

2016

STAR RATINGS

REPORT



Margin Lending



Margin Lending

January 2016

Foreword

Margin lending continues to be a valuable way for many investors to increase their long-term wealth. According to current Reserve Bank (RBA) statistics, there are approximately 144,000 margin lending accounts in Australia, with a collective \$12.2 billion of loans being utilised.

This number is well off the pre-GFC peak of 248,000 margin lending client accounts in December 2007 and in fact is approximately the same number of accounts as those in existence in December 2005. Over that decade, though, we have become more conservative borrowers, with current investors utilising just under 23% of their available credit limit overall, compared to 47% of their available credit limit back on 2005. Nevertheless, margin lending continues to be a viable and valued investment strategy for Australians and our annual Margin Lending Star Ratings report looks at both the cost and features on offer from a range of institutions. Those institutions offering an outstanding-value combination of price and features are awarded with our five star rating.

CANSTAR has researched and rated the margin lending facilities offered by 10 institutions. Read on to find which providers offer outstanding value for Aussie traders.



Mitchell Watson
Research Manager

2016 Starts with a Bang

In terms of volatility 2016 has certainly started with a bang rather than a whimper, thanks in some part to the Chinese stock market performance and global sentiment. Nevertheless it should be remembered that investment is a long-term game and borrowers who manage investment margins conservatively can ride out the short-term volatility.

The [ASX/Russell Investments 2015 Long-term Investing Report](#) points out that over a 10 year period, which does encompass the GFC, most investment classes, including Australian shares, have performed respectably well on a before-tax basis. The chart on the right shows the before-tax return of various asset classes as calculated for the report.

As the report points out, gearing can enhance returns for Australian shares for investors – in a rising market, of course!

The report estimated that after-tax returns on Australian shares for investors on the lowest marginal tax rate would have increased from 7.40% to 7.70% if the portfolio was 50% geared, while the after-tax return for investors on the highest marginal tax rate would have increased from 5.30% to 5.80%.

Chances of a margin call...

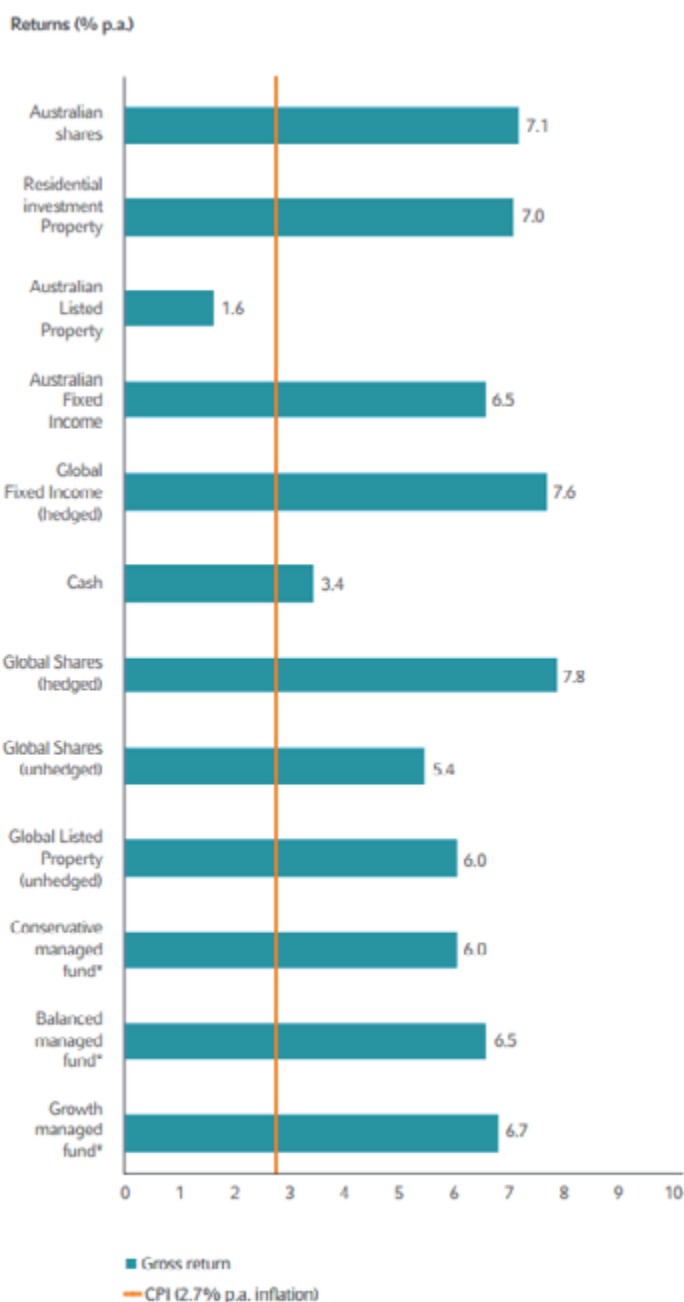
No investor wants to receive a margin call. It signifies a dip in the value of your investments and a tight timeframe of 24 – 48 hours in which to correct the situation.

