CASH VS MARGIN - AND THE ONE-DAY SETTLE

Vajgrt Labs - Education - Lesson 16 of 72 - 5 min read - Updated Oct 21, 2026

TL;DR

- A cash account trades only with your own settled money. A margin account adds the broker's loan - buying power beyond your cash, interest from day one, and rules with teeth (Lesson 3).

- US trades settle T+1: one business day after the trade, the money is final. The SEC shortened the cycle from two days, effective May 28, 2024.

- Retirement accounts (IRAs) are a tax wrapper, not a superpower: no borrowing against them, options limited to approved strategies, and yearly contribution caps set by the IRS.

THE TAKEAWAYS

- Cash account: spend settled cash only. You cannot short, you pay no interest, and a loss can never exceed what you put in. Its one tripwire is trading on unsettled money - the good faith violation, taken apart in Lesson 5.

- Margin account: the broker lends against your holdings. Regulation T allows borrowing up to half the price of a stock purchase to open it (50% initial margin), and FINRA requires at least $2,000 of equity before margin borrowing works at all (Rule 4210).

- Settlement is T+1 for US stocks, ETFs and listed options (SEC Rule 15c6-1; the compliance date was May 28, 2024). Sell on Monday and the money is settled on Tuesday - weekends and holidays stretch the calendar wait, not the rule.

- IRAs: the IRS caps what you can contribute each year (the figure changes - check irs.gov for the current one). You cannot borrow against an IRA, and brokers limit IRA options to approved, usually defined-risk, strategies.

RULE: Start in a cash account. Margin is a loan product wearing a trading costume - and nobody needs a loan to learn: Stage 4's paper account makes margin unnecessary for everything this course practises.

COMMON MISTAKES

- Spending unsettled sale proceeds in a cash account, then selling again before settlement - the good faith violation (Lesson 5).

- Reading buying power as your money. In a margin account, most of it is the broker's loan limit.

- Assuming a sale's money can be withdrawn the same day. It settles T+1 - plan withdrawals around the clock.

- Drifting into a margin account because the app defaulted to it, without reading Lesson 3 first.

DO IT - FIND YOUR SETTLED CASH

In your own broker app (or a paper account), find three balances: total account value, settled cash (often labelled 'available to withdraw'), and buying power. Write all three in your journal with today's date. If buying power is bigger than settled cash, the account is a margin account

- and Lesson 3 is now required reading before any trade.

Education only - not financial advice. Account and order rules: FINRA (Rule 4210; Regulatory Notice 26-10, Apr 20, 2026), the Federal Reserve’s Regulation T, and the SEC (Rule 15c6-1 settlement; Rule 606 disclosures) - checked Oct 15, 2026. Contract-fee example: Fidelity’s published commission schedule, Oct 15, 2026. Chain quotes: real SPY chain data, Oct 9, 2026. Vajgrt Labs - Education.