Lesson 16

Turn On The High Beams...Continued

Another major area where our near-sightedness can work against us is transportation. We'll limit this discussion to include cars and trucks. The motorcycles, boats, 4-wheelers, personal watercraft (PVC), etc. will be relegated to the fun area of spending although they have very similar properties to the main forms of transportation; they cost a lot, they require maintenance and insurance and they depreciate in value at a rapid pace.

If we are honest with ourselves, there are really only two ways to view the vehicles we drive. We can determine we need reliable, safe transportation to get us from point A to point B. Or we can forget about all of that and "drive in style". Can we do both? Maybe. But, is that the most efficient, practical use of the resources we've been put in charge to manage? You'll have to make that call. I come at it from the first viewpoint, because vehicles just don't mean that much to me. Our history is that we purchase a vehicle that is dependable and looks good. Then we drive it until it is no longer dependable, but still looks okay.

I will go ahead and apologize now to the new car dealers who might be in your group. I understand the desire to buy the new car. The new smell, the tight seals, the glistening paint are all very appealing. I've been there. The very first car my wife and I purchased was new; that was back in the day when you ordered what you wanted from the factory and then waited several weeks before it was delivered. It was sweet; wish I still had it. So, I can identify with wanting to smell that new leather and carpet.

The problem is that when I teach on this subject, people like Amy motivate me to forget about the new smell. Amy was a young, single working mom with two kids. She was having trouble finding enough money to buy groceries for her two little girls. Much of her problem stemmed from the fact that she was trying to make a $430 per month car payment on the new $30,000 car her boyfriend convinced her to buy. He said, "Honey, you need a new car! Let's go down to the car dealer; I'll help you with the down payment." What he didn't tell her was that after 3 months, he would be out of the picture, and she would have to figure out how to make the monthly payments on her own. She couldn't and buy food at the same time.

You may think Amy's story is an isolated case, but I've seen hundreds of "isolated" cases with people getting in way over their head because of that new car look and smell. And, just like Amy, they became "upside down" (car value less than loan amount) very quickly and didn't know what to do.

If you're committed to the new car and you have enough money to pay cash, that's your decision. But if you're not in that situation, allow me to share some facts with you and suggest some alternatives.

A fellow Crown Financial Ministries volunteer and engineer conducted a fairly detailed study of American made vehicles. He discovered, on average, that after a new car has aged three years its resale value is about one half of the original sticker price. After four years, the resale value drops to approximately 40% of the original. From that point the vehicle's depreciation slows considerably. Let's be conservative and assume the life expectancy of an American made car is 150,000 miles. If the driver averaged 12,000 miles per year, the car would last about 12 ½ years. Now, let's consider two people: you and me. Refer to **Figure 1.** Here's the scenario: You buy a new car for $30,000 and drive it 3 years at which time its resale value is about half of the original price. You sell it to me for $15,000. I maintain it and drive it for 10 years until it's time to donate it to the local salvage yard. It cost you $5,000 per year for the privilege to own it; it costs me $1,500 per year.

Figure 1

The Car Saga of You and Me					
You Purchase	You Drive	You Sell	I Purchase	I Drive	I Sell
$ 30,000	3 yrs	$	15,000	10 yrs	$ -
Your Annual Cost	($15,000/ 3 yrs) $5,000 per year		My Annual Cost	($15,000/ 10 yrs) $1,500 per year	

I get a much bigger bang for the buck than you do. I do my homework; I shop around and find a good, reliable vehicle that is about 3 years old. It will typically have about 30,000 to 35,000 miles on it. I pay about one half of the original sticker price. The original owner (that's you in this illustration) pays for half of the car! I pay for the other half and drive it for seven years longer than you do. Can you see anything wrong with this picture? I can't from my perspective. I come out well ahead.

I'm frequently asked, "When is the best time to trade or sell a vehicle?" The same chart will help you think through the answer. As I mentioned, I use vehicles to get me from point A to B. I don't consider them a status symbol. I have determined that I am willing to commit $3,000 toward the annual cost of a vehicle. I define "annual cost" as the purchase price plus maintenance divided by the number of years I drive it. So, if I buy a car for $14,000 and spend $1,000 in maintenance while driving it for 5 years, my annual cost is $3,000. (15,000/5 = 3,000). That is the amount of money I spend on an annual basis for the privilege to drive it. Consequently, if I spend $15,000 to purchase a vehicle I know that I plan to drive it for at least 5 years. I don't consider operating costs (gas, oil, tires, etc), when I compute annual cost, because we all have to deal with operating costs, no matter what we drive. When repair costs begin to push me above my annual cost threshold then I determine it's time to find a more recent model vehicle.

You may remember the SUV I mentioned on the Video during our Week 1 discussion. It was a substantial purchase (the last new car we purchased; they have all been pre-owned since then – I became a little more educated on the subject). We drove the SUV for more than 15 years and our annual cost was $2,450. I drove a sedan for over 20 years and lowered the annual cost to less than $1,200 per year. The sedan developed a significant engine issue that would have elevated my annual cost considerably, so I determined it was time to retire it with dignity. I sold it for $1,500, which lowered my annual cost even more.

