Margin Trading

If you are new to margin trading, read [this thread] (Archive link: https://warosu.org/biz/thread/S1506963). OP makes every mistake you can make all at once on his very first trade and gets completely rekt.

> Anonymous (ID: CvmBrpd6) 09/16/16(Fri)17:32:24 No.1507058
>
> I know it sucks, but you lost twenty grand. That's going to suck. That wasn't just numbers on a screen. You entered a $50k position ($20k w 2.5x leverage) all at once and lost. Your position said "I am absolutely certain it is about to blow and I will not be able to buy any more at a good price, that's how fast it will explode. I am risking everything I own on this decision, that is how sure I am," and you were wrong, and you sat on it for a bit before covering and lost virtually your entire collateral.

If you are new to trading altogether, it is very dangerous to start out by trading on margin. There are many crucial concepts that you should be familiar with before trading with borrowed funds. A few of these are leverage, liquidation, and stop-limits. If you are unfamiliar with these terms, we recommend you learn the ropes on the exchange before diving into margin.

Terminology

Margin Trading – Trading with borrowed funds. In order to do this, you must have collateral in your margin account. Poloniex allows a margin of 2.5x, meaning if you have 1 BTC in your margin account, you can borrow 2.5 BTC.
Beginners should always use BTC as collateral.
Never use the currency you are trading as collateral. Why?

Long – When you go long on margin, you borrow BTC from a lender and use the borrowed funds to purchase the coins instantly as if the funds were your own.

Short – When you short a currency, you borrow the coin itself from a lender and sell it instantly as if it were your own.
Long and short have nothing to do with timeframes. You can short a currency and hold the trade open for weeks or months. You can go long on a currency and close the trade less than a minute later.

When you go long, you borrow BTC and use it to buy a crypto. When you close your position, you sell the coin (for a higher price) and return the borrowed BTC to the lender.
You keep the leftover BTC.
When you short a coin, you borrow the coin and sell it for BTC. When you close your position, you buy the coin back (for a lower price) and return it to the lender.
You keep the leftover BTC.

Position – Your position is how much you have bought or sold. When you enter the trade, this is called "opening your position." When you exit the trade, you "close your position."
You can adjust the trade as you go by "adding to" or "decreasing" your position.
If you are going long, you add to your position by buying more.
If you are shorting, you add to your position by selling more.
In other words, you are increasing your bet.

To decrease your position (if the trade is going against you but you aren't ready to close it) you would buy back some of the coins you shorted, or sell some that you longed. This will adjust both your base price and your margin %.

Base Price – This is your break-even price, or the price at which you entered the trade. You will notice that it is always above or below the price you actually entered at, depending on if you are longing or shorting. This is due to slippage, and is another reason it is unwise to go all in on a trade in one click, as you can never be certain what your actual buy in price is going to be.

Slippage – The difference between the expected price of a trade and the price at which the trade is actually executed. This is always going to be in Poloniex's favor. Always. Consider it an extra fee.

Initial (40%) – Initial margin is the percentage of the trade that the investor must pay for with his own collateral; it is also called the initial margin requirement.
For Poloniex, this is amount is 40%.
If you put 1 BTC in your margin account and then use it to go long on 2.5 BTC worth of XMR, your margin is now at 40%. You are now completely leveraged, and if the trade starts to go against you, your margin % will start to fall. You will see the bar begin to turn red.
Full definition.

Maintenance (20%) – A maintenance margin is the minimum amount of collateral that must be maintained in a margin account.
For Poloniex, this amount is 20%.
In order to margin trade, you are borrowing funds from lenders. You must maintain enough collateral in your account to pay back the loan (and fees), even if you lose everything. If your account falls below 20%, your account will be liquidated and all funds returned to the lenders. This is known as a margin call.

Margin Call – When your account falls below the minimum margin and is liquidated.
Margin Call = GAME OVER ALL MONEY LOST

Liquidation – If your account falls below 20%, your position will immediately be closed and all remaining collateral will be sold and the funds returned to lenders.
Poloniex will notify you buy email when your account falls below 30%.
Your first instinct will be to panic and close the trade. This is not always the wisest course of action, especially if it just started going against you in one large candle. Many times you will want to decrease your position and allow it to recover. Remember, it is UNREALIZED profit/loss until you close the trade. Decreasing your position will increase your margin % and give you some breathing room.
This can also be dangerous, because if the trade continues to go against you quickly, you can be liquidated before you have time to close.

