

SELLING STOCK SHORT - Risks

Selling stock short in a margin account carries special risks that can expose you to potentially significant losses. As such, **selling stock short may not be suitable for all investors.**

Please read the following carefully:

- **Selling Stock Short carries Unlimited Risk.** Selling stock short is considered a high-risk strategy and is not suitable for all investors. Short sellers have unlimited risk to loss to the upside, and gains are limited provided the stock falls to zero.
- **Additional Fees May Be Charged.** When an investor sells a stock short, the broker or clearing firm must borrow it in order to deliver it to the buyer. Under market conditions when there significant demand by short sellers, there may be a shortage of shares available to borrow. As demand exceeds supply, holders of long stock can charge short sellers very high "hard-to-borrow" rates. These rates can apply when 1) an investor initially shorts a stock; or 2) while the stock is being held short.

Under both circumstances, the investor will likely incur hard-to-borrow fees without prior notice. These fees are charged at a market rate by TradingBlock's clearing firm (Penson Financial Services) on a daily basis.

IMPORTANT NOTE: Hard-to-borrow rates on more volatile stocks can exceed -100% annualized. While most instances typically involve lower rates, an investor needs to closely monitor these charges to understand the true cost of the position. In some cases, these fees may produce a net debit to the position.

- **Buy-In Risk.** If an investor sells a stock short, and there is a shortage of borrowable shares available, the investor may be at risk for a buy-in of the stock, which can occur without prior warning.
- **Margin Risk.** Selling stock short is a strategy suitable only for informed investors who understand the risks, have the financial wherewithal to absorb substantial losses, and have sufficient liquidity to meet all margin requirements. Investors should understand that if the stock value increases, TradingBlock may request significant supplementary margin payments. If requested margin payments are not made, TradingBlock may, with little or no prior notice, liquidate existing positions in the investor's account in accordance with the investor's margin agreement. Also, under such circumstances, an investor is not permitted an extension of time to meet such a margin call. An investor can lose more funds than deposited into a margin account.

As cash accounts are not permitted to sell stock short, these risks do not apply.

If you have any questions regarding short stock sales, please call our Trade Desk at 1-800-494-0451.