TRANSCRIPT

Using margin loans to help meet your financial needs

Trey Jarrell: Thanks everyone for joining us. My name is Trey Jarrell, here and joining me today, Brett Yoder. We are both from Fidelity's Trading Strategy Desk team, and here to help you with understanding margin loans at a little bit more detail. Before we jump into it, just a quick introduction here about our strategy desk team. Brett and myself have been doing this role for a number of years now, and our goal is to help traders out with their trading plan and trading process, and we do this in a number of different ways. The main way is educating you on the trading plan, and we do this through classes, which you can find in our Learning Center under our Strategy Desk coaching sessions. Now, we do focus on a variety of different topics; if you'd like to learn more about options and an options trading strategy, we have sessions on those. We work heavily with technical analysis and how this can aid your process, and we also do a number of live tool demonstrations here to help you out with some of the more advanced tools that Fidelity offers, and how we can build those into our plan.

Of course, being on the Strategy Desk and discussing strategy, you know, today's session certainly fits into that. You know, we think in terms of having a strategy involves having entry signals, exit signals, both positive and the negative, but also, right, deciding how much capital you want to invest in any given trade. And margin is certainly going to play a factor into that here.

So, the goals for today's session, what we're really looking to do, introduce margin here to everyone here. We're going to start out very introductory here, and we're going to share a number of the different resources that are available to you here at Fidelity to help you make an informed decision, whether a margin is right for you or not.

As we look at today's agenda, we're going to start at the very basics here. We're going to spend maybe about a half an hour going through a slide demonstration here in which we're going to cover what exactly is a margin loan, and we're going to talk about many of the different uses that are available here from margin. But there are certainly going to be some risk involved with margin; going to make sure we cover those as well as the benefits, and this is where it's really going to help you make your own decision, right? We're thinking about trading decisions. Many times, we're faced with the decision on risk and reward. Same with this feature here on your accounts. Lots of benefits, but is the risk something that you're okay with? Towards the second half of the session, we're actually going to spend some time on live demonstration. We're going to go to Fidelity.com, show you how you can actually apply for margin. When you first apply for margin, you're going to see some big changes on your balances page; it gets a little bit more complex, a few additional things to pay attention to than typically when you traded on cash, so we'll show you some of those things to pay attention to, and we really want to spend some time on a very powerful tool that we have which is our margin calculator. Our margin calculator is going to help you understand and see exactly what's going to happen as you're beginning to buy or sell securities on margin; how is that impacting our margin balances, and also, if we're doing things like taking cash out, depositing cash, how is this all impacting our margin?

So, without further ado, why don't we jump into it. Brett, I'll yield back to you here for a moment to introduce yourself and get us started out with what exactly is margin?

Brett Yoder: Perfect, Trey. Hello everyone, my name is Brett Yoder. Prior to my experience on the Strategy Desk, I actually helped support our actively-trading clients and our users that typically use margin a little bit more often than some of our other users. But that being said, with all that experience definitely come with a lot of different things we want to talk about here as far as margin goes, its nuance, I want to point out just a couple of the common misperceptions that you may have even coming into this webinar on margin. But as Trey said, we want to set the stage. This is meant to be introductory, so let's start with the basics here.

What is a margin loan? In its most basic form, you have your assets here at Fidelity; you have some sort of account value. Based off the assets that you have here, we will facilitate a loan based off of their value and the inherent risk of the different securities that you have. What that means is, you could be fully invested in an account, and a lot of the examples that we're going to use today center around an account with a value of about $200,000. But with that, out of the $200,000, we are willing to give you liquidity money alone based off of the value. It truly is that simple; it's a collateralized loan without trying to make it any more fancy than what it does.

So, we take a look at what you currently have, and then we make a determination of how much we will lend to you based off of that, and now you have a loan. It comes as very interesting aspects, like there's not necessarily a payment that's due. Due dates are something that are a little bit up in the air, and it's much different than a conventional loan. But the point is, you don't have to sell out of your securities and your investments to have access to some of that liquidity. And as we can see here on the slide, it's money, so what you choose to do with it is whatever you choose to do with it. And it can be used for a variety of investment needs. You could even buy more securities with it, spend more money than you have, leverage your account. You can take the money out and use it as any general liquidity need, everything we'll use it from an example of, maybe a real estate purchase, you know, a down payment, some sort of large purchase, et cetera. Right, it truly is a loan based off of the money that you have with us. And that's the important thing. That's the feature in and of itself in its most basic level.

So, let's give you just a real quick example. If you have that $200,000 account, at the very get-go, so you apply for margin, it gets applied to your account, you will be able to take a loan for half of the value, 50%. So, based off of your $200,000 invested, we will give you a loan of $100,000. The majority of stocks, ETFs, mutual funds that have aged, something specific with mutual funds, and bonds, have some sort of value that we will loan off of. So again, that's our determination; we'll look and see what you have, and based off of what you have, there will be a certain amount that we'll be willing to loan off of it. But in its most basic form, typically it's going to start around 30%, and we'll get into equity requirement here in a moment. But, for every $10 you have invested in a fully marginal stock, we would give you a loan of $7 on that stock.

