Borrowing to invest makes sense for few people amid market volatility, experts say

By **Tara Deschamps** The Canadian Press
Fri., March 27, 2020

TORONTO—Emily Rae was busy from the moment the novel coronavirus started sickening hundreds throughout Canada and sent stocks plunging.

The Halifax-based senior financial planning adviser at Assante Capital Management Ltd. was being peppered with questions from clients about what they should do given how companies were laying off thousands of employees and markets were plunging.

But for some the virus and the gloomy economic situation might have provided a tantalizing question: with markets at five-year lows, is it a good time to borrow money to invest?

The answer is complex and depends on how much of a financial cushion and a risk tolerance one has, said experts.

"I have this strict criteria when I talk to clients about it or if they happen to be interested in the concept and usually by the time we get to the end of it, the criteria has eliminated almost everyone," Rae said.

She believes borrowing to invest is only a good idea if you have maximized your Registered Retirement Savings Plan and have no carry forward, have a strong cash flow, are in a high tax bracket, have a high-risk tolerance and have a long time frame for investing and knowledge of the practice.

"You wouldn't want to do this as a first-time investor, but if somebody's been through a couple of market corrections and they understand you have to be patient and they have met all of that criteria, we talk about the individual risk of what they want to invest borrowed money in and what can happen if it drops in value substantially," Rae said.

Over in North Vancouver, Money Coaches Canada financial planner Annie Kvick said borrowing to invest "does not make sense at all" for most people.

"If you're worried that you might lose your job or your business is going to struggle, this is not the time to invest," she said. "If you were to invest, you really need to know that this is money you're willing to give up. We don't know where the market is going to go."

However, there are some people who can stomach the risk and still live more than comfortably, who might find it an opportune time, she said.

"If you are someone who's been sitting on cash for a long time just waiting for something to happen of course today is better to invest than it was three or four weeks ago, but you need to have a well thought plan no matter when you invest," she said.

Part of that plan should include diversifying by not investing all in one stock, so you are a bit more protected if a particular sector is ravaged by the virus.

Ethan Astaneh, a Vancouver-based financial planner at Nicola Wealth Management, agreed.

While it's an uncertain time right now, he expects large established companies with sound financial positions to weather the storm and perhaps will even lead the country back to all-time highs eventually.

"It's probably that segment of the stock market that would be the safest rather than some more unknown small and micro cap companies for example," he said.

You don't have to look hard to find companies struggling amid the crisis, but Astaneh predicts companies involved with finances, powering homes, communicating and technology to be a bit more resilient.

But borrowing cash to buy those stocks will put some investors in very different positions, which is why you have to be careful with this strategy, he warned.

"If you're in a position where you have cash, and you're just choosing to borrow to invest even though you've got the cash, that's a much different proposition than your only option being to tap a line of credit or a loan in order to invest," he said.

"In one instance, the person has the capital available to pay off the debt if they so choose. Whereas in the other instance, they don't, and so even though you're buying the exact same companies, you're actually taking two different forms of risk."