

"The Smart Way To Buy A Car – The UnCanadian Way"

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<http://HowToBeSetForLife.com/Audios/SmartWayToBuyACar.mp3>

Authored By:



A handwritten signature in blue ink that reads "Mark Huber". The signature is written in a cursive style and is set against a light yellow rectangular background.

Mark Huber, CFP

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Recently I sat down with clients who had asked me for advice on making a new vehicle purchase...

In advance of our meeting they provided me with the necessary information so that the time together would be productive...

I did the requisite research and calculations and though I intuitively know what the results would be I was really quite shocked at what they actually looked like...

Enough so that I wanted to share them with you here today!

In this case, my clients wanted to purchase a vehicle for \$35,000 and they wanted the best plan to accomplish it...

So...here goes. (This is what a financial planner can/will/should do for you so that you can arrive at your own conclusions.)

Breakdown For: "Financing A Vehicle"

Cost of vehicle: \$35,000

Financing charges: 7 percent.

Length of vehicle loan: 7 years.

Additionally, I researched "Kellys Blue Book" <http://www.kbb.com/> to find out what the historical depreciation was for the vehicle they were wanting to buy. (Which is essentially, the purchase price paid - years held = approx. "residual" market value).

I loaded everything into one of my amortization spreadsheets and based on this information proceeded to tell them the following...

Analysis For: "Financing A Vehicle"

Monthly payment (Principal & Interest): \$526

Total (non tax deductible) financing costs over 7 years: \$9,229

Value of vehicle at beginning of "financing": \$35,000

Value of vehicle at the end of the 7 years of financing: \$7,000

(An 80% lose of "asset" value over 7 years!)

Therefore: This "asset" loses on average, \$4,000/yr. for a (minus) -11.43% return for each and every year - for 7 years

Plus – cost of maintaining this “asset” (at a minimum):

Insurance: \$100/mo. X 12 mo. X 7yrs. = \$8,400

Gas: \$100/mo. X 12 mo. X 7yrs. = \$8,400

Maintenance: \$100/mo. X 12 mo. X 7yrs. = \$8,400

Total: \$3,600/yr. or \$25,200 over 7 yrs.

The average yearly cost to maintain this “asset” is approx. 10% of the original cost of \$35,000 each yr.

Plus:

The avg. annual finance costs for the “asset”: \$110/mo. X 12 mo. = \$1,320/yr.

Total: \$4,920/yr. or \$34,440 over 7 yrs. (This essentially equals the original cost of the “asset” of \$35,000)

This suggests a total avg. annual cost of maintaining this "asset" to be approx. 14% of the original cost of \$35,000 - each and every year.

So, by paying a total (all in) of \$4,920/yr. or \$34,440 over 7 yrs. (non tax deductible interest cost) to hold on to an "asset" that is losing an avg. of \$4,000 a year we will ultimately end up with an "asset" at the end of 7 yrs. that has lost 80% of its original value.

Wow! What a deal - sign me up!

Just as a quick aside: To any of you out there who are not pleased with what the stock markets have done recently to your investments and RRSPs – take heart – none of it is as bad as this “investment”.

Right?

You can see this “spreadsheet” and all others to follow in the “**Additional Resources**” section that follows at the end of this report.

Or, if you are in a hurry you can view it right now by “right click” the link below and “save as” to your computer “desktop”

<http://HowToBeSetForLife.com/Reports/CostOfCarCalc1.xls>

Summary For: “Financing A Vehicle”

Finance your vehicle purchase: So, by paying a total (all in) of \$4,920/yr. or \$34,440 over 7 yrs. (non tax deductible interest cost) to hold on to an “asset” that is losing an avg. of \$4,000 a year we will ultimately end up with an “asset” at the end of 7 yrs. that has lost 80% of its original value.

OK, back to where we were...

If you only take one thing away from this report – it should be this:

Remember to: **Pay cash for depreciating assets & borrow for appreciating assets!**

Or put another way: “Bad debt” bleeds you – while “good debt” feeds you!

Now many Canadians do not understand this distinction: It is this – that all debt is not the same...