Protip: Professional traders have their trades mapped out beforehand, and know before they ever enter a position what their exit strategy will be. They are in no real danger of liquidation, because they know ahead of time how far the trade can fall before getting out with a small loss. This is accomplished through the use of Stop-Limits.
They also know when they plan to take profits. This is called a profit target. If you do not have a profit target then you are truly just gambling and will likely sit and watch as your unrealized profits shrink to

nothing and you go back in the red. Always take profits, and always know when to you plan to take them.

Stop-Limit – A stop-limit order will be executed at a specified price, or better, after a given stop price has been reached. Once the stop price is reached, the stop-limit order becomes a limit order to buy or sell at the limit price or better. [Full definition](#).

Stop-Limits are one of the most important tools a trader has to ensure successful trades. They enable you to set up trades ahead of time, especially useful if you are not able to constantly monitor the exchange (i.e. sleeping, sexing, travelling, etc.).
They also have the added benefit of removing the trader from the equation. It is not uncommon for a trader to hover over the close button when a trade reaches the profit target, only to hesitate for any number of reasons and decide not to close. This almost always goes against the trader. Take your profits and get out.

Let's look at Stop-Limits in more detail.

For this discussion we will examine going long.
Think of a Stop as sitting there hidden, or an invisible order that only you can see. When you set your Stop, it becomes the price at which the order will show up in the books. When/If the price reaches your Stop, the order will be placed. You want to set your Stop above your Limit.
Poloniex will automatically sell at the highest price above your Limit and below your Stop at the time conditions are met.
Let's say you margin long 1 BTC worth of XMR at 0.0176.
You decide you want to sell at .0170 and exit the trade if the price should fall that far.
You want to stay in the trade as long as possible, so you set your Stop at 0.0171.
When market price falls to 0.0171, your Limit order is triggered, and Poloniex will automatically sell at the current highest price, so long as it is above 0.0170.

Because 0.0170 is where you set your Limit, this says 0.0170 is the lowest possible price you are willing to sell. This means if the market price drops to 0.016999999 or below, Poloniex will read this to mean you do not want to sell at this price, and you will still be holding your bag even though the price fell below your Stop.

If you are afraid of a true freeforall dump, set your LIMIT much lower, to ensure the order will be executed. For instance, if you want to sell at 0.0170, but believe the price could plummet and make you a bagholder, you could set your Limit at 0.0150 or even 0.0100.
Poloniex will sell at the highest available price. Your Limit is simply the absolute lowest you are willing to sell for.
Beware though, in cryptocurrency, the price will spike up and down in huge increments from time to time, only to return back to the original price instantly. This has the potential to trigger your Stop and execute your sell at the lowest possible point, while the market returns to its original state and leaves you at a loss for no reason.
You have to leave some play between the two or else your order might get passed right over, but you have to be willing to accept the loss that comes at the absolute bottom of your limit. This is another reason it is important to know before entering a trade exactly how much you are willing to lose. Perhaps that is 10%, perhaps more or less, depending on your portfolio and the individual trade.
Successful traders are able to let their long-term greed overpower their short-term greed. This means accepting small losses in order to reserve capital for larger gains.

You do not set a Stop-Limit order to sell for profit. The order would be triggered immediately, and either closed or passed over, because the price is already below that point.
You set Stop-Limits to minimize losses.
Use the Stop-Limit in the upward direction only for two purposes:
Either the price has moved above the point that you believe a breakout is coming and you want to buy more, or "increase your position," or “open a position”
OR
You are shorting, in which case if the price keeps going up you are losing money, and you have reached the point you want to reduce the position or close at a loss.

Limit = Sell now because I don't want to lose any more than this.
Stop = Set my limit order, in case it drops below this price.

Stop at .0172, Limit at .0169
Market drops to .0171, stop is triggered.
But market is at .0171
So you sell at .0171

Setting your Stop close to the current market price is called a “tight stop.” Setting a tight stop is a good way to minimize losses, but almost guarantees that you will be stopped out, and also leaves the possibility of your order not triggering at all, depending on your Limit.

The tighter the Stop, the more likely it is to be triggered.
The tighter the Limit, the greater potential the order will be ignored.

Stop set at .0170
Limit set at .0169
Market drops from .0172 down to .0168 in one big red candle
Your order gets passed right over

Using BTC as Collateral

Never use the currency you are trading as collateral, especially if you are going long.

