

The Role of Derivatives in Your Clients' Portfolio

Using a real client case study to show how derivatives can manage cash flow, support tactical allocation and enhance long-term outcomes

Jason Petersen
Managing Partner and Head of Advice, 5 Financial

\$190k

estimated immediate tax saving

\$915k

non-super increase over 6 years

\$280k

Super enhancement over 13 years with SFI

Case study focus: practical use of derivatives to reduce tax drag, improve cash flow flexibility and create compounding outcomes

A simple stage bridge between “derivatives” as a concept and the practical outcomes advisers care about

Managing cash flow

The strategy improved after-tax cash flow by reducing immediate tax.

Ongoing deductible interest and franking support mattered beyond year one.

Tactical asset allocation

SFI exposure provided efficient access to Australian equities inside super.

This supported participation in growth assets with a defined structure.

Risk management

The case should be presented as disciplined, structured use of leverage.

You can verbally address leverage discipline, diversification and counterparty awareness in discussion.

Facts of the case | what we were solving for | how we solved it

Facts of the case

Client age 47.

\$950,000 ex-gratia payment plus
\$300,000 of RSUs.

Estimated tax liability of approximately
\$550,000 without action.

Original personal portfolio investment
approximately \$1.1m.

What we were solving for

Reduce immediate tax leakage.

Maximise super contribution capacity.

Create ongoing deductions where
appropriate.

Improve long-term super and non-super
outcomes.

How we solved it

\$52,000 concessional contributions including
PDCs and reserving.

Approximately 20% of super (~\$140,000)
invested in SFIs.

Approximately 20% of future contributions
(~\$12,000 p.a.) to SFIs.

Super-side SFIs focused on Australian equities
for franking optimisation.

Warrant strategy, investing \$1.1m in client's
personal name at 70% LVR across Australian &
Global Equity ETFs. Warrants: \$1.1m across
IOZ & IVV at 70% LVR

- o Timing: August 2020

- o Provided \$236k in interest expenses
deductions - from 11 mths interest +following
year pre-pay.

- o Benefit after 6 years invested =>
\$917,000

Problem → solution → outcomes

Problem

\$1.25m liquidity event
\$550k tax liability
Capital inefficiency risk



Solution

\$52k concessional
contributions
SFI allocation inside super
Integrated wealth structure



Outcomes

\$190k tax saved
\$915k non-super increase
over 6 years
~\$281k super uplift over 13
years

