

Forex Leverage

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Forex Leverage



Leverage simply means the % amount of money you are allowed to borrow from the broker when you open a position. Typically in Stock market when you buy 100 shares of a company trading at \$10 per share, you are required \$1000 to open the trade. Some stock brokers would let you borrow money from them, most cases it is 50-80% of the total stock value. So instead of \$1000 you are now only required to have \$500. This helps traders to buy

more shares with same amount of money. However stock broker would charge you interest on the money borrowed. Forex Leverage is similar except on steroids.

A typical Forex Broker would let you borrow 99% of the total value required to open a trade and you only need to come up with the remaining 1%. So if you are about to trade \$1000 then you only need to have \$10. Big difference from normal stock trading. Also Forex broker won't charge you interest on the borrowed amount.

Note that in case of stock trading you will liable to pay up \$500 (or more) you borrowed in case of a loss. In Forex, your broker will close out all open trades as soon as your account available balance reaches zero.

The above table is only a guide, when trading live the Required Margin will change based on currency pair. In my personal opinion one should not go beyond 100:1 leverage.

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Before deciding to undertake such transactions with any other firm offering similar services, a user should carefully evaluate whether his/her financial situation is appropriate for such transactions. Trading foreign exchange may result in a substantial or complete loss of funds and therefore should only be undertaken with risk capital.

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