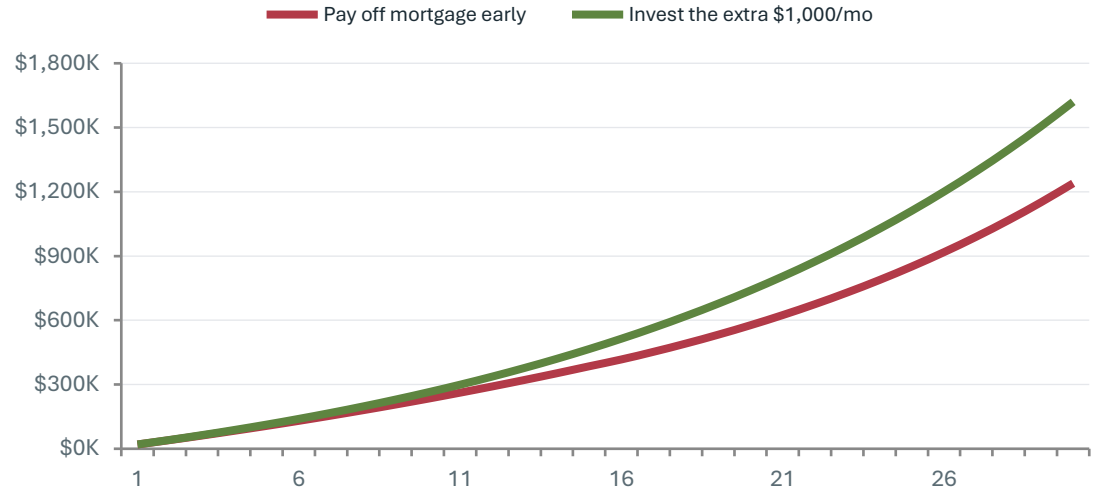
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Mortgage
\$400k @ 3.5%
30-yr fixed

Extra Cash / Month
\$1,000
Pay down or invest

Market Return
7%
S&P 500 long-run avg

Net wealth after 30 years



Pay Off Early
\$1.24MM

Invest
\$1.62MM



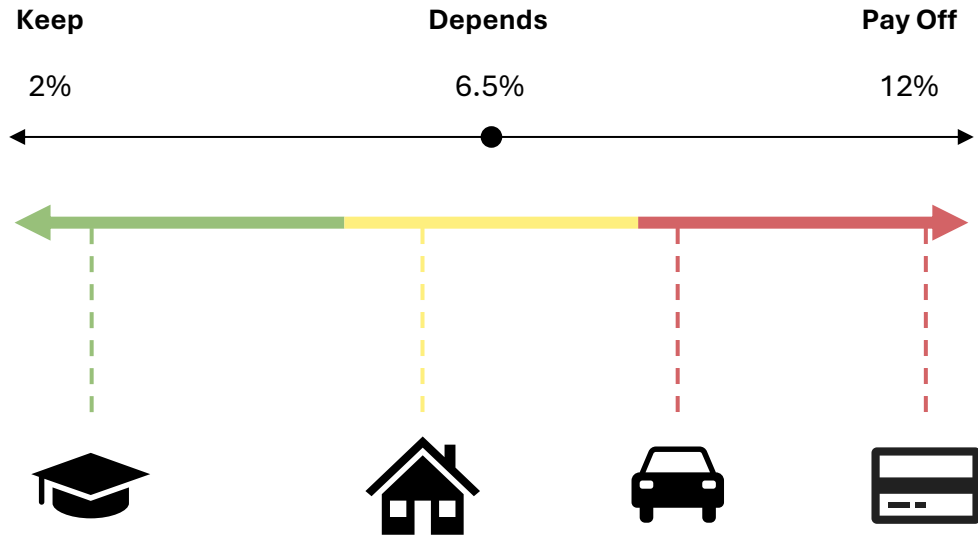
Good Debt vs. Bad Debt

When to Pay Off Your Debt



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If your portfolio is achieving a 6.5% growth rate, you should pay off anything with an interest rate higher than 6.5%, as this is eating into your earnings.





Good Debt vs. Bad Debt

Five Red Flags to Watch For



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1

You only make minimum payments.

A balance that never seems to shrink usually means interest is winning.

2

Your debt-to-income is climbing.

