

# About Margin Lending



For more information go to [InvestMasters.com](https://www.investmasters.com)

## Benefits and Risks

### What is Margin Lending?

Margin Lending means borrowing to invest in the Share Market. Combining your own investments (cash or Shares) with borrowed money allows you to invest more in the Share Market. This is also known as gearing your portfolio.

### Boost your investments – reduce your tax.

A Margin Loan Account allows you to borrow to invest in shares, managed funds, and cash deposits.

Using your own portfolio of shares in combination with a Margin Loan Account enables you to increase your investment opportunities more than if you were solely using your own assets.

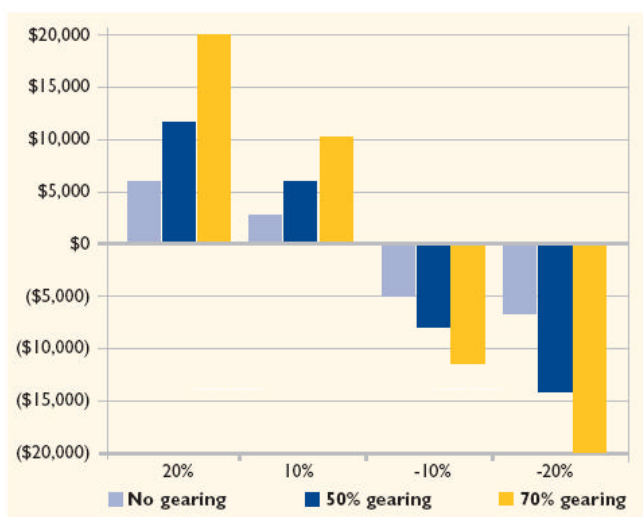
As with any investment, the objective is that your portfolio will grow in value over a period of time. There are many possible benefits associated with leveraging a portfolio, some of them are listed below:

### Potential to increase your capital returns.

Leveraging a portfolio of investments may significantly increase potential returns on your investments over time.

The graph on the right illustrates how an investor with just \$30,000 equity would have different levels of return with varying levels of gearing.

Gains/Losses based on a \$30,000 equity investment



### Access your equity.

If you have equity in an existing portfolio of acceptable securities, you can borrow up to 75% of its market value for any business or investment purpose. Has there been times when you have seen opportunities arise, and been unable to capitalise on them? A Margin Loan enables you to access opportunities without having to liquidate your current investments. By lodging your existing portfolio as security, you have access to a line of credit for your investments without realising any capital gains or loss (until final sale).

### Diversify your portfolio.

With more funds to invest, you can spread your potential investment risk across a wider range of shares, and industry sectors. This enables you to benefit from possible future growth and income from those securities.

### Assist your tax planning.

A leveraged investment may also provide you with potential tax benefits and assist you with your tax planning. Potential tax benefits may include:

- *Tax deductible interest*: interest on borrowed funds may be tax deductible, provided that the funds are used for an investment or business purpose.
- *Prepaid interest*: if you prepay interest for the following tax year, you may be able to receive a tax deduction in the year in which the payment is made.
- *Franked dividends*: for fully or partly franked dividends, you receive tax credits (a credit for the tax already paid by the company) that may reduce your tax liability.
- *Deferred capital gains*: tax may not be charged on any capital gain or loss on an investment until it is sold.

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## How does a Margin Loan work?

A Leveraged Equities Margin Loan gives you the power to borrow up to 75% of the market value of acceptable securities such as shares, managed funds, and cash deposits.

Each security is assigned a Loan to Value Ratio or LVR, which is the maximum percentage of the securities market value that will be lent to you. Your contribution can be in the form of shares, managed funds, and cash deposits.

### Example 1

Your contribution is \$30,000 in cash. To purchase securities with an LVR of 70%:

$$\begin{aligned}\text{Maximum Purchasing Power} &= \frac{\text{Contribution}}{(100\% - \text{applicable LVR})} \\ &= \frac{\$30,000}{(100\% - 70\%)} \\ &= \$100,000\end{aligned}$$

Just as the market value of your portfolio can fluctuate daily in line with market movements, so will your borrowing capacity. If your loan balance is less than the margin value of your security, you have available funds to buy more investments if you wish. In addition to an increased return on your investments as your portfolio grows in value, your potential purchasing power is also enhanced.

