



Strategic Credit Insight



Wealth
Management

Perspectives from U.S. Wealth Management Banking and Lending

There are three main ways to buy something

Consider each option:

- Use available cash
- Sell something to raise cash
- Borrow cash

What you're buying matters, of course, but just as importantly, you should consult your balance sheet, including both assets and liabilities, and cash flow statement with an open mind before choosing a strategy.

Take the time to sit down and draw up a personal financial statement¹, including a balance sheet and income statement. Then review it with your RBC Wealth Management financial advisor and wealth management Banker and, if necessary, your CPA (RBC Wealth Management does not provide tax or legal advice). Also, remember that for high-net-worth individuals, debt may be the lowest-cost choice, depending on the circumstances. This is why, perhaps surprisingly, high-net-worth individuals borrow more than any other client segment.

Use available cash

Let's say that you are nearing retirement and seeking to buy a second residence near the beach for \$1 million. You have saved cash for years in anticipation, showing discipline and forgoing some portfolio returns, and expect reduced income in retirement. This one is easy, because in many ways you've already made the decision. Using the cash makes a lot of sense, even though, working with your CPA, you may be able to deduct interest on up to \$750,000 in mortgage debt.

You should not borrow without a repayment source and you should try to avoid taxable gains. One thing to keep in mind, though, is that, once you've spent the cash, you can't easily change your mind. It can be difficult to borrow to reenter the market or recapitalize your liquidity.

Sell something

Now let's say you don't have the full purchase price in cash or your cash is already earmarked for another investment, but you do have a basket of securities that you can sell on a tax-neutral basis, offsetting gains in some against losses in others. Since you're not triggering a net taxable gain, this combination of profit-taking and tax-loss harvesting may make sense. There is a trade-off, of course, as you may forgo future upside in the securities you sell, as well as potential portfolio income, which may have defrayed some of the relatively low cost of a bridge loan against the securities.

Borrow

To fully explore this option, let's change the facts somewhat. Now let's say:

- You plan to make a \$1 million investment in a private business
- You don't have the \$1 million in cash, but you do expect a \$1 million deferred earnout payment in two years from the sale of another business
- You have \$5 million in publicly traded securities, with an embedded \$3 million gain
- You are taxed at rates of 37% for ordinary income and 20% for capital gains
- Your CPA advises that the interest you pay on debt to fund a business investment is fully tax-deductible, creating a dollar-for-dollar reduction in your taxable income
- You can borrow against the securities at a 6% annual interest rate

Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.

First, determine your after-tax interest rate

- Since every dollar you pay in interest reduces your taxable income dollar-for-dollar, you can compute your after-tax rate as follows: after-tax interest rate = interest rate - (interest rate x tax rate).
- Another way of expressing this is: after-tax interest rate = interest rate x (1 - tax rate).
- Your after-tax interest rate is 6% - $(6 \times 0.37) = 6.00\% \times (1 - 0.37) = 3.78\%$.

Second, determine your capital gains tax

- From a \$1 million sale of appreciated securities, the taxable gain is \$600,000. The capital gains tax is $\$600,000 \times (0.20) = \$120,000$.

Third, calculate your break-even point (BEP)

- This is the time, expressed in years, after which selling appreciated securities costs less than borrowing. $BEP = (\text{capital gains} \times \text{tax rate}) / (\text{loan amount} \times \text{interest rate}) = (\$600,000 \times 0.20) / (\$1,000,000 \times 0.0378) = 3.17 \text{ years}$.

Fourth, compare your BEP to your repayment plan

- This rule of thumb tells you that if you have a plan to repay the loan in less than 3.17 years, you should probably borrow instead of selling securities. In your case, you expect to repay the loan in 2 years with the earn out payment, paying \$75,600 in net after-tax interest instead of \$120,000 in capital gains tax. Note that in this case, you didn't need to borrow. You had other options, but borrowing strategically and tax-efficiently with a repayment plan, working with your RBC Wealth Management financial advisor and wealth management banker and also with your CPA, saved you \$44,400 (\$120,000 - \$75,600).

Conclusion

Whether you're weighing a major purchase, an investment opportunity or both, the path forward starts with understanding your options. Reach out to your RBC Wealth Management financial advisor to discuss whether cash, selling or borrowing fits your situation.

This material is being provided for educational or informational purposes only and does not take into account any client or prospective client's objectives or financial situation.

Securities-based loans involve special risks and are not suitable for everyone.

¹ RBC Wealth Management's suggested template for [Personal Financial Statement](#) is attached.

Subject to credit approval. RBC Wealth Management and/or your financial advisor may receive compensation in conjunction with offering or referring these services. If borrower is an irrevocable trust, the Trustee cannot be RBC or its affiliates. Borrowing against the cash surrender value of an insurance policy may subject the policyholder to financial risk, including the potential loss of policy coverage, in an event of default under the loan agreement. RBC Wealth Management is not a bank.

Where appropriate, RBC Capital Markets, LLC has entered into arrangements with the Royal Bank of Canada to help facilitate and service your securities-based line of credit.

Neither RBC Wealth Management, a division of RBC Capital Markets, LLC ("RBC WM"), nor its affiliates or employees provide legal, accounting or tax advice. All legal, accounting or tax decisions regarding your accounts and any transactions or investments entered into in relation to such accounts, should be made in consultation with your independent advisors. No information, including but not limited to written materials, provided by RBC WM or its affiliates or employees should be construed as legal, accounting or tax advice.

© 2026 RBC Wealth Management, a division of RBC Capital Markets, LLC, registered investment adviser and Member NYSE/FINRA/SIPC. All rights reserved.