This Year Strategy – Benefit From recovering Share market with Limited Downside

Throughout history the share market has always gone up over the longer term. The highest peak was in 2007 so how long until we get back there?

How Does it Work?

1. The bank will lend you $100,000 (or a figure that you choose – min $50,000) to invest in a portfolio of ASX equities (or individual stock) which you can choose or chose from a model portfolio.
2. Each month you will pay your interest making you eligible for a tax deduction this tax year.
3. You will receive any dividends and franking credits.
4. At the end of the term (can be from 1 to 5 years) if the value of the share (or any individual share if in a portfolio) is greater than the original cost you receive that amount of gain.
5. If the value of a share falls you simply walk away from the loan associated with that share with no further obligations. It is a no recourse loan...ie) not your problem.

How Much Does it Cost

The after tax cost will depend on the following factors;

- Share selected (or portfolio) as this impacts the cost of protection.
- The level of the deductible rate (Benchmark rate)
- Level of franking credits.
- Level of dividends.
- Your marginal tax rate.

However, it is possible to build a portfolio that could have an after tax cost from say 3% to 7% per annum.

Why Would You Do It?

When you have a view that a share, or a portfolio of shares, will increase over the term at a rate greater than the cost.

You cannot access any equity elsewhere to do another form of gearing strategy such as an investment property or share portfolio.

Importantly, the actual costs are known to you and should the share value drop significantly you are NOT exposed to this downward movement. However, it should be noted that if you wish to get out before the end of the term there may be a break cost involved.

Please contact our office for full cash flow analysis and some portfolio recommendations to suit your circumstances.