RISK
MANAGMENT

2023-2024

You need to perform the following important

Risk Management

chores to do the job properly:

•Determine how much you are willing to risk on each trade.

•Understand the risk of the trade you are about to take and size the trade

•Figure out how much of a drawdown you will take before you stop trading for the day

Determining per-trade risk

• The most important decision you need to make is how much you are willing to risk on each trade relative to your entire portfolio.

• A reason to keep this number small is to protect yourself from a series of losses that could bring you to the point of ruin.

• The key is to limit those losses so that you can endure a string of them and have enough capital to place.

• The first step is to decide — before you put the trade on — at what price you will exit the trade if it goes against you. The second is to let money management determine the exit when the “I was wrong” price point is reached.

Determine how much risk there is in a particular trade

You need to perform the following important ***Money Management*** chores to do the job properly

- Appropriately Track the trade going forward.

- Pay attention to your risk points; take small losses before they become big losses.
- Review your performance

Tracking your trades

- it is important to watch your positions as they progress and adjust your stop prices as the market moves in your direction.

- A mistake most people make is to consider trade winnings on open “House money” — that somehow this money is less painful to lose than the money in your back pocket.

- Pay attention to your risk points; take small losses before they become big losses. …Never move a stop away from its initial price — stops should always be moved to reduce, never increase, the amount of risk on a trade

- A money management plan will only be useful if you do what it tells you. This means planning your trades as outlined above and trading your plan.

If a stop price is hit, you must take that hit.

- If you find that your rules are giving you stops that are constantly getting hit, then perhaps you should
- **re-examine your rules**—Take your losses when they are small because if you don't, they are sure to get large. In this regard, discipline is of the highest importance.

- ***It is a cardinal mistake not to take a stop if it is hit.***
- ***It's even worse if the trade comes back and turns into a winner because now you have been psychologically rewarded for making the mistake.***

Review your performance Get out quickly and re-assess the situation. If you think it will come back, put on a new trade with a new stop.

How to calculate your Max Risk

You Multiply your Account balance by your Percent your risking % (1-5%)

Example 5000.00 account balance x 2% =100 Max Risk

How to figure out your amount to risk per pip

You Divide your Max Risk amount by your Stop Loss (example stop loss of 25 pips)

$100 ÷ 25= $4.00 converted to lot size is 0.40

Trading commodity CFDs and exotic currency pairs can provide unique opportunities for diversification and exposure to different markets. Remember to conduct thorough research, analyze market trends, and use proper risk management techniques when trading these instruments.

To calculate the pip value for **XAU/USD**, we need to consider the lot size. Let's assume you're trading a standard lot. The pip value is calculated as follows:

Pip Value = (0.01 / X-A-U/U-S-D Price) * Lot Size
= (0.01 / 1800) * 100,000
= $0.55 per pip

Pips for Index CFDs are typically calculated based on a point system. Let's assume you're trading US30 and the price moves from 35000 to 35001. The difference is 1 point, which is equivalent to 1 pip.

US30:

Let's assume you're trading a micro lot of US30. The pip value is calculated as follows:

Pip Value = (0.1 / US30 Price) * Lot Size

For example, if the price of US30 is 35,000 and you're trading 1 standard lot, the calculation would be:

Pip Value = (0.1 / 35,000) * 10,000 = $0.02857 per pip

GER30:

Similarly, for GER30, the pip value is calculated as follows:

Pip Value = (0.1 / GER30 Price) * Lot Size

Assuming the price of GER30 is 15,000 and you're trading 1 micro lot:

Pip Value = (0.1 / 15,000) * 10,000 = $0.06666 per pip

NAS100:

For NAS100, the pip value is calculated as follows:

Pip Value = (0.1 / NAS100 Price) * Lot Size

Let's say the price of NAS100 is 14,000 and you're trading 1 mini lot:

Pip Value = (0.1 / 14,000) * 1,000 = $0.007143 per pip

Moving on to Exotic currency pairs, like **USD/ZAR,** involve the pairing of major currencies with those of emerging or less commonly traded economies. In this case, it represents the exchange rate between the US dollar and the South African rand.

The pip value for USD/ZAR is calculated as follows:

Pip Value = (0.0001 / USD/ZAR Price) * Lot Size

Assuming the current price of USD/ZAR is 15.50 and you're trading 1 standard lot, the calculation would be:

Pip Value = (0.0001 / 15.50) * 100,000 = $6.45 per pip

So, for each pip movement in the USD/ZAR currency pair, your profit or loss will be $6.45.

THANK YOU

Risk management

The difference between success or failure in trading. Trading correctly is 90% money and portfolio management. Essentially, money management tells you how many lots to trade at a given point.

