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How To Apply For And Use Margin: Audio Script

[Music in background throughout]

[Merrill® logo on screen throughout]

On screen copy:
How do I apply for and use Margin?

On screen disclosure:
Please see important information at the end of this video.

As an experienced investor, you've probably heard about traders using Margin to increase their buying power. That said, Margin involves risk, and it isn't for everyone.

But if you're curious about learning how to get started, this video is a good way to begin.

You can also always find more information on the Margin Education Page in MerrillEdge.com,

[Learn About Margin is selected on the Merrill Dynamic Insights page]

with even deeper detail available in the Margin handbook.

[Ways to use margin loans page]

In this video, I'll cover getting started with Margin, understanding Margin buying power, and then understanding day trade buying power, which is a little different.

On screen copy:

1. Getting Started with Margin
2. Margin Buying Power
3. Day Trade Buying Power

Feel free to skip ahead by clicking down below if you know which section you're looking for, but right now, let's talk about getting started.

On screen copy:
1. Getting Started with Margin

The first thing to understand is that opening a Margin account requires approval, and not every account is eligible. So how do you apply for Margin?

You can apply for Margin during the account opening process,

[Merrill Edge fictional client homepage]

or you can find the online application by clicking on the Trade tab and selecting 'Apply for Margin.'

[Trade tab is clicked and Apply for Margin is selected]

If you don't see this link, you may already have a Margin account or do not have an eligible account. You'll be able to tell when you get to your accounts page.

Once you click to go to the application, your eligible accounts will display in the drop down.

[Margin Account Application page]

Before proceeding with the application process, you'll be required to view and understand the Margin agreement and then follow the prompts to complete your application.

[Accept Terms and Condition is checked and Continue to Agree and Submit is clicked]

Your Margin account will need to be approved before it's enabled – and it may take a few days for you to get an email confirming approval.

[Notification bubble with "Application for Margin Approved" appears]

But like I mentioned before, not all accounts are eligible for Margin because of the risks involved.

Now you have a solid grasp on applying for Margin. Assuming you are approved, the key to using your Margin is understanding your balances. Let's start by looking at how they're displayed.

You can access your balances by clicking on the Account tab and selecting ‘Balances.’

[Fictional client homepage, Account dropdown, Balances is selected]

You can click on any term here to see its definition, and at the top of the page you will find the account information details. Here is where you can see if you already have a Margin account.

[Balances page shown]

The account information details will display your selected account’s credit type: here you’ll see cash for a cash account and once your Margin application is approved, you will see Margin and new balance details.

Within your account information box, you’ll also see your pattern day trader status. If this is a yes – you’ve made 4 day trades that represent 6% or more of your total trades in a rolling 5 day period and you will see additional balances that we will cover soon.

If you see an interest rate here, this means you are holding a Margin loan. Which really means, you are using borrowed funds in your account.

An estimate of the month-to-date interest charges that will come due are also found here. It’s important to know that the margin interest rate shown here is not a real-time accrual.

That’s the way it works; Margin interest accrues daily and is charged monthly.

On screen copy:
Margin Interest

- Accrues Daily
- Charged Monthly

So now that you have a Margin account set up and have an overview on Margin loans and interest, let's get into the details of how your balances work.

On screen copy:
2. Margin Buying Power

Let’s look at your new Margin figures.

[Balances page shown]

At the top, you will find your total account balance. You can select ‘show balance details’ to see the figures that are included in the calculation.

[Show details is clicked]

You can also click on each term to get its definition.

Next you will see your Margin buying power.

[Show details is clicked to reveal additional Margin buying power details]

This is the maximum amount that you can purchase of a fully marginable security, which is normally a security that is trading over $10.00 a share and listed on a major exchange or major exchange subsidiary.

[Available to trade by product class details shown]

Your Margin buying power is determined by what security you intend to trade. Each security has its own requirement. If you are looking to trade various product classes – the max amount you are allowed to trade is displayed here.

If you are the type of investor that does not want to create a Margin loan – then you will want to pay attention to the cash available to invest. Investing more than this amount will result in a Margin loan - seeing $0.00 in this field is another indication that you are borrowing.

So how is your Margin buying power determined?

On screen copy:
Margin Buying Power

- Firm Maintenance
- Regulation T

Your account’s Margin buying power is driven by one of two requirements which are: Firm Maintenance and Regulation T.