You totally believe in XMR.
You have 50 of them from the exchange.
You believe they are going up up up to da moon (Remember this guy?)
so you put your 50 XMR in your margin account and use them as collateral to go margin long also on XMR
If the price starts to fall, your margin % will fucking VANISH
because the value of your collateral is falling at the same time the trade is going against you.

Remember, you do not borrow XMR to go long. You borrow BTC and then purchase XMR.
If you short, it is the opposite. You borrow XMR and sell them for BTC.
1 BTC = 1 BTC

1 BTC = 50 XMR

You borrow 2.5 BTC based on your 1 BTC worth of XMR

You now have 175 XMR

Price of XMR starts to fall

Suddenly 50 XMR = 0.8 BTC

Your 3.5 BTC is now worth 2.8 BTC

Your margin % shrinks 2x

Not only is the trade moving against you, but your actual collateral is also worth less, and these two things are compounding on top of each other. This will lead to a margin call.

You still have 175 XMR, but the value is now 2.8 BTC

And you still owe the lender 2.5 BTC.

Your 1 BTC is now 0.3 BTC

And you still owe fees.

If you were using BTC as your collateral, your 1 BTC would still be worth 1 BTC and only the value of XMR would have changed.

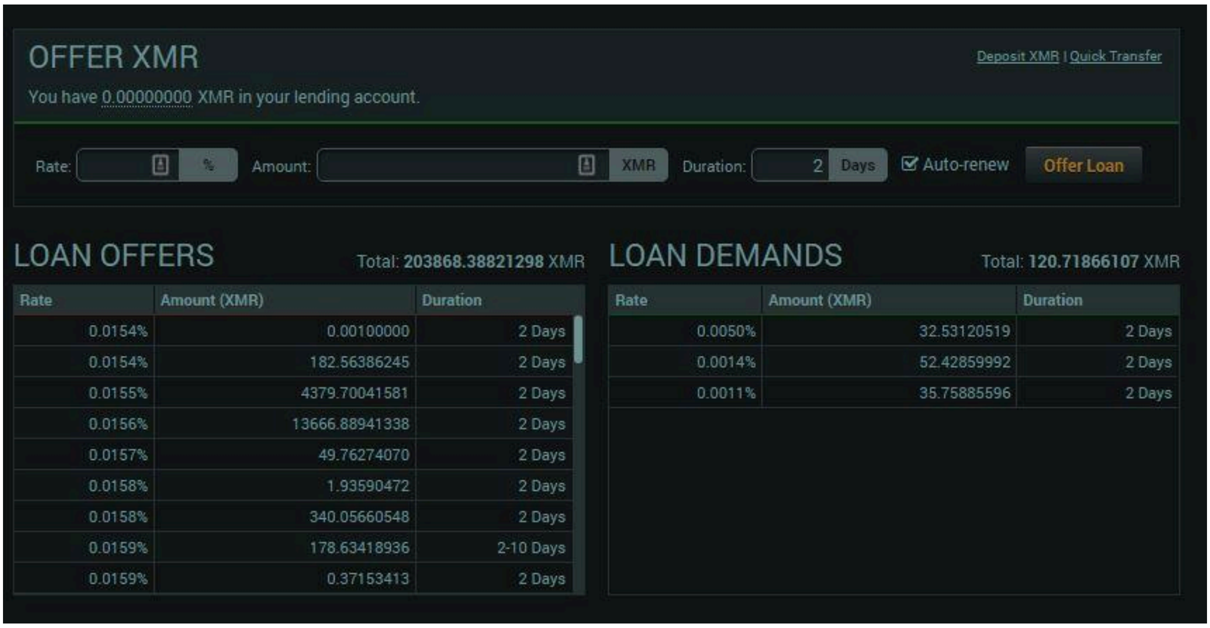
The safest bet is to use BTC as collateral, because 1 BTC will always = 1 BTC.

(The argument was made the other day that if you are shorting, it is fine to use the coin you are shorting as collateral, since this is the coin you will be paying back to the lender. I don't see a problem with that, other than you own the coin, and you are betting the price is going down. Your profits will be negligible because the trade is positive but your value is going down. You are putting yourself in an unwinnable position. That is only my opinion.)

If you use another coin as collateral to go long, that coin will be sold for BTC to pay fees and cover losses.

Lending and Lending Fees

It is a good idea to check out the lending page before opening a margin position.



