



POSEY CAPITAL
MANAGEMENT INC.

How to Purchase a Car: Getting a Fair Price With Minimum Haggling

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STEP ONE: PICK THE CAR.

- ❑ **Set a Price Range** — Decide on a budget, or general price range you want to pay. (Posey Capital can help with this; just give us a call and we'll do a plan update with you to see what works for you, as well as what fits into your long-term financial plan.)
- ❑ **Identify Your Alternatives** — Make a short list of cars of interest in your price range.
- ❑ **Start Online** — To make your list, DON'T go to the dealer first. Going to the dealer first wastes your time because resources are available online that offer better information that is more quickly available to you. Worse, seeing the car up close before you complete your research may lead to a poor purchase; many of the worst cars to buy are the most attractive in appearance. To illustrate, some models of the most expensive luxury cars, like Mercedes and BMW, have had terrible quality ratings, needing lots of repairs. If you research the quality ratings of the cars in your price range online first, you'll likely scratch these models off your list before you see them and are tempted.

Some online resources include:



A good online source for price is *Kelley Blue Book* (www.kbb.com). KBB's price-related information includes Manufacturer's Suggested Retail Price (MSRP) but, more importantly, shows you dealer invoice, as well as the price

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most consumers actually are paying for the car. KBB.com has lots of other information too.



Another online resource is *Consumer Reports* (www.consumerreports.com). You can subscribe or buy a one-time report.

There are many other resources on the Web and there are more all the time. But remember that most of them are not objective. *Consumer Reports* isn't perfect but they are objective. They don't accept car manufacturer advertisements or gifts. When *Consumer Reports* tests a car, it buys it, tests it and sells it. This should make *Consumer Reports* one of your few objective sources of information. Spend a little money to get a complete report on every car on your short list. It's worth it.

- **See/Drive** — Now you're ready to see the cars of interest to you first-hand.
 - **Visit a Dealer.** Tell the salesperson you're just looking. There's no need to give the salesperson any contact information unless you want to take a test drive. (Initially, you may even want to visit the dealership on a day it is closed, so you can wander around the parking lot undisturbed.)
 - **Test Drive.** If you like a car and it's in your price range, take a test-drive. There's no commitment to buy, but you'll have to give them some information, of course. If you want, you can ask them not to call you.
 - **Review the Extended Warranty.** If you like a car well enough to test drive it, ask the dealer for a summary of any extended warranties available. The dealer would prefer to bring this subject up when you come by to pick up your new car, but you want to know now, so you have time to think about it.

On average, an extended warranty is not a good deal for the consumer. After all, as with any insurance, the insurer has to make money on the extended warranty so the consumer must, on average, come out behind. Nevertheless, an extended warranty is worth thinking about in case you end up being one of the unlucky ones who has lots of repairs just after the regular warranty expires.

An extended warranty can cover repairs through seven years and 100,000 miles or more. Get a list of the coverage options from the dealer: number of years, mileage limits and cost.

Also ask if any special features are available, such as a refund of the amount paid for the extended warranty if you don't use it. Believe it or not, sometimes this feature is available. It can make a big difference in the desirability of the extended warranty. Also ask if the extended warranty is transferable to the next owner when you eventually trade in the car.

- **Dealer Perks.** Ask what perks the dealer offers if you buy the car there. Free oil changes? Cash washes? This could effect the dealer you choose.

□ **Identify EXACTLY the Car You Want.**

- **BE PRECISE.** It can be difficult to identify your color choices and option packages because there may be a lot of alternatives. But for the remainder of the car buying process to go smoothly, it's important that you identify EXACTLY the color and options you want. Take the time to choose these now. If you wait until later and you have to rely on the dealer's advice; you may pay more and not get what you really want.
- **Identify Colors Using the Brochure.** The manufacturer's brochure on the car, available from the dealer, is invaluable. Generally the brochure will list and show all available colors. Usually, the brochure is enough to help identify the interior and exterior colors you want. Do be sure, of course, to visit the dealer and actually see a car with that color combination to be certain that you like it as much in person as you do in the brochure.
- **Identify Option Packages Online.** The manufacturer's brochure may be helpful to identify options and option packages as well, but frequently these are too varied to be clearly communicated in the brochure. Kelley Blue Book (www.kbb.com) and other online resources offer the ability to select a car with different options and option packages and price it out at the same time. Take care with assembling your car. It will take time and it is usually confusing. You may need to visit a dealer, with no commitment, to ask for more information about the option packages. Do what you need to do to get the options nailed down with precision. It's foundational for the next step.
- **Consider an Extended Warranty.** An extended warranty is a high-profit item for the dealer, so the dealer has a lot of room to negotiate the price. Think about the extended warranty options and what they are worth to you. Note that the coverage options, cost and special features may be *very* different from dealer to dealer. It may be a good idea to call three dealers and see exactly what their options are.

- **Make Your Final Pre-purchase Visit.** Visit a dealer again (still just looking) and confirm the color and options you want. (If you want, you can tell the salesperson that you're going to send a fax to all the dealers in town and take the best offer, but because s/he has spent time with you you'll reward that by giving him/her a final shot at matching or beating the best offer.)

STEP TWO: DECIDE ON CASH OR CREDIT.

Determine whether you'll pay cash or use financing.

