

News

Margin lending: fewer clients, larger loans

By Justin Lim

Full service stockbrokers have increased their use of gearing for clients in 2007, however concerns about market volatility are beginning to affect this trend, according to a key annual industry study by [Investment Trends](#).



Based on a survey of 366 brokers in December 2007, the Colonial Geared Investment – Investment Trends Margin Lending Broker Report found the use of gearing amongst brokers rose over 2007, with 59 per cent of respondents increasing their use of gearing had in some manner.

Despite these results, principal of Investment Trends Mark Johnston said volatility over the first quarter of 2008 combined with interest rate rises could curtail the growth in margin loans.

"We've seen from our investor research that 10 per cent interest rates is a key psychological barrier for investors. So a large proportion of investors said they would stop new borrowing or even pay down existing loans if the interest rate crosses 10 per cent, which has already come about," he said.

The report found that margin lending remained the favoured form of gearing among brokers, with 78 per cent saying it was their preferred method to gear clients.

Johnston said brokers who increased their use of margin lending did so due to rising client awareness (24 per cent), client education on the benefits (23 per cent) and increasing client sophistication (23 per cent). Amongst brokers who said their use of gearing had decreased, the most cited reason was a negative outlook for shares (48 per cent).

According to Johnston, the pattern of margin lending usage changed last year.

"Full service brokers' use of margin lending was more concentrated in 2007, with fewer clients borrowing, but much larger average loan sizes where they did so."

However, average loan sizes among brokers remained at the conservative level of 51 per cent of available borrowing as of December, said Johnston.

"That may have spiked to 60 or 70 per cent with the excitement in the market over the first quarter."

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