Related Articles 5 Simple Ways to Make Any Financial Goal Easier to Achieve Why You Shouldn’t Let Family Control Your Financial Decisions Should You Focus on Saving Money or Paying Off Debt in 2014? Why Paying Off Credit Cards Is the Best Financial Return On Your Money By Trent Hamm December 31, 2013 RSS Feed Print Trent Hamm Trent Hamm Whether personal finance writers contribute to websites, magazines, books or elsewhere, they're usually strong advocates of investing. There's good reason for that, of course. Assuming that you're in a financially stable position, investing in the stock market or real estate is one of the best uses for your money. The problem comes with that assumption of stability – and credit card debt. Many American families carry enough credit card debt that their financial lives are adversely affected. The personal finance website NerdWallet reports that the average American household carries more than $7,000 in credit card debt. At the same time, the average credit card interest rate hovers around 15 percent. Taking those two numbers together, the average family will face more than $1,000 in pure credit card interest over the next year. That interest is money that's simply lost. This isn't an unfixable problem, though. Every dollar you pay toward your credit card debt reduces the amount of interest you're going to pay over the long term. In fact, the reduction is equal to the interest on that credit card. Let's say you pay off $1,000 on the balance of a credit card with a 15 percent interest rate. The result of that extra payment is that you'll owe $150 less on your credit card bills over the coming year – and for each subsequent year. In other words, making an early payment on your credit card debt is the same as an investment, and it's an extremely good investment. Accumulating credit card debt is a huge mistake, but if you already have high-interest credit card debt, paying it off is likely the best investment available to you. Here are three reasons why: 1. The return blows away what you can expect to get in an average year from stocks or real estate. Even optimists have a hard time arguing that you'll beat 8 percent on the stock market in an average year. It's a bad idea to expect returns like that with real estate, too. 2. The "return" you get from paying off credit cards early is tax-free. You don't owe income taxes on the savings you get from lower credit card bills. However, if you take any capital gains on your stock or real estate investment, the Internal Revenue Service is going to be mighty interested in your moves. 3. Eliminating credit card debt improves your cash flow. Each month, you have a certain amount of income and a certain pile of bills to pay. Investing occurs with the money that's left over in this picture. However, if you focus on paying off debts early, your monthly cash flow will improve as soon as those debts are eliminated. You'll have more cash to invest and more life flexibility, too. Given these factors, my advice is simple: If you have high-interest credit card debt, your financial focus should be on eliminating that debt before investing. There is one exception to this rule: You should take advantage of any matching funds you get for investing. For example, if your employer offers matching funds in your 401(k), you should invest whatever is needed to get every drop of matching funds. Why? Matching funds are essentially an immediate 50 percent or 100 percent return on your investment. That's something well worth taking advantage of. Without such offers on your plate, however, you should aim to eliminate your high-interest debts above all else without incurring more debt. Doing so will provide the best return you can get for your money. Tags: investing, stock market, debt, money, interest rates, personal finance, credit cards, credit