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## Rising rates sting market investor

CANNEX releases *margin lending star ratings* report today.

Investors trying to minimise losses on the sharemarket face the prospect of needing increased returns to cover the cost of their margin loans. As with all lending products in Australia, margin loans haven't escaped the recent round of interest rate rises.

"Investors now need a bigger return in order to make a profit after factoring in the rising cost of borrowing," CANNEX financial analyst Frank Lopez said.

"This is not an easy call in this unpredictable market."

Several margin lenders are now charging interest on standard loans at over 10%. Excluding all trading costs, tax implications and re-investments, such as dividends, paying 10% interest on a portfolio with 50% gearing means that your investments have to grow by an annual 5% just to recoup the interest payments. If the account carries 75% gearing, your investments require an annual growth of 7.5% annually before you start seeing a profit.

"In a bull market this is all well and good, as shares often make large percentage gains through the course of a year," Mr Lopez said.

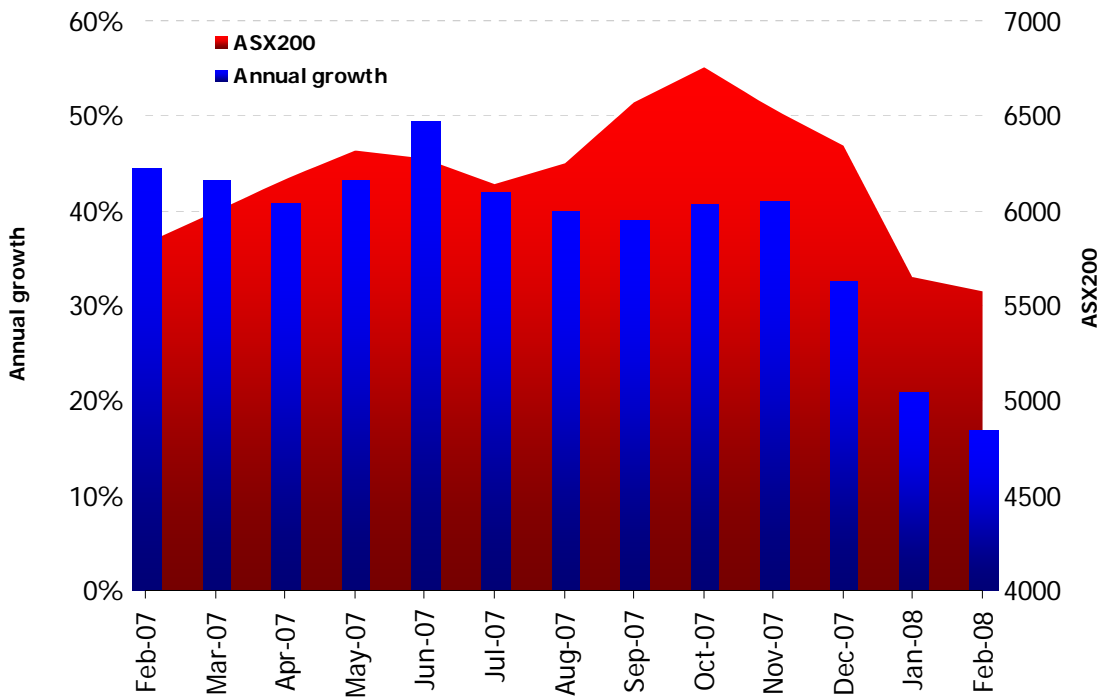
"Under current market conditions though, it has to be a very significant factor when weighing up whether to go into, or increase your participation in, margin lending."

According to CANNEX, this reinforces the belief that margin loans are used by the majority of investors for long rather than short-term gains. For many, riding out market turmoil is their only option but others who can't risk a further downside hit may well opt for a protected loan as a damage limitation strategy.

"Protected loans guarantee a ceiling on maximum losses. Naturally their interest rates are higher but we are seeing more investors taking out protected loans for peace of mind," Mr Lopez said.

Typically, a protected margin loan charges 15% interest which, while providing a guarantee that investors will get their money back regardless of market downturn, places significant pressure on investments to outperform loan costs.

## Seasonal Adjusted Annual Growth (Margin Loan)



Source: CANNEX, April 2008

The chart above shows that while margin loans are still growing in their uptake, they have flattened slightly to record the slowest growth of only 16.80%, as of February this year. This is strongly related to market performance and we expect this trend to continue as more current data is mapped.

According to CANNEX, if you haven't done so already, revisiting your investment portfolio is something that should be done promptly.

"Now is the perfect time to remind yourself of the golden rules of investing with margin loans."

### Margin Loans – Tips to Survive and Thrive

1. Don't put all your investment eggs in the one basket
2. Give yourself some breathing space, borrow less than your maximum LVR
3. If you do choose to borrow up to your maximum LVR, make sure ready cash is at hand to cover a margin call
4. Be mindful of the effect rising interest rates have on your share portfolio
5. Consider safeguarding your investments with a protected margin loan

Premier financial services research firm CANNEX today released its *margin lending star ratings* report which analyses all margin loan available in Australia. Margin loans are rated from 5 to 3 stars, providing a reliable product guide for potential borrowers.

Consumers can download the CANNEX margin lending star ratings report free on [www.cannex.com.au](http://www.cannex.com.au)

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CANNEX customers use the extensive database for competitor analysis as well as a means of disseminating their product range. CANNEX also distributes this information to print and electronic media for publication and to Agents, Accountants, Brokers and Internet Portals for use in advising their clients.

### Does CANNEX rate other product areas?

**YES**, CANNEX also rates credit cards, reward programs, mortgages, low-doc home loans, reverse mortgages, personal loans, deposit accounts, package banking, business banking and car insurance. These star ratings use similar methodologies to the margin lending star ratings methodology. This guarantees the quality and transparency of these other star ratings. The use of similar star ratings logos also builds consumer recognition of quality products across all categories. Please access the CANNEX website at [www.cannex.com.au](http://www.cannex.com.au) if you would like to view the latest CANNEX star ratings reports of interest.



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