On screen copy:
Firm Maintenance
- Determined by Merrill

Regulation T
- Federal Requirement
- Normally 50%

Firm Maintenance is determined by Merrill and Regulation T is a federal requirement. Let's break that down further. Firm Maintenance and Regulation T requirements are security specific – the granular details can be found in the Margin handbook.

Regulation T represents your initial requirements – which are normally 50%.

[Balances page shown]

That means if you deposit $5,000 into your Margin account, you can purchase up to $10,000 worth of fully marginable securities because you are required to initially pay for 50% of new purchases. Anything you own in excess of what's required by Regulation T is reflected here, in the Special Memorandum Account or SMA.

[Key margin values details shown and Special memorandum account $5,000.00 is highlighted]

Firm Maintenance Requirements are different. They're normally 30%. In this same example, if you were to deposit $5,000 into your Margin account, you would be able to purchase $16,666.66 worth of securities based on this requirement, because 5,000 is 30% of that total.

Anything you own in excess of the Firm Maintenance requirements is called Firm Maintenance Excess or FME.

[Key margin values details
Firm maintenance excess $5,000.00 is highlighted]

Your Margin buying power will be based off of the more restrictive requirement, firm maintenance or Regulation T, when comparing the two.

On screen copy:
Film Maintenance vs. Regulation T
- Lower figure determines Margin Buying Power

In the example we've been looking at, your Margin buying power would be $10,000.

[Balances page shown]

As your portfolio appreciates, your Margin buying power may appreciate as well – which means you create the ability to leverage more. This is how Firm Maintenance Excess is created and how your Special Memorandum Account increases.

[Key margin values details
Firm maintenance excess and Special memorandum account are highlighted]

Firm Maintenance Excess may go down when your securities depreciate but your Special Memorandum Account will not. This is how a Margin account switches from being driven by Regulation T requirements to Firm Maintenance Excess.

Now let's assume your Margin buying power is driven by firm requirements or FME, how would a purchase affect your balances? Let's buy 100 shares of a fictional stock, at $90.00 a share, spending a total of $9,000.

On screen copy:
x100 shares at $90 per share = $9,000

Since the stock is a fully marginable security, it has a 30% requirement.

[Balances page shown]

The purchase price, dollar-for-dollar, will reduce your Margin buying power and the requirement will be subtracted from your Firm Maintenance Excess.

In this example, your Margin buying power is reduced by the full purchase price, $9,000, to $1,000 – and you'll see the Firm Maintenance Excess reduced by the requirement, $2,700, which is 30% of $9,000, down to $300.

Let's pause here and talk a little more about Firm Maintenance Excess.

You are generally required to maintain at least 30% equity in your Margin account.

[Graph showing 3 columns

Stock A $90/share
Stock B $90/share
Stock C $90/share
30% requirement is highlighted
FME showing $0 across all 3 stocks]

However, the requirement is driven by the securities you hold. Firm Maintenance Excess (FME) occurs when the equity in your Margin account exceeds the Maintenance Requirement.

When the market value of your securities increase, so does your FME. Your FME will also decrease when the market value of your securities decreases. So what will happen if Stock A were to drop in value from the purchase price of $90 to $80 per share?

[Graph showing 3 columns
Stock A moves to $80/share
Stock B $90/share
Stock C moves to $120/share
30% requirement is highlighted
FME showing adjustments across all 3 stocks]

Well, your total position value will drop from $9,000 to $8,000 – in other words, decrease by $1,000.

[Balances page shown]

Your firm maintenance excess will also be reduced. In this example, 70% of the market value decrease – in this case the market value decrease is $1,000 and 70% of $1,000 is $700. Before the decline, the Firm Maintenance Excess was $300. We now reduce the excess by $700 and a deficit of $400 is created. This results in a Margin call of $400.

[Key margin values details
Firm maintenance excess $0.00 is highlighted]

It is a best practice to cover your Margin call when issued, however to prevent a liquidation of your securities it's important to resolve the call promptly and no later than the due date. A sell out or liquidation can occur at any time, on any security, regardless of the due date and without notification.

So how can you resolve your Margin Call? There are three ways: you can meet your Margin call by selling securities, depositing funds or marginable securities.

On screen copy:
How to resolve a Margin Call

- Selling securities
- Depositing funds
- Depositing marginable securities

If you choose to meet the call by depositing funds, the exact amount of the call would need to be transferred.

[Transfers & Withdrawals page]

In this case, $400.

[Continue transfer is selected]

If you choose to meet the call by selling securities, only the requirement of the securities will go towards your call.