### Making repayments

A Margin Loan is a line of credit. Although interest is charged, it is not required that you make interest or principal payments on a monthly basis. The interest charged will be automatically capitalised if not repaid and it is only required that you maintain the loan within its limits at all times. Should you wish to make payments on a regular basis, a direct debit facility is usually available for most Margin Lenders.

### What are the risks?

While leveraging into investments increases the potential return on those investments, it is important to recognise that it can also multiply the investment risk. Most importantly, you need the right securities and investment structure for your own personal situation. Interest and other costs may not be fully offset by dividends and other distributions received. The timing of interest charges is not likely to coincide with these payments. Interest costs, fees, government charges, taxation liability and early termination costs may change over time. These costs should be taken into account when determining the suitability of any investment strategy.

## What are Margin Call Payments?

At all times your gearing level must not exceed the maximum allowable limit. This is calculated by multiplying the market value of the securities lodged by the applicable lending margins. This requirement is assessed in relation to the daily loan balance, including the accrued interest.

A Margin Call Payment is required when your borrowing level exceeds the maximum permitted gearing level by more than a buffer. This is generally required by 4.00 pm (Sydney time) the following business day. The Margin Lender may at any time change the permitted gearing levels of particular securities in your portfolio.

Securities may also be removed from the lending list. If gearing levels are reduced or removed, an obligation to make a Margin Call Payment may automatically arise, which you are required to meet in the same way as any other Margin Call Payment.

The graph on the right illustrates how a margin call works:



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# How do I meet a Margin Call Payment?

If a Margin Call Payment is required you can:

1. **Lodge additional security** from our approved list, and/or
2. **Repay part of the loan** using BPAY, electronic credit or deposit funds from your nominated bank account via a Direct Debit Request, and/or
3. **Sell part of your portfolio** and apply the net sale proceeds against the loan to bring the account within the maximum allowable limit.

## What happens if I fail to meet a Margin Call Payment?

If you fail to meet a Margin Call Payment within the required time period, a sufficient quantity of securities may be sold by the Margin Loan provider to bring the loan back within their required gearing levels. **We will attempt to contact you where possible.**

## How much does a portfolio have to fall before a Margin Call Payment is needed?

The table below illustrates the percentage a portfolio has to fall before a Margin Call Payment is required at various borrowing levels.

		Maximum permitted gearing level			
		50%	60%	70%	75%
Your gearing level	50%	16.66%	28.57%	37.50%	41.17%
	60%	-	14.28%	25.00%	29.41%
	70%	-	-	12.50%	17.64%
	75%	-	-	-	11.76%

## How could I reduce the likelihood of a Margin Call Payment?

There are a number of ways that may reduce the likelihood of having to make a Margin Call Payment on an account.

### 1. A conservative gearing level

The likelihood of having to make a Margin Call Payment may be reduced by borrowing less than the maximum amount allowed.

### 2. Monitor the account

It is your responsibility to monitor the performance of your portfolio to ensure that you comply with the Margin Call Payment requirements.

There are a number of ways that you can keep track of your margin loan account, including:

- reviewing your monthly statement;
- visiting the Margin Lenders internet site.

### 3. Diversify your portfolio

Investing across a range of investments and sectors may help minimise the risk that one investment will affect your return by offsetting any decreases against increases within your portfolio. As well as reducing volatility, diversification may also lead to better long-term results.

### 4. Pay interest regularly

If you repay principal and interest on your loan on a regular basis, this helps to reduce the gearing level and loan balance.

### 5. Credit/Reinvest dividends and distributions to the margin loan account

By making regular contributions to the margin loan account via dividends and distributions, you can reduce the loan balance or by reinvesting you can increase the equity. You also then have a consolidated account of your trading activities.

### 6. Have cash or securities set aside

Agree on a strategy to meet any potential Margin Call Payments should the need arise e.g. determine any additional securities you could lodge, have funds on hand to meet a Margin Call Payment, or determine which investments you would sell first in a margin call.

### 7. Borrow within your capacity

Ensure that you have adequate cash flow to meet your borrowing obligations and are able to accommodate any interest rate rises should they occur. Above all it is strongly recommended that at all times you obtain financial advice on your margin loan account.