

Margin call and stop-out

MARGIN CALL AND STOP-OUT

Your margin level is your equity divided by your used margin, expressed as a percentage, and your broker acts on it automatically: at the margin call level you are warned, and at the stop-out level the platform closes your positions at market, without asking, at whatever price exists. The adverse move needed to get there is a percentage you can calculate before you open the position.

Nobody rings you. The platform watches one number - your equity divided by your used margin - and when it crosses the broker's stop-out threshold, your position is closed by a machine executing a market order into whatever liquidity exists at that moment. This lesson is the arithmetic of how you get there, walked to the end.

What number is the platform watching?

Equity is your balance plus the running profit or loss of your open positions. Used margin is the collateral from lesson 7, and it does not move as price moves. The margin level is the first divided by the second. A funded account with no positions has no used margin and no margin level to breach; the moment a position opens, the countdown number exists.

At a margin level of 100%, your equity exactly covers the collateral. Most brokers set their warning - the margin call - there: new positions blocked, a notification sent. At the stop-out level, commonly 50%, the platform closes positions at market, largest loser first at many brokers, until the level recovers. Both thresholds are on the specification page. Neither is negotiable in the moment.

How far does price have to move?

A fixed distance you can compute at entry, which is the point of this lesson. The equity that can drain before stop-out is your balance minus half your used margin. Divide that by the notional and you have the adverse move, as a percentage of price, that ends the position. The worked example runs it with real numbers, and the answer for a heavily-margined account is uncomfortable in every currency.

What actually happens at the stop-out?

A market order, with everything module 1 and lesson 5 said about market orders. It fills at the next available price, which in the conditions that produce stop-outs - fast moves, thin books, news - is beyond the threshold, sometimes well beyond. The close crystallises the loss at that price. Your remaining equity is whatever the fill left, the used margin returns to it, and the position is gone. The platform did what the specification page said it would do, at the worst prices of the move, because that is when margin levels breach.

Two positions make it worse in a way beginners miss: they share one equity number. A losing position drains the margin level that a second, winning position depends on, and the stop-out engine does not care which position breached it.

Worked example - figures in USD

A balance of \$2,500 carrying a position with a notional of \$54,350 at 30:1 - margin call at 100% margin level, stop-out at 50%.

1. The setup: a balance of \$2,500 carries a notional of \$54,350 at 30:1, so \$1,812 is held as collateral and the margin level starts high while the position is flat.
2. The warning line: at a margin level of 100, equity has fallen to equal the collateral. That takes an adverse move of 1.27% of the notional's price. New positions are blocked; the existing one keeps running.
3. The stop-out line: at 50, the platform closes the position at market. The move from entry to here is 2.93% of price.
4. The bill at the close: \$1,594 of equity is gone, before any slippage on the forced fill - and the fill is a market order in exactly the conditions where slippage runs largest.

Diagram: The margin call is a warning. The stop-out is the broker closing the position for you.

View it in the web lesson: <https://ticksprout.com/learn/fx/costs-and-mechanics/margin-call-and-stop-out>

What this means for you

Run this arithmetic before you open a position, with your numbers. The adverse move to stop-out is a fixed percentage the moment your size is chosen, and choosing a size is choosing that percentage. On the example account it is a move a single bad session can produce. The platform will not warn you twice, it will not wait for the market to come back, and the price it closes you at belongs to the fastest part of the move. That is the machine, that is its arithmetic, and it was all knowable at entry.

Try it yourself with the margin-call calculator: <https://ticksprout.com/tools/margin-call>

Check your understanding

1. What exactly is the margin level your broker's platform watches?

- a. Equity divided by used margin, as a percentage
- b. Balance divided by notional
- c. Free margin divided by leverage

Answer: a. The stop-out engine runs on equity over used margin. Balance over notional ignores running profit and loss, and free margin over leverage is not a ratio any platform uses.

2. At a 50% stop-out, what does the platform do?

- a. Sends a final warning and waits
- b. Closes positions at market, without asking, until the level recovers
- c. Freezes the account until you deposit

Answer: b. The stop-out is an action, not a message - the warning happened at the margin call level. The platform sells at market into whatever prices exist, and lesson 5's slippage applies to that fill in full.

3. Why do stop-out fills tend to be worse than the threshold implies?

- a. Brokers add a liquidation fee
- b. The close is a market order placed during the fast, thin conditions that caused the breach - the conditions where slippage runs largest
- c. The threshold is recalculated after the close

Answer: b. Margin levels breach during sharp adverse moves, and the forced close is a market order into that exact market. The mechanics are lesson 5's, at the worst possible moment. No standard fee or recalculation is involved.

4. Two open positions, one winning and one losing. Which margin level does each have?

- a. Each has its own
- b. They share one - equity is account-wide, and either position's losses drain the level both depend on
- c. Only the losing position has one

Answer: b. Margin level is computed from account equity and total used margin, not per position. A drained level triggers closes regardless of which position did the draining - many brokers close the largest loser first, but the number that breached is shared.