Rate	Amount (XMR)	Duration
0.0154%	0.00100000	2 Days
0.0154%	182.56386245	2 Days
0.0155%	4379.70041581	2 Days
0.0156%	13666.88941338	2 Days
0.0157%	49.76274070	2 Days
0.0158%	1.93590472	2 Days
0.0158%	340.05660548	2 Days
0.0159%	178.63418936	2-10 Days
0.0159%	0.37153413	2 Days

Rate	Amount (XMR)	Duration
0.0050%	32.53120519	2 Days
0.0014%	52.42859992	2 Days
0.0011%	35.75885596	2 Days

You can see the lending rate for XMR is around 0.0154%.

This is the daily rate.

APR:
0.0154*365 = 5.621%

At that rate, if you loaned 100 XMR for 1 year, you would earn 5.621 XMR.

You could do better than that in 1 successful trade.

One thing we can learn by looking at the XMR lending page when planning to open a long position is how likely it seems that other people are shorting the coin at high volumes. This would mean that the majority of the market is expecting the price to drop. We can tell this by looking at the current lending rate and comparing it to historical data or other current lending rates.

Since the current lending rate shows 0.0154%, and we know that's not very high based on the APR, we can determine that not a lot of people are borrowing XMR to sell.
This can also be seen by simply looking at the total XMR available for loan.
The more coins available, the lower the lending rate will be.

If the rate is very low, no one is borrowing.
If the rate is very high, lots of people are borrowing.

LOAN OFFERS Total: 5938978.15256049 STR

Rate	Amount (STR)	Duration
0.2250%	0.00903152	60 Days
0.2496%	67.81891488	2-60 Days
0.2497%	1640.30821721	2-60 Days
0.2498%	2035.84746502	2-60 Days
0.2499%	4294.69277278	2-60 Days
0.2500%	1050.50702522	2 Days
0.2997%	4186.76712137	2-60 Days
0.2998%	2886.37898731	60 Days
0.2999%	736.82673207	2-60 Days

Here you can see the loan rate for STR spiking as high as 0.2999%.

APR:
0.2999*365 = 109.4635%

If you loaned 100 STR for 1 year, you would earn 109.4635 STR.

This means that lots of people (or a couple of whales) are borrowing STR to short.

Poloniex allows you to loan from 2-60 days. The minimum loan duration is 2 days. However, the borrower can close a loan at any time (often minutes or even seconds after opening.)

Remember, if you loan your coins, you will not have access to them for the duration of the loan. You will not be able to sell if the price plummets (and this is what the person borrowing your coin is expecting it to do.)
Loaning is generally only profitable for long term holders. Their goal is to accumulate more of the coin, regardless of its current and constantly fluctuating value.

Opening and Closing a Position

Now that we understand some basic concepts, let's go through the process of opening and closing a position. We have mapped out our trade, decided on an entry and exit, and checked the lending rates.

The first thing we need to do is put some funds in our margin account. This will serve as our collateral.

QUICK TRANSFER

Transfer 0.03518168 BTC from Exchange account to Margin account. Transfer

Coin	Exchange	Margin	Lending
BTC	-	0.03518168	-
BTS	-	-	-
CLAM	-	-	-
DOGE	-	742.84000000	-
DASH	-	-	-
LTC	-	1.49130400	-
MAID	-	-	-
STR	-	-	-
XMR	13.01030924	-	-
XRP	-	-	-
ETH	-	5.49069089	-
FCT	-	-	-

Estimated Margin Tradable Balance by Coin	
0.40875587	BTC
47529.75281250	BTS
309.87716849	CLAM
1075673.35312500	DOGE
21.46827070	DASH
64.08840924	LTC
2972.12153121	MAID
96861.58156101	STR
26.21912356	XMR
30255.80119818	XRP
18.76373975	ETH
80.94352039	FCT

Your Margin Tradable Balance is an estimate of how much of each currency you can leverage to margin trade. It is based on the current market value of all deposits (across currencies) in your Margin account. Actual tradable balances are dependent on market conditions and your open positions.

We are trading XMR, so I will not be keeping any XMR in my margin account.

Because there are some altcoins in with the bitcoin, the value of our margin will fluctuate with the value of those coins. At the moment, our margin value looks like this:

MARGIN ACCOUNT

Total Margin Value	0.16567220 BTC
Unrealized P/L	0.00000000 BTC
Unrealized Lending Fees	0.00000000 BTC
Net Value	0.16567220 BTC
Total Borrowed Value	0.00000000 BTC
Margins (2.5x Leverage)	
Maintenance 20%	Initial 40%

Current Margin - N/A

Total Margin Value is how much our account is worth at the moment, based on the BTC value of all coins in the account. Because we have some alts in there, this number will be constantly changing. This will directly affect our Margin %. At the moment we are confident that the ETH we are using as collateral will not go down in value, and we have no plans to open a margin position on ETH, so this is an acceptable path forward.
Ideally, I would use only BTC for this trade. If it goes against me I run the risk of losing some of my ETH. However at the moment I have more ETH than BTC on the exchange, and since I do not want to sell, it is a risk I am willing to accept.