- **Cash Is Usually Recommended** — We strongly recommend you save up the purchase price and pay cash.
 - **Negotiation Power.** You'll have more negotiating power and you'll get a better price.
 - **More Transparent Pricing.** You'll be better able to see your real costs, which may encourage you to be more economical. If you spread the payments over time, it's easier to tell yourself it isn't really very much money. *But it is.*
- **If You Choose to Finance** — It can still make sense to finance if you really need the car and simply can't pay cash right now, or if your current car is costing so much in repairs you're just better off to get a new car now). First check with your bank or credit union and obtain pre-approval for the amount you are willing to pay.
 - **Compare Rates.** There's a good chance you'll be offered a better rate by your own bank/credit union than the dealerships' banks.
 - **Ask for Discounts.** If you finance through your bank/credit union, ask if they'll give you a rate discount for setting up automatic payments between your checking account and the loan. Most banks/credit unions offer this. Some offer further rate discounts if you purchase GAP insurance, extended warranties, etc., directly from them, instead of from the car dealer.

STEP THREE: LOCATE DEALERS.

Go online to locate all of your desired car's dealers within, say, 25 miles of your home. Try to find at least three dealers. Four is better. Expand your range a bit if you need to.

- **Fax or E-mail** — Decide whether you want to contact the dealers by fax or e-mail. Fax may be better because it will keep your e-mail address off their mailing list. Send an e-mail or fax to each of the local dealers you've identified with:
 - A statement that you want to buy a car
 - Your fax number or e-mail address (but NOT your phone number)
 - The car you want, including SPECIFICS on: year/make/model; exterior and interior colors; seating options (fabric/leather etc.); option packages; additional options; and the exact terms of any extended warranty

IT'S IMPORTANT to identify these in advance!! The dealer has lots of latitude on the prices it will charge for these items. Many options cost the dealer almost nothing but the list price can be high. Example: suppose you want side-guard door bumpers to protect the sides of your car. It's not included in the option package you want. If you pay list price for the side-guard option (as you will if you show up at the dealer and add this option as an afterthought) you may pay \$200 or more. If you have the dealer compete with this option in mind, the dealer may throw it in for free since the dealer cost is modest.

A RELATED TIP: At least in Texas where we get a lot of sun, I recommend negotiating for **tinted windows**. When the dealer recommended this option, I rejected it, assuming it was a costly frill. In retrospect, I wish I had negotiated for this to be included at minimal cost.

- When you want to buy the car (immediately, presumably; if you engage in this process before you really need the car you may find that the dealers don't respond)
- Say when it needs to be available (you could say immediately, or you could give them a day or two to get the car from another dealer)
- Ask for the dealer's best price
- Tell them that you intend to take the price they offer, compare it against the best price offered by other dealers, and take the best offer

- Ask exactly how many miles the vehicle proposed by the dealer has on it (otherwise the dealer may try to sell you the car on their lot that has the most demo miles)
 - Ask what perks the dealer offers like free oil changes, car washes, etc.
 - Ask the dealer not to call you, but to simply respond to your fax/e-mail. Don't be rude or abrupt, though. Sometimes dealers don't like this process much anyway. No reason to offend them further.
- ❑ **Follow Up.** You might need to follow up with some of the dealers, especially if there aren't many nearby.
 - ❑ **Compare.** Once you've received price quotes, compare. Carefully review the specs for the cars each dealer gives you quotes for, to ensure that the car is exactly what you want.
 - ❑ **Call the Winning Dealer.** Talk to the salesperson and confirm on the phone everything promised in his or her fax/e-mail. Confirm the mileage of the proposed car as well. Ask if the car is on the lot. Odds are pretty good that something is not exactly what you've asked for. You need to know in advance so you can go to the next dealer on your list if you want.
 - ❑ **Visit the Winning Dealer and Test Drive the Car.** Be brutal. You can still walk away. Do so if you don't have a sense of peace that this is the right car and deal for you. If the car is not what you asked for, go to the next dealership on your list.

STEP FOUR: NEGOTIATE YOUR TRADE-IN.

Handling your trade-in is more difficult than purchasing the new car, because no dealer is going to give you a bid without actually seeing the car and its condition. Following are some steps you can take regarding your trade-in.

- ❑ Get a feel for what your trade-in should be worth by using KBB.com.
- ❑ Go to CarMax (www.CarMax.com) and ask for a price to buy your car. CarMax will offer a take-it-or-leave-it price, valid for a certain period of time.
- ❑ Assuming the bid isn't too far off from the price you expected based on your KBB.com research, now you know what you can get for your trade-in by going to CarMax. When you drive to the dealer to pick up your new car, simply tell the salesperson what CarMax offered for the trade-in. You can even hand the salesperson a copy of the bid.

- ❑ Tell the salesperson if he or she can match the price you will do the trade-in. The dealer's offer will probably be a little less anyway. You'll have to decide if the difference is worth getting a ride over to CarMax to sell your car.
- ❑ Keep in mind that, **in Texas**, there is an advantage to trading in your car to the dealer where you buy your new car rather than selling it outright to CarMax. The trade-in to the dealer will reduce the selling price of your new car subject to Texas sales tax, reducing your cost by 6–8 percent of the value of the trade-in. This method may not eliminate haggling on the trade-in price with the dealer, but it should at least give you the opportunity to keep it to a minimum.

STEP SIX: CONSIDER YOUR TIMING.

Most car dealers, like many other businesses, track monthly performance to incentivize their salespeople. You may find that the salesperson, as well as the car dealer, is most eager to deal a couple of days before month-end. If you can offer them a chance to close another deal before month-end, you might find more interest and get a better offer.

STEP SIX: OFFER US YOUR FEEDBACK!

Please tell us how this car-buying procedure works for you. Any more ideas? We'd love to know. Please send an e-mail to us at tposey@poseycapital.com.

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