

Cars Are Expensive - Really F*cking Expensive - They Destroy Wealth

A few months ago I shared a post about [helping my brother get a new car](#) after he totaled his previous one. It really got me thinking about how much it was costing the GYFG household to have two cars. Unfortunately, we bought our cars before we had solidified our financial philosophies.

My wife and I both bought new cars within a 12-month period of each other. I bought my Hyundai Sonata in April of 2011 for \$32,000 and we bought my wife's Hyundai Tuscon in April of 2012 for \$32,000. Back then we were only earning around \$170,000 combined. Yes, we spent 38% of our annual income on cars! It makes me throw up a little in my mouth when I realize how much we spent on cars, especially in light of how much we gave up in market returns over that period.

This decision cost us \$50,000+ in potential market returns had we invested this money in the S&P 500 via the SPY ETF. The returns were: 1.8% (2011), 16% (2012), 32.3% (2013), 13.5% (2014), 1.3% (2015), and 7.7% (2016 YTD).

That said, let's not get lost in the potential and theoretical world. That was just to point out that **cars are nothing but wealth destroyers**. Okay, they do make transportation much easier (and convenient), but you get my point. With hindsight I can say without a doubt that we bought way more car than we should have based on our income. Worst of all we did it without really acknowledging the cost of use (which I will break down in detail below).

How Much Does A Car Really Cost?

Or more appropriately framed, how much does it cost to to have two cars???

	Purchase Price	Current Kelly Blue Book	Years Owned	Cost Per Year	Cost Per Month
Car #1	\$ 32,000	\$ 8,000	6	\$ 4,000	\$ 333
Car #2	\$ 32,000	\$ 10,000	5	\$ 4,400	\$ 367
Total	\$ 64,000	\$ 18,000	5.5	\$ 8,400	\$ 700

The cost of a car is first determined by the purchase price of the car, the current market resale value, and the total number of years you have owned the car (otherwise known as the depreciation cost). In the chart above you can see that the GYFG household has two cars, and based on the purchase price alone these have cost us \$700/month on average. Of course the longer you keep a car the cheaper that car becomes, before considering costs like:

- Insurance (It's the law to have this)
- Fuel (Kind of essential to make the thing run)
- Tires (Every two years for us)
- Oil changes (We get these every 5,000 miles)
- Car washes (I try to avoid these as much as possible, arguing with Mrs. GYFG that I don't want to wash the protective layer off)
- Finance charges (If you don't pay cash for your car)
- Speeding tickets (Among other violations;guilty here)
- Parking
- Other regular maintenance

When you really start breaking down the costs associated with car ownership, I think you will be just as surprised as I was to find out how much two cars are really costing us. All the other stuff I listed above is costing us just as much as the cars themselves:

	Cost Per Year	Cost Per Month
Insurance	3,180	265
Fuel	3,000	250
Tires	600	50
Oil Changes	320	27
Car Washes	120	10
Finance Charges	-	-
Speeding Tickets	350	29
Parking	50	4
Other Maint.	250	21
Total	\$ 7,870	\$ 656

When you add the annual depreciation cost of \$8,400 plus the other associated cost of \$7,870, we are paying \$16,270/year to have and maintain two cars in our household. Our insurance costs are higher than they should be, well because we both tend to be impatient when it comes to driving places, and inevitably one of us ends up getting a speeding ticket every year. So, not only do we have the added cost of the speeding ticket (and traffic school, which I didn't list), but we also have our insurance rates getting increased on us (you only get a freebie from traffic school every 18 months).

\$16,270 PER YEAR ON CARS (ARE YOU KIDDING ME?)

I really had no idea that it was costing us this much money for two cars. Since we own our cars outright, half of this cost is depreciation, and therefore a non-cash item. You could even say it is a sunk cost. Although it is effectively costing us \$1,356/month to have two cars (\$16,270 divided by 12), the real cash flow is only \$656/month, and is the only place we could try to reduce. When you look at the different line items above, the two pieces of low hanging fruit are the insurance line and speeding tickets. The good news is that we do have a speeding ticket (i.e a point) falling off of our record, which will result in a \$50/month savings in insurance (which has since kicked in since writing this post).

This post was really about figuring out how much a car really cost, so that in the future you and I could be aware of the true cost of car ownership. This will definitely stick with me when evaluating future car purchases, which we will all likely go through at least several times throughout our driving lives. After seeing the numbers broken down like this, I would now be open to a leasing option in the

future (at least comparing the two side by side).

Do you know how much your car is actually costing you?

- Gen Y Finance Guy



Gen Y Finance Guy

Hey, I'm Dom - the man behind the cartoon. You'll notice that I sign off as "Gen Y Finance Guy" on all my posts, due to the fact that I write this blog anonymously (at least for now). I like to think of myself as the *Chief Freedom Officer* here of my little corner of the internet. In the real world, I'm a 30-something former C-Suite executive turned entrepreneur turned capital allocator. I am trying to humanize finance by sharing my own journey to Financial Freedom. I believe in total *honesty* and *transparency*. That is why before I ever started blogging, I decided that I would share all of my own [financial stats](#). I do this not to brag, but instead to inspire motivate, and also to hold myself accountable. My goal is to be a beacon of hope, motivation, and inspiration for *you*, the reader, by living life by example and sharing it **all** here on the blog. My sincere hope is that you will be able to learn from me - both from my successes and my failures! [Read More](#)