Margin, and the stop-out you did not choose

> **STOP-OUT**
>
> The level at which a broker closes positions because the account can no longer support them. It is not a protection you chose, it is not placed where your idea is wrong, and it executes at whatever price exists - which on an index can be a reopening level after a gap.

Margin is the money set aside against a position. The stop-out is what happens when the rest of the account has fallen too far to keep it. Most people meet the second without ever having calculated the first.

Margin is not a cost

It is not charged, not spent and not lost - it is reserved. What it does is limit how much you can hold, and define the distance between where you are now and a forced close.

That distance is the number worth knowing, and it is calculable.

Worked example - figures in USD

A 10,000 USD account holding one contract at $5 a point on an index trading near 5,300, at 20:1. Illustrative figures.

1. One contract on an index at 5,300 is a position worth $26,500.00. At 20:1 the margin posted against it is $1,325.00.
2. From a 10,000 balance, the index can move 32.7358% against you before the margin call, and 35.2358% before the broker closes the position.
3. By the time it does, $9,337.50 of the account has gone. The stop-out is not a safety net - it is the point at which the loss is realised for you.

Reading those numbers

A stop-out level of tens of percent sounds distant, and on a single well-sized position it usually is. It stops being distant when the position is larger, when several correlated positions share one account, or when the market travels while you cannot act.

The last of those is why this lesson sits after lesson 4 rather than before it. A gap does not care about your stop and it does not care about your margin buffer either.

The order in which things happen

Equity falls as the position moves against you.At the margin call level, the broker warns - and may not, depending on the account and how fast the move is.At the stop-out level, positions are closed. Largest loss first, on most platforms.What is left is what is left.

The warning is a courtesy rather than a guarantee. In a fast market or an overnight gap, the first two steps can be skipped entirely and the account can go straight to the third.

Why a stop-out is worse than a stop

A stop is placed where your idea is wrong. A stop-out fires where your account runs out, which is a fact about your sizing rather than about the market.

So being stopped out is information: it tells you the position was too large for the account, and it usually tells you at the worst available price.

What keeps the distance

Size, and only size. Everything in this module has been arriving at the same answer from different directions, and this is the last of them: the stop-out is far away when the position is small relative to the account, and no other input moves it as much.

Check your understanding

1. What is margin?

a. A fee charged for leverage
b. Money reserved against a position, which limits size and sets the distance to a forced close
c. The maximum loss on the position

Answer: b. It is not charged, spent or lost. It is set aside, and the distance it leaves between you and a stop-out is the number worth calculating.

2. How does a stop-out differ from a stop?

a. A stop-out is placed further from entry
b. A stop fires where your idea is wrong; a stop-out fires where your account runs out
c. A stop-out is guaranteed to fill at the level

Answer: b. One is a statement about the market and the other about your sizing. Being stopped out tells you the position was too large, usually at the worst available price.

3. Can the margin call warning be skipped?

a. No, brokers are required to warn first
b. Yes - in a fast market or an overnight gap the account can go straight to stop-out
c. Only on futures accounts

Answer: b. The warning is a courtesy, not a guarantee. A gap can cross both levels in a single reopening print.