

Never finance a depreciating asset

What is a depreciating asset?

An asset that can be expected to decline in value over the time it is used



What if I finance a depreciating asset?

You are increasing the loss in value on that asset

For example:

1) You get a \$20K loan ¹ to buy a new \$22K car...	<u>22,000</u>
2) After owning car for <u>4 years</u> you need to sell:	
• Cash paid.....	-2,000
• Value depreciation ²	-11,865
• Interest paid on \$20K	-2,006
3) Total net value.....	6,129
4) Total amount remaining on \$20K loan.....	-4,326
Net value after loan repaid.....	<u>1,803</u>
Net value without a loan (paid cash).....	10,135

1. Assumes 5-year loan at 4% APR

2. Based on average of trade-in and private sale value on 2013 Chevy Malibu LT with 60K miles in very good condition from KBB.com.