Leveraged
The professional's choice

Conservative Investing using a Margin Loan

A conservatively geared portfolio at 40%, with a maximum lending ratio of 75% would need to drop 53% in investment value in order to trigger a margin call.

What is a margin loan?

A margin loan is a facility that allows you to borrow money to invest. You can invest in many Australian listed securities, international listed securities, ETFs and managed funds. The portfolio you acquire becomes the collateral for your loan. You can also use an existing portfolio of acceptable securities as collateral to borrow money for other investments.

Why use a margin loan?

Borrowing to acquire an asset is called leveraging or gearing. A geared investor can acquire a larger investment portfolio than if they had used their own funds alone. If their expected investment return is achieved, they will have earned a larger return than if they had not borrowed.

What are the benefits?

Increase the amount you have available to invest.
If you have equity in an existing portfolio of acceptable securities, you can borrow up to 80 per cent of its market value. The percentage amount you can borrow is called the lending ratio. A Leveraged margin loan enables you to access opportunities in the market without having to liquidate your current investments. Simply lodge your existing portfolio of acceptable securities as collateral.

Diversify an existing portfolio without selling.
With more funds to invest, you may be able to spread your investments across a wider range of asset classes, industries and companies. Investing in a range of different assets is called diversification and this financial technique may be used to reduce the risks associated with investing.

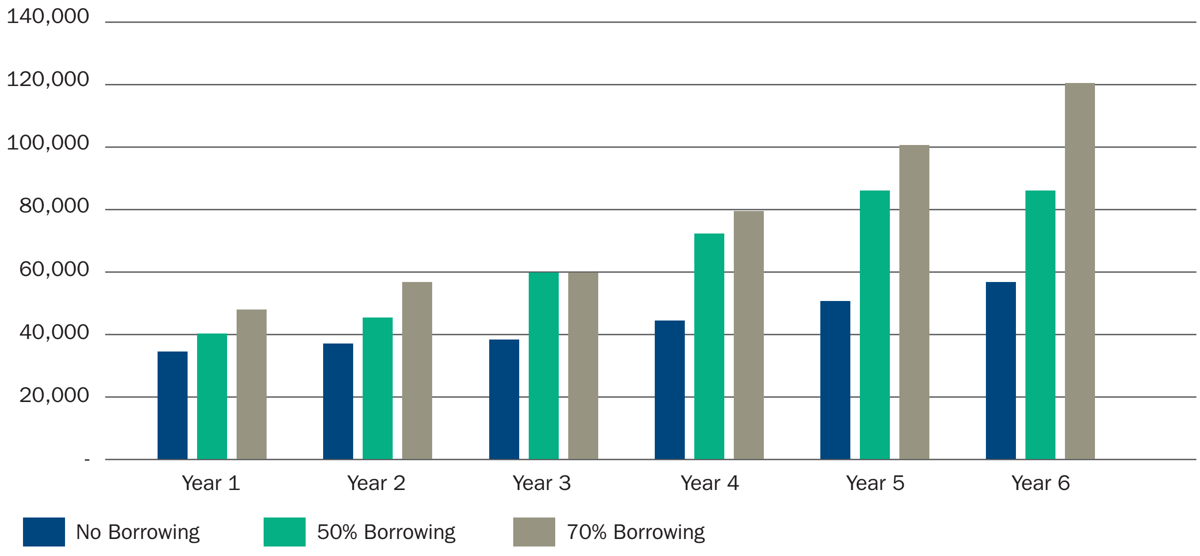
Manage your investment activities with the help of a flexible facility.
There is no set date to repay the money you borrow unless certain events occur. A margin loan facility has a number of flexible features including:

- a variety of interest payment options
- a range of investments can be mortgaged under a margin loan facility including Australian listed securities, International listed securities, ETFs and managed funds
- borrowers can be individuals, companies or a trustee on behalf of a trust (except self-managed superannuation funds)
- your choice of broker and/or financial adviser
- you may be entitled to claim an income tax deduction for some or all of your interest costs depending on your individual circumstances
- eligibility for company dividends and associated franking credits.

How can borrowing to invest increase my returns?

You invest because you believe it will grow in value over a period of time. Borrowing to invest may increase potential returns. The following table and chart illustrate what an investment of $30,000 in Year 1 could be worth in Year 6 under three different scenarios.

