



## Margin Lending, is it for me?

Margin loans are a common way to get into the stock market or buy managed funds. Instead of the loan being secured against real estate or another asset, the loan is secured against the investment itself. You need to put up some money yourself to keep the loan to value ratio down but you can still greatly enlarge your investment portfolio with this type of facility.

The 'loan to value ratio' you are allowed depends on who the lender is and the investment you want to buy, volatile investments may have lower permitted loan to value ratios than more stable ones.

For example, you want to buy a managed fund and the maximum permitted loan to value ratio of that fund with this lender is 65%. If you want to own \$100,000 worth of this fund, you can borrow \$65,000 but you'll need to buy the other \$35,000 worth of funds with either your own cash or money borrowed from some other source, like a home equity loan.

Sometimes lenders may announce that they are reducing the loan to value ratio for a certain stock or fund, if investors suddenly find themselves above their credit limit they will receive a margin call - an urgent request for the investor to put more capital or put up more investments as security. If you don't respond to your margin call you'll have some of your investments sold and the money applied against the loan.

So, margin calls generally speaking are bad for investors. For a start, they come at very short notice and you usually have less than 24 hours to respond. This means in some cases that your assets are sold at the worst possible time having reduced in value.

As with all gearing, the more you borrow, the greater your opportunity for reward and at the same time, the greater your potential losses. You can minimise the risk of margin calls by putting in place a low level of gearing that in most cases will enhance your existing portfolio, without exposing you to margin calls. However, margin lending is not for everyone.

Talk to us today to find out if Margin Lending is right for you.

Talk to **Shaun Thatcher** today to find out whether this strategy is right for you:

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