

# Leverage Analysis Summary: Interest-Only Loan

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November 11, 2013

## Assumptions

- \$50,000 interest-only loan, interest rate of 7.0%
- \$2,275 after-tax annual investment, \$3,500 before-tax annual payments
- 35.0% average marginal tax rate, 15.9% dividend tax rate
- 50.0% of capital gains are taxable, when realized
- 100.0% of loan interest is tax deductible
- Projected returns are 70.0% deferred capital gains, 25.0% realized taxable capital gains, 5.0% dividends, 0.0% interest
- Sufficient ongoing cashflow and discipline to complete this strategy

## Net Before-Tax Value After 10 Years

Return	No Leverage	Leverage	\$ Increase	% Increase
0.0%	22,750	0	-22,750	-100%
3.0%	25,895	14,559	-11,335	-44%
5.2%	28,569	28,569	0	0%
7.0%	30,900	41,819	10,919	35%
10.0%	35,371	69,550	34,179	97%

## Notes

- Based on the above assumptions, the minimum before-tax return for leveraging to be better than not leveraging is 5.2%
- Leverage column shows net amount after paying off loan and taxes on triggered capital gains after 10 years
- Averaging 7.0% returns and 7.0% interest expense, leverage increases your investments by \$10,919 after 10 years, per \$50,000 borrowed
- All returns and interest expenses are effective compounded annual before-tax rates
- Projections are NOT GUARANTEED. Actual results will vary, perhaps significantly.

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We, the undersigned, have reviewed and confirmed that these assumptions reflect the client's situation. We understand that these projections are NOT GUARANTEED, and that borrowing to invest can help or hurt investors, depending on the actual returns, interest costs, time invested, client behaviour during the down markets, etc.

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Client's signature

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Spouse's signature

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Date

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Advisor's signature

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Manager's signature

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Date