



Ian is a 37-year-old engineer who works for a multinational manufacturer. He is in the highest tax bracket. His wife Valerie was a dental nurse until she left work just before the birth of their first child. They now have two daughters, Sophie and Isabel.

At first it was difficult to make ends meet with only one income, especially the extra costs that young children bring with them. But now, with Sophie in preschool and Isabel starting child care, Valerie is ready to return to work for 16 hours a week. With a little extra money coming in, Ian and Valerie would like to start building an investment that might eventually fund a private high school education for Sophie and Isabel.

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## Planning for your family's future

When you have a young family, it can be hard just meeting day-to-day living expenses, let alone finding money to invest. Yet it's also a time when you start thinking about the future. Your children's education, for example – how do you pay for that? Using a **CommSec Regular Gearing Margin Loan**, you can start building a substantial nest egg immediately. You'll be surprised how little you need to grow a handsome portfolio.

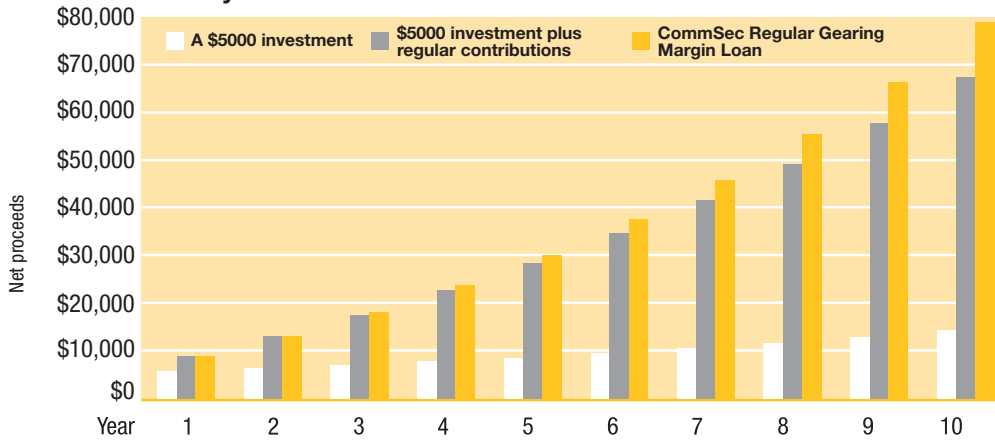
### The challenge

Ian and Valerie only have \$5,000 to spare for their initial investment, and less than \$100 a week for ongoing contributions, once child-care costs have been paid. Clearly that's not enough to invest directly in high-growth assets, such as shares or property. They've considered investing in managed funds but they are concerned that, even with an eight or ten year investment time-frame, their financial resources don't provide the foundation they need to build a large, diversified portfolio.

### The strategy

Ian and Valerie's adviser recommends that they invest in managed funds using the **CommSec Regular Gearing Margin Loan**. A margin loan with regular gearing combines the power of a margin loan with all of the benefits of a regular savings plan. For every dollar that Ian and Valerie contribute, **CommSec Margin Lending** lends them a dollar, doubling their investment capital. And if they wanted to, Ian and Valerie could even borrow up to two dollars for every dollar invested. The money is invested in the managed funds of their choice (from the accepted securities list), giving them access to a wide range of different assets, including shares and property. By selecting the right funds, they can also achieve instant diversification, reducing their risk and potentially producing more reliable returns over the long-term. And, with a loan in Ian's name, they are likely to obtain the maximum tax deduction for their borrowing costs.

## A CommSec Regular Gearing Margin Loan makes Ian and Valerie's money work harder



**Assumptions:** This graph compares the potential return on Ian and Valerie's investment with and without a margin loan. The calculations show the net proceeds of each strategy after loan and interest costs have been paid. It assumes an average annual return of 9% with dividends reinvested, a marginal tax rate of 46.5%, an average annual margin loan interest rate of 8% and excludes brokerage and any other fees. This example is for illustrative purposes only.

### The result

Using a margin loan with regular gearing, Ian and Valerie could potentially boost their investment returns, generating a portfolio quite sufficient to take care of their daughters' educational needs. Assuming that they can achieve an 11% annual investment return after reinvesting fund distributions, a simple \$5,000 dollar initial investment would only be worth \$14,197 after 10 years. Using the same assumptions, the same investment, combined with a \$250 a month regular contribution plan, would generate a \$67,305 portfolio. But using a CommSec Regular Gearing Margin Loan with an initial contribution of \$5000 and \$250 monthly contributions, Ian and Valerie have a managed fund portfolio worth more than \$120,400. By borrowing one dollar for every dollar they put in, it gave them net proceeds of \$78,734 after paying off their loan and interest costs. Their strategy is also easy to maintain, with interest costs of less than \$5 a week in the first year of the loan, growing to less than \$45 a week after 10 years. Because they are borrowing for investment purposes, their interest expenses are likely to be tax deductible.

### Who could use this strategy?

This strategy may be ideal for young families with limited investment capital and a medium to long-term investment time-frame. If you have a secure regular income and are willing to tolerate some risk in order to achieve high returns, then this strategy could be for you.

### Getting the right advice

Margin lending is not without its risks. Most importantly, while margin lending multiplies your profits when you invest successfully, it can also multiply your losses if the value of your portfolio falls and may require the input of further capital or equity in the case of a margin call. That's why it's important to get the right advice to ensure a margin loan is appropriate for your particular situation. Your adviser can help you construct a personalised margin loan strategy that takes advantage of the benefits while minimising the risks.

### How margin lending helped Ian and Valerie

A margin loan with regular gearing is an option for investors who want to access the benefits of margin lending but who don't have a large amount of capital to invest or a strong appetite for risk. Here are just a few of the benefits it offers:

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|----------------------------------|---|
| Maximising your opportunities    | When you invest with a margin loan, you can potentially grow your portfolio faster, giving you the opportunity to benefit from more capital gains and more contributions.   |
| Investing with the professionals | A CommSec Regular Gearing Margin Loan gives you access to funds run by some of the biggest names in the Australian funds management industry. When you invest in a managed fund, it enables you to access a team of investment professionals.                               |
| Low-cost diversification         | A key benefit of managed funds is that they enable you to buy into a diversified portfolio with only a small amount of investment capital. And, by investing in managed funds, you can ensure that all of your capital isn't tied up in a single asset, such as your house. |
| Tax effectiveness                | Depending on your personal financial situation, margin lending may help you maximise the after-tax return from your investments.  |

### Did you know?

- Margin lending is becoming increasingly popular in Australia. Since March 2000, the total value of margin loans in Australia has more than tripled from \$6,322 million to \$21,093 million in December 2008.
- By the end of December 2008, there were 204,809 margin lending clients in Australia, with holdings in shares and managed funds worth a total of \$41,996 million.<sup>1</sup>
- When you invest regularly in a managed fund, you take advantage of an investment strategy called dollar cost averaging. Dollar cost averaging means that, simply by investing the same amount each month, you buy more units when the price is lower and fewer when it is higher.

<sup>1</sup>Source: Reserve Bank of Australia.