Like I said, don't worry about the specifics as of right now, but let's go over just briefly, in addition to this initial way that it works, let's talk about maybe some of the other uses, Trey.

Trey Jarrell: Yeah, absolutely. So how can we actually use margin, right? So, you know, this is essentially a line of credit, right? We can use this for anything that we might be applying to use cash for, right? This could include increasing our buying power here on our account, or withdrawn cash. You know, it's very important that this is a line of credit, right, so because you apply for margin and have margin doesn't mean you necessarily have to take a loan. It's something that you can have available here for you in the future. Right, when we're trading on margin, right, buying securities is going to allow us to acquire more shares than we could on a cash-only basis. So, if you've been trading in a cash account, you know that that cash you have available in your core is what you have available to trade on a given day. Well maybe think back to some of those scenarios; I'm sure we've all run across this, right, where maybe we found a new investment idea, or perhaps we've been monitoring a particular security and a trading signal just flashed; maybe it's time to enter a purchase, right, for a trade we think is going to be favorable for us. But we don't have that cash available for us, right? Margin gives us that opportunity right, to have that potential purchasing power available to us when we need it. But it may have some impacts on our account that we want to consider here as well, right? Now if we are buying on margin, right, this can multiple our returns, both positively and negatively. So think about it, right, if you have an account with no cash, you buy a security, the value goes up, you close out of that security, well you're able to pay off your margin debt of balance and add some profit into your cash. But the opposite can happen as well, right, if price goes down, we purchased this security on margin, we have to sell it at a loss, not only do we have to accrue interest during this period of time, but now, we're still running a debt, but we didn't sell enough to actually bring back that money into our account to pay off our full debit. Right, and we'll run through some specific examples of this, but we want to be going through, as we're thinking about the benefits, right, think about the other side of the equation here as well. And very important as we go through, as we're placing trades on margin, we should be thinking about our balances, how they're going to impact it, and monitoring those very closely from day-to-day.

So, let's take a look at a specific example here, and we'll start with one, hopefully that you're already familiar with how this would work in a cash amount, and then we'll add margin into it next. So, we're going to take a look at ABC stock, currently trading at $100 per share, and we have a favorable outlook, right? If we buy this, we think the price is going to appreciate, and we decide to use the $10,000 we have in our cash account to buy 100 shares. So, if the stock goes up let's say 25%, new share price is $125, we're disciplined traders and we have an exit plan in place, so we go ahead and sell. Our investment was worth $12,500. We realized a $2500 profit, for a nice 25% return on our money. The opposite side of the coin here, right? What if the stock goes down, right? So, we assume the same 100 share purchase, ABC stock instead declines 25% down to $75. We are still being disciplined traders here, sticking to our exit. We decide to sell here, now that the investment is worth $7500. We take a 25% loss, or $2500, right? That cash comes back into our account, allowing us to use it towards something else.

So, Brett, why don't we go ahead and add margin to the equation here and talk about how that's going to differ?

Brett Yoder: Yeah, absolutely. And again, hopefully you're on the same page with us as far as the cash trading goes. Here, margin, we're just going to borrow some money. We're going to increase our exposure to the stock. Okay, so you have $10,000; that's all the cash you have. You decide to take on a $10,000 margin loan to be able to buy 200 shares. Everything's doubled. Bullish outlook on the stock, price jumps up 25%. You were able to borrow and get double the exposure to that, you made 50%. You realized a $5,000 profit on your position, even though it only took $10,000 from you, and depending on the time, maybe a little bit of margin interest cost. It's doubled. The other side of the coin, price declines 25%. Here's the risk that we take; we were wrong with our outlook. Stock falls 25%. Shouldn't be a surprise to you, but we've lost twice the amount of money. Okay, now we're realizing that $5,000 loss, with a 50% loss based off of the amount of money we put in, put in 10, took on a loan, lost the $5,000 because we have 200 shares of exposure, plus maybe a little bit of interest on top of that too.

It's one thing I just want to point out, when we start talking about using margin to trade, the big thing here is, we're trading. So, in these examples that assumed a 25% jump up and a 25% pull down. Okay, on the Strategy Desk, one of the things that we do, as Trey mentioned, is focused very severely, very largely on your trading plan, and being able to have a clear idea. If we're bullish, we should have a specific reason of why we think the stock is going to go up, why we think that 25% is attainable, okay? Some sort of evidence says, yeah, price is appreciating. Based off of that outlook, we will know when the stock isn't following through, when the stock isn't going up. Maybe it's going sideways. So, our outlook, how does that change? Maybe the price does decline. Okay, if the price goes down, and we have a bullish outlook, there's a mismatch in what we're actually seeing in the market towards what we thought, our outlook.

So just because we're using an example of 25% up, 25% down, keep in mind there's no reason why you would want or need to follow a bullish stock that you have a bullish outlook on 25% down to $75 a share. Very common with trading systems is this idea or concept of "discipline." If you're going to be using a margin loan for trading, that concept of "discipline" is even more important to help fight off some of these risks. If you have further questions or want to learn a little bit more information about developing trading plans, feel free to check out some of our information; you can find the Strategy Desk information in the learning center. We have classrooms for beginners as well as coaching sessions, where that disciplined approach to trading comes up time and time again in almost all of our sessions.

