

# CASE STUDY 5

## TRADING WITH A COMMSEC MARGIN LOAN



Jeff & Christine are familiar with trading Australian Equities and have recently subscribed to a new research package which provides them with regular recommendations. Both have set aside \$30,000 to trade with, and their strategy is to regularly buy & sell based on both the recommendations provided and their own research to try and capitalise on short term price movements. Both Jeff and Christine decide to trade the same securities. The difference in their investment strategies is that Jeff simply uses his own funds to trade with, while Christine uses borrowed funds in addition to her 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.

This example is for illustrative purposes only. The names and identifying features do not reflect any particular person or real outcomes. CommSec Margin Lending facilities are provided by Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945 (the Bank) and administered by its wholly owned but non-guaranteed subsidiary Commonwealth Securities Limited ABN 60 067 254 399 AFSL 238814 (CommSec). This information is not advice and has been prepared without taking account of your objectives, financial and taxation situation or needs. For this reason you should, before acting on this information, consider the appropriateness of the information having regard to your objectives, financial and taxation situation and needs and, if necessary, seek appropriate professional advice. Information on taxation is based on the continuation of current laws and their interpretation. No warranty or guarantee is given by the Bank or its subsidiaries for the repayment of capital invested or the performance or payment of income with respect to any financial product. Applications are subject to the Bank's credit approval. Fees and charges apply. Full terms and conditions are available on application. Please consider the Product Disclosure Statement available from [commsec.com.au](http://commsec.com.au) before making any decisions about the CommSec Margin Loan. Past performance is not an indicator of future performance.

WHETHER YOU'RE JUST STARTING OUT AS A TRADER, OR HAVE BEEN REGULARLY TRADING USING YOUR OWN CAPITAL, IT OFTEN SEEMS LIKE IT WILL TAKE MANY TRADES, OR SIGNIFICANT PRICE MOVEMENTS TO MAXIMISE YOUR RETURNS. WITH A COMMSEC MARGIN LOAN, YOU CAN ACCESS ADDITIONAL CAPITAL TO TRADE MORE NOW RATHER THAN LATER AND THEREFORE MULTIPLY YOUR POTENTIAL RETURNS. A MARGIN LOAN CAN ALSO HELP YOU FURTHER DIVERSIFY YOUR INVESTMENTS, TAKE ADVANTAGE OF OPPORTUNITIES AS THEY ARISE WITHOUT NEEDING TO SELL YOUR EXISTING HOLDINGS, AS WELL AS POTENTIALLY ACCESS ADDITIONAL TAX DEDUCTIONS - DEPENDING ON YOUR CIRCUMSTANCES. HERE IS AN EXAMPLE.

### THE CHALLENGE

Jeff and Christine are experienced traders. Each has \$30,000 to trade with, and they are looking to use both their own and professional research to identify and profit from trading opportunities.

### THE STRATEGY

At the beginning of a five-week period, Jeff and Christine both decided to trade a different security each week, and review their performance at the end of the period. While Jeff simply traded with the \$30,000 he had set aside, Christine decided to increase the size of her trades using a CommSec Margin Loan. In addition to her own \$30,000, Christine borrowed an extra \$30,000 (resulting in a gearing ratio of 50%), increasing her total capital available for trading to \$60,000.

### THE RESULT

Over the five weeks, Jeff and Christine each bought and sold 5 parcels of securities, at the same price, and at the same time - never holding their securities over a weekend. Whilst not all trades were profitable, Jeff's net result was an overall profit of \$2,800 after transaction costs (or 9.33% on his original \$30,000 of trading capital).

