



Margin: a loan like no other

When you want to borrow money, what lending sources first come to mind? Typically it is a bank or credit union. Does D.A. Davidson & Co. pop into your head?

If not, you may miss the opportunity to borrow funds easily, efficiently and relatively inexpensively. Through the use of "margin" loans, secured by your investment portfolio, D.A. Davidson can lend you up to 50% of the value of your portfolio of manageable securities. A client with a \$50,000 portfolio can possibly borrow \$25,000, which may be withdrawn in cash and used for any purpose. Alternatively, you could take advantage of the borrowing power to purchase additional securities for your portfolio at opportune times.

The value of your portfolio determines your borrowing power, or the amount of your "letter of credit." It is as easy as calling your financial consultant and requesting the available funds that you wish to use. Minimal paperwork and no loan committee, appraisals or other hassles stand in your way.



The interest charged is based on the amount borrowed. The rates vary from prime to prime plus 2%. D.A. Davidson margin loans have no other fees or costs. The interest is computed daily on the outstanding balance. There is no scheduled repayment; principal and interest can be paid any time you wish, in what amount you wish. Of course you must always maintain appropriate equity (the account value minus borrowing and

interest) in your account, which is a level of 30% equity at D.A. Davidson. As a matter of financial prudence, most clients maintain higher equity.

The constructive use of margin loans makes great sense to many clients because of the convenience and flexibility of these loans. Margin borrowing for short-term cash needs is an excellent solution. Among the items that can be easily

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financed with a margin loan are home improvement projects small or large, such as the creation of a new patio, that you intend to pay for over the upcoming few months. The borrowings can be repaid when you wish.

When it is used in a prudent manner, margin creates more flexibility for the investor. This purchasing power can allow an investor to buy a stock or bond that is exceptionally attractive even when they have no cash available at the time the purchase is desired. The margin loan can be paid off in the future from the sale or maturation of a security, from anticipated cash payments or from a bonus, tax refund or sale of another asset such as a pending real estate transaction. This use of margin makes it easier to take advantage of unexpected price dips in a security.

"Margin borrowing" gives the investor a quick credit line secured by a portion of his or her portfolio. If it is college tuition-payment time but you don't want to sell assets because of tax considerations, a margin loan gives you the availability of cash when you want it. The transaction can be accomplished with little paperwork. Indeed, the DADVANTAGE Account check writing and debit card feature automatically facilitates the use of margin loans at your demand.

In any form of borrowing, the debt created ultimately has to be repaid. Prudent use of debt is a wonderful

tool. Over-borrowing, or excessive debt, is a formula for disaster that has been troublesome for many Americans. This holds true whether the debt is from home loans, car loans, credit card debt or margin loans. Responsible financial management is the key.

With "margin loans," the borrowing is securitized by the value of the investments. If the investment portfolio declines in value, so does the borrowing capability. A severe decline in market value to the extent that the equity is less than 30% will result in the borrower being required to bring in more cash or securities to increase the equity to 35% in the account. The inability to meet the "margin call" can result in the sale of securities in your account to meet the regulatory requirements.

Selective use of margin can be a powerful personal investment tool. But like any powerful tool, it can be abused with woeful consequences. Is margin correct for your circumstances? A thorough discussion with your D.A. Davidson financial consultant will guide you to the correct decision.

— *Jim Searles, CFP®*, Senior Vice President,
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