On the other side of the coin, you do not have to use margin for trading. That might be its primary use; that might be its most common use, but definitely not the only reason why people use a margin loan. Again, you can take money out of our account without having to give up potential rewards or gains of your investments; you don't have to sell out of those. So, I had mentioned at the beginning, real estate transactions. Think about maybe a down payment, or a second, right? Large purchases, as opposed to going to some big box store where you have to buy something, you know, largely expensive; maybe you don't have the liquidity for, and you have to finance it. Margin is also a way that you could finance it, opposed to maybe one of their line-of-credit deals that they're offering, via a partner bank, or maybe even the store itself, right? Same thing with short-term liquidity; every once in a while, everyone has something come up where you need some quick money, short-term liquidity. It is a convenient line of credit. You can pull money out whenever you wish provided you've applied for and have the future active on your account.

So, let's cover just a little bit of the numbers here real quick on taking money out of the account. We'll go back to our $200,000 account, okay, in this example there on the left side. Your account's worth $200,000; you need $50,000. You decide to take a $50,000 loan. So, remember, we mentioned that there's always a requirement. You're always going to have to maintain some sort of ownership in your securities, okay? The most general ongoing maintenance requirement, maintenance requirement is a requirement set by us, Fidelity, your broker, okay? The normal ongoing requirement is 30%. You need to maintain ownership or value of 30% in the account. Quick calculation on this is what is that requirement? How much money do you need to have in the account? You take your $200,000, multiply it by spot 3 or 30%, you need to have $60,000 of your own equity, your own skin in the game, if you will, in your account. If we do take that $50,000 out, now we're at $200,000, total account value less the $50,000 you've taken out, so now you have an account equity, of ownership of $150,000 of it. So pretty straightforward on that one.

Not as far as the total loan you could have taken, it was significantly more. If you only needed to have $60,000 of equity in the account, going back to that same equation, account equity less the margin loan, total account value less the margin loan, that means we would have given a loan of $140,000. Where that comes into play is down here in our house surplus. House surplus is just a jargon for the idea of how much extra money is in the four-year margin loan; it's the surplus, right? Calculate surplus by, account equity, $150,000, less that requirement of $60,000. You still have $90,000 of surplus, again going back to the idea that you have to have 60 in 200, $140,000 is available; you already took $50,000 out, the surplus is $90,000.

The next step, and the one that we have tools to help you with, because this isn't the easiest step to think about here, how much depreciation in your securities can happen before a margin call? This is the first time we've heard the word "margin call." A margin call is when a payment is due. You're actually required to send us some sort of payment to cover X amount of money, and the amount of the payment that's due is totally dependent on your account equity and how your equity relates to the requirement of the account, okay, the requirement of the margin loan. That's what the call is based off of. So, you could have a really big payment due; you could have a really small payment due. That being said, to calculate the depreciation or how much your $200,000 worth of securities can go down, you take your surplus -- remember, this is the extra amount of money that we would lend, right, you take the surplus, divide it by the inverse of the requirements, now spot 7, what if it goes down 70%, right? So how much can it go down, $128,000. So, you could take a significant drawdown in the account before you need to make a payment, before that comes up. So, consider that. I'll relate that back to the other slide, that first slide that I came on here as far as using the leverage and having the price fall down in your trading plan, with your investment, we need to have that level of discipline, because that's following your stocks down quite a significant amount as far as the depreciation goes.

There's got to be some more, a little bit more conversation here about the idea of benefits and risks.

Trey Jarrell: Yeah, absolutely, Brett. Just, I'll pause for a moment to do a quick check-in with everyone. I think it's very important that we understand the math and where these numbers are coming from, but if you're thinking to yourself, hey, I need that margin loan in six months, I'm not going to remember how to do these calculations. You don't have to remember; we actually have a margin calculator that's going to help you figure these things out. It's very simple to use; we'll show you that here as we go through the presentation towards the end so you will have that being able to be done simply for you.

So, we talked about the main benefit and the main risk here, but we're going to talk about a few other things that we should consider when it comes into margin before we begin to start purchasing or withdrawing cash here from a benefits and risk perspective. So, we'll think about this from a cash withdrawal moment. So first one here, access cash without having to sell your investments, right? This can be important again. A couple of reasons why you may not want to sell, you know, possibly, from a tax situation. So, let's say that you've had a great year; you've got large gains. Everything's working out well. You need some access to cash, but maybe taxwise it doesn't make sense to take those, right? Maybe you'd like to take some cash available to pay it back without having to sell and take on that tax burden. Also, market conditions are going to play a big part of this here as well, right? Perhaps you're invested in a security that you're very bullish on, you think the moves are going to continue to go up. You don't necessarily want to sell it at this time, right? Well, you could use it as collateral to borrow some cash to cover those needs. You do have to apply for margin, but once you're approved, you can actually use it right away, right? This will become available to you. Just because it is available to you, however, right, doesn't mean that you have to use it right away. If you'd like to set this up to have that line of credit when need be, absolutely can do so.

