

# Margin Lending Conservative Case Study

*Gearing is a proven financial strategy, it's time to explore how a conservatively geared margin loan could work for you.*

If you have a conservative risk tolerance or are just new to investing, you may think borrowing to invest in the share market may not be for you. This could be due to thoughts of margin calls, acquiring debt or taking risks, but there is a way a margin loan can accommodate a cautious investor.

A margin loan is flexible and can be tailored to your investing and risk needs.

Being able to decide your gearing level to match your risk appetite is a key advantage of a margin loan. It allows you to expand your investment portfolio whilst managing your exposure to a margin call.

Margin loans can be a strategic tool to help grow your wealth over time, rather than being used for a short-term speculative play.

When thinking about your investment options, the below aspects may be helpful:

- Buying shares when they are below their long-term trends, with the prospect they will recover and grow over the coming years.
- Utilising a margin loan that is appropriately geared to your risk appetite, to gain exposure to the market and diversify your investment portfolio.
- Ensuring the margin loan is conservatively geared lowers the risk of margin calls while also providing the chance to boost returns as the market recovers. Although gearing can magnify losses in the same way.
- A conservatively geared margin loan also means there is cash available to invest in other asset classes and strengthen portfolio resilience through diversification.

While these factors may help frame your approach, it's equally important to understand the key risks associated with margin lending, as leverage can amplify both gains and losses. These risks can include:

- **Market movements:** a drop in the value of the portfolio held as collateral against your margin loan may require you to reduce your gearing level at short notice. This is known as a 'margin call' – margin calls may require the sale of assets at unfavourable prices.
- **Interest rate movements:** if interest rates rise, the overall costs of your investment may increase, potentially reducing your profits. Fixing your interest rate can help you avoid this risk.
- **Reduced lending ratios:** lending ratios for securities are reviewed regularly and may be reduced or removed at our discretion, even for securities you have purchased in the past. This may put your margin loan into buffer or into a margin call.
- **Increased losses:** a geared strategy can multiply your investment returns, but it can also increase your losses if the market declines and your investments perform poorly.

By maintaining a conservative gearing level, an investor can potentially lower their risk of a margin call and may be able to take advantage of the benefits that gearing provides plus the long-term growth of the share market.

The following example will examine how a margin loan conservatively geared at just 30% with an initial investment of \$100,000, would have performed over the last 6 years, which includes the 2020 COVID market sell off.

