What is Margin Call - Ways to Prevent It [Leverage, Capital Mgmt. & Emotions]

When there is insufficient balance to cover **losses**, the broker or exchange issues a Margin Call warning. In this situation, the user must either add **margin** or close **high-risk** trades to return the account balance to a risk-free state and avoid a stop-out.

Understanding the concept of Margin Call in the forex market, ways to prevent and exit a Margin Call

What is Margin Call and How Does It Happen?

Contrary to popular belief, a **Margin Call** in the **forex market** does **not** mean the loss of a trading account. When the account approaches **critical conditions**, a message is issued by the broker to take necessary actions to prevent a **Stop Out**.

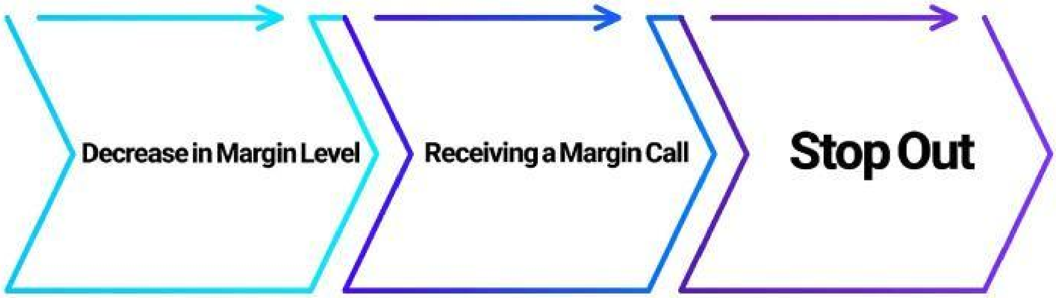
Some of the key concepts affecting Margin Call include:

- **Balance:** The **funds** deposited into the account and available for trading;
- **Leverage: Borrowing** money from the broker to conduct trades **larger** than the **actual balance** of the account;
- **Margin:** The amount that the broker deducts and locks from the account balance as collateral for the trade;
- **Margin Level:** Shown as a percentage, it reflects margin relative to open positions, assessing risk and position sustainability;
- **Equity: Equity** is The real-time balance of the account, including **profits or losses** from open trades;
- **Stop Out:** When the balance can't cover open trade losses, trades close automatically, triggering a Stop Out.

Signs of Approaching a Margin Call

A Margin Call occurs when the trader's account balance **decreases** to a level where it can no longer cover the losses of open trades.

In this case, the broker issues a **warning** to deposit more funds into the account to cover further losses.



Signs of receiving a Margin Call warning and the account being stopped out

Decrease in Margin Level to Critical Levels

When the Margin Level reaches a **critical** point, it indicates insufficient funds to cover the **losses of open trades**. In fact, a Margin Level of 100% indicates that the funds to cover the losses of open trades are running out.

Receiving a Warning from the Broker

When the Margin Level reaches a critical level, brokers warn about **insufficient funds** to cover losses. In this situation, by increasing the account balance, the Margin Level moves away from the critical level, and the account returns to **normal**.

However, if the account balance is not increased and **losses** continue to grow, the broker closes all open trades, and a **Stop Out** becomes inevitable.

Ways to Prevent a Margin Call

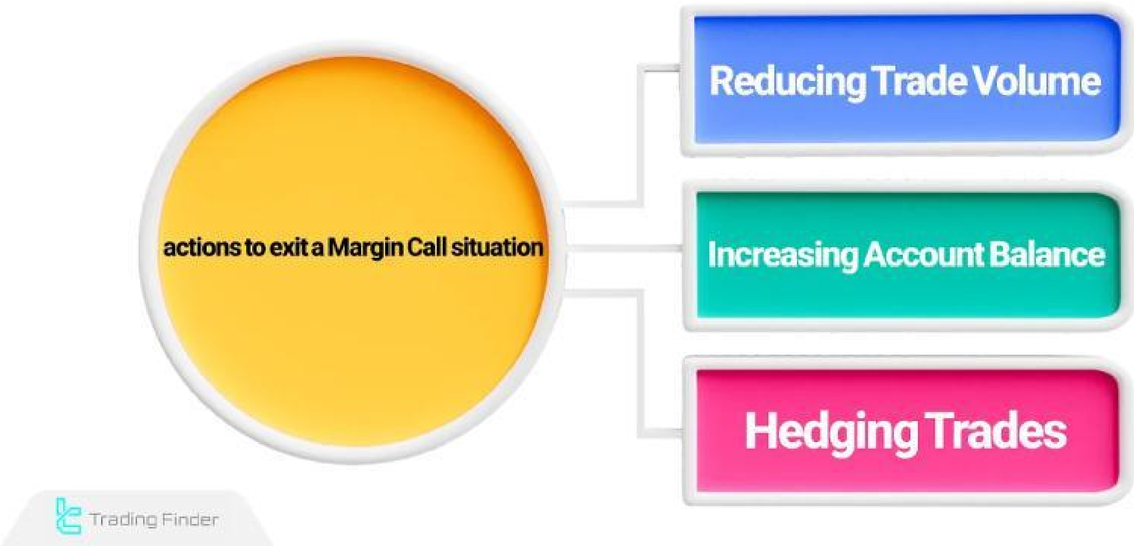
Following a few simple principles can reduce the likelihood of a Margin Call. A Margin Call is merely a warning for the user to manage the losses of open trades.

Ways to Prevent a Margin Call:

- **Capital Management:** By adhering to **capital management** in all trades, the likelihood of a Margin Call is reduced;
- **Using Appropriate Leverage:** High **leverage** boosts profit potential but also increases losses;
- **Emotional Management:** Controlling emotions during **critical moments** prevents **irrational decisions** leading to a Margin Call.

Ways to Exit a Margin Call Situation

Taking necessary actions to manage capital when receiving a Margin Call warning from the broker or exchange makes it possible to exit the critical state and preserve capital.



Necessary actions to exit a Margin Call situation.

- **Reducing Trade Volume:** Closing high-loss trades or partially closing profitable ones raises the Margin Level, reducing Margin Call risk;
- **Increasing Account Balance:** Depositing funds raises the balance, increasing the Margin Level and exiting the Margin Call zone;
- **Hedging Trades:** Floating losses and the Margin Level remain stable by opening a trade in the **opposite direction**.

Conclusion

By reducing **trade volume**, **selecting appropriate leverage**, and using **stop-loss orders**, one can prevent approaching the **Margin Call** level.

Solutions such as **increasing the balance** or **hedging** trades can prevent a **Stop Out** if faced with a Margin Call.

Sources:

1.our website link :
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2.all Education :
https://tradingfinder.com/education/forex/

3.TradingFinder Support Team (Telgram):
https://t.me/TFLABS