

# Investment Fraud Prevention: Understanding Your Brokerage Account

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If you are thinking about opening a new [brokerage account](#), there are a few decisions you will need to make. One of the most important is what type of brokerage account you want to open.

Most brokerage firms offer at least two types of accounts—a cash account and a margin loan account (often referred to as a “margin account”). Because these accounts involve different levels of risk, it is important to understand the difference.

In a cash account, you are required to pay for your securities in full at the time of purchase. In a margin loan account, your broker can lend you funds to purchase them, with the existing securities in your portfolio serving as collateral for the loan. The amount that you “borrow” from the brokerage must be repaid and will accrue interest, as with any other loan.

## *The Risks Associated With Margin Accounts*

It is important to understand that margin accounts do come with certain risks, namely a “margin call.” A margin call is a demand that you repay all or part of the loan with cash, a deposit of securities from outside your account, or by selling some of the securities in your account.

In the case of a margin call:

- Your firm can sell your securities without contacting you.
- You are not entitled to choose which securities or other assets in your accounts are sold.
- Your firm can increase its margin requirements at any time and is not required to provide you with advance notice.
- You are not entitled to an extension of time on a margin call.
- You can lose more money than you deposit in a margin account.

Because of the risks involved, be sure to carefully review all of the documents provided by your broker to ensure that you sign up for the right type of account. With some firms, you sign up for a margin loan account by default unless you indicate otherwise on the application.

## **About Debra Speyer**

*At [Wall Street Fraud](#), we are dedicated to offering assistance to those who have been hurt by improper corporate or investment practices.*

*If you have been the victim of stock brokerage fraud, securities fraud, mutual fund fraud, stockbroker fraud, annuities fraud, or any other type of investment fraud, please [contact us](#) today for a free case evaluation. Our talented and aggressive legal and professional staff is eager to help you recover your losses.*

