

How To Get Rich By Driving A \$5,000 Car

[Editor's Note: We're bringing this post back for a Tuesday Classic. I find it particularly interesting given that Whitney and I are working on a post about our latest car purchase, an \$800 car. If you think a \$5K car is crazy, wait until you read that one.]

Over the course of a few days several months ago, I ran into several instances that just make me shake my head. All of them illustrate the fact that [what you drive has a very real effect on your ability to acquire wealth](#) and reach financial independence and the freedom and joy that come with it.



The first episode was a lady on the [Dave Ramsey show](#). She made \$36,000 a year and owed \$25,000 at 12% on her car worth \$17,000. I don't think I have to say much about why that's a problem. The other two episodes were threads on the Bogleheads forum and the [WCI forum](#) where young physicians had car debt and were trying to justify it.

I always find it amazing how much money people will spend on four tires and a steering wheel that gets them from point A to point B. Especially, when they're spending money that they do

not have. Admittedly, I have never been a “car guy” and I grew up in a house where there was always [at least one “beater”](#) if not two or three. There were important lessons learned in that house, especially over the long run. Those two parents of mine raised six kids on a very middle class, single-earner income and retired as millionaires. One of the main reasons why they were able to do so is that they drove “\$5,000 cars” for a good portion of their lives

Can You Really Get Rich Driving a \$5,000 Car?

First, Let's Define What A \$5,000 Car Is

Let's pause for a minute and define a \$5,000 car. If you have never had one or have never been shopping for one, this might be a foreign concept to you. A \$5,000 car is a 7-year-old Nissan Sentra or Mazda 6 with 100K miles on it. That car will probably run for another 50-150,000 miles over 5-15 more years while needing a few minor repairs and a major repair. At the time of the second major repair, the car will be considered “totaled” and can be sold to a junkyard for \$500. That second major repair may be 20K miles away, but it is probably 100K miles away for that \$5,000 car.

\$5,000 Cars Aren't Awesome

Let's acknowledge for a second that driving a \$5,000 car isn't an awesome experience. It doesn't have that new car smell. You're not going to impress anyone with it. There are a few little things wrong with it. It has a little ding in the rear bumper. The rear window on the passenger side doesn't go down any more. It's going to need new tires next year. It might even burn a little oil. It turns out you can buy a lot of oil for the price of an engine overhaul, but the point remains that this isn't a car you've ever dreamed about and drooled

over. If you are a middle-class earner who wants to become wealthy eventually, this might be a long term proposition, but for the high-income professional, these minor inconveniences are far more temporary.



How a \$5,000 Car Makes You Rich

There are a number of costs that go into owning a car that you may or may not have considered.

1) Depreciation

A brand new car may lose half its value over its first 5 years. On a \$30K car, that's \$15K over 5 years. A \$5K car basically doesn't depreciate in any significant way.

2) Opportunity Cost

The money you shell out for a car could be invested and earn a return of perhaps 5-10% year. The difference between a \$5K car and a \$30K car is \$25K. Over 5 years at 10%, that \$25K earns another \$15K. The return on \$5K is far less.

3) Repairs

As a general rule, the more expensive the car, the more expensive the repairs. If you're buying a \$5K car, it is probably something like a Nissan Sentra, a Mazda 6, a Dodge

Neon, or maybe a Honda Civic. Repairs of these popular cars are very inexpensive. Plus, when you have an old car, you are far more likely NOT to repair every little ding or malfunction. So while an older car probably will require more repairs than a newer car, the difference is not nearly as big as most assume, and may even be negative.

4) Maintenance

Where do you take your \$30K car for maintenance? To the dealership. Where do you take a \$5K car for maintenance? To Wal-mart, where it is much cheaper. And chances are you're going less often too. Who washes a car with 150K miles on it? Another saved expense.

