



MoneySmart Online Course #6

How to Buy Your Cars Smart, Really Smart

By Ted Hunter
MoneySmartOnline.com

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How to Buy Your Car Smart, Really Smart

Car ownership costs are the second largest household expense in the U.S.. **17%** of take-home income. The average family spends almost as much money on cars every year as they do on food and health care combined? The good news is that cars aren't just a huge expense. For most people they can be one heck of an opportunity for saving.

How much money? 1 to 3 thousand dollars a year invested at say a 6% return is 40 to 120 thousand dollars in 20 years. Think of what that kind of money alone can do for you. Pretty amazing, isn't it.

To get that money there are 10 rules you need to follow.

Rule #1 Never buy a new car

If you're 100% financially free, work when and where you want, already have pretty much everything you really want, then go buy a new car if you want. But if you're not there yet, my advice is don't do it.

Before you do, think about what else you can do with that money.. great vacations, a nicer house, or better yet helping you to become financially free a lot sooner in your life. if you're like most people you'll see that buying your cars new.. owning a car that's new for what, a couple of months?, is **not** the way to go.

There really isn't that much of a difference between a new car and say a 2 to 3 year old car except for one thing.. one **heck** of a lot of money.

A new car loses an average of 20% in the first year. In 2 years we're taking at least 35%. That's 9,000 bucks on a \$25,000 car, 12,000 on a \$35,000 one. And if you're financing the car, it's more yet.

Think about what it means to have all that extra money. 10 thousand dollars every 5 years at a 6% return is \$88,000 in 20 years. You really want to give that up for this?

I get it that it's nice to drive a new car, at least for the first few months, but I'm telling you, you have to look at what you traded for it, and in most cases it's a really bad trade.. one you'll probably deeply regret at some point.

Rule #2 Don't pay for things that are not or may not be worth it

Image.. Don't purchase an unnecessarily expensive car or truck for its image, at least not until you're free.. financially free.

Raw power.. Avoid buying a gas guzzler. On average, we're talking an additional gas cost of about \$1700 a year, \$2500 before taxes. Put that in your IRA at a 6% return and you end up with \$97,000 in 20 years and \$209,000 in 30. And once again, you don't have to wait 20 or 30 years before that much extra money can begin to really change the game for you.

Owning a car you don't need.. Consider selling your second car and using Uber or Lyft, or maybe public transportation or carpooling, or maybe just rent one when you need one.

But remember.. it's **not** all about getting the lowest price car possible. You need to balance getting a car for less with getting a car you'll be happy with, because if you're not, you won't be happy with it and you'll just end up buying another one sooner than you should've. Also, don't buy the car that's cheaper than the others, as I'm pretty sure that if I do, you'll regret it at some point.

Rule #3 Choose the Exact Car you want.. See what the advice sites have to say regarding the reliability and owner satisfaction on the particular makes, models and years you're thinking about buying.

For a new car, go to the manufacturer's website and build the exact vehicle you want.. the model, the features, the color and so on.

Always know the year they bring out the **real** new model and make your decisions accordingly. Also, take a couple of minutes and look up what your different choices will cost to maintain. Lastly, always test-drive the different makes and models you're interested in. But after you do, leave! No way are you ready to buy yet.

Rule #4 Understand Used Car Pricing

On the internet are a number of sites that will give you the 3 prices you'll need.. dealer purchase price, the price you'd get selling it privately, and the dealer asking price. Normally a dealer is looking for something like 15% profit and if and when in the negotiating process you're forced to make your first offer, you might want to go with the price that gives them say about an 8% profit.

Rule #5 Understand New Car Pricing.. Sticker price is meaningless. What matters is invoice price, which is what the dealer paid for it. But not exactly. They also get what's called dealer holdback from the manufacturer on every vehicle they sell. The holdback is usually about of 3% of the sticker price. You won't be getting any of that money but it helps you to know that it's there. For what it's worth, a fair offer is usually considered to be about 3-5% above invoice price. If you can do better, fine but it's hard to get much lower than that.

Rule #6 Usually, No Leasing.. When it comes to car leasing, the salesperson often gets a bigger commission if you lease and can usually "prove" to you win, even though most of the time, you don't.

