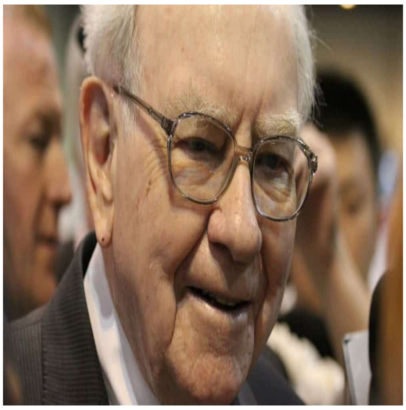

Warren Buffett to Young People: Stop Taking Out Credit Card Debt

Description

Warren Buffett has always pointed out the dangers of credit card debt.

But most of us remember his most poignant advice from a speech he gave to Omaha high school students nearly 30 years ago. Typical of Buffett, he kept his words brief: “Avoid credit cards,” he said. “Just forget about them.”

As Buffett later elaborated, he meant avoid credit card *debt*, as credit card debt works like an investment in reverse. In the same way that investments grow by compound interest, credit debt is compounded by APR. On day one, you accrue interest on your unpaid balance. On day two, you accrue interest on your unpaid balance *plus* the interest you accrued the day before. This interest accumulation continues until you finally pay the balance in full.

He’s right, of course (come on; it’s Warren Buffett). If you don’t pay your card’s statement balance in full every month, you’ll pay high interest charges, often 20%. The rate is high enough. But it’s the *compounding* factor that makes credit card debt so dangerous.

So, should you avoid credit cards?

Credit cards aren’t inherently bad. What makes a credit card bad is the person using the credit card irresponsibly.

If you’re the kind of person who regularly carries a balance on your card, meaning you don’t pay your statement balance before its due date, listen to Buffett. Avoid credit cards.

For those who can pay off their balance, a credit card won’t throw you in a pit of debt. In fact, they can be an effective tool that gives your budget an extra bit of muscle.

For one, many credit cards — even the most basic ones — come with free insurance: fraud protection, travel insurance, price protection, extended warranties. When you purchase items with your card, say,a new sofa, these insurances will automatically apply, if your card has that feature.

In addition, rewards credit cards and cash-back cards give you the opportunity to earn money while you spend. If you use these cards like a debit card, meaning you spend only what you have, you can amass rewards without going into debt.

Canadians with bad credit need not fear credit cards, either. If you want to rebuild your credit score, you can benefit from a secured credit card. A secured credit card works like a normal credit card, except you put up an initial deposit to use it. As long as you use the secured credit card responsibly, you may slowly but surely improve your score.

At the very least, you could go with a “plan B” card, the balance-transfer credit card. If you amass too much credit card debt, these cards offer low intro APR periods to help you get back on track.

The Oracle may not have said very much on credit cards. But, truthfully, he doesn’t need to. If you know how a credit card works, as well as how to use one to your advantage, you can avoid the pitfalls and benefit directly from a credit card’s perks and rewards.

Wait — does Warren Buffett own a credit card?

Yes. Warren Buffett has at least one credit card in his wallet: an **American Express**. Clearly, the Oracle isn’t using it to take on debt, given the enormous amount of cash he keeps in his accounts.

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