Bearing in mind that the only security the lender has over a margin loan is the investor's portfolio of shares or managed funds, it's easy to see how market fluctuations can reduce the portfolio's value to a level where it no longer exceeds the minimum set by the lender. This will trigger a margin call.

Notwithstanding market volatility though, the chance of a margin call is slim if a portfolio is not heavily geared. The RBA advises that the average number of margin calls currently stands at 0.88 daily for every 1,000 clients. Compare this to the GFC days when in excess of 2,000 margin calls – or 8.6 per day per 1,000 clients – were being made on a daily basis to stressed investors back in December 2008.

Of course, your individual risk of a margin call will depend upon the specific shares you choose to buy combined with the level of gearing you elect.

Exhibit 1 Gross returns for 10 years to December 2014



* Only before-tax returns have been calculated

Note: All returns are net of costs. Past performance is not a reliable indicator of future performance.

Cost of Margin Lending

The interest rate payable on an investment loan will help determine the return that is required from an investment in order to break even.

Currently in Australia we have a low official cash rate of just 2.00%, which represents two 25 basis point falls since we last assessed margin lending products. The good news for investors is that margin loan interest rates have, overall, followed the cash rate down – and then some!

Based on Canstar's analysis investors can currently expect to factor in variable loan interest rates of:

- 7.01% for a margin loan of \$50,000,
- 6.91% for \$250,000 and
- 6.86% for \$500,000.

As the table above shows, the average margin loan interest rate has declined more significantly over the past 12 months than the reduction in official cash rate.

This large decline can largely be attributed to new entrants, such as Westpac, introducing an extremely low variable rate of just 5.45% at time of writing (as well as the lowest fixed rate as at 4.70%).

As with home loans, it pays to shop around when it comes to a margin loan. Canstar's assessment has found that the current market leader in terms of

Loan Amount	2013	2014	2015	Change over 12 months
\$50,000	7.94%	7.75%	7.01%	0.74%
\$250,000	7.88%	7.66%	6.91%	0.75%
\$500,000	7.83%	7.62%	6.86%	0.76%

Source: CANSTAR Margin Loan Star Ratings analysis. Based on average rate over a 6 month period of assessment.

the providers assessed is significantly cheaper than the above average, at a rate of just 5.45% for a variable loan across all amounts listed above. Overall, current variable rates on Canstar's database for a loan amount of \$250,000 vary from a low of 5.45% up to 7.37%.

For borrowers looking to fix, rates at the time of writing vary on the Canstar database from a low of 4.70% of a 12-month fixed rate payable in advance, up to 7.00% (based on a \$250,000 loan). So again – it pays to shop around!

Margin Lending Features

Price is one thing, but features are also important. Popular margin loan features searched for by visitors to Canstar's margin loan tables include the ability to sell short put options (searched for by 34% of visitors) and being able to use international shares as security (searched for by 42% of visitors).

	Market average		Market leader	
	Conditional	Unconditional	Conditional	Unconditional
Number of ASX companies	414	376	1,472	1,425
Number of managed funds	641	509	1,887	1,887

Source: CANSTAR. Based on margin loan providers assessed for 2015 Star Ratings.

Other features that Canstar look for when determining outstanding value include specific loan conditions such as the availability of cash advances, the options available for dividend redistribution, the standard repayment options and restrictions offered, split loan facilities and the type of interest rate choices offered.

Another interesting feature to look at is the number of acceptable securities available from the various margin lending providers. Currently, the average number of ASX Companies on acceptable securities lists of providers assessed by Canstar sits at 376 unconditional and 414 conditional ASX stocks.

