



Young Investors Webinar Series

Investing in Your Future: Good Debt, Bad Debt, & the Volatility Tax

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About Chicago Partners

- Registered Investment Advisor (RIA) and fiduciary private wealth manager based in Chicago
- Serves 2,900+ clients with \$8 billion in assets under management

Part I: Good Debt vs. Bad Debt

- Debt Defined
 - Borrowed money repaid over time, with three core components — principal, interest, and term
- Core Question: "Will this debt make me wealthier?"
 - *Good debt*: Builds an asset/skill/income stream, manageable rate, clear payoff plan, expected return exceeds borrowing cost
 - *Bad debt*: Funds depreciating assets or consumption, high/compounding interest, no repayment plan
- Bad Debt Examples
 - High-interest credit cards (20–28% APR), oversized auto loans, lifestyle/"Buy Now, Pay Later" financing
- Cost Illustration
 - Paying only the minimum on a \$5,000 credit card balance at 22% APR results in ~\$8,800 paid total after 5 years (\$3,800 in interest)
- Good Debt Examples
 - Student loans (when ROI exceeds cost), fixed-rate mortgages, small business/career investments
- Mortgage Tradeoff Example
 - When to pay off a loan depends on the interest and your portfolio
 - Investing an extra \$1,000/month at 7% return yields ~\$1.62MM vs. ~\$1.24MM when you pay off a 3.5% mortgage early
 - Paying off early is not always the best strategy when your wealth could be working for you in the market



- Pay-Off Rule Of Thumb
 - If your portfolio earns ~6.5%, consider prioritizing paying off any debt with a higher interest rate
- Five Red Flags
 - Only making minimums, rising debt-to-income (35%+), borrowing to pay debt, not knowing your rates, debt funding lifestyle
 - Credit cards prove to banks you can pay off your loans — it is not bad to use a credit card, but only spend what you know you can pay off monthly
- Smart Strategies
 - Build an emergency fund, tackle highest-rate debt first, use an advisor when considering refinancing
- Three Takeaways
 - Good debt is a tool; watch rate, term, and purpose; and small habits compound

Part II: The Volatility Tax

- Definition
 - The gap between geometric and arithmetic average returns caused by market volatility — losses hurt more than equivalent gains help
- Illustration
 - A consistent 10.4% annual return vs. the MSCI ACWI's volatile path (2006–2025) — both have the same arithmetic average, but compound returns differ by 1.7% per year
- Impact
 - On a \$1MM investment over 20 years, that 1.7% gap equals roughly \$1.92MM in additional ending wealth from the smoother path
- Four Ways To Reduce It
 - Diversify across asset classes; match risk to time horizon; stay invested through downturns (missing the best 10 days in a decade can cut returns nearly in half); rebalance/keep contributing

Part III: Actionable Next Steps

- Identify whether each debt builds or diminishes wealth
- Pay credit card balances in full each month
- Track monthly income and payments to understand cash flow
- Make your money work harder through smart investing