

Title:

Leveraging Liabilities & Staying Debt Free

Word Count:

712

Summary:

Are you limited by misunderstandings about debt? Do you know what debt actually is? Do you know why that matters to your prosperity? Learn how you can dramatically increase your wealth by a simple--yet profound--definitional change.

Keywords:

debt, liability, liabilities, finances, personal finance, financial, asset, assets, financial assets, invest, investing, investor, investors, investment, investments, home equity, prosperity, abundance, wealth, riches, income, cash flow

Article Body:

You're taught in America that your home is your biggest asset. If that's true, why do so many Americans fail to utilize their home as an income-producing asset?

The answer is because so many of us are limited by misunderstandings about debt. When we understand the correct definition of debt, we are able to unleash unutilized potential to increase our production.

Can you give a clear definition of debt? We're taught by financial pundits and religious leaders to avoid debt, but do we even know what debt is? How can we avoid something when we don't know what we're trying to avoid?

The most common definition of debt is any borrowed money, which is false. My friend Les McGuire, who spoke Japanese, used to teach this concept by telling people that they should avoid "tabemono" like the plague. The joke is that tabemono means food in Japanese, and the ironic point is that, first of all, by not knowing what it is we can never avoid it in the first place, and secondly, if we don't know the correct definition of debt, we may be avoiding the very thing that is the most essential to our financial health.

So many people are avoiding "debt," but not only do they not know what it is, they are also avoiding some of the most critical knowledge about finances that

keeps them away from prosperity. Ironically, it's also the knowledge that would help them get out of debt.

The True Definition of Debt

Contrary to the common definition, debt is the negative difference between liabilities and assets. It's having more liabilities than you have assets on your balance sheet, and the difference between them. The best way to understand this is through balance sheets. The purpose of a balance sheet is to itemize one's assets and liabilities and determine if they either have an overall equity position, or a debt position. For example, suppose a person owns a home with a market value of \$300,000 (asset) and owes \$100,000 to the bank (liability). Ignoring every other asset and liability, how much debt does he have? The common definition would say that he has \$100,000 of debt. The true definition (although strangely ignored and/or unknown by most people) helps us to see that this person has zero debt, and actually has \$200,000 of equity, which is the opposite of debt.

On the other hand, what if a person owns a home with a market value of \$300,000 and carries a mortgage of \$305,000? Again, the false definition of debt says that this person has \$305,000 of debt, whereas the technically correct definition plainly shows that this person only has \$5,000 of debt.

Again, the way to determine your amount of debt is to total your assets, total your liabilities, and then subtract your liabilities from your assets. Equity means that you have more assets than liabilities, and debt means that you have more liabilities than assets.

Why It Matters To Your Prosperity

Once a person understands the proper definition of debt, they can understand how they can leverage resources and increase their cash flow. For example, suppose the homeowner with \$200,000 of equity were to extract that previously-unused resource and then use it to buy a real estate property whose cash flow is greater than the liability incurred from the refinance? They did not increase their debt; they merely leveraged their equity to increase their cash flow.

Why is this knowledge so critical for people to understand? Because countless people are unaware of the potential for wealth creation in their own homes. There is much misinformation surrounding the concept of debt, and it severely limits productivity. Myths surrounding debt result in literally billions of unseen, undervalued, and untapped dollars that, if understood and utilized properly, could drastically increase the wealth of most Americans. There are

ways to leverage all of your assets, including and especially your home equity, without ever going into debt.

People who fear debt--and misunderstand what it actually is--often have thousands and even hundreds of thousands of dollars available to them that go unused. When they experience the paradigm shift of realizing what debt really is, they are able to open up a whole new world and unleash unprecedented amounts of productivity through principle-based and debt-free borrowing and lending.