



Amy is a 27-year-old management accountant working for a large city firm. After five years in the job, she has recently been promoted, so that she is now in the highest tax bracket. She has also managed to save \$50,000, which is currently parked in an investment account. Amy and her boyfriend Rob sometimes talk about buying a house together “one day”, but right now they are too busy enjoying life. Passionate skiers, they love to travel, and are wary about tying themselves down with a large commitment like a home loan. Nonetheless, Amy still wants to put her money to work.

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## Investing in the fast lane

When you're just starting out as an investor, it seems like it will take forever to build a decent portfolio. Even on a high income, accumulating the capital you need can be a slow process — especially if you want to enjoy life at the same time. But with a CommSec Margin Loan, you can invest now rather than later, and multiply your potential returns at the same time. A margin loan also helps you diversify your investments and access possible tax planning benefits. This case study example\* explains how.

### The challenge

Amy wants to achieve the best possible return on her money without restricting her financial freedom. She has considered investing in shares, but feels that her capital is too small to finance a properly diversified portfolio. As an accountant, she appreciates the importance of diversification in reducing portfolio risk and maximising opportunities for profit. But Amy wants to invest now, not in five years' time — and she certainly doesn't want to scrimp and save just to accumulate more capital.

### The strategy

Amy's adviser recommends that she uses a CommSec Margin Loan to borrow an additional \$50,000, giving her a total of \$100,000 in investment capital. That's more than enough to establish a sizeable and well-diversified share portfolio. By investing in shares, Amy can combine potentially high returns with flexibility. For example, if she wants to access some of her capital for a holiday, she can simply sell a portion of her portfolio, something that's just not possible with a property investment. She can also invest immediately while maintaining a relatively low level of borrowings — much lower than would be required to buy even the smallest city apartment. And, by investing with a margin loan, Amy multiplies her potential returns if her investment prospers.

	Without a Margin Loan	With a Margin Loan
Amy's own capital	\$ 50,000	\$ 50,000
Margin Loan	Nil	\$ 50,000
Total investment	\$ 50,000	\$ 100,000
Dividends received	\$ 19,166	\$ 38,332
Market value of shares at the end of year 5	\$ 124,995	\$ 249,990
Total value at the end of year 5	\$ 144,161	\$ 288,322
Less borrowing costs @ 9.15% p.a.	Nil	\$ 22,875
Potential tax deduction on borrowing cost	Nil	\$ 10,637
Less Margin Loan repayment	Nil	\$ 50,000
Net portfolio value at end of year 5	\$ 144,161	\$ 226,084

**Assumptions:** This table compares the potential return on Amy'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 shares with an initial value of \$6 have increase to \$15 over the 5 year period and total dividends received equal \$2.30, a marginal tax rate of 46.5%, an average annual margin loan interest rate of 10.50% and excludes brokerage and any other fees. This example is for illustrative purposes only.

## The result

Over the 5 years of the loan, Amy's investments grows from \$6.00 (initial purchase price) to \$15.00 (end value of the shares). During this time, she receives total dividends of \$2.30 per share.

The table above shows how Amy's CommSec Margin Loan helped her turn her \$50,000 into a share portfolio worth over \$288,000 in five years, with net proceeds of \$224,000 after her loan borrowing costs have been accounted for.

Amy's strategy is also easy to maintain. Because she is borrowing for investment purposes, her interest expenses are likely to be tax deductible. Since she is in the highest tax bracket, that makes a big difference to the bottom line.

## 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.

## 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 Amy

Amy has discovered what many canny investors already know — that margin lending has significant benefits. Here are just a few:

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.
Diversification	A larger investment enables you to spread your money across more shares or managed funds, reducing risk and increasing opportunities for profit. A larger investment enables you to spread your money across more shares or managed funds, reducing risk and increasing opportunities for profit.
Liquidity	When you use a margin loan to invest in shares, you can generally move in and out of your investment quickly and inexpensively, so you can access funds in response to your changing needs.
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>

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