

*Please note: This is a transcription so there may be slight grammatical errors.*

Tyler Chestnut:

When you purchase assets like a house or a car, it's important to understand how the value of those assets might change over time. This is called appreciation and depreciation.

Appreciation means an increase in value over time. There are many reasons why assets might appreciate. A big one is increased demand where something becomes more valuable simply because more people want it. Another reason is scarcity. Things become more valuable when they are rare. Appreciation is like planting a tree and letting nature take care of it. As years pass, the rain and sun will make it grow, even if you do nothing. Depreciation is the opposite, a decrease in value over time. Depreciation happens to almost all physical objects like cars, electronics, computers, and mobile phones. That's because these assets have a limited lifespan before they need to be replaced. They decrease in value because they experience wear and tear, and because newer, better versions of those products come along. The two most common high value assets that people will purchase are homes and cars. Almost all cars will depreciate, but new cars tend to depreciate the fastest because they instantly become used cars as soon as you drive them off the lot.

Real estate properties like homes or land are likely to appreciate over time, although the specifics will depend on location and condition. If the value of your home increases because you renovated it, that's not appreciation. Keep in mind that just because an asset appreciates, that does not necessarily mean you will benefit from the increased value. For example, a home that has appreciated since you bought it only means more money for you if you choose to sell or refinance. Another thing to understand is that using debt to purchase depreciating assets, for instance, taking out a loan to buy a car can sometimes complicate your financial situation. If the depreciation on that asset happens faster than you can pay off that debt. When purchasing assets, it's useful to understand these general principles. For more insight on exactly how appreciation and depreciation can affect your financial picture, call CAPTRUST. You'll appreciate how we can help.

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