

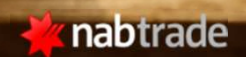
NABTRADE WEBINAR

BORROWING TO INVEST

VISHAL TECKCHANDANI – MODERATOR

23 NOVEMBER 2017

Information in this presentation is current as at 23 November 2017



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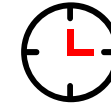
AGENDA



NOEL WHITTAKER – FINANCE COMMENTATOR & ADJUNCT PROFESSOR, QUT

Key discussion points:

- Challenges to building wealth in today's economic climate
- Why borrowing to invest makes sense and how to do it effectively
- Pros and cons of property and shares



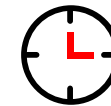
15 minutes



NERIDA CONISBEE – CHIEF ECONOMIST, REA GROUP

Key discussion points:

- How to select a good investment property
- Considerations when obtaining a property loan
- The property market outlook



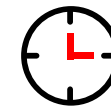
15 minutes



CRAIG SAUNDERS – HEAD OF SALES, NAB EQUITY LENDING

Key discussion points:

- How borrowing to invest in shares works
- Case study on investing in shares to build a property deposit
- Principles of successful gearing including managing risks



15 minutes



VISHAL TECKCHANDANI – CUSTOMER INSIGHTS MANAGER, NABTRADE

Q&A



25 minutes

Don't forget, you can submit questions at any time

BUILDING WEALTH THROUGH BORROWING

NOEL WHITTAKER

**FINANCE COMMENTATOR AND ADJUNCT PROFESSOR,
QUEENSLAND UNIVERSITY OF TECHNOLOGY**

23 NOVEMBER 2017 | NABTRADE BORROWING TO INVEST WEBINAR



IMPORTANT INFORMATION

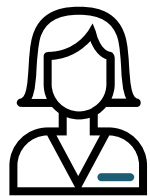
Noel Whittaker is a finance commentator and Adjunct Professor at the Queensland University of Technology. This information has been provided by Noel Whittaker Holdings Pty Ltd (ABN 42 383 832 084) for WealthHub Securities. Whilst all reasonable care has been taken by WealthHub Securities in reviewing this material, this content does not represent the view or opinions of WealthHub Securities.

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THESE ARE CHALLENGING TIMES

A long life awaits you...

Average life expectancy



84.6

Women



80.4

Men

Source: ABS (Life Tables, States, Territories and Australia, 2014-2016)

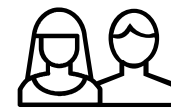
But it's costly...

For a comfortable life at age 65, you need:



Singles

\$43,695 p.a



Couples

\$60,063 p.a

Source: ASFA Retirement Standard (June quarter 2017, national)

And the government is
feeling less generous...

Concessional cap reduction over time

10 years ago

\$100,000

for over 50s

Today!

\$25,000

for all ages

Source: Australian Taxation Office website

Because they have too much debt!

Government debt



\$20

trillion (USD)



\$12.5

trillion (EUR)



\$325

billion (AUD)

Sources: Federal Reserve Bank of St. Louis, Eurostat and The Commonwealth of Australia

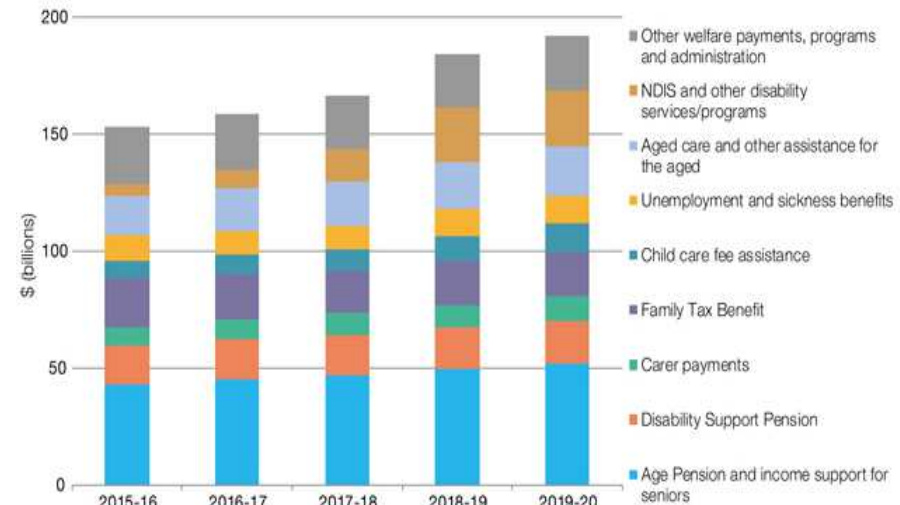
NOEL WHITTAKER

BENEFITS ARE BEING TIGHTENED

Recent changes to super and pensions...