In terms of managed funds, loan facilities, on average offer funding for 641 conditional managed funds and 509 unconditional.

Another interesting feature is the maximum loan to value ratio (LVR) available. Based on our current analysis, these figures are as follows:

		Market average	Market leader
LVR on ASX 200 stocks	Conditional	65.72%	71.91%
	Unconditional	63.25%	64.91%
LVR on other Australian stocks	Conditional	64.25%	70.92%
	Unconditional	56.97%	61.82%
LVR on managed funds	Conditional	72.77%	74.33%
	Unconditional	72.40%	74.34%

Source: CANSTAR. Based on margin loan providers assessed for 2015 Star Ratings.

Who offers outstanding value?

Canstar's Margin Lending Star Ratings is a consumer-friendly benchmark that compares both the price, including both the interest rate and fees and charges, and features, including the maximum LVR, the number of shares/managed funds offered, repayment options and other account features. Five-star lenders are considered to offer outstanding value for money. This year Canstar has awarded two five-star products in the Share Investor profile and three five-star products in the Managed Fund Investor profiles, as follows:



**Margin Loan
Share Investor**

Share Investor Profile

nabTrade
Westpac
CommSec



**Margin Loan
Managed Fund Investor**

Managed Fund Investor Profile

Suncorp Bank
Westpac
CommSec

Let's take a closer look at the winning providers...



nabTrade, one of the companies in the NAB Group, was launched in late 2012 and advertises trade fees as low as \$14.95 per trade (for amounts of \$5,000 or less).

Achieving a 5 star rating in the share investor profile, nabTrade's margin loan is new to the market and offers one of the lowest interest rates assessed. In terms of features, nabTrade has 378 ASX stocks on its acceptable securities list and 1,115 managed funds.



Suncorp Bank's Share Finance Loan performs very respectably in price and particularly well with regards to features.

Achieving a 5 star rating in the managed fund investor profile, Suncorp Bank is the market leader in terms of the number of managed funds that can be used as security, with a whopping 1,885 managed funds on its approved securities list.



Westpac's Online Investment Loan, new to market, is the leader on price, offering 5.45% as a variable rate and for variable rate and fixed terms, paid in advance, starting at 4.70%. This competitive price has seen Westpac achieve a 5 star rating for both the share investor profile and managed fund investor profile.

Westpac offers fewer shares and managed funds than the industry average, but for price-conscious investors it is certainly a product to add to the shortlist.



CommSec has scored a five star rating in both profiles this year, with an impressive suite of both loan and service features. It is the market leader in terms of advisor and direct client services with comprehensive market analysis and commentary. The trading platform is clean and intuitive and reflects CommSec's investment in technology.

CommSec offers an impressive 1,816 managed funds – well above the market average.

Canstar congratulates all Margin Loan five star winners.

MARGIN LOANS STAR RATINGS

WHAT IS THE CANSTAR *margin lending star ratings*?

CANSTAR *margin lending star ratings* is a consumer-friendly benchmark or value index, unique to CANSTAR that compares both the Price and Features across margin lenders. CANSTAR star rated lenders represent a short list of quality institutions. This short list narrows the search for consumers to lenders that have been assessed and ranked. Five-star lenders are considered to offer outstanding value for money.

CANSTAR's rating methodology is transparent and extensive. The methodology compares all types of margin lending products for an array of characteristics such as:

- Interest Rates
- Fees and charges
- Loan to Value Ratio (LVR)
- Features
- No. of shares/funds available

The results are reflected in a consumer-friendly *5-star* concept, with a 5-star product denoting one that offers outstanding value.

HOW ARE THE 'STARS' CALCULATED?

CANSTAR ranks margin lenders based on value-for-money measures and then awards a star rating according to rank. Typically the top 3 lenders will be awarded a 5 star (or outstanding) rating. The number of lenders awarded each of the 3 to 5 star ratings will ultimately depend of the dispersion of final scores. Scores are awarded to each lender on the basis of rates, fees, services and list of approved securities. The methodology is revised and parameters are updated on a regular basis to make sure that the products are analysed using the most up-to-date information capturing all industry developments. A detailed methodology is provided below.

