Margin borrowing

Set your financial future in motion.

Maximize your brokerage account capabilities.

Margin trading entails greater risk and is not suitable for all investors. Please speak with your broker or advisor about your financial circumstances and risk tolerance prior to trading on margin. If the market value of the securities in your margin account declines, you may be required to deposit more money or securities in order to maintain your line of credit. If you are unable to do so, National Financial Services LLC (NFS) may be required to sell all or a portion of your pledged assets.

A SINGLE SOURCE

Your brokerage account offers you an additional option for helping achieve your investment goals and helping you meet your financial needs—the ability to set up a margin borrowing account for quick and convenient access to credit.

Margin borrowing[1,2] works by using your existing eligible brokerage assets as collateral, provided you maintain certain account balance requirements. Is margin borrowing right for you? We offer this brochure as well as our service to help you find out.

[1]It is important that you fully understand the risks involved in trading or borrowing against securities on margin. Please review the margin disclosure statement in your brokerage account application and agreement for more information.

[2]To access a margin borrowing account requires completing and submitting an application to NFS for approval.

HOW CAN I USE MY MARGIN BORROWING ACCOUNT?

This powerful feature can be used for:

- Securing short-term financing to meet business or personal needs, such as paying off high-interest loans, college tuition, or health care expenses.
- Buying more of a certain security than your existing cash balance allows, enabling you to maximize your investment opportunities.

WHAT ARE THE BENEFITS?

Margin borrowing can save you money, is convenient, and offers attractive investment and tax benefits:

- **Enjoy comparable interest rates**—The interest rate you pay will depend on your outstanding margin balance—the higher your margin balance, the lower the rate you're charged.
- **Repay with flexibility**—Margin interest is posted to your account monthly. There is no set repayment schedule, provided you maintain the required level of equity in your account.
- **Borrow without hassles**—Once you're approved, margin borrowing is available whenever you want (provided you have sufficient equity in your account) with no additional forms to complete, application fees to pay, or loan officers to consult. Margin-eligible mutual funds must be fully paid and owned for at least 30 days and have the same registration.

- **Retain a long-term investment focus**—Margin borrowing may eliminate the need to liquidate securities for short-term purposes, helping you avoid being out of the market.
- **Minimize tax consequences of selling securities**—Pay for large purchases, like college tuition or emergency medical expenses, by using cash available in your margin account rather than selling securities and potentially incurring taxable capital gains.
- **Benefit from tax deductible loan interest**—Interest on a margin account is generally tax deductible for non-corporate taxpayers. While the deduction may often be limited to your net investment income, any deduction not allowed as a result of this limitation may be carried over to a succeeding tax year. See Form 4952, Investment Interest Expense Deduction, for details on calculating it.
- **Short sell**—If you believe a stock will fall in value, your margin account may allow you to borrow that stock in order to sell it at the higher value and buy it back later at the lower value. See Short Sale Transactions on page 9.

LET'S SEE AN EXAMPLE

Suppose you own 400 shares of ABC stock, valued at $50 per share, for a total value of $20,000. You decide to purchase another 100 shares but only have $2,500 available to invest. By using your existing stock holding as collateral, you can use the loan value of your stock to pay for 50% of the trade ($2,500), and incur a margin debt for the other half ($2,500). Assume a margin loan rate of 8%.

One year later, you sell the lot of 100 shares of ABC stock at $60 per share, generating a profit (net of expenses) of $800 ($1,000 minus $200 in interest charges). This represents a return of 32% on investment. If you had used only your available cash balance, and purchased just 50 shares of ABC stock, your profit (net of expenses) would have been less—$500, for a return of 20%.

SHARES PURCHASED AT $50 PER SHARE, SOLD AT $60 PER SHARE ONE YEAR LATER		
	USING CASH ONLY	USING MARGIN CREDIT
Number of shares	50	100
Value of shares purchased	$2,500	$5,000
Cash provided	$2,500	$2,500
Margin credit borrowed	0	$2,500
Annual interest charges (8%)	0	($200)
Sales proceeds	$3,000	$6,000
Net gain	$500	$800
Return on investment*	20%	32%

*Return on investment is calculated by dividing the gain (or loss) by the cash provided. Return does not include the effect of taxes. This example does not account for any fees, commissions, or interest that may apply.

WHICH SECURITIES MAY I USE AS COLLATERAL?

Eligible stocks, bonds, and mutual funds you may use as collateral for margin trading include:

- Equities trading over $3 per share on most national exchanges, including the NYSE and NASDAQ (special requirements exist for certain securities and certain accounts)
- Most mutual funds, if you've held them for at least 30 days
- Treasury, corporate, municipal, and government agency bonds

Not eligible are precious metals, money market funds, certificates of deposit, annuities, offshore mutual funds, options, and any securities in retirement, UGMA/UTMA, and most other fiduciary accounts.

WHAT ARE THE REQUIREMENTS AFFECTING MY BORROWING POWER?

