## Conditions

An investor sells a stock short for $36 a share. A year later, the investor covers the position at $30 a share. If the margin requirement is 60 percent, what is the percentage return earned on the investment? Redo the calculations, assuming the price of the stock is $42 when the investor closes the position.

## Solution

The percentage return earned on the investment:

$$P = \frac{36 - 30}{30} \cdot 100\% = 20\%$$

$$20\% * (100\% - 60\%) = 8\%$$

The calculations, assuming the price of the stock is $42 when the investor closes the position

$$P = \frac{36 - 42}{42} \cdot 100\% = -14.28\%$$