



## **Practical Margin**

**Understanding Margin Trading at Terra Nova Financial, L.L.C.**

## Overview

Understanding these five key items will prove beneficial to your trading success here at Terra Nova.

1. **Margin vs. Cash Trading** – To trade effectively and seamlessly requires knowledge of these two sub-accounts.
2. **Key Margin Terms** – Understanding the terms found on your trade reports will help you better understand how to interpret your account.
3. **Buying Power** – Determine and identify buying power from your trading reports.
4. **Margin Calls** – Understanding the nature of margin calls will prevent your account from getting into them.
5. **Pattern Day Trader vs. Non-Pattern Day trader Status.** This is key to understanding how your buying power will be computed.

### Margin vs. Cash Trading

Terra Nova offers trading in a margin and cash account. The margin account is where you should place the majority of, if not all of your trades. It is important to note that placing a trade in the margin account does not imply that you are using margin (or borrowing funds) through Terra Nova. If you have enough cash in your account to completely pay for the position you will hold overnight, you will not be using margin through Terra Nova.

An example of using margin through Terra Nova is as follows: Trader A has \$25,000 in his account and purchases \$50,000 of ABC stock and holds it overnight. Since the account equity is \$25,000, trader A is using \$25,000 in margin (or borrowing \$25,000) from Terra Nova to hold this \$50,000 position overnight. Interest will be charged on the \$25,000 that is borrowed from Terra Nova until the position is closed or \$25,000 is deposited into the account.

### Margin vs. Cash Trading

Day traders are required to execute their trades in the margin account. This is imperative since most traders use intraday margin (where NO interest is charged –provided all positions are liquidated by the close of the regular trading session) to use 4:1 margin (The use of 4:1 margin is only applied to Pattern day trade accounts with a liquidating equity greater than \$25,000 and accounts coded as a non-pattern day trader). Further, the funds from trades that are opened and subsequently closed within the margin account are made available the next trading day (this applies only to overnight trades –funds from day trades that are opened and closed within the same day are released back into the account soon after the position is closed, minus losses. Gains not applied).

If daytrades are executed in the cash account, you may be subject to a day trading call.

Further, any closing transactions executed in the cash account must settle first (three business days after trade date) before the funds are available again for trading. If intraday positions are closed in the margin account, the funds will be released immediately for subsequent intraday trades (does not apply to closing an overnight position for pattern day traders).

The only trades that should be placed in the cash account are trades that are placed in an IRA account.

In sum, it is best to place all trades in the margin sub-account. If you hold a position overnight whose total market value does not exceed the cash in your account, you will not be subject to margin interest.

## Pattern Day Trader vs. Non-Pattern Day Trader Status

- A Pattern Day Trader (PDT) is defined by FINRA as one who actively trades. A trader is coded as a PDT once he/she executes more than 3 intraday round trips in a rolling, 5 business day period. A Non-Pattern Day Trader (NPDT) is one who is not considered/coded as a PDT.
- Whether you are coded as a PDT or NPDT will effect your buying power. If a trader is coded as a PDT, he/she must have a margin balance of \$25,000 or greater in order day trade and to take advantage of 4:1 intraday margin leverage. If a PDT has a margin balance less than \$25,000, then the account is restricted from day trading.
- A NPDT can use 4:1 leverage intraday on the cash available in the account. This 4:1 leverage will continue until the NPDT executes the amount of intraday trades (as noted above) that will then classify them as a PDT.
- When closing a position held overnight, a PDT will not get any release on the Minimum Maintenance Requirement whereas a NPDT will get a 100% release on the MMR for the traded overnight position. Note that a NPDT **must not** day trade with the proceeds released through the sale of an overnight position, otherwise, a day trade call could be issued.

Here is an example of how to determine the trading activity that could help determine if one is about to become coded as a PDT. It is important to note that this is based on a rolling 5 business day period.

Monday, March 17 - 2 trades  
Tuesday, March 18 - 0 trades  
Wednesday, March 19 - 1 trades  
Thursday, March 20 - 0 trades  
Friday, March 21 - Market Holiday - not considered a business day  
Monday, March 24 - 0 trades

Since Friday is a market holiday, the 5 day rolling period is Monday, Tuesday, Wednesday, Thursday and Monday. If a day trade was placed on Monday, that would have exceeded the three day trades in a rolling five day period, as such, the account would be coded a pattern day trader.

