

Pay Cash for your Vehicle

BONUS: Step 14 in Your
Roadmap to Financial
Independence

Can you pay cash for a home? Yes, but unless you inherit a considerable sum of money, it may take you a decade or longer. Still might be a good idea. Can you pay cash for a vehicle? Yes. Should you? Yes, always. Here is how to do that.

Executive Summary

- If you can afford a monthly car payment, you can afford to save that same amount for a future purchase
- Start by paying cash for the least expensive vehicle that will get you to where you need to go, probably \$1,000. Use your Emergency Fund only if necessary
- Move up in vehicle as appropriate until you own the right vehicle for your need

The “Debt” way

If you decided to finance a car, what would that look like?

After extensive research, you find your first car for \$15,000. You secure a loan over 5 years at 7% interest with a monthly payment of \$350. After 5 years, you have a “paid-for” car, but now you want a newer vehicle, so you repeat this cycle.

The “Ownership” way

What if, instead of a monthly car payment of \$350 you saved that \$350 for 5 months. Now you have \$1,750 cash to buy the worst vehicle you could ever imagine, but it runs and gets you from home to work or school.

Now, keep saving that \$350/month for another year. You will most likely be able to find a high interest account while you wait for the perfect opportunity. After 12 months you now have \$4,200 to put towards your next car. OK, maybe that first car needed some repairs during these previous 12 months, but since you had been paying yourself \$350 each month you had the money. Maybe you're left with \$3,500. You sell your first car on Craig's List or to a neighbor for \$1,000 and go find a \$4,500 car. Probably a substantial upgrade from your previous ride. Repeat these steps every year until you're driving your dream car.

Next Steps:

Search and purchase the least expensive vehicle possible, under \$1,000

Save as much as possible each month in addition to other obligations



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