

Strategy A

How Does it Work?

1. The bank will lend you \$100,000 (or a figure that you choose – min \$25,000) to invest in portfolio of 20 Australian stocks (listed below) or S&P500 (broad US share market).
2. Each year you will pay 9% interest which can be paid monthly.
3. Each year you will receive a 4% distribution.
4. Each year you can claim the interest paid as a tax deduction.
5. At selected windows (quarterly) during the 5.5 year term you can sell the investment or alternatively it will be sold for you at the end of the term. You are taking the view that the ASX 200 or S&P500 will rise during this period. Note the S&P500 investment will also benefit from a decline in the Australian dollar.
6. If the market does not rise or indeed falls you simply walk away from the loan as it is a no recourse loan...ie) not your problem.

Note: Indicative figures are based on \$100,000 so divide by 4 to get \$25,000 or multiply by 2 for \$200,000.

Individual Marginal Tax Rate	Year 1 Monthly Payments	Year 1 Tax Refund	Year 2 to 5 Monthly Payments	Year 2 to 5 Tax Refund	Total Term Average Monthly Cost
15%	\$1,026	\$1,260	\$471.54	\$660	\$449.39
30%	\$1,026	\$2,520	\$471.54	\$1,320	\$390.30
37%	\$1,026	\$3,108	\$471.54	\$1,628	\$362.72
45%	\$1,026	\$3,780	\$471.54	\$1,980	\$331.20

What Happens at End of Term?

Now let us assume that we stay in the investment until the end of the term. However, remember you can walk away at any time.

ASX Option

Shares include ANZ, BHP, CBA, NAB, Origin, Rio, Wesfarmers Woodside.

Let's assume that the shares go up 35% over the period and initial investment is \$100,000.

Payout = $(\text{Final Investment level} - \text{Hurdle}) \times \text{Investment Amount} \times 150\%$

Initial Investment Level

Payout = $(135 - 122) \times 150\% \times \$100,000$

100

= \$19,500 (plus \$22k in Coupons through term)

S&P 500 Option

Note the calculation is the same for the S&P500 investment however at that time you then convert back into Australian dollars. Therefore should the exchange rate decline it will be to your advantage however the opposite applies to any appreciation in the exchange rate.

Example;

So if you invest \$100k in the 5.5 year US Equity option where the S&P grows from 1356 to 1830 (35%).

At the time of placing the investment the AUD/USD was \$1.10.

1.) At maturity the AUD/USD increases from 1.10 to 1.15, the example would look like

$$\begin{aligned} \text{Payout} &= \frac{(1830 - 1356)}{1356} \times 100,000 \times \frac{1.10}{1.15} \\ &= \$12,979.35 \times 0.95652 \\ &= \$12,414.69 \text{ (plus \$22k in coupons through term)} \end{aligned}$$

2.) Conversely, if the AUD weakened to \$0.85, the calculation would look like

$$\begin{aligned} \text{Payout} &= \frac{(1830 - 1356)}{1356} \times 100,000 \times \frac{1.10}{0.85} \\ &= \$12,979.35 \times 1.29 \\ &= \$16,796.35 \text{ (plus 22k in coupons through term)} \end{aligned}$$

Please contact our office for full cash flow analysis to suit your circumstances.