I also want to think about how maybe margin compares to a traditional loan, right? So, with margin, there's no closing cost, annual fees, setup fees, non-use fees. All of these things are going to apply to a majority of other loans, right? I think if you take out a mortgage, for example, right, you have a certain amount that's due every single month, right? You'll have closing costs associated with that. Same if you're purchasing a car, right? Additional fees that come into play. All of these types of loans, including margin, right? There is an interest rate factor as well, so certainly something that needs to be considered here, but the closing costs here should as well. And also, too, with margin, right, you don't have to pay back at a certain time; you don't have pay back a certain amount a month. Of course, the exception is if you do find yourself in a margin call, that is when a payment is due. If you're maintaining your proper equity, right, there's no need to make a deposit. When it comes to actually making a deposit, you can pay back your loan by depositing cash or selling securities at any time, right? So perhaps in the first scenario we talked about, maybe the tax situation, or maybe it's a new year, it makes sense now; you're able to handle that tax burden this year; maybe now is when you place that sell, and it's automatically going to go to cover that debit balance here for you.

Also, a very easy access to money here as well. Once you apply for margin, right, you can withdraw money through any of our existing account features, right? First one, electronic funds transfer, right? This is our ACH transfer, where you can transfer money directly to your bank account, and you can also bring money back in from your bank account. You can wire money off your bank as well if you needed it same day, for example, or if you have check-writing feature set up on account, you could simply write a check.

The key takeaway here is that once you apply for margin though, all of this is actually handled automatically. If you take money to your bank, you don't have to give us a call and say, Fidelity, can I borrow on margin? You're already approved for that to the cash that you have available. If you have cash in your account, for example, right, and you want to do a withdrawal, we'll still take the cash first. If you a withdrawal for more than the cash, after the cash is taken, the rest will go towards a margin debit. If you were to bring a deposit back in, for say electronic funds transfer, right, if you have a margin debit, that transfer is going to automatically go towards covering that margin debit. Anything in excess is going to head into your cash core account. So very simple; there's nothing additional that you have to do to designate; we're automatically going to withdraw from margin or deposit to margin to cover your balance as cash funds in and out of the account here.

So that's on the cash side, and then we have some additional risk though to consider, especially when we're thinking about the security side, or purchasing additional securities as well, Brett.

Brett Yoder: No, without a doubt. I mean, keep in mind, if you haven't gotten it yet at this point in the presentation, our collateral here is something that's subject to market volatility. And the market can move quick; I don't think anybody is unaware of the fact that we sold off almost 37% over the past few months, have nearly retraced if not more than retraced in certain sectors, but market can be extremely volatile, and your collateral is based off of those market conditions. If everything falls down in value, there's the chance that you are going to have to make a payment. So again, margin calls issued, if your equity falls too low. Now if your positions go down, it's time to think about telling some of them to cover some of the loan that you have out on that. And because of that, going back to that first example of the amplified losses, right, using $10,000 of your own money, borrowing $10,000 to buy the 200 shares of that stock, what if that stock went to zero? Went bankrupt, it's done. Okay, you're out your $10,000 cash. You're also owing us $10,000 for the loan. You can amplify losses, can actually have losses greater than the original investment; it's possible. That situation can happen.

Going back to the margin calls just a little bit specifically, if the market conditions get so bad, and your account equity gets so low, there's the chance that we as a facilitator of the loan will sell out of your securities. It's not up for margin; if you take a margin loan with us, depending on conditions, we can definitely step into your account and trade for you, close out your positions, to bring your account equity back up. There's always a liquidation risk. So, when we go in to clear the margin to bring the equity back up, that takes all the decision out of you. You don't have a choice of what you're closing, because we're having to step in and meet that margin call, meet the payment that needs done, so liquidation of securities.

Trey mentioned interest rates. Interest rates may rise. They were at historic lows are far as interest rates are concerned. What happens when the interest rates go back up? What if our base rate goes back up? The original loan that you pull that you decided to take from us may get more costly, because that rate does change.

Let's take one more, just a little bit longer here on the idea of a margin call. And from experience, I mean the idea of using margin is pretty straightforward, especially if you're using it to invest, and your investments are appreciating in value, it seems you don't normally have a problem with that, remember, amplified returns. But when you do have those amplified losses, margin calls are something you must be aware of, okay? We tried to make it simple for you, left side of the slide here is our balance page, we'll show you live in just a moment. But here, we see a very large yellow box. Listen, you've got a margin call given. And keep in mind, it says margin calls. Margin calls, you can have more than one. One can be issued on day one; another one on day two; another one on day three, et cetera, always due to whatever the market movement is of your security at the end of the day, your securities.

So, to satisfy the margin call, go back over the right side here for a moment, it's a due date; a payment's due, so you can meet it by cash, and deposit some money. You can actually deposit a marginable security. You know, if you bring in something that you have 100% equity in, you own it, well that amount can be applied to your margin call to a certain degree. Again, it'll bring up its percentage worth of value to your account, but it would bring your equity up, so you can deposit cash; you can deposit marginable securities. From a trader's perspective though, consider the idea of selling shares, okay?

Obviously, your investment have not fallen through with your outlook. If you're buying shares, you're bullish. Right, if the value has fallen down to the point where you need to make a payment, that bullish outlook, however you've established it in almost every case will be null. So, we don't necessarily want to hang on to our bullish ideas, if we're no longer bullish with the outlook, the outlook was wrong selling shares to bring the equity back up, closing out some of the loan, right? That would be one of the ways that you can satisfy the margin call. And obviously there's more resources for you; you can find a lot of information online, and I think, Trey, that's where we should go right now is to fidelity.com with your demo, and let's start talking about the margin feature online.