5) Insurance

It simply costs more to insure a newer car than an older one. That is because it costs the insurance company more to replace it, but more importantly, you are less likely to be able to simply replace the car, so you are more likely to purchase comprehensive and collision insurance instead of just liability insurance on the car.

6) Fees and Interest on a Loan



Most people will finance a \$30K car but can purchase a \$5K car for cash, skipping all those fees.

The Bottom Line

Your cost of ownership on a brand new car may be \$5-10K a year, whereas the cost of ownership on a \$5K car may be \$1-2K per year, and possibly less if you get lucky with repairs. But wait, there's more. Most households have not one, but two cars. If you're a two car household, you can double everything in this section.

The Sentra Factor

Let's say there is a difference in the annual cost of ownership of a new fancy car and a \$5,000 car of \$6K per year. Now, take that \$6K a year from age 18 to age 65 and compound it at 5% real. What do you get? You get rich. That's what you get. That adds up to \$1.1M by age 65.

The vast majority of America's middle class retires with far less than \$1.1 Million. In fact, many doctors retire on less. Forget the [Latte' Factor](#). If you want to get rich, consider the Sentra Factor. Heck, in the personal finance world I'm considered a moderate on this topic. At least one personal finance blogger suggests [you shouldn't drive a car at all](#) and should go pick up your groceries using a bike trailer. Having done both, trust me when I say that the luxury difference between a \$5K car and a bike is 10 times the difference between a \$30K car and a \$5K car.

Forget the Latte' Factor. If you want to get rich, consider the Sentra Factor.

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When *is it* OK to Buy that Nice Car?

Now, many doctors and other high-income professionals have challenged me on this point. They are correct that a mere \$6K a year probably isn't as big a deal for someone earning \$300K

as for someone earning \$50K. They are absolutely correct. If you're saving \$60K a year, then \$66K a year doesn't get you to a dramatically different place. So if you've already got your [\\$1.1M socked away](#), you can skip the rest of this and go buy that \$30K car you want.

What's that you say? Your net worth isn't \$1.1M? In fact, it's -\$300K? Well, then you're worse off than Mr. Middle Class. [You're far worse than broke](#). It'll be years before you get back to broke. Go get yourself a \$5K car. Medical students, residents, and new attendings are usually worse than broke. Start acting like it. Fake it until you make it might work as an MS3 trying to play doctor, but it isn't going to work in the [financial independence](#) game.

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Excuse # 1 – “A \$5,000 Car Isn't Reliable”

There are three excuses that people, especially doctors, throw out when I suggest they drive a \$5,000 car for a while until they can afford to drive something nicer. The first excuse is the reliability argument. “But I can't drive an old car. I don't want to be stranded on the side of the road.” The average car in America is over 10 years old. How many cars did you pass that were broken down on your commute this morning? That's right. None. [All those 10-year-old cars](#) got where they were going just fine. Sure, a car with 150K miles on it probably does break down a little more often a car with 50K miles on it. But the difference is far more trivial than most who have never driven an inexpensive car realize.



Consider my own history. For the last 10 years, my daily driver has been worth less than \$5,000. (One was \$2K, the other \$4K when I bought it.) In that period of time, I have had two breakdowns. The first required a jump and 10 minutes at the auto parts store to get a new battery. The second was a transmission that went out. While that was far more expensive, the inconvenience factor was only slightly worse, requiring about an hour of my time while waiting for a tow truck and a ride from a friend back to our other car.

But the point remains that despite driving a car much less expensive than \$5K, I'm averaging a breakdown about once every 5 years. And it's not like I'm not taking these cars out and abusing them. You've seen the pictures on my blog. That beat-up Durango has made plenty of trips into places where "getting stranded on the side of the road" could have dire consequences.

But if you absolutely cannot stand a \$5K car, then fine, buy a \$10K car. What's a \$10K car? It's a 3 to 4-year-old Sentra with 50K miles on it. You're going to have a very hard time making the case that a car with 50K miles on it is unreliable. You still get most of the benefit compared to a \$25-30K car.