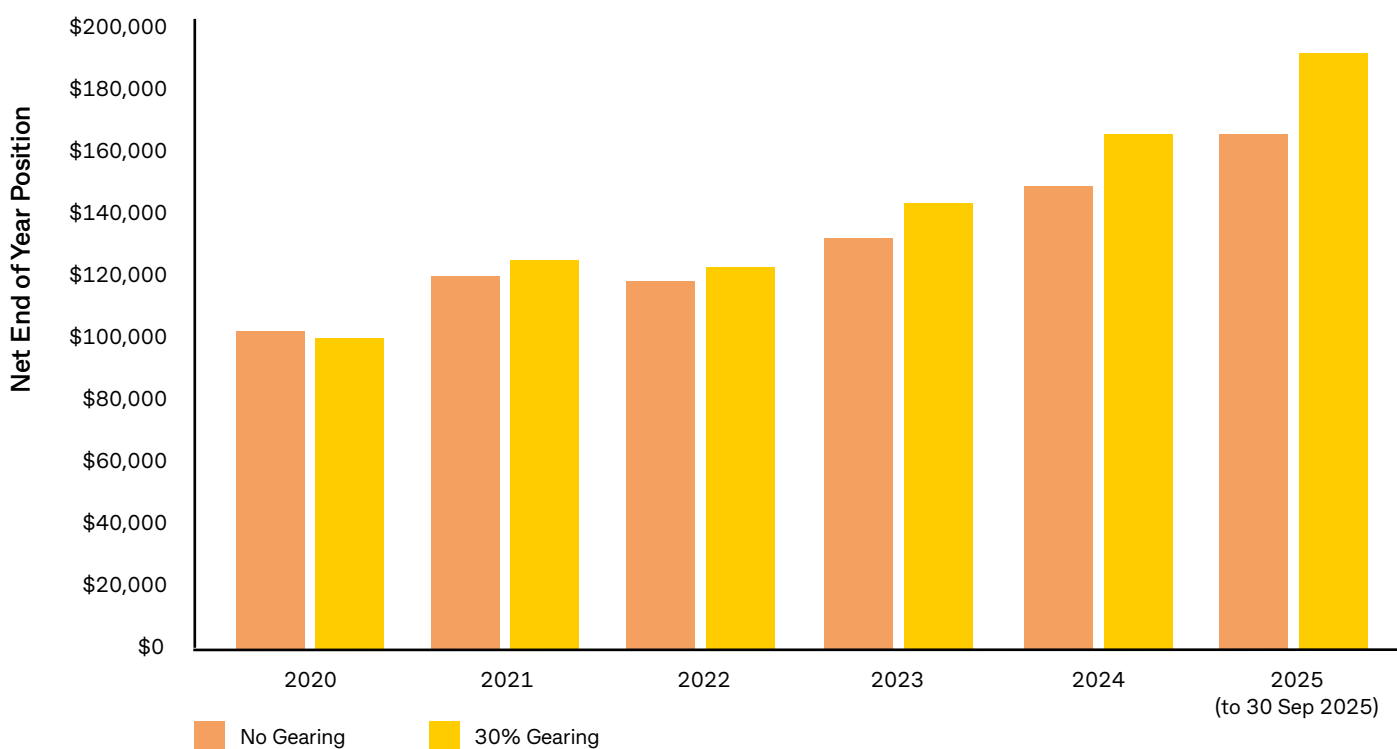
Every percentage point gain can make a sizeable difference when it comes to wealth returns. This analysis demonstrates how conservative gearing slightly outperformed investing directly over this period of 6 years.

## Assumptions

- Investment returns represent the returns received on the ASX 200. If your portfolio did not track the ASX 200 identically, actual returns will differ.
- Dividends are based on the annual average dividend yield % for each respective year and treated as being reinvested at that time. Assumed full entitlement to franking credit which is subject to the 45-day holding rule.
- Assume the investor is in the highest marginal tax bracket.
- Used the average headline variable interest rate for CommSec Margin Loan accounts for each respective year.
- Interest was not capitalised to the margin loan.
- Brokerage and other fees and charges have been excluded.
- Capital gains events have not been considered.

You should consider whether the information is suitable for you and your personal circumstances and, if necessary, seek appropriate independent financial and taxation advice.

