CommSec

Case study 1

The power of a CommSec Margin Loan

Michael and Katie both recently reviewed their portfolios and have decided to further diversify into Australian equities. Both have saved $10,000 to invest and their overall strategy is to create a diverse portfolio to hold for the next five years. Both Michael and Katie decide to add the same security to their existing portfolios. The difference in their investment strategy is that Michael simply uses his own funds to invest while Katie explores using borrowed funds to help her grow her portfolio and does so through a CommSec Margin Loan.

When you're just starting out as an investor, it seems like it will take forever to build a diversified portfolio. Even on a high income, accumulating capital to invest can be a slow process – especially if you want to enjoy life at the same time. However, with a CommSec Margin Loan, you can invest now rather than later, and multiply your potential returns. A margin loan can be a tax effective investment tool that can also help you diversify and grow your investments. Here is an example.

THE CHALLENGE

Michael and Katie both decided to invest in their chosen stock. While Michael simply invested the $10,000 he had saved, Katie decided to increase the size of her investment using a CommSec Margin Loan.

THE STRATEGY

In addition to investing $10,000 of her own money, Katie used a CommSec Margin Loan to borrow an extra $10,000, making a total investment of $20,000.

THE RESULT

After five years, Michael's investment increased in value to $21,729, giving him an unrealised profit of $11,729. Over the same period, Katie's investment increased in value to $43,458 giving her an unrealised profit of $18,962 after paying off her loan balance and interest costs. That is 62% more than the profit of Michael's ungeared investment.*

Risk Disclosure: Remember, whilst borrowing to invest can multiply your investment returns, it may also multiply your losses if the value of your investment falls. Margin loans and exchange traded options can involve significant risk. Only investors who fully understand the risks associated with margin loans and options should consider these products. This example is for illustrative purposes only. The names and identifying features do not reflect any particular person or real outcomes. CommSec Margin Lending facilities are provided by Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945 (the Bank) and administered by its wholly owned but non-guaranteed subsidiary Commonwealth Securities Limited ABN 60 067 254 399 AFSL 238814 (CommSec). This information is not advice and has been prepared without taking account of your objectives, financial and taxation situation or needs. For this reason you should, before acting on this information, consider the appropriateness of the information having regard to your objectives, financial and taxation situation and needs and, if necessary, seek appropriate professional advice. Information on taxation is based on the continuation of current laws and their interpretation. No warranty or guarantee is given by the Bank or its subsidiaries for the repayment of capital invested or the performance or payment of income with respect to any financial product. Applications are subject to the Bank's credit approval. Fees and charges apply. Full terms and conditions are available on application. Please consider the Product Disclosure Statement available from commsec.com.au before making any decisions about the CommSec Margin Loan. Past performance is not an indicator of future performance.

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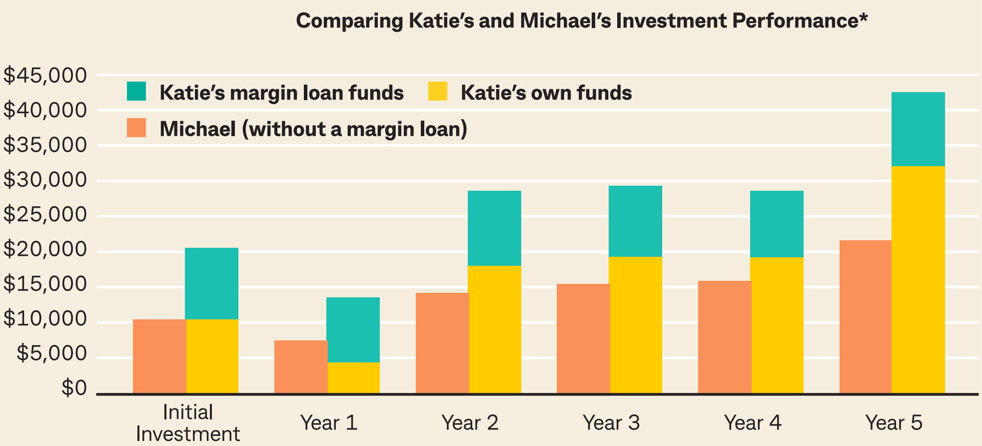
	Michael – without a Margin Loan	Katie – with a Margin Loan
Investor's Own Capital	$10,000	$10,000
CommSec Margin Loan	Nil	$10,000
Total Initial Investment	$10,000	$20,000
Share Purchase Price	$40.40	$40.40
Shares Purchased	248	495
Share Price at the end of Year 5	$67.07	$67.07
Investment Value at the end of Year 5	$21,729	$43,458
Interest Paid	Nil	$4,496
Dividends Received (reinvested)	$3,901	$7,568
Unrealised Profit at the end of Year 5	$11,729	$18,962
Return on Investor's Own Capital	117%	190%



This graph compares the growth in Katie's investment value, net of interest cost, using a Margin Loan - against the growth in Michael's investment value without a Margin Loan over a 5 year period.

At the end of Year 5, you can see that Katie's portfolio (using a Margin Loan) is worth twice as much Michael's portfolio and delivers a profit 62% greater than Michael's ungeared investment. In this example, Katie has an unrealised profit of $18,962 compared to Michael's $11,729.

*Assumptions: This example is hypothetical and for illustrative purposes only; actual results may vary significantly. Although the stock chosen for this example is hypothetical, this case study has been modelled on a real stock trading on the ASX using its price and dividend behaviour over a 5 year period. Interest has been calculated using a variable rate ranging between 8.13% and 10.35% during the 5 year period and it is assumed that accrued interest was paid by direct debit at the end of each month. Unrealised capital gains have been calculated by deducting the total initial investment and accumulated interest costs. Dividends have been reinvested. Brokerage, as well as any taxation benefits or implications arising from this strategy (including franking credits and interest expense deductions) have not been taken into account in calculating the results. Neither the Bank nor CommSec specifically recommend the stock or strategies used in this example. The information should not be taken to represent actual performance and should not be interpreted as an indication or guarantee of future performance.

Why choose a CommSec Margin Loan?

- Experience in investment lending since 1995
- No ongoing fees and free to open for most applicant types; no cost to open or maintain a CommSec ETO account
- Competitive Interest Rates
- Industry Leading Integrated Trading & Lending Platform, plus mobile & tablet apps
- Automated notifications, Online Self Service functionality, & SMART™ Risk Management Tools
- Large range of lendable securities
- Experienced account managers and options representatives available to assist you when you need them
- Integrated Margin Lending and ETO trading

For all enquiries contact us by telephone on **13 17 09** **(8am-6pm Sydney time)** or by emailing **marginloan@commsec.com.au**