These Money “Tricks” Might Sound Smart, But Are Actually Dumb

Description

Most of us are our own worst enemies. That might sound like it was ripped from the playbook of pop psychology. But when it comes to money, it’s usually us who’s to blame, not anyone else, for our costly mistakes.

Some money mistakes are blatantly dumb. Others masquerade themselves as “smart,” only to emerge as foolish later. With that in mind, let’s look at a few of the “smartest” money tricks that turn out to be dumb in hindsight.

Using “Buy Now Pay Later” apps when you have money

By now, you’ve probably seen a Buy Now Pay Later (BNPL) service on your favourite e-commerce site. Shoot, you’ve probably *used* one. These services break a large purchase into smaller payments that are staggered monthly. The best part: the payments are *interest-free*

Interest-free you say? What’s wrong with that?

Nothing. Unless you can pay the full amount upfront.

When you can pay the full amount upfront, it’s wiser to use a credit card. The reason? Credit cards come with free insurance, like price protection, purchase protection, extended warranties, as well as a slew of travel insurance. If something goes wrong with your purchase, these insurances can absorb the cost. BNPL services, however, don’t offer such protection.

In addition, credit cards help you build credit. Most BNPL services don’t contribute to your credit score, as not all BNPL services report activity to credit bureaus. And, unlike cash back cards and rewards cards, most BNPL services don’t have rewards programs. Even those that do can hardly compete with the welcome bonuses and earn rates on credit cards.

Refusing to use credit cards

Speaking of credit cards, another “smart” money trick is to eschew cards altogether in favour of cash and debit.

This is a big money no-non, and it will come back to haunt you.

As much as some financial gurus love to emphasize the pitfalls (hint: debt), credit cards build credit scores. In fact, in this hot real estate market, you better hope you have good credit: having “no” credit score, or a low one, won’t help one bit.

Credit cards trump cash and debit cards in their fraud protection. If someone steals your card (or hacks your account), your credit card provider will absorb the cost. You won’t be liable to repay the stolen amount. If that same person were to steal your cash, guess what—you would lose that money. Same for debit cards: most banks won’t refund you if a fraudster drains your bank account. Even if they do, it usually takes an insane amount of time.

Even if you’re *really* risk-averse, I still suggest getting a credit card. As long as you pay your statement balance every month, you have nothing to worry about.

Investing conservatively when you’re young

Look, I get it—those who count themselves among the young probably came of age during the worst financial fiasco the new millennium had ever seen: the ’08 financial meltdown. Actually, depending on your age, you’ve likely lived through three or four major stock market crashes, the most recent being the Corona Crash of 2020.

But don’t let that turn you off to the stock market. While you might think you’re doing yourself some good, you’re making a poor decision.

When you’re young, you can afford to invest in risky stocks, like small-caps, micro-caps, and growth stocks. This might sound strange, but you have *time* to lose money. As long as you pick your stocks wisely, investing aggressively now could help you earn enormous gains over the long run.

Even if you can average 7% in your investments (a conservative ROI), you can turn $500 invested monthly into well over $865,000 in 35 years.

If you don’t want to handpick your stocks, you can always invest in an index fund or ETF. These funds are baskets of stocks that track markets. As long as you stay invested for the long run your shares can easily return more than 7%.

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