

**Presented by Chris Reed, Director of Business Concepts Group**

CPA, FPS SMSF Specialist Advisor

## Episode 4 - Gearing

In this episode, Chris is joined by Business Concepts Group's Sarah Power, and Domenic Suleman as they discuss gearing strategies within SMSF.

Gearing simply means borrowing money to invest. So when is it suitable to borrow?

We borrow to invest to acquire leverage, which then provides more exposure in the market. It is important to remember though that whilst we're getting more exposure in the market that also means more exposure to risks in the event that markets go down.

You need to make sure that you are investing in quality assets, the same as you do if investing outside of Super. You want assets that are going to give you some longer term capital growth, while producing a bit of income along the way. You certainly don't want to be taking on excessive risks.

Gearing can be used to hasten the process of wealth creation by allowing you to make a larger investment than would otherwise be possible. The borrowed money can be invested in a number of ways including direct shares, property and managed investments.

There are some more advanced strategies that can be done around gearing; but the first you really need to consider two key questions — why would my fund do it? And - Is it suitable to my fund and my particular circumstances?

Consistent income flow is a key factor in commencing a geared investment strategy. If your income should cease or reduce for any reason you may be unable to continue to meet the loan repayments. In this instance, you may be forced to sell the investment at the wrong time and realise a capital loss rather than the desired gain.

Banks, ideally, prefer SMSFs to have a corporate trustee. You should be set up with a corporate trustee anyway and the reason why you would do that from a lending point of view is that you'll find that banks tend to lend you a little bit more than what individual trustees will be able to lend. Some banks will not lend to individual trustees.

Although some banks advertise that they'll lend to SMSF's, Dom stresses the difference between a home loan and Limited Recourse Borrowing Arrangements (LRBA).