

# Buy or Lease?

## by Steve Gilbertson

As the leasing of vehicles continues to increase in popularity, more and more individuals are considering this option instead of buying. While there isn't a hard and fast rule regarding which choice is "right," there are several factors to consider in determining which option is appropriate for your situation. Let's examine each of these factors in turn:

1) **How long you plan to keep the car** - Generally, the short-term costs of leasing a car are less than those of buying. Assuming that you don't have to pay excessive mileage charges, for individuals who plan to replace their car after two or three years, leasing is likely a cheaper option. However, for individuals who plan on keeping the car for four years or more, buying is likely to be a less expensive option in the long run. To compare the costs of buying vs. leasing when you know the terms of the contracts (purchase price, interest rate, residual value,) check out the financing calculator at [www.edmunds.com](http://www.edmunds.com).

2) **How many miles you drive in a year** – Most leases limit the number of “free” miles that you can drive to 10,000 – 15,000 miles. If you exceed this mileage, you pay a stiff penalty for excessive mileage (typically about \$.25/mile). This can quickly wipe out any monthly savings that you may have had by leasing instead of buying. If it is likely that you will substantially exceed the maximum mileage in the contract (there is generally some flexibility in setting this – you will, obviously, pay more monthly for a higher “excessive mileage” limit), it probably makes sense to buy instead of lease.

3) **Desire to customize the vehicle** – An argument for buying over leasing is that buying gives you ownership of a vehicle, and with that comes all of the privileges of ownership. Customization of a vehicle (new stereo system, torqued-up engine, ...) is one of these privileges of ownership – the lease agreement will likely not allow you this flexibility. Not a big deal for some, but certainly a consideration for others.

4) **How well you take care of your vehicle** – For the family with three kids and two dogs, it's naturally difficult to avoid dings and significant wear on the car's interior. Normal wear and tear is not a problem, but for excessive damage, you will pay a pretty penny. Again, this could quickly wipe out any short-term savings experienced from leasing over buying.

*To summarize:*

### **A good candidate for buying**

- You expect to keep the car for four years or more
- You drive over 15,000 miles per year
- You want to “personalize” your car
- You are really hard on cars – dings, tears, ...
- The idea of “ownership” is important to you

**A good candidate for leasing**

- You expect to keep the car for only two or three years
- You know with some certainty that you will drive less than 15,000 miles per year
- You want the same monthly payment for a more expensive car
- You take good care of your vehicles

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