Meeting the Margin

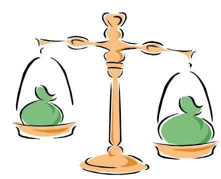
Buying on margin means using the stock in your portfolio as collateral for borrowing money from your broker. The percentage of collateral required in order to finance a purchase or a short sale is called the <u>initial margin requirement</u>.

Your broker can lend you up to 50% of the value of the stock being purchased or sold short. However, please remember there is interest charged on this loan. Every week the interest on the money borrowed will be deducted from your portfolio until your loan is paid. Also, to buy on margin, the stock exchanges and most brokerage companies have rules requiring that customers' equity must be more than a certain percentage of the value of the stock they own (long and short positions). This percentage is called the <u>maintenance requirement.</u>

In The Stock Market Game, initially you may purchase up to $200,000 worth of stock (less broker's fees and interest charges) with your first $100,000. The other $100,000 will be automatically lent to you. In this case, you are fully extended (meaning you have borrowed the maximum amount possible under a 50% initial margin requirement).

Should your portfolio fail to meet the maintenance requirement, you will receive a margin call (a request for money or additional securities to meet the maintenance requirement). If this request is not met by the end of the third consecutive week, The Stock Market Game will automatically liquidate enough of your holdings to satisfy the call (beginning with the least expensive stock based on price per share).

In The Stock Market Game, the maintenance requirement is a minimum of 30% which the team must maintain after borrowing on margin. Therefore, if the Total Equity in your portfolio falls below 30% of the value of your long and short positions, your team will receive a margin call. In the previous example, if the $200,000 portfolio goes down to $145,000 you will get a margin call.



Calculating Borrowing Charges (amount borrowed)

To calculate your interest charges, you must first establish the amount borrowed. This is done by averaging the daily balances.

The formula for calculating interest charges is:

(Amount Borrowed x Interest Rate) x Number of Days / 360

Don't forget *that 50% margin means 2 to 1 leverage, double the risk as well as double the opportunity.*

The following charts show how buying power changes as the value of the stock in a portfolio increases and decreases. Equity will increase as the price of the stock goes up and decrease as the price of the stock goes down. As long as the equity in your portfolio is greater than the 50% margin requirement, the account will have available equity or additional purchases or short sales. To simplify the charts below, broker's fees and interest charges are not included.