Geared Investments

What are Geared investments?

Simply put, gearing involves borrowing money to invest. For example, a geared investment option (or fund) takes an investor's original investment and borrows additional money with the aim of increasing its size, magnifying its investment exposure and offering the investor broader access to investments. Borrowing can be managed within a fund, often with little to no recourse to investors other than a potential loss of capital if the market value of the fund's investments should fall.

How can you access Geared investments?

Geared investments generally comprise higher-risk asset classes like shares and property. These investments can be accessed in a fund offered by an investment provider or via an online trading platform. Some platforms also have several geared options available within and outside of superannuation that offer access to professionally managed portfolios of shares and property securities.

How do Geared investments generate returns?

For investment options offered outside of super, returns from geared investments may come from capital growth and income paid through fund distributions. These distributions may be paid to the investor or reinvested into the investment.

For investment options within super, distributions are retained in super and form part of one's super balance. This balance will fluctuate over time based on contributions made to super and the performance of the underlying investments.

What can impact Geared investments?

While there may be benefits to choosing geared investments such as broader market exposure and, therefore, an increased potential for larger financial gains, there are also risks involved – including:

- regular fluctuations in the value of one's investment, as higher-risk asset classes like shares and property can be more volatile
- asymmetrical returns – i.e. when markets are rising, gearing may amplify both investment gains and losses depending on market performance. For example, in a falling market, gearing can magnify any losses by including not only the capital invested, but also the amount borrowed and any interest payable on the borrowed funds.

Why invest in Geared options?

What you choose to invest in will depend largely on your personal circumstances, age, life stage as well as the advice you may receive from a financial adviser. Geared investments in shares and property can have a higher risk-return profile – meaning, in exchange for their short to medium-term risk, geared investments have the potential to deliver higher returns over the long term. For this reason, many investors with decades to retirement may choose geared investments as they will have more time to ride out any impacts from market fluctuations and generate returns. Consider speaking with a financial adviser to help determine whether geared options are right for you.