Effect of gearing on $30,000 investment



Source: Leveraged gearing projection calculator

Portfolio	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Rate of Return
No Borrowing	$35,554	$37,984	$38,817	$44,652	$51,112	$57,577	61.94%
50% Borrowing	$41,155	$46,061	$59,501	$72,491	$85,491	$85,491	107.72%
70% Borrowing	$48,624	$56,830	$59,707	$79,300	$100,453	$120,729	148.29%

Source: Leveraged gearing projection calculator

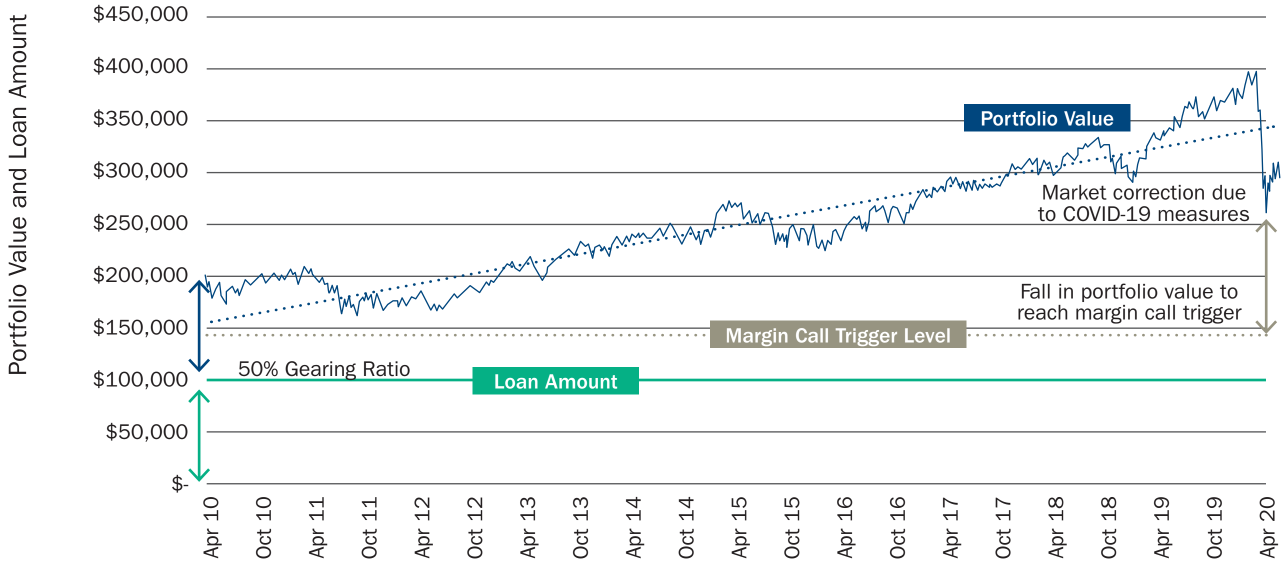
Assumptions used: Historical rates of growth, income and margin loan interest rates from June 14- June 19.
All distributions were reinvested, and interest was not capitalised on the loan.

Year	Capital Growth	Income	Margin Loan interest rate
2014	12.20%	5.00%	8.00%
2015	1.10%	4.50%	7.00%
2016	-3.80%	4.70%	6.80%
2017	9.10%	4.70%	6.80%
2018	8.50%	4.70%	6.80%
2019	6.80%	4.70%	6.00%

Source: Leveraged gearing projection calculator

Modelling conservative gearing during the March 2020 crash

The scenario below assumes a passive investor in an exchange traded fund which aims to track the S&P/ASX 200 Index. The model covers the period from April 2010 through to April 2020 which includes the March 2020 crash as well as the earlier market decline. The passive investor in this model started their investment portfolio in April 2010 and, at that time borrowed 50% of the value of their portfolio. The model shows that the investor did not experience a margin call during the investment period including the March 2020 crash, which was largely due to the strong growth that occurred before the March 2020 crash. The simplified model below ignores taxes and transactions costs.



Sources:
Historical S&P/ASX 200 Index. Source ASX
Historical STW price data. Source ASX
Historical STW Dividend. Source: Yahoo Finance

What are the risks?

Investment prices and interest rates can fluctuate. Borrowing to acquire an investment that earns a net return greater than your ongoing borrowing costs will result in a larger profit than if you had not borrowed to invest. Equally, borrowing to acquire an investment that falls in value or doesn't earn a net return greater than your ongoing borrowing costs, will result in a larger loss or lower profit than if you had not borrowed to invest. This and other risks of using a margin loan are explained in more detail in the Leveraged margin loan product guide.

Like all investments, borrowing to buy financial products carries risk – gearing can magnify your gains, as well as your losses. Ask your financial adviser if a gearing strategy is right for you. To know more about the Leveraged Equities Margin Loan, contact us.