



## Self Funding Instalments Strategy

### Diversification with gearing in one simple transaction

#### Consider SPDR S&P/ASX 200 Fund Self Funding Instalments (ASX Code STWSZW)

Most savvy investors are aware that diversification plays a large part in any successful wealth creation strategy. Diversification can be an expensive and time consuming exercise. An easy way to gain cost-effective diversification is through the use of exchange traded funds (ETF's). **This instalment strategy note will provide an insight into Self-Funding Instalments over the SPDR S&P/ASX 200 Fund; STWSZW.**

The SPDR S&P/ASX 200 Fund (ASX Code STW) seeks to closely match the returns of the S&P/ASX 200 Index. This approach is designed to provide portfolios with accurate tracking and is a lower cost alternative to managed funds

#### Why SPDR S&P/ASX 200 (ASX Code STW)?

**Diversification** – SPDRs provide investors with the ability to gain diversified exposure to stock markets through one transaction, i.e exposure to the ASX 200. The ASX 50 is also available (ASX Code SFY, the Self Funding Instalment is SFYSZW).

**Low Cost** – SPDRs are cost efficient. They are less expensive than actively managed funds or buying the individual 200 shares on the market.

**Transparency** - Index investments are designed to inherently replicate the performance of the underlying index.

**Tradability** - SPDRs can trade on a stock exchange throughout the trading day. Settlement occurs in the same way as shares, three days after trading.

#### Why Self Funding Instalments?

**Leverage** – Ability to conservatively gear your share and ETF investments such as STW

**Non-recourse** – The Instalment Payment (Loan) is optional. Therefore the most an investor can lose is their initial capital outlay

**SMSFs** – One of the easiest ways to incorporate gearing as part of your SMSFs investment strategy.

**No credit checks** – Investors can apply via a simple application process with no credit checks

**Low administration** – cashflows (dividends and interest) are managed by RBS

STWSZW Self Funding Instalments information	
ASX CODE	STWSZW
STW SHARE PRICE	\$44.36
STWSZW FIRST PAYMENT	\$19.52
CURRENT INSTALMENT PAYMENT (LOAN)	\$24.8727
GEARING LEVEL	56%
INTEREST RATE	8.13%
STOP LOSS LEVEL	\$27.23
% FROM STOP LOSS	38.7%

## Self Funding Instalment Analysis - STWSZW

Here we consider the power of gearing by comparing STW with the Self Funding Instalment, STWSZW.

Let analyse and compare based on the following assumptions and parameters:

Instalment Details		Dividend and Growth Assumptions		
ASX Code	STWSZW	<b>Dividends<sup>^</sup></b>		
First Payment <sup>#</sup>	\$19.52	Ex-date	Cash Dividend	Franking Level
Current Instalment Payment (Loan) <sup>#</sup>	\$24.8727	24 June 2010	\$0.74	76%
Expiry Date	4 Feb 19	23 December 2010	\$0.65	76%
Current Gearing Level <sup>#</sup>	56%	<b>Growth Assumptions<sup>^</sup></b>		
Current Interest Rate	8.13%	STW Current Price	Growth Assump	Price in 12 months
<b>Stop Loss Details<sup>#</sup></b>		\$44.36	7%	\$47.50
Current Stop Loss level <sup>#</sup>	\$27.23			
Fall required to trigger SL <sup>#</sup>	38.7%			

<sup>#</sup> Based on today's prices and Instalment Details (23 February 2010)

<sup>^</sup> These are assumptions only, RBS does not provide research on STW. Dividends based on last 12 months, conservative growth assumption used.

Given the information set out above, let's assume that an investor buys STWSZW today at \$19.52. Let's consider what the position could look like 12 months from now.

If the dividends set out above are paid, the gross income the investor can expect to receive from until 23 February 2011 totals \$1.837 which implies a gross dividend yield of 9.412% per annum. Remember STWSZW is Self Funding, the cash dividends will be used to reduce the Instalment Payment (Loan) at the ex-dividend date. The Instalment Payment (Loan) is currently \$24.8727. On 23 February 2011 the Instalment Payment will be \$25.6301 and interest of \$2.1534 will have been capitalised into the loan over the 12 month period.

	Initial Price	Price in 12 months	Percentage Price Gain <sup>^</sup>
STW	\$44.36	\$47.50	7%
<b>STWSZX</b>	<b>\$19.52</b>	<b>\$21.8699</b>	<b>12%</b>

The benefits of leverage become clear as illustrated above. Apart from this, we need to consider the potential interest deductions and income generated in the form of dividends and franking credits. Self Managed Superannuation Funds can benefit greatly from the additional franking credits given their lower taxation obligations. Let's consider the benefits below.



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## STWSZW in Self Managed Superannuation Funds (SMSFs)

Instalments are one of the few products that allow investors to obtain the benefits of gearing within SMSFs.

Due to the low tax environment and with the excess franking credit benefits, SMSFs can receive enhanced returns using Self Funding Instalment Warrants. Here we provide an example where an investor purchases \$50,000 of STWSZW in their SMSF while in the "accumulation phase" with earnings taxed at 15%. We compare against investing \$50,000 into a direct shareholding of STW.

	STW Investment	STWSZW Investment
ASX Code	STW	STWSZW
Instalment Price	\$44.36	\$19.52
Number of units	1,127	2,561
Cash Dividends <sup>#</sup>	\$1,566.73	\$3,560.45
Franking Credits <sup>#</sup>	\$504.09	\$1,145.58
<b>Total income</b>	<b>\$2,070.82</b>	<b>\$4,706.03</b>
Deductible Funding Costs	\$0.00	\$454.31
Taxable income	\$2,070.82	\$4,251.72
Tax Payable at 15%	\$310.62	\$637.76
Franking Credits to apply	\$504.09	\$1,145.58
Excess franking credits	\$193.47	\$507.82
<b>Contributions Tax Benefit</b>	<b>\$1,289.81</b>	<b>\$3,385.45</b>

<sup>#</sup> as at 23 Feb 2010 for 12 months and based on parameters outlined on previous page

As demonstrated, if a SMSF invests in \$50,000 of STWSZW in preference to STW, the SMSF can achieve an additional \$2,095.64 in tax shelter benefit. This can be used to offset tax payable against other contributions into the fund. Any excess franking credits that cannot be used within the relevant financial year are refundable by the ATO. Similar results may be obtained in subsequent tax years.

**To discuss whether this strategy may be suitable for your SMSF, contact your advisor**

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