Tuesday, March 18 - 0 trades  
Wednesday, March 19 - 1 trade  
Thursday, March 20 - 0 trades  
Friday, March 21 - Market Holiday - not considered a business day  
Monday, March 24 - 0 trades  
Tuesday, March 25 - 1 trade

Now it is Tuesday. In the past five days only two trades were placed - therefore the account is under the trading limit - a day trade may be placed.

Wednesday, March 19 - 1 trade  
Thursday, March 20 - 0 trades  
Friday, March 21 - Market Holiday - not considered a business day  
Monday, March 24 - 0 trades  
Tuesday, March 25 - 1 trade  
Wednesday, March 26 - ?

Now it is Wednesday. In the past five days (including today) you have placed 2 day trades. You are still able to place one trade today and not exceed the three day trades in a rolling day period.

## Key Margin Terms

A complete knowledge of the different margin terms used to determine your excess equity (buying power) will help you better understand the trading reports provided by Terra Nova.

- **Liquidating Equity:** The balance of all cash and securities in your account, less any debit balance.
- **Margin Equity:** Balance of all Marginable securities (excludes Options and non-exchange traded equities) less any debit balance. Used to determine Overnight & Intraday excess.
- **Concentrated Account:** When one position encompasses more than 50% of the total account equity.
- **Market Value:** The total value of all positions within an account: Number of shares multiplied by the price of the shares.
- **Debit Balance:** The amount borrowed from the brokerage firm for the purchase of securities. Usually referred to as 'Margin'.
- **Marginable:** The ability of a particular security to provide loan value. Marginable securities are used as collateral and in the computation of buying power. Equities above \$4.00 in price are generally considered marginable. Option contracts are not marginable. Non-exchange traded equities are generally not marginable. Mutual Funds may be marginable after 30 days by notification only.
- **Excess Equity:** Account Margin equity less the maintenance (exchange) requirements of securities.

**Maintenance Requirement: The amount that will be deducted from the liquidating equity to determine the excess equity used to calculate account buying power.**

- Intraday (margin) maintenance requirements will determine the day trading excess equity for the day.
- For accounts with a liquidating equity above \$25,000 the intraday margin requirements for long positions is 25% and short positions is 30%. For accounts with a liquidating equity below \$25,000, the intraday margin requirement for long and short positions is 100%.
- Overnight (House) maintenance requirements will determine the overnight excess equity for the day.
- The overnight maintenance requirement of long marginable positions is 35%.
- The overnight maintenance requirement for short positions is 30% of the current market value or \$5.00 per share, whichever is greater.
- The maintenance requirement for non-marginable securities is 100% when determining both intraday and overnight buying power.
- For a concentrated account, the overnight margin requirements are 40% for long and short positions.
- All newly purchased overnight positions will have a 50% Reg T requirement.
- Illiquid and volatile stocks over \$4.00 will have at least a maintenance requirement of 50% though the requirement can go up to 100% depending on liquidity and volatility. Illiquid stocks are generally considered to have a daily volume less than 10,000 shares. A stock is also considered illiquid when a client's position is greater than the daily volume. Volatile stocks are generally classified as having a 25% or greater price move (up or down) over a 5 day period.
- The minimum maintenance requirements on leveraged ETFs are as follows:
  - Long leveraged ETFs (2x)      50% requirement

- Long leveraged ETFs (3x)      75% requirement
- Short leveraged ETFs (2x)      60% requirement
- Short leveraged ETFs (3x)      90% requirement

- The intraday maintenance requirements on leveraged ETFs are as follows:

#### **RealTick Trading Platform**

Day trade excess equity is uploaded to the platform as day trade buying power. Pattern day traders with a balance over \$25,000 have a standard Intraday Maintenance Requirement is 25%, deducted from Day Trade Excess Equity.

