



Nick is a successful small-businessman, a father of two, and a DIY investor. When he isn't busy working, or running his daughters between ballet lessons and netball practice, Nick finds time to run the family share portfolio.

This example is for illustrative purposes only. It has been compiled using our understanding of typical margin lending customers. The names and identifying features do not reflect any particular person and neither the basis nor the assumptions made for the recommendation are disclosed. CommSec Margin Loan is a product of Commonwealth Bank of Australia ABN 48 123 123 124 administered by its wholly owned but non-guaranteed subsidiary Commonwealth Securities Limited ABN 60 067 254 399 ("CommSec"), a Participant of the ASX Group. This information is not intended to be used as specific advice as it does not take into account the particular investment objectives, financial situation and needs of any particular individual. Because of that, you should assess with the help of legal, financial and taxation advice, whether the information is appropriate in light of your own circumstances before acting on it. No warranty or guarantee is given by Commonwealth Bank of Australia or its subsidiaries for the repayment of capital invested or the payment of income with respect to any investment listed as a security. Only investors who fully understand the risks associated with gearing into investments should apply. Applications are subject to the Commonwealth Bank's normal credit approval. Full terms and conditions are available on application. Bank and Government charges apply.

Grow your portfolio and lock in your interest rate

Two years ago, Nick took out a CommSec Margin Loan to expand his investment opportunities and multiply his potential returns. As the value of his portfolio has grown, his gearing ratio has fallen to just over 42%, reducing the gearing effect. Now Nick would like to make sure that he receives the full benefit of gearing, while keeping his interest costs down and maximising any tax deductions.

The challenge

Nick's goals

- Gear to invest & multiply potential returns
- Invest tax-effectively
- Keep interest costs down

Nick's resources

- Portfolio value: \$105,000
- Margin loan balance: \$45,000
- Gearing ratio: 42.86%

The strategy

- Step 1** Nick draws down another \$45,000 on his margin loan, using the extra capital to expand and diversify his portfolio. As a result, he now has shareholdings with a current market value of \$150,000, increasing his **opportunities for dividend income** and potential capital gains. And because his gearing ratio is now 60%, the potential for **gearing to multiply his returns** is increased.
- Step 2** Next, Nick decides to switch from a Variable Rate to a 1 Year Fixed Rate with interest paid in advance. Not only does that enable Nick to take advantage of an interest rate of only 7.49%[^] compared to the current variable rate of 7.85%[^], it also allows him to lock in that rate for the next 12 months, **avoiding the risk of any rate rises within that period**. Even better, he can **claim his prepaid interest as a tax deduction** in the current financial year.*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 your investments do not prosper.

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Portfolio value	\$150,000
Margin loan balance	\$90,000
Gearing ratio	60%
Nick's marginal tax rate (with Medicare levy)	46.5%
Interest in Advance rate (fixed for one year)	7.49%pa
Pre-tax interest cost	\$6,741.00
Tax benefit	\$3,134.57

Assumptions: ^The 1 Year Fixed Rate interest paid in advance Margin Loan interest rate of 7.49% pa and the Variable Rate Margin Loan interest rate of 7.85% pa are current at 30 April 2009 but are subject to change. This example is for illustrative purposes only.
* Consult your taxation adviser to determine whether you can deduct interest incurred by you on your Margin Loan account. The information on taxation is of a general nature only and is based on the taxation laws, rulings and their interpretation current on 30 April 2009. Consult your taxation adviser for guidance on your personal tax situation.

The result

As a result of Nick switching to fixed interest paid in advance, Nick has saved on interest costs and safeguarded against any interest rate rises during the next 12 months. He has also brought forward a tax benefit of \$4,352.40.

Who could use this strategy?

This strategy may be ideal for young professionals looking for a potentially high-growth, medium or long term investment that is inexpensive to maintain. 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.

Want to know more?

If you require any further information about margin lending please contact us on **13 17 09** or email marginloan@commsec.com.au

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.¹

¹Source: Reserve Bank of Australia.