



Go getters

Using gearing to grow your investments beyond super and your home

Margin lending case study

 **BT** Financial Group

Meet Sam and Sonya

Sam and Sonya are married semi-professionals in their 40s and both work full time. They expect to work in their careers for at least another 20 years before they retire.

Current financial circumstances

Between them, Sam and Sonya have accumulated \$200,000 in superannuation and have other investments in managed funds and shares worth \$150,000.

Their family home is currently valued at \$600,000 which can be broken down into \$400,000 equity and a \$200,000 mortgage.

They each earn a salary of \$100,000 which includes 9 per cent Superannuation Guarantee contributions.

Goals and concerns

Sam and Sonya are anxious about their financial future and are keen to build assets outside super and property as they have a relatively high exposure to residential housing.

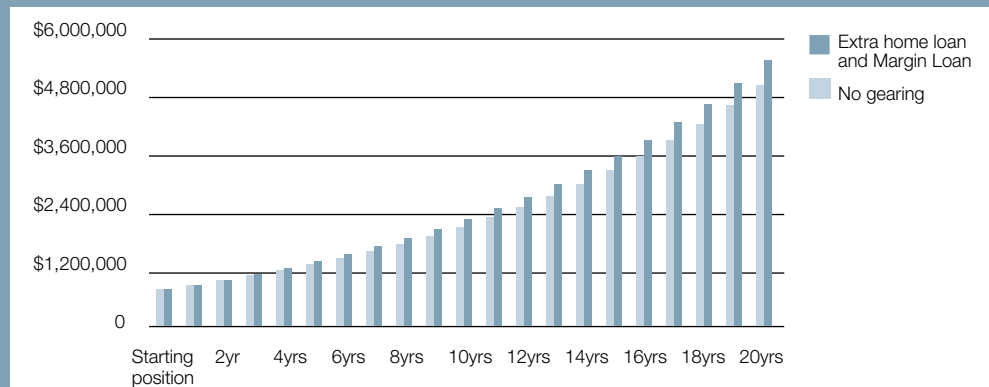
They are prepared to accept a moderate to aggressive level of financial risk in pursuit of family goals.

Sam and Sonya's choices

Sam and Sonya can decide to make no change to their investment strategy and continue to spend all investment earnings.

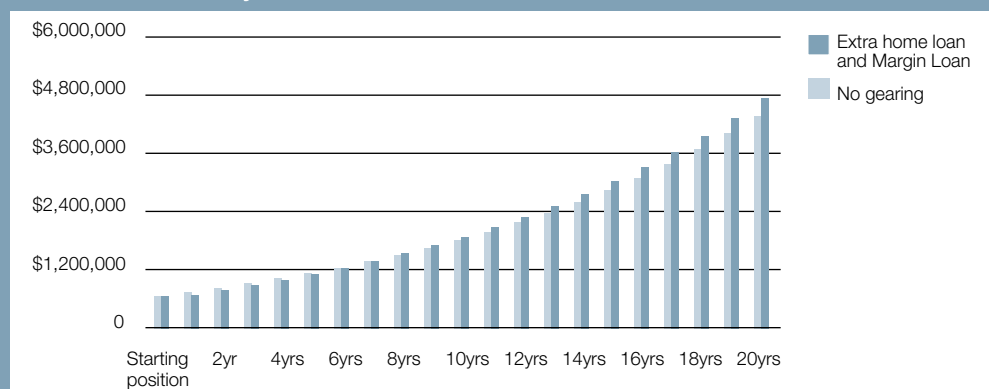
Alternatively they can commence a growth strategy based around a moderate level of gearing. Borrow \$350,000 (from a \$100,000 extension of home mortgage and a \$250,000 margin loan) to increase total investment assets to \$500,000.

Gearing versus non-gearing investment strategies over 20 years



At the end of 20 years, there is a 10 per cent increase in the net value of total assets using this Gearing Strategy.

Net financial consequences after a 20 per cent drop in the value of Sam and Sonya's financial assets



A once off drop of 20 per cent in the value of financial assets does not have a significant impact on their overall position at any time over 20 years.

Assumptions. Results are net of tax and all borrowings. Marginal income tax rate is 41.5% (including Medicare levy). Home price growth rate 6.50% pa. Mortgage interest rate 7.75% pa. Margin loan interest rate 8.90% pa. Gross portfolio yield including franking credits: super 10.62% pa, current non super 11.88% pa, future non super 12.14% pa. Salary growth rate 3% pa. Client has held investment for greater than 12 months and applied the discounted method for calculating their capital gains tax liability. Note that there is no guarantee that these assumptions will prove correct, and any changes to the assumptions will result in a different outcome. In a falling market, a strategy of high gearing could result in greater losses. Clients individual tax position may differ and clients should seek independent professional advice on any taxation matters.

The result

At the end of 20 years, Sam and Sonia will benefit from a 10 per cent increase in the net value of their total assets using this 'gearing strategy'.

Even after a 20 per cent drop in the value of financial assets after 20 years, the extra home borrowings and margin lending strategy is still ahead of the no gearing strategy by 8 per cent.



For more information

- **Speak to your financial planner**
- **Visit www.bt.com.au**
- **Email client.marginlending@btfinancialgroup.com**
- **Call BT Margin Lending Customer Relations Consultants on 1800 816 222.**

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