rise financial

canberra times: q&a

Q 1: My husband and I are 40 and are looking to set up some investments. We estimate our home to be valued at $650,000 and we have a $200,000 mortgage. We both work in good jobs and have a savings capacity. Should we be looking to shares or an investment property to build our investment portfolio?

J.W., Kambah

A 1: Well done for having your eyes open to considering some of the investment opportunities that are available to people in your situation – equity in your home, solid income, strong cashflow surplus and time to invest. More often than not people will wait until they have their mortgage paid off in full first, before looking at investment opportunities. While this can be a fine strategy, many years could be wasted by not starting an investment program sooner. With expert guidance an investment program can be implemented at the same time as focusing on paying down your mortgage for a greater overall benefit. Very simply, consider investing in both shares and property as both asset classes will do well over time. Consider this example for building an investment portfolio:

1. You have a home valued at some $650,000 which is exposure to the Australian Residential Property Market already.
2. You have a personal mortgage debt of $200,000 where the interest you pay is not investment related, so the interest expense is not tax deductible when you are living in your family home.
3. A good strategy is to direct future cashflow surplus to your mortgage to pay this down as soon as possible.
4. With the equity in your home there is the opportunity to “unlock” some of this for investment. Often a bank will let you borrow up to 80% of the property value on the back of good income and cashflow. This means you could access up to $520,000 in total as a loan.
5. So, for example, you could borrow $100,000 of this equity to invest in share based managed funds to build in value over the long term.
6. You could also then borrow $420,000 say, to purchase a $400,000 Residential Investment Property typically paying rent of some $400 per week. Here you would have $1,050,000 in property assets securing loans of $720,000 being a 68% Loan To Value Ratio (LVR). Rental income can assist you in servicing your loans.
7. Alternatively, instead of purchasing one property, you could borrow $420,000 to purchase 2 properties at a purchase price of $200,000 each. The attraction here being that you can diversify your property investments and take advantage of the higher rental yields that can occur outside larger cities, ie $250 per week rents.
8. Regularly reviewing your financial situation, and importantly, revaluing your properties, can allow you to build your investment portfolio over time into more shares and properties.
9. Note that this all needs to be considered and planned in light of using superannuation appropriately, having personal insurance protection in place and your estate plans up to date.

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Many people paying off their mortgage are in a position where they can be investors now – whether that be into share based managed funds, residential investment properties, or a combination of both. Having a Certified Financial Planner prepare a financial plan showing how these strategies are expected to work in your specific situation, is a great next step. Working with them on an ongoing basis will allow you to continue to maximize your wealth creation opportunities.

Phil Thompson is a certified financial planner and authorized representative of Rise Financial Pty Ltd (ABN 86350987645), AFSL 311718, an Approved Financial Planning Association Professional Practice. Answers should be used as a general guide only and professional advice should be sought before making investment decisions.

Send your financial questions to phil@risefinancial.com.au

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