



# ASPEN FAMILY BUSINESS GROUP, LLC

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DEEP RELATIONSHIPS. ENDURING LEGACIES.

## Debt and Demise

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The current recession is made even more difficult by the almost perfect storm of a meltdown in the financial system and a breathtaking decrease in the housing and stock markets.

As we see clients continue to struggle with tough economic times, we are again reminded of the need to manage risk, especially the risk associated with debt. Though most businesses have some amount of debt, the ones who are overly leveraged are the ones in the most peril during economic downturns. Most of the time, the debt was incurred just prior to the crisis and would not have been taken on in hindsight.

Using debt to make acquisitions, buy new machinery, or other capital expenditures can be an overwhelming burden if cash flow drops precipitously. Most businesses can only reduce expenses so much. If despite all their efforts, they can't get the cash flow sufficient to service the debt, it is only a matter of time until an upset lender is knocking on the door.

On the other hand, a surprising number of our clients have no or little debt whatsoever; some even have a cash reserve. These people don't have anyone knocking at their doors and sleep very well at night.

As we have watched clients over the years try to calculate how much debt they can safely handle, we have found there are no clear cut answers. The lack of a precise metric combined with an individual's propensity and attitude toward risk usually drive the decision about debt.

The decisions made ultimately depend upon priorities and risk tolerance. An advisor with "no dog in the fight" to play Devil's Advocate can be a helpful resource.