

BUYING A CAR

4 Steps to Ensure You Are Making a Good
Financial Decision



For many people, nothing inspires more dread than car shopping. Buyers are making a major financial decision on a product they will use every day for years while negotiating against seasoned professionals.

Here is how you can ensure that you make a good financial decision and get the best possible deal.

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DETERMINE WHAT YOU CAN AFFORD

This seems obvious but for many people buying a vehicle is an emotional decision. Though at the end of the day, it has a real cost that impacts everything from your daily commute to how much you can save for other goals.



- One simple rule is not to spend more than 10% of your net income. If your net take home pay is \$6,000 a month you would earmark roughly \$600 for a payment, insurance, fuel, and maintenance.
- Use an online loan calculator to determine payments and keep the payment period between 3 to 5 years. One of the biggest trends in the industry is long term loans that extend out 7 years or more. A long repayment period masks a high purchase price, and can result in owing more than the car is worth.
- Do not overlook cost of ownership. Certain vehicles will be more expensive than others to maintain and insure.
- Obtain financing from your bank or credit union before you go into the dealership. If the dealer can get you better rates, you should take it but it cuts off their ability to charge you a higher rate.

BUY SMART

Understand how dealerships make money. Many buyers mistakenly believe that the purchase price is the only thing that matters. In fact, there are four specific factors being negotiated when you purchase a vehicle.

1. Purchase price
2. Financing – Dealers can make money by providing you financing. They are not obligated to provide you the lowest rate and will earn more if you accept a loan at a higher rate (i.e. why you should obtain your own financing before you head to a dealership).
3. Add-ons – Extended warranties and protection plans can add hundreds to your monthly payment and are difficult to assess from a price and value perspective. Moreover, most can be purchased after the fact. You are under no obligation to purchase it at the dealership.
4. Trade in value – If you drive a particularly hard bargain on the purchase price, the dealer will offer less on your trade in. Do not treat your trade in as an afterthought. It is part of the overall price.

DO YOUR RESEARCH AND BUY WHAT MAKES SENSE FOR YOU

The typical rules of thumb that go along with buying a car should not always be taken at face value. Here are a few common pieces of advice that are not always true.



Leasing is not always a bad deal. If you do not put a lot of miles on your vehicle each year and want to have a new, reliable vehicle at all times then leasing can make a great deal of sense. Leasing itself is another layer of negotiation to the car buying process, but it can be a cost-effective way of addressing your transportation needs.

Consider buying used – sometimes. Often the best deal with vehicles is “new used”, meaning a slightly used vehicle with low mileage. The idea being that the depreciation has been realized by the first owner and you get a discount on a vehicle that is effectively new. See our article for when buying “new used” can go wrong.

While they are becoming more common, make sure to review the vehicle history report. Any vehicle that has been in an accident should be discounted, and avoid salvage titles or vehicles that were recently purchased from areas with major storms (i.e. flooding and water damage).



WORK ON YOUR NEGOTIATION SKILLS

In general, most people do not like to negotiate. However, here are a few simple tips to improve the likelihood you get a good deal.

- Negotiate each item (purchase price, trade in, financing) separately.
- Consider conducting the process over the phone or via email. For many people, it is easier to manage their emotions and language in that context. Moreover, one of the most common tactics at a dealership is simply to keep you waiting. If you do not come in until you are ready to pick up the vehicle, it removes that option.
- If you are at the dealership, be prepared to leave if you believe the negotiation has broken down. Walking away is your strongest card to play as a buyer.
- When you are at the dealership and ready to buy, make sure you set a time limit and schedule your appointment for a slower time period (weekday morning) to ensure time cannot be used against you. If you have negotiated terms ahead of time and are well prepared, a purchase can take less than an hour.
- Don't negotiate! There are multiple no haggle dealerships and online purchase options. You may end up paying slightly more, but for many buyers the lack of stress is worth it.

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