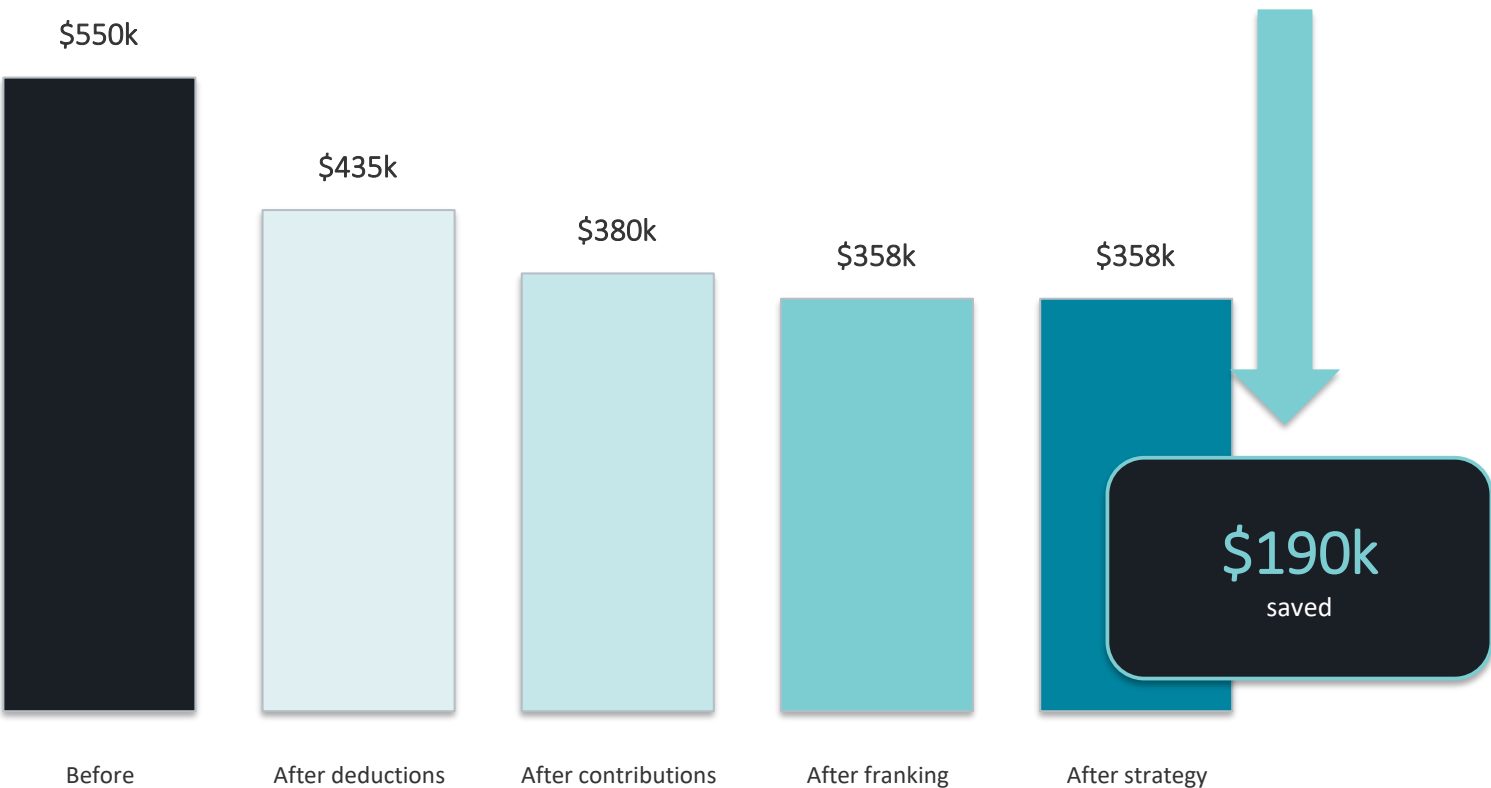
Immediate tax result

Key Take-aways

Tax reduced from approximately \$550,000 to \$358,000.

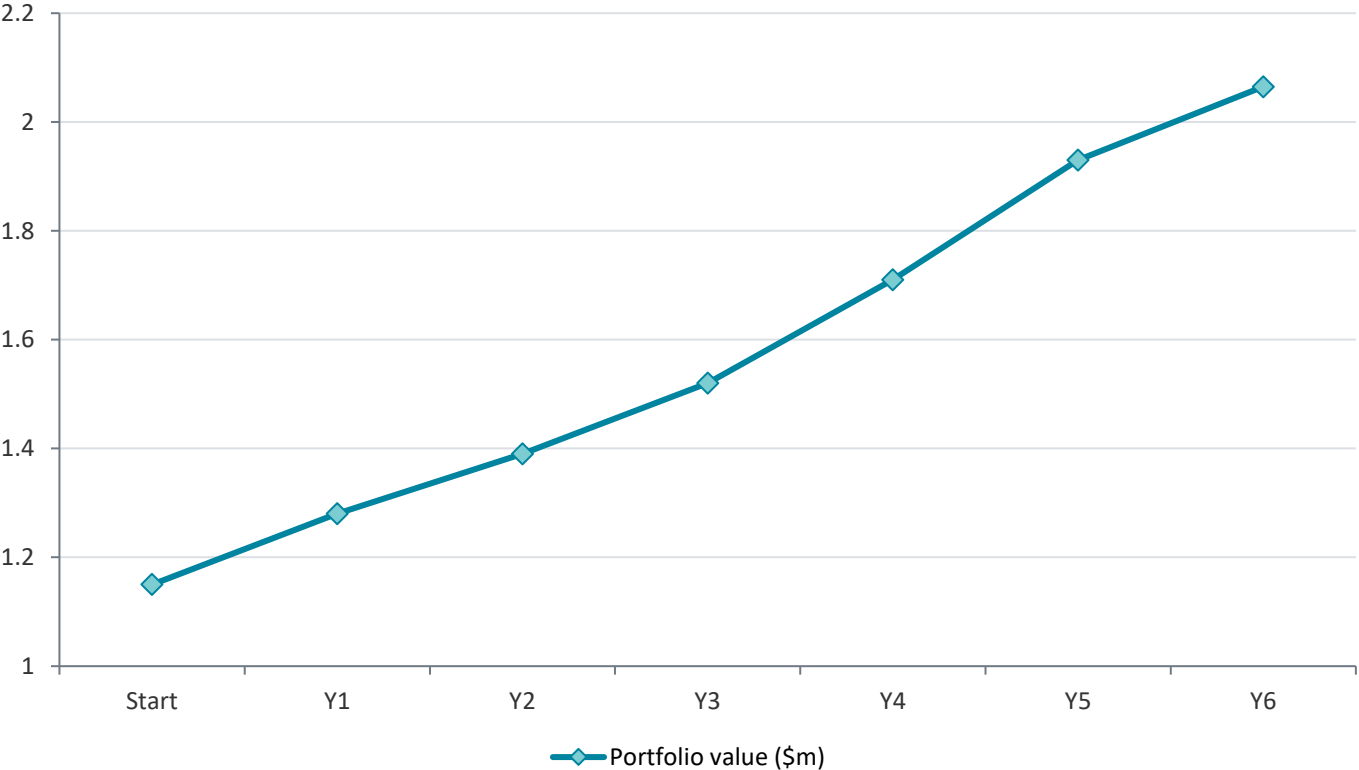
Estimated immediate savings of approximately \$190,000.

