
Leverage and Risk

- Leverage increases risk
- Say value of assets falls by 2%
- How much does net worth fall if:
 - If leverage ratio is 10 to 1?
 - Net worth falls by 20%
 - If leverage ratio is 20 to 1:
 - Net worth falls by 40%
 - If leverage ratio is 50 to 1:
 - Net worth falls all the way to zero!