Key Private Bank

Investment Lines of Credit:

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Good to Have and Good to Use

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Access to liquidity is an essential tool in the execution of every wealth plan.

Opportunities arise — often unexpectedly — and changes in a family's situation can place a premium on having ready access to cash. But liquidating a portion of your investment portfolio to generate funds can be costly and do significant damage to your investment strategy.

An investment line of credit allows you to leverage the assets in your portfolio rather than selling them to meet cash needs. By borrowing against your holdings, you can let your money continue to work for you and still have liquidity.

The top five benefits of an investment line of credit

Whether you are looking to fund a new purchase, renovate your home, or meet family expenses, an investment line of credit can be a flexible and cost-effective way to access liquidity. With a credit facility secured by your investment account, you can:

1. Quickly access cash: You'll have ready access to capital without having to liquidate your investments. An investment line of credit gives you the flexibility and convenience to act rapidly without waiting for credit approval.

2. Enhance return potential: Some investors choose to keep a portion of their investments in low-return, short-term investments to meet potential liquidity needs. An investment line of credit enables you to meet your funding demands without sacrificing return potential.

3. Take advantage of opportunities: You can use the funds for a variety of purposes, including real estate purchases, business investments, philanthropy, and lifestyle or family expenses.

4. Avoid fees: There are usually no setup or maintenance charges, and interest is charged only on the funds used.

5. Manage tax liabilities: When you liquidate holdings to meet cash needs, you're exposed to capital gains taxes. An investment line of credit provides access to liquidity without triggering capital gains or losses, enhancing your ability to manage both your exposure to and timing of tax liabilities.

Real-World Example

Dennis and Anne Clark are evaluating how to access $2 million to fund the purchase of a home and meet higher lifestyle expenses. The couple currently has a seasoned and highly appreciated $10 million diversified portfolio of liquid investment securities earning 7.0% per year. They also have a $5 million line of credit secured by their investments with an interest rate of prime rate + 1.15%. The Clarks wonder if it is better to liquidate part of their portfolio or borrow using their investment line of credit.

If the Clarks sell $2 million in their portfolio, they pay capital gains tax and sacrifice future investment income, which we assume to be 7% per annum on $2 million - plus the assets used to pay the tax. If they instead fund the purchase with an investment line of credit, they incur only the $2 million borrowing cost, which we assume to be at 4.4%.

Make an investment line of credit part of your strategy. An investment line of credit is an effective way to quickly access liquidity without selling investments at inopportune times or draining cash reserves. In many cases, it can be the best solution for meeting your short-term funding needs.

To learn more about how a line of credit secured by your investments can enhance your wealth management strategy, please contact your Key Private Bank Advisor.

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