- Reduced concessional (pre-tax) contributions cap to \$25,000pa
- Reduced non-concessional (after tax) contributions cap to \$100,000pa
- Reduced threshold for increased super contributions tax (\$300k to \$250k)
- Removing the tax free status of transition to retirement pensions
- Stricter Age Pension assets test

Estimated Australian Government expenses on social security and welfare



Source: Australian Government, Budget strategy and outlook: budget paper no. 1: 2016–17, pp. 5-25-5-29

Example

If you were earning **\$275,000** a year and contributed **\$25,000** to super, you'd end up with **\$17,500** after-tax



Expect pension payments to be tightened further!

WHY CONSIDER BORROWING TO INVEST?



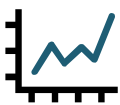
Can help you create more wealth than a non-leveraged strategy



You contribute a much larger amount on day one and the whole amount can grow over your full investment horizon (e.g. 15 years)



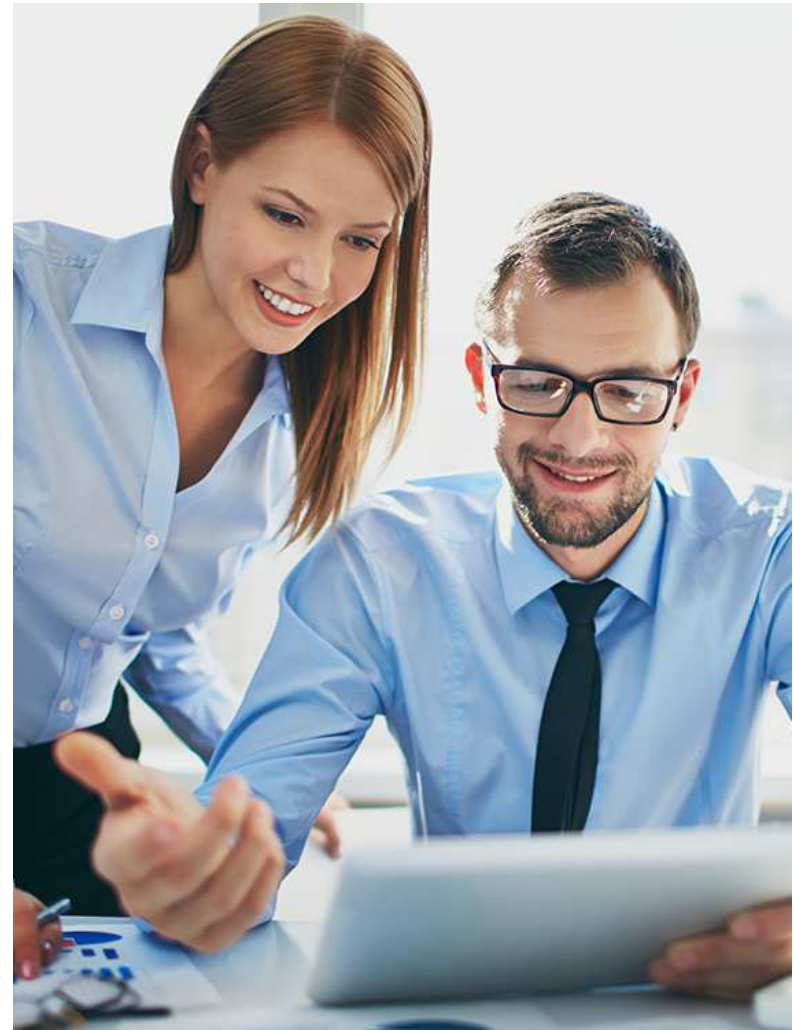
With shares in particular, you can make larger regular investments than if you did not borrow



The effect of compound returns is much stronger, which can result in better investment results long term



Borrowing is not without its risks!



FINANCIAL WINNERS AND LOSERS



Financial winners use good debt to:

Borrow at low rates

Buy assets to produce income and capital growth

Plus they get potential tax benefits!



Financial losers use bad debt to:

Borrow at high rates

Buy things they don't need or can't afford

And they get no tax breaks!

