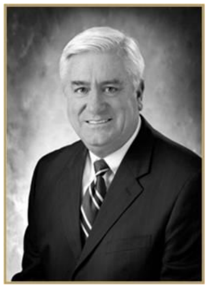

Economic and Market Insights
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Is it best to liquidate an investment or borrow against it when you need cash?

Now that the economy is several years past the Great Recession, security-based lines of credit have been growing in popularity.

Put simply, a securities-backed loan allows investors to borrow against the value of the securities in their portfolio. The individual investments they made and continue to make will remain unchanged by the pledging of these assets as collateral for the requested loan.

The benefit of this type of loan comes without disrupting your previously crafted investment strategy or creating any unwanted tax consequences.

Some investors have profited over the six-year bull market and find themselves wanting to extract cash from their appreciated investments to purchase big-ticket assets, like a second home, a major home renovation, large luxury items such as a car or a boat, or even a business opportunity.

In determining whether an investor should liquidate part of their investments to make a purchase outright or use their appreciated investment as collateral to secure a loan is typically a question that should be answered with the help of your tax advisor.

Generally speaking, many lending institutions allow you to borrow between 50% to 90% of your eligible investments, depending upon the collateral and type of credit you have. The interest rate charged is extremely competitive compared to other lending alternatives given the easily understood value of the collateral.

Wealthy individuals -- whose earnings can fluctuate with the timing of deferred compensation -- enjoy the flexibility of this type of loan because repayment of principal can be purposely made at the time income is received.

For less complex needs where potential borrowers may have large equity positions in their primary residence, many obtain the more common home equity line of credit rather than a security-based line. The advantages here include the ability in many cases to deduct interest charges for the amount borrowed and online access to funds directly linked to your checking account via online banking. The key is to remember to involve a private banker or an advisor to analyze your options for the right borrowing option.

Takeaways:

- Borrowing doesn't have to disrupt your investment strategy.
- Borrowing could eliminate potential tax consequences of liquidating assets.
- There are no fees, charges or interest payments until you actually use the funds.
- Flexibility relative to payment timing – you can likely customize when you make payments.

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