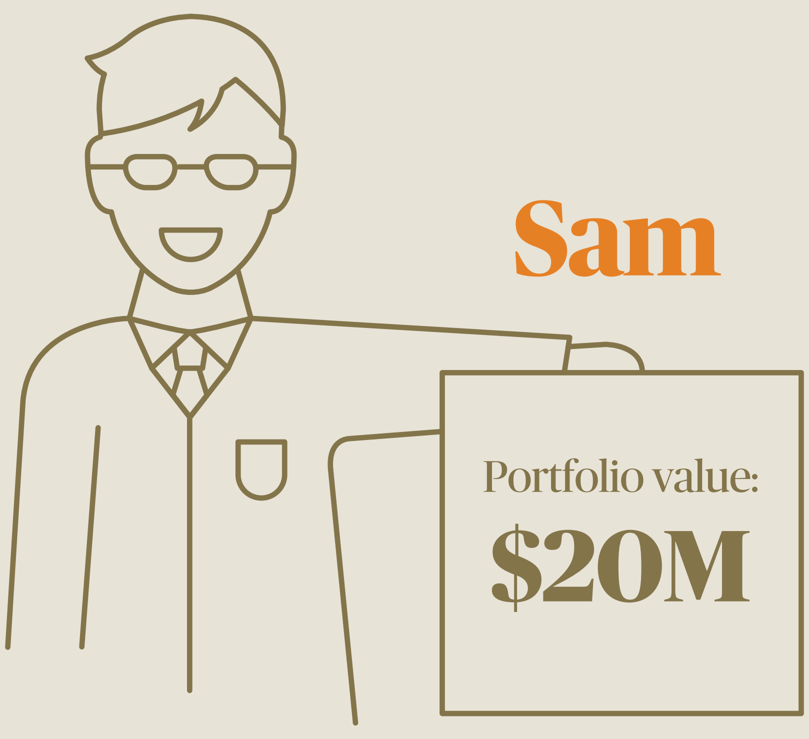
Why Borrowing Is an Investment Decision

In today's historically low interest rate environment, clients who strategically utilize leverage are well positioned to enhance their investment returns.

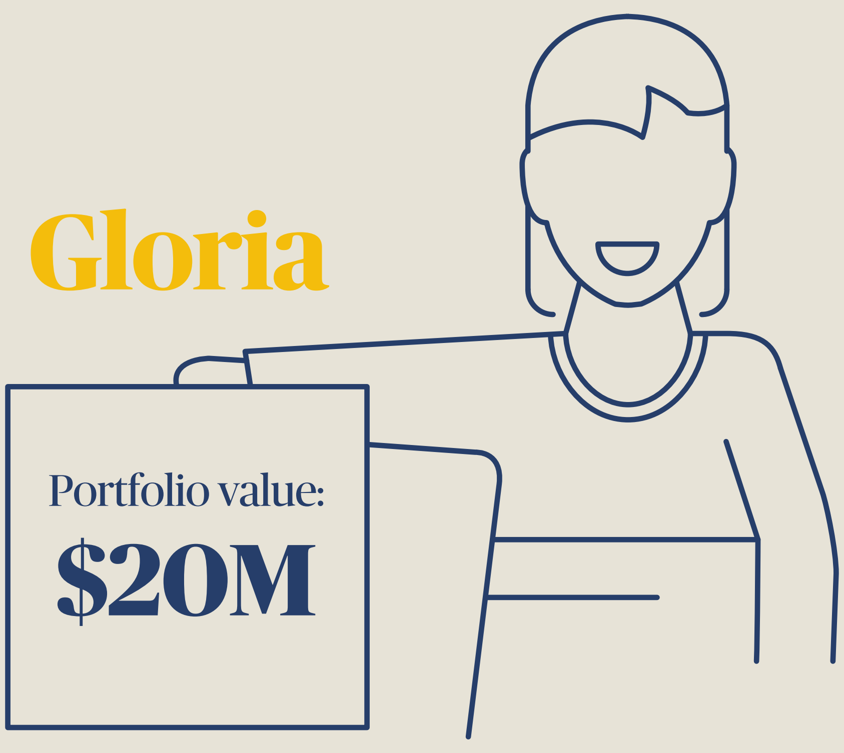
We can quantify just how using leverage can enhance returns by looking at two different clients: Sam, who liquidates his portfolio to spend, and Gloria, who borrows to spend.