There’s “bad debt” - the non tax deductible kind: such as charge cards, car loans, and home mortgages.

There’s “good debt” - the tax deductible kind: such as borrowing to invest, borrowing to own a rental property, borrowing to invest into a business!

Bad debt bleeds you - good debt feeds you...

Bad debt supports a gratification - good debt supports an asset...

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Understanding the difference and transferring from "bad" to "good" is what creates real and lasting wealth!

In fact, now is an excellent time to begin this strategy - if you have not already...
In fact, I have just added audios to my eBook: **"How To Create Wealth - The UnCanadian way"**

Now, you can either read about it - or listen to it - it's your call!

Download your copy by "right clicking" the link below and "saving as" to your computer "desktop"...

<http://howtobesetforlife.com/Reports/TheUnCanadianWayToWealth.pdf>

Have you seen all the other books and reports that I have authored?

If not, just click this link... <http://www.howtobesetforlife.com/resources/>

Remember, let us know what you think by "commenting" on the blog!

Now, back to the story...

As the client was already prepared to commit to a monthly "drag" on existing cash flow for \$526 I felt that it was not only my responsibility but duty - to do so...

So, I prepared some alternate options to consider - all of which wouldn't "cost" more than \$526 a month...

This then summarizes the next "spreadsheet" that I showed my clients...

Breakdown For: "Borrowing To Invest"

"Cost" of investment portfolio: \$35,000

Financing charges: 7 percent.

Length of investment loan: "Amortized" over 7 years.

Investment "return": 8.8 percent per year compound return

Analysis For: "Borrowing To Invest"

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Monthly payment (Principal & Interest): \$526

Total (tax deductible) financing costs over 7 years: \$9,229

Initial value of investment portfolio: \$35,000

Final value of investment portfolio at the end of the 7 years of financing for "borrow to invest": \$63,260

So, the investor ends up paying a total of \$9,229 in tax deductible interest costs over the course of 7 years to pay back a 7 year amortized investment loan of \$35,000; now the investor now ends up owning an "asset" worth \$63,260.

A pre tax gain of \$28,260 or 81% over 7 years!

This "asset" gains an average of \$4,000/yr. for a (plus) + 8.8% Average Annual Compound Return for each and every year for 7 years.

Plus the "net cost of borrowing" (assuming a 33% marginal tax bracket) is only \$6,183.

("Net cost of borrowing" refers to the tax payor deduction plus (+) the Canadian governments "refund" check. In this case $\$9,229 - \$3,046 = \$6,183$)

(Just like an RRSP contribution – the deduction for "borrow to invest" is exactly the same as if one were to have put money into an RRSP).

You can see this "spreadsheet" in the "**Additional Resources**" section that follows.

Or, if you are in a hurry you can view it right now by "right click" the link below and "save as" to your computer "desktop"

<http://HowToBeSetForLife.com/Reports/CostOfCarCalc2.xls>

Summary For: "Borrowing To Invest"

So, the investor ends up paying a total of \$9,229 in tax deductible interest costs over the course of 7 years to pay back a 7 year amortized investment loan of \$35,000; now the investor now ends up owning an "asset" worth \$63,260.

Now, in the next scenario I have illustrated the same \$526 a month expense but am illustrating the benefits of "leverage"...

Breakdown For: "Leveraging To Invest"

"Cost" of investment portfolio: \$90,000

Financing charges: 7 percent.

Length of investment loan: "Interest Only" payments for 7 years.

Investment "return": 8.8 percent per year compound return

Analysis For: "Leveraging To Invest"

Monthly payment ("Interest Only): \$526

Total (tax deductible) financing costs over 7 years: \$44,100

Initial value of investment portfolio: \$90,000

Final value of investment portfolio at the end of the 7 years of financing for "leveraging to invest": \$162,668

So, the investor ends up paying a total of \$44,100 in tax deductible interest costs over the course of 7 years to keep current on an "interest only" payment on an investment loan of \$90,000; now the investor now ends up owning a pre tax "asset" worth \$162,668.

