

The power of regular investing

Case study: Jess' important life milestones

Jess, like most of us, has big life goals, such as buying a house, furthering her education, travelling and retiring comfortably. But to achieve this, it's going to cost Jess money - money she currently doesn't have and money that may take a long time to save.

Plan of action

Jess has a plan to make sure she has the money she needs, at the times she needs it. She decides to implement an investment strategy to help her build wealth for her future. At 22, Jess lands her first 'real' job earning \$70,000 p.a. and starts thinking about buying a house. Jess knows it's going to be tough to save for a deposit through cash savings alone, so she decides to borrow money to invest in shares and managed funds.

Matching Jess dollar for dollar

Jess starts her investment with \$2000 of savings, matched with \$2000 in borrowed funds. Jess continues to regularly save and invest, setting aside \$1000 per month and matching it with \$1000 of borrowed funds. After 6 years, Jess has saved around \$110,000 and sells enough shares to cover a \$90,000 deposit on a \$450,000 home and the associated stamp duty. Jess has achieved this deposit faster than if she'd saved with cash alone.

Important life events

Soon after, Jess meets Michael and they have two children. Over the next 12 years, Jess' savings capacity is reduced, as she pays for her wedding and honeymoon, takes maternity leave and has all the expenses entailed with a young family such as childcare. Jess manages to save an average of \$500 per month over this time and continues to borrow to invest in shares and managed funds. At age 40, Jess has built up net equity of around \$187,000, providing her with comfort as her children embark upon secondary education.

Over the next 8 years, Jess needs to put the regular savings plan on hold and use \$15,000 of the dividends and redeemed investments per year to contribute to her kids' education and her own.

Retiring in comfort

At age 48, without making any monthly contributions, her savings have grown to \$318,000. With the kids almost ready to leave home, Jess starts to focus on building wealth for her own retirement as she knows how important it is to not solely rely on superannuation. Jess' savings capacity is now \$1000 per month, which she invests matched with borrowed funds. By age 60, assuming Jess hasn't had to dip into these savings for unexpected events, her savings have grown to \$1.68m, giving her the ability to pay off her mortgage and retire on her own terms.

This investment strategy helped Jess through three important stages of her financial life ensuring she had the money she needed when she needed it. Borrowing to invest can be a great way to build wealth for medium to long term investments, but remember, there are risks involved, and just as it can magnify your returns, it can also magnify your losses.



Assumptions: Cash rate 2.51%, Capital Growth rate 5.92%, Dividend Income rate 5.40%, Franking levels 57%, Entry Fees and brokerage 0.20%, Company Tax rate 30%, Medicare Levy 2%, Loan Interest rate 5.99%, Marginal tax rate 39%. All rates are p.a. Issued by Leveraged Equities Limited (ABN 26 051 629 282 AFSL 360118) as Lender and as a subsidiary of Bendigo and Adelaide Bank Limited (ABN 11 068 049 178 AFSL 237879). This email contains general advice only and doesn't take into account your personal objectives, financial situation, or needs. Please consider your personal circumstances, consult a professional investment provider, and read the PDS and Product Guide, available to download from www.leveraged.com.au before making an investment decision. Examples are for illustration only. Past performance is not a reliable indicator of future performance. (S55793) (08/16)