CANSTAR assesses margin lenders from the perspective of two different consumer profiles: the Share Investor, and the Managed Fund Investor. Each profile assumes that the consumer will have a preference over one of these forms of security against the other, but will also seek some content from their secondary security type. To arrive at the total score CANSTAR applies a weight against the Pricing score, Features score and Acceptable Securities List score. This method can be summarised as:

$$\text{TOTAL SCORE} = w_1\text{PRICING} + w_2\text{FEATURES SCORE} + w_3\text{ASL SCORE}$$



Pricing Score
50%

Feature Score
50%

60%

40%

50%

50%

Variable Rate - Historical
\$50k, \$250k and \$500k
Six Months Historical

1-year Fixed Rate in Advance
\$50k, \$250k and \$500k

Product Features

Acceptable Securities List
Equities & Managed Funds

Indexed Score
Product with the best pricing or features will receive a full score

WEIGHTINGS

The Pricing, Features and Acceptable Securities List scores are weighted for each product to reflect the relative importance of each component in the determination of value for money. Current weights are:

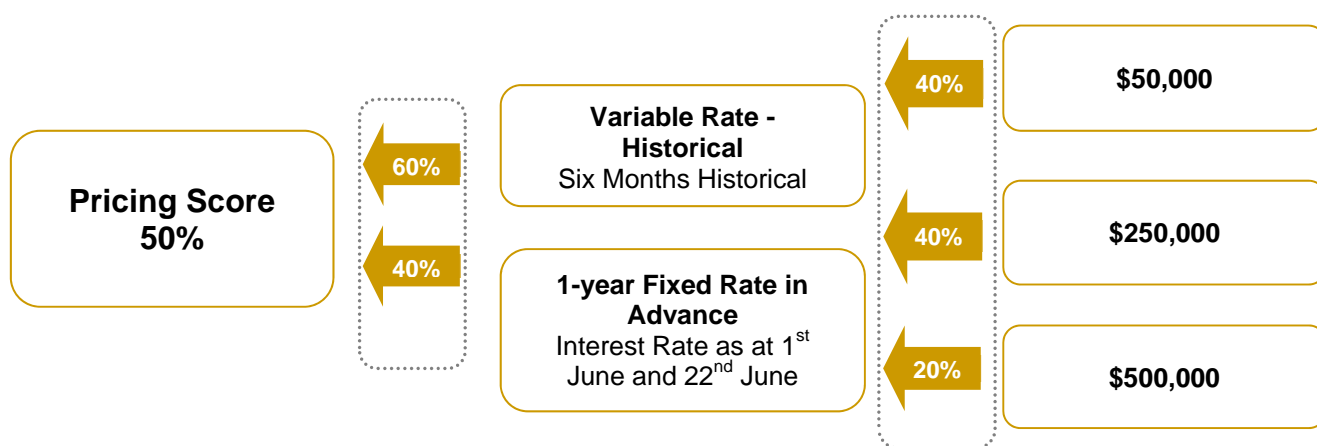
Profile	Pricing Weighting	Features Weighting
Share Investor	50%	50%
Managed Funds Investor	50%	50%

PRICING

CANSTAR accounts for both current and historical interest rates in the calculation of the PRICING component of each product's overall score, which comprises of:

1. **Standard 1 Year Fixed Rate in Advance** – rates as at 1st June and 22nd June for \$50,000, \$250,000 and \$500,000 loan amounts;
2. **Historical Performance of Standard Variable Interest Rates** – average of rates over the past 6 months for \$50,000, \$250,000 and \$500,000 loan amounts.

Those products with the lowest price receive the highest score in the pricing scenario analysis.



FEATURES

CANSTAR allocates points for over 250 Features of a margin lending product. These include flexibility, operating terms and conditions, investor tools and imposed product parameters. The points are totalled for each product and then indexed to determine the product's Feature ranking.

Features have been assessed separately for the two investor profiles (Share Investor and Managed Fund Investor), to take into account the fact that each of these two main categories of investor will have differing priorities when choosing their margin lender.



