Margin calls, and the exit you did not choose

> **STOP-OUT**
>
> The broker's forced closure of a position when account equity falls below a set fraction of required margin. It executes at the market's price, at the market's moment, with no reference to any plan - the position's worst-case exit, chosen by arithmetic rather than judgement.

Module 3 established that margin is not a cost. This lesson is about the day it becomes something else: the trigger for an exit you did not choose.

The machinery, briefly

Equity is balance plus open profit and loss, marked continuously. When it falls to the broker's margin-call level, the demand arrives: add funds or reduce. At the stop-out level below it, the broker stops asking. The position closes at market, in whatever liquidity that moment offers - and lesson 4 taught you which moments offer least. A stop-out during a report gap is the worst execution this platform can describe, and it is precisely when stop-outs cluster.

Why commodities reach it faster

Work the example: the moves that trigger the call and the forced close are single-digit percentages of the commodity's price. Module 6's arithmetic - effective leverage times daily range - says days that size are ordinary here. An account that would survive months of an index position's wandering can meet a commodity stop-out in a week, holding a position whose owner believed the margin requirement was the risk.

The stop-out is a symptom

A properly sized position - lessons 2 and 5 - keeps losses inside a budget the account can absorb; equity never approaches the call.Meeting a margin call therefore means the sizing was wrong at entry, whatever else went wrong after.The response to one is not a deposit. Topping up defends a position that has already proven it was too large - doubling the stake on the same mistake.

Read the worked example as a post-mortem, not a procedure: every number in it was knowable at entry. The trader who computes them before the trade never meets the broker's version of risk management - which is the entire point of this module.

Worked example - figures in USD

A $12,000 US dollar account holding one WTI contract ($80,000 notional) at 10:1. Illustrative figures.

1. One WTI contract is $80,000 of exposure. At 10:1, the margin held against it is $8,000 - most of this account's $12,000.
2. A move of 5.00% against the position brings the margin call; 10.00% brings the forced close. On a commodity, module 6's arithmetic says those are ordinary days, not disasters.
3. At the stop-out, $8,000 is gone - a loss no plan chose, at a price no plan set. The margin call is not a safety net. It is what risk management looks like when the broker has to do it for you.

Check your understanding

1. What does receiving a margin call reveal?

a. Bad luck - volatility exceeded expectations
b. The position was too large for the account at entry, whatever happened after
c. The broker's margin requirements changed

Answer: b. Sized inside a real budget, equity cannot approach the call level through ordinary adversity. The call is the sizing error surfacing - the trigger event is only the messenger.

2. Why is topping up an account to meet a margin call usually the wrong response?

a. Deposits take too long to clear
b. It defends a position that has demonstrated it was oversized - a larger stake on the same mistake
c. Brokers close the position anyway

Answer: b. The call is evidence about the position's size relative to the account. New money changes the account, not the evidence - the honest response is the reduction the sizing arithmetic wanted at entry.

3. Why do commodity stop-outs cluster around report releases?

a. Brokers raise margin requirements during releases
b. Gaps move equity through both trigger levels instantly, and the forced close then executes into the thinnest book of the day
c. Traders forget to check the calendar

Answer: b. The jump can cross the call and stop-out levels in one print, and the forced market order lands in withdrawn liquidity - lesson 4's gap and module 3's slippage arriving together.