[1] Bond requirements may differ. Please refer to the chart at the end of this pamphlet, or contact your investment professional or financial organization.

[2] These examples do not account for any fees, commissions, interest, or taxes you may be required to pay.

[3] Interest charges, commissions, and other associated charges increase your outstanding loan (or debit) balance and can further reduce your profit or increase your loss.

[4] For illustrative purposes, equity is defined as the total market value of all of the securities in your account (your portfolio), minus the amount that you owe (your debit balance). As the market value of your securities fluctuates, the amount of equity in your account will also fluctuate.

[5] Failure to maintain sufficient equity in your account will result in you having to pay for all purchases in full until the minimum equity requirement is satisfied. You can simplify this process by maintaining all of your securities in your brokerage account. Please contact your investment professional or financial organization for more information.

Margin lending may not be appropriate for all investors and the risks should be carefully evaluated. If the market value of your portfolio depreciates, you may be required to deposit additional funds or marginable securities into your account. Failure to satisfy account maintenance requirements will result in restrictions on your account and liquidation of sufficient securities to bring your account to an acceptable level.

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Unleash the Potential of Your Brokerage Account

POWERFUL TIPS FOR THE WISE INVESTOR

Pershing's Initial and Maintenance Requirements for Various Types of Securities Are as Follows*:

TYPE OF SECURITY	INITIAL REQUIREMENTS	MAINTENANCE REQUIREMENT
Stocks (NOTE: Stocks selling below $5.00 per share are not marginable.)		
Listed or Federally Approved OTC Equity	50%	Greater of 30% of market value or $3.00 per share
Other Equities & Warrants	100%	100%
Short Sale Equity	50% of proceeds	Greater of 35% of market value or $5.00 per share
Bonds (NOTE: Interest-paying bonds trading below $40 per bond or zero coupon bonds trading below $10 per bond are not marginable.)		
Convertible	50%	30%
Interest Paying Corporate (Moody's® BAA or S&P® BBB or higher)	30%	25%
Zero Coupon (Moody's BAA or S&P BBB or higher)	Greater of 30% of purchase price or 10% of face value	Greater of 25% of market value or 10% of face value
Interest-Paying Municipal (Moody's BAA or S&P BBB or higher)	30%	25%
U.S. Government Direct Obligation (Bills, notes, bonds)	10%	Years To Maturity (YTM) (8% if 20 YTM; 7% if 10 YTM; 6% if 5 YTM; 5% if 3 YTM; 4% if 1 YTM; 3% if <1 YTM)
U.S. Government Zero Coupon	10% of face value	Greater of 7% of market value or 7% of face value
Other Bonds	Not eligible to be purchased on margin	Not Available
Mutual Funds		
Funds Held After 30 Days (Approval required)	50%	Greater of 30% of market value or $3.00 per share

* These requirements are subject to change by Pershing, at its sole discretion, at any time.
Your financial organization may choose to set more strict requirements than those of Pershing at any time, or as a matter of policy.

Have you ever considered using your brokerage account to secure a loan?

If the answer is no, you are not alone. Many investors do not realize that a margin brokerage account gives them access to funds at interest rates that may be lower than standard bank or credit card loans. Whether the loan is to fulfill a financial obligation, take that much needed vacation, or to simply make a purchase, it is an extension of credit using the power of leverage, thereby enhancing value without increasing the investment of your own funds. Best of all, there is no lengthy approval process—all you need is a signed Margin Agreement along with sufficient marginable securities in your account, and the cash is yours.

There is no reason to liquidate your securities and incur commissions in order to obtain cash. Use them as collateral to secure a loan instead. You will still receive the benefits of capital gains, dividends, or interest payments—the very reasons you purchased your securities in the first place. In addition, with a margin loan, there is no established repayment term. Your loan can remain outstanding for as long as you wish, provided that market conditions do not cause the value of your security positions, which you are using as collateral, to fall below the minimum levels required by your brokerage organization.

What is a Margin Account?

There are two purposes for opening a margin account. First of all, margin allows you to borrow funds using the marginable securities you have in a brokerage account as collateral. You can utilize this collateral to obtain a loan for any purpose. Once a Margin Agreement is signed and approved, you can simply call your investment professional and request a check.

