Futures Trading With Amin.

Part 2: 📈Beginner's Guide to Futures Trading: Leverage, Fees, Liquidation & Take Profit Made Simple.

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Table of Contents

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For those intrested, you can checkout my Crypto Futures Trading Journey Repo where I document my lessons, strategies, and trade journal: *https://github.com/alaminhydar/Futures-Trading-With-Amin*

Understanding Leverage, Fees & Liquidation

When you trade outside the **spot market** (where you just buy and sell coins normally), you'll hear about **leverage.** Leverage is basically borrowing money from the exchange to increase your buying power.

Think of it like this:

→ You only have $35.

→ With 10x leverage, the exchange *lends* you extra so that you can trade with $350 total.

→ You're still risking your $35, but your potential profit and loss are now 10x bigger.

Example: Position Size with Leverage

- You have $35.
- Use 10x leverage ⟶ your position size becomes $350.
- Let's say XRP is priced at $0.40.
- With $350, you can now buy:

350÷0.40 = 875 XRP350 ÷ 0.40 = 875 XRP

So your $35 has effectively "controlled" 875 XRP, thanks to leverage.

Profit Example

Now imagine XRP goes from $0.40 ⟶ $0.60.

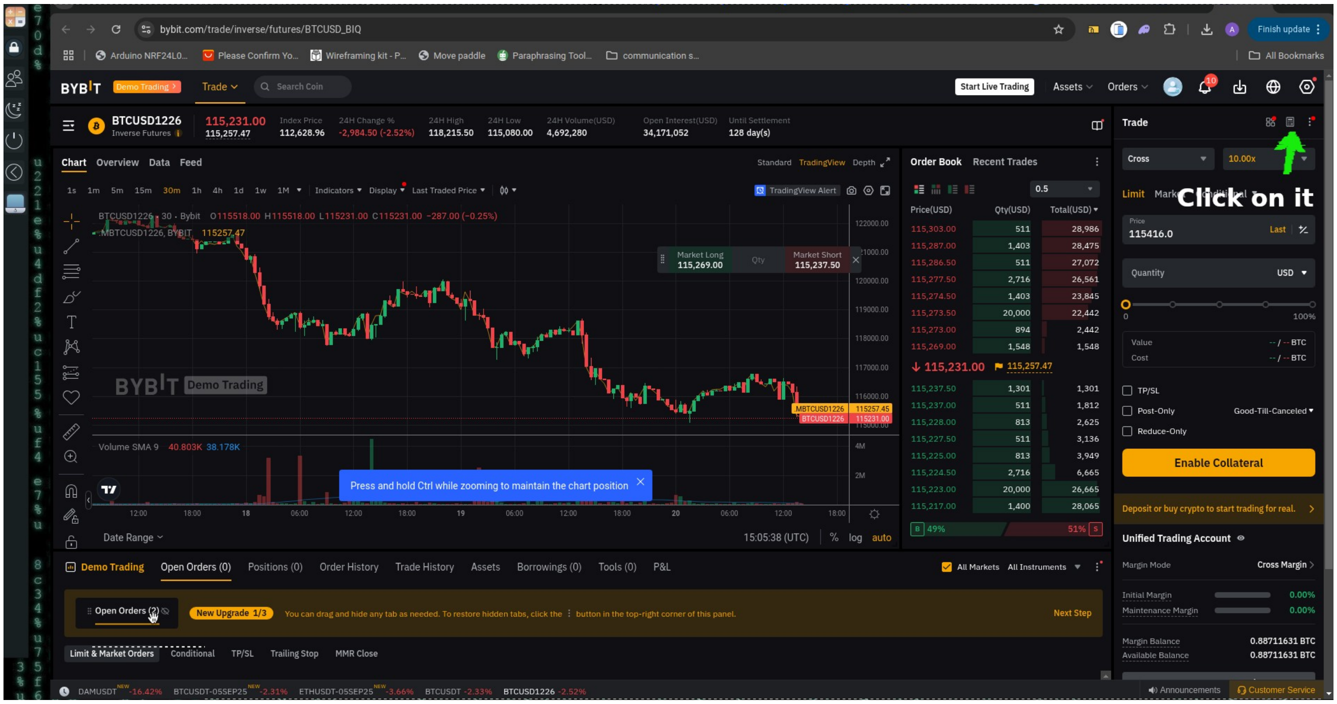
Your new position value = **875 × 0.60 = $525**

Profit = **$525 − $350 = $175**

Notice: your starting $35 has turned into $210 ($35 + $175 profit). Without leverage, this move would've given you only a small gain.

That’s the power of leverage but also the danger, because losses also get multiplied.

Using Bybit Calculator



Most exchanges like Bybit have a calculator.
You just enter:

- Entry price
- Exit price
- Leverage
- Quantity

And it will show you:

- Profit/Loss
- Profit/Loss %

- ROI (Return on Investment)

⚠️ **But keep in mind:** this calculator doesn't include trading fees and funding fees.