The games here can get pretty confusing. To help you on this there's a site on the internet that's pretty good at whether or not you should lease and, if so, how to go about it. The site is www.carbuyingtips.com

If you want to go a step further, listen to my guy, Remar Sutton. You can buy his book, *Don't Get Taken Every Time* on Amazon, used, for like 5 or 10 bucks. . then no leasing unless what you read in Remar's book convinces you it's a good idea for you and also that that you're going about it the right way.

Rule #7 - Buy your used cars from the right place.. Most people would say it's best to buy from a private seller, but a lot of the time you're likely to do better if you don't. Not unless you know the seller personally. If you do, great.

If you don't, you can always go on-line and buy someone's car that they're selling, but you better be really careful, because you may have just entered the Lion's den. An awful lot of the used cars being sold on-line by quote-unquote the owner are not being sold by owners. They're being sold by professionals, people selling maybe a car or two a week.

Far too much of the time they know how to fool you on the condition of the car. Far too often they've rolled back the mileage. Far too often it's a car they bought on the cheap, and for good reason, and are now selling it to you at a quote-unquote fair price.. fair if it wasn't a problem car.

For most people I think there might be a better way to go. Buying your car from a new car dealer. It's the new car dealers that are the ones getting most of trade-ins and the lease backs. They usually keep the ones in really good condition and wholesale out the others to the used car auctions. So they probably just picked you a good car.

As for the used car dealers, personally, I think it's best to avoid them. After all, who got all those used cars that the new car dealers decided to wholesale out. You want to pick from that litter? I sure don't. Now I'm not saying you're guaranteed a great car when it's new car dealer, but your odds are a lot higher you'll get a good one.

As to how to buy from a dealer, you don't just walk into the dealers. Start by going on-line and seeing what the new car dealers have that you're looking for. You can also check some of the more popular car buying services there. But understand that they're all just intermediaries as it's the dealers that have the cars, so you always want to negotiate on whatever price they give you.

Rule #8- Know the condition of a Used Car.. Always make the deal subject to getting ***your own*** mechanical inspection and a VIN number

History Report at CARFAX. Be sure it passes emission inspection before you buy it.

Rule #9- The Best Way to Shop for a new car: On the Internet and the Telephone

The internet and the phone are almost always cheaper and easier than shopping in person and everyone is competing, and they know it. Often this is true for a used car, but it's always true for a new one.

The dealers don't want you to get it that new cars are commodities. But they are. So why get prices from just one or two dealers when the exact same product is being sold by dozens of companies?

Start with the on-line services. Personally, I'd get a price from Costco, then try some of the others.. TrueCar, Edmunds Price Promise, 1-800 Car show or whatever. Then if you're not satisfied, you can always work the dealers after that. And never negotiate on any prices until you have all your quotes and never while you're physically at a dealership.

Rule #10` - If You do end Up Negotiating, Negotiate smart.. Refer to and follow your notes from subject #1- How the get a better price or better deal on almost everything. And remember.. you can always buy your car somewhere else, but if you walk they lose their commission, so the pressure is a lot more so on them than you. And if you do walk, it doesn't hurt to give them your telephone #, as a lot of the time they'll call you up and cut the price a little more yet.

So that's it.. that's the 10 rules you need to follow to win.

For the world of the car dealer you need to do 6 things.

Step 1- Know the value of your trade-in, if you have one.. It should be easy to get a pretty good estimate in just a couple of minutes on line.

Step 2- Arrange your financing before going to a dealer. Always get the best financing deal you can before you start as it's the only way you're gonna know if you want to go with theirs.

Step 3- Get the best deal on your trade-in.. Doing a trade-in with a dealer avoids the hassle of selling it privately but you'll almost always get less, as the dealer will be using the wholesale price, not what you could get if you sold it privately. And remember, only after you've gotten your best possible new car price do you then negotiate your trade-in separately.

Step 4- Focus on the Price. The Complete Price All that really matters is the price you will pay, but that is *not* where the salesman wants you to focus. You need a complete detailed quote listing everything that'll be included before making any offer whatsoever. No negotiating whatsoever until you know exactly what it is you're negotiating on.

