

Invest regularly in Managed Funds to grow your portfolio



Rachel and Ben have decided to further diversify their investment portfolios, with the goal of growing their wealth over time. While they don't have a large lump sum available right now, they can each invest a portion of their monthly income over the next five years to work towards that goal.

Both Rachel and Ben choose a regular investment plan into the same managed fund. The difference is that Rachel invests using only her own funds, while Ben uses borrowed funds through a Margin Loan to increase his investment exposure.

Saving and investing early can make a big difference to long-term wealth. The good news is you don't need a large lump sum to get started, investing small amounts regularly is possible. With consistent contributions, even modest amounts can grow significantly over time.

A **Regular Gearing Plan (RGP)** takes this a step further by combining regular investing with the potential benefits of gearing. It is a structured, automated strategy that allows investors to invest consistently into managed funds using both personal contributions and borrowed funds. Losses can exceed your initial capital. Borrowing to invest magnifies both gains and losses, and investors may be required to repay the full loan even if the investment falls in value. Let's look at how it works.

Scenario

Rachel and Ben invest in the same managed fund over five years but use different approaches.

Rachel follows a traditional regular savings approach, relying solely on her own contributions. Ben uses a Regular Gearing Plan, combining his own contributions with borrowed funds, both upfront and through ongoing monthly loan drawdowns to increase his investment exposure.

The strategy:

- **Rachel (Regular Savings Plan):**
Invests \$50,000 of her own money initially and contributes \$2,500 per month from her own funds. She does not use a margin loan or a Regular Gearing Plan.
- **Ben (Regular Gearing Plan using a Margin Loan):**
Invests \$50,000 of his own money and borrows an additional \$50,000 at the outset. He then contributes \$2,500 per month from his own funds and borrows a further \$2,500 per month via his RGP.

The result:

After five years, Rachel's investment grew to \$274,277, resulting in an unrealised profit of \$74,277.

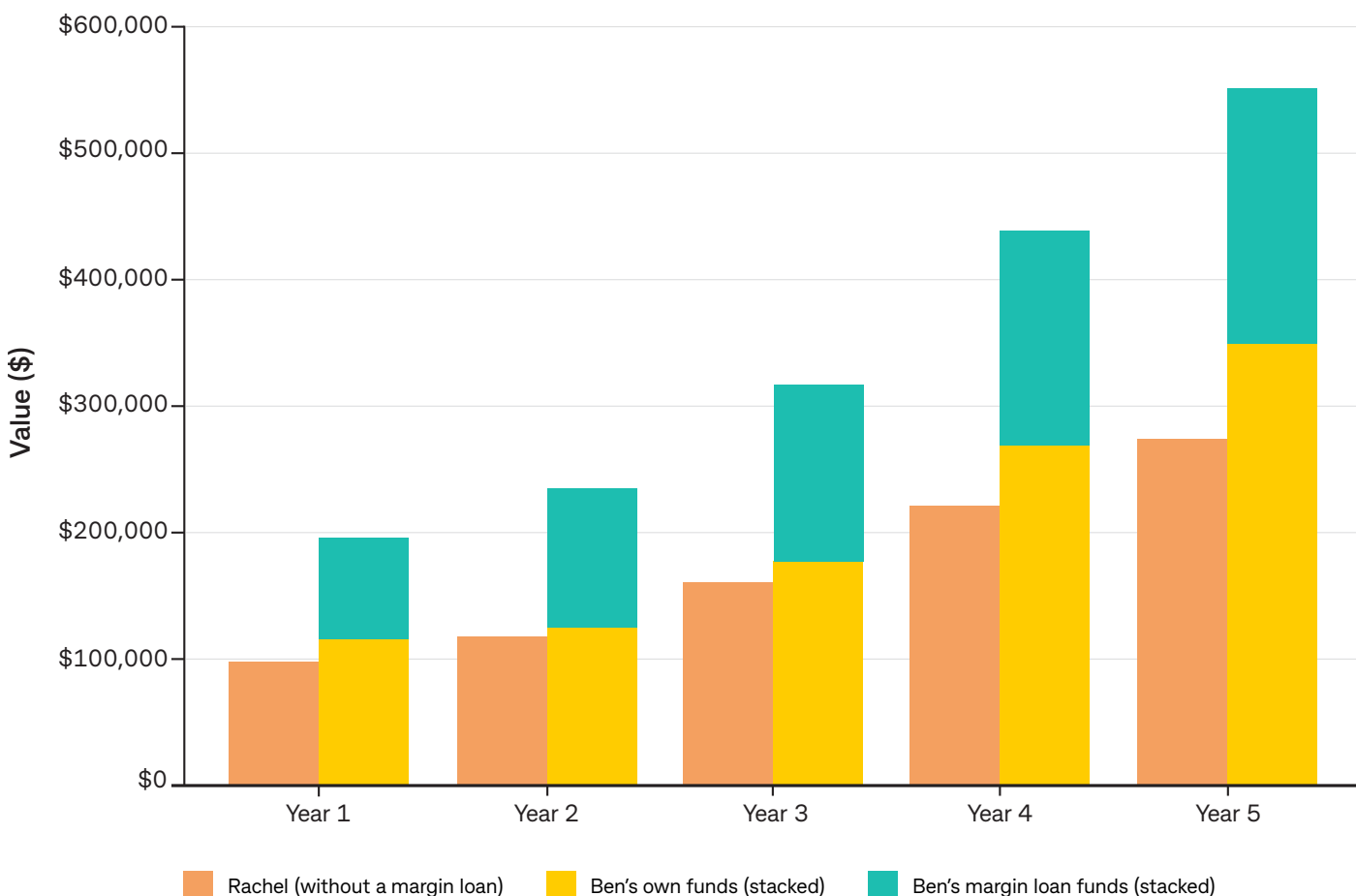
Over the same period, Ben's geared investment reached \$548,555. After repaying his loan balance and interest costs, his unrealised profit was \$92,118, around 24% higher than Rachel's.

