

# High Forex Leverage

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# Does higher Leverage in Forex Trading help?



Higher Forex Leverage may or may not help the Forex trader but it certainly does help Forex broker. Let me explain why.

When you open a position, Forex broker requires you to put aside certain amount from your account balance called Margin Requirement. This margin requirement is based on the leverage the Forex Broker has provided.

Say you have a \$10,000 account and your Forex broker has provided you with 100:1 leverage. When you open a \$100,000 position you would be required to put aside \$1000. If the position goes against you then you will have until -\$9000 to hold the position. Any further loss and you will get a Margin Call and your Forex broker will automatically close the position leaving you with \$1000 that you initially put aside.

Now here is the good part. The higher leverage you have, the less money you put aside per trade. Forex brokers know that most new traders will eventually lose all of their money and they want you to end with the least amount of money in the account. So if you are trading with 400:1 then you would end up with \$250 in your account in above scenario.

Now say you are an experienced trader and you know all about Money Management. You have decided not to risk more than 3% per trade and hence maximum loss you would take is \$300. It doesn't matter what leverage you have because you will always have sufficient funds left in your account even after taking loss. Even if you want to open multiple positions at the same time you won't need leverage higher than 100:1

Leverage	Amount Traded	Required Margin
1:1	\$100,000	\$100,000
2:1	\$100,000	\$50,000
50:1	\$100,000	\$2,000
100:1	\$100,000	\$1,000
200:1	\$100,000	\$500
400:1	\$100,000	\$250

Note: Actual Required Margin would change per currency pair.

Higher leverage is not all bad news. It does help in one scenario. When starting off a lot of people don't like to invest a lot of money. Say you want to start only with \$500, in such case a Micro account 400:1 leverage can help to get you started. You can then perhaps open a \$1000 position with only \$2.5 margin requirement.

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