



The role of debt on your balance sheet

A clear understanding of your balance sheet, including your debts and liabilities, is key to making more strategic decisions about your long-term financial well-being.

Imagine this: You win the lottery – not the massive jackpot, but a \$15 million prize after taxes. What would you do with your newfound wealth? More specifically, have you considered how you would approach debt?

Let's explore three different scenarios with three distinct lottery winners and their unique financial strategies to understand the implications of their choices on their balance sheets.

UNDERSTANDING YOUR BALANCE SHEET

Your balance sheet is a financial statement that provides a snapshot of an individual's financial position at a specific point in time. It's divided into two main sections: assets and liabilities.

- **Assets** are resources owned by an individual that have economic value. This includes cash, investments, real estate, vehicles and other valuable possessions.
- **Liabilities** are financial obligations or debts owed by an individual, and includes mortgages, car loans and any other forms of debt.

The balance sheet equation is straightforward:

$$\text{NET WORTH} = \text{ASSETS} - \text{LIABILITIES}$$



In essence, your net worth represents the difference between what you own and what you owe.

SCENARIO ANALYSIS*

PERSON 1: SIMPLE AND STRAIGHTFORWARD

- **Home:** \$5 million
- **Portfolio:** \$10 million
- **Total Assets:** \$5 million (home) + \$10 million (portfolio) = \$15 million
- **Liabilities:** \$0 (no debt)

Net Worth: \$15 million (assets) - \$0 (liabilities) = \$15 million

PERSON 2: STRATEGIC PLANNER

- **Home:** \$7 million
- **Portfolio:** \$13 million
- **Total Assets:** \$7 million (home) + \$13 million (portfolio) = \$20 million
- **Liabilities:** \$5 million (mortgage)

Net Worth: \$20 million (assets) - \$5 million (liabilities) = \$15 million

PERSON 3: LIFESTYLE ENTHUSIAST

- **Home:** \$7 million
- **Portfolio:** \$13 million
- **Mortgage:** \$5 million
- **Total Assets:** \$7 million (home) + \$13 million (portfolio) + \$500,000 (boat) + \$500,000 (cars) = \$21 million
- **Liabilities:** \$5 million (mortgage) + \$1 million (financed boat and cars) = \$6 million

Net Worth: \$21 million (assets) - \$6 million (liabilities) = \$15 million

ANALYSIS

Despite the different financial choices, all three individuals have the same net worth of \$15 million. This outcome illustrates that while their strategies differ, their overall financial positions remain consistent.

- **Person 1** keeps things simple with no debt, directly equating assets to net worth.
- **Person 2** uses debt strategically to increase their asset base, resulting in the same net worth due to the balance between increased assets and liabilities.
- **Person 3** employs debt to finance additional lifestyle assets (boat and cars), increasing both assets and liabilities, but their net worth remains unchanged.

WHY DEBT CAN BE A STRATEGIC TOOL

The use of debt is prevalent among individuals with substantial net worth because it can offer greater flexibility and opportunities for investors. For example:

- **Leveraging Investments:** By taking on debt, individuals can invest more aggressively, potentially increasing their returns.
- **Preserving Liquidity:** Maintaining liquidity by using debt for large purchases ensures that cash reserves remain intact for other opportunities or emergencies.
- **Tax Efficiency:** In some cases, interest on debt may be tax-deductible, offering additional financial benefits.

Higher-net-worth individuals often use debt to strategically enhance their financial position, demonstrating that debt, when managed wisely, can be a powerful tool rather than a burden.

* These are hypothetical examples for illustration purposes only.

DESIGNING YOUR FUTURE BALANCE SHEET

Although winning the lottery is unlikely for most, you can still apply these basic principles to your financial planning.

Instead of focusing solely on debt reduction, start by envisioning your ideal financial future. Work with your advisor to design a comprehensive wealth plan that aligns with your goals and takes

into account how debt and assets can be strategically managed to pursue your ambitions. By managing your balance sheet, including your debt, you can make more informed decisions that support your long-term financial success.

ASK YOUR RAYMOND JAMES ADVISOR

To help make the right decisions to fit your financial picture, consider discussing the following questions with your advisor.

1. Do I have enough assets to retire? If not, how much more do I need to save?
2. What debts do I currently have with interest rates under 5%, between 5% and 10%, and over 10%?
3. What are the tax implications of my debt management strategy?
4. How should debt fit into my overall financial strategy?
5. What's the optimal strategy for managing each type of debt?
6. How can I maintain sufficient liquidity while paying down debt?
7. If I have excess assets, should I consider paying off my mortgage?
8. How can I optimize investment returns while managing debt?
9. What scenarios should I consider when planning my long-term goals?

RAYMOND JAMES®

INTERNATIONAL HEADQUARTERS: THE RAYMOND JAMES FINANCIAL CENTER
880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863 // RAYMONDJAMES.COM



This content was created by Tom Anderson, founder of Supernova Companies and CEO of Anasova, for Raymond James Bank. Raymond James is not affiliated with Tom Anderson, Supernova Companies or Anasova. Any opinions are those of Tom Anderson and not necessarily those of Raymond James.

Every investor's situation is unique and you should consider your investment goals, risk tolerance and time horizon before making any investment. Prior to making an investment decision, please consult with your financial advisor about your individual situation. Investing involves risk and investors may incur a profit or a loss. Raymond James Financial Services, Inc. does not provide advice on mortgages. Raymond James and its advisors do not offer tax advice. You should discuss any tax matters with the appropriate professional. Raymond James Bank, member FDIC, affiliated with Raymond James Financial Services and Raymond James & Associates, Inc. © 2025 Raymond James Bank, Member FDIC, NMLS ID #405712. © 2025 Raymond James & Associates, Inc., member New York Stock Exchange/SIPC. © 2025 Raymond James Financial Services, Inc., member FINRA/SIPC. Raymond James® is a registered trademark of Raymond James Financial, Inc. Investment products are: not deposits, not FDIC/NCUA insured, not insured by any government agency, not bank guaranteed, subject to risk and may lose value. 25-RJBK-CORP-2202 SC/AW 5/25