

## A resilient market

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**Headline figures from the Reserve Bank of Australia disguise the real trends in the investment lending market. While borrowings are down, the drop may not be as large as the data indicates.**

Since the financial crisis hit, investors have been nervous about putting money into growth assets and even more nervous about borrowing to do so. This has curbed the take-up of investment lending but not drawn a halt to its use altogether.

The market for traditional margin loans in Australia has been in decline after reaching a peak of \$37.8 billion in December 2007, according to data from the Reserve Bank of Australia (RBA). Loans outstanding fell sharply between December 2007 and March 2009, but since then the rate at which the market has been contracting has been much slower as equity markets stabilise.

There was \$17.52 billion outstanding in margin loans and capital protected loans at the end of the December quarter of 2010. While that was down 9 per cent or \$1.7 billion on the previous December, between June and December 2009, the value of investment loans outstanding actually rose by close to \$1 billion as equity markets started to gain value.

Behind the figures, there is a more complicated story than a simple rise or fall in the aggregate amount of investment debt outstanding. The figures don't pick up all forms of gearing. For example, home equity debt used for investment purposes is not included. Neither are instalment warrants, leverage that is wrapped up in some structured products, or loans through bare trusts that self-managed super funds can use for gearing into investments.

The headline numbers even disguise trends that are going on within traditional margin lending and capital protected lending.

A survey conducted by Investment Trends at the end of 2010 showed that 44 per cent of margin lending goes through financial planners, while 21 per cent is referred by stockbrokers and 35 per cent is agreed directly between the consumer and the lender.

Investment Trends' research found that fewer planners were recommending investment lending than a year earlier but the average level of borrowings per planner was up. An analyst with the researcher, Pawel Rokicki, says the result shows that it's mainly those planners who previously dabbled in margin lending who have stopped recommending it.

Margin lending regulations introduced from January 1 this year, along with a complicated short-term market outlook – not to mention the global financial crisis fresh in everyone's minds – may have put off those planners who previously had a handful of clients using the strategy.

Among planners who regularly recommend gearing, Investment Trends' research showed that margin lending continues to be the most widely used form with 29 per cent choosing margin loans. That was up from 27 per cent in 2009.

Separately, borrowing against home equity was recommended by 14 per cent of planners who proposed gearing and 28 per cent advised their clients use a line of credit loan. Geared share funds were on the list for 11 per cent of planners and 4 per cent liked instalment warrants.

The proportion of advisers who recommended each of these four types of borrowing was almost the same as the previous year. Protected portfolio loans fell slightly as a proportion of borrowings recommended by financial planners to 6 per cent from 7 per cent.

Gearing through self-managed superannuation funds is being widely promoted and the Self-Managed Super Fund Professionals' Association of Australia says one in four trustees intend to borrow to invest through their super fund.

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