This illustrates how a Regular Gearing Plan can potentially amplify long-term investment growth. Outcomes are highly dependent on market conditions and the assumptions used. In less favourable markets, gearing can significantly reduce returns or result in losses that are greater than those experienced under an ungeared strategy.

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	Rachel	Ben
Initial personal contribution	\$50,000	\$50,000
Initial margin loan contribution	-	\$50,000
Monthly personal contribution	\$2,500	\$2,500
Monthly regular gearing contributions	-	\$2,500
Value of investment at end of Year 5	\$274,277	\$548,555
Loan balance	-	\$200,000
Interest paid	-	\$56,437
Total personal contribution	\$200,000	\$200,000
Unrealised profit at end of Year 5	\$74,277	\$92,118
Return	37.1%	46.1%

Comparing Rachel's and Ben's Investment Performance*



This graph compares the growth in Ben's investment value (net of interest costs) using a margin loan against the growth in Rachel's investment value without a margin loan over a five-year period.

By the end of Year 5, Ben's investment is worth almost twice as much as Rachel's and delivers an unrealised profit around 24% higher than Rachel's ungeared strategy. In this scenario, Ben has an unrealised profit of \$92,118 compared with Rachel's \$74,277.

*Assumptions:

- This example above is hypothetical and for illustrative purposes only. Outcomes are highly sensitive to the assumptions used and relatively small changes in assumptions can materially affect results, particularly when borrowing to invest. Actual results may vary significantly.
- The managed fund used in this example is hypothetical but modelled on a real managed fund available for investment in Australia, based on its price and distribution behaviour over a five-year period. This historical information is used solely to illustrate how the strategy may operate under different conditions and does not indicate or guarantee future performance.
- Distributions were assumed to be reinvested.
- Investor must continue to meet margin loan interest payments and any margin obligations regardless of market performance or investment income level. In adverse market conditions, this may create cash flow pressure or increase the risk of margin calls.
- Interest was estimated using a variable rate between 5.50% p.a. and 9.65% p.a., assuming accrued interest was paid by direct debit at the end of the month. Actual interest rates may differ materially from those modelled, and higher interest rates would increase borrowing costs and negatively impact outcomes.
- Unrealised profits were calculated by deducting total personal contribution and for the geared strategy accumulated interest costs and the outstanding loan balances.
- Taxation benefits or implications were not considered.
- This information does not represent actual performance and should not be interpreted as an indication or guarantee of future performance level. In adverse market conditions, this may create cash flow pressure or increase the risk of margin calls.

Impacts of market condition on ungeared vs geared investments

Market movements can significantly influence investment outcomes, with gearing amplifying both gains and risks. The following scenarios illustrate how Ben (geared) and Rachel (ungeared) fared when a market event occurred in Year 5.