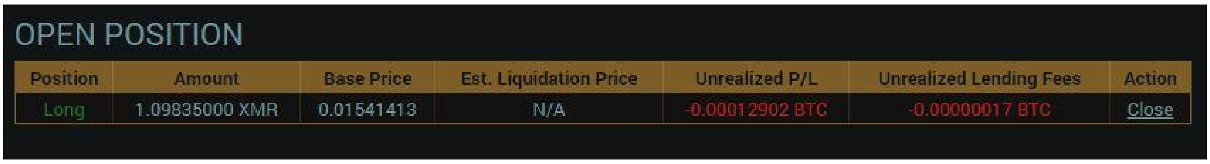
We now have a tradable balance of roughly 0.41 BTC. Let's place a small order and wait for it to fill.

Remember, we are going long on XMR, so we will be borrowing BTC. It is a good idea to check the lending rates of BTC before placing your order.

Poloniex has the default rate set at 2%. You will automatically receive the best rate at the time you place your order. There is no need to adjust the rate, unless it has moved beyond 2%, or you are looking to get a specific rate if it should become available.
Note that when you place an order, you will begin to pay lending fees on it immediately, even if the order is not yet filled. This is because Poloniex has to lock in the funds to place the order at that time to ensure they are available.

You can see that our order has been placed, but is waiting to be filled, so we still do not have an open position. However, we are already paying fees.

Once the price falls and our order is filled, our position will be open.



OPEN POSITION

Position	Amount	Base Price	Est. Liquidation Price	Unrealized P/L	Unrealized Lending Fees	Action
Long	1.09835000 XMR	0.01541413	N/A	-0.00012902 BTC	-0.00000017 BTC	Close

Here you will notice two things.

First of all, we bought 1.1 XMR, but we only have 1.09835 XMR. This is because Poloniex took their fee when they filled the order.
A buy and a sell will cost 0.4% in Poloniex fees. This is due to the 0.15/0.25% maker/taker fee schedule. In order to turn a profit, you must cover the fees with your earnings.

The second thing we see is that our Base Price is 0.01541413.
We set our buy order at 0.01539101.

We lost 0.00002312 BTC in slippage.

This must be factored in, along with the 0.4% fee, along with the lending fees, in order to turn a profit.

Slippage is another reason not to go all in on one click. Since you cannot be sure of the price your position is going to open at, it is a good idea to create an average. Ideally, before entering the trade, map out several buy points and create the average before you ever open your position. Then set buy orders at the different points to create your desired average in your position. That way the slippage will not be such a factor, since you are not committed to one specific buy for your Base Price.

Unfortunately for us, I do not expect this trade to go our way. XMR has been on a severe downtrend for weeks. We should set a Stop-Limit order to make sure we don’t lose too much.

Let’s check our current margin value.

You can see that it has gone down from 0.16567220 BTC to 0.16538327 BTC.

This is due to the slight decrease in value of ETH during this time, which is what a large part of our collateral is. Had we used nothing but BTC, this value would remain constant.
1 BTC = 1 BTC.

Our Current Margin is still > 100%, so we are all good. No danger of liquidation.

We have only borrowed about 10% of our collateral, and we are allowed to borrow up to 250%. So we will not have to worry about a margin call for the duration of this trade. If this were a legitimate trade, we would purchase another XMR, and another, and another, until we reached our desired position. Or we would be buying 5 at a time, or if we were working with our real account, 10 or 50 at a time, or whatever.
We are going to stick with 1.1 XMR.

If you are maxed out in your trade, leveraged to 40%, balls deep and going hard, you will not have enough in your account to create a Stop-Limit order large enough to cover the entire trade. In this case, you would only be able to decrease your position with the Stop-Limit. Because you are trading with borrowed funds, you have to have enough collateral in your account to take out the loan on the Stop-Limit order. As we saw above, the loan goes into effect immediately, regardless of when the order is filled.

.

We are still > 100%, so we can place our Stop with no problem. We have a Tradable balance far greater than the value of our 1.1 XMR.