Feature Categories

Category/Sub Category	Shares	Managed Funds	Description
Margin Loan Trading	25%	20%	Features available for trading
<i>Settlement Account and Risk Management</i>	35%	40%	Availability of CMT's and settlement account functionality
<i>Options Trading</i>	20%	5%	Availability and cost of Option Trading
<i>Portfolio Platform</i>	10%	20%	Loan available through a platform
<i>Execution Options and Costs</i>	35%	35%	Trade execution options and cost to trade either by phone or internet
Loan Features	15%	14%	Loan application avenues and approval turnarounds
<i>Cash Advance</i>	20%	25%	Availability of cash advances
<i>Dividend Distribution</i>	10%	9%	Dividend distribution options
<i>Progressive Drawdowns</i>	10%	9%	Availability of progressive drawdowns and flexibility
<i>Repayments</i>	30%	25%	Repayment options and restrictions
<i>Split/Combination Features</i>	20%	20%	Able to split loan fix/variable or arrears/advance
<i>Switching</i>	10%	12%	Switch between managed funds
Direct Client Services	13%	13%	Customer service- newsletters, account managers, statements
Advisor Services	7%	12%	Advisor services - access to client information and advice
Fees And Charges	10%	10%	Initial, ongoing, behavioural and discharge fees
<i>Charges</i>	50%	50%	Initial, ongoing, behavioural and discharge fees
<i>Transaction Costs</i>	50%	50%	Fees applicable on loan transactions
Margin Information	10%	10%	Information relating to margin call, period to fulfil and options
Lending Terms	9%	5%	General info relating to credit facility e.g. min/max loan amounts
Security	6%	6%	The types of security able to be used as security
Instalments Gearing	0%	10%	Availability of Instalment gearing
International Shares	5%	0%	Availability of international shares

ACCEPTABLE SECURITIES LIST

CANSTAR currently reviews the Acceptable Securities List (ASL) for only those securities that have either an APIR (Managed Funds) or ASX (Australian shares) code. International shares are not included in the calculation of the ASL score.

The score for ASL is comprised of:

- The number of Listed Shares and Managed Funds available against which to borrow funds
- A product's average LVR for Listed Shares and Managed Funds
- Diversified and undiversified portfolio offerings

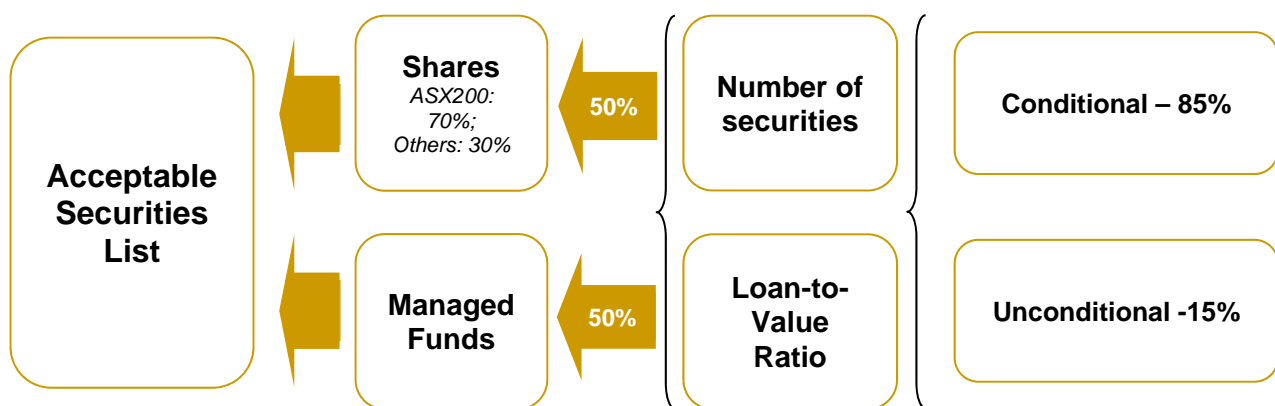
Each of the above components are calculated at six points during the six months preceding the star ratings calculations. This provides an ASL score on historical performance and benefits the institutions with a consistent high offering on both the number of stocks/managed funds and the LVR.



A higher number of funds and shares on a menu, along with a high average LVR, will result in a high relative score. Contribution of shares and managed funds to overall ASL scores will be reviewed in relation to their market size for each star rating.

As with Features, the ASL score is assessed differently for the two investor profiles, with scoring weighted towards the more relevant of the two main security types in accordance with the profile.

Profile	Share Investor	Managed Funds Investor
Shares	90%	20%
Managed Funds	10%	80%



How often are products reviewed for star ratings and Award purposes?

All ratings are fully recalculated every twelve months, based on the latest submissions from each institution. CANSTAR also monitors changes on an ongoing basis.

Does CANSTAR rate other product areas?