**Good debt can
be categorised as:**

Deductible debt
(interest is tax deductible)

Non-deductible debt
(interest is not tax deductible)

PROPERTY AND SHARES - PROS AND CONS

Pros

- Physical asset
- Income from rent
- Potential capital growth
- Access to equity
- Generally less volatile than shares
- Option to make enhancements (renovate)
- Potential tax deductions



Property

Cons

- High entry/exit costs
- High management fees
- Illiquid
- Interest rate risk
- Recurring expenses on top of interest
- Potential for large capital works
- Tenant vacancy

Pros

- Low entry/exit costs and requirements
- Income from dividends (plus franking credits)
- Potential capital growth
- Generally liquid
- Can diversify easily
- Potential tax deductions



Shares

Cons

- Volatile
- Stock prices can go to zero
- Interest rate risk (if borrowing to invest)
- LVR risk (if borrowing to invest)
- Currency risks on international shares
- Dividends can be cut or eliminated
- Challenging to pick individual shares

THOUGHTS ON BORROWING FOR SHARES



MARGIN LOANS

Quick and flexible access

Invest without selling assets

Risk of margin calls

NO “MARGIN CALL” LOAN

Restricted to diversified managed funds

Can be structured as a P&I payment, like a home loan

Eliminate the risks of margin calls (e.g. NAB Equity Builder)

TIPS ON BORROWING FOR PROPERTY



MAXIMISE
deductible debt



MINIMISE
non-deductible debt

LASTLY, MY KEY COMMANDMENTS ON WEALTH



Borrowing for investment is a great strategy because it puts assets at work for you early in your life. But keep in mind that it speeds up whatever is going to happen – wealth or poverty



Remember that financial winners borrow for investments that grow in value – the battlers borrow for consumer items that depreciate



Use the magic of compounding



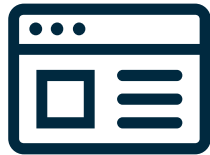
Make sure you set goals – they are the essential ingredient in your success



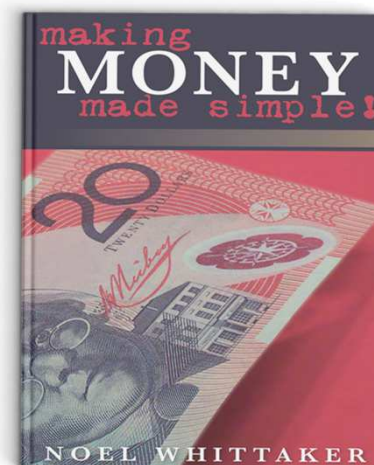
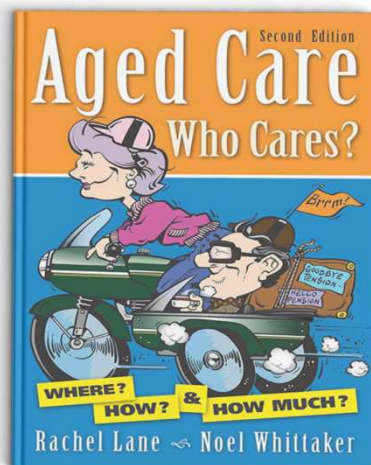
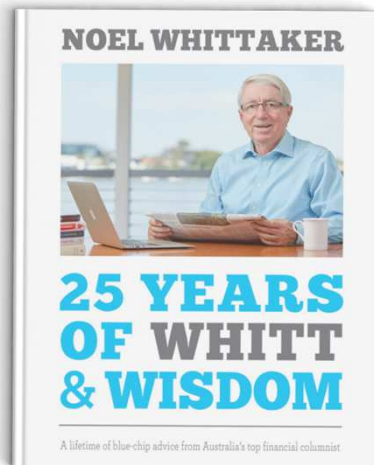
Never stop learning



THANK YOU



Visit my website for more wealth tips and resources including my books: www.noelwhittaker.com.au





