

Money Matters



Ord Minnett Buderim

There have been some well publicised horror stories lately about the predicament some investors are in after gearing heavily into shares. Such stories may lead one to believe that gearing (i.e. borrowing to invest) is a bad thing. However the reality is that an appropriate level of gearing can be quite beneficial to your wealth creation programme. It is only inappropriate levels of gearing that are dangerous. And that includes using your home equity to borrow then lodging it as collateral on a margin loan, which is effectively double gearing.

Going back to first principles, it is standard wording in most financial advice documents that gearing can magnify the extent of both gains AND losses. It follows then that borrowing to

invest must be for the longer term. For those who borrowed just prior to the sharemarket collapsing, they are in for a long haul back. However, provided their underlying investments are sound, they will eventually get their money back. As Rachael Hunter said in her advert for hair products, 'It won't happen overnight, but it will happen'.

The most basic form of gearing is borrowing to buy an investment property. Most people wouldn't balk at that idea, but are a bit hesitant when it comes to doing the same thing with shares. However borrowing to buy shares is actually a lot easier than an investment property. Firstly, you can

invest a small amount at a time. Instead of having to borrow many hundreds of thousands of dollars, a share portfolio can be purchased in more manageable parcels. Secondly, the income from a share portfolio is usually much higher than average rental returns. In addition there are no ongoing expenses like rates and insurance and the income is usually tax effective from shares, compared to fully taxable rent. Finally, one would assume that after a 50% fall, shares are reasonably priced whereas housing is still in a downtrend with a fall of about 20% to date.




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lenders will advance 75% on the value and the portfolio is professionally managed for you. While it is impossible to predict market movements in the short term, a quality investment such as this is bound to recover well.

Some issues to consider when assessing whether gearing is appropriate for you might be your ability to service interest costs, job security, time frame, tax deductibility of interest, future capital gains tax, and ability to cope with market fluctuations. To discuss whether now is a suitable time to consider such a strategy, and how you could advantage from it, call Ord Minnett Buderim on 5430-4444.

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