



Do you have clients with share investments who are concerned about the market? Would you like to keep their current share exposure plus give them the comfort of a term deposit?

## Introducing Ben and Sarah

Ben and Sarah have their own self managed super fund (SMSF) with \$300,000 invested in direct shares, property and a small cash holding. They recognise the importance of having a diversified share portfolio as part of their overall strategy, but are concerned about the volatility in the share market. Because of this they are considering selling their \$100,000 share portfolio and investing the proceeds into a term deposit. Ben and Sarah will start a transition to retirement strategy in five years time and are keen to ensure they do not suffer any substantial losses between now and then.

Their adviser believes now is not the right time to be selling shares and comes up with an alternate solution.

## The strategy

Ben and Sarah's adviser suggests they sell their \$100,000 share portfolio and use \$17,033 to gain exposure to the same \$100,000 share portfolio through a Commonwealth Bank Protected Loan.

The rationale behind this strategy is that the shares acquired under the loan are now protected and the remaining \$82,967 will be invested in a five year term deposit paying 6.50% p.a.

The protection premium of \$17,033 is paid upfront, so after taking into account dividends, franking credits<sup>1</sup> and tax deductions, the net income from the Protected Loan is \$417 p.a. This means the strategy is cash flow positive. The fund also has a term deposit earning \$5,393 p.a.

The terms of Ben and Sarah's Protected Loan are:

Portfolio value	\$100,000
Loan amount	\$100,000
Loan to valuation ratio (LVR)	100%
Portfolio	BHP, CBA, TLS, WOW
Protection premium paid in advance	\$17,033
Tax rate of SMSF	15%
Term	5 years
Variable interest rate	8.80% p.a.
Estimated deductible rate	8.80% p.a.
Assumed dividend yield <sup>1</sup>	6.30% p.a.
Assumed franking credits	100% <sup>1</sup>
Net after tax benefit over term	\$417
Cash in term deposit	\$82,967
Interest on term deposit p.a.	\$5,393

# Mitigating risk for SMSFs in uncertain markets

## The result

For an initial outlay of \$17,033 to cover the protection premium, Ben and Sarah's SMSF gets exposure to a portfolio of Australian shares for \$100,000 which contains a level of protection.

Over the term of the Protected Loan, all ordinary dividends and associated franking credits from the portfolio will be paid directly to the SMSF and interest will be charged monthly at a fixed rate of 8.80% p.a. which in this example is fully tax deductible. The remaining funds from the share sale are generating income from the term deposit investment over the five year term.

## Conclusion

Ben and Sarah are comfortable in knowing they will not miss out on any growth in the Australian share market over the next few years. Their shares are protected, so they can ride out any market falls and have the security of having \$82,967 in cash.

Their adviser is happy he was able to retain their investment in the market and give them the comfort of retaining a large portion of their holdings in cash. The Protected Loan has given their SMSF the added benefits of:

- security of cash in the bank
- capital growth potential with a level of protection
- no risk of margin calls

## Getting the right advice

As with any financial strategy, using a Protected Loan to borrow and invest is not without its risks. One of the key risks of using a Protected Loan is that your return could be negative, after taking into account the performance of your shares and borrowing costs over the term. That's why it's important to read the Product Disclosure Statement to ensure you are fully informed.

**Call us on 1300 786 039 for more information about how you can mitigate risk within your client's SMSF.**

<sup>1</sup>The franking and dividend assumptions are based on public statements by the listed entity and/or an average of market analysts' forecasts at the time of the preparation of this document. Their accuracy cannot be guaranteed and future outcomes may vary markedly and are expected to change as market conditions change. The case study assumes that franking credits and dividend rebates are fully available to investors. Quote ref 65312.

<sup>2</sup>The estimated ATO deductible rate is assumed to remain constant over the term of the Protected Loan

### Important information

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