

CALCULATING FOREX

By Alexander O'Malley

A subscriber wrote in and asked whether we had a spreadsheet that would help him to understand some of the information needed for trading Forex markets. This is the spreadsheet that we use when we are trading.

We use this spreadsheet to help calculate the details of each trade as they develop. It is important to know the details of your portfolio and individual trade elements to make sure that you are sticking to your trading plans, and to be able to tweak your trading plans as necessary. It is vital to know if you are taking too large a risk and if you are using the correct position size for your trading account size.

In the spreadsheet there are two workbooks. The first is for any currency pair that is not a Japanese Yen pair, and the second is for only Japanese Yen pairs. The way that price is calculated on the Yen pairs is different to other currencies. Most currencies have their value listed with 4 decimal points so 1.0001, with 0.0001 being 1 pip. The Yen pairs however only have two decimal points so 10.01, with 0.01 being 1 pip.

The cells shaded in teal are fields you can manipulate. The green fields show the important profit/loss information. Avoid changing anything that is not shaded.

| | | | |
|-----------|------------------------|---------------------|--------------------------------|
| | Pair | GBPAUD | 1 |
| | Trading Capital | \$100,000.00 | 2 |
| 3 | \$ for 1 lot | \$50.00 | |
| 4 | \$ per pip | \$100.00 | Cash Value \$5,000.00 5 |
| 6 | Direction | Long | *Click for long or short |
| 7 | Open | 1.9551 | |
| 8 | Close | 1.9591 | |
| 9 | Stop Loss | 1.9531 | |
| 10 | # pips | -20 | |
| 11 | \$ value | -\$2,000.00 | |
| 12 | % Loss | -2.00% | |
| 13 | Pips | 40 | |
| | Profit | \$4,000.00 | 14 |
| | % Profit | 80.0% | 15 |

1: Name of currency pair

2: Total trading capital. This is a very important value as it dictates a whole range of things like position size and the amount of acceptable risk. We use a 2% rule, meaning we only risk a maximum of 2% of our total trading capital each trade. Using this rule we can have more than 125 consecutive losing trades before our account is empty. We would hope that people would stop trading and donate the remainder of their accounts well before reaching this milestone.

- 3: The amount of real dollars for the cost of 1 lot. When we enter an FX trade we select how many lots we wish to buy. Your broker will tell you how much a lot is worth on your screen. 1 standard lot is the equivalent of \$100,000. On a mini account its equivalent to \$10,000. On a micro account its equivalent to \$1,000. The majority of retail investors will be trading a micro account.
- 4: How much per pip you wish to trade. This is one of the most important parts of the calculations we need to make. One of the important differences between trading the FX market and equities is we increase returns by increasing position size, not by increasing the movement in the trend.
- 5: Real cash value of the trade. This is how much actual money you need to put down in order to execute your order. In the newsletter we use a nominal \$100,000 trade capital. We use a position size of \$20,000 for equities, \$10,000 for CFDs and \$5,000 for FX trading. This reflects the risk in each class of trading instrument.
- 6: Direction you're trading in. Clicking this field brings up a drop down box. Click it to select the direction you are trading and it changes the calculations in the spreadsheet from long to short calculations.
- 7: Fill price. The price you entered your position at.
- 8: Exit price. The level you exited the trade.
- 9: Level of stop loss. The value of your stop loss point should the trade go against you.
- 10: Number of pips lost at stop. This shows you the number of pips you will lose should the trade go against you. At the start of the trade this value should show a negative, as you would be losing money. As the trade continues you can move your stop up and this value will become positive.
- 11: Cash value of exit at stop. How much actual money you will lose should your stop be hit.
- 12: Percentage of total trading capital lost. We try to keep this value under 2%. If this value is greater than 2% you may be using the wrong position size, and need to go smaller. You can do this by lowering the number of lots you wish to purchase which brings down your dollar per pip value.
- 13: Number of pips profit/loss. This is the current state of the trade in terms of pips. This is actually the most important piece of information on the spreadsheet as it tells how the trade is going regardless of whether you are trading \$1 per pip for \$1,000 per pip. When trading FX we look to make a certain number of pips, not a certain number of dollars because we can make more dollars by earning the same number of pips and simply increasing our position size.
- 14: Total Cash profit/loss of trade. This shows how much real money you are sending to the bank.
- 15: Percentage profit of trade. This shows the percentage return on the real dollar value of the position.

This is a very simple yet powerful spreadsheet that allows users to quickly and easily calculate the important information when opening and maintaining a Forex position.