

# CASE STUDY 4

## USING A COMMSEC MARGIN LOAN TO MAXIMISE DIVIDEND YIELD



Jenny and Lee are managing their own wealth creation and have diversified their investments into several areas including Property, Australian Equities, and Fixed Interest. Both have set aside \$15,000 to invest into Australian Equities, and their strategy is to buy and sell shares that pay a high dividends in order to take advantage of not only favourable share price movements, but also dividend income and franking credits. Both Jenny and Lee decide to invest in the same securities, however the difference in their investment strategies is that Jenny simply uses her own funds to invest, while Lee uses borrowed funds in addition to his own capital and does so through a CommSec Margin Loan.

Risk Disclosure: Remember, whilst borrowing to invest can multiply your investment returns, it may also multiply your losses if the value of your investment falls. Only investors who fully understand the risks associated with margin loans should consider these products.

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WHETHER YOU'RE JUST STARTING OUT AS AN INVESTOR, OR HAVE BEEN REGULARLY INVESTING USING YOUR OWN CAPITAL, IT OFTEN SEEMS LIKE IT WILL TAKE A LONG TIME OR LARGE SHARE PRICE MOVEMENTS TO MAXIMISE YOUR RETURNS. WITH A COMMSEC MARGIN LOAN, YOU CAN INVEST MORE NOW RATHER THAN LATER, AND MULTIPLY YOUR POTENTIAL RETURNS. A MARGIN LOAN CAN BE A TAX EFFECTIVE INVESTMENT TOOL THAT CAN HELP YOU DIVERSIFY AND GROW YOUR INVESTMENTS. HERE IS AN EXAMPLE.

### THE CHALLENGE

Jenny & Lee both decided to invest into 5 stocks that their research identified as having a high and consistent historical dividend yield, as well as growth potential in the medium term, for a period of 6 months. At the end of the 6 month period, Jenny and Lee could reassess the future growth performance of their investments whilst receiving two lots of dividends and the associated franking credits. While Jenny simply traded with the \$15,000 she had saved, Lee decided to increase the size of his investments using a CommSec Margin Loan.

### THE STRATEGY

Jenny invests her \$15,000 evenly across the 5 stocks she purchases. Lee also invests evenly into 5 stocks, however, in addition to investing \$15,000 of his own money, Lee uses a CommSec Margin Loan to borrow an extra \$15,000 (resulting in a gearing ratio of 50%), making his total investment amount \$30,000.

### THE RESULT

Jenny & Lee invested in 5 parcels of securities, at the same price, and at the same time. After 6 months both Jenny & Lee decided to sell their share investments to reweigh their portfolio.

After all buys & sells were completed and dividends paid, Jenny realised a profit of 1,869 (or 12.46% on her original \$15,000 investment), and received franking credits from the two dividend payments that were issued for her \$15,000 worth of shares. Over the same period, Lee had realised a profit of 2,430 (16.20% on his original investment) after all buys and sells were completed, dividends paid, interest expense deducted, and received franking credits from the two dividend payments that were issued for his \$30,000 worth of shares. Exclusive of any benefits received from the difference in franking credits received, by using a Margin Loan Lee's strategy generated a return 30% greater than that of Jenny's ungeared investment.\*

Note: Franking Credits represent the tax paid by the company at its company tax rate, which are generally credited back to the shareholder so that they can pay tax on the dividends earned at their individual tax rate.

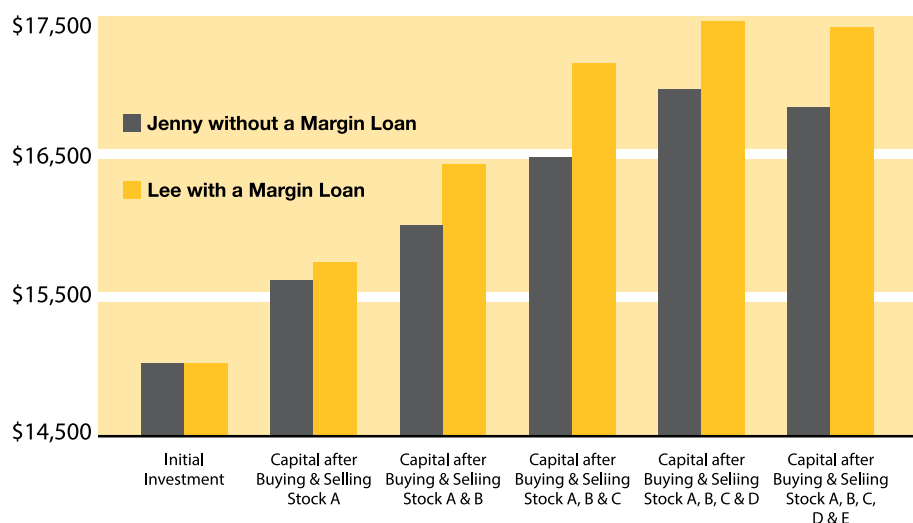
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The following table compares the performance of Lee's portfolio using a Margin Loan against the performance of Jenny's portfolio without a Margin Loan over a 6 month term.

