Leverage, and why the open is a different market

> **LEVERAGE**
>
> Holding exposure larger than the money posted against it. It does not change the direction of a move or its size in points - it changes what each point does to the account, so the same position is a different risk at a moment the index reprices quickly.

Leverage is often discussed as a level of aggression. It is more useful to treat it as a multiplier on the speed at which your account changes, because that is exactly what it is.

It does nothing to the market

A 40-point move is a 40-point move at any leverage. What changes is how much of your account those 40 points represent, and therefore how long you have to think.

So leverage is not a view. It is a decision about how quickly you want to find out whether you were right.

The index-specific part

Module 1 lesson 9 established that an index reprices fastest at the open, the close and around fixes, and that the open arrives as a single auction print with no path between it and the previous close.

A leveraged position through those moments is exposed to the market's fastest repricing at the multiplier you chose. The same position, held mid-session, meets a slower market. Nothing about the leverage changed - the market underneath it did.

The interaction that catches people

Higher leverage means a smaller buffer before a margin call, which is lesson 8.A smaller buffer means less room for the overnight gap, which is lesson 4.So leverage and gap risk compound: the gap that would have been survivable at one size forces a close at another.

That compounding is the reason the two topics sit next to each other in this module rather than in separate corners of it.

What to take from it

Leverage is a property of the position you chose, not something applied to you. If sizing said one contract and you are holding three because the margin permitted it, the sizing arithmetic was decorative.

Check your understanding

1. What does leverage change about a 40-point move?

a. Its direction
b. Its size in points
c. What it does to your account, and how long you have to think

Answer: c. The market is unaffected by your leverage. What changes is the proportion of the account those points represent.

2. Why do leverage and gap risk compound?

a. Gaps are larger on leveraged instruments
b. Higher leverage leaves a smaller buffer, so a survivable gap can force a close instead
c. Brokers widen gaps for leveraged accounts

Answer: b. The gap is the same size either way. The buffer between you and a forced close is what leverage shrinks, which is why the two sit next to each other.