



# Cash vs. Margin Accounts



There are two primary types of brokerage accounts: **cash** and **margin**. The main difference between these accounts is the monetary requirements.

## Cash Accounts

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In a cash account, investors must use cash to pay for all securities purchased.

To trade in a cash account, you must have enough funds in your account to cover the purchase of a security. In addition, you should be aware of the impact of trading with unsettled funds. In general, funds don't clear or settle until two days after a trade. That means if you buy a security on Day 1, then sell it on Day 2, you're not allowed to buy another security with funds from the sale until Day 3.

Similarly, if you sell a security, the funds take two business days to settle. Nevertheless, you're allowed to make an immediate good faith purchase. But under Federal Reserve Board rules you must wait two business days from the initial sale before you can sell the new security. If you sell sooner than two business days, you could face trading restrictions for a good faith (or free riding) violation.

## Cash Accounts: Rules and Restrictions

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Trading with cash seems pretty straightforward, but there are rules about using cash that all investors need to heed.



**Article:** [Trading with Cash? Avoid Account Violations:](#)

Understand the three most common cash account trading violations and how to avoid them.



**Video:** [Understanding Stock Settlement Dates and Avoiding Good Faith Violations:](#)

Learn how stock settlement works in cash accounts and how to trade with unsettled cash in a cash account to avoid a good faith violation.

## Margin Accounts

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Simply put, margin is borrowed money that investors can use to buy stocks or other marginable securities on credit. Or, investors can use margin to borrow against marginable securities already in their account.

When you buy securities on margin, you pay only a portion of the total cost, and a brokerage firm extends credit to you on the balance. An interest charge is made monthly to your account on the amount you borrow. From then on, the price of your security may go up or down, but the amount you owe your brokerage firm should remain relatively unchanged, varying only with the interest charge.

Margin can increase an investor's buying power, provide access to advanced trading strategies, and even act as a line of credit. If you're interested in applying for, or qualify for, margin trading, it's essential to understand what margin is and how it works.

**Learn more about margin:**



**Video:** [Margin Strategies: Three Ways to Use Margin & Leverage](#)



**Article:** [Basics of Buying on Margin: What Is Margin Trading?](#)



**The Ticker Tape**<sup>®</sup>: Learn more about trading on margin before jumping in.

## Margin Accounts: Rules and Restrictions

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You should also have a clear understanding of the rules and potential risks associated with margin, such as the pattern day trading rule, day-trading buying power versus buying power, and margin calls.

Margin trading increases risk of loss and includes the possibility of a forced sale if account equity drops below required levels. Margin is not available in all account types. Carefully review the [Margin Handbook](#) and [Margin Disclosure Document](#) for more details.

 **Video:** [The Pattern Day Trading Rule Explained](#)

Learn how to comply with the pattern day trading rule so your account isn't restricted.

 **Article:** [What's the Pattern Day Trading Rule? And How to Avoid Breaking It:](#)

Make sure you understand pattern day trader rules—otherwise, it's easy to violate them without even realizing it.

 **Video:** [How to Handle Margin Calls:](#)

Learn how to avoid margin calls and what to do if you're issued a margin call.

## How to Use Our Trading Platforms

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 **Video:** [Navigating tdameritrade.com | An In-Depth Walkthrough:](#)

Learn how to set up and fund your account, access the various trading platforms and tools at your disposal, and place a basic stock trade.

You can also [sign up](#) for a live, guided tour of our website with one of our education coaches.


 **Video:** [Introduction to thinkorswim®:](#)


Watch a high-level overview of the thinkorswim platform.

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