

Long, Short, and How a Trade Works

BEFORE YOU BEGIN

This lesson assumes you can read a quote and read a chart. Lessons 2 and 3 cover both.

Nothing here asks you to place a real trade or risk any money. This is about understanding what a trade is and where the profit and loss actually come from. A glossary and a knowledge check with a full answer key are at the back.

WHAT YOU'LL LEARN

- What it means to go long, and what it means to go short
- Which button does which, and what happens the moment you click it
- Exactly where profit and loss come from in a trade
- Why being able to bet on a falling market is a bigger deal than it sounds
- The difference between an open position and a closed one
- Why experienced traders never call a market good or bad

1. From Watching to Participating

So far everything has been about reading. Reading a quote, reading a chart, understanding what the numbers mean and where they came from.

Up to this point, you've been a reader. This is where you start becoming a trader.

Because here is the thing about all that price movement you have learned to see: someone is on the other side of it. Every tick up and every tick down is people taking positions, and a position is simply a bet on which way the next stretch of chart will go.

There are exactly two bets available. That is not a simplification. In this market there are two directions and therefore two trades, and every strategy anyone has ever built sits on top of that choice.

2. Going Long: Betting the Price Rises

Going **long** means you expect the price of a pair to go up. You open the position by clicking buy.

This is the familiar one. It is how most people already think about money and markets. You get something at one price, hope it becomes worth more, and sell it later for the difference. Buying a house works this way. So does buying a used car cheap and fixing it up.

Go long EUR/USD and you are saying, in effect, that the euro is going to become more expensive in dollar terms than it is right now. If you turn out to be right, you profit. If the price falls instead, you lose.

The price where you enter is called your entry price, and it is the number everything else gets measured against.

3. Going Short: Betting the Price Falls

Going **short** means you expect the price of a pair to go down. You open the position by clicking sell.

This one takes a moment to sit with, because it inverts the instinct most people have about money. You are not buying something and waiting for it to appreciate. You are taking a position that gains value as the price falls.

Go short EUR/USD and you are saying the euro is going to get cheaper in dollar terms. If the price drops below your entry, you profit. If it climbs instead, you lose.

Everything else about the two trades is identical. Same screen, same pair, same number of clicks. The only difference is which direction you are betting on and which button you press.

WORTH KNOWING

Underneath both trades, something slightly more interesting is happening, and it follows directly from currencies being quoted in pairs.

Going long EUR/USD means buying euros and selling dollars at the same time. Going short means selling euros and buying dollars. You are always holding one currency and giving up the other, which is why a pair only ever moves relative to itself. Neither currency has to do anything on its own for the price to change.

4. Where the Profit and Loss Come From

Both trades work the same way, and it is simpler than most people expect. Your result is the distance between the price where you entered and the price where you exited, measured in pips.

That is the entire calculation. There is nothing hidden behind it.

Walk through a long trade. You go long EUR/USD at 1.0850, and now the chart does what charts do.

An hour later the pair is at 1.0900. The price rose fifty pips. You bet it would rise, so you are up fifty pips. Close the position and that distance is yours.

Or an hour later the pair is at 1.0820 instead. The price fell thirty pips. You bet the other way, so you are down thirty pips.

Notice what the trade does not care about. It does not care whether the move was large or small in the grand scheme, or whether the euro deserved to rise. It cares about one thing only: whether the price moved in the direction you chose.

5. The Same Trade in Reverse

Now run the identical prices with a short position.

You go short EUR/USD at 1.0850. The pair falls to 1.0820. The price dropped thirty pips, and because you bet on a drop, you are up thirty pips. The further it falls below your entry, the more the position is worth.

The pair rises to 1.0900 instead. Now the fifty pip climb runs against you and you are down fifty pips.

Long and short are mirror images. Same chart, same prices, opposite results.

If the Price Goes To	The Move	Long From 1.0850	Short From 1.0850
1.0900	Up 50 pips	Up 50 pips	Down 50 pips
1.0865	Up 15 pips	Up 15 pips	Down 15 pips
1.0850	No change	Level	Level
1.0820	Down 30 pips	Down 30 pips	Up 30 pips

Read down the last two columns and the symmetry is unmistakable. Every row is a straight swap. This is the clearest way to see that direction is a choice you make rather than a condition the market imposes on you.

6. Why Shorting Is a Bigger Deal Than It Sounds

It is worth pausing on shorting, because it is one of the things this market does that most others do not do easily.

Think about how people normally describe investing. Buy something cheap, wait for it to become more expensive, sell it, keep the difference. Real estate works that way. A collection of rare cards works that way. Most ordinary brokerage accounts largely work that way.

In all of those, a falling market is simply bad news. The only available moves are to wait it out or to get out.

