

News

Advisers behind margin loan boom - survey

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A healthy client appetite for gearing combined with an optimistic view on equity markets and interest rates is causing the use of margin loans by financial planners to sky rocket.

In a new study that asked 490 financial planners about their attitudes towards margin lending, 60 per cent said they were increasing their use of gearing, with margin loans standing out as the most popular gearing strategy over line of credit, geared share funds, protected portfolio loans and instalment warrants.

The findings, which were compiled in March this year by Sydney-based consultancy Investment Trends, complement recent Reserve Bank of Australia figures that showed the margin lending market had swelled 21 per cent to 141,000 client accounts in the 12 months to December 30, 2004.

According to Investment Trends director Mark Johnston, the current average loan size at the end of last year was about \$107,000, up from \$80,600 four years ago.

Most planners surveyed by Investment Trends had a positive outlook on equity markets, predicting that Australian and international shares would experience steady growth in 2005.

As for what they thought would be the best performing asset class, 40 per cent tipped Australian shares to be the best performer in 2005 and 46 per cent tipped overseas shares, not including the United States. Only 9 per cent

predicted that US shares would shine in the year ahead, with 5 per cent picking commercial property. Not a single planner thought residential property would be the best performer in 2005.

As a further driver for growth in the margin lending sector, nearly all the planners surveyed were optimistic on interest rates staying low, with 88 per cent expecting rate rises of no more than half a per cent in 2005.

Johnston said the report also showed that capital protected loans had fallen in popularity.

"Much of this is market driven. The popularity of protected loans surged in the wake of the last bear market, then started to recede again. The interesting question will be the effect of current market uncertainty on the usual 2005 June 30 margin lending season," said Johnston.

Most of the planners surveyed said the top reasons for not recommending margin loans more often was fear of margin calls, followed by a perception that home equity products are more stable, and dealer group restrictions.

Johnston said many of the planners surveyed saw the risk of margin calls as a positive.

"They believe it encourages clients to be more conservative in choosing their gearing level, as opposed to property, where many clients leverage themselves too far."

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