

AII Survey: Vast Majority of Readers Don't Trade on Margin, Citing Risks & Unfamiliarity

Borrowing money through a margin account to purchase securities can be a profitable and wise investment strategy. But debt creates financial leverage: The money in a full payment purchase can instead be used as a type of down payment to buy a much larger block of stock. This means that gains—and losses—in a margin account are magnified, and returns will vary considerably more than with full payment. In short, buying stock on margin is riskier, and individuals who want to use this strategy should know the ins and outs of trading on margin.

If you are unfamiliar with buying on margin, this AII Blog post offers an overview of the concept: blog.aaii.com/margin-a-portfolio-lever-for-buying-and-selling-stock/

AII Weekly Survey Question

While trading on margin does pose unique risks, those who understand those risks can profit from them.

To see how many of our readers trade on margin, our latest weekly survey question asked:

Do you or have you ever traded on margin?

Here are the results:

Do you or have you ever traded on margin?

No : 77% - Votes: 1614



Yes : 23% - Votes: 476



In all, 2,090 readers participated over the holiday-shortened week.

The vast majority of readers—77%—do not currently or haven't ever traded on margin.

Weekly Special Question

To get a better understanding of why our readers do or don't trade on margin, last week's AAI special survey question asked:

What do you see are the advantages and disadvantages of trading on margin?

Overall, we received 423 responses to the question.

Somewhat consistent with the percentage of readers who don't trade on margin, the majority of responses leaned toward the negative (nearly 58%). Among those who see trading on margin as disadvantageous, these responses included:

- Too risky, leverage magnifies losses (56.3% of disadvantage responses)
- Margin interest rates make trading on margin too expensive (8.6%)
- Easy to fall into debt by spending what you don't have (7.3%)
- Getting a margin call (6.1%)
- Too complicated (5.3%)

Among the 34% of responses that put trading on margin in an advantageous light, here are how the responses were lumped together:

- Leverage magnifies returns (68.0% of advantage responses)
- Provides opportunities, flexibility and a source of investment capital (14.6%)
- Means of benefiting from a rising market (9.0%)

Among the "other" responses, only 2% said they don't understand trading on margin.

Here is a sampling of the responses readers offered regarding the advantages and disadvantages of trading on margin:

- "Convenience. If one does not want to bleed away from other assets to make a trade, one can make it a margin trade."
- "If you guess wrong it really hurts."
- "It's never completely clear what you owe or when you owe it."
- "Leverage is obviously both. A negative is that you really have to pay attention hourly to

trading and you have to use various stop-loss or limit orders. The current interest rates on margin loans is also a big detriment which means your stock investment on margin has to perform much higher than the market to cover your interest expense.”

- “More trades can be entered—trade small and often.”
- “A sudden unexpected move in the stock can dramatically increase your loss on a position.”
- “It works well in a rising market. It is horrible in a falling market.”
- “You can make a lot more money. You can lose a lot more money.”
- “I see no advantages for a long-term investor who basically ignores market gyrations and financial talking heads.”

Everybody has an opinion! Why not give us yours? Participate in our weekly member poll, updated every Monday, and see the results online at www.aaii.com/memberquestion.