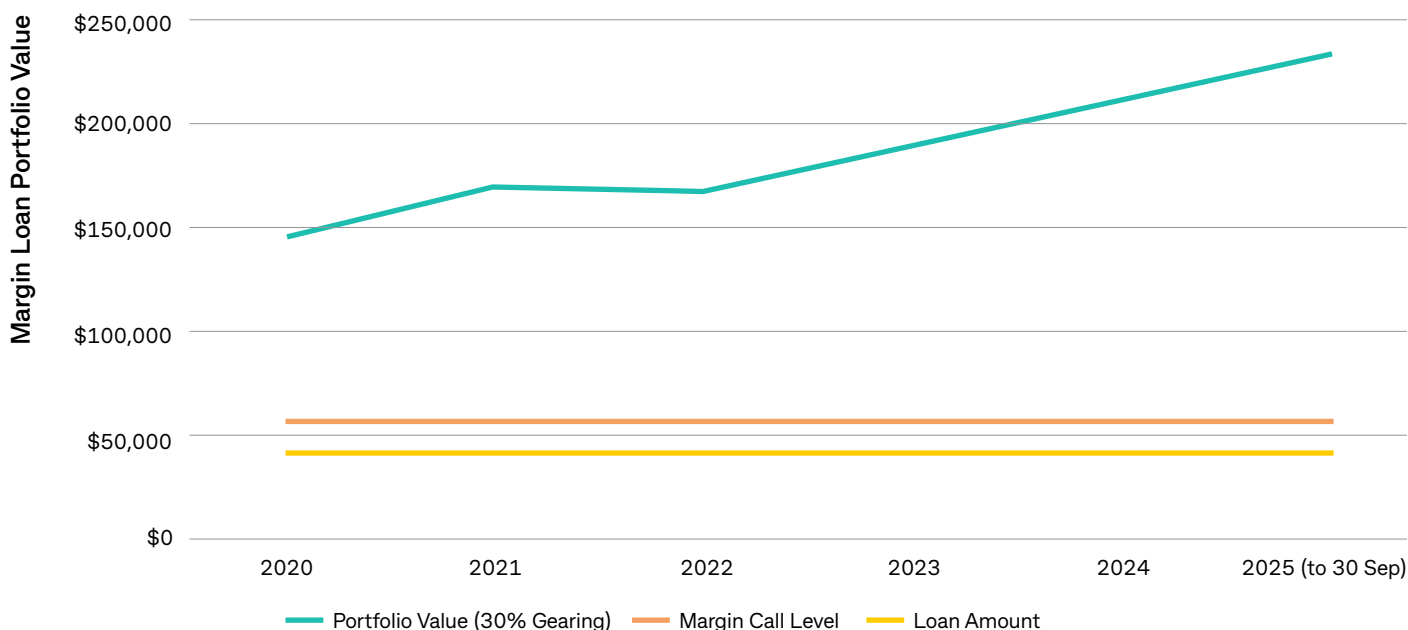
## Portfolio value change from an initial investment of \$100,000 over period 2020-2025



	2020		2021		2022		2023		2024		2025 (to 30 Sep 2025)	
	No Gearing	30% Gearing	No Gearing	30% Gearing	No Gearing	30% Gearing	No Gearing	30% Gearing	No Gearing	30% Gearing	No Gearing	30% Gearing
<b>Portfolio Value</b>	\$101,340	\$144,771	\$118,456	\$169,223	\$117,426	\$167,751	\$131,728	\$188,183	\$146,666	\$209,523	\$164,207	\$234,582
<b>Net End of Year Position</b>	\$101,340	\$99,279	\$118,456	\$124,009	\$117,426	\$121,251	\$131,728	\$141,190	\$146,666	\$162,530	\$164,207	\$188,623
<b>Return on initial investment</b>	1.34%	-0.72%	18.46%	24.01%	17.43%	21.25%	31.73%	41.19%	46.67%	62.53%	64.21%	88.62%

Please note 2025 interest pro-rated to 30 Sep.

The following analysis shows that even during the COVID market correction in 2020, the portfolio would not have had a margin call with a strong buffer before reaching one.



The analysis above is also assuming:

- The maximum LVR and buffer is 75%.
- The actual risk of margin calls for a particular portfolio may differ from that of the ASX 200 index. The maximum LVR, buffer and margin call level for any portfolio will depend on the construction of the portfolio and the lender, which may vary from time to time.
- The actual benefit or the risks derived from a margin loan will depend on the construction of the portfolio including any portfolio adjustments, whether discretionary or due to corporate actions.
- This does not indicate future investment returns or represent future lending policies or interest rates.
- Gearing can magnify gains as well as losses, and you may be returned less than your initial investment.

While all investments carry a measure of risk, with a well-constructed diversified portfolio, informed decision-making, and a conservative approach to gearing, investors can maximise their investment returns whilst appropriately managing risk.

Investors should also be mindful that past performance is not indicative of future results, and market conditions can shift unexpectedly due to economic, political, or global events. It is essential to regularly review and rebalance your portfolio to ensure alignment with your risk tolerance and financial objectives. Furthermore, the interplay between gearing levels, interest rates, and market volatility can significantly influence outcomes, highlighting the importance of ongoing diligence and prudent financial management when utilising an investment loan as part of an investment strategy.

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