PREPARING FOR THE WORST

As luxury asset lawyers, Adam Ramlugon and Mark Needham, deal with superyachts almost every day, and the question of how one goes about valuing an asset that is not traditionally classed as an investment asset often arises. Recent revelations about how some of the world's UHNWI are choosing to allocate their capital have triggered a lively debate in their office, Bargate Murray. Adam and Mark report on some of the issues.

IT HAS BEEN WIDELY REPORTED ON BOTH SIDES of the Atlantic that a number of the world's UHNWI are taking to buying up self-sufficient "boltholes" in New Zealand and acquiring citizenship there.

One of the most notable individuals in this gang is Peter Thiel, the co-founder of Paypal, who is reportedly one of 92 applicants that have recently, and secretly, been granted New Zealand citizenship by way of an investor visa type scheme that fast tracks wealthy applicants and entitles them to purchase land that would otherwise not have been available under normal procedures.

When we say "bolthole", what we are talking about are large and largely self-sufficient properties that have independent access to fresh water, food, and can generate their own power. Of itself, you could be forgiven for wondering why that is interesting, but the reason for this activity most certainly is fascinating.

The UHNWI, reportedly led by this generation's Silicon Valley billionaires, are buying these properties as a hedge against, effectively, a complete collapse of Western capitalism and with it the value of major world currencies and traditional investible assets such as bonds, equities and so on. This is sometimes known as "disaster planning" or "prepping" by a group of super wealthy individuals that call themselves "survivalists". Essentially, their argument goes that, as the Romans discovered, no empire, however mighty, can assume it will last forever and they will be better prepared than the rest of us if and when civil society breaks down in favour of large scale civil unrest, epidemics and a whole host of other terrible consequences. In such dire circumstances, having the option of sailing away on a fully fuelled and provisioned superyacht would also have an appeal too!

You might, quite reasonably, think this is somewhat extreme, but it seems to us that this activity poses some interesting questions which might lead to a re-think about how one goes about assessing the value of any asset, including a yacht, and whether traditional wealth management practices and diversification of an investor's asset portfolio are tied to thinking which is, at best, somewhat old hat and, if you buy into the survivalist argument, breathtakingly naïve.

Bringing the subject back to superyachts and the individuals that have the means to buy them, here are our thoughts:

As unlikely as a full scale collapse of capitalism might be, the fact that some of the most intelligent and, presumably, well advised people in the world are spending significant amounts of cash to hedge against it should give us all pause for thought. Unlike a physical asset, any currency or paper financial instrument is only worth something for as long as enough people believe it is.

We know from our own experiences that this is something at the forefront of the minds of some very wealthy people. We recently shared lunch with a wealthy friend of ours. The main topic of discussion? The number of wealthy individuals piling money into gold and other commodities (including, in his case, dinosaur fossils) with an intrinsic value. Of course, this sort of behaviour could hardly be described as the equivalent of buying a nuclear bunker in New Zealand but the rationale is similar.

The 2008 financial crash is as good a recent example as we have of the foundations of capitalism being shaken. That event saw large amounts of capital flee traditional markets and some of it did not return. Instead, many investors, UHNWI's among them, started to take notice of the impressive yields available to those who invest in "alternative assets" such as fine art, classic cars, fine wines and so on. These are sometimes also called "passion" assets, by which we mean things that people get a thrill out of owning. The same cannot surely be said for a portfolio of gilts!

Make no mistake about it, alternative assets are big business. Knight Frank's Wealth Report now ranks fine wine above classic cars as the top alternative investment asset on their Luxury Investment Index.

According to that Index owners of investment grade wine experienced an average growth in the value of their portfolios of 24%. This is a market that we participate in as minor league investor, as do a few of our clients. For example, a purchase of 2014 Chateau Lafite has already yielded a 12% return.

So, where do superyachts fit into this shifting investment landscape? Well, it is probably too early to declare that yachts are about to join the ranks of prime alternative investment assets. They remain in many ways the ultimate discretionary purchase and very much a wasting asset. But then, how do you assess the "value" of your ownership of your yacht? You may not sell a yacht for a profit, or even what you paid for it, but in the process you, your family and friends may have had some truly unforgettable experiences cruising through some of the world's most beautiful destinations. What value do you ascribe to that? Additionally, if the world is going to hell in a handcart, you can just haul in the anchor and sail away into the sunset!

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