Is margin credit and short selling dangerous finance essay

Finance

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\n[/toc]\n \nCollateral loans or what is known as secured loans means that the person who is welling to borrow the money have offered a property of his to the lender as a guarantee, hence the lender is going to take less risk. If the borrower did not pay back the secured loan amount as agreed, the lender can take over the property from borrower. Secured loans are somewhat easier to obtain than unsecured loans, particularly if the credit rating of the borrower is poor or heshe needs to consolidate some existing debts. Those loans are easier to get because the lender is taking less risk. Secured loans, moreover, may be cheaper to pay back. The interest rate, which is set by the lender, usually reflects the degree of risk involved; as the higher the risk that the lender is welling to accept means higher interest rates to be paid. The opposite is true; less risk leads to lower interest rates. To avoid redundancies which can cause the lender to take over the property; borrowers in some cases take out insurance against unforeseen events policy, such as accident, illness or redundancy. These policies are often offered at the time of the loan by the lender, and the premiums form a portion of the monthly installment which must be paid, although these policies can be little expensive. It is a good idea to get a quote from an independent [unbiased] financial advisor, either for insurance to cover the secured loans, or for more general insurance that covers all eventualities. In many cases, people would not borrow to the entire value of a possession offered as collateral to avoid the situations mentioned above. As an alternative, the collateral loan often forms only a portion of the full value of a property fledged. Yet, with any loan, it is the best choice to borrow only what you needs, since interest rates will still mean a larger payback than the real money borrowed. Hence some business men do put their homes at risk to finance their almost bankrupted businesses. Others; like many homeowners who bought homes during the housing boom still owe more in mortgage debt than their homes are worth now in the market. So they prefer to mortgage their homes to buy new homes. On the other hand, some new entrepreneurs [or pioneers] are often willing to put their homes [or real estate properties] at risk to get fast money with low interest which is enough to start a good business and finance it for a while until the business can pass all the start up obstacles and gain a market share. Moreover, in a very unfortunate situation, sometime the family needs the money to raise funds for an unexpected condition like for medical treatment that is very costly. Therefore the family members prefer to go to collateral loans so to get money fast, with less interest to pay, and the loan amount can be as beg as the property worth. However, in some cases People choose secured loans because their credit history will not allow them to get approved for an unsecured loan. Because secured loans are backed by assets, lenders have lower risk in extending a loan to the borrower. Nevertheless, they may not be taking the loans for a good reason.

550 words

2- Is margin credit and short selling dangerous if yes why?

Trading on margin is a process that involves borrowing money from your broker and using that money to purchase additional stock. This allows you to increase the potential of each investment by increasing the number of shares that you can buy. Even though this investment strategy can be very powerful, it can also be very dangerous and can amplify your losses. Here are a few things to consider about trading on margin. A margin account is required for short selling. If the trader sells a stock short, and the price of that stock starts to rise, your broker will move money from the cash balance of your account to cover the losses. A margin balance will be created if the trader does not have sufficient cash to cover the position, and he will begin to accrue interest charges on the margin balance. Thus he or she could not only grieve a loss from their short position, but also will end up paying interest for the privilege of losing money. Before the trader gets a margin credit account for him he has to know that short selling is a speculative strategy with substantial risks and may not be suitable for most investors. In order to trade on margin, the trader will have to ensure that he meets the appropriate margin requirements. Every broker would have their own margin requirements that must be met. This means that the trader have to keep a certain amount of cash in his account in order to meet those demands. Usually, the trader has to meet a 1: 1 ratio of available funds to borrowed funds. Some offer more margin, like 1: 40 or even higher. However, the trader must keep in mind that the higher the margin the higher the risk he is exposing himself to. The potential gain from short selling is limited to the cash the trader receives from selling the stock, while the potential losses are unlimited. Although an unlimited loss is really possible only in theory, the trader must be aware that the price could easily double or triple before he have the chance to repurchase the shares and he can loose all his money in the process. An example of short margin credit account is Foreign exchange trade or what is known as [FX]. For instance, if the trader has BD 10, 000 and welling to buy shares that are worth BD 10 each. This means that the trader can buy 1000 shares. In case the price increases to BD 20 per share, this means the profit is BD 10, 000. The margin account will allow the trader to borrow from the broker so if the trader borrows BD 10, 000 he can buy 2000 shares in gain additional BD 10, 000. This may seems great, trading with margin can make the losses hurt a lot worse than if the trader simply traded on his own buy his own money. For example, let's say that the trader invested BD10, 000 in the same stock. If the price went down to five dollars per share, the trader would lose BD 5000. If he used the same amount of margin and the price went down, the value of his investment would now be BD10, 000. However, you now owe the broker BD10, 000. This means that you would lose everything if the value of the investment decreased by 50%.

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