Big Three running into dreaded repo barrier

auto talk

Dan McCosh

Economists who think in terms of psychological barriers such as the 2000-point Dow Jones Industrial Average are now contemplating the repo barrier. This is the notion that a man and his car note enter an unsettling period after the new-car love affair wears off and he just ditches the thing with a quarter-inch or so of coupons still left in the payment book.

Just when this happens is uncertain, but new car loans in the 60-month range seem to have aggravated the situation.

Evidence that the automotive equivalent of the seven-year itch is getting worse comes in footnotes to the Big Three earnings reports: Ford says it reposessed 23 percent more cars this year than last, and GM is setting aside $1 billion for loan loss reserves.

Like most new trends, the repo barrier calls for some dumb analysis.

First, a GM spokesman blames the defaults on owners who lose hope after realizing that their vehicles are worth less than the amount outstanding on the loans after three or four years. The obvious flaw to this kind of reasoning is that the car was worth less than the loan the minute the ink was signed on the contract.

Next time you buy a new car, walk to the front door of the showroom, walk back and ask the salesman if he will buy his car back. Watch the fear in his eyes if you don't believe me.

For the sake of research, I looked up 60-month old cars in the classifieds. They ranged from $1,600-$3000 or so, which means that owners in the last year or so of their car payment book might be able to break even, whereas any time earlier they would incur a net loss attempting to sell the car.

ONE THING that keeps car payments going is that unlike marriage, there are no alternatives to keeping up your payments other than walking. Getting your car repossessed means at least scraping up the cash for some wheels, which could take from $750-$1,500.

The only way you would make out is if you dropped a really high-priced car with monthly payments you couldn't afford and went after something like the famous "two-year-old Buick," which GM Chairman Roger Smith once held out as the solution to low-cost transportation.

Because marketing people never study the used car market, I suppose we will never know what's really behind the reposession rate. But right now, I'd lean toward the phenomenon known as the clutch barrier.

The clutch barrier is reached when the cost of a major repair, such as a new clutch, exceeds the amount owed on a car.

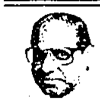
This in fact happened to me a couple of weeks ago, and I was left feeling like a Brazilian finance minister for a couple of moments while I caught my breath. Aside from the economic effect, the situation defied my main automotive superstition, which is that big repair bills always come the month after the last payment, not before.

Ultimately I anted up the repair and am still paying the finance company, although I confess I flipped through the back of the ads and for a moment considered dumping the turkey and putting the clutch money into a better deal.

I thought about buying both "runs good, some damage," and "good body, needs engine," and putting the two together, a romantic notion at best. Then I'd leave the car out front, payment book on the front seat, and watch from a distance while the repo man waited for someone to tow it away.

Dan McCosh is the automotive editor of Popular Science.

Think it's easy to double your money in stocks?



finances and you

Sid Mittra

One of the age-old myths, which never seems to die, is that by playing the market, it's easy to double your money in two or three years. Anyone believing in this myth is really asking *for trouble. Here is why.*

A recent study (Dow Jones-Irwin, 1985) revealed several important facts.

First, stocks are much more volatile than bonds. For instance, during any given year, stocks could return as much as 52.6 percent or lose 26.5 percent of the principal. By comparison, the maximum potential annual return on a bond is 42 percent and the potential for loss in bonds is around 8 percent.

Second, investors playing the stock market should realize that it is highly risky to adopt a one-year time horizon. A comparion of one-year stock return with the five-year return reveals that while in the former case it is possible to lose 26.5 percent of the principal, in a five-year time period the risk of loss is reduced to 2.4 percent.

Third, on a consistent, long-term basis stocks return around 10 to 11 percent per year whereas bond returns average only 4 to 5 percent. According to the Rule of 72, a 10 percent compounded annual rate of return would double one's investment in about seven years, whereas a 12 percent return would double the money in six years (6x1272). These figures should caution investors against expecting a faster rate of growth unless they are willing to assume additional risks. Also, people should recognize that investors in stocks lose, on average, once every 3.6 years. For some, this would be a frightening experience.

Other studies, covering the period 1920-1987, have found that the rates or return on various asset classes have been as shown on Table I.

Table II is designed to help you gauge the speed with which $10,000 will grow in five and 10 years.

Investment management and investment planning are complex undertakings. Consult your investment adviser.

Seminar: "Market Timing to Maximize Stock/Bond Return," "Creative Ways of Using Single-Premium-Deferred Annuity," "Limited Partnerships in Equipment Leasing and Real Estate," "Preparing for Retirement" and "Lump-Sum Distributions."

The seminar, sponsored by the Observer & Eccentric Newspapers and Coordinated Financial Planning, will be 7-9 p.m. Tuesday, March 14, in the offices of Coordinated Financial Planning, Sheffield Office Park, 3250 W. Big Beaver, Suite 540, Troy 48084.

For reservations, call 643-8888.

Sid Mittra is a professor of finance, school of business at Oakland University and owner of Coordinated Financial Planning.

table I

Equities	11.8 percent
Bonds	5.2 percent
Cash Equivalents	3.6 percent

table II

	5 yrs.	10 yrs.
6% (bonds, history)	$13,382	$17,908
8% (current bonds)	$14,693	$21,589
12% (stocks, history)	$17,623	$31,058