Trey Jarrell: Yeah, thanks Brett. Going back to the margin call, thoughts on that for just a moment. We have to keep in mind, we're making a decision to enter into margin, but we could make a responsible decision with how much capital we are actually using and putting towards that margin. So, just because we see a full amount available to borrow, right, doesn't necessarily mean we have to use it all. Using it all is going to be the scenario where we run into some of those calls here. So, let me go ahead, I've got my screenshare popping up here right now, and what we want to do with the screenshare portion here for the day is take you through some of the resources that are available to you, as well as understanding our margin balances, and also going and spending some time into the margin calculator.

So, we're going to start out here. I brought this onto a page that everyone should be familiar with here. This is our main portfolio summary page. First page, most of us are going to see when we log in. So, to see some of the resources available, we're going to start by going to the investment products menu here at the top right, so investment products. Third one down, our submenu is trading, right? So great resource here for all of your trading needs. On the left-hand side, we'll have an additional column here with a few other choices, and you'll see we do have a section on here for margin loans. This is going to be our homepage for our margin loans, and hopefully, up in front here for everything very clear, if you're wondering how to apply for margin, you'll see the link is going to be right here, front and center, orange box, "apply for margin." So, one more time, this was investment products, trading, and margin loans.

If we scroll down the page, this is where you'll see a lot of additional resources. A lot of covering the things that Brett and I were talking about, but if you'd like to do some additional reading afterwards, right, you can run across the tabs and learn more about margin borrowing.

Two other things I want to point out here in this section, on margin trading. We didn't spend a lot of time on some of these other potential benefits here, but if you are trading options actively here, some of our advanced options strategies actually do require margin, so if you are looking to use those strategies when you go through the options application, it will let you know you need for margin, and help with applying for those. If you are selling stocks for ETF short, it is a requirement to have margin as well. And also, if you're a very active trader, potentially day-trading, here along the way, there are some benefits here, or requirements to use margin depending on how active you are. There are some additional account balance requirements for that type of trading. We won't get too deep into it today, but if you are thinking of applying for margin with the intent of day-trading, I highly recommend coming into this section and taking a look through the day-trading FAQs just to make sure you're familiar with how some of the balances and requirements will differ.

Next tab over here is going to be our margin rates. So, you know, we mentioned here throughout, if you're borrowing on margin, right, you are being charged an interest rate, so what exactly is that interest rate? You'll find the up-to-date interest rates here on this page, right? So, with our interest rates, this does work on a tiered system. So, the higher debit balance that you actually take out, the more margin interest that you're actually being charged. Our lowest rate is going to be a million-plus debit balance with the four percent, and the highest interest rate is going to be on the lowest balance, between that zero and just about $25,000 at 8.325%, but of course many tiers in here along the way. When you're considering taking a margin loan, right, to find that accurate interest rate, you definitely want to come here, find where your debit balance is going to lie in here, so you can plan accordingly, or compare accordingly, here as well.

There's a quick example down here as well where we'll run through, I think this is helpful here for you, if you want to know how much interest you're being charged, we start with our average daily debit balance here. We're going to multiply by our margin interest rates, so in this case $100,000 debit. Rate is

6.825%, which of course, we can find back up here on our table, which will work out about $6,825 a year. We can divide that by 360 to get our daily interest charge of $18.96. So, margin interest is accrued in a daily basis, so every day you're running margin, right, you're accruing interest for that day, and margin interest is charged to the account once a month here, following the first business day after the 20th. Keep in mind, margin interest rates are subject to change, right, if interest rates are fluctuating; here, certainly we're in a period now with interest rates being held quite low. If that changes, rates can certainly increase, so it's something that you want to be paying attention to here also.

So, I'm going to scroll back up to the top. I want to spend some time on the account balances here next. And to get there, we're going to go to Accounts and Trade, and Portfolio. So if you've always had a cash account, and you've recently applied for margin, or you apply, you'll notice when you apply, you're going to have a few additional rows that pop up on our balances page, and we want to point out a few of the more important ones to pay attention to. So, we've gone back to accounts and trade portfolio, and selected the balances column that were selected on our test account here. First row here, something I'm sure we're all familiar with, we'll have our total account value and change. But right below that is where we're going to see a few different things populating. First one here is going to be our margin buying power, right? This is the amount that we have available to borrow, right, assuming we are purchasing fully marginable securities. Right, and you may be asking, how do I know if my security's fully marginable, or not? We'll cover this here in a few moments as we go through the margin calculator.

If we look to the right, we'll see that buying power right now, about $17,800. So, take a step back for a moment, think about the size of the account, $10,000, we actually have the ability to leverage and purchase up to $17,000 of fully marginable securities. This is a question you have to ask yourself, right? Do you want to borrow that much? Now generally, if we're using a margin, you know, or want to avoid things like calls, we're only going to be using a portion of this margin buying power, right? If we use this whole thing, and the stock just goes down a little bit, we're already in a situation where we're in margin call. So, you know, when you're thinking about how much to borrow, we want to think about the types of securities that you have, but also think about access to cash, right? If you're borrowing $5,000 in this account, but maybe you at hand only have $5,000 in a bank account that you could cover a debit if need be, it might be a safe portion here for you. So, think about the overall picture when you think about this here as well.

