Welcome back to the *Rude Awakening*, folks.

Today's Thursday, February the 18th, 2021 and we are in day nine of ten of our asymmetric trading system.

And we're talking about leverage today, the power of using leverage in an appropriate manner.

So, let's jump into our brokerage account and take a look at how leverage works.

Let’s take a look at a stock like Amazon here, and let's say that we want to buy a share of Amazon, so I can go click on the ask button and it will load up a buy order here for one share of Amazon. Amazon right now is trading for $3,285 a share. And so, if I review that order, before I send it to my broker, you can see some of the numbers here that would take place with the order. Obviously, the order is going to be at the current market price, which is 3285.

And you can see that the trade cost is 3285. Now that makes sense. We're buying one share of stock at its current price of 3285. So, that's where we're going to be spending, is 3285. However, if you look at your buying power effect, how does this affect your buying power inside of your account? You'll notice that it is $1,642. It's actually exactly half of what the actual purchase price is. Well, that's margin. Now margin works a couple of ways is essentially your broker lending you money to go trade with. Now there's standardized margin and then there's portfolio margin. Standardized margin is basically two to one leverage. That's what you're seeing here. It's essentially 50% down investing. It would be just like if you're a real estate investor and you had a lender that would give you 50% of the purchase price, you come up with half, they come up with the other half.

That's what standardized margin looks like now. Portfolio margin and different brokers have different levels for requirements on meeting portfolio margin capability. A lot of them around $125,000 up to $200,000 of account value. But if you meet those qualifications, you can get portfolio margin, which is five to one leverage. So it would basically be 20% down. You want to go buy a hundred thousand dollars-worth of stock? You only have to come up with $20,000 of your own money. Now it sounds like a great deal.

The question is why would your broker lend you money? And the answer is the same reason as why your bank would lend you money. They're going to charge

you interest. Now they're going to charge you interest depending on the amount that you borrow and the broker that you use. But it is typically between two and 7% a year annualized APR. And this is a tax neutral event, meaning it doesn't help you on your taxes, it doesn't hurt you on your taxes because the interest you would pay to your broker is just like the interest on your home. It is tax deductible, it's deductible against your earnings gains. However, your earnings gains are taxable. So they basically neutralize each other. It's not really a tax issue event to think about.

What it is an issue to think about is the leverage that it gives us. And so we do strive, again, in this asymmetric system to create an edge, to create an advantage over someone that is just simply throwing money into the stock market and buying and hoping that things will work out in the end. And one of the tools that we use to do that is leverage. If in fact, we are trying to average around 2% a month, around 24% a year annualized rate of return, which we feel is a doable number if you can execute properly on the trades that we're showing you and the setups that we're giving you, then it would obviously be what we call accreted. You would spend maybe at the high end 7% interest, but you would make 24% interest back. That is accretive leverage.

In fact, what is the actual rate of return on that borrowed money? Well, you would think while you're making 24%, you're maybe getting charged 4% in the middle range, let's say, so you're going to net 20% interest, right? No. That's not how the math works. Your implied rate of return on those borrowed funds is infinite. It's infinite. It's incalculable because you're making money on money that you didn't put up.

So we do use a small portion of our portfolio in the asymmetric trading system on leverage. We use about 20% of our overall portfolio. So for example, if you're trading about a $30,000 account, you would at most times have around $36,000 of positions open and trading inside of your account. This gives us a little edge, gives us a little advantage over the long haul that individuals that are just investing with cash don't have.

So this is step nine, guys, of 10.

Tomorrow, our last day in the training system. And we'll go through all of January's results day by day, show you how the system works and what you can

expect trading the asymmetric system. So have a great day today, guys. We'll talk to you tomorrow.