CANSTAR researches, compares and rates the suite of banking and insurance products listed below. These star ratings use similar methodologies to guarantee quality, consistency and transparency. Results are freely available to consumers who use the star ratings as a guide to product excellence. The use of similar star ratings logos also builds consumer recognition of quality products across all categories. Please access the CANSTAR website at www.canstar.com.au if you would like to view the latest star ratings reports of interest.



- Account based pensions
- Business life insurance
- Deposit accounts
- Health insurance
- Landlord insurance
- Margin lending
- Package Home Loan
- Reward programs
- Travel insurance
- Agribusiness
- Car insurance
- Direct life insurance
- Home & contents
- Life insurance
- Online banking
- Personal loans
- Superannuation
- Travel money cards
- Business banking
- Credit cards
- First home buyer
- Home loans
- Managed investments
- Online share trading
- Pet insurance
- Term deposits
- Youth banking



Margin Loans Star Ratings

We endeavour to include the majority of product providers in the market and to compare the product features most relevant to consumers in our ratings. This is not always possible and it may be that not every product in the market is included in the rating nor every feature compared that is relevant to you.

Shares Investor

Company	Interest Rate		Acceptable Securities					Buffer		Minimum Loan Amount (\$)	Dividends paid to bank account	Instalment Gearing Available	International Shares Security	Options Trading			
	Variable (as at 01/11/15)	Fixed (as at 01/11/15)	No ASX 200	ASX Other	Avg LVR of ASX200	No. Of Managed Funds	Avg LVR of Managed Funds	Shares	Managed Funds					Long Call Allowed	Long Put Allowed	Short Call Allowed	Short Put Allowed
★★★★★ "Outstanding Value"																	
CommSec	7.13%	6.95%	194	292	67.14%	1,816	70.85%	5.00%	5.00%	No min	✓	✓	✓	✓	✓	✓	✓
nabtrade	6.65%	6.15%	193	185	63.11%	1,115	68.08%	5.00%	10.00%	\$20000	✓	✓	✓	✗	✗	✓	✗
Westpac	5.45%	4.70%	176	64	63.95%	280	73.66%	10.00%	10.00%	\$20000	✓	✓	✗	✗	✗	✗	✗
★★★★																	
ANZ	7.34%	7.15%	195	446	69.64%	1,028	72.05%	5.00%	5.00%	No min	✓	✓	✗	✗	✓	✓	✗
CommSec Adviser Services	7.24%	6.95%	194	292	67.14%	1,821	70.85%	10.00%	10.00%	No min	✓	✓	✓	✓	✓	✓	✓
Suncorp Bank	7.14%	6.49%	194	267	62.32%	1,885	72.11%	5.00%	10.00%	No min	✓	✓	✗	✗	✗	✗	✗
★★★																	
BT Margin Lending	7.37%	6.49%	189	168	62.88%	1,887	72.09%	10.00%	10.00%	\$2500	✓	✓	✗	✗	✗	✓	✗
BT Margin Lending Online	7.17%	6.29%	189	168	62.88%	1,887	72.09%	10.00%	10.00%	\$20000	✓	✓	✗	✗	✗	✓	✗
NAB	7.15%	7.20%	193	185	63.11%	1,115	68.08%	5.00%	10.00%	\$20000	✓	✓	✓	✓	✓	✓	✗
St.George Margin Lending	7.43%	6.49%	189	168	62.88%	1,887	72.09%	10.00%	10.00%	No min	✓	✓	✗	✗	✗	✓	✗



Margin Loans Star Ratings

We endeavour to include the majority of product providers in the market and to compare the product features most relevant to consumers in our ratings. This is not always possible and it may be that not every product in the market is included in the rating nor every feature compared that is relevant to you.

Managed Funds Investor

Company	Interest Rate		Acceptable Securities					Buffer		Minimum Loan Amount (\$)	Dividends paid to bank account	Instalment Gearing Available	International Shares Security	Options Trading			
	Variable (as at 01/11/15)	Fixed (as at 01/11/15)	No ASX 200	ASX Other	Avg LVR of ASX200	No. Of Managed Funds	Avg LVR of Managed Funds	Shares	Managed Funds					Long Call Allowed	Long Put Allowed	Short Call Allowed	Short Put Allowed
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Westpac	5.45%	4.70%	176	64	63.95%	280	73.66%	10.00%	10.00%	\$20000	✓	✓	✗	✗	✗	✗	✗
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