MATTERS OF MONEY

PHOTO: SUZIE HUGHDIE

The real cost

Buying your dream boat doesn't have to cost you your retirement

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As anglers, we're wired differently. Many of us will sacrifice a part of our future just so we can go fishing today. The same is true when it comes to our money, yet many of us don't understand the real cost of this choice. For example, the decision to buy a fishing boat, and a vehicle to pull it, doesn't come cheap. It costs far more than the sticker price, especially over our lifetime.

There are two schools of thought when buying big-ticket items like boats and trucks. Finance them today and pay them off over time or pay cash when enough money has been saved. Yet almost everyone fails to understand that even if you pay cash, you are still financing it from your future savings. This is the concept of opportunity cost – defined as what you miss out on by choosing one thing over another.

Does it matter how you buy?
Let's explore three scenarios. Let's assume:

- You purchase two boats and two trucks over a 30-year period
- Each purchase is $50,000, net of trade-ins
- You have the ability to borrow money at 7% interest over a seven-year period
- Your cash outlay (payment or savings) is $9,000 per year, equivalent to $750 per month
- You have sufficient contribution room in your Tax-Free Savings Account (TFSA) or alternative, over the 30-year period. Your TFSA savings rate is 4.5%

Scenario 1: Always finance

After 30 years, you'll have a used boat, a used truck, and $0 in savings.

Finance $50,000 now, and every seven years borrow again to upgrade your boat or truck. Had you not made these purchases and instead saved the $9,000 a year in your TFSA, or alternative, you'd have approximately $573,000 after 30 years...that's your opportunity cost.

Scenario 2: Save and withdraw

After 30 years, you'll have a used boat, a used truck, and approximately $172,000 in savings.

Save the same $9,000 a year in your TFSA, wait five years and withdraw $50,000 to buy your boat or truck. Continue saving and repeat withdrawals every seven years.

Scenario 3: Save and finance

After 30 years, you'll have a used boat, a used truck, and approximately $216,000 in savings, net of loans.

Save the same $9,000 a year in your TFSA for five years, but this time use your TFSA as collateral to finance your boat or truck and repeat every seven years. Unlike in scenario two, you didn't disrupt the tax-free growth of your TFSA by withdrawing $50,000 each time. As a result, you have accumulated an additional $43,000 in savings with the exact same cash outlay.

As you can see, the true cost of buying big-ticket items like boats and trucks is so much more than an affordable payment. Understand opportunity cost, be strategic with your cash outlay and you too can enjoy fishing out of your dream boat well into retirement. ●

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