- Non-leveraged ETF                      25% requirement      (\$2,500 IMR on a \$10,000 MV day trade)
- Long leveraged ETFs (2x)              50% requirement      (\$5,000 IMR on a \$10,000 MV day trade)
- Long leveraged ETFs (3x)              75% requirement      (\$7,500 IMR on a \$10,000 MV day trade)
- Short leveraged ETFs (2x)              50% requirement      (\$5,000 IMR on a \$10,000 MV day trade)
- Short leveraged ETFs (3x)              75% requirement      (\$7,500 IMR on a \$10,000 MV day trade)

#### **Instaquote Trading Platform**

Day trade excess equity times four is uploaded to the platform as day trade buying power for pattern day traders. Standard Intraday Maintenance Requirement is 100%, deducted from Day Trade Buying Power.

- Non-leveraged ETF                      100% requirement      (\$10,000 IMR on a \$10,000 MV day trade)
- Long leveraged ETFs (2x)              200% requirement      (\$20,000 IMR on a \$10,000 MV day trade)
- Long leveraged ETFs (3x)              300% requirement      (\$30,000 IMR on a \$10,000 MV day trade)
- Short leveraged ETFs (2x)              200% requirement      (\$20,000 IMR on a \$10,000 MV day trade)
- Short leveraged ETFs (3x)              300% requirement      (\$30,000 IMR on a \$10,000 MV day trade)

If you currently hold or plan to trade leveraged ETFs or uncovered options on leveraged ETFs, or if you plan to day-trade leveraged ETFs, we highly recommend that you become familiar with the new margin requirements to help avoid a margin call. For details about the new FINRA requirements, please read [FINRA Regulatory Notice 09-65](#), [FINRA Regulatory Notice 09-53](#) and [Chicago Board Options Exchange \(CBOE\) Regulatory Circular](#).

## Key Margin Terms

### Maintenance Requirement Example

Customer A is short 100 shares of ABC at 15. The total market value of ABC is \$1500. 30% of \$1500 is \$450.

But according to the section on Maintenance Requirements in the previous slide, \$450 would not be the overnight (House) maintenance requirement for it is the greater of 35% of the market value of ABC or \$5.00 per share. The overnight maintenance requirement for a short position of 100 shares of ABC at 15 is \$500 (100 X \$5.00).

More examples demonstrating the relationship between buying power and maintenance requirements follow in subsequent slides.

**Buying Power:** The amount available to use to purchase stocks.

**If liquidating equity is \$25,000 or more:**

**Daytrading Buying Power** = 4 times Day Trade Excess Equity.

**Overnight Buying Power** = 2 times Overnight Excess Equity.

**If liquidating equity is less than \$25,000:**

**Daytrading Buying Power** = No day trading is allowed in PDT accounts below \$25,000.

**Overnight Buying Power** = 2 times Overnight Excess Equity.

*Note: In order to use 2 times Overnight Excess Equity for overnight positions, these trades must be called in to the Terra Nova Trade Desk.*

### Sample Buying Power Calculations

#### Example One:

Cash: \$25,000

Debit Balance: \$0.00

Market value of marginable securities: \$0.00

Market value of non-marginable securities: \$0.00

Liquidating Equity: \$25,000

Overnight (House) Maintenance Requirement: \$0.00

Intraday (Margin) Maintenance requirement: \$0.00

Day Trade Excess Equity: \$25,000

Day Trade Buying Power: \$100,000

Overnight Excess Equity: \$25,000

Overnight Buying Power: \$50,000

### Sample Buying Power Calculations

#### Example Two:

- Account holds 2,500 shares of XYZ stock. XYZ closed at 20.
- Concentrated account.

Cash: \$20,000

Debit Balance: \$0.00

Market Value of Marginable Securities: \$50,000

Market value of Non-Marginable Securities: \$0.00

Liquidating Equity: \$70,000

Overnight Maintenance Requirement: \$20,000 (\$50,000\*40%)

Intraday Maintenance Requirement: \$12,500 (\$50,000\*25%)

Day Trade Excess Equity: \$57,500(\$70,000 -\$12,500)  
Day Trade Buying Power: \$230,000  
Overnight Excess Equity: \$50,000(\$70,000 -\$20,000)  
Overnight Buying Power: \$100,000

### Sample Buying Power Calculations

#### Example Three:

Based upon the previous example, customer purchases 1000 shares of MNO stock at \$15 and holds overnight. Account is still concentrated since the market value of XYZ stock encompasses over 50% of the total account equity. XYZ again closes at 20. MNO closes at 15.

