

# Markets, Volatility and Margin

Recent volatility in the markets shouldn't cause most investors to question the benefits of long term investment in a diversified portfolio. Bradley Skolnik, former Indiana Securities Commissioner and former president of the North American Securities Administrators Association recently indicated that, "Market gyrations like we've seen lately are more troublesome for traders than for investors. Day traders sweat the minute-to-minute moves of stocks. Investors take the long view and regularly put money into savings, mutual funds, 401(k) plans or a diversified portfolio of individual stocks."

"Fortunately," Skolnik added, "despite the media hype, most Americans are investors, not traders, and they're unlikely to—and shouldn't—question their long-term commitment to saving and investing because of some wild days on Wall Street."

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Skolnik noted the tremendous growth of stock ownership in recent years. "We've become a nation of stock holders. Some 80 million Americans belong to this new 'investor class.'" Half of American households are invested in the stock market today, versus less than 20% a generation ago.



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However, for investors who have borrowed money from brokers under their **margin agreements**, margin calls have had a nightmarish frequency. Brokerage firm liquidation practices during the recent market drop have led to numerous customer complaints as to sales practices by the few brokerage firms left standing.

However, NASD [now FINRA] Investor Guidance entitled, "**Purchasing on Margin, Risks Involved with Trading in a Margin Account**," provides, "Some investors mistakenly believe that a firm must contact them for a margin call to be valid, and that the firm cannot liquidate securities in their accounts to meet the call unless the firm has contacted them first. This is not the case."

Brokerage firm, however, must be "commercially reasonable" in handling margin calls and liquidations, despite any language in the margin agreements. The lesson to **be learned for investors is that long term investors should not be borrowing money "from the house."** That is more the province of gamblers.

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