Investing in Property

Nerida Conisbee
Chief Economist

nabtrade borrowing to invest webinar
23 November 2017



realestate.com.au

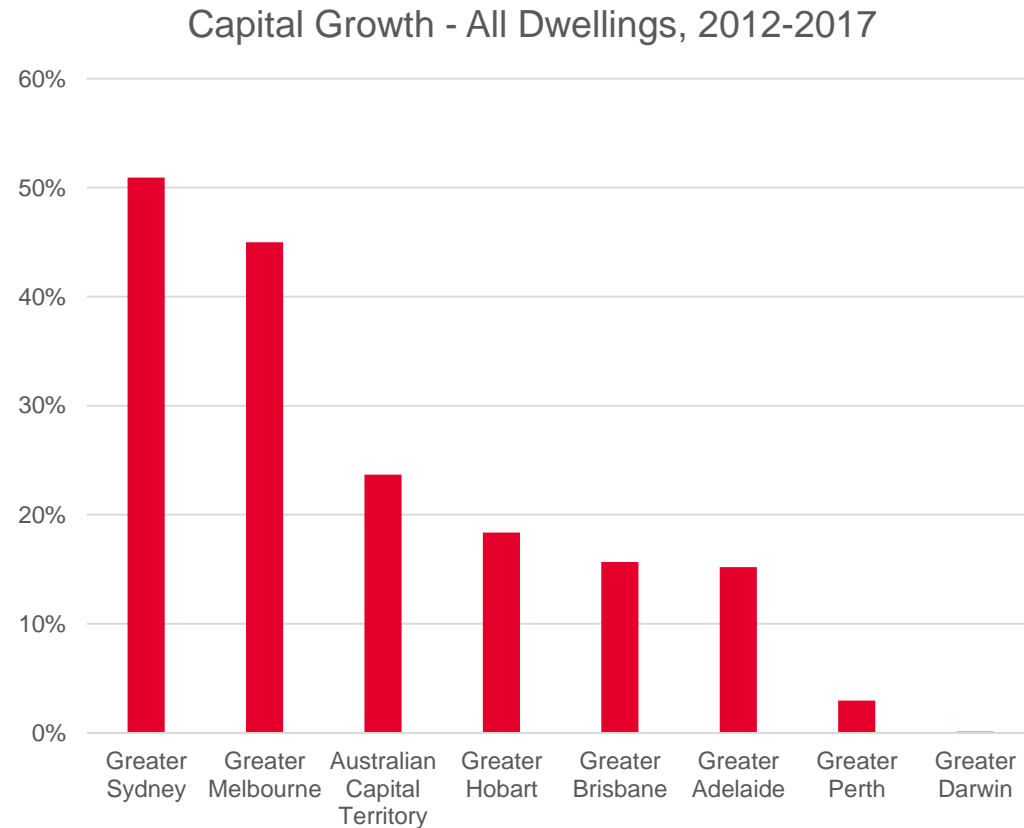
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Nerida provides opinions based on current market conditions at the time of comment. These opinions should not be treated as investment advice. Always obtain advice based on your individual circumstances.

Why is investing in property so popular in Australia?

- Capital growth
- Tangible investment
- Rental return
- Range of prices
- Tax incentives



Source: Corelogic

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There is a property for every investor type...



Broken Hill (NSW) - \$50,000



Vaucluse (NSW) - \$20 million

Source: realestate.com.au, listed price as at 9 November 2017.

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How do you select a good investment property?

Depends on what sort of investor you are!

- I want capital growth
- I want to buy in high demand suburbs
- I want high yield
- I want to buy at the bottom of the market
- I want to be able to negotiate a great deal
- I want cheap property
- I want to capitalise on demographic change



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What do people look for when searching for a home?



Great retail



Good schools



Public transport

They want big homes, but they still also want affordability

What do you need to consider when borrowing?

- Should my loan be fixed, variable or interest only?
- Will I need mortgage insurance?
- How does my credit history impact my rate?



What to do when property investment goes bad...

- Losing a tenant
- Strata cost increases
- Finance becomes expensive
- Tax incentives change
- The market turns



Trend 1: Affordability changing demand



Central Coast



Tasmania



Gold Coast

Trend 2: Infrastructure driving price growth



Bringelly increased by 30% in 3 months



Most sales over \$1m along the Northwest train route

PRICES JUMP THE MOST FOLLOWING THE ANNOUNCEMENT OF A NEW PROJECT

Source: Price growth from Corelogic

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Trend 3: Mining towns slowly recovering



Perth going down but premium suburbs on the rise



Townsville on the way up?

Trend 4: Offshore demand is high in these locations



Manly

South Yarra

St Kilda

Surfers Paradise

Offshore buyers are restricted to new buildings but nevertheless are attracted more to some locations

Source: realestate.com.au

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Trend 5: Is Melbourne losing its livability status?



