5 Poor Choices People Make With Their Credit Cards That Feel Smart At The Time

Description

We've all made poor decisions in our life. Choosing pod coffee over brewed coffee. Trying to figure out the Xerox instead of emailing. Buying two large pizzas for 10,000 Bitcoin in 2010 (worth over $563 million today). But sometimes we think our poor decisions are actually smart. And when it comes to credit cards, I can think of five right off the bat:

1. "Saving" your cash back or rewards points

When I say "saving," read "hoarding."

You might think you're doing the right thing by saving your rewards. After all, haven't we been told, over and over ad infinitum, that saving money now allows us to make bigger purchases later?

But here's the scoop: rewards aren't immune to inflation. Just like the purchasing power of a dollar erodes over time, your rewards points will become less effective the longer you wait to use them.

Instead of saving your rewards, adopt an "earn-and-burn" strategy. Use your rewards for short-term goals, and you won't give inflation a chance to erode their worth.

2. Redeeming rewards for cash

Unless your credit card is strictly a cash-back card, redeeming rewards for cash or a statement credit is generally a huge waste of money.

Here's why: most rewards credit cards devalue your points or miles when you choose to redeem them for cash. That includes statement credits, cheques, gift cards, and cash deposits. It may be the easiest and most convenient redemption option, but trust me — it's typically not the best.

Only in certain rare circumstances should you choose cash back over more lucrative redemption offers, such as point expiration or carrying a balance on your card. Otherwise redeem your rewards in the most advantageous way, such as flights or retail purchases.

3. Using your card's installment plan

No doubt inspired by the craze over "Buy Now Pay Later" apps, some major credit card providers are offering consumers installment plans. Under these plans, you can divide a large purchase into smaller payments and pay them over a specific term. This can help you pay for large purchases that your income wouldn't otherwise allow you to afford.

These plans sound smart. After all, many come with low or no interest for select terms. And by moving a purchase into an installment plan, you often free up your revolving line of credit.

But if something smells fishy, that's because it is. Installment plans might come with lower interest rates, but they also come with fees, which typically balance out the money lost at the lower rate. You'll also be locked into your plan: you can't make extra payments unless you cancel the plan and pay the full sum upfront.

And then there's the question: if you can't afford a large purchase, do you really need it? If the answer is no, then, installment plan or not, it's smarter if you *don't* buy it.

Only in rare events would I recommend an installment plan on a credit card, such as an emergency or surprise bill. In this case, the lower interest rate on the installment plan will help you cover your finances in a time of crisis. Otherwise, steer clear of these plans.

4. Taking out a cash advance

Thankfully, most Canadians are now avoiding cash advances on credit cards. That said, the temptation is still there, especially when you need cash at 9 p.m. on a Sunday and the ATM isn't taking your bank card.

For the service they provide, cash advances are expensive. For one, you'll pay a fee to execute the cash advance. Then, you'll pay a special cash advance APR on whatever you withdraw. This is true even for cards that come with promotionally low APRs, which typically don't cover cash advances.

5. Signing up for a store rewards credit card

Brace yourself, because it's going to happen eventually.

You're shopping at a retailer store, any store, not even your favourite store. You get to the checkout and the clerk asks you if you want to sign up for a store rewards credit card. You'll get a special promotional discount if you do, they promise, even a store rebate. And you'll have a low interest rate for the first six months.

All you have to do is apply for the card.

Unless you shop frequently at that store, don't go for the bait. It's usually not worth the effort.

For one, the retailer will pull your credit report, which will adversely affect your credit score. Secondly, a brand-new card could lower the average age of all your credit accounts, which also affects your score.

Even if you *want* a new credit card, I would think twice before applying for a store card on the spot. You could get a more lucrative welcome bonus from any one of Canada's best credit cards, and you don't have to worry about getting bombarded with retail promotions and offers you'll probably never use.

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