

INVESTOR'S GUIDE

A guide to the financial markets, investments and the economy

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NICO Asset Managers

“INVEST today for tomorrow “

Topic 321: Personal Debt Management

Introduction

Last week we looked at tips to be followed when borrowing money. This week we conclude the topic by looking at how we can manage debt once we have it.

How can we manage debt once we have it?

Whatever amount of money you owe, managing your debts effectively is important. Here are some steps you can take towards managing your debt:

- **Understand your debt**

Ask questions to make sure you understand the details of your debt. How much debt do I have and when are the payments due? What are the prepayment penalties or late payment charges? When will it be paid off? Take time to learn about the forms of interest on different loans, which ones are tax-deductible and which ones aren't. Having a clear understanding of all of your debt will allow you to see a bigger picture of where you stand.

- **Be strategic about paying down your debt**

Create a monthly payment plan and get aggressive about paying off your high interest debt - prioritize and rank your debts according to the order you want to pay them off. Working out a monthly plan

or budget will also help to ensure that you have enough money to cover your monthly expenses, as well as give you a clear picture of where your money is going, and how to manage your loan repayment most effectively.

- **Monitor and keep track of your debt repayment**

Maintaining your financial health is like keeping in good physical shape - reviewing your monthly plan or budget, making your payments on time and prudently managing your debt will prevent any debt growth.

- **Make a plan to stay out of debt in the future**

Once you have gotten your debts paid off, you do not want to go back into debt again. Make a plan to avoid that. Living on a budget is a good way to avoid debt, but you also need to be prepared for unexpected emergencies. Make it a goal to save through emergency fund that has enough money in it to cover three to six months of living expenses - start by saving a small portion of your monthly salary. You can use the money you were paying towards debt to make "payments" to yourself until you have built your emergency fund. When you have this money set aside, you hopefully will not be forced to borrow money, even if you have a job loss, car repair or a major medical emergency. You'll have the money to cover big and small costs and can stay debt-free.

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