St Kilda West, VIC



South Brisbane, QLD



Dutton Park, QLD



Spring Hill, QLD



Kangaroo Point, QLD



Corinda, QLD



Albert Park, VIC



Indooroopilly, QLD

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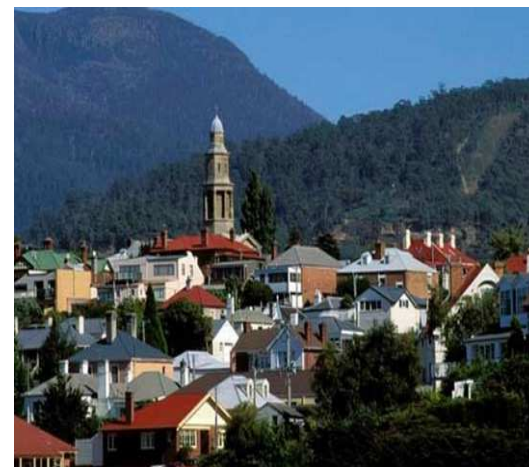
What are the most in-demand suburbs in Australia for buyers at the moment?



South Hobart, TAS



Warrandyte, VIC



Battery Point, TAS

Source: realestate.com.au, as at 9 November 2017.

Nerida provides opinions based on current market conditions at the time of comment. These opinions should not be treated as investment advice. Always obtain advice based on your individual circumstances.

What are the most in-demand suburbs in Australia for renters at the moment?



West Moonah, TAS



Howrah, TAS



South Hobart, TAS

Source: realestate.com.au, as at 9 November 2017.

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Thank you!

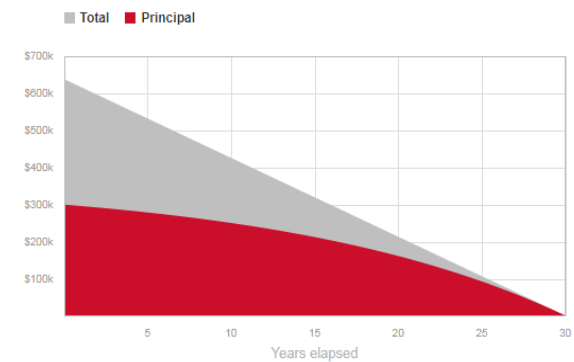
Visit www.realestate.com.au and check out...



Listings



Insights



Calculators



Unlocking opportunities with leverage

BORROWING TO INVEST WEBINAR

23 November 2017 | Craig Saunders – Head of Sales, NAB Equity Lending

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Please be aware that NAB investment loans expose you to unfavourable movements in the value of shares and units in managed funds, and possibly to margin calls – except for NAB Equity Builder. Please be aware that you are personally liable for any shortfall that occurs should your entire portfolio have to be sold to answer a margin call where there have been falls in the market value of your investments. Only investors who fully understand the risks associated with gearing into investments should apply. All applications for a NAB investment loans are subject to NAB's credit approval process.

The case study examples used on slides 47 through till 54 are hypothetical and for illustrative purposes only and should not be considered advice. The names and features do not represent any particular person or real outcomes. There is no guarantee that the performance stated will reflect actual outcomes and will vary depending on assumptions used for calculation purposes. Assumptions: Australian sector return of 8% p.a. based on 4% growth & 4% income. Franking level for the Australian sector estimated at 80%. Historic one year franking for the Antares Dividend Builder SMA was 89%. All dividend income is assumed to be re-invested. Interest rate used in this example is based on current rate available for NAB Equity Builder loan as at 20 November 2017.

