“Dave $ays…”

Advice on personal finances from popular radio personality, live event speaker and best selling author, Dave Ramsey.

by DAVE RAMSEY / Contributing Writer

Dear Dave,
I think I have car fever. I have been listening to you for a couple of months now and I was wondering if you could give me some tips on how to buy a car. I don’t want to go in with no clue of what to do. Can you help?
Erica in Tyler, TX

Dear Erica,
There are a few things that you need to consider when you are looking to buy a car. These tips hold true for anyone about to buy any type of vehicle, whether it is a car, truck boat, motorcycle or sea-doo.
Number one: The ONLY way you should buy a new car is if you are very wealthy and can pay with cash. I had a guy call me once who made $650,000 a year and wanted to get a brand new Harley-Davidson. I told him to go for it, because to him it’s like getting a Happy Meal. He could afford the depreciation, but he was the exception to the rule.
Number two: Only drive a car that has taken the hit in terms of depreciation. Two years old at least. And even then, pay cash for it.
Number three: If you currently have a car payment and you can’t pay it off in 18 months, then you need to sell it and move down in car to get rid of the debt.
Number four: The total value of all of your cars should never exceed half of you annual income. If you make 60K and have 40K worth of cars, it is too much. Sell one. Cars go down in value. That is not a good investment. I may sound like your Grandmother, but that’s ok. Common sense works!

Dear Dave,
I read, with delight, your answer to Steve in Rochester a few weeks ago, wherein you advised his father-in-law to invest $2,000 per month at an average of 12 percent interest. What planet are you on? If you can get 12 percent, then show-and-tell and I’ll be your friend.
Robert in Tucson, AZ

Dear Robert,
I look forward to our new friendship, buddy! Over its lifetime of approximately 70 years, the stock market has averaged an 11.8 percent rate of return. Also, 96 percent of the growth stock mutual funds have averaged over 12 percent in the past 20 years, according to Lipper Analytical. When I say that you will see an average 12 percent rate of return, I am not talking about “quick money.” Don’t look at what you invested two years ago. Look at what you invested ten years ago. That’s where you’ll see this average working out. Mutual funds go up and mutual funds go down. If you look at what you invested in 2000, the numbers may very well have gone down, leaving you feeling depressed. But that same mutual fund, as did most mutual funds, most likely had incredibly high returns during the five years prior (1995-2000) to the tune of 20-25 percent! Keep money in there for the long haul. Even at only ten years, you will see a steady average of 12 percent. And, as always, remember to diversify, spreading your investments evenly over the following types of funds: growth, growth and income, aggressive growth, and international.
-Dave

“Remember to diversify, spreading investments over four types of funds!”