Your Flexible Line of Credit

Let a Margin Loan Put Your Assets to Work

LPL Financial

Margin Lending Through LPL Financial

Everyone needs access to cash now and then—whether for a new car, a home renovation, or college tuition. When using emergency funds may not be the best option, many of us turn to other loan vehicles, such as credit cards or home equity loans. One source that most of us overlook is tied to our investment portfolios: a margin loan.

A margin loan is a flexible line of credit that allows you to access equity against the funds you already hold in your investment accounts. Some of its potential benefits include:

Flexible Repayment Options—As long as you adhere to minimum equity requirements, margin loans do not inherit a set repayment schedule. Like most traditional loans, interest will continue to accrue, until you decide to repay.

Lower Rates—Interest rates on margin loans are often lower than the interest rates on your credit cards and other consumer loans.

Immediate Funds Access—Marginable securities can provide same-day cash availability in comparison to other traditional lending options.

Extended Funds Availability—You can continue to keep an emergency cash fund while leveraging your equity for short-term lending needs.

Tax Advantages—There may be possible trading opportunities that are advantageous to your tax situation. Some interest on your margin loan can be tax-deductible, but it's important to consult with your tax advisor.

Increased Buying Power—Buying on margin allows you to increase your purchasing power, which can allow you to take advantage of margin opportunities. Please refer to the risks involved with this on page 4.

Diversification—Access to more funds means you can diversify across asset classes, industries and companies, which can help reduce risk.

Should I Use Margin?

You can use a margin loan for a variety of reasons, however, it's important to understand when it makes sense to use a margin loan versus other forms of loans. Some uses for a margin loan might include:

- Short-term financing (such as bridge financing for a new home)
- Consolidating high-interest loans
- Tuition or other education expenses
- Renovations to your home
- Medical expenses
- Emergency repairs
- Business opportunities
- Boat, car, or other luxury purchase

Margin Loan: How It Works

Instead of borrowing from a bank or using a credit card with a high interest rate, you're borrowing against your investments held with your advisor or broker, using the wealth you've created in your accounts.

The line of credit is only available on certain types of accounts, but you may be able to borrow up to 50% of the value of your margin-eligible securities.

Keep in mind, your investments are typically designed to help you achieve longer-term goals. Selling those investments to gain access to funds could disrupt those plans and might incur tax consequences.

Interest Rate

An interest rate is applied to the balance of the loan from its start date and will charge back to the account. Interest is calculated daily based on the size of your loan and applied to your account monthly. You will need to pay interest on the amount of the loan you have on margin. Always compare interest rates to other lending options.

Investments vs. Interest

When you take a margin loan, you continue to own the underlying investments, so you still earn interest and dividends on those investments, which could be used to help offset the amount of interest that you pay on the loan.

Paying It Back

The repayment schedule can be flexible, allowing you to repay the loan at your own pace. But remember, you must repay the loan and interest in full.

The trade-off to flexibility is the potential for a margin call. If the value of the investments serving as collateral for the loan fall below a certain amount, you may be required to deposit cash or additional securities on short notice. If these are unavailable, the securities in your account could be sold to meet the margin call.

Real-Life Examples

We’ve Found Our Dream Home

Jack and Diane are looking to move into their dream retirement home and have finally found the perfect place. While going through the appropriate steps to place their current home for sale, they want to make sure that they don’t lose out on the opportunity to buy their dream retirement home. Rather than incurring a large capital gains tax on their investment assets, they use a margin loan against their brokerage account to secure the purchase while their long-term mortgage financing is being finalized. Once their current home has sold, they use the proceeds to pay off the margin loan balance and retain their investment cost basis.

It’s Time to Remodel

Rachel recently decided to stay in her home for another 10 years and wants to remodel her kitchen over the next year. Her options include: using cash, a credit card, a home equity line of credit, or margin. She decides to use the assets in her $250,000 brokerage account because of the current interest rates, the unknown of how much funding she will need, the flexible repayment options, and her desire to keep an amount of emergency savings available should something come up.

The examples provided are hypothetical and to show how a margin loan strategy may work. It does not take into account any fees and charges inherent to investing.

Borrowing vs. Leveraged Investing

Margin loans can also be used to boost your investing power—potentially growing wealth, diversifying your portfolio, and possibly taking advantage of tax benefits. But if the markets decline, your losses are amplified as well.