Defensive concept:

For example, money management tells you whether you have enough new money to trade additional positions. Unfortunately, this is a fact that most people want to avoid or don't understand. Once you have your money management under control, your discipline and psychology are 100% of your success.

Issues addressed by money management:

How much capital do you place on each trade? (1%-7%)

- **What is the heat of your trading?** If it is the first trade it has more heat or risk … If it is an add on it most likely will have less heat or risk

Capital preservation vs. capital appreciation. *Setting Stops vs. Setting Take Profits*

When must you take a loss to avoid larger losses?

- At your first Stop Loss or sooner… as soon as you see things change on the trade on your management time frame.

1. **Risk Reward**
2. **Position Sizing**
3. **Fixed Dollar**
4. **Percentage Risk**

1.Risk Reward

You need patience to consistently execute a large enough series of trades in order to realize what risk reward can actually do.

When we combine the consistent execution of a risk / reward of **1:2, 1:3** or larger (never 1:1) with a high probability trading edge like

Trade Grading, you have the recipe for a very potent Forex trading method.

So, risk / reward essentially all boils down to this main point;

you must have the fortitude to take large enough series of trades to realize the full power of ***Risk / Reward***

2. Position Sizing

Position sizing is the term given to the process of adjusting the number of lots you trade to meet your predetermined risk amount and stop loss distance.

2. Position Sizing (just one method)
$3000 Account x 1% = $30 ……x 2% = $60

- Standard account it would be 0.2 lot trade
- Mini account it would be 2.0 lot trade
- You want to trade 2 mini lots or $1 per lot or $2 for each pip.
- Your stop would be 15 pips.

First you need to decide how much money you are **COMFORTABLE LOSING** on the trade setup. *This is not something you should take lightly.*

You never know which trade ill be a winner and which will be a loser.

- *Find the most logical place to put your stop loss.*

You should NEVER, place your stop too close to your entry at an arbitrary position just because you want to trade a higher lot size,

this is GREED, and it will come back to bite you much harder than you can possibly imagine.

You need to enter the number of lots that will give you the dollar risk you want with the stop loss distance you have decided is the most logical. The biggest point to remember is that you **NEVER** adjust your stop loss to meet your desired position size; instead, you **ALWAYS** adjust your position size to meet your pre- defined risk and logical stop loss placement.

This is VERY IMPORTANT, read it again

3. The fixed dollar risk VS The percent risk

Fixed dollar risk = A trader predetermines how much money they are comfortable with potentially losing per trade and risks that same amount on every trade until they decide to change their risk

Percent risk = A trader picks a percentage of their account to risk per trade

(usually1%, 2% or 3%) and sticks with that risk percentage

Adjusting as the account size changes

Percent will make a trader lazy and as the Percent gets smaller because your

account is getting smaller you tend to not take the trade seriously.

Fixed Dollar

- On the $3000 account
- Trade $0.50 on each trade
- $0.75 on each trade Etc.

(Figure out the average number of trades you usually have open at one time)

We only use this example to make a point we do not recommend losing 68%

Starting account value = $2,000	Win or Loss	Fixed $ Risk of $100	2 % of account risk
All rewards are 3 times risk.	Win	$2,300	$2,120
	Win	$2,600	$2,247
	Loss	$2,500	$2,202
	Loss	$2,400	$2,158
	Loss	$2,300	$2,115
	Loss	$2,200	$2,073
	Loss	$2,100	$2,032
	Loss	$2,000	$1,991
	Win	$2,300	$2,110
	Win	$2,600	$2,237
	Win	$2,900	$2,371
	Win	$3,200	$2,513
	Loss	$3,100	$2,463
	Loss	$3,000	$2,414
	Loss	$2,900	$2,366
	Loss	$2,800	$2,319
	Loss	$2,700	$2,273
	Loss	$2,600	$2,228
	Loss	$2,500	$2,183
	Loss	$2,400	$2,139
	Loss	$2,300	$2,096
	Loss	$2,200	$2,054
8 wins and 17 losses	Loss	$2,100	$2,013
Winning % = 32%	Win	$2,400	$2,134
Losing % = 68%	Win	$2,700	$2,262

Now this example is a bit extreme, if you were Grading your trades and managed them properly, you should be winning at least 68% of the time; and only loosing 32% of the time.

Many professional traders use the **fixed dollar risk method** because they know that they have mastered their trading strategy, they don't over-trade, and they don't over-leverage, so they can safely risk a set amount they are comfortable losing on any given trade.

