

A Case for the Leveraged Loan Investment Strategy

Leveraging is using someone else's money (in this case the bank's) to grow or create an investment portfolio.

We all, at some point in our lives, make use of leveraging. Think of a mortgage. If asked, most of your clients would answer this is a wise strategy – buy vs rent. The sale is a little harder to make for Investment Loans. And that's in part due to a lack of understanding of how this strategy works.

Key to the success of such a plan is to make sure investors who are engaging in a leveraging strategy are fully aware of the risks and benefits associated with both the investment and loan elements. With leveraging, market gains as well as losses are magnified. Consider the following example and see how it may benefit some of your clients.

Meet our client:

Tom: Age 50
 Risk tolerance: Moderate to High
 RRSP mutual fund portfolio: \$300,000
 Small mortgage / excess cash flow
 Needs to step up accumulation for retirement in next 10 –15 years
 Investment loan type: 100% - Interest Only
 Illustration assumes loan interest is fully deductible

To minimize investment risk we propose two quality funds, the Standard Life Monthly Income Fund, which provides tax-efficient monthly distributions, and the Standard Life Global Dividend Growth Fund. Both funds show sustained performance and are managed by **Standard Life Investments Inc.**, who bring their expertise and global presence to the table. To find out more about our entire mutual fund lineup, visit **Advisor Source**.

Using our 100% - Interest Only Loan Calculator, we can demonstrate that an investment strategy using leveraging could accumulate an additional \$22,742 (net of taxes and loan) at the end of a 10-year investment period.

www.standardlife.ca

The Standard Life Assurance Company of Canada
 Standard Life Mutual Funds Ltd
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Which investors should consider this strategy?

Those who have:

- ✓ Higher than average risk tolerance
- ✓ A good credit rating
- ✓ Maximized RRSP contributions but who still need to accumulate for retirement
- ✓ Excess cash flow which can be used to pay a loan
- ✓ An interest in taking advantage of current interest deductibility rules for tax-efficient ways to grow their nest egg

Calculator Snapshot

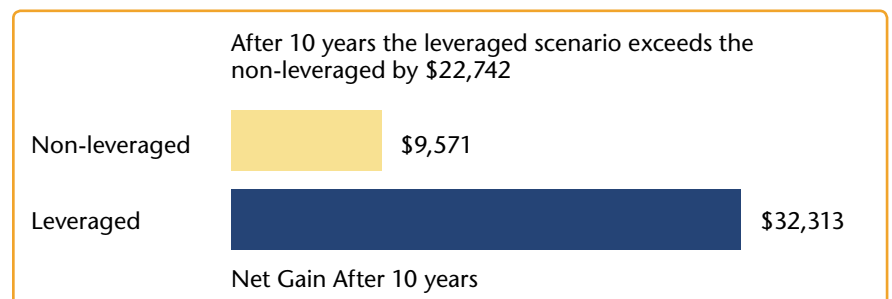
Assumptions

Initial Client Deposit	\$–
Loan Amount	\$50,000.00
Total Initial Deposit	\$50,000.00
Investment Return	9.00%
Loan Interest Rate	6.00%
Marginal Tax Rate	46.41%
Investment Period	10 years

Ontario

	Return Portfolio	Tax Rate
Interest & Foreign Dividend Income	25%	46.41%
Eligible Canadian Dividend Income	15%	24.64%
Realized Capital Gain (Loss) capital réalisés	20%	23.32%
Unrealized Capital Gain (Loss)	40%	

Leveraging Vs. Non-Leveraging Strategies



This is an illustration only. Actual results will vary.

For a demonstration of this tool, contact your regional centre at 1-888-499-4995