RISK AND CAPITAL MANAGEMENT

- Trading is 30 % Strategy and 70% Risk management.
- Capital matters depending on where you are aiming to trade. Forex, Options, Stocks or Cryptocurrency.
- The amount you should aim to risk per day or per trade should be 1-2% of your capital.
- Always use stoploss before you aim for your profits.
- Trail your stoploss during the trade if you are beginner trader.
- Trading with a proper RISK REWARD RATIO is very important for managing your capital and surviving in the market. If you have small capital maintaining high risk to reward ratio is more beneficial.
- 1:1 Risk Reward ratio is bad for a trader as a beginner. Minimum 1:2 or higher is considered safe especially if you are trading with small capital.
- Depending on your risk reward ratio and how much you risk in each trade can decide if you will survive the market or not. 1 – 2% of risk per trade and 1:2 R can never wipe out your capital.
- Depending on the Risk Reward ratio take the number of trades in a single day (1:2 R – 2 trades).
- Trade on a single instrument and single setup / strategy at once.
- Do not trade with any strategy until you back test it for at least 6 months or more.
- Depending on loss ratio of your strategy, risk the % of your capital so that you can do at least 100 trades even if all the trades will hit stoploss that way your trades will have more room for reaching the win ratio you achieved while back testing.
- The longer you survive in the market the longer your strategy has a chance of playing out the win and loss ratios.

SOME KEY CONCEPTS OF RISK MANAGEMENT WHILE YOU ARE IN A TRADE

QUANTITY PYRAMIDING

Quantity pyramiding in trading refers to a strategy where traders gradually increase their position size as a trade move in their favour. This approach allows traders to capitalize on a strong trend while managing risk. Instead of investing a large sum at once, traders add to their position in increments, usually using profits from the earlier positions to reduce overall risk.

How it works:

1. **Initial Position**: Start with a smaller position.
2. **Add to Winning Trades**: As the stock price moves in your favour and hits predefined levels, increase the position size.
3. **Adjust Stop Loss**: Move stop-loss orders to protect profits and limit potential losses.

Benefits:

- **Risk Management**: Initial exposure is limited, and subsequent investments are made only when the trade is performing well.
- **Profit Maximization**: Adds exposure to strong trends, allowing traders to leverage momentum.
- **Psychological Comfort**: Reduces the stress of committing a large amount upfront.

Risks:

- **Overexposure**: Adding too aggressively can result in excessive risk if the trend reverses.
- **Execution Complexity**: Requires precise planning of entry points, stop losses, and position sizes.
- **Slippage**: Can impact returns in illiquid markets.

AVERAGE UP

Average up is a trading strategy where a trader increases their position size by buying additional shares at a higher price after the stock moves in their favour. This is used to build larger positions in strong-performing trades.

How it works:

1. **Initial Position**: Buy a stock at an initial price (e.g., $50/share).
2. **Add to Winning Trade**: When the stock price rises (e.g., $55/share), purchase more shares to increase exposure to the uptrend.
3. **Continue if Trend Persists**: Repeat at predetermined price levels, maintaining risk controls.

Benefits:

- **Profit Amplification**: Gains are magnified if the price continues to rise.
- **Trend Confirmation**: Adds confidence that the price movement is sustainable.
- **Disciplined Scaling**: Allows controlled growth of position size.

Risks:

- **Overpaying**: Subsequent purchases may reduce the overall profitability if the price reverses.
- **Trend Reversal**: Losses could escalate if the stock starts declining.

POSITION SIZING

Position sizing is the process of determining how much capital to allocate to a specific trade based on risk tolerance and account size. It's crucial for managing risk and avoiding significant losses.

How it works:

1. **Define Risk Per Trade**: Decide the percentage of your capital to risk per trade (e.g., 1-2%).
2. **Calculate Position Size**:
    - Determine the distance between entry and stop-loss price.
    - Use this formula:
      Position Size = (Account Risk ÷ Stop Loss Distance)

Example:

- Account Size: $10,000
- Risk per Trade: 2% = $200
- Stop Loss: $2/share
- Position Size: $200 ÷ $2 = 100 shares

Benefits:

- **Risk Control**: Prevents overexposure to a single trade.
- **Consistency**: Aligns with risk tolerance and trading strategy.
- **Improved Longevity**: Minimizes the chance of wiping out the account.

Risks:

- **Improper Sizing**: Miscalculations can lead to excessive risk.
- **Emotional Decisions**: Deviating from calculated sizes can lead to inconsistent results.

TAKING HIGH QUALITY TRADES

After opening the chart first thing you should do is observe the market in multiple time frames especially higher and do market structure analysis.

MARKET STRUCTURE ANALYSIS

- IS THE MARKET TRENDING UP?
- IS THE MARKET TRENDING DOWN?
- IS THE MARKET TRENDING SIDEWAYS?
- IS THE MARKET RANGEBOUND?
- IS THE MARKET UNREADABLE?

- Before taking any trade, you must have been observing the market for at least some time say 1 – 2 hours.
- Do not take trades when the setup occurs in the market. Take trades after analysing the Risk of the trade. Setup is only something that should encourage you to look at the trade.
- After the setup occurs in the market:
    - Look if the trade has room to move towards the target. This will decide whether you should be taking trade or not.
    - Your validity of setup also depends largely as the setup can give invalid trades sometimes.
    - Observe where does the market has to go to make your trade wrong if you are looking at price action. This will determine where your stoploss should be.
- Avoid trading in Range bound market / Sideways market or unreadable market. Only identify opportunities or paper trade.
- Try to capture the trade in the direction of the trend.
- When the market is bouncing between support and resistance try to find opportunities to trade at the support or resistance level.
- Do not trade in unreadable market.
- Focus on low risk and high reward trades

PSYCHOLOGY OF TRADING

- Staying consistent with your trading is very crucial because if you trade randomly then you might miss out on big market moves and keep stacking up losses.
- Don't trade thinking of your current trade but with the perspective of your next 100 trades.
- Do not watch the charts at random times in a day and jump in the trade without analysing market structure.
- If you don't want to trade at a particular day, then don't watch the market.
- Cut off the time you want to give to the market. Make a schedule and after that time don't watch the market no matter what and keep on with your daily routine. Give time to the market don't let the market take your time.
- Do not trade in FOMO: Fear of missing out.
- Sit in the emotions but don't act upon them.
- Remember that there are going to be moves in the market in the future and you are not missing out.
- Do not revenge trade no matter what. Sit in losses. Accept your losses.
- Trade to learn and then eventually you will earn.
- When you have confidence in your strategy there is no need to rush to close the position. Let the trade play out. It is always better to hit your stoploss than returning with small or close to nothing profit.
- Remember that it is a long - term game and your aim is to survive in the market and not fight the market. If you fight the market, you will end up with an empty account.
- Do not give up. Stay confident. Stay disciplined. Stay consistent.