Step 5- Don't Buy Unnecessary Extras.. Next.. don't buy unnecessary extras like extra rust-proofing, extended warranties, fabric and paint protection, VIN etching, etc. All are either unnecessary or way overpriced. You can get them for less, often much less, someplace else.

As for any other charges, the legitimate ones are sales tax, registration fees, the factory delivery fee and only the legally required documentation fees. So if you see anything else on the agreement, get it removed.

Step 6- Leave.. Once you have their best deal, tell the salesperson you need to think about it. No matter what additional price reduction he offers you, leave. Call him back several hours later or perhaps the next day and do all of your negotiating over the phone, not in person.

And lastly, take your time. Don't rush. The worst car-buying decisions are the ones where people rushed, or allowed themselves to be rushed. Even if you find the perfect car for the perfect price, sleep on it. You might lose the car, but odds are you'll save yourself from paying too much or buying something you later regret buying.

Here is some additional input to consider that I didn't include in the video..

If you're buying used car here's a pretty good checklist so be sure to take a look at it. <https://www.carbuyingtips.com/questions.html>

No Deposit Without Manager's Approval. Do not give a deposit without first getting the manager's approval or you're subject to the game not being over.

Always read everything you sign very carefully. Be on the lookout for add-ons you didn't agree to. They often try to sneak these things in at the last minute. It's also common for them to call them something "standard" when they're not.

Don't let them work you. Be wary of car dealers who try to work you by having a series of people take over talking to you for the purpose of wearing you down. And don't become a prisoner by handing over the keys to your current car before a manager has agreed to your deal. If they want to drive your car to appraise it before that, go with them. The bottom line here is that it must be you that controls the sequence of events, not them. If you can't get this to happen, leave.

Rebates are another hook. By accepting the rebate now, you will have to accept financing terms using higher interest rates. Did you know that some manufacturers offer subsidized low interest financing programs through the dealership? These programs are expensive for the car manufacturers. They will in many instances offer a cash incentive to potential buyers who do NOT take up their low financing. Even though a dealership may be offering a lower interest rate than a lending institution, you may be eligible for a dealership cash incentive rebate which you might otherwise not receive.

The Hidden Rebate Tactic. I see this tactic at dealers and in newspaper ads. They list a price that is less than MSRP, making you think it is a good deal. Unfortunately the "prices include the rebate." Any rebates should be

subtracted *after* you negotiate the price. Do not let them include the rebate in their "asking price."

The "Turnover" Scam. They keep switching salespeople to work on you and wear you down. It's harassment and it's just a waste of time. They have no intention of working with you, they just want to tire you out. Tell the salesman that they should stop this nonsense right away. Tell them you are on to the scam and leave if they keep switching.

"No Haggle" Usually Means "No Bargain". Many dealers use "No Haggle" pricing to make you think you are getting a good deal. People think these dealers will never negotiate. Sometimes the price at these dealerships will be good but if their "No Haggle" price is more than 5% over dealer cost, then it's not a good deal.

Beware of the Eavesdropping Salesperson! Don't discuss anything privately if they leave you alone in the office. They could have set the phone to intercom mode and are listening to you.

The Psychology of the Sales Tally Board. Dealers display the tally board or point out your salesperson's totals to condition you to buy. They want you to think that they are giving good deals because they are selling so many cars.

Here's some lies and half truths they will use to play games with you:

- "These cars are flying off the lot like hot cakes, we have no reason to lower our price. We can get top prices because everyone wants this car right now."
- this deal is only good today. The limited time deal..
- 3 other buyers are looking to buy this car."
- "If we don't beat the competitor's price we'll give you \$500!" The problem is that you won't be able to get "proper paperwork" from another dealer.

- "Sure, we have that exact car you're looking for, come on down!"
Then when you arrive the car has disappeared but they have a more expensive one.
- While you are in the office the salesman talks to another "customer" interested in the same exact car.

Demo Car Scam. If one of the dealers gives you a price quote that seems too good to be true it could be the dealer is trying to sell you a demo car without letting you know. If you suspect this is happening, ask the dealer for the mileage on the vehicle - if it's more than a few hundred miles, it's likely to be a demo car.