THE LEVERAGE STRESS TEST

Fill this out before the position becomes emotional.

PAGE 1 — WHAT AM I ACTUALLY EXPOSED TO?

MY CASH / EQUITY ______________________________ $

BORROWED MONEY OR OTHER OBLIGATION ______________________________ $

TOTAL ECONOMIC EXPOSURE ______________________________ $

EXPOSURE ÷ MY EQUITY ________________ x

MAXIMUM POSSIBLE LOSS ______________________________ $ (or write UNKNOWN)

CAN I LOSE MORE THAN THE CASH I PUT IN? ☐ YES ☐ NO ☐ UNSURE

CAN SOMEONE ELSE FORCE LIQUIDATION? ☐ YES ☐ NO ☐ UNSURE

CAN I BE REQUIRED TO ADD CASH OR COLLATERAL? ☐ YES ☐ NO ☐ UNSURE

IS THERE AN EXPIRATION OR DEADLINE? ☐ YES ☐ NO

WHAT HAPPENS DURING A LARGE GAP MOVE?

____

____

UNKNOWN IS NOT ZERO. INVESTIGATE BEFORE CALLING IT CALCULATED.

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PAGE 2 — DOES MY LIFE SURVIVE?

IF THE UNDERLYING FALLS 10%, MY EQUITY ≈ ______________________________ $

IF IT FALLS 20% ______________________________ $

IF IT FALLS 30% ______________________________ $

Stress points — not predictions or maximum-loss estimates.

COULD THE POSITION REQUIRE MORE CASH? ☐ YES ☐ NO ☐ UNSURE

IF YES — WHERE WOULD THAT MONEY COME FROM?

____

WOULD THAT INVADE MY CORE? ☐ YES ☐ NO ☐ UNSURE

COULD ANOTHER ASSET BE FORCED TO SELL? ☐ YES ☐ NO ☐ UNSURE

DOES MY CORE SURVIVE THE WORST STRUCTURAL OUTCOME? ☐ YES ☐ NO ☐ UNSURE

MY OUTPUT — circle one

AFFORDABLE | **SHRINK** | **UNDERSTAND FIRST** | **WALK AWAY**

BUYING POWER IS NOT RISK CAPACITY.