Next section down here is going to be for our non-margin buying power, and this is going to be the amount you have actually available to purchase non-marginable securities, so things like options, mutual funds, which are going to be marginable for the first 30 days, or stocks that are potentially not marginable, right? This would include things like penny stocks here as well. This balance is about $8900 here right now that we have available. Now this one, we want to be very careful; this isn't to be confused with not borrowing on margin, right? Because if we do spend this full $8900, we actually still are borrowing some on margin, just the new securities that we purchased, right, we are using as collateral, or can't use as collateral, because they have a full margin requirement here of 100%. If you are wondering, well, I'd like to have the margin on my account as a line of credit, but I'm not necessarily looking to borrow on a regular basis. I want to make sure if I'm purchasing, I'm not inadvertently going into margin. We want to pay attention to this next row down here which was our available to trade without margin impact. And this is telling us just that, how much can we purchase or withdraw right now without taking any impact on our margin or accruing interest, so you'll find that column here, or that row here.

I'm going to head up to the top-left here. I'm going to do a quick breakdown of all of our balances here by clicking show-all, and I just want to highlight a couple of these as we go through the list. You know, Brett talked about the account equity here as he went through the calculation. If you'd like to keep track of that, you'll find that right here; we don't borrow on margin on our test accounts, our account equity's at 100%. Another row down here is for our margin credit and debit, right, if you're wondering how much am I borrowing on margin, for example, this will show here. Also, right, if you've sold some securities on margin, right, this will show a potential credit here as well. But this is going to total up any credits or debits that you do have and list this here for you to help you pay attention.

I'm going to scroll back down to our additional balances. I won't get too deep into this; we'll spend some more time on the margin calculator, but here's where you'll find those surplus figures, or house surplus, exchange surplus, and margin equity. You might also find of interest the additional buying power balances, so things like corporate bonds, municipal government bonds. You'll notice some much larger numbers over here. Bonds have much lower margin requirements, and as such, you could purchase significantly more of these securities, and it lists out exactly how much down here.

Last section on the balances to highlight is our margin interest, so if you are borrowing on margin, I'm sure you want to pay attention to exactly what the interest rate is on your ping, as well as how much interest is accruing. This will show you the daily accrual here that we ran through the calculation with, just a few moments ago, as well as what your month-to-date interest rate accrued, which you'll find right here.

So below our balances, a few very important links to point out here as well. First one under trading profile. We have a section for trading restrictions and violations, and I think this actually probably speaks to one of the other benefits we haven't gotten in too much more detail here, Brett.

Brett Yoder: Yeah, without a doubt, to trade actively, and keep in mind we come from a background of supporting active traders, right, you have to be able to move in and out of the security and trade, sometimes even day trade, so in and out of the security in the same day, right, and to be able to do that multiple times, whenever an opportunity presents itself. To facilitate that, you would need margin; here's the reason why. Think about your cash trades. With cash trades, we need cash, cash in the account, settled money. If I wanted to buy a stock with cash, with the balances, we'd look at cash available to trade. That cash available to trade starts with settled cash, money that is fully settled out. When I buy a security, that's all fine and well. When I turn around and sell that security, now I have a cash credit. I don't have settled cash until settlement date. Now, in good faith, in a cash account, we'll let you trade and buy a new security based off of your cash credit with the full expectation you hold that new security until settlement date on the previous sell, on the sell that you used to fund the new purchase. And we do that because we don't want any overlap as far as you borrowing money from us, or not borrowing money from us, and on the cash side of these restrictions here, we see things called "good faith violations." That's if you traded too fast and didn't wait for settlement in cash. "Free ride" violations, where the account actually never had the cash at all for a purchase and sale that you did, right, and different cash restrictions. When you have that borrowing agreement with us, we have the understanding that if you trade and don't wait for settlement, that's okay. We might charge you a little bit of interest because we ended up giving up more or less a very fast bridge loan between settlements on your trades, okay? So, when we add margin now, we can buy and sell, and buy and sell, and buy and sell, we can trade as much as we wish, because we have that understanding.

And now, if you haven't checked out your trading profile in a while, I suggest you do so. If your balances, if you're fully established with margin, all of a sudden, the balances don't make any sense, let's jump here first. Let's look at that trading profile and see what may have happened. There's different violations that you can do, maybe if you spend a little bit too much money on margin, and day-traded it, and some other situations that can come up as far as how you're trading, right, that might affect your balances.

So, Trey, I'll have you close out of that screen, and I just want to point out on more thing. If you were looking through the balances, you know, specifically at thus house surplus number, which just had about $1,000 or $2,000 in it, and got a little bit confused, because you know we have over $7,000 worth of cash in the account. I want to point out that the way the accounting works is it's like you have two accounts under your same account number. You have your type one account, your cash account. You have your type two account, your margin account. They don't reconcile until settlement. So, Trey is going to demonstrate here with our margin calculator is maybe adding a position where the margin side of your account needs a payment; it has a call, where the cash side of your account has plenty of money to cover that call. So, it's a little nuanced situation that happens. But if you got confused on your balances, just remember, the accounting works margin-specific, and cash-specific; they only reconcile at settlement. With that, Trey, let's definitely walk through some of those transactions and how we can model them.

