

Forex Leverage Can be Advantageous to New Investors

Many Forex transactions are completed in large lots which consist of approximately 100,000 units of a foreign currency. However to get that number of units many different smaller investments from different people are needed, otherwise this means an investment of hundreds of thousands of dollars, and whether this money is put together through several investors or one in investor, it is large and that is when what we call Forex Leverage comes in. This Forex Leverage is where a large Forex trade is backed up by a combination of collateral and cash. This Forex leverage account is collateral in which you make an initial deposit. When and if your trade goes down in value then a broker may ask for an additional deposit into that account, or he may ask you to sell off a portion of your Forex holding.

Different brokers have different margin requirements and there is also an interest and fee associated with this trade, which will also vary depending on the broker. The amount of Forex leverage depends on what your broker will allow you to have and the amount you feel comfortable with. Some leverage may be as much as 1% while other accounts are smaller.

What does all of this actually mean? Well it really means that you can control large amounts of money in Forex trades, say about \$100,000 with as little as \$1,000. However, it is the broker who sets the Forex leverage account size which is also known as the account margin or first investment. When you deposit the amount specified then you can trade with the amount given you in the Forex market. Remember, that it is the broker who gives you the amount that can be invested. The one thing you must be aware of though, is the amount of the leverage and what the Margin call is. At any time if the broker believes your holdings are in danger he will ask you for a deposit, or ask you to dispose of your holdings. This is so that both your risk and his are limited.

When you have a Forex leverage account you will also hear the term 'variation margin.' This term refers to the profit or loss your Forex account shows. Many brokers will require you to have a higher margin over the weekend should the market fall. Forex leverage accounts actually offer great advantages to the small investor as it allows them to invest small amounts and buy large lots of foreign currency. This lets them turn a nice profit, however they function in another way too, by warning the investor when losses are occurring and restricting those losses.

Another great advantage to the Forex leverage system is that now the amount an investor needs to deposit is much less, and can be as little as a couple of hundred dollars. Even with such a small initial investment the beginner forex trader can make a nice profit.

Lets give a very advantageous deal as an example. If someone invest \$300 and uses a 1% leverage and is given a \$30,000 to operate, and the Forex moves up from a 0.5 to a 1.5% then his initial deposit may increase by almost 100 times. Forex leverage accounts can truly be an investors true friend.