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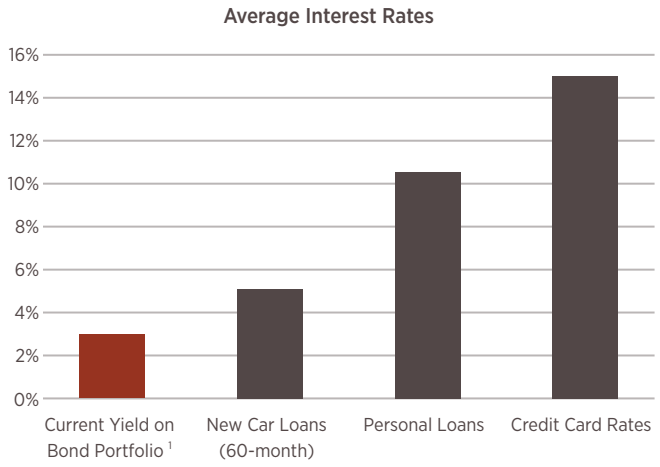
Viewpoint / May

Chart of the Month

Usually we use this space to talk about markets and investing, but this month we highlight the other half of the personal finance equation: household debt. As the chart illustrates, the cost of this debt is generally higher than what one could expect to earn on a conservative portfolio of investments. The current yield on the Bloomberg Barclays US Aggregate - a widely used core bond index is 3%. This compares to average costs for personal loans and credit cards of over 10%. When the cost of debt is higher than the yield available on savings, compounding interest works against you instead of in your favor. In that situation, paying down debt can be the most prudent investment strategy.



1. As represented by the Bloomberg Barclays US Aggregate Index
Sources: Bloomberg; Federal Reserve

The Advisor Survey:

Sarah Hampton, CFP®, First Vice President, Wealth Advisor

What should I evaluate when deciding to pay down debt or invest?

The focus of this assessment should be on the cost of capital, which includes more than just interest rates. The key is to determine the net after-tax cost of capital in terms of the interest rate then evaluate what opportunity cost there might be for paying down debt versus investing. If you have an investment opportunity which you expect to consistently outperform current cost of debt over the life of the investment or even the life of the debt obligation, then you may choose to continue investing while servicing the debt. Every situation is different and it is always prudent to periodically take a step back and review your financial landscape.

	Source: Bloomberg 2019	April	YTD	2018	Benchmark
Stocks	United States	4.0%	18.2%	-4.4%	S&P 500
	Intl Developed	2.9%	13.3%	-13.4%	MSCI EAFE
	Emerging Markets	2.1%	12.3%	-14.2%	MSCI Emerging Markets
Bonds	US Investment Grade	0.0%	3.0%	0.0%	Barclays US Aggregate
	US Municipals	0.5%	3.9%	1.4%	Barclays Municipal Bond 15y
	Intl Investment Grade	-0.6%	0.9%	-2.1%	Barclays Global Aggregate xUSD
	Global High Yield	0.8%	7.2%	-4.1%	Barclays Global High Yield
	Emerging Markets $	0.4%	5.9%	-2.5%	Barclays Emerging Markets USD Aggregate
Other	Commodities	-0.4%	5.9%	-11.2%	Bloomberg Commodity
	Gold	-0.7%	0.1%	-1.6%	Gold New York Spot ($/oz)
	Oil	6.3%	40.7%	-24.8%	Crude Oil WTI/Global Spot NYMEX

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