CAPITAL STREET|FX

WHAT IS LEVERAGE

Capademy Tutorial Series

What is Leverage Trading?

Leverage is a kind of loan or borrowed money usually provided by the broker. Traders using leverage means that a trader can take a lager position without actually paying the whole upfront amount, but the profit will be calculated on the whole value of trade. It helps the trader to get a larger exposer in the market and magnify their potential to make bigger profits.

Leverage is one of the biggest advantages a trader gets while trading CFDs. It is a very powerful tool, and professional trades use leverage to take advantage of small price movement to produce greater returns on their investment.

Leverage is expressed in the form of ratios like 50:1, 100:1, 400:1 that means if your broker allows you 400:1 leverage ratio, you need only 1000 dollar in your trading account to take positions for 400,000 dollars.

Understanding Margin

To understand leverage better, we need to understand the margin. It is the upfront capital you need to have in your trading account in order to open a leveraged position. In a way, margin act as collateral to cover losses made on your trade and it also helps you to open larger positions.

Let's understand this with an example, suppose Vikas wants to open a position worth of 40000 dollars, he needs only 0.25% of the total deal value as margin to open that deal which is 100 dollars.

Yes, Vikas needs only 100 dollars in his trading account to open a position worth of 40,000 dollars. Let me tell you a more interesting thing. The profit that Vikas will book will be calculated on the whole 40,000 deal.

Leverage and margin changes according to the different asset class. At Capital Street, we provide higher leverage, and lower margins are required, to see the detailed list please visit (link)

How to use leverage?

Using leverage is not compulsory for traders. It's a tool which traders use to maximise their potential profit but remember as it increases the potential of profit, it also increases the risk of higher losses. You don't need to be afraid of leverage; you just have to be a little cautious while using it.

Negative balance protection

If leveraged used carelessly, then it can wipe out your whole account and send your account in negative. But thanks to capital Street, legally binding negative balance protection. We use the latest technology and risk management tools in order to protect the negative balance.

No margin calls

Brokers ask traders to keep extra capital in their trading account to cover potential losses on open positions. If a trader fails to do so, even a minor decrease in one of their open trade past a specific value that is calculated by the broker. In this case, the broker will make a margin call, closing all your open position, even if you have some fund left in your account.

But don't worry, the capital street does not have margin calls, hence giving you greater control over your capital and help you maximise your investment potential.

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