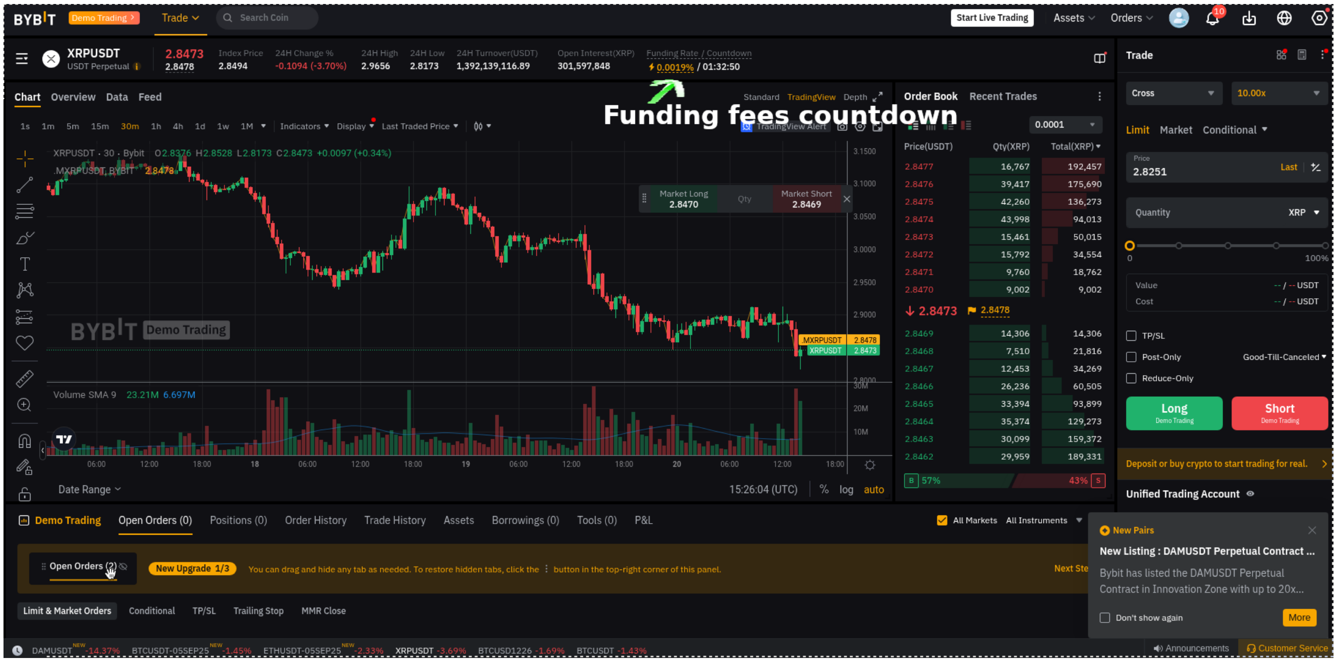
Trading Fees

Every time you open or close a trade, you pay trading fees.

- If you use a market order (instant buy/sell), fees are usually higher.
- If you use a limit order (waiting for a price), fees are lower.
- Different exchanges have different fee rates.

This is the exchange's way of making money for providing the platform.

Funding Fees



Funding fees are a bit more confusing.

Funding fees are **periodic payments** exchanged **between traders** (not between trader and exchange) in **perpetual futures contracts**.
They are applied every **8 hours** on most exchanges.

In simple terms, funding fees are like **interest payments** that help balance the market:

- Sometimes **longs (buyers)** pay **shorts (sellers)**.
- Other times **shorts** pay **longs**.

Why Do Funding Fees Exist?

Perpetual futures are different from traditional futures as they have **no expiry date**.

Without an expiry, their prices could drift far from the real market (spot) price, since there's no settlement date to force prices to match.

Funding fees exist to **keep the perpetual price aligned** with the real (spot) market price:

- When the **futures price is higher** than the spot price → longs are dominant → they **pay** funding fees to shorts.
- When the **futures price is lower** than the spot price → shorts are dominant → they **pay** funding fees to longs.

This creates a natural incentive for traders to open positions in the opposite direction, pulling the prices back into balance.

How Do Funding Fees Work?

Every 8 hours, the exchange calculates the **funding rate**, which reflects the difference between the perpetual futures price and the spot price.

1. If the rate is **positive**, it means the market is **bullish** (more longs than shorts).
   → **Longs pay** the funding fee to **shorts**.
2. If the rate is **negative**, the market is **bearish** (more shorts than longs).
   → **Shorts pay** the funding fee to **longs**.

Traders who **hold open positions** during the funding time either **pay or receive** funding, depending on which side they're on.
If you close your trade before the funding timestamp, you avoid paying or receiving the fee.

