

Catch
a bigger
return

margin lending



Introducing margin lending



st.george

Margin Lending

Big enough. Small enough.

What is margin lending?

Catch a bigger return by borrowing to invest. Margin lending also known as “gearing”, is an increasingly popular investment strategy. By borrowing to invest, margin lending allows you to invest more in shares, managed funds, master trusts and wraps than you could by using just your own funds.

By gearing investments you have more money working for you, increasing your potential to create wealth more quickly.

Negative gearing is when you borrow to invest and the interest cost of the loan exceeds the investment income.

Australians traditionally “gear”, by buying an investment property using their principal place of residence as security. In the case of margin lending, similarly with buying an investment property, your investment will earn income to help you repay the loan and potentially generate capital growth as well. As an added benefit, the interest on the loan maybe tax deductible.

There are a variety of ways you can use gearing to borrow against your existing investments, helping you invest more and spread your investments across a broader range of assets. Gearing can help you meet a wide range of investment objectives by:

- Unlocking the equity in your existing investments
- Generating cash from your investments
- Supplementing your superannuation.

While gearing increases your potential for greater returns, it can also increase the potential for risk. Therefore gearing may not be suitable for every investor. It is important to understand the risks involved and strategies to help manage that risk. When considering the benefits of gearing, we strongly recommend you see your financial adviser or stockbroker to ensure your decision is incorporated within a personal investment strategy that takes into account your individual risk profile and financial situation.

How does gearing work?

Case Study

Let’s say Kim decides to borrow \$100,000 to invest, and her marginal tax rate is 46.5%. If her interest rate is 9.5% per annum and the investment income is 4% per annum (representing a cost differential of 5.5% per annum), then the net after-tax cost of borrowing is \$2,557.50 in the first year, as the table below shows.

Let’s assume Kim’s investment increases in value by 10% (\$10,000) in the first year. She would now be \$7,057.50 better off, after taking into account her \$2,942.50 cash flow shortfall. In other words, the borrowed funds have earned her \$7,057.50.

Cost of \$100,000 loan @ 9.5%	\$9,500
Investment income @ 4%	\$4,000
Pre-tax cash flow shortfall	\$5,500
Tax deduction @ 46.5%	\$2,557.50
After-tax cash flow shortfall	\$2,942.50
Net Profit	\$7,057.50

Now, let’s say Kim’s investment portfolio suffered a 10% fall, and then Kim’s loss, on paper, would be \$10,000. When that is added to her \$2,942.50 cash flow shortfall, Kim will be \$12,942.50 worse off.

Which investments should you use?

The key to gearing successfully is to choose investments that will provide you with sound capital growth and a reliable income stream. We recommend you see your financial adviser or stockbroker to assist you in making the right choices. In the case of negative gearing, it's essential that the capital growth is more than the net after-tax costs of the exercise (the cost of the loan, less investment income, less tax deductions).

For this reason, lots of people choose to invest in shares in well-known or "blue chip" companies, or a number of different managed investments, when they embark on a gearing plan.

Gearing and franked dividends

A benefit that quality shares have over other investments is the dividend imputation system. This system can result in you receiving tax credits on the dividends you receive (known as "franked dividends") and therefore being liable for only a small amount of tax on this income. This will impact positively on your cash flow.

Minimising the risks

You can lessen the risks associated with gearing by following these simple rules:

1. Do not over-commit. Only borrow as much as you can comfortably afford to repay, remembering that there might be periods when your investments do not generate income.
2. Diversify your portfolio so that you aren't relying on just one or two stocks.
3. Invest only in quality companies, which have proven track records of reliable income streams and capital growth.
4. Invest for the long-term to give your investments sufficient time to generate enough capital growth.
5. Obtain salary or income protection insurance so that you don't have to sell your investments (possibly at a loss) if you or your spouse become seriously ill or disabled.
6. Fix your loan to protect your cash flow in case interest rates rise.

Like to know more?

For more information, please contact your adviser or contact St.George Margin Lending on 1300 304 065, 8am – 6pm (AEST), Monday to Friday.

To download a copy of the St.George Margin Lending brochure, log on to stgeorgemarginlending.com.au

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