AGENDA

1. Gearing options

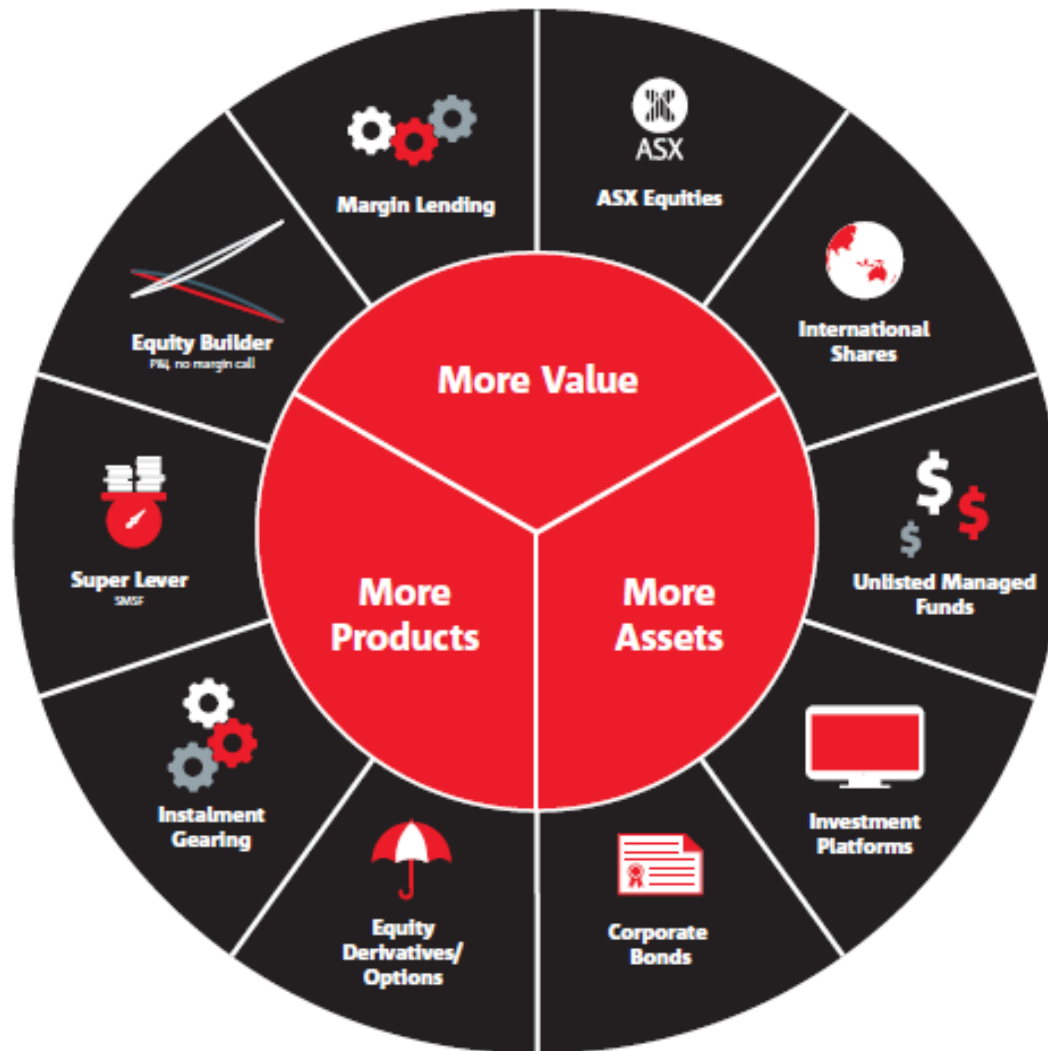
2. Margin Loans

3. Equity Builder

Part 1:

GEARING OPTIONS

GEARING OPTIONS



Our broad suite of loan products allow clients to borrow inside and outside of super, and with or without margin calls.

Our broad list of approved asset classes allows clients to build truly diversified portfolios.

HOW IT WORKS



Use existing assets
(cash or investments) to
borrow additional funds



These assets act as a
“deposit” for additional
investments



Generally lend between
40-80%, client
contributes difference



Borrow for business or
investment purposes



All investments are
mortgaged to lender as
security against loan

BENEFITS OF GEARING



Magnify potential income and capital gains

- To meet investment/retirement objectives



Greater flexibility and liquidity of investments



Diversification of portfolio

- Too much in too few companies
- Invest in different sectors/regions



Potential tax savings

- Interest deductions
- Negative gearing
- Interest pre-payments
- CGT concessions
- Franking credits
- Effective loan structures (third party)

Part 2:

MARGIN LOANS AND MARGIN CALLS

WHAT IS A MARGIN LOAN?

SIMPLY



A revolving line of credit style investment loan, used to acquire financial assets, such as shares, managed funds, or bonds.



Assets held in a margin loan are re valued daily, and if the assets fall in price below the lenders requirements, a margin call may be triggered.

RISK CONSIDERATIONS



Reduction in the value of the security portfolio



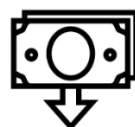
The security ratio (LVR) assigned to an asset may reduce



Shares and managed funds removed from approved list



Rising interest rates



Falling investment income or failure to receive returns on your investments



Loans may be subject to margin calls



You should consider the information in this PDS thoroughly before making a decision to acquire a NAB Equity Lending Facility. **You should read the important information about managing the risks of a margin call before making a decision. Go to www.nab.com.au/nelrisks.** The material relating to the risks associated with margin lending may change between the time when you read it and the day when you sign the application form.