The result is driven by deductions, concessional contributions and franking utilisation.



Non-super Outcome

Illustrative/presented personal portfolio pathway



\$915k

increase over 6 years

Key elements

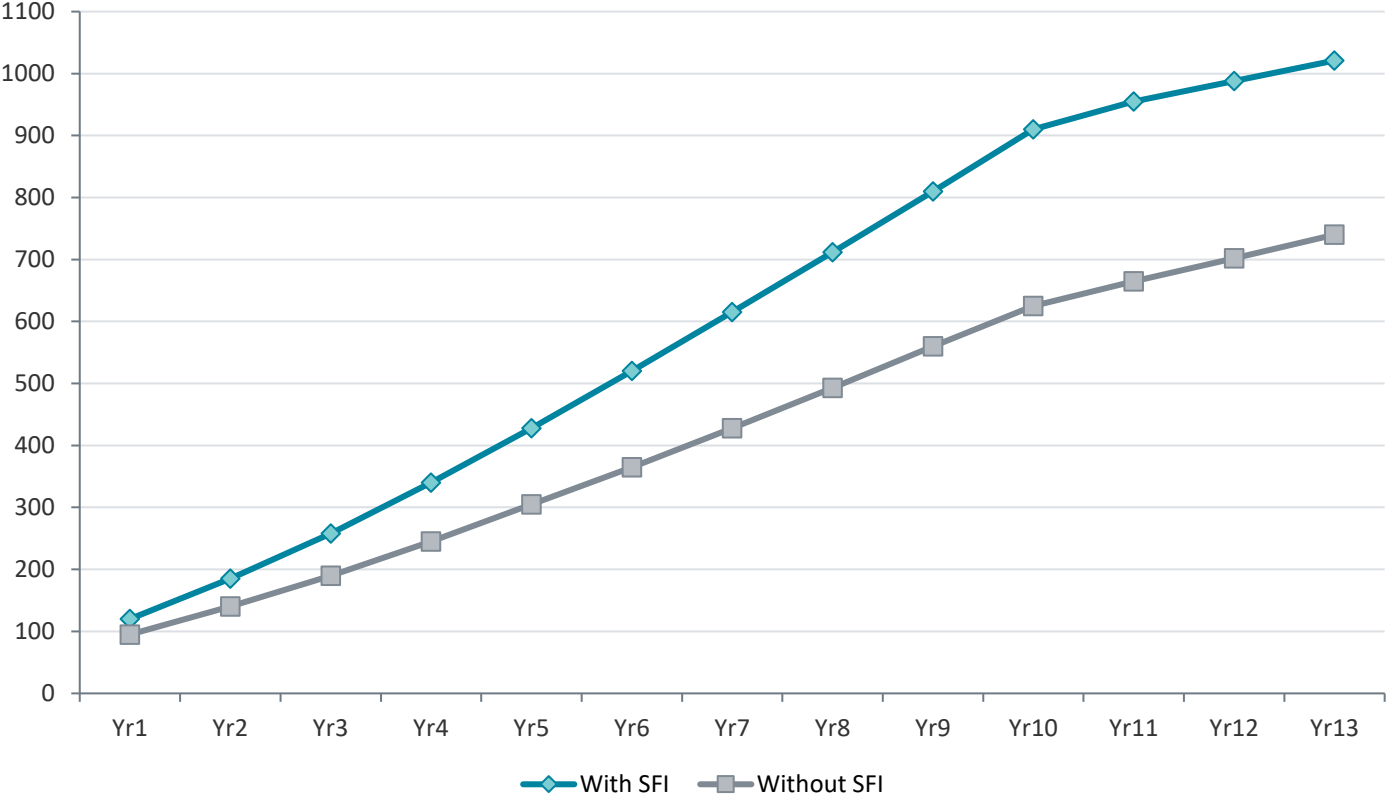
Original investment approximately \$1.1m.

Increase of approximately \$915,000 over six years.

The structure also supported ongoing deductible interest.

Super outcome with versus without SFI

Projected fund balance (\$000s)



\$281k
incremental year-13 uplift

Key Outcomes

Projected with SFI: \$1.021m.
 Projected without SFI: \$740k.
 Grossed-up dividends: ~\$49k versus ~\$33k at age 60.

