

February 2, 2012

Financial considerations when buying the Nordhavn lifestyle

By Jeff Merrill

The purchase of a Nordhavn trawler takes careful thought and planning. Defining your cruising goals and timing your life phase to determine when you can take off are primary concerns. Getting into a financial position to make your move typically requires years of planning. You probably wouldn't buy a house without a realtor and you most likely won't enter into a contract to purchase a trawler without the guidance of an experienced yacht broker. Similarly, as you prepare to purchase your own boat you need to have your financial house in order and an organized plan with the help of a trusted wealth manager should also be part of your overall strategy to fit the cruising lifestyle into your life game plan.

I get to meet a lot of interesting people as a Nordhavn broker and I've learned a lot from others who have different professions and skills. One future Nordhavn buyer is Todd Yannuzzi who is an Executive Director with Morgan Stanley Smith Barney in New York. Todd and I have had several discussions about how people can benefit from the knowledge a qualified wealth advisor can share and I felt his insights would provide an informative review for readers of this website. What follows is the summary of an interview I did with Todd that we both hope you will find informative.

Jeff: Many people who come to me have long been planning for the day when they can finally buy their Nordhavn and cast off on life's next adventure. With a particular boat selected, invariably the conversation progresses to the dual financial aspects of ownership: Expense Outlay and Meeting the Expense. What are the key points that a Nordhavn buyer should be thinking about?

Todd: From my perspective there are numerous approaches and considerations that each potential buyer must address, but if I can distill them into a brief summary covering costs to buy a Nordhavn and then describe some means to provide cash flow to cover cruising expenses I would break it down like this:

Expense Outlay

These are the costs of buying, equipping, decorating, owning and operating an ocean crossing capable vessel. What does it cost for docking, insurance, maintenance, fuel, potential crew, depreciation, etc? The answers to those questions are as varied as the people who ask them and, of course, how they use their boats. There are many articles and blogs that quantify these variables. You can also gain valuable insight from your Nordhavn sales contact.

Jeff: Let's say we have established a budget that will allow for the initial purchase and a second budget to provide for all of the intended operating costs expected for a couple years of cruising. How should a Nordhavn owner implement a financial strategy?

Todd: This is a great question which brings up some important topics. Firstly, it's an immense accomplishment to be able to reach the realization of a dream – no one I know has ever regretted following through with a passion, while too many people who get caught up in the day to day rat race end up delaying their goals! Any lifestyle evolution requires a thorough portfolio review with a financial planner. For over 20 years I've been working in high net worth wealth management and I can't underscore the importance of teaming with an appropriate dedicated professional to provide sound financial advice - expert opinion is crucial no matter what life-changing decision you are making. Given the goal of organizing an investment portfolio prior to a yacht purchase, there are several particular topics I would advise your clients to address:

Meeting the Expense:

1. **Efficient Debt Structure**

Will you be borrowing at all to purchase the boat? If so, are you getting the lowest borrowing rate possible? For example, a boat loan may be at a higher rate than tapping a home equity loan or securities based lending? Your clients need to realize that a 2.5% portfolio loan vs. a 5.5% boat loan would save \$30,000 a year in interest per million dollars borrowed.

2. **Diversified, Income Producing Portfolios**

Are portfolios stable, diversified and generating income that is both significant and predictable? Nothing beats steady income in addressing regular expenses. In today's markets with fixed income yields at or near historic lows, people are increasingly looking at high dividend blue chip companies paying 3-4% even 5%, with appreciation potential. Some clients also complement traditional bonds with life income annuities to enhance cash flow. Bottom line, even with interest rates generally low, there are a number of ways to create desired income levels that will support the cruising lifestyle while also preserving wealth at home while they are at sea.

3. **Currency**

If the client were to have a meaningful foreign currency exposure – perhaps they were planning to live and cruise in Australia for a year – we would quantify the amount of Australian dollars they expect to need over that period. Then to address that need we could buy local currency (Australian Dollar) fixed income. In many Foreign Countries, Australia included, this could actually increase portfolio return since highly rated bonds pay significantly higher yields there - ranging from 6% to as much as 8%. Converting from US dollars to Aussie bonds could allow you to both cover your currency need and earn a high yield at the same time – a win, win financial proposition.

4. **Tax Implications**

Any time primary residence changes, you need to fully vet potential tax ramifications. For example, if the client is moving from a high Income Tax State to a lower (or no) Income Tax State, then the relative value of owning tax free municipal bonds needs to be reviewed.

5. **Communication**

If your lifestyle poses communication challenges you definitely need a Financial Advisor and Firm that is flexible in contact methods. Do they have: a global 800 number? State of the art on-line access? An ability to exercise discretion? Global debit card and wire capability? Foreign exchange services? Local offices throughout the world? Is your coverage Team responsive to e-mail? Thankfully, with technology what it is today, several big firms can competently address these needs.

6. **Trust and Experience**

This last point is the most important. The more reliant one is, the more important the relationship with a trusted advisor becomes. Family dynasties are often built through hard work, concentration of risk and superior returns. The next phase of living off wealth and growing it for the next generation is typically achieved through diversification, hedging and consistent returns. Navigating this progression takes great care and attention. My job is to be that trusted financial advisor and impart all my company's experience, stewardship and resources toward those goals.

One last thought – before you cast off , ensure that your portfolios are in a “safe harbor,” ready to weather any storm and that you have the right captain and crew at the helm of your investments!

My sincere thanks to Todd for synopsising a crucial part of the boat buying process. His comments are just scratching the surface, but they provide a great overview of important financial considerations every future Nordhavn owner should review.

If you would like to contact Todd directly he can be reached by phone at (212) 296-1051 or email Todd.Yannuzzi@mssb.com. He would be happy to discuss your financial planning so that you can not only prepare to buy your Nordhavn, but enjoy it with confidence in knowing your portfolios are working while you are out playing – especially if you invite him on board for a visit!

Note: Nordhavn does not have a business relationship with Todd Yannuzzi (but we're hoping he does get his own Nordhavn someday soon!) or with Morgan Stanley Smith Barney. I'm sure the usual fine print disclosures that this interview is not a solicitation to purchase or sell investments and that there is always a potential to lose money when you invest apply, but I hope this brings to your attention some very important considerations and thank Todd for sharing his insights.



Jeff Merrill is a Nordhavn sales representative based in California. Jeff has been with PAE/Nordhavn for over 12 years and during that time has helped nearly a hundred families realize their dream of enjoying the cruising lifestyle.

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