Cash: \$5000  
Debit Balance: \$0.00  
Market Value of marginable securities: \$65,000  
Market Value of non-marginable securities: \$0.00  
Liquidating Equity: \$70,000  
Overnight Maintenance Requirement: \$25,250  
MNO:  $\$15,000 \times 35\% = \$5250$   
XYZ:  $\$50,000 \times 40\% = \$20,000$   
Intraday Maintenance Requirement: \$16,250 ( $\$65,000 \times 25\%$ )  
Day Trade Excess Equity: \$53,750  
Day Trade Buying Power: \$215,000  
Overnight Excess Equity: \$44,750  
Overnight Buying Power: \$89,000

### Sample Buying Power Calculations

The following are examples of accounts with liquidating equity less than \$25,000.

#### Example One:

Cash: \$10,000  
Debit Balance: \$0.00  
Market value of marginable securities: \$0.00  
Market value of non-marginable securities: \$0.00  
Liquidating Equity: \$10,000  
Maintenance Requirement: \$0.00  
Equity: \$10,000  
Excess Equity: \$10,000  
Day Trade Buying Power: \$0.00  
Overnight Buying Power: \$20,000

### Sample Buying Power Calculations

#### Example Two:

Based upon the previous example, 1000 shares of ABC were purchased at \$20.00 per share. By the end of the trading day, ABC closed at 26. The equity was marked to the market. Note that the account is concentrated since ABC is the sole position in the account.

Cash: \$0.00  
Debit Balance: \$10,000  
Market Value of marginable securities: \$26,000  
Market Value of non-marginable securities: \$0.00  
Liquidating Equity: \$16,000

Maintenance Requirement: \$10400 (\$26,000\*40%)  
 Excess Equity: \$5600  
 Day Trade Buying Power: \$0.00  
 Overnight Buying Power: \$11,200

### Buying Power –Comprehensive Report

Use the Comprehensive report daily to help determine your excess equity that can be used for day trading and overnight trades. Based on the Comprehensive Report example in the next slide, you can determine the buying power for your account:

- Liquidating Equity: \$58,536
- Day Trading excess equity: \$55,166 (x4)
- Overnight excess equity: \$55,166 (x2)
- Maintenance Requirement on open positions: \$3370. The position is under \$4.00 in price and non-marginable. Non-marginable positions carry a 100% Maintenance Requirement.
- To determine the Day Trading and Overnight buying power, subtract the maintenance requirement from the liquidating equity. (Overnight excess equity = Margin equity – House Maintenance. Day-trading excess equity = Margin equity – margin maintenance requirement).

**Note:** Since the position is non-marginable, the overnight (house) and intraday (margin) maintenance requirements are both 100%.

### Buying Power –Comprehensive Report

- The position BGO is under \$4.00 and therefore non-marginable. The maintenance requirement is 100% (both intraday and overnight). The liquidating equity is reduced accordingly to calculate buying power.
- The position BGO is under \$4.00 and therefore non-marginable. The maintenance requirement is 100% (both intraday and overnight). The Liquidating equity is reduced accordingly.

Margin Equity	Margin Mnt Req	DT Excess Equity	Overnight Excess Equity
\$58,536.00	\$3370.00	\$55,166.00	\$55,166.00
Liquidating Equity	Opt Requirement	Option MV	ITM Amount
\$58,536.00	\$0.00	\$0.00	\$0.00

	Equity	Market Value	T/D Balance
<b>Cash:</b>	0.00	0.00	0.00
<b>Margin:</b>	58,536.00	3,370.00	55,166.78
<b>Net:</b>	\$58,536.00	\$3,370.00	\$55,166.78

Position	Symbol	Description	Price	Market Value	MMR	Type	Security
2,055.00	BGO	Bema Gold Corporation	1.64	3,370.00	3,370.00	Margin	Equity
<b>Totals</b>				<b>\$3,370.00</b>	<b>\$3,370.00</b>		

### Buying Power –Comprehensive Report

The figures below are derived from the next slide featuring a more involved comprehensive report.