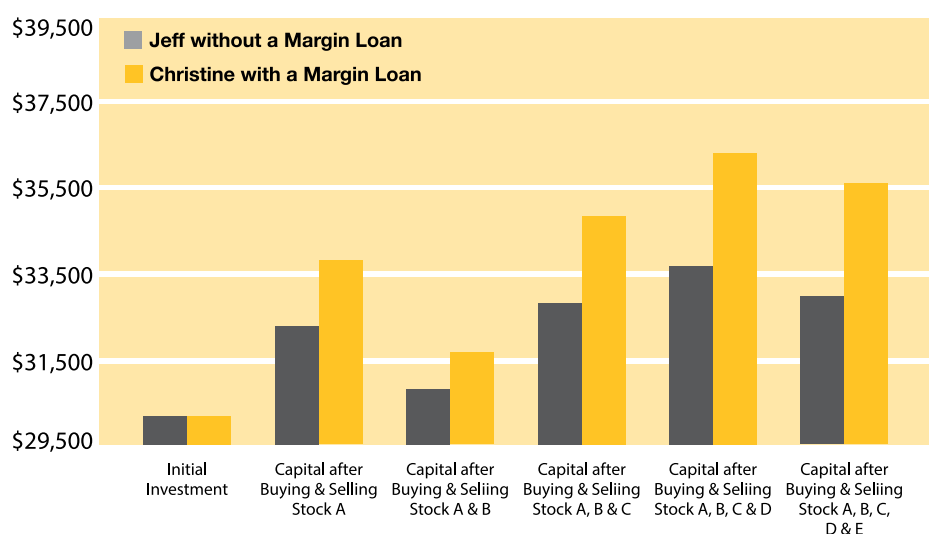
Over the same period, Christine's trading also resulted in an overall profit; however, as her trades were larger in value, the overall profit was \$5,500. As Christine incurred interest expense of \$263 for the days when she borrowed from her CommSec Margin Loan, her net profit came to \$5,236 (or 17.45% on her original \$30,000 of trading capital). By using a CommSec Margin Loan, Christine generated returns that were nearly twice as large as those generated by Jeff without a Margin Loan.\*

## CASE STUDY 5 - TRADING WITH A COMMSEC MARGIN LOAN

Jeff without a Margin Loan												
Stock Traded	Units Purchased	Purchase Price	Purchase Cost	Days Held	Sale Price	Sale Proceeds	Trade Profit/Loss	Transaction Expenses	Interest	Net Profit/Loss	Return on Investment	Running Portfolio
												\$30,000
A	2743	\$10.92	\$29,954	2	\$11.57	\$31,737	\$1,783	\$74	n/a	\$1,709	5.71%	\$31,709
B	790	\$37.92	\$29,957	4	\$36.68	\$28,977	-\$980	\$71	n/a	-\$1,050	-3.51%	\$30,658
C	1371	\$21.85	\$29,956	4	\$23.00	\$31,533	\$1,577	\$74	n/a	\$1,503	5.02%	\$32,161
D	1130	\$26.51	\$29,956	4	\$27.55	\$31,132	\$1,175	\$73	n/a	\$1,102	3.68%	\$33,263
E	833	\$35.94	\$29,938	2	\$35.47	\$29,547	-\$392	\$71	n/a	-\$463	-1.55%	\$32,800
<b>TOTAL:</b>							\$3,163.69	\$364		\$2,800.18	9.33%	

Christine with a Margin Loan												
Stock Traded	Units Purchased	Purchase Price	Purchase Cost	Days Held	Sale Price	Sale Proceeds	Trade Profit/Loss	Transaction Expenses	Interest	Net Profit/Loss	Return on Investment	Running Portfolio
												\$30,000
A	5486	\$10.92	\$59,907	2	\$11.57	\$63,473	\$3,566	\$168	\$32.92	\$3,365	5.62%	\$33,365
B	1580	\$37.92	\$59,914	4	\$36.68	\$57,954	-\$1,959	\$162	\$65.84	-\$2,187	-3.65%	\$31,178
C	2742	\$21.85	\$59,913	4	\$23.00	\$63,066	\$3,153	\$168	\$65.84	\$2,920	4.87%	\$34,098
D	2260	\$26.51	\$59,913	4	\$27.55	\$62,263	\$2,350	\$167	\$65.84	\$2,118	3.53%	\$36,216
E	1667	\$35.94	\$59,912	2	\$35.47	\$59,128	-\$783	\$163	\$32.92	-\$979	-1.63%	\$35,236
<b>TOTAL:</b>							\$6,326.91	\$827	\$263.35	\$5,236	17.45%	

Comparing Jeff's and Christine's Trading Performance\*



\*Assumptions: This example is hypothetical and for illustrative purposes only, actual results may vary significantly. The information contained in this document is expressed as a hypothetical scenario although is modelled on real stocks trading on the ASX. 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 & transaction expenses from realised profit & loss. Taxation and franking credits have not been taken into account in any calculations. Neither Commonwealth Bank nor CommSec specifically recommend the stock 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 Christine's performance using a Margin Loan against Jeff's trades without a Margin Loan. At the end of the five-week trading period, Christine's assets after trading profits and losses, brokerage and interest expense, have grown from \$30,000 to \$35,236. In comparison, Jeff's assets after trading profits and losses and brokerage expense, increased from \$30,000 to \$32,800.

As a short term trader, Christine understands that increasing her exposure to price movements using a Margin Loan would magnify her losses if the value of her investments decline. However, as most trades were profitable, Christine's strategy delivered a return almost twice as large as Jeff's - who was trading without a Margin Loan.

### 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)