

HOW GEARING WORKS – AN ILLUSTRATIVE EXAMPLE

Amy already has a share portfolio worth \$23,000 and she's also holding \$7,000 in cash that she would like to invest. The stocks in her portfolio have an average lending value (Loan to Value Ratio or LVR) of 60% which means that Amy can borrow up to 60% of the value of her existing investments (\$13,800) plus use her cash (\$7,000) to make additional investments.

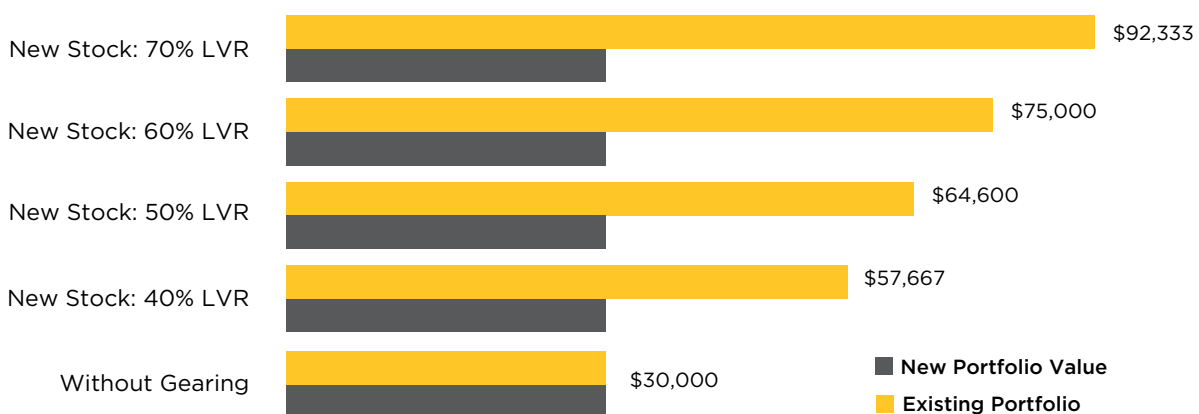
Existing Portfolio	Value (\$)	Lending Value (\$)
Stocks (60% LVR)	23,000	13,800
Cash	7,000	7,000
Total	30,000	20,800

With \$20,800 to invest, Amy could purchase up to the following amounts, depending on the LVR of her additional investment:

Additional Investment LVR	Maximum Additional Investment through Margin Loan (\$)
40%	34,667
50%	41,600
60%	52,000
70%	69,333

The following table shows the maximum total portfolio Amy could invest in by combining her existing portfolio with the purchase of new shares through a Margin Loan, and compares it to the portfolio Amy would have if she didn't use a Margin Loan to invest.

TOTAL PORTFOLIO SIZE COMPARISON: WITH AND WITHOUT GEARING



Please note: This example is for illustrative purposes only and shows the maximum amounts that Amy can afford using a Margin Loan. High levels of gearing carry risks: if share prices fall, gearing will magnify your losses and may bring you above the allowed limits to trigger a margin call. We strongly recommend visiting the 'Features & Benefits' tab at www.commsec.com.au >Products>Margin Loans>Features & Benefits to learn about some simple steps you can take to manage risk.

To calculate the maximum additional amount you can invest, please use the following calculation:

$$\text{Maximum Investment Amount} = (\text{Available Funds}) / (1 - \text{LVR}\%)$$