

Neither a Borrower Nor a Lender Be

Shakespeare's character Polonius offers this advice to his son in Hamlet Act I, scene 3. While the advice is about loans to or from friends, it has sometimes been used to question the broader concern over the wisdom of taking on financial obligations. Perhaps there is a reason they call it "going into the hole!"

Very Valuable

By itself, money borrowed is neither good nor bad. Our modern world, standard of living and wealth creation would simply not be possible without borrowed money. The homes we live in, the water brought to our homes, the food we buy at the grocery store and the national defense all rely on funding. Whether it is receiving goods payable in 30 days or funding a municipal water treatment plan with bonds payable over 20 years, the extension of credit is critical to our way of life and happiness.

Soyez Sage et Prudent

This was a favorite phrase of my high school French teacher, whenever he was suggesting that a student proceed with wisdom, prudence and (I suspect) discretion. Much the same can be said for the process of taking on obligations to pay principle and interest. We live in a world that places great demands on our resources.....and that's even before we consider all the things we'd like to do, acquire or enjoy. Ask anyone with significant credit card debt (say over \$5,000) what they spent the money on and they may be hard pressed to tell you. Suffice it to say that it adds up all too quickly and easily.

Judgement Call

If credit is helpful, even necessary to our way of life, how might I determine when it is helping me and when it is hurting me? Ultimately we all develop ways to judge whether the cost of something fits within our projected finances. We all wrestle with this. There will always be something that tugs at us when making "discretionary purchases." You know, the ones where we sometimes say "no"..... and breathe a sigh of relief afterwards, because of the financial stress we've just avoided. This is the exercise of good judgement.

Another Way

Within certain limits debt has another dimension. This has much more to do with the nature of the item or service that would bring about the debt. The best use of borrowing is for things that will grow in value, think of homes

held for a few decades or the start for a new business that will create employment and income. In this way the borrowed dollars have a chance to multiply rather than be consumed. Less valuable, but often necessary are everyday practical use items like cars, appliances and even furniture, where there is a long service life for the item. Then there are "consumables."

Here Today, Gone Tomorrow

The greatest budget and debt challenge for most people comes from the things we consume in the moment. Meals out, Starbucks, nights on the town, entertainment and even vacations are different from things that grow in value or have a long service life. We certainly want to allocate money to enjoy all off these things, however taking on debt to enjoy these things in the present is rarely a good idea. Credit card balances are an especially harmful and insidious use of debt, because of the long term cost when you add up all of the fees and interest.

Bottom Line

Being a borrower and a lender is inescapable in life. You know where you have borrowed, less obvious perhaps is how you lend through your IRA, 401(k) or other investments. Your money has been lent out to individuals, companies and governments in the form of loans, bonds, notes or bills. The success of either side of this mutual activity depends upon the use of the funds and the ability of the borrower to make good on the obligation. From taking on a mortgage for your home, to the trip to the mall with a credit card, just take a moment to consider the use of the money and the comfort of paying it back. Somehow, the amount due each month adds up faster than the income that comes in, one of the truly unfair realities in this life.

Your Feedback

I would love feedback on this newsletter. Future issues may include a host of good ideas, insights, specific steps to take financially, life insights and of course "Wit and Wisdom". Most importantly, I'd like it to be of value to you and to encourage an exchange of great ideas and insights. Please send your feedback to:

Colin S. Mackenzie, CFP®
Cetera Advisor Networks LLC, Member FINRA/SIPC
301 E. Colorado Blvd, #400
Pasadena, CA 91101
mackenziec@ceteranetworks.com
www.cmackenzie123.com
(626) 795-8896