In forex, betting on a fall takes the same effort as betting on a rise. Same speed, same number of clicks, no special account or extra paperwork. A trader watching a currency weaken is looking at exactly as much opportunity as a trader watching one strengthen.

STRAIGHT TALK

That symmetry cuts in both directions, and it is worth being clear-eyed about it.

Because a short position gains when the price falls, it also loses when the price rises, at exactly the same rate a long position would gain. Having twice as many ways to be right means having twice as many ways to be wrong. Nothing about the ability to trade both directions makes any individual trade more likely to work.

7. Opening and Closing a Position

Every trade contains two decisions. One of them gets almost all the attention.

You **open** a position by clicking buy or sell. The price you get is your **entry**. From that moment the position is live, and its value moves with every tick.

You **close** it by making the opposite move. A long is closed by selling, a short by buying. The price you get is your **exit**, and the moment you close, the result is fixed.

Your result is the distance between those two prices. Which means, arithmetically, they matter exactly the same. Shift your entry by ten pips or your exit by ten pips and the outcome changes by an identical amount.

But while entries and exits may be equal in the math, they are very different in practice.

You choose your entry calmly. Nothing is at stake yet. You can wait as long as you like, and if you do not like what you see, you simply do not trade.

You choose your exit while holding a live position, with money moving, under pressure to do something.

The entry is a decision you make. The exit is a decision the market makes you make.

Most beginning traders spend almost all their time researching and preparing for the entry, while giving far less thought to the exit. And that lack of preparation is exactly why so much goes wrong once the trade is open and the market starts making the decisions.

Until you close, the number on your screen is called unrealized profit or loss, and unrealized is doing real work in that phrase. A position showing a gain of forty pips has not made you forty pips. It shows what would happen if you closed right now, and it can say something different a second later.

Nothing counts until the trade is closed. Traders who forget this watch gains evaporate while waiting for a little bit more.

8. The Market Is Never Bad, It Is Just Moving

This is the shift in thinking that this lesson is really for.

People outside this market talk about it in moral terms. The market is doing well. The market is having a rough month. Things are bad right now. That language makes sense when the only thing you can do is buy and hope.

Once both directions are available, the language stops fitting. A falling currency is not bad news, and a rising one is not good news. They are directions. What matters is whether you read the direction correctly and positioned yourself accordingly.

The market is never bad. It is just moving.

The only genuinely difficult condition is a market that is not moving at all, because there is no direction to read and nothing to be right about. Everything else is just a question of which way.

Three Things to Remember

LOCK THESE IN

- 1. There are two trades.** Long is a bet the price rises and you open it by buying. Short is a bet the price falls and you open it by selling.
- 2. Profit and loss are the distance between entry and exit.** Measured in pips, in whichever direction you bet. Long and short are exact mirror images of each other.
- 3. Nothing is settled until the position is closed.** A gain on an open trade is unrealized, which means it is a snapshot of what would happen if you closed right now, not money you have.

Try This

A paper trade. No money, no account, no platform. Just you and a number.

DO THIS

Step 1. Open Currency News Source and pick a pair. Record the current price and the time, however you like: a screenshot, a note on your phone, a page in a notebook. That is your entry price.

Step 2. Decide a direction and commit to it in writing. Long or short. Then write one sentence saying why you chose it. The reason matters less than the habit of having one.

Step 3. Leave it alone for a day. Do not check it every ten minutes. That's a habit not worth forming.

Step 4. Come back and record the new price. Count the distance from your entry in pips, and work out whether your chosen direction was right.

Step 5. Now work out what the opposite position would have done. If you went long, calculate the short result, and the reverse. Seeing both numbers side by side is what makes the mirror stick.

Being wrong on a paper trade costs nothing and teaches the same lesson as being wrong with money. This is the cheapest tuition you will ever pay.

Words From This Lesson

Term	What It Means
Position	A live trade. You hold a position from the moment you open it until you close it.
Long	A position that profits when the price rises. Opened by buying.
Short	A position that profits when the price falls. Opened by selling.
Entry price	The price at which you opened the position. Everything else is measured against it.
Exit price	The price at which you closed the position.
Open position	A trade that is still live and still changing in value.
Closed position	A trade that has been ended. The result is now fixed.

Term	What It Means
Unrealized profit or loss	What an open position would be worth if closed right now. Not settled, and subject to change.
Realized profit or loss	The final result of a position after it has been closed.

Test Your Knowledge

Eight questions. Answer them all before checking the key on the following pages. If a question gives you trouble, the answer key tells you exactly which section to revisit.