Second, you can often use the excess funds in your margin account to purchase additional securities without paying for them in full. When using margin to purchase securities, a portion of the cost (usually 50%) is deposited, while the rest is loaned to you by your financial organization.

What Are the Advantages of a Margin Account?

Although there are risks which you should fully understand that are associated with using a margin account, you may enjoy the advantages of:

> Easy borrowing access to short-term, cash loans.

> Protection from charges due to late payments.

> Increased purchasing power for securities transactions.

> Short selling for potential profits (for sophisticated investors only).

Margin borrowing benefits you in ways that a traditional cash brokerage account does not. First, as mentioned above, a margin account gives you accessibility to funds, at favorable rates, without a lengthy approval process. Typically, margin lending rates are prorated depending upon, among other factors, the amount of your margin loan. Interest is calculated daily, and posted monthly, to the debit balance of your account. The debit balance represents the total amount you owe to your financial organization. Any dividends or interest earned on the securities in your account are posted to decrease the amount you owe, should you choose this option.

Second, your margin account may be able to provide temporary coverage for funds due, but not yet paid, by settlement date. The settlement date is the date on which broker-dealers exchange payment and securities, thereby completing a trade. On most securities transactions, you will have just three days from the trade date to remit payment to your financial organization before you incur a penalty for late payment. By holding marginable securities in your account, you may be able to provide the collateral you need to protect yourself from late payment penalties.

Third, trading on margin gives you the ability to increase your securities purchasing power. In the current regulatory environment, you may be able to purchase marginable securities valued at up to two times the dollar amount of your investment.[1] With the increase in purchasing power, your potential for profit also increases.

EXAMPLE

Investors A and B both have $5,000 to invest in XYZ stock selling at $10 per share. Investor A buys 500 shares and pays for them in full. The total market value of A's investment is $5,000. Investor B can buy 1,000 shares on margin, depositing the $5,000, and borrowing the remaining $5,000 from the financial organization.

If the market price of XYZ stock increases to $11 per share, investor A's unrealized profit will grow by $500 ($1 increase multiplied by 500 shares). This represents a 10% return on his investment. Investor B's unrealized profit will grow by $1,000 ($1 increase multiplied by 1,000 shares) representing a 20% return on her initial investment.[2]

Another advantage of having a margin account is that it gives you the ability to transact "short sales" in stocks. A short sale is the sale of a security that you do not own, but that you borrow from your financial organization because you anticipate that its market value is going to decrease. At some future time, you must cover this sale by purchasing the securities in the market to pay back the securities that you borrowed. If the repurchase price for a borrowed security is less than the price at which you sold it short, your profit is equal to the difference in price, less any transaction or interest costs. Of course, if the repurchase price is greater than the original sale price, the result would be a loss.

What Are the Risks Associated With Margin?

Borrowing funds from your margin account is a convenient way to obtain short-term cash, but you should be aware of the risks involved. When you borrow funds from your margin account, you increase the amount of your debit balance. As market conditions fluctuate, the value of your marginable securities will also fluctuate, causing a change in your overall account balance and debt ratio. As a result, if the market value of the securities held in your margin account depreciates, you may be required to deposit additional funds or make a full repayment of your margin loan to bring your account back to acceptable levels.

Although the increased purchasing power associated with margin trading does increase the potential for profit, it also increases the potential for loss. Let's go back to the example of investors A and B:

EXAMPLE

If the price of XYZ stock were to decline to $9 per share from its original price of $10, investor A would lose $500, while investor B would lose $1,000. The value of investor B's outstanding loan would remain at $5,000 while the market value of his investment would be $9,000.

In a cash account, your risk is limited to the amount of money that you invested. In a margin account, your risk includes the amount of money you have invested plus the amount that has been loaned to you.[3]

Reducing the Risks Associated With Margin

There are several ways to reduce your risk of leveraged losses in a margin account.

The following are two suggestions:

- **Borrow less than the full loan value of your securities.** Loan value is defined as the maximum allowable amount you can borrow using your securities as collateral. This way, you pay off more of your purchase and lessen the chances of your account falling below required margin levels during market fluctuations. You still enjoy the benefits of leveraged buying power and low cost borrowing.
- **Maintain a diversified portfolio.** Diversification is the key to any balanced portfolio. This is especially true with a margin account. A mix of conservative investments can lessen, but not eliminate, the risk of loss.