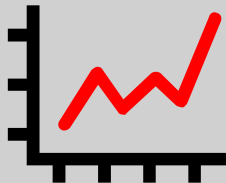
MARGIN CALLS

If a portfolio's value falls so that the amount of equity an investor holds falls below the lender's required levels, the lender may ask for extra security or funds to be deposited in a short time frame (24 hours).

If an investor fails to do this, the lender may sell their assets to correct the position.

NAB Margin Lending buffers: 5% for equities & 10% for managed funds

MARGIN CALLS



If a margin call occurs, the client must:

- Add cash
- Provide additional acceptable security
- Sell-down investments



Restoration periods:

- The next business day (sell-down at day 3)
- Portfolios with 95% or more of managed funds - 5 business days

Part 3:

NAB EQUITY BUILDER

WHAT IS NAB EQUITY BUILDER ?

SIMPLY



A principal and interest loan



Used to acquire investments with
inherent diversification

For example: managed funds or exchange traded funds

BENEFITS OF NAB EQUITY BUILDER

GREATER STABILITY



No corrective action required – NO MARGIN CALLS
based on price movements of the supporting loan security



Financial plan can operate uninterrupted for selected term



No need for extra cash reserves to manage unexpected events

BENEFITS OF NAB EQUITY BUILDER

GREATER PLANNING CERTAINTY



The combination of a:



Focus on diversified investments



Disciplined repayment of loan principal



Deliberate plan to consistently reduce gearing levels

Will deliver a more predictable financial outcome, relative to investment programs that have interest only repayment options

RISK CONSIDERATIONS



Reduction in the value of the security portfolio



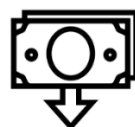
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Managed investments removed from approved list



Rising interest rates



Falling investment income or failure to receive returns on your investments



You should consider the information in the product brochure thoroughly before making a decision to acquire a NAB Equity Lending Facility. **You should read the important information about managing the risks before making a decision. Go to www.nab.com.au/nelrisks.** The material relating to the risks associated with borrowing to invest may change between the time when you read it and the day when you sign the application form.

Part 3a:

CASE STUDY- HOUSE DEPOSIT

[INSERT PERSONAL GOAL HERE]

CHLOE'S STORY



MEET CHLOE

Chloe is 25, works full time and dreams of buying a property in 10 years

She earns \$80,000 a year has \$30,000 in cash to invest

She has \$10,000 of spare cash-flow to invest each year

GOAL

Buying a home in 10 years

CHLOE BORROWS TO INVEST

[\$]
\$30,000
Cash

+

[\$]
\$70,000
Loan
Equity Builder

NO MARGIN CALLS

Interest: **5% pa**

Term: **10 Years**

Repayments:

\$8,900 p.a.

