

DEBT MANAGEMENT

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LEARN TO BREAK FREE FROM FINANCIAL BONDAGE AND  
LIVE A LIFE OF FINANCIAL FREEDOM



# FIVE WAYS TO MANAGE DEBT

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# Introduction

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Hello! Thank you for investing your time into reading this e-book. If you have stumbled upon my page and this manuscript, then it means that you are looking for ways to take your finances into your own hands. This will not be a long e-book, but hopefully it will be EFFECTIVE in helping you get your financial footing to achieve your money goals.

Here I have compiled the different methods that people can use to take on one of the biggest handicaps to their financial wellbeing..Consumer Debt. Some of these methods are more popular and more widely used than the other ones, but I want to provide options that may work best for your individual needs. Some of the concepts are Technical and the others are Emotional/Psychological. You do not have to strictly stick to any single one concept, you can use them in combination with each other, the important part is getting the organization in place first. To be completely transparent, these are not any strategies that I personally created, I compiled these from my own personal studies through reading case studies, blogs, working with clients, and personal practice. Before I dive into the methods, I will talk about what Consumer Debt is because not all debts are bad debts.

# Consumer Debt

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**Consumer Debt** is any type of debts that will not help you earn more income. These are things like Student Loans, Medical Debts, Collections, High interest personal loans, Payday loans, or Credit Card debt. They usually come from bad spending behaviors, emergencies, or from the pursuit of higher education (unfortunate...but such is the world we live in). When these debts are not managed properly and paid off, it can really impact your quality of life and create issues that extend far beyond financial problems. Most of the time Financial Problems will bleed into other facets of life such as Marriage, Business, or Relationships. The more consumer debt you have, the more suffocated you will feel because it becomes a never-ending cycle of chasing debt and feeling like you are barely treading water. To break out of that cycle, you need to implement new behaviors. We cannot continue the same old patterns of behaviors if we want to achieve new financial levels.

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# The Mindset

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My goal in sharing this information with you is to provide you some clarity, flexibility, as well as personal preference on where you can start to lighten the load that Debts have created in your life. Some of these strategies are very well known and some of them are not as common. But that is where the “Personal” in Personal Finance comes in. It is also important to understand that when you are working on debt management, you do NOT have to be rigid and stick with one particular method. Sometimes you have to use a combination of methods or philosophies along with understanding interest rates, loans, and other financial tools that are at your disposal. I will also share with you some of my personal philosophies on how to operate on a higher financial level when it comes to creating a sustainable foundation for your finances so that you never go back to the behaviors that got you in the mess in the first place. Some of those ideas may seem controversial, but in my practice, it has been battle-tested and have brought results for my clients. You can choose to implement or ignore it, but I would encourage you to at least consider it.

# The Mindset

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When you start to work on paying down your debts, you have to change up the natural tendency to throw everything at the balances. That will not serve you because if you are not practicing actively saving your money first before paying your debts, you will end up in situations where you may fall further back into a debt trap because you did not have adequate assets to protect yourself from unforeseen events. Your savings will only grow manually starting off, but your debts will grow automatically because of the interest rates that are being charged. Your goal is to build enough savings and assets so that it can outpace whatever debts you have because your debts will always fluctuate. You will have periods in your life where you are in a lot of debt, little debt, some debt, no debts... but that is going to happen repeatedly. If you do not manually and consciously save money, you will potentially be one step from going back into debt.

So, my non-negotiable for all of my clients is that any time money comes into your hands, however it comes into your hands...whether it is a paycheck, commission, someone hands you cash, A BARE MINIMUM OF 10% NEEDS TO BE YOURS TO KEEP. That money needs to always be saved. If you do not have an emergency fund, put that 10% there. If you have a sufficient amount in your emergency fund, we will talk more about things like Retirement Funds and Investment/Opportunity Funds as we get deeper into the course or with Financial Coaching.

# The Mindset

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It is very important to realize that you have to make a few commitments to yourself before ANY debt management strategies will work. You need to commit to always save money first before working on your debts, if you are coming up short on bills...be solution oriented and make up the difference for what is needed. Commit to stop using your credit cards for any more purchases, sacrifices need to be made. You may also need to commit to paying extra toward paying down the debts, we did not get to this point in one day...we will need to put in extra work to get you out.

Now onto the Five different methods of Debt Management!

# Debt Avalanche

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**The Debt Avalanche** is perhaps the most effective way to manage debt, but not necessarily my preferred way of doing things. The Debt Avalanche is a method of debt repayment that strategically targets the highest interest debts first in order to minimize overall interest payments. This will speed up the process on becoming debt free. This approach involves prioritizing debts based on their interest rates, with the focus on paying off the debt with the highest interest rate first, while making minimum payments on the other debts with lower interest rates.

