

Investment Gearing

Gearing is the term given to borrowing money to invest. Borrowing to invest enables investors to increase potential returns by having a larger amount of capital to invest.

Initially, negative gearing can occur when the expenses associated with an investment, such as interest on the money borrowed, are greater than the income generated by the investment. This resultant loss is generally tax deductible against the investor's other income. The aim is to have the long term return from the investment, including capital growth, be greater than any short term income losses.

Gearing is an aggressive strategy and should be maintained for at least 7 years to allow the investments to generate normalised returns given fluctuating investment markets.

Borrowing in Superannuation

Under strict legislation, Superannuation Funds are permitted to borrow to acquire investments. At this stage, one of the very few vehicles allowing this type of borrowing strategy is a Self Managed Superannuation Fund (SMSF).

This type of strategy is complex and can be quite costly depending on the amount of initial capital available. Specialist advice is therefore required from a financial adviser, your accountant and legal adviser.

Wealth Accumulation	Potential for accelerated wealth creation to assist in achieving your long term goals
Capital Utilisation	Make use of investment capital in a method that you may be more comfortable with and understand
Cash Flow	By utilising superannuation capital and contributions to fund an investment loan, personal cash flow can be unaffected
Investment Choice	Allows access to assets that you might not ordinarily invest in via your superannuation

Home Equity Loan

A home equity loan allows you to borrow for investment purposes using a portion of equity in your home. The equity represents the difference between the value of the property and the amount owing on any mortgage or loan against the property.

In many instances a Line Of Credit can be established to achieve the best outcome by allowing the investor to draw capital to a specified limit progressively or as a lump sum, depending on the investment and strategy.

Wealth Accumulation	Potential for accelerated wealth creation to assist in achieving your long term goals
Tax Savings	If negatively geared, income losses can be offset against other income
Cash Flow	If positively geared, surplus cash flow can be directed to other investment opportunities
Diversification	A larger capital base can allow increased diversification across many assets

Margin Loan

A margin loan allows you to borrow for investment using cash or investments as security.

Depending on the loan to valuation ratio (LVR) for the particular investment purchased, the lender may allow borrowings up to 75% of the market value. A 'margin call' may result if the LVR rises above a certain level. This requires either a contribution of your own money or sale part of the investments in order to reduce the debt to equity value.

Wealth Accumulation	Potential for accelerated wealth creation to assist in achieving your long term goals
Tax Savings	If negatively geared, income losses can be offset against other income
Cash Flow	If positively geared, surplus cash flow can be directed to other investment opportunities
Diversification	A larger capital base can allow increased diversification across many assets

Gearing & Dollar Cost Investing

Drawing from a loan and investing on an instalment basis allows exposure to be gained to the debt and investment markets on a gradual basis.

This strategy combines gearing and regular investing:

- ✓ Gearing increases the potential return because you have a larger sum of capital invested.
- ✓ Regular investing or 'dollar cost averaging' is an investment method used to reduce risk associated with fluctuating market prices. Over a long period of time, the result is that short-term movements become less significant as investments are bought at both low and high prices.

Wealth Accumulation	Potential for accelerated wealth creation to assist in achieving your long term goals
Risk Reduction	Progressive investment allows investments to be bought at highs and lows throughout the investment cycle
Tax Savings	If negatively geared, income losses can be offset against other income
Cash Flow	If positively geared, surplus cash flow can be directed to other investment opportunities
Diversification	A larger capital base can allow increased diversification across many assets

Please contact us for specific advice on any of these topics.

Melbourne

Level 1, 1 Queens Road
Melbourne VIC 3004
T: 03 9863 9852
E: admin@lsfp.com.au

Epping

738A High Street
Epping VIC 3076
T: 03 9408 9633
E: admin@lsfp.com.au

This document is intended to provide general information only. Lifestyle Financial Partners does not aim to make any recommendation without first assessing specific investment objectives, financial situation or particular needs. Prior to making any decision, you should seek our advice. Lifestyle Financial Partners believes that the information in this document is accurate at the time of writing. Lifestyle Financial Partners accepts no responsibility for loss or damage caused by error or omission in this document.