- Day Trade Excess Equity: \$31,551.55
- Overnight Excess Equity: \$22,590.05
- Cash balance of \$10,980.71
- Debit balance of \$35,659.70
- Net debit balance of \$26,678.99 (Debit Balance –Cash Balance)
- Total Market Value of \$89,615.00
- Subtract the net debit balance from the market value to get the liquidating equity: \$64,936.01
- Liquidating equity less Margin/Intraday and House/Overnight Maintenance Requirement = Excess Equity.
- Margin Maintenance Requirement = Intraday Maintenance Requirement (25%)
- House Maintenance Requirement = Overnight Maintenance Requirement (35%)

### Buying Power –Comprehensive Report

Margin Equity	Margin Mnt Req	DT Excess Equity	Overnight Excess Equity
\$53,955.30	\$22,403.75	\$31,551.55	\$22,590.05
Liquidating Equity	Opt Requirement	Option MV	ITM Amount
\$64,936.01	\$0.00	\$0.00	\$0.00

### Totals by Account Type

	Market Value	Balance
Cash	0.00	10,980.71
Margin	89,615.00	(35,659.70)
Net	\$89,615.00	(\$24,678.99)

### Position Data

Type	Position	Symbol	Description	Price	Market Value	Margin Mnt Req	House Mnt Req
Margin	2,000.00			5.4000	10,800.00	2,700.00	3,780.00
Margin	4,000.00			10.5200	42,080.00	10,520.00	14,728.00
Margin	1,500.00			18.9800	28,470.00	7,117.50	9,964.50
Margin	500.00			16.5300	8,265.00	2,066.25	2,892.75

### **Identifying Excess Equity (Buying Power) in RealTick®**

The Multiquote and Tab View windows in RealTick will provide your account balance information. Both of the files used to view your balances are accessed through RealTick as favorites.

To access a favorite in RealTick, from the menu bar:

1. Click on Favorites, then Multiquote or Tab View.
2. From the sub-menus that will appear for either one, look for TN Account info under the Multiquote menu and Terra Nova Account Info under the Tab View menu.
3. Click once on the desired favorite file to populate a window with your balance information.
4. If choosing the Tab View Favorite "Terra Nova Account Info", click on the Excess Equity tab to view your balances

### **Identifying Excess Equity (Buying Power) in RealTick through the MQT favorite**

TabView : IBM | Excess Equity <TNTTEST;TNT-INHOUSE;TEST9;1>

Account: 1      Avail. Equity: 196,254.15      Closed P\_L: 0.00

Live Orders | Order Details | Position Details | Excess Equity

### Excess Equity & Buying Power Account: 1

**Today's Margin Ruleset: STANDARD 4 TO 1**  
 Buying Power is driven by your Margin Ruleset - see Buying Power Grid below

-----

<b>Opening DT Equity</b>	<b>196,254.15</b>
Intraday credits:	0.00
Realized Intraday Loss:	0.00
Intraday margin:	0.00
Pending margin:	0.00
<b>Available DT Equity</b>	<b>196,254.15</b>

-----

<b>Overnight Excess Equity</b>	<b>0.00</b>
--------------------------------	-------------

-----

**Buying Power Grid:**

Margin Ruleset	Intraday Buying Power	Overnight Buying Power
TNT Standard 4 x 1	4 x Available DT Equity	2 x Overnight Excess Equity
Cash Terranova	1 x Overnight Excess	1 x Overnight Excess Equity
1 x Cash Available	1 x Overnight Excess	1 x Overnight Excess Equity
TNT Daytrader Restricted	2 x Available DT Equity	2 x Overnight Excess Equity

Identifying Excess Equity (Buying Power) in RealTick through the Tab View Favorite

MQ: - TN Account Info.mqt <TNTTEST;TNT-INHOUSE;TEST9;1>

### Excess Equity & Buying Power Account: 1

**Today's Margin Ruleset: STANDARD 4 TO 1**  
 Buying Power is driven by your Margin Ruleset - see Buying Power Grid below

-----

**Opening DT Equity 196,254.15**

Intraday credits: 0.00  
 Realized Intraday Loss: 0.00  
 Intraday margin: 0.00  
 Pending margin: 0.00

**Available DT Equity 196,254.15**

-----

**Overnight Excess Equity**

-----

**Buying Power Grid:**

Margin Ruleset	Intraday Buying Power	Overnight Buying Power
TNT Standard 4 x 1	4 x Available DT Equity	2 x Overnight Excess Equity
Cash Terranova	1 x Overnight Excess	1 x Overnight Excess Equity
1 x Cash Available	1 x Overnight Excess	1 x Overnight Excess Equity
TNT Daytrader Restricted	2 x Available DT Equity	2 x Overnight Excess Equity

## Margin Calls

Margin calls may be assessed to an account for many reasons including:

- Exceeding your buying power for the day.
- Account equity falls below a certain percentage of total account value.

