

Smart Money: Money should be your servant, not your master

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Brad Brain: "Carrying a permanent balance on your credit cards will be a severe impediment to making financial progress. It's the one thing that professional financial planners agree on." | C.J. Burton/Getty Images

There are all sorts of ideas out there when it comes to money, and even the pros will disagree on much. Ask 10 economists for an opinion and you can get 20 responses.

But there is one idea that is universally endorsed in the financial planning community, which is saying a lot. In this age of new ideas and new technologies, and now that we are coming out of a pandemic,

people will have diverse opinions on all sorts of things; equities and commodities and inflation and real estate and government spending and economic reopening, and just about everything else.

But there is one thing that every professional financial planner that I know will agree on. What's this? In a world where there are a multitude of opinions on just about everything, a universal rule of financial planning? What could it be?

I will tell you. It is, perhaps above everything else, do all that you possibly can to never carry a balance on your credit cards.

Now, I am actually a big fan of credit cards. I use them as much as I can. Big expenses, small expenses, it doesn't matter. I love my points programs. I love the convenience of not having to carry cash. I love the tracking of expenses.

Years ago, I was at a conference in New Orleans and my hotel was robbed. I lost everything but my passport. It was horrible. But a few calls to the credit card companies and all the fraudulent charges were reversed, they settled my hotel bill, and they got me home to Canada. I couldn't have done that without the credit cards.

But – and this is vital – I never carry a balance on my credit cards. Each month my balance is paid in full by automatic preauthorized debit.

An average credit card in Canada charges roughly 18% on outstanding balances. Some charge less, but don't let that lure you into a false sense of security. Even a relatively cheap credit card can be a terribly expensive way to borrow money.

I pulled a random credit card statement of my own. Now, granted, this was an unusual bill. I don't remember what I bought that month, but it was a lot, totalling \$9759 in expenses.

If you look over your credit card statement you will see that they will tell you what the minimum payment is, but they will also tell you how long it will take to pay off your balance if the minimum payment is all you make. In this case, if I was just to pay the minimum amount, the estimated time to pay off the card is 77 years.

Think about that, 77 years to pay off less than ten grand. That's with no further purchases either, that's just paying back what I already spent. That's crazy. Think about how much I would be paying in interest if it took me 77 years to pay off the credit card. That's obscene.

This information on how long it will take to pay off your balance will be on your own credit card statement. Have a look for yourself.

Make informed decisions on your future purchases and your debt repayment strategies. Carrying a permanent balance on your credit cards will be a severe impediment to making financial progress. It's the one thing that professional financial planners agree on.

Money should be your servant not your master. Buying stuff is great. But taking 77 years to pay for it? That is money controlling you, and it should be the other way around.

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