Jane Walstedt: And now, I’m going to turn the program over to Sarah Miller to introduce our second speaker.

Sarah--

Sarah Miller: Thank you, Jane.

I’m pleased to introduce Paul Maghielse.

Paul enjoys all things automotive. Born and raised in the Detroit area, he grew up on the shop floor of his grandfather’s and father’s tool and die and metal stamping business.

Currently, he splits his work time in three areas. He has his own consulting business in which he helps manufacturers on quality and productivity issues. He is an award-winning metal artist, making sculptures and furniture from discarded auto parts.

And finally, Paul has, for the past 10 years, had a keen interest in learning about all phases of the automotive ownership process, and he’s considered an expert in car buying.

In this work, he has focused on educating the average consumer on methods for saving money over the entire vehicle ownership cycle. He has written articles for The Motley Fool (Fool.com), appeared in Fast Company, Jane, various newspapers and on National Public Radio.
Thanks for being on our call today, Paul.

Paul Maghielse: Well, thank you, Sarah.

I’d like to start by just talking about the vehicle ownership process and how that can be an overwhelming task for many of us. There’s a multitude of decisions to make and choices, and a lot of those decisions can affect your credit.

So I’d like to talk to people about how, when they purchase or buy a car, the expense of doing that over a lifetime can be huge when you add it all up because a car is a depreciating asset, unlike a house where…. when you buy a house, it tends to increase in value over time. Cars always … pretty much always lose value over time.

So I’d like to look at the ownership cost in terms of depreciation being the biggest … single biggest cost of vehicle ownership.

The second biggest cost is financing for the average consumer. And then, much further down the list, are the other costs--for instance, insurance, maintenance and repair, fuel, which has probably jumped over that maintenance and repair cost, and then miscellaneous things like taxes and titles and things like that.

But the really big message here is that you have to figure out--or you have to at least consider the fact that--the … a vehicle is a depreciating asset. So you need to learn about how your budget fits into that.

In other words, kind of develop a game plan ahead of time so … because when you’re buying a new car, it’s going to depreciate more rapidly in the
first couple of years than…. For instance, a new car -- most new cars depreciate by 30% in the first year.

And when you own a car, eight, nine years down the road the [annual] depreciation amount is much smaller. So the curve flattens out over time.

So I would encourage all car buyers to take a look at that and see how they fit into that. Are you willing to take that depreciation hit by owning a new car?

So you have a lot of decisions to make, and those decisions can affect your credit as well.

For instance, if you’re going to buy a new car--and the average new car in the last few years has sold for around $30,000-- you’re going to put $5,000 down and you’re going to finance $25,000.

Maybe it’s better for you, as a consumer, to say, “Well, I don’t need that new car. I can buy a used car that’s already depreciated some. So I’m going to buy a three-year-old car that’s only going to cost me $15,000, and I’m still going to put $5,000 down, and now I can finance just $10,000.” And that’s going to affect your credit and your ability to pay back those loans a lot easier.

So I encourage all vehicle owners to approach it with sort of a game plan. And one of the things you want to do is you want to sit down, you want to figure out what your wants and needs are in a vehicle.

And write this stuff down on a piece of paper and kind of [have] a brainstorming session. In other words, the more stuff you write down, the better probably the first time around.
You know, do you want a blue car, do you want a new car, do you want a used car, do you want heated leather seats? So there’s all those decisions that you [should make before you’re going to buy a car.] Before you go onto a car lot, you want to kind of map those out ahead of time. You stand a much better chance of not getting taken to the cleaners if you do that.

So, you kind of develop this list of wants and needs, and then you match your budget to that based on, you know, what you know about your previous purchases in terms of vehicles. You know, how much did it depreciate, how much did you finance, and is that the way you’re going to go in the future?

So put that budget and your wants and needs together and kind of come up with a vehicle ownership scenario. So, you might decide that you are a new car buyer and you need to have a new car, and there’s nothing wrong with that. You just need to realize that that vehicle is going to cost you more money in the first few years than a used vehicle.

Maybe decide if you want to lease a vehicle, and really, leasing is just a sort of a special way of financing.

So, I want you to develop those ownership scenarios, the best game plan for you based on what you know the costs are going to be and then your wants and needs, sort of merging those two things together.

So, if you’re going to buy, if you decide to buy a new car, the best way to approach that is to keep the three portions of a car deal separate.

So what I’m talking about there is you want to keep the price that you’re going to pay for the vehicle separate from the … if you have a trade, how much you’re going to get for that trade in. And then keep that -- those two portions of the deal -- separate from the financing portion.
And what a lot of consumers do is they walk into a new car dealership and they negotiate the price, and then they say, “Well, I want to trade too.” And they work really hard on negotiating that price of their new car. And then, when they throw the trade in as an after thought, they’re not prepared.

So, I want you to keep the three portions of the deal separate, but I want you to sort of prepare for them in reverse. So that would mean before you even go onto a new car lot, you would take a look at how much you anticipate financing of the deal, and sort of go out to the finance companies out there and see what kind of rates you could get.

