

This Financial Planner Drives A Truck

“Better is he who is lightly esteemed and has a servant, than he who honors himself and lacks bread.” Proverbs 12:9

“There is one who pretends to be rich...” Proverbs 13:7a

The other day at the gas pump, I saw something incredible - someone with a \$20,000 car buying \$2 worth of gas. I had to ask myself, “Could it be that the payments on this vehicle kept its owner from filling up?” Not only can payments impair cash flow, but the negative impact of a car on your financial statement is equally depressing. I’m referring to the loss of earnings on capital tied up in transportation, combined with the high annual depreciation. And if you haven’t paid for it outright, the effect of debt service or a lease is even worse.

For most family budgets, automobiles are a big-ticket item. As a percentage of discretionary spending (what’s left after tithe and taxes), transportation is usually the second or third largest spending category, after housing and perhaps food. Even a good used auto can represent your largest single outlay after the house. Therefore the question of whether to update or hang in there with “old Bessie” is important. One mistake here can wipe out your grocery coupon savings for a lifetime.

But automobiles don’t have to be a budget buster. Affordable values are available. It’s often a good idea to first analyze our motivations, and honestly ask “Exactly what am I trying to buy?” Consider this sound financial formula regarding the value of a car:

- 1) 80% of a car’s value is getting you safely from point A to point B;
- 2) 15% is doing so comfortably and dependably;
- 3) 5% is doing so “in style”.

Using this guideline, realize that you can buy a good used 95% car (items 1 & 2) for \$5,000 or so. (In addition to dependable transportation, you receive more of God’s grace which He gives to the humble - James 4:6.) But if you want to go the 100% route, it may cost \$20,000, or more! Ask yourself two questions: “Can I afford to pay \$15,000 for style?”, and “Does this advance my financial goals?”

The most common obstacles to being so reasonable are typically “the lust of the flesh and the lust of the eyes and the boastful pride of life.” (I Jn. 2:15,16) Cars are fun, good looking, and status symbols. However a good steward rejects status symbols; he doesn’t buy them. Remember that pride goes before (financial) destruction.

Someone may ask, “You are not saying that driving an Acurallac is *wrong*, are you?” It depends. If you’re tithing, debt-free (including your home), have an adequate

emergency fund, are on track saving for the kid's education, and can easily write out a check for the purchase, then maybe not. But if you've not accomplished all of these financial priorities, you are probably wise to stick with a 95% model. That's why I recently bought a low-mileage, six-year-old Toyota truck for \$5,200 (to replace my 14 year old worn-out Honda). Remember also that even when you've taken care of these financial priorities, there are plenty of stewardship principles that sometimes make the 95% model the best choice. Consider Luke 16:19-31.

The bottom line is that becoming financially free requires a family to build a certain net worth - the value of a home, transportation, emergency fund, etc. But expensive transportation militates against that end because it ties up so much capital and has such high depreciation. Remember that what may be OK for those who are older and financially established, may not be for those in their financially formative years.

Let's review some financial basics for automobiles.

	Used car purchased for \$5000 cash	New car purchased for a \$20,000 note at 9%
A. Earnings lost when savings is reduced	@6% = \$300	
B. Interest outlay	0	\$1800
C. Loss in car's value - (depreciation)	\$600	\$4600
D. Repairs- (in a bad year)	\$700	0
One year's impact on your net worth	(\$1600)	(\$6400)

Is the \$4,800 annual difference worth it? Can I afford \$400 per month for style?

Another danger about a car note (or lease) is that it lets you pretend to be someone you are not. Driving fancy transportation you cannot comfortably afford (except through a note) is pretense. Accepting God's position for you today and waiting for Him to honor you at the right time however, will not only stabilize your finances but will make you a better reflection of Christ. Attempting to earn others' respect through pretense is largely counterproductive anyway. Discerning people see through it. Humility and living within your means is what earns respect over the long run.

With this in mind I'd like to recommend a useful one page accounting sheet for the glove compartment of your car. On a page from a four-column pad write these headings: **mileage** at which a repair was done, description of the **work completed**, **date** completed, **mechanic** who did the work, **cost** of repair, and **annual cost** for each calendar year. It will act as a chronology of repairs and service (when did I change the oil?), and a financial record for decision making. When feeling the sting of an expensive repair, compare the bill to the depreciation on a new car and the cost of tying up thousands of dollars in more stylish transportation. You'll get instant relief!