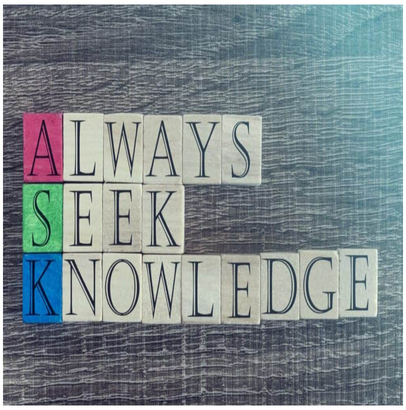

Billionaire Diaries: Why Warren Buffett Never Had Credit Card Debt

Description

Buffett finds these interest rates unmanageable.

Buffett's take on credit cards

Buffett says, "I don't know how to make 18%. If I owe money with 18% interest, the first thing I would do with any money I have is to pay it (credit card due)." The whole idea of investing is to make your money work for you.

When you have a credit card debt that is billing you a 19% interest rate, the best value you can get from your current cash is by paying off that debt. This way, you will save a 19% interest expense. No dividend stock or fixed-income security can earn you that high interest. The credit card debt puts you in the negative in the interest rate calculation, as you pay more interest than you earn.

How to manage credit card debt

Remember, the balance transfer will only reduce your interest for some time. But if you keep piling up credit card debt, $100 spent today will become $119 after a year. If you are spending on non-essential goods, they will turn out to be very expensive in real terms.

You can take advantage of the discounts and reward points that credit cards offer. But never spend more than what you can pay in a month.

Instead of making minimum payments on credit card debt, pay the amount in full. As Buffett says, your top priority should be to repay the 19% debt.

Once you have paid your credit card debt and other essential expenses, set aside some money for investment.

It’s good to be on the receiving end of the interest

Instead of working for money, make the money work for you. Buffett built his wealth by being on the receiving end of interest than on the paying end. To change sides, all it takes is $100 a week and a Tax-Free Savings Account (TFSA).

As a millennial, you have a long-term investment horizon of at least 10-15 years. That’s a good amount of time to allow your investments to grow. The **S&P/TSX Composite Index** has surged at an average annual rate of 3.5% in the last 10 years. If you invested $400 every month for the last 10 years, you would have $58,000 in your TFSA by now.

But there are better options that can grow your money multiple folds. As a millennial, you have witnessed two technology revolutions: PCs and smartphones. The world is on the fourth technology revolution of cloud computing and digitization.

One TSX stock that can double in the mid-term

In the Toronto Stock Exchange, **Kinaxis** (TSX:KXS) is a stock that has a history of strong fundamentals. Kinaxis caters to large organizations that have complex supply chain operations. It has a diverse customer base with no single customer accounting for more than 10% of its revenue.

The provider of supply chain planning solutions picked up growth last year when its revenue surged 38% and the stock surged 60%. In the last five years, the stock has grown at an average annual rate of 40%, while the company’s revenue and adjusted EBITDA rose at a CAGR of 22% and 29%, respectively.

Technavio expects the supply chain management market to grow at a CAGR of 11% during the 2020-2024 period, and Kinaxis will grow with the market. The COVID-19 pandemic has added another layer of complexity to the supply chain, making it important for companies to adopt Kinaxis’s solutions.

As the company’s size grows, its pace of growth will slow. If the stock generates a 15% average return in the next 15 years, your $72,400 contribution ($400 per month for 15 years) will grow to $250,000. It’s better than owing thousands of dollars in debt.

CATEGORY

1. Coronavirus
2. Investing
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TICKERS GLOBAL

1. TSX:KXS (Kinaxis Inc.)

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