In order to avoid placing an account into a margin call, it is imperative to understand the nature of the different types of margin calls.

## Margin Calls –House Call

- A House Call is a type of maintenance call that occurs when the equity in the account is below the maintenance requirement, but above 25%.A maintenance call will be generated if your account equity falls below the maintenance requirement of your stocks (maintenance requirement is the amount of equity needed to maintain ownership of a particular stock).
- Marginable stocks that are not concentrated (see below) have a 35% maintenance requirement.
- All stocks below \$4 are not marginable and have a 100% maintenance requirement.
- Short positions have a 35% or \$5 per share requirement, whichever is greater.
- If 50% or more of your total market value is in one stock, it will be considered a “concentrated” position. A 40% maintenance requirement will be necessary on all concentrated positions.

## Covering a House Call

If a call is generated, you must bring your account to 35% equity or the maintenance requirement of your account, whichever is greater. If your account is concentrated, then you must bring your account to 40%.

If your account equity falls below 35%, you will be allotted 4 business days to cover the call. You will be given 3 days if your equity is below 25%. If the value of your account continues to fall to an unsafe level, the call may become due immediately and your account may become subject to liquidation.

All house calls must be covered by 3:00 PM EST (Eastern Standard Time) on the day the call is due. If your call has not been covered by 3:00 PM EST, your account will become subject to liquidation.

### To cover a house call you can either:

1. Liquidate positions.
2. Deposit cash in the amount of the call.
3. Deposit fully paid for, marginable securities with sufficient loan value to cover the call into the account.

Please keep in mind, when liquidating positions to meet a maintenance call, the amount of stock that is required to be liquidated is **three times** the value of the call if you are not concentrated. If you are concentrated in a position you need to liquidate 2-1/2 times the value of the call as the securities are on margin and not fully paid for. However, due to constant market fluctuations, liquidating securities may not meet a call if the account equity is not brought to 35% of market value by the close of the market.

## House Call Example

Trader A has the following account:

- 500 shares of XYZ. Market Value of \$10,000.
- 1000 shares of ABC. Market Value of \$20,000.
- 1000 shares of DEF. Market Value of \$10,000.
- 500 shares of ACD. Market Value of \$10,000.
- Total market value = \$50,000
- Debit Balance = \$35,000
- Equity = \$15,000
- Percent equity = 30%
- Since the account is below 35% equity and above 25% equity, a House call will be issued in the amount of \$2,500 to bring the account up to 35% equity.
- This can be met by depositing \$2500 in cash, liquidating \$7500 in positions or depositing \$2500 of fully paid for, marginable securities.

## Margin Calls –Exchange Call

- An Exchange Call is a type of maintenance call that occurs when the equity in the account falls below 25%. A maintenance call will be generated if your account equity falls below the maintenance requirement of your stocks. (Maintenance requirement is the amount of equity needed to maintain ownership of a particular stock.)
- All stocks below \$4 are not marginable, and have a 100% maintenance requirement.
- Short positions have a 30% or \$5 per share requirement, whichever is greater.
- If 50% or more of your total market value is in one stock, it will be considered a “concentrated” position. A 40% maintenance requirement will be necessary on all concentrated positions.
- All exchange calls must be met within 72 hours from the issuance of the call. Depositing cash into the account in the amount of the call will fully satisfy the call. Liquidating equities with exchange requirements equal to the call will also satisfy the call.

