

## Profit and Loss on Forex Trading

Profit and loss calculations are relatively simple and most trading platforms have them built in and are automatically updated as you open and close trades. The outline below shows the two main formulas for calculating the profit and loss and examples are shown below.

When the US dollar is the "quote currency," or the second of the paired currencies, the formula is:

### **Profit = Price Change in Pips Times x Units Traded**

When USD, or US currency, is the base currency or the first currency in a pair, the formula is:

### **Profit = Price Change in Pips x Units Traded / Exit Price**

So we will say the USD is the quote currency and the broker requires a 2% margin. Therefore for \$2000 you can trade the equivalent of \$100,000, we can take this further and if you have \$10,000 in your account you can trade up to \$500,000. If you wish to trade EUR/USD which is currently trading at 1.4125-1.4129, and you believe that the Euro will rise against the USD you will therefore buy Euro and sell the USD. As you are buying the currency pair you will be trading at 1.4129 which is the ask in the pair or quote.

If the Euro does increase and is now trading at 1.4140-1.4143 you then sell Euros and buy USD at the bid price which is 1.4140. Now you have bought at 1.4129 and sold at 1.4140 your profit is going to be 11 pips or 0.0011.

### **Profit = Price Change in Pips X Units Traded**

Which means on the trade the profit is equal to  $0.0011 \times 100,000 = \$110$ .

The next formula is used when the USD is the base currency and not the quote currency, let's say you buy 100,000 units of USD/JPY (Japanese yen) at 82.86. The price goes up and you sell at 83.02 and therefore you have just made 16 pips.

To calculate what your profit was on this trade you then use the second formula:

### **Profit = Price Change in Pips X Units Traded / Exit Price**

Which means you profit on the trade is  $0.16 \times 100,000 / 83.02 = \$192$

These two examples show profit yet you can quickly see how the reverse would create a loss.