

National Debt, It's All A Panic

In April of this year, Time Magazine released an issue in which the cover stated, "You owe \$42,998.12." The comment was made in relation to the amount each person would have to pay in order to wipe out the U.S. national debt. Now, before we go any further, I want to pose a question. What is the number one objective for Time Magazine? The answer, to sell magazines! With that out of the way, when I opened the magazine to read the article, I got exactly what I expected to find, the fear mongers were at it again, using hot topics to instill anxiety.

Make no mistake, the national debt is a very serious issue, but it's also a hot topic that makes people read articles or watch videos and news clips. As a citizen, born and raised in this great country, and as a financial advisor, the national debt infuriates me. Excessive debt is one of the most effective ways to derail a country, company, or even an individual's finances. However, I need to state that now is not the time to panic, and let me explain why this is the case.

One hot topic lately is how our debt as a country is now

equal to our Gross Domestic Product (GDP). To explain it simply, think of GDP as the annual income for the United States of America. So the U.S. debt is now equal to one year of the U.S. income. Stated another way, our country's debt to GDP ratio is at 100%. The media and fear mongers of the world have had a field day twisting this information to make it sound as if the current national debt is the end of the line for the U.S.A.

For reference, the United States can afford to pay down the national debt. Just as you and I make monthly payments to pay down our mortgages, the government can pay down the national debt the same way, month by month. Right now around 1.5% of the income the U.S. generates is going towards paying down the debt. Think of it this way. If you made \$100,000 a year and your 30-year mortgage was \$100,000, you would be feeling pretty good about your financial situation. I am not saying our government does not need to make a change, or that they are not acting fiscally irresponsible with our tax dollars, I am



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just stating that now it is not the time to be scared.

Another hot topic related to the national debt is China. There is a festering concern around the amount of U.S. debt that China possesses. Simply stated, China is not going to own the United States of America. Only 34% of our total public debt is owned by non-U.S. entities, and although it varies from time to time, China is usually right around 6% of the total. Currently, Japan owns slightly more, yet no one panics about Japan owning the U.S. someday.

The bottom line is, we do not need to start to panic about the debt of the United States of America. However, I would argue, now is the time to do something so we can avoid problems in the future. As I mentioned earlier, the debt situation in our country infuriates me, and this infuriation is an emotional response. As investors, we must not allow our emotions to cause us to make bad investment decisions. We need to pay attention to the facts, and the fact is that the U.S. debt situation will not affect your portfolio, unless you let it.

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