You pick your annual cost threshold. Maybe you want to drive newer vehicles. Maybe your annual cost threshold is more than mine (or less) – that's your decision. But when potential repair costs would drive you above your threshold you know it's time to make the move to the next one. I hope you notice this has the same flavor of the decision processes we discussed in Week 3. **You are making your decisions based on data; based on logic, not on emotion.**

What are other ways we can lower the annual costs? Since you now know the monthly cost of credit, it should not require rocket science to determine that you want to pay cash for the vehicle. The surest way to reduce the expense of a vehicle is by avoiding interest costs. Because, a $20,000 vehicle costs $20,000 only if you pay for it when you drive it off the lot. If you finance it at 5% for 4 years it costs over $22,000! As you work toward Milestone 6 your savings should grow to an amount sufficient to pay cash for your next vehicle.

Here is one technique that works for a lot of people: once you've made the last payment to the finance company, continue making the same payment the next month to your savings account.

This is a relatively painless process since both you and your budget are used to that monthly expenditure. Then once you have purchased your next vehicle with cash, use the technique we discussed earlier and determine your annual cost threshold. That information will give you a better idea of how long you'll drive the vehicle and how much you will need to save to purchase the next one.

I can hear some of you thinking that you will avoid all of the above issues and drive "new" by leasing. The age old question: **"To lease or not to lease?"** I can't answer you based on personal experience, but I can definitely answer you based on someone else's experience. A trusted friend operated a car leasing business for 15 years. He told me, unequivocally, that he had never seen a lease that would have been a better deal than the purchase would have been for the individual. Fleet leasing for companies is a different story. But he said, **for the individual consumer, the lease is never the best option. As a matter of fact, he didn't call it the leasing trap; the term he used was the "fleecing trap".** He said the lease is always based on the highest interest rate at the time; the terms always benefit the dealer; the contract language is complex and difficult to understand and it is next to impossible to terminate the lease before expiration. He said he would never lease a car. And that comment was from someone who had been in the business for 15 years!

If we accept the opinion that purchasing is the best option, there is another potential bottomless pit in which we can throw money. **That pit has a caution sign next to it labeled "vehicle maintenance costs", which can often blow the lid off the budget** of the most well intentioned consumer. Similar to the house purchase, do your best to evaluate the vehicle prior to purchase. Some reputable dealerships have pre-certified used vehicles that come with a warranty. Do your homework on where you purchase the vehicle, and only use dealers with a track record of good customer service.

You can reduce much of a vehicle's maintenance costs by simply reading the recommended maintenance section of the owner's manual, and then doing what it says. Believe it or not, the maintenance interval recommendations are based on data, and I'm sure you will agree that preventative maintenance on vehicles is far less costly than the actual repair. Each vehicle's maintenance requirements are different based on the systems, the type of driving, the age and the overall condition. As an aid, use **Figure 2** to help you identify the major system issues that are likely to cost big bucks. Then check your owner's manual for the recommended service or inspection interval (either mileage or months) and put the stated mileage or dates on your calendar. If you are like me, I'm much more likely to be aware and follow through with something that is on the calendar.

Figure 2

System	What to Check	If You Don't
Engine	Oil/Coolant	Shortens life/$$$
Air Conditioning	Refrigerant/Compressor	Potential failure/$$
Transmission	Fluid	Potential failure/$$$
Timing Belt	Condition	Potential failure/$$
Serpentine Belt	Condition/tension	Tow truck/$
Wheels	Alignment	Shortens tire life/$
Battery	Charge under load	Tow truck/$
Brakes	Pads/rotors/fluid	Safety/$
Tires	Pressure/wear	Safety/$

I recognize that I have discouraged new car purchases in this discussion. I will concede, on occasion, depending on market forces at the time of purchase, new vehicles can be very competitive with a late model pre-owned vehicle. An additional benefit is they come with a much longer warranty than the pre-owned vehicle. The key in purchasing a depreciating asset is to get the very best value for the money. Do your analysis; if you can determine that your annual cost for a new vehicle will be similar to the pre-owned and you can avoid a loan in the purchase process, be my guest.

BOTTOM LINE: Make your decision based on the VALUE and NEED rather than the shine and smell.

REFLECTION: Did you make your last vehicle purchase based on a need or a want? Do you consider a vehicle to be a status symbol or a tool to provide for your transportation needs? Are you willing to establish a dedicated savings plan to ensure the next vehicle purchased is paid in full at the time of delivery? How would you assess your stewardship qualities in the area of transportation? Identify and prepare to discuss with your group the statement or concept that was most meaningful to you in this lesson. **Record your thoughts:**

ACTION STEP: Immediately review your vehicle(s)' owner's manual(s) and schedule an appointment for the next recommended service, if due or overdue. Project the likely purchase date for the next vehicle, then establish a monthly savings amount to allow you to pay cash for the next purchase – working toward Milestone 6. Establish a projected purchase price, based on what you can afford, not necessarily what you desire. Continue tracking your daily expenses using the spending areas listed on page A-4.

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