InvestorDaily

Planners put the brakes on gearing

Margin loan love affair ends

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Wed 12 Mar 2008

The use of margin lending among retail investors has stagnated, with planners being drawn to the rapid proliferation of protected lending, geared funds and structured products over fears of rising interest rates and sustained market turmoil.

A third annual study of Australian margin lenders from research house Investment Trends found that 12 per cent of planner clients had a margin loan in 2007, a figure that was no different to the previous year.

Fears about market conditions are also stopping planners from increasing their use of margin lending products.

In November, after four months of market turmoil following the unwinding of global credit markets, one in five planners (21 per cent) cited concerns about the state of equity markets as a barrier to using margin lending, up from eight per cent a year earlier.

Rising interest rates are contributing to the lukewarm reception, with almost all planners surveyed (94 per cent) expecting rates to be higher in 12 months, with the average expected increase of 0.5 per cent.

"We expect the growth of margin lending via the financial planning channel to be subdued in early 2008," Investment Trends principal Mark Johnston said.

"Also somewhat exacerbating these macroeconomic factors is an aging population of planner clients, which will require lenders to provide planners with more product innovation, particularly in creating new ways to protect downside risk."

Three-quarters of Australian planners advise clients on margin lending.

The average loan to value ratio across the industry is steady at 52 per cent, with the majority of money invested into managed funds.

Colonial Geared Investments, a subsidiary of the Commonwealth Bank of Australia, commissioned the report.