


What are the Buying Power Limits for the Major Markets?

In other industries, buying power describes the amount of purchasing power for goods and services.

What is margin purchasing power? In the context of this article, buying power is the available margin for trading.

Where to Find Your Buying Power Limits

Buying Power 	
<input type="checkbox"/> Stock Buying Power	\$20,000.00
<input type="checkbox"/> Option Buying Power	\$10,000.00
Cash Available To Withdraw	\$10,000.00
Options Requirements	\$0.00
Equity Percentage	100%

Buying Power (Source – TradeKing)

In a margin account, buying power is the sum of the total cash and the maximum margin available.

For example, a margin account with \$5,000 cash and a margin rate of 50%, has a total buying power of \$10,000 (two times \$5000).

How Much Can You Borrow on Margin?

SEC Limits

The U.S. Securities Exchange Commission (SEC) prohibits investors from borrowing more than 25 percent of their cash in stock. [\[1\]](#)

For example, if you purchase \$1,000 of IBM, you will need to have at a minimum 250 dollars in the account.

Maintenance Margin Requirements

To this point, we have discussed margin requirements. But what happens once you are in the position?

Meaning if the stock goes against you, how much money do you need to maintain in your account before you receive a margin call?

In the below example, we will walk through the math for the maintenance requirement.

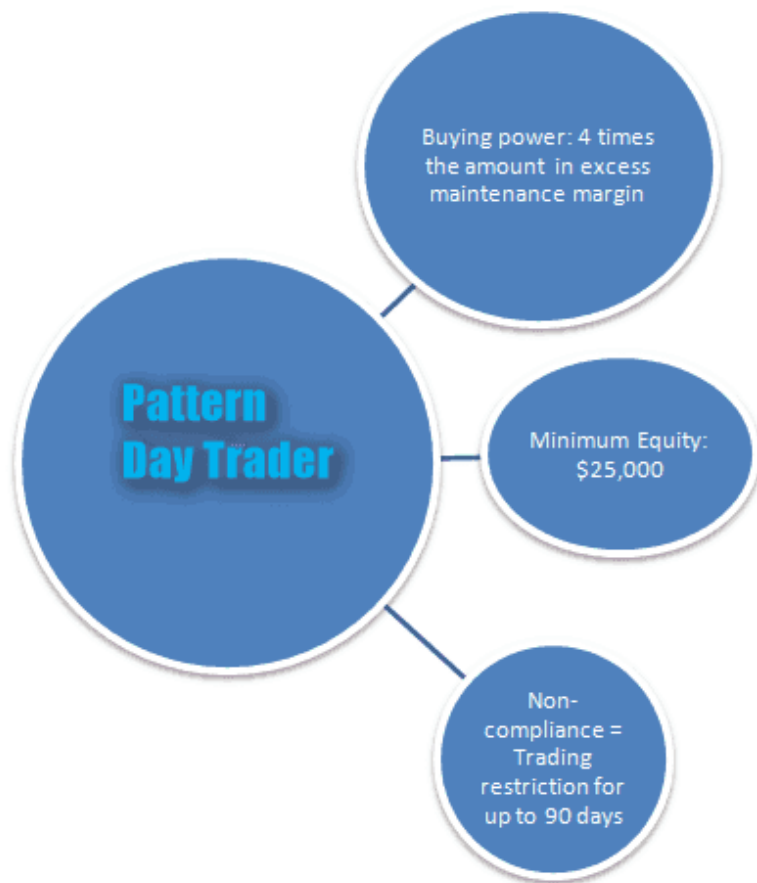
Maintenance Requirement Example

Example of initial margin and maintenance margin:

- Buy 1,000 shares of a \$10 stock (\$10,000)
- Stock has 50% margin requirement (requires \$5,000 cash)
- If the brokerage firm has a 25% maintenance requirement, you must have 2,500 dollars in the account to maintain the position.

Once you fall below this maintenance requirement, you will receive a [margin call](#) from your broker. After receiving a margin call, you need to either deposit more cash or close out the entire position.

Calculating Day Trading Buying Power



Full-Time Day Trader

According to the SEC, a pattern day trader is someone who has at least four day trades within five business days. [\[2\]](#)

Pattern day traders are allowed to use 4:1 intraday margin. So, an account with a value of \$50,000 has a buying power of \$200,000.

Under this rule, [pattern day traders](#) must maintain \$25,000 in their cash account.

However, there is one caveat; this is only for intraday positions. For overnight positions, the margin requirement is double – 2:1.

Increasing the requirement makes sense because the brokerage firm would not want overnight exposure where a stock could gap up or down due to a news event.

Buying Power for Different Markets

Options

The concept of buying power is a bit more complicated for options and comes down to the top of options trade you are placing.

Long options, for example, are short term in nature and due to the time decay do not have any loan value.

Check out this full table from TD Ameritrade which covers the various [options requirements](#). Please note, it can get a bit complicated, so you will need to really understand what is required from you based on the amount of cash and trade type.

Forex

Forex which trades over the counter can have buying power as high as 50 to 1.

This buying power can vary from one brokerage to another.

The initial margin requirement can range from 3% to 10% on average. For a list of Forex maintenance requirements, [check out this table from Forex.com](#).

Futures

Futures margin requirements are not as loose as Forex but runs a close second. You only need on average between 5% to 15% of cash on hand for your total position.

Check out this table from Daniels Trading which provides a [list of requirements by futures type](#). What I really like about this table is the fact the broker calls out the initial margin requirement, maintenance requirements and then the daily requirement.

Risks of Trading on Margin

Using margin can be risky. ^[3] Most retail traders only think of margin as a tool to increase their profits.

They do not think of margin as a means to hedge against an open position.

Imagine if a trader goes all-in on a day trade with four times margin and the stock goes against them by 5%.

This would mean that trader just took a 20% hit on their total portfolio on one trade.

Hence, trading with margin is not for beginners.

While there are proper checks in place to ensure that you do not end up losing more than what you invested (including margin), it is not always that case.

The buying power in the markets are best used in moderation and a trader shouldn't even think about utilizing all of the buying power simply because it is available.

How Can Tradingsim Help?

[Tradingsim](#) currently has equities and futures in the platform. You can practice trading these security types to ensure you are able to stay within the set margin requirements.

External References

1. [Margin: Borrowing Money to Pay for Stocks](#). (2009). [sec.gov](#)
2. [Pattern Day Trader](#). [sec.gov](#)
3. [Purchasing on Margin, Risks Involved with Trading in a Margin Account](#). [FINRA.org](#)