We are going long, and we want to minimize our losses if the trade goes against us, which we expect it to do. We check our Base Price and see that we bought in (after slippage) at 0.01541413. We will set the tightest Stop possible, because we already expect to get stopped out.

Why in the hell would you open the position if you expect to get stopped out and lose valuable BTC?
You wouldn't. I'm taking one for the team to bring you this guide.
If it helps you make gains, feel free to tip @dirtyhera

Position	Amount	Base Price	Est. Liquidation Price	Unrealized P/L	Unrealized Lending Fees	Action
Long	1.09835000 XMR	0.01541413	N/A	-0.00014107 BTC	-0.00000086 BTC	Close

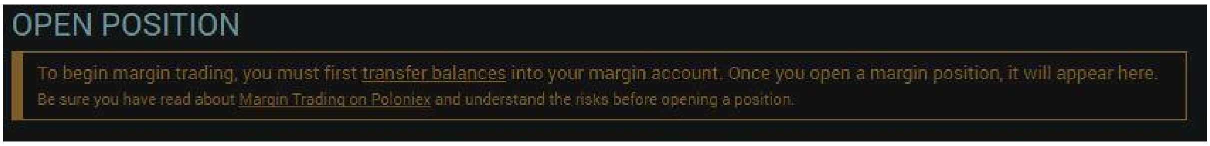
We decide to set our Stop at 0.01525 BTC
And our Limit at 0.01520 BTC.
This means that if the market price falls to 0.01525000 BTC or below, our "invisible order" will show up in the order book.
As long as the price is still above 0.01520 BTC, the order will be executed at the highest possible price.

We click Sell, and our order shows up like this:

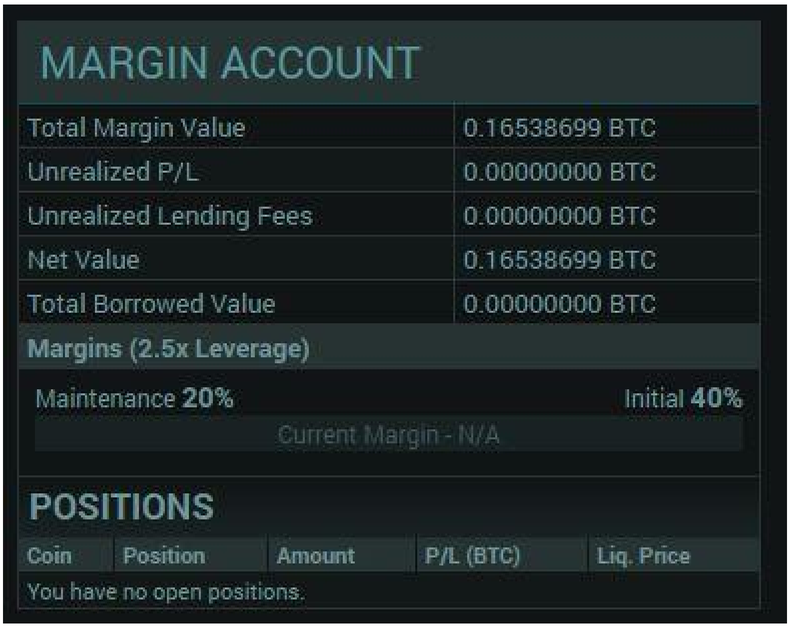
MY OPEN ORDERS

Type	Price (BTC)	Amount (XMR)	Total (BTC)	Rate/Stop	Date	Action
Sell (Stop-limit)	0.01520000	1.09835000	0.01669492	0.01525000	2016-09-27 19:10:49	Cancel

You can see the order is designated as Sell (Stop-limit). When the market price reaches our Stop, the order will show up on the books, and the (Stop-limit) will disappear, leaving only Sell. and because our Limit is so close to the price the Stop gets triggered at, it sells immediately and closes for a loss.



Our position is closed.



The Total Margin Value of our margin account is now at 0.16538699, down from 0.16567220. This includes the loss on the trade, the fees we paid, as well as a slight reduction in the value of ETH. This is another reason to only use BTC as collateral. It quickly becomes very difficult to tell how much you have gained or lost if the value of the margin itself is constantly changing.

That's about it. Feel free to hit up a pro if you have questions about any of this.

*This information is for educational purposes only. Nothing here should be taken as trading advice. I am not a licensed trader, nor am I encouraging you to gamble on margin trading. If you are not prepared to lose, you should not invest. Be sure to research for yourself and clarify anything you do not understand. This guide may contain errors. Use at your own risk.

@dirtyhera