# BUILD UP YOUR INVESTMENT PORTFOLIO WITH A ZERO-DOWN MORTGAGE

by Derek Shepherd

By utilizing a zero-down mortgage a new homebuyer can build their real estate investments at the same time as building their investment portfolio. This option is relatively new to the average investor but has been used by wealthy individuals to diversify and leverage their money for years.

In a regular mortgage, you would be required to put down 15 percent or more to buy a home – say $45,000 on a $300,000 property. With the zero-down option, however, a homebuyer can still purchase the $300,000 home and keep their hard-earned $45,000 to invest elsewhere. The best place for this money would be in a tax-sheltered vehicle such as a retirement savings plan, which would give you a tax credit on your contribution as well as allow the money to grow tax free until its withdrawal at retirement.

For example, let's assume you are in an $80,000 per year tax bracket and are able to utilize contribution room from past years. Contributing the entire $45,000 to your RRSP would realize tax savings of $19,512 which you can then invest in your RRSP to go towards next years contributions. By doing this you now have a house and $64,512 in your RRSP plan.

My area of expertise is not mortgages but investments, so without going too deep into real estate there are two things you should keep in mind with zero-down mortgages. Firstly you will be paying a higher interest rate and secondly you will have little or no equity in your home. To compensate for this lack of equity your stock investments should not be 'locked in' or of a high-risk nature. With the exception of Government of Canada T-Bills and bonds, all investments have risk and may decrease in value, but by investing in a diversified portfolio of blue-chip dividend paying stocks such as Sunlife Financial, TD Bank, BCE and high-quality income trusts you will better ensure that your money will be there if the need to draw on it arises.

If we assume the following: A yearly six percent return on our stock investments and a six percent per year property value increase we would have the following after five years. Our $300,000 home would be worth $401,000 and our stock portfolio ($45k + $19,512 @ 6 percent per year for five years) would be worth $86,332 for a total increase in our investment of $142,332 ($101,000 property value increase added to the $19,512 tax credit and subsequent gain in the value of the stock investments).

By utilizing a zero-down mortgage we were able to use what would have been the down payment of $45,000 to capitalize on a tax credit of $19,512 and earn $21,820 in investment returns over the five-year period. This strategy is not for everyone and there are many additional risks to consider which is why you should consult a knowledgeable financial advisor and mortgage broker before doing anything.

*Derek Shepherd is an Investment Advisor with Pacific International Securities Inc, a CIPF member firm, he specializes in equities management and risk assessment for accounts $75,000 and over.*