

What does it mean when I purchase securities on margin?

When you use a margin account, you are borrowing money from a brokerage firm. When purchasing securities on margin you use a combination of your own funds and the funds you borrowed from the brokerage firm. These securities are the firm's collateral for the loan. When the securities in your account decline in value, so does the value of the collateral supporting your loan. If the value of the securities declines substantially, the brokerage firm will take action to shore up the value of the account by issuing a margin call. Whether or not your firm chooses to issue a margin call, the firm has the right to liquidate securities in your account in order to meet its equity requirements for customer margin accounts. Should your firm actually issue a margin call, it may give you a very limited time to satisfy the call. This time may be decreased from the amount of time that a firm may normally allow, in the event the markets are experiencing unusually volatile conditions. *This information pertains to the most common use of a margin account, i.e., purchasing securities on margin. Investors who sell securities short, which is also a margin transaction, should check with their firms to fully understand the impact that changes in market value have on their account.*

What can I do to better manage my margin account?

Make sure that you fully understand how a margin account works. If you don't, limit your investments to a cash account where you must pay for the securities in full. Cash accounts are not subject to margin calls. Know your firm's margin policies. Speak with your broker or check the firm's Web Site for any changes in margin policies. Firms can make changes at their discretion, and are more likely to do so in volatile markets. If you use a margin account, make sure you don't use all of your available funds to trade securities in the margin account. You should retain a ready reserve of easily accessible cash (for example in a checking or savings account) so that you can promptly meet a margin call. Manage your margin account. If you see that the securities in your margin account are declining in value, deposit additional funds in your account. These cash deposits will reduce your loan and lessen your chances of a margin call, as long as the value of the securities in your account do not continue to decline or you don't use the money to engage in even more securities transactions.