Excuse # 2 "It's Not Safe."

The second excuse I hear is the safety issue. "But new cars are so much safer now. They have airbags and anti-lock brakes

and stuff.” Well, guess what. Both our 2002 and 2005 SUVs have both anti-lock brakes and airbags. There is actually published data on safety, which of course varies by vehicle. It turns out that a 5-year-old Accord is just as safe as a brand new one and a [10-15-year-old Accord is only marginally less safe](#).



Bear in mind what the risk we’re talking about here is. We’re talking about the likelihood of you being in a car wreck where you would have died or been significantly injured in a 7-year-old car but not in a brand new one. The odds of that are pretty darn low. I mean, try to calculate the number needed to treat on that. Or the dollars spent to save one life. It’s going to be astronomical. It would probably be a better use of your money to buy a different house closer to work and drive less.

Besides, even if you buy a brand new car, it’s going to be a 3-year-old car eventually and not have all the latest safety gear. Then what are you going to do? Churning brand new cars every three years is, without doubt, the most expensive way to pay for your transportation needs.

Part of the “safety argument” is just marketing. Since cars are so reliable now (remember the AVERAGE is over 10 years old) they have to come up with some other reason to get you to buy cars frequently. Look at it this way. If your “family’s safety” is so important to you that you’re willing to go into debt to buy a car, are you at least buying the MOST SAFE car

on the road? Probably not. This is just an excuse to go into debt and not a very good one at that.

Excuse # 3 “Lives Rely On Me”

This third excuse is my favorite because it is just so dumb. It basically goes like this – “I’m a doctor and sometimes I have to get to the hospital very quickly to save a life. A breakdown could kill somebody and I couldn’t live with that.” Your financial advisor or your spouse might buy that argument, but I don’t because I actually work in a hospital.



“She may not look like much, but she’s got it where it counts, kid. I’ve made a lot of special modifications myself”.

The times when minutes actually matter in medicine are few and far between and impact very few specialties. So if you’re even thinking about this one, you’d better be an OB, a pediatrician who responds to L&D, perhaps anesthesia, perhaps trauma surgery, and perhaps even vascular surgery. Everyone else can forget it, including emergency docs. Your partner isn’t going to leave before you get there and at worst you’re going to be an hour late. Most specialists I call (including OB, peds, anesthesia, trauma, and vascular) don’t even call me back for 20 minutes.

But even if you're one of those select docs in this category, bear in mind the odds we're talking about. We're not only talking about just the odds of having a patient where minutes matter, but you've got to multiply that tiny risk by the tiny risk that the car breaks down on that particular trip. Again, the odds are astronomically low. If this tiny risk is a big deal to you, then I would again suggest you move closer to the hospital because if a half hour could matter, then "that extra four minutes" could matter too.

A Reminder That You're Not Rich

One other benefit of driving an inexpensive car is you have a daily reminder that [you are NOT rich](#), at least not yet. Expensive purchases tend to run in packs if you don't spend very consciously. Nice clothes, nice cars, nice vacations, nice homes etc. It seems silly to park that \$5K car in the driveway of a \$2M house. So if you'll drive a \$5K car for a few years, chances are good you'll spend a little less on some other luxuries, grow into your income a little more slowly and reach financial independence much faster. If nothing else, it will give you a daily reminder of your financial goals.

Now, I don't plan to drive a \$5,000 car the rest of my life. When this Durango dies, we'll probably replace it with a brand new \$50-60K SUV, bought with cash, just like every other vehicle, [toy](#), vacation, or home improvement we've ever bought. My business manager told me she was wondering when I was going to replace that Durango. I told her I love that \$5,000 car and its predecessor because they made me rich.



[Update: The Durango died and was replaced. More details in this [post](#).]

What do you think? How much of an effect does driving an inexpensive car have on building wealth for someone on a middle-class income? What about for a high-income professional? How did you decide when to upgrade to your "doctor car?" Comment below!