At this point we have four things to consider:

The Setup

1.Where do we enter the trade?
2.Where do we place our stops?
3.Where do we place our targets?
4.How much do we allocate to the trade?

Where you enter the trade has a lot to do with how you should and will manage the trade

The setup:
Has a lot to do with our money management.
Is this setup a ***strong setup*** or a ***weak setup***

Whether it is a strong or weak setup
depends on your money management strategies

The profit target is: Not As important as the way You manage the trade

Where you enter the trade has a lot to do with how you should and will manage the trade!

Most rookie traders look at:

#4. How much should I allocate to the trade?

This is the 4th question not the 1st question

The GOLDEN Rule is: Don't lose money .

It is not about how much you are going to make Everything we do Money Management wise has the objective of not losing money. It's not how much money I'm going to make on this trade. It's not am I going to be a winner on this trade.

What matters is: How do I keep from losing money on this trade

Mr. Happy Mutual Fund

2006:		2006: $100,000
2007:	- 21%	2007: $79,000
2008:	- 38%	2008: $48,980
2009:	+ 15%	2009: $62,694
2010:	+ 28%	2010: $72,099

When we lose large amounts of money. We lose our ability to think clearly. Now when we start to make money, we forget what happened when we were losing money…as if it never happened What do we have to do to get back to the original balance?

Total Lost	Returns Needed to Break-even
-25%	+33%
-50%	+100%
-75%	+400%
-90%	+1000%

It is almost impossible to get back to break even (through trading) if we lose 75% to 100% of our account.

The probability of getting Back to Breakeven is very high. If we only lose 10%, 5%, or even better 2% of our account

Types of Stop Losses:

1.Account Stop

2.Trade Management Stops

Account Stop:

- Give yourself a Daily Loss Limit On a $10,000 account 2% = $200
- To stay on the safe side, you might Consider $100 or $150 for the day If you hit the Daily Loss Limit Then…***You say no Closer all trades walk away from the computer.*** Wait until the next Trading Day to trade again You might come back. Later after a cool down Period and do some Dem trading.
- When you start losing you get high anxiety and become stressed out Then your ability to Think Clearly is gone.

You may think I have to win, or I can't lose before you trade again you should do at least 15 minutes of **Demo TRADING.** By walking away and doing Simulated trading You will still have an account When you come be back Your recovery time will be shorter and you will be back on track faster If you hang on and let the loss keep going you may end up trying to recoup $500

Trade Management Stop

Most people will think of a **Trade Management Stop** They don’t think of the **Account Stop**

A Trade Management Stop is done on a per trade basis These stops can rack up Quickly depending on your win to loss ratio. When you have a losing Streak 4, 5, maybe up to 8 losing trades In a row. The losses get big really fast.

This also becomes a reason to stop trading for the day. At least take a break, do some Simulated trading, then start trading fresh again. You should be able to see that Money Management is more than just where you place Your Stops.

This type of stop is best for long term trading. (Trades You carry for a few days)

Not as good for intraday trading. How do we size our positions

In our trades? How many lots Do we use? Position sizing has everything to do with Risk Tolerance and Not so much how much money We have in the account. All the time you will hear that currency trading is very risky.

There are traders that take far more risk in stocks and bonds (Considered one of the least risky Instruments to trade) than we ever take with currencies.

In our opinion:

Risk has nothing to do with the instrument you are trading as much as it does with your knowledge of how to control and manage your money.

You can be more conservative in the currency market than you can be in the stock market. It'~~s all about how you setup your risk and the n~~umber of lots you use.

Risk Management

How to figure out the Units you control
You Multiply your account balance by your Leverage
(example 100:1 leverage account balance $5000.00) 5000 x 100 = 500,000

How to calculate your Max Risk
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How to figure out your amount to risk per pip
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We suggest that you calculate Your trade sizes at least once a week

Money Management is not Just about how much money I put into the tread.

Money Management has as much to do with where we trigger into the trade, where we stop out of the trade, where We target the trade, than how much money we put into the trade.It boils down to how well We manage our stops and Our loss.

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Conclusion

To succeed at trading the Forex markets, you need to not only thoroughly understand risk reward, position sizing, and risk amount per trade, you also need to consistently execute each of these aspects of money management in combination with a highly effective yet simple to understand trading strategy like

“The Trade Grader.”
$10,000 starting investment 7% increase per month (1.75% per week)
About 35 pips per day 175 pips per week Exposing 1% of account per trade
Account after 6 years.

YEARS	CAPITAL(7%)
1	$22,521.92
2	$50,723.67
3	$114,239.42
4	$257,289.07
5	$579,464.27
6	$1,305,064.55

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THANK YOU