Trey Jarrell: Great point here, Brett. And real quick, before we kick into the margin calculator, just two things I'll point up here, point down here at the bottom under additional resources here, you will see a tab for set margin call alerts, so if you are applying for margin, as we've mentioned a few times, we'd encourage you to be thinking about how much you're borrowing, making sure you're not over-leveraging yourself, but very important to know if you are in a call, knowing as quickly as possible. You can set up an alert; we'll send an alert directly to you, if you are in a margin call, and if you do get one of those alerts, certainly encourage you to come in and think about taking action right way, whether it's depositing cash, selling securities. This can be a situation that certainly can be stressful, if you find yourself in a margin call for the first time here, feel free to give Fidelity a call; our traders are happy to help you out with all of your options here at that time. Also, if you're in a margin call, you can view the details of the margin call through the margin call summary. What we showed in the demonstration too, if you are in a margin call, we'll really highlight at the very top of this balances page, there will be a big notice here letting know you're in a call here, so no surprise there.

So very last resource on here, the one we're going to spend a few moments on, is our margin calculator. So again, this is at the very bottom of our balances page. We're going to go ahead and click the margin calculator.

Once this pulls up, we're going to have two windows, so there's two different functions we can use this tool for. The one on the left is a hypothetical transaction tool. What this allows us to do is put in a transaction, right? What if we want to buy some more stock, or sell some stock, or deposit or withdraw cash? We can enter that transaction right in here, and this will let us know how this is going to impact our balances. On the right-hand side, a price change tool. If the price of a stock goes up, or price of our portfolio goes up or down, how does this impact our balances?

Let's start with a hypothetical transaction. We're going to go ahead and click "enter transaction." Let's go ahead and maximize this window, hopefully good view for everyone. So, walking along the screen here, first section is going to be to add a transaction. This is our worksheet here where we can add a transaction. Keep in mind, we can add multiple transactions if we're planning on doing multiple buys or sells. Want to see how the balances look after that. We can fill those in here. Bottom section down here is our position. This is all the current positions in our test account. Shows the quantity, price, and value, and this is where we're going to find our margin requirements, how they stand currently in the account. So next to each position, you'll see a percentage as well as dollar requirement. You'll see some varying positions; there's a couple of international positions here that have 100% requirements, right, meaning those are our non-marginable securities. However, we see some 30%, 40%s here along the way.

Now these first two securities I'll point out, first one, Bank of America, you see at 35%. And under that 35%, you'll notice a couple of dots. I'm going to hover my mouse over this for a moment, and we're going to get a quick pop-up. Now we're going to see here that this 35% is made up of two different factors here, our base plus industry. So, our base is our base margin rate. So, this security is actually a fully marginable security. So, if you were looking at Bank of America, you had a fully diversified portfolio, or adding a small concentration into the position, you'd likely only have a 30% requirement. So, why is there an additional 5%? Why is the requirement here? Well, in our test account, we are having a little bit more concentration in a specific industry, right? So, we have both shares of Bank of America and Citigroup. If we are concentrating our account heavily into one specific industry or sector, we're potentially adding additional risk, right, if that sector, in fact, loses value, right? A big hit to a sector, right, can impact many different names in that industry, right? So, we're taking on some potential risk here, and as such, Fidelity's mitigating that risk by adding some additional requirements here. And what we call this here, this is called a "rule-based requirement," or RBR, if you want the actual term that we're using for it.

Jump down to Citigroup here, another example, right? Base is 30%. So again, another fully marginable security. This is also in the financial sector with Bank of America. So, you see an industry add-on of 5%, right, kind of further seeing what both of these have that additional exposure. But there's also a concentration on here as well as 10%. What this is telling us is that not only are we heavily concentrated in the specific industry, right, so we have an add-on there, we actually have a large percentage of one individual security, so we have an additional add-on there as well, right, further increasing our potential risk, right, if this one particular name falls, it's going to have more of an adverse impact on our overall account. Here we have to have a little more requirements added here as well. Great part about this calculator though is that we will be able to see those changes to rule-based requirements as we add in transactions.

Finally, on the right-hand side is where we're going to find our balances. Here is where we see same information right now that was on our balances page, our buying power, our surplus figures, and additional balances will show as things like how much cash we actually have available here in the account, all found down here at the bottom.

Let's go and add a quick transaction in here, and I'm going to start out by adding a stock trade. And you'll notice as we click our transaction type, we have a few different selections. We can do stock trade or option trade. We can do deposit, or withdrawal, right? These are going to be specifically for cash transactions if we want to see what adding or taking away cash will do as well. We're going to click "stock trade." I'm going to pick Bank of America. This is a security we already have in our test account here, and we're going to take a look at potentially adding some more shares. So, our action is going to buy. We're going to go ahead and do a big buy here of 500 shares at price here around $28, and I'm going to go ahead and click "add." Once we add, this will add onto our worksheet. If we were adding multiple transactions, we could simply click "add transaction," and click and add a few more. On here, you notice on the right-hand side, we have a spot to include open orders; if you've got multiple open orders, you can include this in the calculation, which may make sense, right, if you have multiple orders that are being executed, multiple buy orders for example, right, this is certainly going to impact your margin balances. But once we're ready with adding any transactions, we're going to go ahead and click "calculate" here.