Borrowing on margin is not for everyone and careful consideration of your personal investment objectives, your financial situation, and your tolerance for risk must occur. Margin financing involves the extension of credit, where you agree to all terms and conditions of a separate Margin Agreement. Signing a Margin Agreement does not obligate you to use the features of a margin account—you may still continue to pay for all of your purchases in full.

Margin Requirements

The Federal Reserve Board (FRB) sets minimum margin requirements for various marginable securities. For instance, the current margin requirement for eligible equity securities is 50% of the purchase cost. In other words, you must pay for at least 50% of a trade in cash, or deposit an amount of marginable securities into your brokerage account valued at greater than or equal to 100% of the purchase price.

In addition, the New York Stock Exchange® (NYSE®) sets minimum maintenance requirements for margin accounts. For instance, it requires that you maintain minimum equity[4] of $2,000 in your brokerage account in order to borrow money for a margin transaction. This can be either in cash or marginable securities, or a combination of both.[5]

The following example summarizes the requirements for a typical margin transaction:

EXAMPLE

You purchase $10,000 worth of equity securities on margin. You will have to deposit 50% in cash or $5,000. You may also deposit $10,000 worth of marginable securities with a loan value of $5,000 (50% multiplied by $10,000).

You are required to have these funds in your account no later than three business days after the trade date (T+3) to coincide with Regulation T, which is governed by the FRB.

What is a Margin Call?

As is true with all investors, those who use margin should keep a watchful eye on the value of their portfolios. A depreciation in the market value of your portfolio can result in the issuance of a margin call, requiring you to deposit additional funds or marginable securities into your account. The FRB legislates the extension of credit by your brokerage firm under Regulation T.

According to this Regulation, a customer initiating a margin transaction must deposit the required funds into his or her account within the standard settlement cycle plus two business days of the trade date. This is known as a Reg T Call (or a "Fed Call"). The consequence of not depositing the necessary amount of cash or securities into the account within the specified time period is that the account will become restricted and may be liquidated. Liquidating transactions may still be done in a restricted account. However, all proceeds from the sale of securities will go directly towards the debit balance of the account in order to bring it up to an acceptable level.

If the amount of equity in your margin account drops below the margin account maintenance requirements mentioned earlier, you may receive a Maintenance Call (or "House Call"). A Maintenance Call is payable on demand, and rapidly depreciating market conditions may require immediate action involving liquidation of sufficient securities in your account to satisfy the call without notice to you. Your financial organization reserves the right to request additional margin maintenance at its discretion due to reasons that may include, but are not limited to:

> Any undue concentration of one or more securities in your account.

> A significant decline of your credit worthiness.

> Market or portfolio volatility.

Failure to satisfy a Maintenance Call by depositing additional funds or marginable securities into your account may result in restrictions on your account and liquidation of sufficient securities to cover the call.

How Do I Satisfy a Call?

You may choose from the following options to satisfy a call:

- **Deposit sufficient cash** into your account to satisfy the entire amount of the call.
- **Deposit acceptable marginable securities** with sufficient loan value to meet the call.
- **Liquidate money market funds.**
- **Sell sufficient securities** in your account.

What Securities Are Marginable?

Most securities listed on the NYSE and the American Stock Exchange® (AMEX®), securities traded on the Nasdaq® National Market®, and certain mutual funds held over 30 days are eligible to be used as collateral in a margin account. Precious metals, Certificates of Deposit, and annuities are not eligible. If you are not sure if a security is marginable, please contact your investment professional or financial organization.

How Do I Open a Margin Account?

In order to borrow or trade on margin, you must review and sign a Margin Agreement. If you do not already have a brokerage account, request a Margin Agreement along with a New Account Form from your investment professional. After careful review of the contents, sign both, and return them to your financial organization. If you already have a cash account, you may request that a Margin Agreement be sent to you.

Experienced investors have been borrowing funds on margin for both personal use and the purchase of securities for years. Why not open a margin account to unleash the potential of your brokerage account?
For more information, please contact your investment professional or financial organization.