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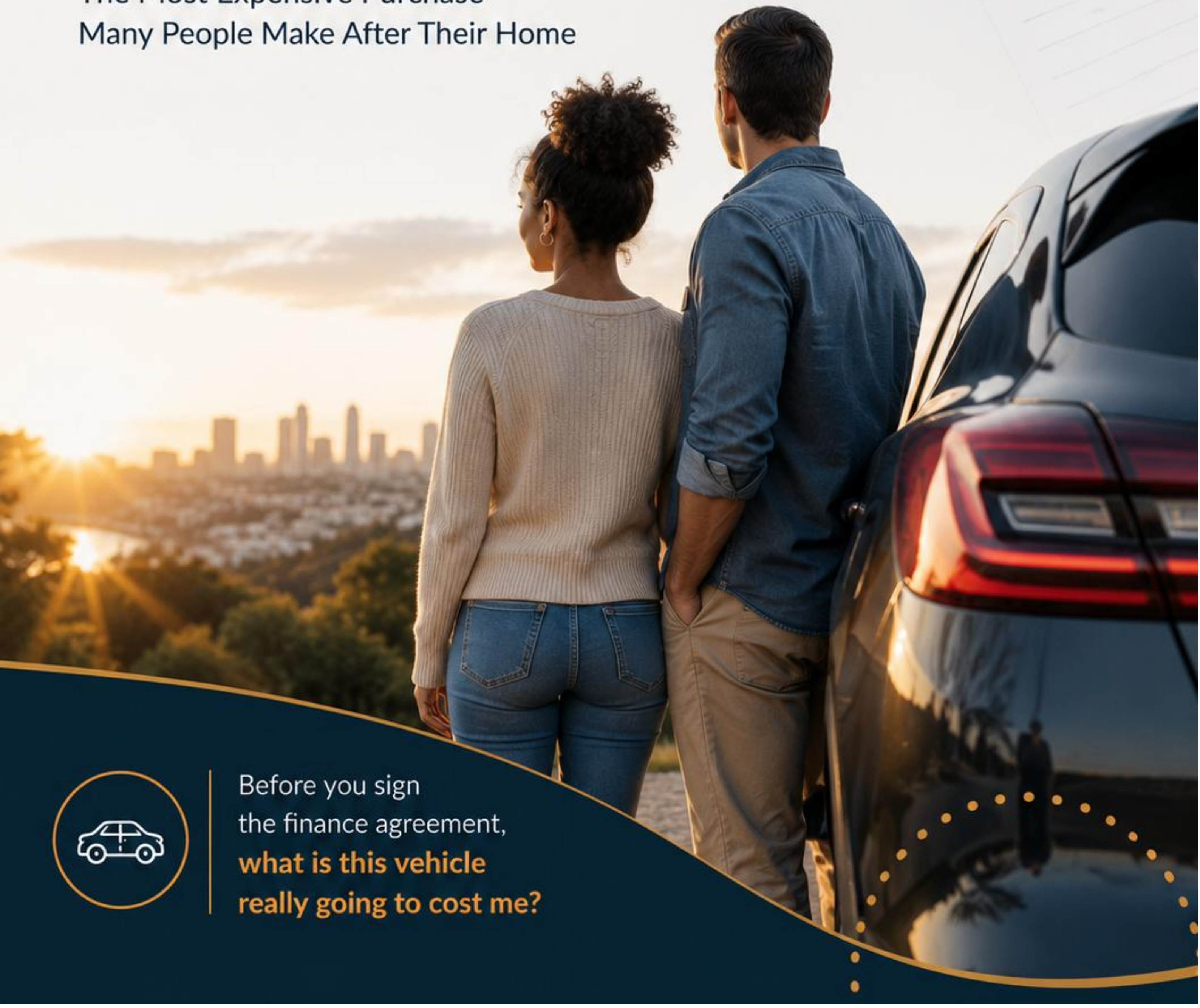
The True Cost
of Buying a New Car

The Most Expensive Purchase
Many People Make After Their Home



Before you sign
the finance agreement,
**what is this vehicle
really going to cost me?**

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The True Cost of Buying a New Car

The Most Expensive Purchase Many People Make After Their Home

For many people, buying a new car is an exciting milestone. A new vehicle offers reliability, comfort, advanced technology and, for some, a sense of achievement.

However, while a new car may be one of the most desirable purchases we make, ***it is often one of the most expensive financial decisions we will ever make.***

The problem is that most buyers focus only on the monthly instalment and fail to consider the true long-term cost of vehicle ownership.

Before signing the finance agreement, it is worth asking a simple question:

"What is this vehicle really going to cost me?"

The answer may surprise you.

The Monthly Instalment Is Only the Beginning

When purchasing a vehicle, most people ask:

- What is the monthly repayment?
- Can I afford the instalment?
- How much deposit is required?