Margin requirements vary according to the type of security you wish to acquire and the type of transaction you're executing. These factors, as well as the value of your marginable assets and the interest rate, will affect the amount you can borrow. For instance, if your account contains $50,000 in eligible mutual funds, your margin credit will be about $25,000, depending on the interest rate. You can also transfer assets you own elsewhere to increase your margin credit line.[3]

[3]Government regulations prohibit retirement account assets (IRAs or Keoghs) and money market funds from being eligible. Also, mutual fund assets owned less than 30 days are not eligible.

PURCHASE OR LONG POSITION TRANSACTIONS

An initial 50%[4] of the purchase price is required. For NYSE-listed securities and all other exchanges (AMEX, Boston, Philadelphia, and Pacific Coast), including most NASDAQ securities, the minimum maintenance requirement is the greater of:[4]

- 30% of market value
- $3 per share for securities trading over $3
- 100% of market value for securities trading at or below $3

SHORT SALE TRANSACTIONS

A short sale occurs when you borrow stock (you believe will depreciate) in order to sell it and buy it back sometime in the future. An initial 50%[4] of the short sale is required and the minimum maintenance requirement is the greater of:

- 35% of market value
- $5 per share for securities trading over $5
- 100% of market value or $2.50 per share (whichever is greater) for securities trading at or below $5 per share

[4]NFS may impose a maintenance requirement GREATER than the 50% Reg T requirement on new purchases. NFS reserves the right to increase maintenance requirements as determined by market conditions. In a situation where the maintenance requirement is greater than 50% on new purchases (or requirement changes are made after the purchase), you must maintain an equity level at or above the higher requirement.

SUMMARY OF INITIAL LOAN VALUES AND MAINTENANCE REQUI
SECURITY AS COLLATERAL FOR MARGIN BORROWING
Corporate Bonds (including CATS, TGRS)[5]
Convertible Bonds
Mutual Funds after 30 days
Qualified Unit Trusts after 30 days
U.S. Treasury Notes and Bonds
U.S. Treasury Bills
Zero-Coupon Treasury Certificates
Zero-Coupon Corporate Bonds
GNMAs
Municipal Bonds[5,7]
Other Government Agencies

Margin requirements may be changed due to concentrated positions, nondiversification, and changes in market conditions, or at NFS's discretion.

REMENTS FOR ALL OTHER TYPES OF SECURITIES

	INITIAL LOAN VALUE	MAINTENANCE REQUIREMENT
	70% of market value or 90% of principal, whichever is less	25% of market value or 10% of principal, whichever is greater[6]
	50% of market value	30% of market value or 10% of principal, whichever is greater[6]
	50% of market value	30% of market value
	50% of market value	30% of market value
	90% of market value	10% of market value
	99% of market value	1% of market value[6]
	90% of market value	10% of market value
	70% of market value or 90% of principal, whichever is less	25% of market value or 10% of principal, whichever is greater[6]
	90% of market value	10% of market value
	75% of market value or 85% of principal, whichever is less	20% of market value or 10% of principal, whichever is greater[6]
	90% of market value	10% of market value

[5]Investment grade only.

[6]Maintenance requirement not to exceed 100% of market value.

[7]All margin transactions in state and municipal obligations are subject to approval.

WHAT ARE THE RISKS INVOLVED IN MARGIN?

The level of equity in your margin account will fluctuate with the value of the underlying securities. This may result in an increase or decrease in the amount you may borrow on margin. Keep in mind that leveraging your securities works as dramatically when stock prices fall as when they rise, increasing any loss on investment.

If the value of your margined securities drops below requirements, you may immediately have to satisfy a margin call. There are two types:

- Maintenance (house) calls result when the amount of equity divided by the current market value of the securities in your margin account drops below the minimum required by the "house," or the firm through which we invest your assets, NFS. In addition, many firms, including NFS, may impose higher account levels based on factors including, but not limited to, security and/or sector concentrations. The call is payable on demand, and you are required to increase the equity in your account to the maintenance level. In a rapidly deteriorating market, the firm may be required to immediately liquidate enough of the securities to satisfy the call.
- Reg T (federal) calls result whenever you make a purchase without sufficient buying power or without the $5,000 minimum.

HOW DO I SATISFY A MARGIN CALL?

There are four ways:

1. Sell securities
2. Deposit marginable securities with sufficient loan value to meet the call
3. Transfer money from an eligible mutual fund
4. Deposit funds directly into your account

Margin-eligible mutual funds must be fully paid and owned for at least 30 days and have the same registration. (A two-day settlement is required.)

IS THERE A WAY TO AUGMENT MY MARGIN POWER?

Yes, there is an option to consider when you apply:

- Transfer assets—Eligible assets you may hold at other financial institutions can be transferred to your margin account to increase your collateral and the amount you can borrow. Your broker or advisor can provide the necessary forms.

Is margin borrowing right for me?

It may be, but please make sure you understand the risks before you use margin credit. If needed, review this brochure again and/or review the margin account agreement for additional information. Then contact your broker or advisor to help determine if margin borrowing is consistent with your objectives, financial resources, and tolerance for risk.

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