If monthly debt payments approach 35%+ of take-home pay, you've lost flexibility.

3

You borrow to pay other debt.

Rolling balances or using new credit to make old payments is a stress signal.

4

You don't know your interest rates.

Anything you don't track tends to grow. Know the rate on every account.

5

Debt is funding your lifestyle.

If routine spending depends on credit, the income–expense gap needs attention first.



Good Debt vs. Bad Debt

Credit Card Use vs. Credit Card Debt



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1

You only make minimum payments.

A balance that never seems to shrink usually means interest is winning.

2

Your debt-to-income is climbing.

Using a credit card is a test drive for a mortgage. You are proving to the bank you can make your payments on time.

Spend what you know you can pay off at the end of the month.

3

Anything you don't track tends to grow. Know the rate on every account.

5

Debt is funding your lifestyle.

If routine spending depends on credit, the income–expense gap needs attention first.



Good Debt vs. Bad Debt

Smart Strategies for Managing Debt



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Build an Emergency Fund

Even \$1,000 keeps a surprise expense from becoming new credit card debt.



Tackle high-interest debt first

Pay all minimums, then attack the highest-rate balance.



Consider Refinancing

Consider refinancing, if there are better loan interest rates out there.



Good Debt vs. Bad Debt

Three Things to Remember

- 1. Good debt can be a tool**
What matters is whether it builds wealth or drains it.
- 2. Watch the rate, the term, and the purpose**
Low rate + appreciating asset + clear plan = often good. High rate + depreciating purchase + no plan = almost always bad.
- 3. Small habits compound**
Knowing your rates and pausing before big purchases will outperform any clever financial trick.



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Part II

The Volatility Tax

The hidden cost of a bumpy ride and why a smoother return path is worth more than it looks.



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Definition

What is the Volatility Tax?

Volatility Tax

The effect of volatile market movements on a portfolio's total compound return.

It is the mathematical difference between geometric averages compared to arithmetic averages.

It demonstrates how losses hurt more than gains help.



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Visualization

The Volatility Tax



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Consistent Investment		
Year	Rate of Return	Ending Value
1	10.40%	\$1,098,000
2	10.40%	\$1,212,192
3	10.40%	\$1,338,260
4	10.40%	\$1,477,439
5	10.40%	\$1,631,093
6	10.40%	\$1,800,726
7	10.40%	\$1,988,002
8	10.40%	\$2,194,754
9	10.40%	\$2,423,008
10	10.40%	\$2,675,001
11	10.40%	\$2,953,201
12	10.40%	\$3,260,334
13	10.40%	\$3,599,409
14	10.40%	\$3,973,748
15	10.40%	\$4,387,018
16	10.40%	\$4,843,267
17	10.40%	\$5,346,967
18	10.40%	\$5,903,052
19	10.40%	\$6,516,969
20	10.40%	\$7,194,734
Arithmetic Return	10.40%	
Compound Return	10.40%	

MSCI All Country World Index		
Year	Rate of Return	Ending Value
2006	21.5%	\$1,215,000
2007	12.2%	\$1,363,230
2008	-41.8%	\$793,400
2009	35.4%	\$1,074,263
2010	13.2%	\$1,216,066
2011	-6.9%	\$1,132,158
2012	16.8%	\$1,322,360
2013	23.4%	\$1,631,792
2014	4.7%	\$1,708,487
2015	-1.8%	\$1,677,734
2016	8.5%	\$1,820,341
2017	24.6%	\$2,268,145
2018	-8.9%	\$2,066,280
2019	27.3%	\$2,630,375
2020	16.8%	\$3,072,278
2021	19.0%	\$3,656,010
2022	-18.0%	\$2,997,929
2023	22.8%	\$3,681,456
2024	18.0%	\$4,343,750
2025	21.4%	\$5,272,878
Arithmetic Return	10.40%	
Compound Return	8.70%	