## Exchange Call Example

Trader B has the following account:

- 500 shares of XYZ. Market Value of \$10,000.
- 1000 shares of ABC. Market Value of \$20,000.
- 1000 shares of DEF. Market Value of \$10,000.
- 500 shares of ACD. Market Value of \$10,000.
- Total market value = \$50,000
- Debit Balance = \$40,000
- Equity = \$10,000
- Percent equity = 20%
- Since the account is below 25% equity, an Exchange call will be issued in the amount of \$7,500 to bring the account up to 35% equity.
- This can be met by depositing \$7500 in cash, liquidating \$22,500 in positions or depositing \$7500 of fully paid for, marginable securities.

## Margin Calls –Day Trading Call

- A day trading call is incurred by accounts that exceed their day trading buying power.
- Day trading calls must be met on or before T+5.
- No extensions are available. Failure to meet this call will result in a 90-day restriction. If a call is generated while on restriction, the account will be coded as “No more business.”
- Day trading calls may only be met with a deposit of cash or fully paid securities.

## Day Trading Call Example

- Trader X places a day trade for 5000 shares of DEF at \$20.00 with a total amount of \$100,000.
- Liquidating equity is \$26,000.
- Maintenance Requirement is \$6000.
- Excess equity in account is \$20,000.
- Day Trade Buying Power is \$80,000.
- A day trade call will be issued for \$20,000.
- Trader X must deposit \$20,000 in cash in order to meet the call.

## Daytrading an Overnight Position

If you wish to daytrade in the same symbol of a position that was held overnight, you must abide by the following rules in order for the trades to NOT to be classified as daytrades:

- Your first trade must be a full or partial liquidation depending on how many shares you wish to daytrade.
  - If you wish to daytrade up to the overnight shares, you must liquidate all the overnight position
  - If you wish to daytrade only a portion of overnight shares, you must liquidate only the amount of shares you wish to daytrade
- Your second daytrade must be the opposite of the liquidation for the amount of shares equal to or less than the overnight position (i.e. if you sold overnight shares to liquidate, the following must be a buy for either the same amount of shares or less)
- Your daytrades must be in sequence i.e. buy, sell, buy, sell or sell short, buy, sell short, buy. Any trades out of sequence i.e. buy, sell, sell short, buy will be counted as daytrades.
- Your net position during the day can never be greater than the position you started the day with or the inverse:
  - If you started the day long 1000 shares, your position can never be greater than 1000 long or net short
  - If you started the day short 1000 shares, your position can never be greater than 1000 short or net long

### Example:

**Overnight Position:** Long 5000 XXXX @ 41

**Account Balances:** Long Market Value: \$205,000 Debit Balance: \$103,750 Equity: \$101,250 Minimum Maintenance Requirement: \$51,250 Day Trade Excess Equity: \$50,000 Day Trade buying power: \$200,000

### Trades

Time	B/S	Qty	Net pos	Symbol	Price	Amt	DT Req.	Buying Power	Comments
9:31	buy	1000	6000	XXXX	41	41000	41000	159000	---
9:32	sell	1000	5000	XXXX	41	-41000	-41000	200000	---

9:33	sell	5000	0	XXXX	41	205000	-5000	-5000	**
9:35	buy	5000	5000	XXXX	41	205000	200000	200000	---

\*\*Day trade call issued for \$1,250

**Non Day Trade**

Time	B/S	Qty	Net pos	Symbol	Price	Amt	DT Req.	Buying Power	Comments
9:40	sell	4000	1000	XXXX	41	-164000	-164000	36000	---

Note that the sell at 9:33 is an initiation of a short sale per margin rules, since the position was day traded prior to the sale of the overnight position. As such, a margin day trade requirement must be withheld. However, the trading platform will recognize this as the sale of an overnight position and not withhold a margin requirement, even though one should be withheld.

A warning message will be displayed when you increase a long or short position held overnight. This message will advise that by increasing this position you may get into a day trade call.

In summary, the easiest way to avoid generating a Day Trade call is to first close the position you held overnight before day trading that same symbol. Do not at any point exceed in quantity (to the long or short side) the amount of your overnight position on a daytrade.

**Margin Calls – Minimum Day Trade Equity Call**

- A minimum day trade equity call is generated when a pattern day trade coded accounts with a balance under \$25,000 executes a day trade. The amount of the call generated will equal the difference between the current account equity and \$25,000.
- Minimum day trade equity calls must be met within 5 business days. Failure to meet this call will result in the account being restricted to liquidating transactions only.

