Insolvency Alert! 53% Canadians Are Teetering on the Edge

### Description

Even though Canadians might be looking at the unwanted arrival of a strong third-wave, the fear of the pandemic is not as strong as it was a year ago. The vaccine is expected to bring COVID under control, given enough time, and the economy is finally healing. The stock market, which saw a sentiment-fueled recovery in the latter half of 2020, will now be recovering a bit more organically.

default watermark

Even though the economy, businesses, and individuals are financially on the mend, the after-effects of the pandemic will be felt for several years. Businesses of every scale might take years to replenish their emergency funds and repay debts they had to take during the pandemic just to stay afloat. The problem seems even more extensive for individuals if you consider the results of the survey conducted by MNP Ltd.

## Consumer debt index on the rise

In the survey, about one in every two respondents (53%) said that they are just $200 away from not being able to meet their financial obligations (including bills and debt). That's the closest such a significant number of Canadian consumers have come to insolvency in the last five years, according to MNP's consumer debt index.

30% of the respondents (included in the 53%) reported that they are already there, i.e., they have no money left at the end of the month. This means that one major financial expense can push them over the edge, and they might not be able to pay off their credit cards, mortgage payments, auto loans, or even utility bills.

The high number of Canadians teetering on edge isn't the worst of it. A significant number of people took on more debt during the pandemic, and once the interest rates start to rise again, the debts would become even more difficult to manage. A lot of people might start defaulting on one payment or another.

## The solution

The solution for people who are near the edge and not over it is a major overhauling of their spending patterns. People need to spend money on things they can't afford and stop taking on more debt. With some brutal cost-cutting and paying off existing debt as fast as they can, they might start to inch away from insolvency.

The next phase of the solution is to build a safety net by saving and investing. An emergency reserve can go a long way towards keeping people away from taking on more debt. A good rule of thumb is to save at least 10% of your pre-tax income, but you can go much higher than that, at least in the beginning.

You can also look into stable growth stocks like **Canadian Pacific Railway** (TSX:CP)(NYSE:CP) to grow your savings at a powerful pace. The company returned 113% to its investors in the last three years, and if you stretch its growth history back farther, it has a 10-year CAGR of 24%. That's enough to grow a $5,000 nest egg to almost $43,000 in a decade if it keeps growing at the same pace.

The good thing is that despite a powerful growth pace, the company is not aggressively overvalued. It has a stable income history stretching back decades, a powerful position in the transport industry, a plethora of tangible assets to its name, and strong fundamentals. It offers a great combination of security and rapid growth.

default watermark

## Foolish takeaway

Taking on more debt just because the interest rates are temporarily down is rarely a smart move. If you can pay it off within a few years, it might be worth it. But if you are struggling to make ends meet as it is, taking on more financial obligations will only speed the financial descent. That's especially true for unsecured debt.

**CATEGORY**

1. Dividend Stocks
2. Investing

**TICKERS GLOBAL**

1. NYSE:CP (Canadian Pacific Railway)
2. TSX:CP (Canadian Pacific Railway)

**PARTNER-FEEDS**

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise

7. Yahoo CA

**Category**

1. Dividend Stocks
2. Investing

**Date**
2025/08/23
**Date Created**
2021/04/14
**Author**
adamothman

default watermark

default watermark