A pre tax gain of \$72,668 or 81% over 7 years!

This "asset" gains an average of \$10,381/yr. for a (plus) 8.8% Avg. Ann. Comp. Return for each and every year - for 7 yrs.

Plus the "net cost of borrowing" (assuming a 33% marginal tax bracket) is only \$29,547.

("Net cost of borrowing" refers to the tax payor deduction plus (+) the Canadian governments "refund" check. In this case $\$44,100 - \$14,553 = \$29,567$)

(Just like an RRSP contribution – the deduction for "borrow to invest/leverage" is exactly the same as if one were to have put money into an RRSP).

Wow! Now this is what I call a deal! Sign me up!

You can see this "spreadsheet" in the "**Additional Resources**" section that follows.

Or, if you are in a hurry you can view it right now by "right click" the link below and "save as" to your computer "desktop"

<http://HowToBeSetForLife.com/Reports/CostOfCarCalc3.xls>

Summary For: "Leveraging To Invest"

So, the investor ends up paying a total of \$44,100 in tax deductible interest costs over the course of 7 years to keep current on an "interest only" payment on an investment loan of \$90,000; now the investor now ends up owning a pre tax "asset" worth \$162,668.

Summary For: "Summaries"

1. Finance your vehicle purchase: So, by paying a total (all in) of \$4,920/yr. or \$34,440 over 7 yrs. (non tax deductible interest cost) to hold on to an "asset" that is losing an avg. of \$4,000 a year we will ultimately end up with an "asset" at the end of 7 yrs. that has lost 80% of its original value.

2. "Borrow To Invest": So, the investor ends up paying a total of \$9,229 in tax deductible interest costs over the course of 7 years to pay back a 7 year amortized investment loan of \$35,000; now the investor now ends up owning an "asset" worth \$63,260.

3. “Leverage To Invest”: So, the investor ends up paying a total of \$44,100 in tax deductible interest costs over the course of 7 years to keep current on an “interest only” payment on an investment loan of \$90,000; now the investor now ends up owning a pre tax “asset” worth \$162,668.

What my clients did:

1. They liquidated \$15,000 of “open” (non registered investments) in the wife’s name (as she was the non working spouse).
2. They liquidated \$25,000 of RRSPs (registered retirement savings plan investments) in her name (as she was the non working spouse) to “net” after “withholding tax” of 20% - \$20,000 “free and clear”.

The wife (the non working spouse) will pay a little tax on this strategy (approx. \$2,000) – because (fortunately) she has no other sources of taxable income...

However, the money to be paid is far less than what the total interest costs would have been for just financing their vehicle...\$9,229!

Just think of it as a “cost of doing business” – with the “tax man”!...

And from a “family tax” point of view, though she “bit the bullet” on a small amount of tax she effectively saved the family from the \$9,229 on non tax deductible interest cost on the originally considered idea of financing the vehicle.

3. The “income earner” client (the husband) took out a loan for \$90,000...

The \$526 he would have been spending in “financing” a car costs (non tax deductible) are now going to pay for a “leverage to invest” program where the monthly cost of \$526 is now fully “tax deductible”!

Furthermore, as he is making a salary of \$55,000 he gets to “write off” the interest costs of \$526 a month (\$6,312 annually)...

He will get the same deduction against taxes just as if he were to drop that amount into an RRSP on a monthly basis or make a “lump sum” deposit into the RRSP of \$6,312 on an annual basis...

And just as if he were contributing to RRSPs he will enjoy receiving tax free refund checks of over \$2,000 annually for a total of \$14,553 over 7 years – to do with as he wishes...

Summary:

The point of all of this - is this:

Think creatively!

Use your financial planner as a “sounding board” OR ask them what they see your options as being...

Look to see where your assets and investments are!

Then “re organize” your investments to work more productively for YOU!

It doesn't make sense for you to have a chunk of change in a bank account or in RRSPs and then go out and borrow or finance for a vehicle purchase.

Try to make all your accounts and investments – registered and non registered more proactive and productive for you and your family!

(This should be another lesson in why it's not the best to have all your money in RRSPs)...