While these are important questions, they only tell part of the story.

The true cost of a vehicle includes:

- Finance charges and interest
- Insurance premiums
- Fuel costs
- Maintenance and repairs
- Licensing and registration
- Tyres and wear-and-tear items
- Vehicle depreciation

When all these costs are considered, the actual cost of owning a vehicle is often significantly higher than expected.

Understanding Depreciation

One of the largest hidden costs of buying a new car is depreciation.

Depreciation is the reduction in a vehicle's value over time.

Unlike a home, which may appreciate in value, most vehicles begin losing value the moment they leave the dealership.

For example:

A vehicle purchased for R500,000 today may be worth:

- R425,000 after one year
- R350,000 after three years
- R250,000 or less after five years

Although depreciation does not result in a monthly cash outflow, it represents a real loss of wealth.

In many cases, depreciation is the single largest cost of vehicle ownership.

The Cost of Vehicle Finance

Many vehicles are financed over periods of:

- 60 months
- 72 months
- 84 months

Longer finance terms reduce monthly instalments but increase the total interest paid.

For example:

A R500,000 vehicle financed over 72 months at an interest rate of 12% may result in total repayments exceeding R700,000.

This means the buyer could pay more than R200,000 in interest alone.

The vehicle may be worth substantially less than the amount paid by the time the finance agreement ends.

Insurance Costs Add Up

Most financed vehicles require comprehensive insurance.

Depending on the vehicle and driver's profile, insurance can easily cost:

- R1,000 to R4,000 per month
- Or more for luxury vehicles

An insurance premium of R2,000 per month equates to:

- R24,000 per year
- R120,000 over five years

Many buyers do not fully appreciate how significant this cost becomes over time.

Fuel and Running Costs

Fuel remains one of the largest ongoing vehicle expenses.

A vehicle that consumes R3,000 per month in fuel will cost:

- R36,000 per year
- R180,000 over five years

Additional running costs include:

- Vehicle servicing
- Brake pads
- Batteries
- Tyres
- Unexpected repairs

These expenses are often overlooked during the purchasing decision.

The Opportunity Cost Nobody Talks About

Perhaps the most important cost is one that never appears on a vehicle statement.

This is known as opportunity cost.

Opportunity cost refers to what your money could have achieved if invested elsewhere.

Consider a R500,000 vehicle purchase.

If the same R500,000 were invested and earned an average return of 10% per annum, it could potentially grow to:

- Approximately R1.3 million after 10 years
- Approximately R3.4 million after 20 years

Instead of growing in value, the vehicle is likely worth a fraction of its original purchase price.

Every rand spent on a depreciating asset is a rand that is no longer available to build wealth.

A Practical Example

Let's compare two individuals:

Person A

Purchases a new vehicle for R500,000.

Costs over five years:

- Vehicle depreciation: ±R250,000
- Interest: ±R200,000
- Insurance: ±R120,000
- Fuel and maintenance: ±R200,000

Total cost: Approximately R770,000

Person B

Purchases a reliable used vehicle for R250,000.

The remaining R250,000 is invested.

Assuming a 10% annual return, the investment could grow to over R400,000 after five years.

At the end of five years:

- Person A owns a depreciated vehicle.
- Person B owns a vehicle and has a growing investment portfolio.

The difference in wealth can be substantial.

Does This Mean You Should Never Buy a New Car?

Not necessarily.

A vehicle is often a necessity.

It provides:

- Transportation
- Convenience
- Safety
- Reliability

The goal is not to avoid buying a vehicle, the goal is to make an informed decision.

Before purchasing a vehicle, ask yourself:

- Do I need this vehicle or simply want it?
- Am I buying based on affordability or status?
- Could a slightly older vehicle meet my needs?
- What impact will this purchase have on my long-term financial goals?
- What could this money achieve if invested instead?

Practical Guidelines Before Buying a Vehicle

Consider the following guidelines:

✓ Avoid financing a vehicle for longer than necessary.

✓ Put down the largest deposit possible.

✓ Keep monthly vehicle costs within your budget.

✓ Consider quality pre-owned vehicles.

✓ Avoid purchasing a vehicle primarily to impress others.

✓ Ensure your retirement savings and emergency fund are adequately funded first.

✓ Remember that wealth is often built through investing, not spending.

Final Thoughts

A vehicle is an important part of modern life, but it should not come at the expense of your long-term financial security.

Many people spend years paying off vehicles that continuously lose value, while neglecting investments that could grow and create lasting wealth.

Before purchasing your next vehicle, look beyond the monthly instalment and calculate the true cost of ownership.

You may discover that the most financially rewarding decision is not buying the most expensive vehicle you can afford but rather buying the vehicle that allows you to achieve your long-term financial goals.

After all, financial success is not determined by the car you drive today—it is determined by the financial freedom you enjoy tomorrow.

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