

Risk Management

*Risk
Management*

Trading Tools

*Trade size
example*

*Reward to
Risk Ratio*

Summary

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Risk Management

Risk management involves the evaluation and mitigation of risks which arise when the market moves in the opposite direction from the expectations.

Risk management **MUST** be part of your trading strategy.

Protecting the money you made is the way to make consistent profit, and ensure you have a long, successful trading career.

How do you manage your risk?

By limiting the amount of capital you are willing to lose per trade.

No more than **1 - 3%** of your trading capital should ever be risked on a single trade.

You also need to consider the amount of active trades you have open.

When starting out, you should limit the number to a manageable amount such as **2 to 4 trades**.

This can be increased later on with experience and as part of your trading strategy.

What happens if BTC has a large move in the opposite direction and you are in 10 alt coin trades? For example on 19th of May, alt coins dropped on average about 50%.

If you had 10 active trades at 3% risk each that's instantly 30% of your account gone. Possibly even more if you didn't use any risk management.

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Reward Risk Ratio(RRR)

Reward to risk ratio (RRR) is the amount of profit you will make on a trade vs the amount you could potentially lose.

If you enter a trade with a 2:1 RRR with a stoploss value of \$100, your potential profit is \$200.

When you combine the RRR with the rule of risking max 1-3% of total trading capital per trade, you can easily calculate the minimum required win rate to be profitable.

It is recommended that a minimum 2:1 RRR is used for all trades. This means you only need to have 1 in 3 trades right to break even.

The Higher the RRR, The Lower your win rate needs to be

YOUR HISTORICAL WIN RATE		MINIMUM REWARD:RISK RATIO
25%	→	3 : 1
33%	→	2 : 1
40%	→	1.5 : 1
50%	→	1 : 1
60%	→	0.7 : 1
75%	→	0.3 : 1

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Trading tools to assist with risk management

1- Trade plan - Create the rules about the maximum amount of capital risked per trade,
- Minimum RRR you are willing to take.
- How many trades can you have active at once?

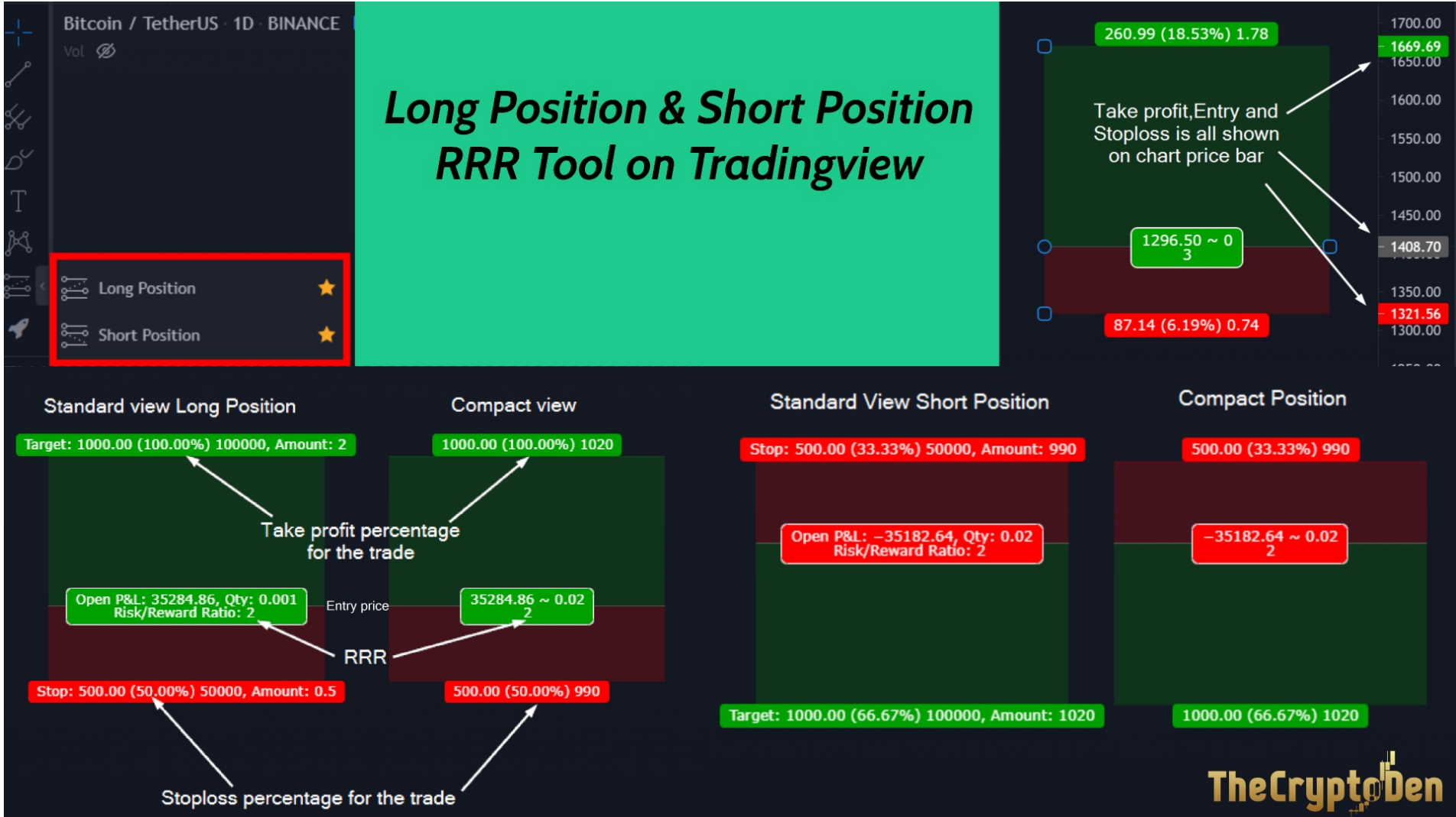
2- Tradingview risk-reward tools "Long Position" and "Short Position". Use this tool for EVERY trade.

3- Trade Journal - Document your trades and track your wins/losses.

4 - Risk calculator - <https://profitd.io/risk-calculator>

*Tradingview
risk reward
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No more than **1 - 3%** of your trading capital should ever be risked on a single trade.

Limit the amount of active trades you have a position in. When starting out limit it to a manageable amount such as 2 to 4.

Use a minimum of 2:1 RRR for all trades.

Track your trades so you can track your progress.

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Trade size example

You have a \$10,000 trading account and are willing to risk 1% per trade. 1% = \$100

You have the following trade setup:

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Trade size calculation - 7% = \$100

Unleveraged trade size = $\$100 / 7\% = \1428.57

5x trade size = $\$1428.57 / 5 = \285.71

10x trade size = $\$1428.57 / 10 = \142.86



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