For example, since Stock A has a 30% requirement, you will need to sell $1,334 worth of Stock A to satisfy a Margin call of $400. Essentially, 30% of $1,334 is $400, the amount of the call.

On screen copy:
Since Stock A has a 30% requirement, you would need to sell $1,334 worth of Stock A.

Another critical thing to know in advance: if you are issued multiple Margin calls and any become past due, a sellout or liquidation is likely to occur without notice and all of your Margin calls -- even the ones that aren’t at their due date yet -- will be satisfied upon liquidation.

On screen copy:
If any Margin calls become past due, a sellout/liquidation is likely to occur and all of your Margin calls will be satisfied.

It’s important for you to be aware that Merrill has discretion to sell any security at any time without notice. There are also some special circumstances that can change your Margin requirements depending on your specific account holdings.

On screen copy:
Concentration Requirements

On screen disclosure:
Merrill may choose to charge concentration requirements in addition to the standard 25,000 shares and 25% of Long Market Value/ Short Market Value.

So, in this section, we’ll cover what you need to know about Concentration Requirements.

What is a concentration requirement?

[Available to trade by product class section of Accounts page]

This is a special requirement when you have more than 25,000 shares that make up more than 25% of your account’s equity.

And these concentration requirements are determined based on the security you’re buying.

[Ways to use margin loans page
Equity Margin Values page]

On screen disclosure:
Merrill may choose to charge concentration requirements in addition to the standard 25,000 shares and 25% of Long Market Value/ Short Market Value.

At Merrill, higher maintenance requirements apply on positions in excess of 25,000 shares if the concentrated position represents at least 25% of the account’s equity long market value or short market value.

[Long Concentrated Positions are subject to the following requirements page]

This will affect both Margin buying power and day trade buying power. You can find the requirements for each product type and concentration positions outlined in detail in the Margin handbook.

On screen copy:
Merrill Edge® Self-Directed
Margin Handbook

A few moments ago, I mentioned Margin buying power and day trade buying power. However, these two figures are actually calculated very differently. So let's focus in on your buying power as a day trader.

If you are designated as a day trader, you will see a 'Yes' under account information.

[Pattern day trader status section of Balances page]

With this designation, you are required to have a minimum equity of $25,000 and a new buying power field will display called day trade buying power.

[Key margin values section of Balances page
Minimum margin equity requirement $25,000.00 is highlighted]

If you intend to day trade, you should look at this figure.

[Buying power section of Balances page]

If you intend to hold a security overnight – then you can use your Margin buying power.

The reason for the distinction is that if you open a position that exceeds your day trade buying power and you do not hold it overnight, you will create a day trade call.

Your day trade buying power is always determined by your close of business values.

Which really means you will have a new day trade buying power figure each morning before you start trading.

On screen copy:
Each morning before you start trading

The day trade buying power that you see before placing any trades is your high watermark.

[Buying power section of Balances page
Day trade buying power $10,000.00 and
Cash available to invest $0.00 are highlighted]

You cannot have any opening trades greater than this amount at any time. Otherwise, you need to hold the position overnight.

For example, if your day trade buying power is $10,000, you can buy 100 Stock A for $6,000, and 100 Stock B for $4,000.

On screen copy:
Buy 100 shares of Stock A for $6,000
Buy 100 shares of Stock B for $4,000

At that point, your day trade buying power of $10,000 is maxed out.

[Buying power section of Balances page
Day trade buying power $0.00 and
Cash available to invest $0.00 are highlighted]

Now later in the day, let’s say you sell Stock A for a total of $7,000.

On screen copy:
Sell 100 shares of Stock A for $7,000

You will have the full purchase price, or $6,000, credited back to your day trade buying power. Not the $7,000 sale price.

[Buying power section of balances page
Day trade buying power $6,000.00 and
Cash available to invest $0.00 are highlighted]

That’s because regardless of how much you gained or even lost on the Stock A trade you are only credited back the purchase price. This is sometimes referred to as “Recycle” or “Time and tick.”

Your gain or loss is reflected in your Margin buying power. This is how unrestricted day traders can trade as many times as they choose, because they are limited to only holding opening transactions no greater than their start-of-day day trade buying power.

[Buying power section of Balances page
Margin buying power $7,000.00 is highlighted]

If you do exceed your day trade buying power, you could get a day trade call if you sell the security purchased.

On screen copy:
Day trade call

So let's go back to our example. You recall we increased our buy and hold or Margin buying power to $7,000 but our day trade buying power was only restored to its high watermark of $6,000.