And then, when you make the deal at the end, you offer that dealership where you’re purchasing the car, you offer them the ability to finance you, but if they can’t beat your … the deal that you already have pre-arranged or the pre-financing, then, you can walk away from the table.

You don’t have to take what they offer you, and it puts you in a position of strength. And that’s the best way to approach any new car deal, is to keep those three portions separate from each other and to prepare for them in reverse.

And I would suggest if you’re buying a new car, you should probably spend some time on the Internet. There’re a lot of great sites out there. Edmunds.com [www.edmunds.com] is one of them, and you can learn all kinds of things about the car so you don’t have to spend time walking in and out of dealerships, because it’s very dangerous to be in a new car dealership if you don’t … if you aren’t sure what you’re going to purchase. You can get put into a vehicle that a year later you realize wasn’t the right car for you, and it’s very easy to do.
So I would suggest that you spend some time on the Internet and sort of learn about … match that list of wants and needs up, and make sure you find a couple of vehicles that match those wants and needs.

And if you can narrow it down to three vehicles, I think that’s the way to go, and then go to the dealerships and test drive those vehicles.

And then, once you go to the test drives, if you determine, based on the test drives, that you want to eliminate one of those vehicles, that’s okay, but you can still continue forward with three vehicles.

You want to kind of get a feel for if that car really fits you in terms of physicality. Is it the right car for you? And if you can walk out of the dealership without buying the car, that’s also what you want to do, because you--when you go in for the test drive--you do not want to buy the car. You want to walk away and make your decision and use the new car dealers’ Achilles’ heel against them.

And that Achilles’ heel is the fact that if you’re buying a Chevy Cobalt, only Chevy dealers can sell you that Cobalt. But the great thing is there are a lot of dealers probably close to you. So the best thing to do is sort of arrange a reverse auction for your business.

And what …how you do that is if you decide the Chevy Cobalt is what you want, then you make up a fax cover page or an email--basic email--and you send that to all the Chevy dealerships in your area.

That might be 50 or 75 dealers, and you ask them to bid for your business, and then you sit by your email inbox or by your fax machine and you wait for the bids to come, and they will come in.
If you … the more dealers that you have bid for your business, the better. And people think that, you know, a dealer that’s a hundred miles away isn’t a good dealer to ask to bid on your business, but I have actually had vehicles delivered from over a hundred miles away, right, where the person that purchased the vehicle never went into the dealership.

So, they test drove that vehicle, but then when they put it out for bid, they allowed a greater number of dealers to bid for their business, and that’s a great way to get a lower price. So that’s one way of lowering that depreciation cost too--by getting a lower price from the beginning.

Well, that’s sort of the basics on buying a new car. And one of the things you want to do when you test drive vehicles, if you’re buying a new car, is to offer up--if you’re going to trade a vehicle--is to offer up that trade at the time of the test drive.

Most dealerships will give you a price within 10, 15 minutes, so while you’re on your test drive, you sort of throw them the keys to your old car and ask them to give you a price, and you’ll find that you’re preparing for that negotiation phase after you negotiate the new price on that used car by checking with the dealerships that you test drive at.

If you decide to go to the used [car] market, you really can’t use that … get the dealers to bid against each other, because every used vehicle out there is unique. It’s been driven by a different driver.

So, you have to spend some time on the Internet again, and there’s a lot of great sites out there that are easily searchable. So you don’t have to run around from car lot to car lot or scan through the want ads or the classifieds, because with the Internet today, you can put in search criteria--you know, I want to buy this kind of truck at this price with this many miles on it. You
can plug in those search criteria and then you will get hits on all the vehicles in your area for that.

One great site is AutoTrader.com [http://www.autotrader.com]. [It] has an unbelievable amount of used cars on site that are all searchable.

Jane Walstedt: Paul, it's Jane. I wonder if I could ask you to wrap up on this, so everybody has time to...

Paul Maghielse: Sure.

Jane Walstedt: ...speak, and then, maybe if people have questions, they can ask that during the question and answer session.

Paul Maghielse: Sure.

Jane Walstedt: Thanks.

Paul Maghielse: Really, I guess, the only other thing I wanted to talk briefly about was vehicle leasing, and the danger there of people thinking that they're getting more for their money than they really are.

There's a lot of dangers in vehicle leasing. And if you determine that you want to lease, then you need to explore that further and find out more about all the pitfalls of leasing if you intend to go that way. [Additional information about vehicle leasing can be found in “Keys to Vehicle Leasing, Quick Consumer Guide” on the Web site of The Federal Reserve Board at www.federalreserve.gov/pubs/leasing/.

Thanks.
Jane Walstedt: Thanks, Paul.

I want to remind people that there's an article by Paul at www.fool.com/car/car.htm. And you'll have more complete information there. Plus we will post a transcript and an audio, PDF and Word versions of the call on the Wi$e Up Web site within the month.