01:
Keith Hilsdon
head of sales, Leveraged

02:
Teresa Dalla-Fontana
business development manager, Leveraged

Millennials are in an interesting situation: they are going to rule the world but they can't necessarily own it. Welcome to the housing affordability crisis: many young investors don't have a fighting chance.

Meanwhile Baby Boomers who do own a home are at risk of eroding their home equity for a host of financial needs, putting them on the same boat as the millennials when it comes to wealth building.

But there is another option. A study suggests that three in five financial planners consider margin lending as an effective wealth creation strategy for both cohorts. In this issue, we ask margin lending specialist Leveraged to explain why.

Michelle Baltazar
Director of Media & Publishing

Margin lending: Changing times warrant a closer look

According to Investment Trends, there has been a tapering in demand for margin lending over time, however there are a couple of notable developments in investor behaviour.

A greater share of established margin lending users are taking out new loans than in the last four years and at Leveraged we are seeing more interest in gearing as a strategy from younger investors. It may be the case that older investors are positioning themselves to take opportunities in the market as they see them and diversifying their existing portfolios, while younger investors are not holding their breath waiting for property to become affordable any time soon but rather taking the view, that they need to be building wealth in other ways - with the help of other people's money of course.

Love affair with shares

The top three nations for share ownership are Hong Kong, Singapore and Australia and what all three nations have in common, are property prices that require a serious financial commitment. Buying property where you want to live, at a price you are prepared to pay, doesn't make property ownership an easy decision, however entry into the share market, can be realised with thousands rather than hundreds of thousands of dollars. Conventional wisdom suggests, that if you are going to invest and take on debt, it should be 'good' debt, and borrowing to buy shares, ETF's and managed funds can be achieved through a range of modern margin lending products – some now with built in 'air-bags' and no lump sum margin calls for protection.

The appeal is that investors can avoid taking on big debt, yet still invest in growth assets with an element of tax deductibility and in bite-sized meaty chunks when opportunities appear - something Millennials find attractive. But it's not all about tax deductibility, the real power of margin lending, is the ability to diversify your exposure to a range of industries and asset classes such as ETF's, managed funds and increasingly, international shares.

Access to your money

Frustratingly, trust in superannuation has been significantly eroded due to constant political meddling and interfering which has been compounded in recent years by the sort of sudden chaotic and regular leadership changes more normally associated with Italy and Japan.

So it's not hard to see why Baby Boomers and Gen X have been looking around for other investment opportunities that better suit their liquidity requirements. If the family decides on private education for the kids, gearing shares can make sense to help with this goal, while younger investors can build a handy deposit on a home for when they decide to settle down – and their cash isn't locked away for decades.

Regulation has made it more difficult for financial planners to recommend margin lending for clients, which may also explain the rise in the number of 'direct' customers we see at Leveraged.

For planners specialising in this field, around 60% see margin lending as an effective wealth creation strategy. Furthermore, 70% of 'direct' customers agree investors around their age should consider gearing as a way of boosting retirement savings, again, according to Investment Trends.

Those most familiar with gearing as a strategy, are understandably the most comfortable, which is why it is important to ensure that borrowers engage with a lender offering high levels of support, online tools and communication.

Tax considerations

So why consider margin lending and not dipping in to home equity? Firstly, you have to have a home with equity that you can draw down on. Another obvious point is that the interest on your home loan is not likely to be tax deductible. So if investors are unadvised, inattentive or insufficiently diversified and get into strife, the bank holds their home as security. And in a worst case scenario, this means they could lose their home.

So herein lies an advice opportunity. With a margin loan, the lender holds the shares and managed funds as security against the loan, and investors have the advantage of setting up buffers and triggers to alert them to any significant changes in the value of their portfolio. Investors can diversify an existing share portfolio without having to sell any of their holdings to free-up cash for new shares - which could inadvertently create a capital gain in their portfolio and thus incur capital gains tax (CGT).

Diversification is the spice of life

Margin lending positions the client with a pre-approved line of credit and access to an extensive list of approved shares to choose from, in order to start a share portfolio or to diversify an existing portfolio. When you consider that many people embark on their gearing strategy holding just a handful of companies, the power lies in diversification and the ability to pick up shares on their watch list, particularly when they are undervalued. Fast mover advantage.

Responsible margin lending providers, like Leveraged, take product innovation very seriously. We incorporate direct customer and adviser feedback and weave that feedback into product enhancements, which is key to staying at the top of the Australian 'gearing into investments' industry. Leveraged offers a unique product the *Investment Funds Multiplier* with inbuilt risk mitigants that provide the investor with market alerts and diversification benefits while managing repayment cash flow certainty during periods of adverse market movements. Importantly, this allows the investor time to critically assess their portfolio and make informed decisions on any remedial changes to their investment strategy.

The quote

It is important to ensure that borrowers engage with a lender offering high levels of support, online tools and communication.

Investor and adviser education

Progressive margin lending providers understand that education must form part of a healthy investor diet. The volume of articles, case studies, trading notes and 'how to' guides available has increased over the last few years, all with the principal goal of improving investor and adviser ability to optimise the products and services available to them in order to create wealth and work towards attaining financial independence. Leveraged continues to be recognised for its consistent contribution to education, winning several Investment Trends Customer Satisfaction awards. Direct investors seeking additional educational support can refer to the Leveraged website to access our library of information. For professional advisers, Leveraged welcomes enquiries to arrange special briefings at a time and venue convenient to you, so please get in touch to find out why Leveraged is number one in customer satisfaction and firmly positioned as the professional's choice. **FS**

Issued by Leveraged Equities Limited (ABN 26 051 629 282 AFSL 360118) as Lender and as a subsidiary of Bendigo and Adelaide Bank Limited (ABN 11 068 049 178 AFSL 237879). This document contains general advice only and doesn't take into account your personal objectives, financial situation, or needs. Please consider your personal circumstances, consult a professional investment provider, and read the PDS and Product Guide, available to download from www.leveraged.com.au before making an investment decision.

Watch the video on www.fsitv.com