Ditching the Car Can Make You A Multi-Millionaire

Description



Is it worth it to buy a car in Singapore?

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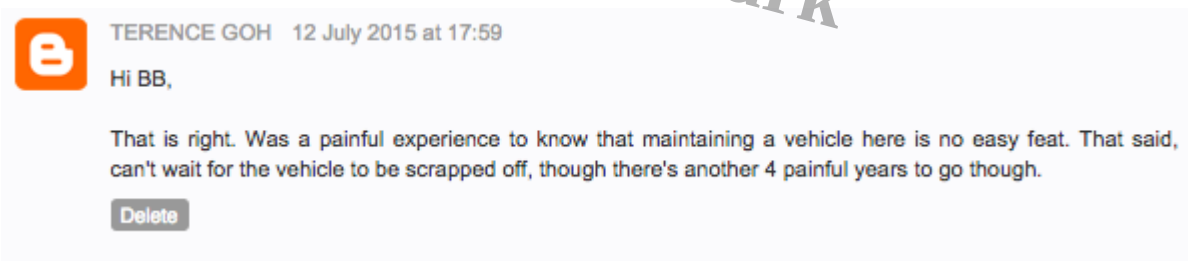
This post was inspired by one of my readers, who commented that he regretted buying his vehicle.


TERENCE GOH 12 July 2015 at 17:59

Hi BB,

That is right. Was a painful experience to know that maintaining a vehicle here is no easy feat. That said, can't wait for the vehicle to be scrapped off, though there's another 4 painful years to go though.

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Iâ??ve never had any desire to own my own car, but Terence prompted me to investigate the hidden costs of owning a car in Singapore, which I think many people do not really consider when they say they want to buy a car.

Take my boyfriend for instance. Heâ??s really wants to buy a car, and keeps telling me that he can get a used model for just over $20,000. But I know the costs are going to be a lot more than that. Hereâ??s why:

1. The COE in Singapore is dreadfully expensive.

When I was studying in the U.S., I remember being amazed that my local friends could get a car of their own for as little as $2,000 (you read that right).

They were shocked when I told them about our COE system for car ownership in Singapore, which requires one to have at least **$70k â?? $80k** for a piece of paper.

Category	Current COE premium ($)
A - Car (1600cc & below)	68,589
B - Car (above 1600cc)	77,600
C - Goods vehicle & bus	50,098
D - Motorcycle	6,512
E - Open	78,004

Source: May 2015â??s COE tender exercise
The Straits Times & Land Transport Authority

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2. Higher loan repayments every month.



Due to the recent car loan restrictions by MAS, we are now required to pay off the full sum within a maximum of 5 years (even if your car has more than 5 years of COE left on it).

Assuming a 3% interest rate, itâ??ll be safe to say that average monthly repayments would be a minimum of $1,500 for most people. Can you afford that extra $1,500 each month without resorting to more borrowing?

3. Road tax



Without even counting ERP (which can be pretty hefty too over time, especially if you drive during peak hours), youâ??ll need an average of $700+ for your annual road tax. It may not sound like a lot, but over the full 10 years of your COE, that can work out to quite a bit.

4. Car insurance payments



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Youâ??ll be stupid to try and save on this one, because an accident can then easily wipe out most of your savings and leave you penniless.

But even if youâ??re a safe driver, the annual cost of car insurance is going to amount to over $2,000 easily. Donâ??t forget to multiply that by 10 years again.

5. Petrol costs



My friend spends $250 a month on petrol for his car so Iâ??m just going to take that as a rough guideline. In 1 year, that works out to be $3,000. In 10 years, that will set you back by $30,000.

And thatâ??s not even factoring in the potential rise of oil prices.

6. Maintenance and grooming costs

Every car needs regular maintenance to keep it running well and looking decent. I found conflicting figures on this one, so letâ??s stick to a safe estimate of $10,000 over the lifetime of your car.

7. Parking fees



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Most people I talk to forget about parking fees when theyâ??re calculating their finances for their car. Considering that you will park mostly at home ($150), at work ($200 â?? Iâ??m taking the cost my previous workplace charged) and occasionally at the malls or other places ($50), letâ??s estimate an average of $400 per month if you drive often.

Average Monthly Fees

Just based on your loan repayment, petrol and parking fees, the monthly cost of owning a car can come up to $2,000 easily.

If you take that amount and invest it into an ETF like the ST Index instead long-term, you could be so much richer.



Using a very simplistic calculation and assuming that we reinvest our profits each year back into the STI, you can choose to be either **$720,000 poorer** by the end of 30 years, or **$2,855,351 richer.**

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(Even if we were to assume an even more modest returns of 5%, this would give you $1,646,039.)

I hear many Singaporeans talking about how buying a car in Singapore is a good investment for their career, for their social status, etc.

The truth is, buying a car in Singapore is possibly the *worst* investment decision you can make. Aside from the well-known fact that your car depreciates in value each year, you have to also factor in all the other hidden costs that you may not have thought about fully about before wanting to buy a car.

While there may be circumstances where a car is downright necessary, for the most part, public transport is a good and cheaper alternative if youâ??re willing to cut back on the ego and put up with a bit of inconvenience in order to keep the money in your own pocket. Furthermore, thereâ??s nothing shameful about riding the public transport. And for times when you must really need a car, thereâ??s always a taxi, Uber or GrabCar.

If you truly want to grow your money, the trick is to skip the car and really save / invest the rest.

Given a choice between a liability that cost me money AND also loses around 10% of its value every year, versus pumping that same money into the stock market for 8% annual growth, I think I rather choose the latter.

What choice will you make?

With love,
Budget Babe

Category

1. Bank Accounts

2. Savings

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