

# Risk Management

## What is Risk Management

Risk management refers to the processes that are put into place when trading to help keep losses under control and keep a good risk/reward ratio. Risk management can help prevent a trader from losing all their money on the account. Risk management should be applied by both beginners and experienced traders.

## Why is Risk Management Necessary?

Risk management is one of the three central pillars to trading, along with strategy and psychology. Even if you have the best trading strategy (Intraday, Swing trading, Position or Trend Trading) in the world, perfect trading psychology, without solid risk management losses will start to build up. We know that it is impossible to win every trade, so it is important to keep those trades that are losers under control. This can be done using various risk management tools.

Important aspects of risk management include considering trade size, stop losses, stop loss placement and profit takers and optimal risk reward ratios.

## The 1% Rule

Successful traders don't look to risk any more than 1% - 2% of their account on any trade. So, if you have a capital of 10,000 on your account and you are risking 1% - 2% this means that you are looking to risk 100 - 200 per trade. By taking small risks you will not blow your account up with one or two losing trades. Taking additional risk can be dangerous and detrimental to your long-term profits. Part of being a good market strategist is to be discipline and stay cold with numbers.



Question:

1. What is Risk Management?
  - Managing the risk of company's assets
  - To manage risk in trading
  - To manage the security of the company
  - None of the above
  
2. Which one of the following is a risk management tool?
  - Stop loss
  - Risk to reward ratio
  - Trade size
  - All of the above