

How to buy your next car the right way

By Tim C. Lee

For the average consumer, a car is one of the two largest purchases they will make in their lifetime. The other is a house.

In the book, *The Millionaire Next Door* by Dr. Thomas Stanley and Dr. William Danko, they studied the behavior patterns of millionaires.

One of the topics the authors focused on was the millionaires' decision making when purchasing vehicles. The majority of the millionaires stated that they only drove reliable used cars, and buying new vehicles is one of the worst purchases for the average consumer.

The number one rule I give when purchasing a car is to "buy used." The second you drive off the parking lot, the value of a new car has depreciated by 20 to 25 percent. Afterwards, you can estimate an average depreciation rate of around 10 to 15 percent per year. So after five years of owning a new car, it is safe to say that it has decreased in value about 60 to 70 percent. Based on those numbers, buying a new vehicle never makes good financial sense.

When purchasing a used car, you want to first make sure you do your due diligence. Once you find a vehicle that you are considering, look up the current value. You can go to Kelly Blue Book's website at www.kbb.com. From there, you can enter the car's make, model, year, mileage, and all additional features of the vehicle to get an accurate value of the car you are thinking of purchasing.

On the website, be sure to select the correct type of seller. Choose "Private Party" if you are buying from an individual or "Dealer" if you are purchasing from a car dealership. Kelly Blue Book will also give you the

trade-in-value of a vehicle if you are considering making a trade.



Buying from a private party is less expensive, because in most cases, you avoid paying sales tax and other fees that are associated with car dealerships.

Regardless of who the seller is, always negotiate the selling price below the value amount that was determined. Trust me; car dealerships will still make a profit accepting your counter offer.

Some salespeople are trained to study behavior, so do not seem too anxious or desperate. Let the perception be that you have no problem walking away from the deal.

Always get the car inspected by a licensed mechanic, and obtain a CARFAX Vehicle History Report. Many sellers will offer you this report free of charge when buying a used vehicle. If not, demand that they do.

If you are unable to pay cash, I suggest that you finance your car with a credit union versus a bank. Credit unions typically have lower interest rates. I also recommend you only finance a vehicle for three years or less, with a down payment. It is not mandatory that you use the lenders that the car dealerships recommend.

Never purchase additional features, such as extended warranties, Gap Insurance, and

GPS tracking; which some car dealerships and lenders tend to offer. These added features are sometimes very costly and are horrible investments.

Purchasing a used car below the value price, financing it for three years or less, paying a down payment, and opting out from buying additional features, will make purchasing Gap Insurance unnecessary. This insurance pays the difference between the balance due to the lender after your insurance pays their portion after a vehicle is considered a total

loss. Not purchasing this insurance will save you hundreds of dollars.

Buying a used car only makes good financial sense. If you are one of those individuals that love to buy brand new cars because of the way it looks and smells, then I recommend you purchase a used vehicle and do two things, 1) Have the car professionally washed, waxed, and the carpet shampooed thoroughly, and 2) Go to an auto supply store and purchase the “new car scent” air freshener and vigorously spray the inside of your car.

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