Today

Sam



Gloria

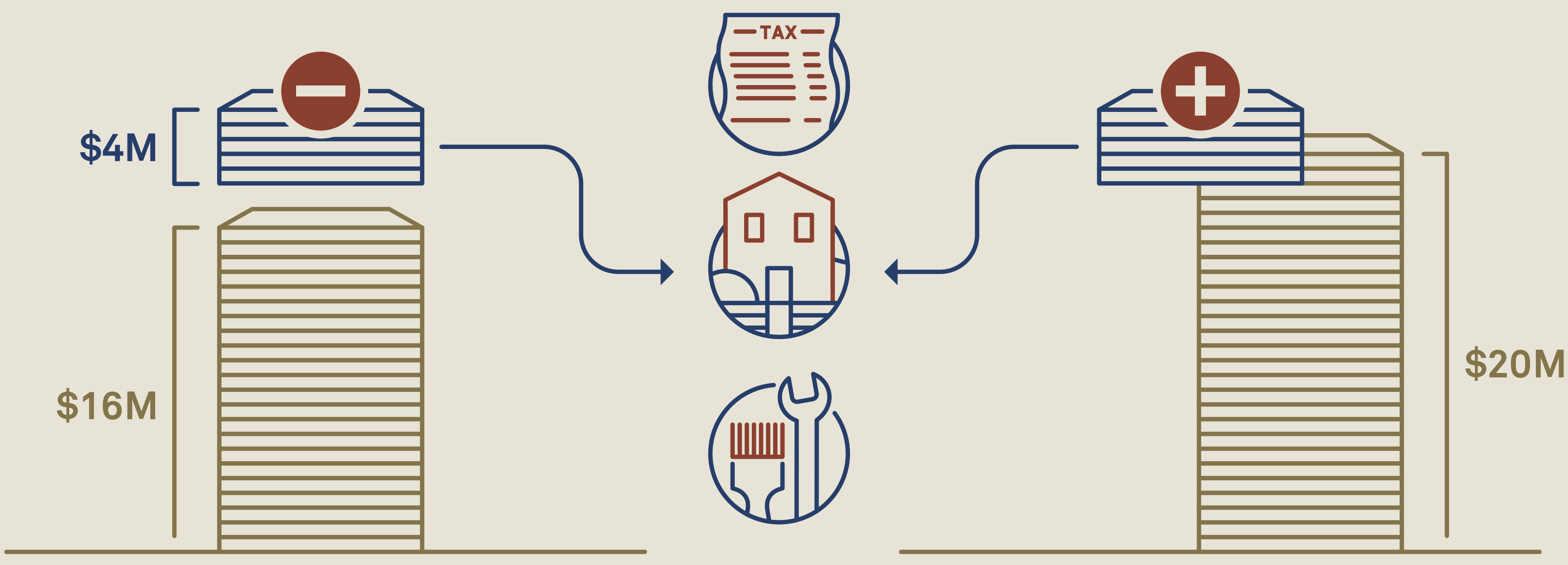


Spending need $4M

Liquidate vs. Borrow

Sam liquidates $4M(20%) from his portfolio to cover expenses and discounts the taxes on unrealized capital gains associated with this **20%** of the portfolio at a federal tax rate of **23.8%**.

Gloria borrows $4M and keeps **100%** of her portfolio assets invested against a line of credit over a **five-year** period.



We assumed interest on the line at the current fed funds rate, with a 150-basis point margin and a 2% floor. At the end of the five-year period, we repaid the loan in full.

Five Years Later

Portfolio value: **$20.4M**

Portfolio value: **$21.3M**

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