Is an Investment Loan Right for You?

Before borrowing to invest, ask what the loan is for in your plan.

Bliss Financial Consulting Inc

How to use it: before considering an investment loan, tick each item. Think through anything left unticked before you decide.

1 What the loan is for

- [ ] Can explain the purpose: to start building wealth earlier, or to work with account withdrawals in retirement
- [ ] Know whether your family can carry this debt over the long term

2 Compared with an RRSP

- [ ] Know the interest deduction on an investment loan has the same effect as an RRSP contribution
- [ ] Know the difference comes later: RRSP withdrawals are taxed on both principal and growth; with investments bought on a loan, only the growth is taxed when withdrawn
- [ ] Run your numbers with the RRSP or Investment Loan calculator on our website

3 When markets fall

Borrowing magnifies investment gains and losses.

- [ ] Know that when markets fall you don't have to add collateral or repay principal early, but the monthly interest is still due
- [ ] Worked through lower returns, higher interest rates and changes in income

4 Is the interest deductible?

- [ ] Know an investment loan is not automatically tax-deductible; it depends on how the money is used, the type of investment income and your records
- [ ] Checked with your accountant before going ahead

5 Does it suit you?

- [ ] Stable income
- [ ] Able to accept market ups and downs
- [ ] Investment returns have a chance to exceed the loan interest rate

Remember: An investment loan needs a clear purpose first, then a check that your family can carry the debt over the long term.

Can't tick a box? Scan to add us on WeChat and send us your question.

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