Is Leasing Your Next Car a Good Idea?

by Keith Wheelan

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Have you ever heard someone say that a car, or a truck, is a big investment? I disagree. Yes, it can be a big outlay. But a vehicle isnâ€™t an investment, because investments are supposed to appreciate, or increase in value. Vehicles definitely donâ€™t do that. Instead they depreciate, or lose value. And they do so very quickly.

A better way to think of a vehicle is as an expense, not an investment. And if you fall for (or into) the lease trap, this expense can become even more costly, slowing your progress towards Financial Independence.

In our last article we noted that all assets can be classified as either â€œBestâ€•, â€œ2nd Bestâ€• or â€œ on two considerations:

1) Does the asset appreciate or depreciate, and

2) Does it generate positive or negative cash flow.

Vehicles clearly fall into the â€œWorstâ€• asset type category because they depreciate and also generate negative cash flow. Itâ€™s best to avoid â€œWorstâ€• assets, but some - like a car - can be necessary. S you do need one you should try to minimize the financial damage. This can be done on two fronts: by minimizing the size of the asset, and minimizing the negative cash flow.

By regularly renewing leases you commit yourself to monthly payments indefinitely. Buying a vehicle gives you an opportunity to not make monthly payments.

Minimizing the size of the asset is pretty straightforward - buy a vehicle that doesnâ€™t cost too much, and one that will give you as many maintenance-free (or low maintenance) years as possible. Despite becoming more complex, many cars can now run reliably for 10 or more years and over 200,000 miles if maintained properly. And you can find one for a relatively low price - under $20,000 for a compact and less than $25,000 for a mid-sized vehicle.

The lower the price, the sooner you can pay it off and free up monthly cash flow, right? Not necessarily so with a lease. Vehicle dealers and their financing arms structure leases in a way that can create a dependency on them. It goes like this: Lease the vehicle for a low monthly payment and then when the lease expires exchange your vehicle for a new vehicle and a new lease. And a continuation of monthly payments. This cycle can repeat itself indefinitely. This is the lease trap.

By committing yourself to always having monthly lease payments you lose the opportunity to not have any. That option - the option to not make monthly payments - comes with the choice of buying the vehicle. If you buy it with, say, a 5 year loan and keep the car for 10 years you eliminate 5 years of monthly payments. Letâ€™s say your monthly payment is $250. Thatâ€™s $3,000 saved per year and $15,000 for the full 5 years. Think of the other debts you could pay off with that savings. And if you prepay the loan in 3 years instead of 5 the total grows to $21,000. That can go a long way in helping you get ahead financially.

There are instances when a vehicle lease might make sense. For example, if you use the car or truck for business purposes. But in most other cases a lease can create a trap. Itâ€™s a perpetual negative cash flow trap. Try to avoid getting snared.

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