1. Going long on a pair means you are betting that the price will do what?

- A. Rise
- B. Fall
- C. Stay flat
- D. Move sharply in either direction

2. Which action opens a short position?

- A. Buying
- B. Selling
- C. Either one, depending on the pair
- D. Neither, since shorting requires a special account

3. You went long EUR/USD at 1.0850. It is now trading at 1.0820. Where do you stand?

- A. Up 30 pips
- B. Down 30 pips
- C. Level, because you have not closed yet
- D. Down 3 pips

4. You went short EUR/USD at 1.0850. It is now trading at 1.0900. Where do you stand?

- A. Up 50 pips
- B. Down 50 pips
- C. Up 5 pips
- D. Level, because short positions settle at the close

5. A trade you have not closed yet is showing a gain of 40 pips. What is that number called?

- A. Realized profit
- B. Unrealized profit
- C. Entry profit
- D. Closed profit

6. Underneath the surface, going long EUR/USD means you are doing what?

- A. Buying euros and selling dollars
- B. Buying euros and buying dollars
- C. Selling euros and buying dollars

D. Buying euros only, with the dollar side handled by the broker

7. What can a forex trader do that a traditional buy-and-hold investor generally cannot do as easily?

A. Trade without any cost

B. Profit from a falling market

C. Avoid losses entirely

D. Guarantee the direction of a price

8. A currency has been falling steadily all week. How should a trader think about this?

A. The market is bad and should be avoided until it recovers

B. It is a direction, and it can be traded either way

C. It is good news, because falling prices always rebound

D. It means the currency is broken and should be avoided permanently

Answer Key

Each answer explains why the correct choice is correct, why the others are not, and where to reread if you want the fuller picture.

Question 1 **Correct answer: A**

Long is the bet that the price goes up. You open it by buying, and you profit if the price rises above your entry.

B describes a short position, which is the mirror image. C is wrong because a flat price produces no result in either direction, so there would be nothing to bet on. D describes a bet on volatility rather than direction, which is not what long and short do.

Review: Section 2, Going Long

Question 2 **Correct answer: B**

Selling opens a short. The position then gains value as the price falls below your entry.

A opens a long, which is the opposite bet. C is wrong because the mapping never changes: sell always opens a short, on every pair. D is a common assumption carried over from stock markets, but in forex shorting requires nothing special and takes the same clicks as buying.

Review: Section 3, Going Short

Question 3 **Correct answer: B**

You bet the price would rise and it fell instead. From 1.0850 down to 1.0820 is 30 pips against you.

A gets the distance right but the direction backward, which would be the result of a short position. C confuses being unrealized with being nothing: the loss is real and moving, it is simply not settled until you close. D counts the third decimal instead of the fourth.

Review: Section 4, Where the Profit and Loss Come From

Question 4 **Correct answer: B**

You bet the price would fall and it rose. From 1.0850 up to 1.0900 is 50 pips against a short position.

A would be the result of a long position at the same entry. C counts the third decimal rather than the fourth. D invents a settlement rule that does not exist, since a short position moves in value continuously exactly like a long one.

Review: Section 5, The Same Trade in Reverse

Question 5 **Correct answer: B**

Unrealized means the position is still open, so the number reflects what would happen if you closed right now rather than what has happened.

A applies only after a position has been closed and the result is fixed. C and D are not terms used in trading, though C sounds plausible because entry price is a real concept.

Review: *Section 7, Opening and Closing a Position*

Question 6 **Correct answer: A**

Because currencies are quoted in pairs, every trade involves both. Going long EUR/USD means acquiring euros while giving up dollars.

B is impossible, since one currency has to be given up to obtain the other. C describes a short position on this pair. D is wrong because the two-sided nature of the trade is not a service the broker performs for you, it is what the trade fundamentally is.

Review: *Section 3, Going Short*

Question 7 **Correct answer: B**

Betting on a falling market in forex takes the same effort as betting on a rising one, whereas most traditional holdings only gain when prices rise.

A is wrong because trading always has costs. C is wrong because being able to trade both directions creates more ways to be wrong, not fewer. D is wrong because no market participant, at any size, can guarantee a price direction.

Review: *Section 6, Why Shorting Is a Bigger Deal Than It Sounds*

Question 8 **Correct answer: B**

A falling price is a direction, not a verdict. It can be traded short by someone expecting the fall to continue or long by someone expecting a recovery.

A applies the buy-and-hold mindset to a market that does not require it. C assumes a rebound that nothing guarantees, which is a costly assumption. D turns a price movement into a permanent judgment about a currency, when currencies weaken and strengthen continuously without anything being broken.

Review: *Section 8, The Market Is Never Bad*

This lesson is education, not financial advice. Nothing in it is a recommendation to buy or sell anything, and the examples use illustrative numbers, not live prices. Trading currencies and crypto carries a high risk of loss.

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