Base case

- Rachel: In a steady market, her portfolio ends at \$274,277, representing a total gain of 37%.
- Ben: His portfolio finishes at \$548,555, delivering a total gain of 46% after repaying the loan and interest.
- Results are driven by regular contributions and reinvested distributions. Gearing provides a moderate uplift once borrowing costs are considered.

Upturn (+10%)

- Rachel: Her portfolio grows to \$292,449, producing an unrealised profit of approximately \$92,449 (46%).
- Ben: His geared portfolio increases to \$584,898, achieving an unrealised profit of around \$128,461 (64%) after repaying his loan and interest.
- The rally benefits both investors but gearing magnifies the benefit. Ben's overall return is roughly 24% higher than Rachel's.

Downturn (-10%)

- Rachel: A market decline reduces her portfolio to \$255,786, representing a total gain of 28%. Compared to the base case (\$274,277), this is a fall of about \$18,500.
- Ben: His geared portfolio falls to \$511,572, yielding a total gain of ~28% after repaying the loan and interest. Compared to the base case (\$548,555), this is a decline of about \$37,000.
- The downturn highlights that while gearing can enhance returns in rising markets, it also amplifies losses. Ben's geared portfolio fell by approximately twice as much in dollar terms as Rachel's, highlighting how leverage magnifies both gains and declines.

These scenarios demonstrate that while gearing can enhance returns during market rallies, it also increases exposure to losses in downturns. Larger or prolonged market downturns could result in outcomes materially worse than those illustrated, including but not limited to investment loss and an increased risk of margin calls. Investors who borrow to invest should ensure they can comfortably manage interest costs and loan obligations through periods of market volatility.

Risks to consider

Gearing helped Ben achieve higher overall returns, but it also increased his exposure to market movements. Understanding both the potential benefits and risks is key to deciding whether a Regular Gearing Plan suits your goals and risk tolerance. Risks may include:

- If there is a large reduction in market values (including managed fund unit prices), a geared portfolio may be more exposed to losses due to leverage.
- In the event of a market downturn, the portfolio value may fall below the required loan-to-value ratio (LVR). This could trigger a margin call, requiring the investor to contribute additional funds or securities, often at short notice. If a margin call is not met within the required timeframe, the lender may sell some or all of the investor's assets, without the investor's consent to restore the required LVR.
- If interest rates rise, the cost of borrowing increases.
- Market fluctuations or changes in distribution levels may reduce investment income, which can affect the ability to service loan costs and maintain margin requirements. In such circumstances, investors may need to access cash or sell other assets at potential unfavourable prices.

Ways to help manage these risks

Investors can manage these risks by taking steps such as:

- Crediting distributions or other investment income back into the loan account to help manage the loan balance and reduce the likelihood of a margin call.

- Paying interest costs (rather than capitalising them) to help manage the total cost of borrowing.
- Borrowing less than the maximum available to maintain a buffer against market volatility and reduce margin call risk.
- Monitoring portfolio performance and the margin position regularly to identify potential issues early and make timely adjustments.

Who is suitable for a CommSec Margin Loan?

A CommSec Margin Loan may be suitable for investors with a higher risk appetite who understand the risks of gearing and can absorb potential losses. It is generally appropriate for investors with stable and sufficient income to meet ongoing loan and margin obligations, access to additional capital if required and a long-term investment horizon. Gearing is not suitable for all investors and may magnify losses in adverse market conditions.

Why choose a CommSec Margin Loan?

- Dedicated support team with extensive experience in investment lending
- No establishment fee, account-keeping fees, or inactivity fees
- Easy to open with a credit limit starting from \$20,000
- Competitive interest rates
- No fixed loan term, minimum balance, or mandatory monthly repayments—providing flexibility to manage your investment strategy
- Wide range of lendable securities, with higher LVRs and bonus stocks available to diversified portfolios
- Integrated margin lending and options trading

CommSec Margin Loans are issued by Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945. This product is administered by Commonwealth Securities Limited ABN 60 067 254 399 AFSL 238814 (CommSec), a wholly owned but non-guaranteed subsidiary of the Commonwealth Bank of Australia. CommSec is a Market Participant of ASX Limited and Cboe Australia Pty Limited, a Clearing Participant of ASX Clear Pty Limited and a Settlement Participant of ASX Settlement Pty Limited. Applications for CommSec Margin Loans are subject to approval. Fees and charges apply.

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For all enquiries, contact us by telephone on **13 15 19** (8am–6pm Sydney time) or email marginloan@commsec.com.au.