Margin is still not a cost - but capital has a price

CAPITAL EFFICIENCY

Margin remains a returnable deposit - the third track to say so, unchanged - but the capital a futures account must hold has a price of its own: the initial margin plus variation headroom is money that cannot be elsewhere, and its opportunity cost is the honest line the 'margin is free' framing omits. Not a fee; a cost of capital, priced like one.

Two tracks kept margin out of the cost column, and the third holds the line: nothing is charged, nothing is spent. What this lesson adds is the honest completion - the account behind the margin has a cost, and pretending otherwise flatters futures against alternatives.

The clean ledger, third telling

Initial margin: a performance bond, returned at close - not in the cost column, ever.Variation margin: settled truth moving both directions - P&L realised nightly, not an expense.The account's capital: initial margin plus the headroom lesson 4 sizes - real money, parked, and the parking has a price: whatever that capital would otherwise earn.

Pricing the parking honestly

The opportunity cost is small and real: capital supporting a futures position earns nothing by default - though much of it can be held in interest-bearing form at many brokers, which shrinks the line toward the gap between rates earned and rates available elsewhere. The honest comparison with other wrappers therefore runs: futures tie up margin-plus-headroom at near-cash returns and charge no holding fee; CFDs tie up less and meter nightly; cash ownership ties up everything and meters nothing. Three capital structures, one comparison unit - total cost of the position over its holding period, capital's price included - and module 6 will insist the backtest uses it.

Why the distinction still matters

Because the two errors it prevents pull opposite ways. Calling margin a cost makes futures look expensive and drives traders toward wrappers whose real meters run higher - the old error, twice corrected. Calling capital free makes futures look costless to hold and hides the one line long-horizon comparisons need - the new error, corrected here. The ledger with three clean lines - deposit, settlement flow, capital's price - survives both, and it is the ledger every later cost comparison in this track uses.

Check your understanding

1. What is the honest cost line the 'margin is not a cost' framing omits?

a. The exchange's margin fee

b. The capital's opportunity cost: margin plus headroom is parked money, priced at what it would otherwise earn - a cost of capital, not a fee

c. The variation losses

Answer: b. The deposit returns; the settlement flows both ways; but the account behind them cannot be elsewhere. Small, real, and the line long-horizon comparisons need.

2. How do the three wrappers' capital structures compare?

a. They are economically identical

b. Futures park margin-plus-headroom at near-cash returns with no holding fee; CFDs park less and meter nightly; ownership parks everything and meters nothing

c. Futures always tie up the most capital

Answer: b. Three structures, one comparison: total position cost over the holding period, capital priced. The wrapper decision - four tracks old - gains its final line.