Summary

Situation	Funding Rate	Who Pays	Who Receives	Market Sentiment
Futures price above spot	Positive (+)	Longs	Shorts	Bullish

Situation	Funding Rate	Who Pays	Who Receives	Market Sentiment
Futures price below spot	Negative (−)	Shorts	Longs	Bearish

In essence:
Funding fees are a market mechanism that keeps perpetual futures prices tethered to the real spot market.
Depending on your **position** and **timing**, you can either **pay** or **earn** funding, a small but important factor in futures trading.

Liquidation Price

One of the most important things to understand.

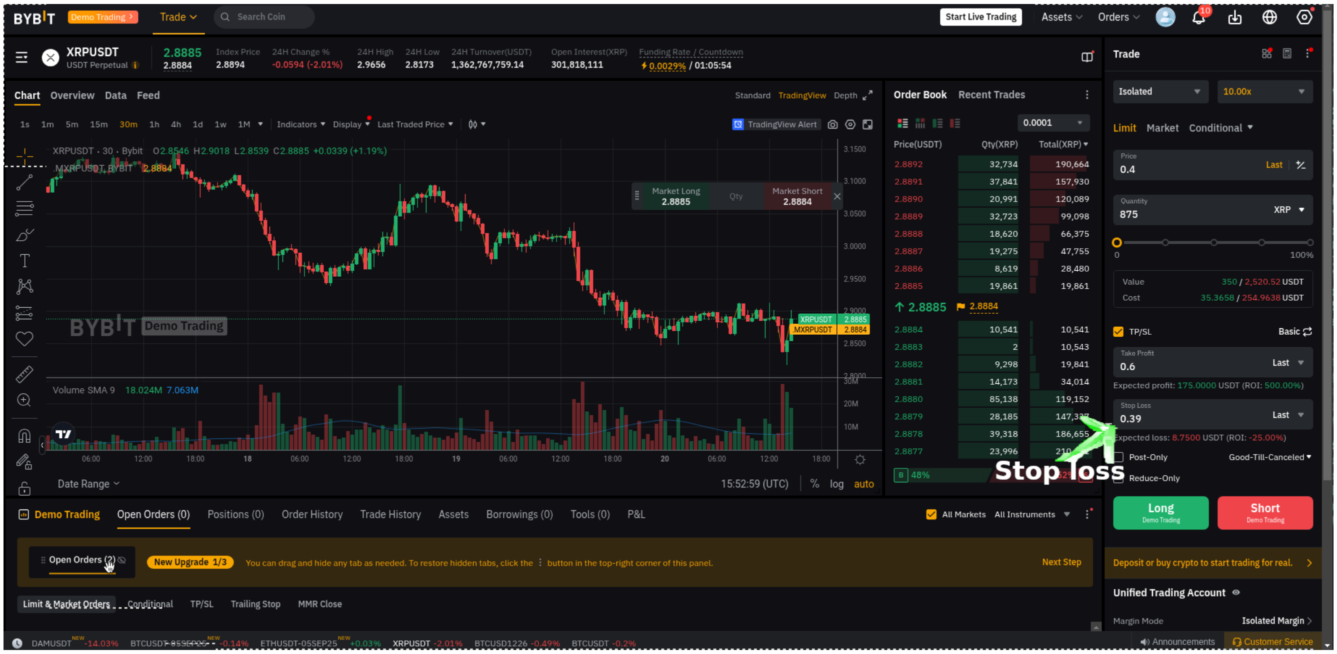
Liquidation price = the price where your margin ($35 in this example) is wiped out.

- If the trade goes against you, the exchange will close your position automatically at this price.
- You lose your initial margin, but not more than that.

Liquidation depends on:

- Leverage used
- Position size
- Margin mode (Cross vs Isolated, we'll explain that in the next lesson).

Stop Loss and Take Profit



To avoid liquidation, you can set a stop loss. Example:

- Entry: $0.40
- Stop loss: $0.39

If price hits $0.39, you exit automatically. **Loss = about $8.75.** Much better than losing the whole $35.

Similarly, you can set take profit:

- Maybe at $0.60 you want to secure gains.
- You can even take 50% profit, and leave 50% running.

This way, you lock in profit while still letting the trade play out.

Why Fees Aren't Always Calculated

Remember: calculators don't always include fees because we can't know them until the trade actually closes.

- Funding depends on timing (positive or negative).
- Trading fees depend on whether you use market/limit orders.

So your "realized" profit may be slightly lower than the calculator shows.

In summary:

- Leverage = borrowed buying power.
- Position size grows, but so does risk.
- Fees = exchange charges and periodic funding between traders.
- Liquidation price = the danger zone.
- Stop loss/take profit = tools to protect yourself.

This is the fundamental starting point for trading futures. In the next part, we'll go deeper into cross vs isolated margin and how they change your risk.