[Buying power section of Balances page
Margin buying power $7,000.00 is highlighted]

In this example, if you were to decide to make another trade later in the day and reinvest in Stock A with a purchase of $7,000, you will exceed your day trade buying power by $1,000.

On screen copy:
Buy 100 shares of Stock A for $7,000
[Day trade buying power $0.00 and
Cash available to invest $0.00 are highlighted]

If you intend to day trade and wish to avoid a restriction or day trade Call,

On screen copy:
To avoid a restriction or day trade Call

you are only permitted to sell 85 shares or about $6,000 today – which is equivalent to the amount of day trade buying power you have remaining for the day.

On screen copy:
Sell 85 shares of Stock A for $6,000

The remaining 15 shares must be held overnight.

On screen copy:
15 shares of Stock A held overnight

Your trade ticket will warn you of this, but it is important to note that Merrill will not stop you from selling, so it’s your responsibility to keep track of this.

On screen copy:
Merrill will not stop you from selling

If you do sell your entire position, you will receive a day trade Call, which can restrict your account.

On screen copy:
Sell 100 shares of Stock A for $7,000

If you exceed your day trade buying power multiple times through the day, your day trade Call is always equivalent to the highest requirement at which you exceeded your day trade buying power.

[Buying power section of Balances page
Day trade buying power $6,000.00 and
Cash available to invest $0.00 are highlighted]

In this example, that would be $300, which is 30% of the $1,000 you went over for the day.

[Warning notification shown on screen]

You will want to remember that larger requirements can also reduce your day trade buying power.

[Long Concentrated Positions are subject to the following requirements page]

Your account can become restricted in multiple ways. The restriction process and more detailed information can be found in the Margin handbook.

So, there you have an overview on the things you need to know to apply for and use Margin for trading.

If you have any questions, or just need a bit more help, give Merrill a call.

On screen copy:
Call 888.637.3343

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Merrill® logo

On screen disclosures:
When you purchase securities, you may pay for the securities in full, or if your account has been established as a margin account with the margin lending program, you may borrow part of the purchase price from Merrill. If you choose to borrow funds for your purchase, Merrill's collateral for the loan will be the securities purchased, other assets in your margin account, and your assets in any other accounts at Merrill. If the securities in your margin account decline in value, so does the value of the collateral supporting your loan, and, as a result, we can take action, such as to issue a margin call and/or sell securities in any of your accounts held with us, in order to maintain the required equity in your account. If your account has a Visa® card and/or checks, you may also create a margin debit if your withdrawals (by Visa card, checks, preauthorized debits, FTS or other transfers) exceed the sum of any available free credit balances plus available money account balances (such as bank deposit balances or money market funds). Please refer to your account documents for more information.

Before opening a margin account, you should carefully review the terms governing margin loans. For Individual Investor Accounts, these terms are contained in the Margin Lending Program Client Agreement. For all other accounts, the terms are in your account agreement and disclosures. It is important that you fully understand the risks involved in using margin. These risks include the following:

You can lose more funds than you deposit in the margin account. A decline in the value of securities that are bought on margin may require you to provide additional funds to us to avoid the forced sale of those securities or other securities in your account(s).

We can force the sale of securities in your account(s). If the equity in your account falls below the maintenance margin requirements or Merrill's higher "house" requirements, we can sell the securities in any of your accounts held by us to cover the margin deficiency. You also will be responsible for any shortfall in the account after such as sale.

We can sell your securities without contacting you. Some investors mistakenly believe that they must be contacted for a margin call to be valid, and that securities in their accounts cannot be liquidated to meet the call unless they are contacted first. This is not the case. We will attempt to notify you of margin calls, but we are not required to do so. Even if we have contacted you and provided a specific date by which you can meet a margin call, we can still take necessary steps to protect our financial interests, including immediately selling the securities without notice to you.

You are not entitled to choose which securities in your account(s) are liquidated or sold to meet a margin call. Because the securities are collateral for the margin loan, we have the right to decide which security to sell in order to protect our interests.

We can increase our "house" maintenance margin requirements at any time and are not required to provide you advance written notice. These changes in our policy may take effect immediately and may result in the issuance of a maintenance margin call. Your failure to satisfy the call may cause us to liquidate or sell securities in your account(s).

You are not entitled to an extension of time on a margin call. While an extension of time to meet margin requirements may be available to you under certain conditions, you don't have a right to the extension.

If you have any questions or concerns about margin and the margin lending program, please contact the Merrill Investment Center at 877-653-4732.

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[End of transcript]