Jenny without a Margin Loan													
Stock Traded	Units Purchased	Purchase Price	Purchase Costs	Days Held	Sale Price	Sale Proceeds	Trade Profit / Loss	Dividends Received	Gross Profit	Transaction Expenses	Interest	Net Profit	Return on Investment
A	59	\$49.68	\$2,931	185	\$55.80	\$3,292	\$361	\$197	\$558	\$40	n/a	\$518	17%
B	873	\$3.41	\$2,977	185	\$3.71	\$3,239	\$262	\$244	\$506	\$40	n/a	\$466	16%
C	131	\$22.72	\$2,976	182	\$25.17	\$3,297	\$321	\$217	\$538	\$40	n/a	\$499	17%
D	128	\$23.12	\$2,959	183	\$24.37	\$3,119	\$160	\$186	\$346	\$40	n/a	\$306	10%
E	124	\$23.82	\$2,954	163	\$23.81	\$2,952	-\$1	\$141	\$140	\$60	n/a	\$80	3%
							\$1,103	\$986	\$2,089	\$220		\$1,869	12.46%

Lee with a Margin Loan													
Stock Traded	Units Purchased	Purchase Price	Purchase Costs	Days Held	Sale Price	Sale Proceeds	Trade Profit / Loss	Dividends Received	Gross Profit	Transaction Expenses	Interest	Net Profit	Return on Investment
A	120	\$49.68	\$5,962	185	\$55.80	\$6,696	\$734	\$401	\$1,135	\$60	\$304	\$771	26%
B	1750	\$3.41	\$5,968	185	\$3.71	\$6,493	\$525	\$490	\$1,015	\$60	\$304	\$651	22%
C	262	\$22.72	\$5,953	182	\$25.17	\$6,595	\$642	\$435	\$1,077	\$60	\$299	\$718	24%
D	258	\$23.12	\$5,965	183	\$24.37	\$6,287	\$323	\$374	\$697	\$60	\$301	\$336	11%
E	250	\$23.82	\$5,955	163	\$23.81	\$5,953	-\$3	\$285	\$283	\$60	\$268	-\$45	-1%
							\$2,221	\$1,985	\$4,206	\$300	\$1,476	\$2,430	16.20%

Comparing Jenny's and Lee's Investment Returns\*



\*Assumptions: This example is hypothetical and for illustrative purposes only, actual results may vary significantly. Although the shares chosen for this example are hypothetical, this case study has been modelled on five real stocks trading on the ASX using their price and dividend behaviour over a six month period. Margin Loan Interest has been calculated using a figure of 10% p.a, and has been charged on the balance for each day it is drawn. Realised profit/loss has been calculated by deducting the purchase price (quantity \* unit price) from the sale price (quantity \* units). Net profit/loss deducts brokerage, interest and transaction expenses from realised profit and loss. Taxation benefits and implications including capital gains tax and franking credits have not been taken into account in any calculations. Neither Commonwealth Bank nor CommSec specifically recommend the stock or strategies used in this example. The information should not be taken to represent actual performance and should not be interpreted as an indication or guarantee of future performance.

This graph compares the growth in Lee's investment capital using a Margin Loan against Jenny's growth in investment capital without a Margin Loan.

At the end of the 6 month period you can see Lee's investment capital after trade profits/losses, brokerage, dividends received and interest expense has grown from \$15,000 to \$17,430 using a CommSec Margin Loan - outperforming Jenny's growth of investment capital (after trade profits/losses, dividends received and brokerage expense) from \$15,000 to \$16,869. By using a CommSec Margin Loan to invest in more securities, Lee has increased his exposure to price movements, dividends received, and franking credits delivering a profit 30% higher than the profit from Jenny's ungeared investment - not including any potential received from the additional franking credits.

### WHY CHOOSE A COMMSEC MARGIN LOAN?

- ✓ Experience in investment lending since 1995
- ✓ No ongoing fees and free to open for most applicant types
- ✓ Competitive Interest Rates
- ✓ Industry Leading Integrated Trading & Lending Platform, plus mobile & tablet apps
- ✓ Automated notifications, Online Self Service functionality, & SMART™ Risk Management Tools

- ✓ Large range of lendable securities
- ✓ Experienced account managers available to assist you 12 hours a day

For all enquiries contact us by telephone on **13 17 09** (8am-6pm Sydney time) or by emailing [marginloan@commsec.com.au](mailto:marginloan@commsec.com.au)