

Financial *notes*

INSIGHTS TO ORCHESTRATE FINANCIAL INDEPENDENCE

FROM THE OFFICE OF DR. SCOTT STRATTON, CERTIFIED FINANCIAL PLANNER (TM)

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Dear Scott,

Welcome to the September edition of my monthly financial newsletter. This month's issue is all about cars. In my business, I've met a lot of people who drive fancy cars and have no net worth, and millionaires who drive beat up 10-year old pick-ups. If you think that driving an expensive car is a sign that someone is wealthy, I suggest you read *The Millionaire Next Door*, by Stanley and Danko. Written by two sociology professors, the book is every bit as true today as when it was published in 1996. I think it's a must read for any investor, even though it contains no specific investment advice!

Your Worst Investment

The second in a four-part series to help you save more

Imagine an investment that loses at least half its value in five years. Would you be interested? You probably have two or more of these "investments" right now. What is it? *It is your car.*



Last month, we talked about the home, which is the biggest expense for most people. A home holds its value and the interest is deductible, whereas money spent on cars is an expense. Originally, a car was a way to get from point A to point B. Today, the car has become a status symbol and fashion accessory.

If your goal is to retire early, become a millionaire or to get that second or third million, you must scrutinize your car spending habits, because it is probably one of your biggest expenses. You must manage automotive depreciation just as you would any other liability. A car is a choice we have to live with for a long time. My advice is simple: spend less on a car and keep it for longer. Even with all the lease and loan options, I like to pay cash for cars. That's

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The best compliment you can give me is the referral of a friend or family member!

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THIS MONTH, SCOTT IS...

This month, my quintet, the Perennial Brass, is giving a recital on Sunday September 30 at 2:30 at the Carrollton public library at 1700 Keller Springs Road. The recital is free and should last about 1 hour. We're performing some of our favorite pieces, ranging from Bach to Gershwin,

not because of the cost of financing; it's about *changing your behavior*. Paying cash forces you to see the real cost of a car. It forces you to save to buy the next car. It also keeps you from wasting money on a fancier car. With a lease, going from a \$300 payment to a \$500 payment is easier mentally than writing a \$50,000 check versus a \$30,000 check. Once you do plunk down \$30,000 for a car, you are not going to want to go through that pain again for many years, so you will keep that car for a long time. Today's cars will easily last 150 to 200 thousand miles with routine maintenance. You are best off keeping a car 7-12 years. If you won't do that, consider buying used cars, because the greatest dollar depreciation occurs in the first three years. It's your money, choose wisely!

including two of my arrangements. Hope to see you there!



Hybrid Car Tax Credit

As I reported last October, the tax credit for hybrid cars phases out as manufacturers reach sales of 60,000 vehicles. Toyota / Lexus were the first to reach the limit; their tax credit will be zero as of October 1, 2007. Other manufacturers' vehicles are still eligible for the full tax credit.



When you buy a new hybrid car, the tax credit reduces your tax bill dollar for dollar (unless you are subject to the AMT). The credit ranges from \$250 for a 2007 GMC hybrid pick-up to \$3000 for a 2008 Ford Escape 2WD. For details, see the ["Summary of the Credit for Qualified Hybrid Vehicles"](#) at the IRS website, www.irs.gov.

Section 179 Vehicles

It's September, and if your business has had a terrific year, you are probably looking for ways to increase your tax deductions before the end of the year. When a business owner buys a company vehicle, they typically have to follow a five-year depreciation schedule to deduct the cost. Under the section 179 deduction, a small business owner can fully expense qualified property, including vehicles with a gross vehicle weight (GVWR) over 6000 pounds.

For 2007, the maximum section 179 deduction has been increased to \$112,000; this limit is reduced dollar for dollar if the total amount of qualified property placed into service in 2007 exceeds \$450,000.

Only \$25,000 of vehicle cost can be deducted under section 179 each year.

It's important to note that GVWR is not the weight of the vehicle itself ("curb weight"), but the EPA total weight rating when loaded.

Vehicles with a 6000 GVWR include almost all full size trucks and SUVs, as well as some mid-size vehicles such as the BMW X5 and Honda Ridgeline. You do have to be careful, because some models may or may not qualify. For example, Jeep Grand Cherokee and Toyota 4Runners with V8 and 4-wheel drive qualify, but other versions of those models do not. Plus, it changes from year to year! You should check the manufacturer's sticker inside the vehicle driver's door frame to confirm the GVWR before buying.

While section 179 only allows you deduct \$25,000 for a vehicle, you can roll amounts above \$25,000 to the next year's tax return. As the 2008 models arrive this month, look for sales. Of course, you can find many used SUVs and trucks below \$25,000 as well.

Always consult your CPA or tax professional for specific tax advice.

*If a person gets his attitude towards money straight,
it will help straighten out almost every other area in his life.*

BILLY GRAHAM

As always, please feel free to call me anytime with any questions or concerns. I'm here to help! Thank you for your business.

Sincerely,

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