Contribution engine and debt paydown

Current contribution position

Current contributions tax shelter approximately \$20,000.

This was described as roughly double the non-SFI super strategy.

Implementation settings

\$52,000 total concessional contributions.

Approximately 20% of future contributions (~\$12,000 p.a.) directed to SFIs.

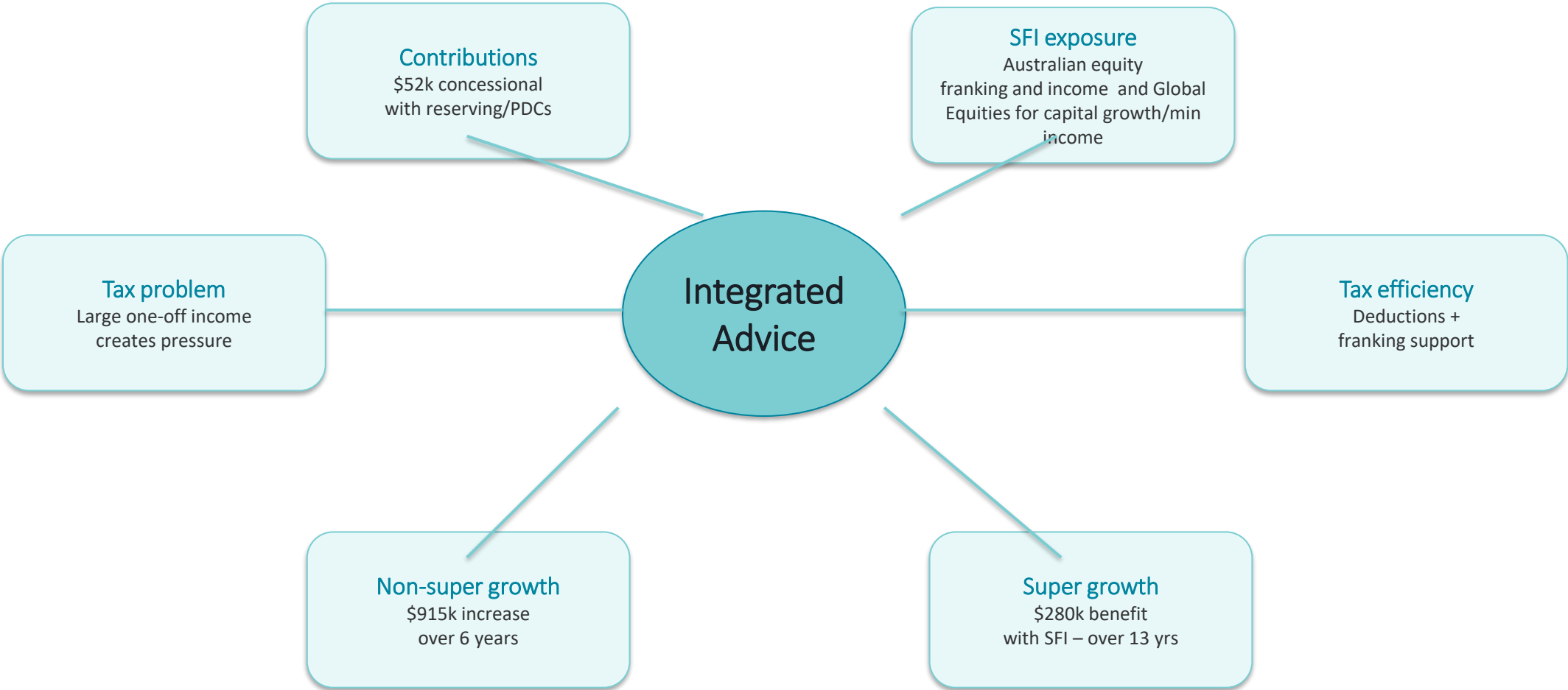
Debt pathway

Estimated time for the loan to be repaid approximately 13 years.

Paydown estimate noted assuming no additional contributions.



How the strategy creates a compounding loop



Advice is not about products.

It is about structure, tax engineering, sequencing and compounding outcomes.

Structure

connect the moving parts

Integration

super and non-super together

Compounding

create value that persists

A one-off tax problem became a multi-year value story

Immediate value

\$190k estimated tax saving.
Visible first-year win.

Non-super value

\$915k portfolio increase over six years.
Ongoing deductible interest supported.

Super value

\$1.021m projected with SFI versus \$740k without.
Higher dividend pathway at age 60.

Why it worked

Visible value of advice.
Strategic, not product-led.
Repeatable framework.

This is what value of advice looks like when the structure is designed to keep working after year one.