Margin Trading

- Loan facility given by the broker to his investor to increase his trading capacity is called Margin facility.
- Margin transactions involve borrowing part of the money needed to purchase or sell a security i.e. Buying/selling securities with borrowed money.

Borrowing Cost < Rate of return earned on securities → Good for the Investor 

Regulation of the Fed	Minimum Initial Margin – 50%
	Minimum Maintenance Margin - 25%

- **Initial Margin –** part of the initial cost that is to be contributed by the investor.
- **Maintenance Margin-** It requires the investor to maintain a minimum equity in the investment through out the life of the trade (till the time trade is not squared-off).

How Margin Works?

Buy 1000 Shares @ \$20 ; Margin = 50% => Market Value = \$20,000; Debt = \$ 10,000 and Equity = \$10,000

Price ↑ \$25

Market Value = \$25,000; Debt = \$10,000
Equity = \$ 15,000; Margin = 15/25 = 60%
Price ↑ = 5/20 = 25%; Return = 5/10 = 50%

- Higher Margin implies more borrowing capacity till margin comes down to initial level.
- Here increased equity of \$15,000 can support upto \$30,000 of market value.
- So one can borrow \$5,000 more (5000/25 =200 shares).

Price ↓ \$14

Market Value = \$14,000; Debt = \$10,000
Equity = \$ 4,000; Margin = 4/14 = 28.6%
Price ↑= -6/20 = -30%; Return = -6/10 = -60%

Margin drops to 28.6% , lower than initial margin but greater than maintenance margin of 25% . So no margin call.

IIMB
तेजस्वि नावधीतमस्तु