Millennials: Don’t Swipe Your Credit Card, Save and Invest Instead!

Description

The millennial generation is affluent, although their money decisions differ from the older generations. This group tends to use credit to fund lifestyle needs. Rather than saving and investing, millennials are swiping. Lifestyle borrowings are creating roadblocks to building wealth.

Lenders are exploiting the situation by making credit readily available. The result is a vicious cycle. The solution to paying down debt is to borrow again to pay debts.

Not all millennials, however, are careless with money. Some would rather allow money to grow to avoid paying high or double-digit interest rates.

How credit card debt accumulates

Millennials should understand that credit card debt accrues fast because credit card companies charge interest daily. On an annual basis, the average interest rate is about 19%. The highest rate can go as high as 29.99% per annum.

Credit cards enable millennials to buy or spend on things without having to save first. The culture of buy now and pay later is prevalent. What the younger generation don’t see is that when you borrow today, you reserve future earnings for debt payments.

Here is how you waste money on credit card debts. Let’s assume you have a credit limit of $10,000, and the annual percentage rate (APR) is 19%. To compute for the daily interest rate, divide 19% by 365 days. The interest amount is $0.052 per day.

When you max out your credit limit, your interest on the first day is $5.20 ($10,000 X 0.052%). On the second day, the credit card company picks up the new balance of $10,005.20 to compute for the daily interest. You’ll keep paying interest until the balance is fully paid.

If you want to pay zero interest on the borrowed amount, pay within the grace period (21 to 30 days). However, minimum payments or late payments would mean additional interest or finance and penalty charges.

Earning opportunity

Millennials are missing out on earning opportunities by not investing. Your savings can compound by owning shares of dividend champion like **Chemtrade Logistics** (TSX:CHE.UN). This $786.18 million income fund pays an outrageous 14.13% dividend.

Your $10,000 savings will earn $3.87 daily, whereas the daily interest on the credit card is $5.20 at the same principal amount. A higher investment amount could increase income even more. In a Tax-Free Savings Account (TFSA), all potential earnings are non-taxable.

Chemtrade is a well-established manufacturer and distributor of specialty chemicals for industrial use. Its captured markets are in North America and other Asian countries.

The company supplies sulphur, chlor-alkali products, liquid sulphur dioxide, potassium chloride, sodium hydrosulphite and zinc oxide.

As Chemtrade is the owner of the production facilities, it has the power to control supply and design the desired pricing structure to preserve profit margins. Last year, however, revenue declined by $62.9 million to $1.5 billion.

For this year, the guidance for adjusted EBITDA is anywhere from $300 to $350 million. The COVID-19 virus remains threat, as it could reduce operating rates in Asia.

Risk and reward

Stock investing is a rewarding activity, but millennials should be aware of the attendant risks. The reckless use of credit cards, however, is riskier because you're throwing money away.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CHE.UN (Chemtrade Logistics Income Fund)

PARTNER-FEEDS

1. Business Insider
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