Once the highest-interest debt is fully repaid, the individual then moves their efforts toward the next debt with the next highest interest rate, creating an “avalanche” effect that accelerates the overall debt elimination process. The Debt Avalanche is designed to save money on interest payments over time and is considered a financially efficient strategy for those looking to systematically tackle and eliminate multiple debts.

# Debt Avalanche

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Suppose an individual has three outstanding debts:

1. Credit Card A with a balance of \$5,000 and an interest rate of 20%.
2. Personal Loan B with a balance of \$8,000 and an interest rate of 10%.
3. Student Loan C with a balance of \$10,000 and an interest rate of 5%.

In a Debt Avalanche approach, the individual would prioritize paying off the debt with the highest interest rate first. Therefore, they would pay extra money above the minimum payments, towards Credit Card A. Let's say they allocate an additional \$500 per month toward debt repayment. After several months, Credit Card A will be paid off. The individual then focuses on the next debt with the highest interest rate, which is Personal Loan B. The \$500 per month that was previously directed to Credit Card A is now added to the regular payment for Personal Loan B until it is fully repaid. Finally, the strategy continues with Student Loan C. This systematic approach helps minimize overall interest payments, saving money in the long run, and speeds up the debt repayment process.

# Debt Snowball

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**The Debt Snowball** is a debt repayment strategy that emphasizes psychological motivation and momentum to help individuals eliminate their debts. This is my preferred method to implement for clients because it is more mentally pleasing for the individual working on their debts. Going through debt management is extremely challenging and can feel very isolating and lonely. While you are going through this process, it is very important to experience little wins to keep motivated and stay pushing forward. The Analogy I like to use for this method is playing video games: If you are playing a game and you are about to enter into a boss fight, do you handle the little minions first? Or do you attack the big boss straight on? You would most definitely want to handle the little minions first so that they do not distract you from the bigger picture of becoming debt free.

# Debt Snowball

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In this method, individuals start by paying off the smallest debts first, regardless of the interest rate. The idea is to create a sense of accomplishment by have these “little wins”. Once the smallest debt is paid off, the individual then directs the freed-up resources, including the amount they were paying on the first debt, towards the next smallest debt. This process is repeated until all debts are paid off. The Debt Snowball approach may not be the most financially efficient in terms of minimizing interest payments...you may end up paying a little bit more interest, but it is effective because we are building confidence because individuals will experience a tangible progress in reducing their overall debt burden.

Imagine an individual with the following debts:

- 1. Credit Card A with a balance of \$3,000 and a minimum payment of \$100/month.
- 2. Personal Loan B with a balance of \$7,000 and a minimum payment of \$150/month.
- 3. Car Loan C with a balance of \$10,000 and a minimum payment of \$200/month.

# Debt Snowball

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The individual focuses on paying off the smallest debt first, regardless of the interest rate. In this case, it's Credit Card A. Let's say they pay an additional \$100 per month toward this debt, making a total monthly payment of \$200. After several months of consistently paying more than the minimum, Credit Card A is fully paid off. The individual then takes the \$200 per month that was used for Credit Card A and reallocates it to the minimum payment of Personal Loan B, making a total monthly payment of \$350. As a result, Personal Loan B is paid off more quickly. Finally, the individual applies the combined payments of \$350 from the first two debts, along with the original \$200 minimum payment for Car Loan C, resulting in a total payment of \$550 until the car loan is completely repaid. The Debt Snowball method relies on the psychological satisfaction of paying off smaller debts first, creating momentum for paying off the larger debts over time. You may end up paying a little bit more interest on your debts with this strategy.

[Potential scenario: If you end up with 2 debts that have identical balances but different interest rates, I would prioritize the debt with the higher interest rate.]

Ex:

Debt 1: \$5000 at 28% interest

Debt 2: \$5000 at 12% interest

# Debt Snowflake

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**The Debt Snowflake** is a lesser known strategy compared to the previous two. The next few debt management strategies are not as popular, but can be useful for some people.

This strategy is best used in conjunction with the Debt Avalanche or Snowball. Debt Snowflake on its own does not have any structure to it, which may not be as helpful to as many people that require the organizational structure of the other two methods. However, this strategy uses the little savings that you may accrue in your daily life to throw at any debts you may have.

The idea with Debt Snowflake is that we are taking any tiny resources that we can save from our daily lives and reallocating those savings towards paying down debt. In my opinion, this requires a lot of mental resources and penny pinching to do, which can be time consuming and adds additional mental load on an individual that may already be experiencing a lot of stress from daily life and paying bills. But for people that are totally fine with those extra steps to mitigate the debts, this is how the strategy works.