It worked out well in this case because the wife was not working!

However, the math does not work in your favour if you want to pull out RRSP money and you are pulling in \$30,000 + a year...

Just more reasons why I am not a great fan of RRSPs...

To learn more on this, you can check out my Ebook: **“The UnCanadian Way To Deal With Your RRSPs”** at: <http://www.howtobesetforlife.com/resources/>

It's a free “download” with my compliments!

All I ask is that you leave “comments” on my blog as your way of saying “thanks”...

Additional Resources:

The "spreadsheets" used in this report:

("right click" the links and "save as" to your computer "desktop")

<http://HowToBeSetForLife.com/Reports/CostOfCarCalc1.xls>

<http://HowToBeSetForLife.com/Reports/CostOfCarCalc2.xls>

<http://HowToBeSetForLife.com/Reports/CostOfCarCalc3.xls>

Kelly's Blue Book

Use "Kellys Blue Book" <http://www.kbb.com/> to find out what the historical depreciation of your vehicle will be...

Think Twice About the Seven-Year Auto Loan

The 7 year loan is a lousy new consumer trend..

While experts typically recommend consumers take out loans no longer than four years, six- and seven-year loans are becoming increasingly popular.

In fact, according to J. D. Power and Associates, those who took out an auto loan in 2008 - 43% were of six- or seven-year durations, up from 32% in 2004.

Why?

Well, because consumers welcome the lower monthly payments that come with long-term loans – however, they usually don't make financial sense in the long run.

What's driving this trend?

Low monthly payments!

Many drivers decide that they can afford a car by assessing the monthly payment.

By lengthening the terms of the loan, the payments decrease significantly!

For example:

Someone buying a \$30,000 sedan can cut their monthly tab from \$720 a month with a four-year loan to \$475 a month with a seven-year loan, according to <http://LendingTree.com>

Auto makers are also trimming their leasing business after experiencing significant losses and are trying to convert their current customers into folks who finance their automobiles.

One way to do that is to get the monthly loan payment to match a lease payment.

Still, these loans are riddled with problems.

First, they're quite expensive. Not only is the consumer making more payments, but they are also charged a slightly higher interest rate since these deals are riskier for the lenders.

While a driver with good credit can expect a 7.1% interest rate on a four-year loan, the rate jumps to 8.5% for a seven-year loan, according to <http://LendingTree.com>

On a \$30,000 sedan, that means a consumer will pay \$5,300 more in interest on a seven-year loan vs. a four-year obligation!

"If people added up the total payments many people would be appalled at the extra money they'll be putting up for those extra years!" says Jack Nerad, executive editorial director and market analyst for "**Kellys Blue Book**" <http://www.kbb.com/>

Another problem is that most drivers start to crave that new-car smell after four years...

Drivers could also wind up upside-down if they get into an accident and the car is considered a total loss.

Even if the consumer has comprehensive auto coverage, he's still only going to get the current replacement value for the vehicle from the insurance company, not how much is owed to the bank, warns <http://Cars.com>

Sadly, that often leads consumers to make an even worse financial decision.

They roll what they owe on the existing loan into financing for a new car.

Now the driver owes more on the new loan than the vehicle is worth before he even drives off the lot. "You're just compounding the problem and at some point you have to pay the piper," says Jack Nerad, executive editorial director and market analyst for "**Kellys Blue Book**" <http://www.kbb.com/>

Despite these warning, some drivers may still consider a long-term loan.

Here are a few ways to make the best of it:

Hold on for the long haul

The only way to justify a 72- or 84-month loan is to keep the vehicle for the entire six or seven years. "Then at least you're fulfilling your financial obligation to the finance company," says Nerad. If you can, though, you should hold onto it longer than that so you get some payment free drive time.

Treat your car right

The monthly payments aren't the only costs associated with a vehicle. Regularly scheduled maintenance checks and necessary repairs can also add up -- and tend to get more prevalent and expensive as the car ages.

To keep additional costs to a minimum, consumers should consider automobiles with longer than average warranties (Hyundai and Kia guarantee the drive-train for 10 years or 100,000 miles) or cars that are known for high reliability, such as a model from one of the Japanese auto makers.

