NIELSEN
FINANCIAL COUNSELING

How to invest for a guaranteed 20% return

A simple, but often confusing concept, is that of investing int your debts.

DEBTS! - wait...that's not investing!

Hear me out...

Example:
You carry $3000 on a credit card @ 20% interest rate. This is costing you roughly $600 a year in interest.

Now - I am a (very) nice person and since you always talk about wanting to invest - I have decided to offer you $3000.

.......on the condition that you invest the money for the highest safest return.

You immediately dump the $3000 into an S&P 500 index fund, because it has a 50-year track record at delivering 8-10% per year.

So far so good.... BUT

What if you invested the $3000 into your credit card debt – extinguishing it at once.

Would you not save $600 in interest in the first year?
Would that not be 100% guaranteed?

YES and YES

To the contrary - the $3000 in the SP 500 index fund would not provide any guarantees of a return - it could be -20% or +20%, year to year - and even if we took a healthy 10% average over time, you'd only make $300.

I often hear the worry – “I am behind on investing -no 401K, no IRA.... What to do?”

My answer is always the same - what debt do you carry and at what interest rate?

If the interest rate of the debt is higher than what you could reasonably expect in the market, then invest into your debts first. This will almost always be the case for consumer debt.

Because a dollar saved is a dollar made.

In our personal budgets it makes no difference on the bottom line.

Happy investing.....