



Pay Off the Card

Dear Dr. Per Cap:

I've got some extra cash thanks to this latest round of stimulus. What's a better move - invest in the booming stock market or pay off my credit card?

Signed,

Happy Crossroads

Dear Happy Crossroads

Pay off the credit card – no question. Sure, the stock market is breaking records faster than that dude from Japan who wins all the hot dog eating contests. But your net worth will appreciate you knocking out the credit card balance before loading up on high flying penny stocks. Trust me.

Aside from unloading burdensome consumer debt, paying off a credit card can be also be seen as an investment because that unpaid interest will offset any investment gains.

Think about it. Even the best investors struggle to hit consistent annual returns of 10%. But credit cards commonly charge annual percentage rates of 18% or more. Plus so many variables come into play when determining how stocks perform – inflation, corporate earnings, interest rates, job reports – the list is endless. But regardless of the economy credit card APR's keep chugging along steadier than my uncle's old Silverado pick-up.

Do the math. If your stocks earn 10% a year (if you're lucky) and you pay 18% a year on the credit card, you're net investment gain is -8%. That's right you're actually losing 8% a year until the card is paid off.

Investing while paying credit card interest is like taking two steps forward and one step back. That's only cool when dancing to a classic George Strait song!

Seriously, do yourself a big favor and pay the card off with that extra stimmy money. Once the balance is gone then start investing all the money you would have spent making those monthly payments.

Moreover because the balance-to-limit ratio on your credit card will probably drop, you should see a nice jump with your credit score too. Remember any time a credit card balance exceeds 30% of your available limit it dings your score.

Coincidentally, paying down credit cards is all the rage these days. Economic impact payments coupled with limited spending opportunities has enabled Americans to pay down credit card balances at levels not seen in two decades. Nobody in his right mind wouldn't want that!

Ask Dr. Per Cap is a program funded by First Nations Development Institute with assistance from the FINRA Investor Education Foundation. For more information, visit www.firstnations.org. To send a question to Dr. Per Cap, email askdrpercap@firstnations.org.