Financials terms like Leverage and Margin might be confusing for beginners but we break it down in simple words for everyone to understand, let's dive in!

📘 What Is Leverage?

Leverage allows you to control a **larger position** in the market with a **smaller amount of your own money.** It's like using borrowed funds from your broker to boost your trading power.

- Leverage is expressed as a **ratio**: 1:10, 1:100, 1:1000, which means that for every $1 you invest, broker gives you additional $10, $100, or $1000 accordingly.
- **Example:** With 1:1000 leverage, you can invest $100 but open a trade that equals to 100x1000= $100 000, thus with more available funds you may open more trades and/or trades of a bigger size and to explore more trading opportunities.

💰 What Is Margin?

Margin is the **amount of money you must have on trading account** to open and maintain a trade. It's split to Used margin and Free Margin.

- **Used Margin**: **The amount required to open a position.**
- **Free Margin:** The amount trader has left to support the open trades and/or open additional trades.

For example: let's say you deposited 100$ (Original Balance), to open position on EURUSD you used 10$, so your Used Margin = 10$ and Free Margin = (Original Balance – Used Margin) = (100-10)= 90$.

While trade remains open: the Used margin stays unchanged, while Free Margin increases with profits and decreases with losses. In previous example with EURUSD, Used Margin will stay 10$, while Free Margin will react to profit/losses in real time:

-> if you make a profit of 10$, Free Magin will increase from 90$ to 100$, so you will have more money to open more trades if you wish

-> if you make a loss of 10$, Free Margin will "absorb the loss" and decrease from 90$ to 80$

🔢 How Margin and Leverage Work Together

Leverage will define the margin requirement needed to open a trade. While Leverage is described as ratio (x.e. 1:100), a required margin is defined as % from market value of a trade. **To calculate the Margin using the Leverage apply this simple Formula:**

Margin = (1/Leverage Ratio)x100. For example 1:10 Leverage ratio is (1/10)x100=10% Margin Requirement. You may see some examples of Margin calculated for you.

Leverage Ratio	Margin Requirement (%)
1:10	10%
1:50	2%
1:100	1%
1:1000	0.1%

Example: Let's say you want to open 1 lot on EURUSD, current price of EURUSD is $1.10, 1lot = 100 000 units, thus Market price without leverage is ($1.10 x 100 000 units)= $110 000, now remember you trade with leverage 1:1000, so you need only 0.1% of market price which equals = (0.1% x $110 000) = $110. Thus, instead of having on your account $110 000 to open 1 lot, you shall have only $110 to open the same trade.

⚠️ Risks to Watch Out For

- **Magnified Losses:** Just as profits are amplified by leverage when market goes with you, so are losses when market goes against you.
- **Volatility:** due to leverage, positions with leverage are more sensitive to market swings.
- **Margin Calls:** If your margin level drops below 50%, your positions will be closed automatically by the broker with the result accumulated by that level.

🛡️ Tips for Beginner Traders

- Consider starting with **minimum size trades like 0.01 lot**
- Feel free to use a **demo account** to practice before trading on live account
- Consider using **stop-loss/take-profit orders to cap on the potential loss/profit**
- Be mindful of your risk management and have a trading plan to set realistic expectations.

If you want to learn more on risk management strategies, check our Risk Management guide for more tips and ideas. ConenxtFX team wishes you a prosperous trading!