



ARE YOU A SNOWBALL OR AN AVALANCHE?

Debt can be a significant burden causing stress and hindering financial progress. Whether it's credit card balances, student loans or other forms of debt, finding an effective strategy to eliminate it is crucial for achieving financial peace of mind.

One popular method is known as debt snowballing, another is known as the debt avalanche method. Below we will explore what these methods are, how they work and why they can be an effective approach to conquer your debts.

What is debt snowballing?

Debt snowballing is a debt repayment strategy that focuses on paying off debts in a specific order, starting with the smallest balance first regardless of the interest rate associated with each debt. This approach has gained widespread recognition for its simplicity and psychological benefits.

How does debt snowballing work?

1. List your debts

Begin by compiling a comprehensive list of all your debts including the outstanding balances and minimum monthly payments. This list will serve as a roadmap for your debt snowball plan.

2. Order of repayment

Arrange your debts in ascending order based on the outstanding balances regardless of interest rates. The debt with the smallest balance will be prioritised over larger debts.

3. Make minimum payments

Ensure you continue making minimum payments on all your debts to avoid penalties or negative impacts on your credit score.

4. Allocate extra funds

Identify additional funds that can be allocated towards debt repayment. This can come from various sources such as reducing discretionary expenses, increasing income through side jobs or reallocating funds from other areas of your budget.

5. Target the smallest debt first

Begin by directing all extra funds towards the debt with the smallest balance. By focusing on the smallest debt first, you can quickly eliminate it. This will provide a sense of accomplishment and motivation to continue the debt payoff journey.

6. Snowball effect

Once you pay off the smallest debt, take the amount you were paying towards it and add it to the minimum payment of the next debt on your list. This creates a 'snowball effect' as the amount available for debt repayment increases with each debt eliminated.

7. Repeat and accelerate

Continue the process of snowballing the payments from one debt to the next until you've repaid all your debts. As you progress, the amount you can allocate towards debt repayment grows, accelerating your debt payoff timeline.

Why is debt snowballing effective?

Psychological momentum

The debt snowball method emphasises the psychological aspect of debt repayment. By targeting the smallest debts first, you experience quick wins and build motivation and momentum to tackle larger debts. The sense of achievement gained from eliminating smaller debts provides a powerful psychological boost increasing your determination to conquer your remaining debts.

Simplified approach

Debt snowballing simplifies the debt repayment process by focusing on one debt at a time. This clear and structured approach makes it easier to track progress, stay organised and maintain a sense of control over your financial situation.

Behavioural change

Debt snowballing encourages a shift in financial behaviour. As you make progress, you may become more mindful of your spending habits and develop healthier financial practices. The discipline required to adhere to the debt snowball plan often leads to long lasting changes in how you manage your finances.

Overcoming debt

While debt snowballing does not consider interest rates when determining the order of debt repayment,

the psychological benefits gained from the strategy can outweigh any potential interest savings. By eliminating debts one by one, you free up more funds to allocate towards the remaining debts and accelerate the overall debt payoff timeline.

Is debt snowballing right for you?

Debt snowballing is a powerful strategy for those seeking a clear and motivational approach to debt repayment. It's particularly beneficial for individuals who value the psychological and behavioural aspects of debt management.

By starting with small debts and gradually progressing to larger ones, debt snowballing provides a sense of achievement and momentum that can propel you towards better financial outcomes.

Is debt snowballing cost effective?

It is important to note that debt snowballing may not be the most cost effective method in terms of minimising interest payments.

What is the debt avalanche method?

If your highest priority is reducing the overall interest you pay, an alternative approach called the **debt avalanche method** prioritises debts based on their interest rates. By targeting high interest debts first, you can potentially save more money in the long term.

Debt Snowball vs Debt Avalanche

- Prioritises balances
- Pays off smallest debt first
- Moves on to bigger ones next
- Builds motivation by settling debts faster
- Prioritises interest rates
- Pays off debt with the highest interest rate first
- Moves on to next highest interest rate debt after first is paid off
- Pays less interest over time





Ultimately, the choice between debt snowballing and the debt avalanche method depends on your financial goals, personality and motivations. While the debt snowball method may result in paying more interest over time, the psychological benefits it offers can be invaluable in maintaining motivation and staying on track.

To make the most of the debt snowball strategy, here are a few additional tips:

1. Track your progress

Keep a record of your debts, payments and milestones reached. Seeing your progress in a material form can provide a sense of accomplishment and encourage you to stay committed to your debt payoff journey.

2. Celebrate milestones

Celebrate each time you pay off a debt. Treat yourself to a small reward or engage in a fun activity that doesn't jeopardise your financial goals. Celebrating milestones helps reinforce positive behaviours and keeps you motivated throughout the process.

3. Seek support

Share your debt repayment goals with family or friends who can provide encouragement and hold you accountable. Consider joining online communities or forums where you can connect with individuals who are also on a debt elimination journey.

4. Focus on budgeting and saving

Alongside debt repayment, prioritise creating a budget that aligns with your financial goals. Look for opportunities to cut expenses and redirect those savings towards your debt payments. Building an emergency fund can also protect you from future financial setbacks and reduce the need to rely on credit.

Remember, the journey to becoming debt free requires discipline, perseverance and a willingness to make changes in your spending habits. Debt snowballing can be a powerful tool to help you regain control of your finances.

So take charge of your financial journey, embrace one of these methods and pave the way to possibly a more secured financial future.