\$750 per month

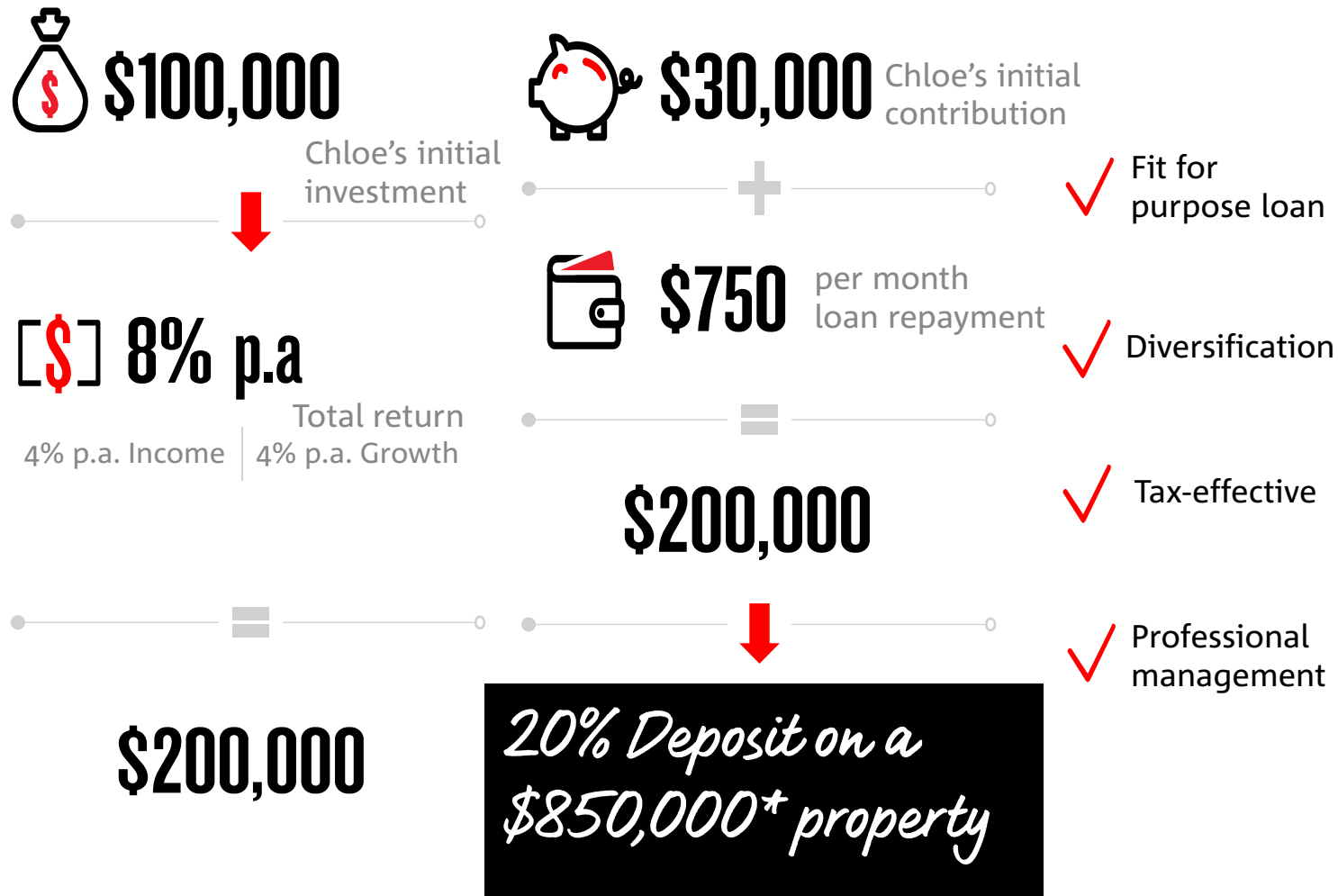


\$100,000
Antares
Dividend Builder
SMA

Distributions
Reinvested

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CHLOE ACHIEVES HER GOAL



Part 3b:

CASE STUDY- SUPER SUPPLEMENT

[INSERT PERSONAL GOAL HERE]

DEAN'S STORY



MEET DEAN

Dean is 50, and is looking to grow his wealth as a supplement to his superannuation

He has \$75,000 to invest and because he owns his own home, he has strong cash flow

GOAL

1. Save \$500,000 outside super
2. Generate an income of \$20,000 p.a. in ten years time

DEAN BORROWS TO INVEST

[**\$**]
\$75,000
Cash

+

[**\$**]
\$175,000
NAB Equity Builder
NO MARGIN CALLS

Interest: **5% pa**
Term: **10 Years**
Repayments:
\$22,273 p.a.
\$1,856 per month




\$250,000
Antares
Dividend Builder
SMA

Distributions
Reinvested

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DEAN HAS ACHIEVED HIS GOAL

 **\$250,000** Dean's initial investment

 **\$500,000** Size of Dean's portfolio



 **8% p.a.** Total return

4% p.a. Income | 4% p.a. Growth

 **\$20k** His portfolio returns 4% p.a.



80%
franked His franked dollar amount

\$7K



\$500,000

\$20k

+

\$7K

=

\$27 K p.a.

Grossed Up Income

✓ Fit for purpose loan

✓ Diversification

✓ Tax-effective

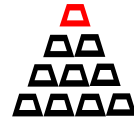
✓ Professional management



SUCCESSFUL GEARING



Invest in quality
investments



Diversify
your portfolio



Invest for
the long term



Manage
risk



Understand
taxation

Q&A



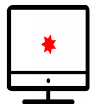
For further information,
contact nabtrade or nab Equity Lending:



nabtrade.com.au



131 380



nabmarginlending.com.au



1300 135 145



NAB Equity Builder has been awarded the
CANSTAR Innovation Excellence award in 2016.
Received by NAB Equity Lending April 2016

