

# CALCULATING PROFIT AND LOSS

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For ease of use, most online trading platforms automatically calculate the P&L of a traders' open positions. However, it is useful to understand how this calculation is derived.

### To illustrate a typical FX trade, consider the following example.

The current bid/ask price for EUR/USD is 1.2320/23, meaning you can buy 1 euro with 1.2323 US dollars or sell 1 euro for 1.2320 US dollars.

Suppose you decide that the Euro is undervalued against the US dollar. To execute this strategy, you would buy Euros (simultaneously selling dollars), and then wait for the exchange rate to rise.

So you make the trade: to buy 100,000 euros you pay 123,230 dollars ( $100,000 \times 1.2323$ ). Remember, at 1% margin, your initial margin deposit would be \$1,232 for this trade.

As you expected, Euro strengthens to 1.2395/98. Now, to realize your profits, you sell 100,000 euros at the current rate of 1.2395, and receive \$123,950.

You bought 100k Euros at 1.2323, paying \$123,230. You sold 100k Euros at 1.2395, receiving \$123,950. That's a difference of 72 pips, or in dollar terms ( $\$123,950 - \$123,230 = \$720$ ).

**Total profit = US \$720**

*(TIP: When trading EUR/USD or any Euro cross e.g. EUR/JPY, each pip is worth \$10, per 100,000 trade).*