# Debt Snowflake

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Suppose an individual has out standing debts to pay for:

- The individual goes to grocery store and uses a coupon to save \$5 on groceries that normally would cost \$10. That individual would now re-allocate that \$5 of savings towards paying down a debt of their choice.
- An individual wants to buy a Footlong sandwich for \$14. They ask their friend if they want half and split the cost. The person with the debt now uses that \$7 from their friend to pay down a debt
- The individual does a little yard work for their neighbor, the neighbor insists on giving them \$15 for their help. That \$15 is used to pay on a debt.

# Debt Tornado

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**The Debt Tornado** is more so Mindset than technique... and it is also my least favorite because it can be unrealistic for people. It is named the Debt Tornado because of how destructive and violent a tornado can be in Mother Nature. You as the individual need to attack your debts with the same ferociousness. This requires overhauling your current lifestyle to be extremely aggressive and almost violent towards your debts to get them paid down.

You must be willing to do whatever it takes to get out of debt...Inconveniencing yourself, sacrifice, work extra jobs, etc. The person that coined this particular method states that this strategy is a plan of attack that is rooted in Anger, Outrageous goals, and Aggression.

You will have to do things that stoke your inner rage...such as finding out how long it will take for you to get out of debt in your current pace of payment and interest rate. If you have a family or children, would the result of your findings be conducive to what you want for your family? How old will your kids be by the time you finish paying off your debts? If those answers are not giving you good feelings, then you need to aggressively attack those debts.

# Debt Tornado

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Once that fire in your heart is lit, you need to set some outlandish goals on what you need to do tackle your debts. Once you understand what your goals are, the overhauling of your lifestyle begins. The creator of the method suggested doing anything you can to make extra money: 9-5 job, getting a raise, working overtime, side hustling, selling things, or if you are truly extreme...scrapping metal and collecting soda cans to recycle. Just anything to bring in extra income.

When the strategies to increase income are established, now it is time to reduce the expenses...Living Extremely frugal, selling your car, downsizing your home and house-hack by renting out your extra rooms, cancel all subscriptions, calling credit card companies to lower interest rates. What ever you can do to lower expenses, you do it.

In summary, to use the Debt Tornado:

- -Understand your current debt situation, and find a reason to have it piss you off.
- -Increase your income however you can and attack your debts.
- -Lower your expenses however you can by overhauling your current lifestyle aggressively.
- -Any extra income from any sources are used to pay off debts.

# Debt Tsunami

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**The Debt Tsunami** is built on the principles of Debt Snowball, while being flexible with attacking the debts that may be more emotionally charged than logical. Debt Tsunami tells you that being logical, while important, may not necessarily help you solve your debt issue because there are things like Relationship issues that can strain finances as well. And this is true, because if paying off debts were that mathematical and logical, everyone would be debt free. But as humans, there are certain things that are more emotionally prevalent that need to be dealt with first. So, we will talk about a few scenarios.

Scenario 1: A young couple moved into an apartment together, racked up some debts on credit cards as well as some personal loans from one of the parents. To prevent an interpersonal relationship stress from growing unmanageable, the couple decides to pay down the personal loan from the parents first.

Scenario 2: A young couple moved into an apartment together, racked up some debts on credit cards as well as some personal loans from one of the parents. The parents are not pressed for the money and told the couple they can take their time with no interest rates. The couple works on paying down the credit cards first because that is causing them more emotional stress with the high interest rates.

# Debt Tsunami

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Even though there is that element of flexibility, too much flexibility does not work for the majority of people. So there still needs to be an element of structure and a plan of attack to work on paying down these debts. The creator of this method suggests that the individual write down all of their debts from biggest to smallest, but not only that, to also write down which debt has the most emotional impact or weight attached to it. Once that list is completed, to reorganize the list and adjust which debts need to be paid down first based on emotional impact.

As the individual starts working on paying the debts down, the other behavioral changes from the other strategies that we have already discussed must be implemented as well...i.e.: making extra money, being more frugal.

# Conclusion

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Thank you for making it to the end. I hope that this manuscript was helpful in at least putting together a rudimentary plan for you to start thinking about ways that you can manage your consumer debts. This journey is not easy and it can feel very lonely. But if you are wanting to take control of your finances, this is a very crucial journey to start. Hope you enjoyed this quick read.

If you would like to partake in working together with me with hands-on Financial Coaching, please never hesitate to reach out to me to inquire about my services. I am here to be a resource for to elevate you to the next financial level.

**Please feel free to connect with me on Instagram:  
@TheBillyGuan**

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