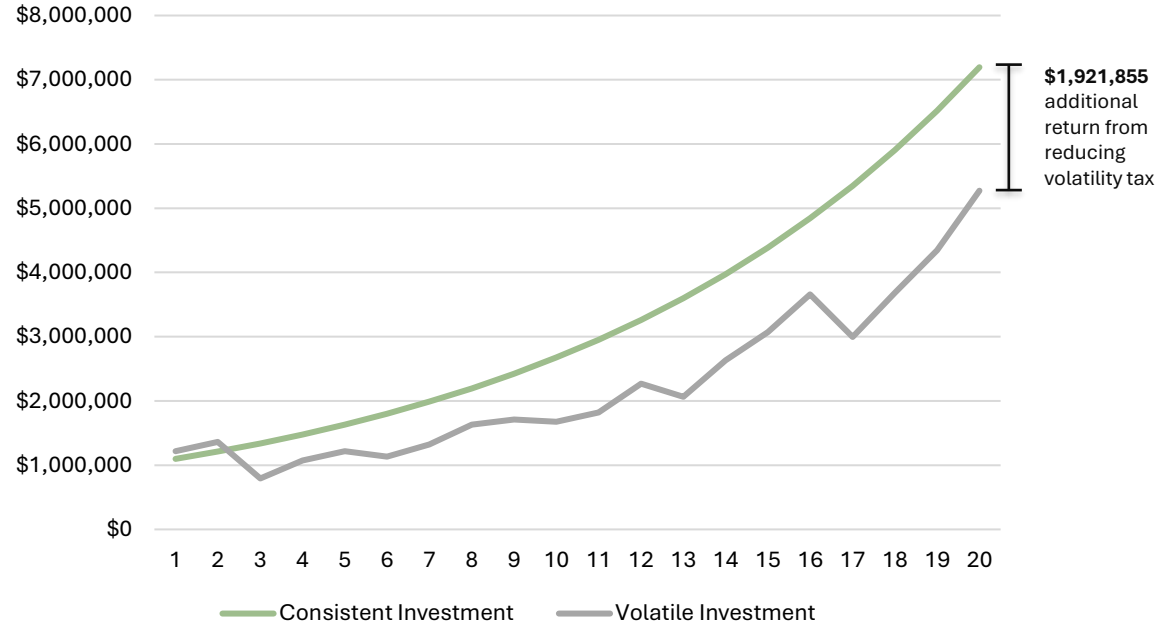
Over a 20-year period, the **difference** between the Consistent Investment and the Volatile Investment is **1.7%** per year.



Visualization

The Volatility Tax

Consistent vs. Volatile Returns of \$1,000,000 Investment



Over a 20-year period, **the difference** between the Consistent Investment and the Volatile Investment is **1.7%** per year



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The Volatility Tax

Reducing Your Volatility Tax



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Diversify Across Asset Classes

Stocks, bonds, and other assets don't move in lockstep. A diversified mix smooths the path without giving up most of the long-term return.

Match risk to your time horizon

Money you need in 2 years should be invested differently from money you won't touch for 30. Right-sized risk avoids forced selling at the worst moments.

Stay invested through downturns

Missing the best 10 days in a decade can cut long-term returns nearly in half. Volatility taxes you most when you trade in response to it.

Rebalance and keep contributing

Adding regularly during dips lowers your average cost. Periodic rebalancing helps your portfolio remain diversified and positioned for the long-term.



Part III

Q&A and Next Steps

words



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Actionable Steps



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Identify whether your debt builds or diminishes wealth.

Pay your credit card balances in full.

Track your monthly payments and income to understand your cash flow.

Make your money work harder for you.



Submit Your Ideas For Future Topics



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**We would love to hear from
you!**

You can navigate to the web address
below to submit any topic ideas you
have for future Young Investor
Webinar calls.

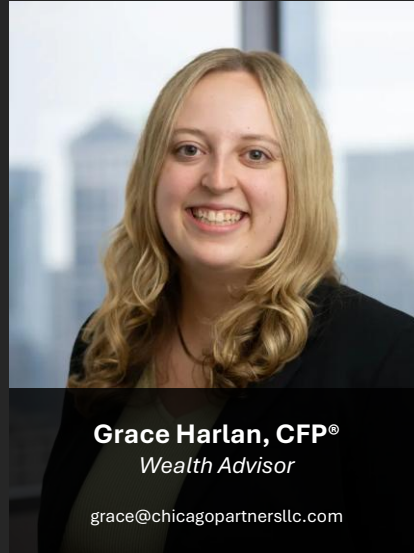
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Q&A

Thanks for attending!

Stay tuned for our next installment!



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