It's also a good idea to buy a vehicle that depreciates slowly.

Luxury vehicles, for example, tend to hold onto their value better than a typical SUV or truck.

This is what a bank Web Site suggested to my when I queried them on financing options...

You've got your eye on the perfect vehicle and you want to lower the monthly auto loan payment to fit your cash flow

For example, you've found a vehicle, new or used, that has everything you're looking for, but it's not quite affordable if you take out a typical auto loan.

The chart below* shows you how choosing a term up to seven years can lower your monthly payments and help you get the vehicle you want today.

The cost of the vehicle you want to buy	Your term period	Interest rate²	Your monthly payments
\$25,000	5 years	7.50	\$500
\$25,000	7 years	8.00	\$390

* Chart is for illustrative purposes only. Example assumes term equals amortization.

As you can see, a seven-year term can lower your monthly payments to make the vehicle you want more affordable.

You have a monthly budget in mind and want to get the most for your money

Choosing a term up to seven years can allow you to buy a more expensive vehicle for the same monthly cost as a lower-priced one. You can use the extra purchasing power to select a model or features that meet your needs for added cargo room, safety or new technology features like hybrid power.

For example, let's say that your monthly budget is \$500. The chart below* shows you what you could afford based on various loan term periods.

Your monthly payment	Your term period	Interest rate²	The value of the vehicle you can afford
\$500	5 years	7.50	\$25,000
\$500	7 years	8.00	\$32,100

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* *Chart is for illustrative purposes only. Example assumes term equals amortization.*

As you can see, a seven-year term can help you afford more of the features you want by making your budget go farther.

We're here to help you choose the right auto loan for you

If you aren't sure which loan amortization period and repayment term is best for you, we'd be happy to help you decide. It's always best to find a comfortable balance between what you can afford and how quickly you want to own your vehicle. In some cases, restrictions apply based on the age of the vehicle you are considering.

The chart below* shows you how the age of the vehicle you are purchasing affects your choice of amortization. Basically, the newer the car, the longer you can take to pay it off.

Your amortization period

60 months

72 months

84 months

Loan eligibility based on vehicle age

Current year plus seven prior years

Current year plus three prior years

Current year plus one prior year

* *Chart is for illustrative purposes only.*

¹ Subject to credit approval.

² Interest rates used for examples are for illustration purposes only.

Applying is easy...

So, do you think the banks are your friends?

I say, No!

All they want you to do is to finance through them!

Why?

Because it's good business for them!

Why?

Because they buy money “wholesale” and sell it to you “retail” and keep the “point spread!”

Become your own bank whenever possible!

Look to see where your assets and investments are!

Then “re organize” your investments to work more productively for YOU!

If you have read this far – I congratulate you!

We sincerely hope that you will have found this book to be of value to you and wish you well now and in your future endeavours.

Furthermore, we trust that the ideas presented – when acted upon - will make your trip towards your financial success a rich and rewarding one.

What’s your dream? Grab hold of it! It’s yours...You’re worth it...Go for it!

Enjoy the ride and Best of Success!

Cheers!



“It's Your Life! Plan For It! Then Live Like You Mean It!”

About The Author

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Mark Huber, CFP

Mark Huber is a practicing certified financial planner (CFP) with over 22 years of experience in the financial services industry...

The focus of Mark's financial planning advisory practice is geared to British Columbian (BC) residents exclusively.

Mark's boutique planning practice works with a select group of clients who all share a passionate vision for creating true wealth and living their dream lives.

SetForLife Financial Services
8380 Ash Street
Richmond, B.C. V6Y 2S3

Suite 2050-1050 West Pender Street
Vancouver, B.C. V6E 3S7

Office Tel: 604-207-9970
Office Fax: 604-207-9971
E-mail: [mhuber\(AT\)HowToBeSetForLife.com](mailto:mhuber(AT)HowToBeSetForLife.com)

Office Hours are Monday-Friday
9:30am to 4:30pm PST.

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