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Isolated vs Cross Margin – A Comparison

New to margin trading? Don't know the differences between isolated and cross margins? This is a beginner's guide to help you figure it out.

Today, many exchanges offer leveraged trading features in one way or another. A main difference is the type of margins used by exchanges – isolated and cross margins are the common ones. Let's get into what these two mean.

Before we discuss the different types of margins, let's briefly review what margin is. Let's say David has $2000 of his own funds as collateral for a leveraged position, this is what we refer to as margin. Using leverage, the position size can be larger than that.

You may also check out "**Things You Must Know About Crypto Leveraged Trading**".

By the way, if you are not sure which **high-leveraged crypto exchange** to choose, you may check out our previous detailed guide **here**!

What Is Isolated Margin?

In the Isolated Margin mode, you allocate margin specifically to a position or trading pair. And the platform will ask you to transfer funds into the isolated margin before you can trade.

This mode of margining allows you to manage your risk on a specific pair or position by choosing how much margin is allocated to it. This is quite helpful in worst-case scenarios as only the funds

allocated to the position can be liquidated.

Let’s apply this to the example of David! If David uses isolated margin, he can choose how much of that $1000 he wants to allocate to a certain position. For example, he longs $1,250 worth of BTC but is only ready to lose $125 in case of liquidation. David, therefore, sets the isolated margin to 125 USD, which is then the maximum amount he would lose if the position gets liquidated.

If the position goes underwater and gets close to being liquidated, David can still decide to add margin to the position. I personally do not recommend adding to a losing position, but rather sticking to the plan you had from the start.

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What Is Cross Margin?

The most commonly-used margin mode across exchanges is called cross margin. In this mode, your entire account balance is used to margin all open positions. The good part about cross margin is that P&L from one position can be used to support a position that is close to liquidation. Depending on the platform, this works with unrealized P&L too.

While this type of margin is very straightforward and easy to use, it does not come without risk. Traders, who use cross margin, risk losing their entire account in case of liquidation. In the example used earlier, David would lose the entirety of his $1000. The only way to prevent liquidation is to add more money to the account.

Is There A Winner?

I don’t think there is a black and white answer to this. A major factor in deciding which one is for you lies in how you manage your risk. After all, a stop loss (whether on a cross margin or isolated margin position) still ensures the losses of a position are capped to a preset amount.

To put it simply, with proper risk management, liquidation can be avoided altogether, which means cross margin isn't as risky as it sounds. Instead, it becomes a highly useful tool that allows you to use P&L from the winning position to rescue a losing position. Pretty good, right?

If you like to partially hedge positions, or take pair trades (for example, shorting Bitcoin while longing AVAX), cross margin might therefore be more attractive. If you take single trades, you could be more inclined to use isolated margin. In my opinion, it's really a question of preference, rather than superiority.

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Conclusion

Now that you know the differences between isolated and cross margin, you can decide which one is best for you. Also please do keep in mind that always trade with caution and evaluate the risks before trading, especially when taking on leveraged trading. As long as you do that, margin trading (both isolated and cross) is a great tool in the toolbox.

At last, never forget to do your own research!