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Good debt, bad debt, and how to tell the difference

Credit gets a bad reputation. And I understand why — for plenty of people, debt has caused real financial pain. But in my experience, the problem is rarely debt itself. The problem is how it's used.

Used well, credit can accelerate wealth creation, multiply your money and give you flexibility you wouldn't otherwise have. Used poorly, it's a giant anchor around your neck that drags you down and derails everything you're trying to build. The difference between those two outcomes comes down to one simple principle.

The core rule: does it appreciate or depreciate?

Here's the simplest way I know to think about good debt versus bad debt: it's almost never a bad idea to use credit to buy something that's going to appreciate in value over time.

A mortgage is the classic example. So is borrowing to grow a business, or to invest in your own education — which typically generates a high return on investment even if it's hard to quantify. Using leverage to grow an investment portfolio can also fall into this category, depending on how it's structured.

Bad debt, by contrast, is borrowing to fund a lifestyle. Going into debt for a vacation, restaurant bills, clothing — these things don't appreciate. They don't generate a return. They just make everything cost more.

The grey area: interest rate is everything

Where it gets muddier is with things like a car. A vehicle is technically a depreciating asset, which means the simple rule — borrow to buy things that go up in value — doesn't cleanly apply. So what do you do?

This is where borrowing cost becomes the critical variable.

What you're really weighing is an arbitrage between the cost of borrowing and the expected return of your investments. If your money is invested and generating income at a rate higher than the interest on your car loan, it may make more sense to keep that capital working and carry the loan. The moment you pull a large chunk of capital out of your portfolio to pay off a depreciating asset, you've lost the compounding effect on that money — and the car starts depreciating the moment you drive it off the lot.

Now, this isn't a blanket argument for always financing a car. The interest rate matters. A 0% financing offer on a new vehicle might actually beat the math on a used car with a 6% loan. I know the conventional wisdom is to buy used, and most of the time I'd agree — but when you run the numbers, a new car under full warranty with 0% financing and a longer remaining lifespan can sometimes be the smarter financial choice. The only way to know is to actually run the numbers.

A simple amortization calculator tells you exactly what you're paying in interest across different scenarios — and the difference can easily be \$20,000 to \$30,000 over the life of a loan.

Be your own bank when you can

One concept I like to share with clients is the idea of being your own bank. If a dealership wants to charge you 8% on a car loan but you have access to a home equity line of credit at 4%, you have better options. Borrowing against your own equity at a lower rate and controlling your own repayment schedule is a meaningful advantage — and it's exactly the kind of arbitrage that financially sophisticated people use to their benefit all the time.

The very wealthy have always understood this: using other people's money at a cost that's lower than the return on what you're buying is one of the most scalable tools in finance. It's not just for institutions.

Common credit mistakes worth avoiding

The most straightforward one is carrying a credit card balance month over month. Credit card interest rates are punishing, and no investment strategy can reliably outrun them. If you're not paying your balance in full each month, that's the first place to focus.

Building or rebuilding credit

I think of it in three categories: good credit, bad credit, and no credit. If you're starting from scratch, the goal is simple — get something on your credit report and demonstrate that you're paying on time. You don't need much. A single credit card, used responsibly and paid off regularly, does the job.

The same applies if you're rebuilding after a rough patch. A lot of people think the answer is to pay something off and close the account. I'd actually

argue the opposite: pay it off, then keep using it responsibly. Closing the account removes evidence that you can manage credit well. The real cure for a damaged credit history, more than anything else, is time and consistent behaviour.

The bottom line

Credit isn't inherently good or bad. What matters is whether what you're buying with it appreciates over time, whether the borrowing cost is lower than the expected return on your investment, and whether you have a clear, disciplined plan for repayment. Get those three things right and credit becomes a tool that works for you, not against you.

If you have questions about how debt and credit fit into your broader financial picture, reach out to us anytime — we're always here to help.



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Tax loss harvesting: A strategic way to turn losing investments into future tax savings

If you have investments in a non-registered account, tax loss harvesting is a valuable strategy worth knowing about. In short, it's a way to put losing positions to work for you — reducing the tax you owe on capital gains, either now or down the road.

How does it work?

Before December 31 each year, if you have any stocks, ETFs or mutual funds in a non-registered account sitting at a loss, you can sell them to crystallize the capital loss. That loss can then be used to offset capital gains — either gains you've already realized in the current year, or future capital gains. The loss carries forward indefinitely until it's fully used up.

It's worth noting that you don't have to wait until year-end to do this. If you're looking at a losing position in July and you want to take advantage of the strategy, there's no reason to hold off if it fits your overall plan.

The 30-day rule — and how to work around it

There's one important rule to be aware of: if you sell a position at a loss and want to buy back the same stock, ETF or mutual fund, you need to wait 30 days. If you repurchase the same investment too soon, CRA treats it as a superficial loss and won't allow you to claim the capital loss.

That said, you're not necessarily stuck on the sidelines. If you sold a bank stock, for example, you could immediately buy a financials ETF or a mutual fund with similar exposure — you just can't buy that exact stock back until the 30 days are up. That way you're still participating in any recovery while keeping the loss valid for tax purposes. Or if you're comfortable stepping away from the position entirely, you can simply wait out the 30 days and repurchase then.

One more thing worth knowing: if you hold the same investment in a registered account like an RRSP or TFSA, that's treated completely separately. You don't need to sell it out of your registered account to claim the loss on your non-registered side.

Who benefits most?

Honestly, this strategy is beneficial for almost anyone with a non-registered portfolio. Even if you don't have a big capital gain to offset this year, banking a capital loss now means you'll have it ready when you do — and at some point, if your investments are doing their job, you will.

That said, the strategy is especially valuable if you've had a large capital gain during the year — say, from selling a property or another investment. In those cases, having losses to offset can make a meaningful difference to your tax bill.

As for tracking your carry-forward losses, CRA keeps a record on your profile, and your accountant (if you work with one) will factor them into your tax planning as well.

Tax loss harvesting is one of those valuable but complex tools that, when applied thoughtfully, can add up over time. If you'd like to review your non-registered holdings and see whether there are any opportunities worth considering, reach out to us anytime — we're always happy to help.

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