**Margin Calls –Regulation T (Fed) Call**

- A RegT Call is generated when you exceed your overnight buying power. To calculate your overnight buying power (using margin), take the Overnight Excess Equity from your Comprehensive Report and multiply this number by two. Then add or subtract any profit or loss for the day. The remaining amount will be your overnight buying power for marginable stocks.
- To calculate your overnight buying power for non-marginable stocks (any stock trading below \$5.00), take the Overnight Excess Equity from your Comprehensive Report and add or subtract any profit or loss for the day.
- RegT calls must be met by 2:00 PM EST on T+5. Only under special circumstances will extensions be available. Extensions are only available on the date the call is due. You may deposit cash or fully paid for, marginable securities with sufficient loan value or liquidate securities in your portfolio to cover a RegT call. (The market value of the security must be twice the amount of the call.)
- If the account is below 25% equity liquidation may be used only two times to meet this call. A third such liquidation will result in restriction of trading privileges with Terra Nova. If the equity is above 25%, then no restriction is applied.

**RegT/Fed Call Example**

- Trader Q has \$10,000 in cash/equity in the account.

- Makes a purchase of 1000 shares of WXY at \$25 per share and holds overnight. Total amount of trade is \$25,000.
- The total amount that Trader Q could hold overnight is \$20,000.
- A RegT/Fed Call is issued for \$5000.
- To meet this call, he must deposit \$5000 in cash or deposit \$10,000 of fully paid for, marginable securities.
- If Trader Q had other fully paid for, marginable stocks in his account he could liquidate \$5000 of securities to meet the call.

### **Margin Call –Equity Call**

- An equity call is generated when your account equity falls below the minimum requirement of \$2,000 and you are trading on margin.
- This call must be satisfied by T+3. Margin will not be extended to accounts with equity below \$2,000. Positions must be fully paid for in order for the account to be maintained. Otherwise, you must deposit the necessary cash or fully paid for, marginable securities with sufficient loan value to bring your account above \$2,000.
- If the call has not been covered by 2:00 PM EST the day the call is due, your account will be subject to liquidation. Extensions are not available to meet this call.
- An equity call may also be generated for futures accounts if your equity falls below \$7500.00. To meet a futures equity call, the equity in the account must be brought up to at least \$10000.00.

### **Equity Call Example**

- Trader V is holding 500 shares of ABX stock at \$5.25 per share.
- Account equity = \$2625
- ABX drops to \$3.75 per share.
- Equity in account is now \$1875
- Equity call issued for \$125 to bring equity up to the minimum of \$2000.

### **Margin Call –Cash Call**

- All purchases in a cash account must be paid for in full with settled funds. Any account that is not paid for will be considered a cash call and must be satisfied two days after settlement date. An additional 2-day extension (T+5) may be granted.
- Acceptable instruments for payment are wired funds, ACH transfers and personal checks. Liquidation of positions is an acceptable method to meet the call, but the position that placed the account in the cash call may not be liquidated –otherwise the account will be restricted for 90 days.
- If the call is not satisfied, the account will be subject to liquidation.

### **Cash Call Example**

### **Example 1**

- 500 shares of ABC is purchased at \$10.00 per share in the Cash account. Total market value of \$5,000.
- Account only has \$3000 in Cash Available (the lower of trade date balance or settlement date balance).
- Cash Call issued for \$2000.

### **Example 2**

- 1000 shares of XYZ purchased in the margin account at \$7.00 per share.
- Account equity at time of purchase is \$5000. \$2000 debit balance.
- XYZ drops in price to \$4.50. Since XYZ is no longer marginable, the maintenance requirement is 100%.
- House call issued for \$2000.

### **Margin Summary**

Margin is not a difficult concept to grasp, with the right information and education.

While this tutorial should provide you with all you will need to know about margin trading at Terra Nova, should you have any other questions, please contact Terra Nova customer support at 1-866-866-6546 or send an e-mail to: [support@tnfg.com](mailto:support@tnfg.com)

RealTick® graphics used with permission of Townsend Analytics, Ltd.©1986-2010 Townsend Analytics, Ltd. All rights reserved. RealTick is a registered trademark of Townsend Analytics, Ltd. All securities and futures offered by Terra Nova Financial, L.L.C.