A margin loan uses your existing shares, funds, and cash as collateral. These assets are used to calculate a loan-to-value ratio (LVR) to determine how much you can borrow. You can use these available funds to buy additional investments to expand your portfolio. But you should consider your investment experience, percentage of net worth the leverage represents, ability to make interest and principal payments, access to cash or marginable securities to satisfy margin calls, and capacity to withstand a potential loss.

Important Considerations

There are certain risks to borrowing money against your investments, so consider all of your options—it is not suitable for all investors. Some examples include:

- Market fluctuations may cause the value of your pledged assets to decline
- A decline in the value of your securities could result in selling your securities to maintain equity
- Adverse tax consequences after selling securities
- An increase in interest rates could affect the overall cost of borrowing
- Just as borrowing to invest can potentially increase profits, it can also magnify your losses, should the market turn the wrong way
- If the overall value of your portfolio falls to an extent that it exceeds your LVR, you'll need to resolve/satisfy a margin call, which requires investors to pay cash or deposit marginable securities to support the increased LVR, sometimes on short notice.
- Your downside is not limited to the collateral value in your margin account
- Due to price, volatility, or liquidity, some holdings may be more sensitive to market movements and represent greater risk.

Best Practices for Managing Margin Accounts

- **Create a Plan and Stick to It**—Continuously be aware of the purpose of the loan, the investments involved, and your exit strategy. Market fluctuations are inevitable, so having a contingency plan in place, in the event of shifts, is the best course of action.
- **Understand the Risks Involved**—Minimum margin requirements were set by our regulators for a reason. Be sure to understand what your appetite for risk is and make sure to monitor your activity to avoid overleveraging.
- **Diversify Your Assets**—The best opportunity to maximize margin usage is to diversify your investment strategy with different investment options. Low-priced securities or concentrated positions can lead to larger shifts in the market, which increases the likelihood of having a negative impact on your margin strategy.
- **Monitor Your Margin Balance**—It is important to be mindful of your loan balance. Changes in market values can move assets closer to being called if consistent monitoring is not taking place.

An Investment Scenario: How Margin Loans Work

To learn more about margin loans and if they may be appropriate for you, contact your financial professional.

Additionally, more resources and Frequently Asked Questions are available through our online portal at www.LPL.com.

Investment Gain Without Margin

You pay cash for 100 shares of a $100 stock	
100 shares × $100/share =	$10,000
Your stock rises to $110 and you sell 100 shares	
100 shares × $110/share =	$11,000
Your gain	
$11,000 Sell - $10,000 Buy =	$1,000

Investment Loss Without Margin

You pay cash for 100 shares of a $100 stock	
100 shares × $100/share =	$10,000
Your stock falls to $90 and you sell 100 shares	
100 shares × $90/share =	$9,000
Your loss	
$9,000 Sell - $10,000 Buy =	(1,000)

* 5% stated interest rate is a simple interest calculation in this hypothetical example and remians constant throughout the year. Actual margin rates will be higher due to the daily compounding feature that is charged on a monthly basis. Additionally, no commission charges are accounted for in this example. Final figures will be different when commissions are considered.

Investment Gain with Margin

You pay cash for 100 shares of a $100 stock	
100 shares × $100/share =	$10,000
You buy another 100 shares on margin $0	
Margin Interest is 5% per year*	
Your stock rises to $110 and you sell 200 shares	
200 shares × $110/share =	$22,000
You repay your margin loan	
100 shares × 100/share =	(10,000)
You pay margin interest	
5% Margin Interest × $10,000 Margin Balance = $(500)	
Your gain	
$22,000 Sell - $10,000 Purchase - $10,000 Margin Loan - $500 Margin Interest =	$1,500

Investment Loss with Margin

You pay cash for 100 shares of a $100 stock	
100 shares × $100/share =	$10,000
You buy another 100 shares on margin $0	
Margin Interest is 5% per year*	
Your stock falls to $90 and you sell 200 shares	
200 shares × $90/share =	$18,000
You repay your margin loan	
100 shares × 100/share =	(10,000)
You pay margin interest.*	
5% Margin Interest × $10,000 Margin Balance = $(500)	
Your loss	
$18,000 Sell - $10,000 Purchase - $10,000 Margin Loan - $500 Margin Interest =	($2,500)

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