Once we click "calculate," this will go ahead and run the numbers here for us. We'll see a few different changes, so our Bank of America highlighted here showing us the change. We had five shares; now we're up to 500. You'll notice our requirements have actually changed Bank of America, because we've added a large concentration, our requirement went up from 35% up to 40%. Right, so we've added some additional requirement here. Some other securities, right, Citigroup actually lowered the requirement here slightly. So, it will show all these changes. You'll see the new dollar requirement as well as the dollar change in requirement. On the right-hand side, we'll see our balance updates here as well. So, we actually bought $14,000 of securities, so now we have a debit of $14,000. You'll also notice on here, right, that you see house call listed. So, house call, you might be a little concerned, right, did I purchase too much?

Brett made a very good point here, regarding the balances, right? We have to think of this as two accounts, a margin account and a cash account. So, in this account, we do have cash available. So that $14,000, right, will actually take that $7300 available in cash, and that difference will be what the actual debit is for. But for our house call of $4,000, that will be covered completely from the cash that's available, so we're not actually in a call. So, we want to make sure we're paying attention to both of those.

So, one other quick transaction in the price change tool, and we'll wrap it up. At the very of our margin calculator, you do see a link up here for price change tool. This was the other box that popped up when we opened up our margin calculator, and what this allows us to do is impact changes in price. And we'll show a quick example here. Once select a question here, how do we want to model our portfolio, we can choose, model a portfolio price change, or model a stock price change. So, our portfolio price is going to allow us to see if a move happens, it impacts all of our securities, what will happen to our balances. To model a stock price change, we could simply put in a specific price that we want to calculate for any given stock, whether it's going up or down, and we'll recalculate our balances.

So, let's go ahead, let's model a change here. I'm going to do a negative example here first, right, which I think is an important way to use this tool. If you want to see, borrowing on margin, what happens if we have a big drawdown in the market, right? We just recently had a slightly over 30% in the S&P, so I'll use 30% here as a figure. What happens with our test account here? Well, luckily as you noticed, we have a quite a bit of cash, so we're not in any danger. You'll see on here, any changes to margin requirements that potentially have taken have place. But on the right-hand side, we'll actually see if we found ourselves in a call or not. So, you'll here we still have a house surplus, but our surplus did drop by $422; we're still safe. Right, if you're modeling these negative changes and you're seeing that call go up to large amounts of money that maybe you aren't able to deposit quickly, or not willing to sell securities, right, this is a sign that maybe you're using a little bit too much margin. We can also use this the other way, if we want to do a positive, to see how that impacts our balances. So, we can use this tool both ways. The main thing, I definitely encourage everyone before trading on margin, be comfortable with the balances. Put them in here. We want to understand if there's any rule-based requirement changes, how that's going to impact, but also, we can manage risk accordingly with this tool by seeing how some of those drawdowns are going to impact us here.

So, Brett, I'll pause right there. We'll stop the screenshare here for a moment and see what final thoughts you have before we wrap up for the day.

Brett Yoder: Yeah, Trey, thanks so much. And thank you, everybody, we're almost at the end of our hour. I want to take a moment just to review, and really point out there's a difference between having a margin loan and using the margin feature. As Trey showed us on that slide, that we have on Fidelity.com, outlining the margin feature, using or having margin active on your account, could give you access to option strategies, shorting, trading in a more frequent manner, you know, all of that can happen without ever taking a margin loan, if you have short-term liquidity needs, don't want to sell any of your portfolio, okay, now you have the ability to do that; you have the ability to take some money out, pay it back over time, pay it back through the appreciation of your portfolio, and then ultimately sell off your positions to pay it into the future. On the margin loan. How it falls into a trading plan; it can absolutely amplify returns. We saw that, but it comes with the risk of amplifying the losses, so depending on your use of it. Do you overleverage? Are you just going to use a little bit? Are you going to follow a disciplined trading plan? Have you accounted for the drawdowns? Do you understand your balances to the point of being able to use the margin calculator, like Trey showed us? Both with new purchases or sells, and with price fluctuations on the portfolio? These are all things that you need to really arm yourself with and be comfortable with before you jump into using a margin loan. Margin feature very specific to the people that need that. You're probably already aware that you needed margin, right, but I do want to just draw that line and margin feature, having the margin feature does not equate to having a margin loan. A margin loan will be a decision that you make to either withdraw money or overextend or use leverage in your account. As always, take the next steps. As resources, our Learning Center is robust; we have many different articles about margin. The Trading Strategy Desk offers coaching sessions, as well as classrooms to helping with the discipline of a trading plan. Please utilize us, right. And you can always call in to our wonderful staff who are staffed 24/7 over the phone to help you with margin, margin loans, maybe if you do have questions about balances, et cetera, we're here for you over the phone as well.

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