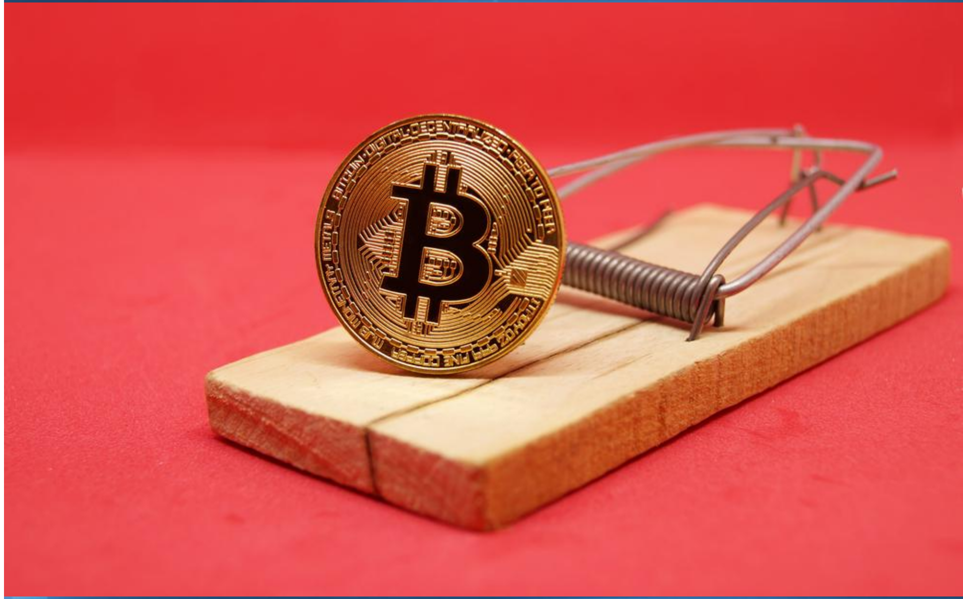
LESSON 2

Risk Management

How to properly analyze and manage your trade risk

Today’s Topics

- What is risk management?
- Why is it important?
- What are the types of risk?
- How do you manage your risk?
- Examples of risk management in trading

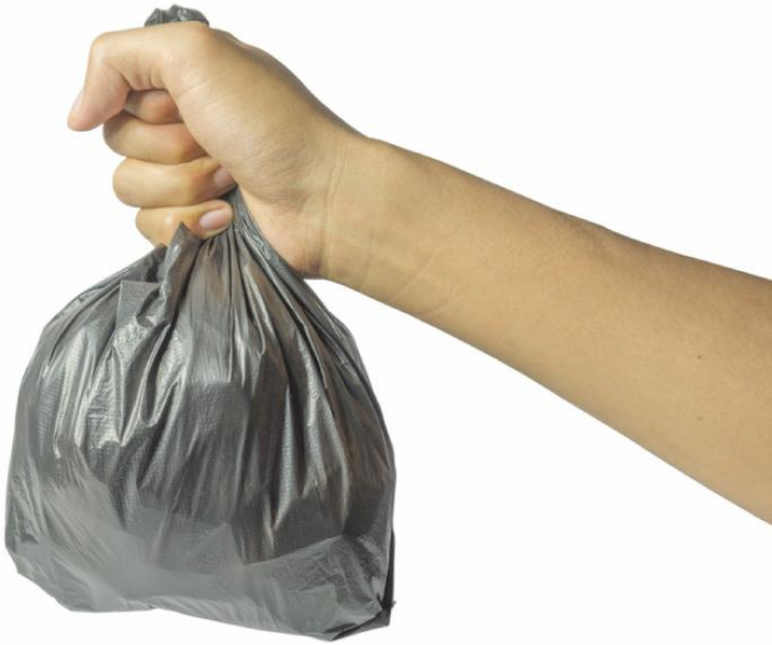


I’m always thinking about losing money as opposed to making money. Don’t focus on making money, focus on protecting what you have.

- PAUL TUDOR JONES

Don’t be a bag holder!

- Someone who has made a trade or investment that drastically loses value
- Instead of cutting their losses, they continue to hold in hopes of recouping what they have lost
- It can lead to financial ruin
- Successful risk management will help you avoid making this critical mistake



What is risk management?

- Estimation and evaluation of financial risks, and minimization of their impact
- Helps you understand what you stand to lose on a trade
- Proper risk management will help you minimize your trading losses
- Most important aspect of trading
- Consistent, well executed risk management is essential for success

Why is risk management important?

- You can lose a large portion of your equity very easily without proper risk management
- Traders commonly blow up their accounts due to bad risk management
- Every trade has the possibility of being a profit or loss, and risk management will ensure no single trading loss will wipe you out.

What are the types of risk with trading cryptocurrencies?

- Volatility Risk
- Headline News Risk
- 24 Hour Trading Risk

How do you manage your risk?

- Never losing more than your predetermined max loss
- Using stop loss orders on trades
- Taking the proper position size
- Staying emotionally detached
- Being disciplined
- Trading the best opportunities

Max Loss

- Determine a max loss you are willing to take on any single trade
- Keep your max loss consistent across all of your trades
- Never allow yourself to lose more than your max loss
- Risk no more than 1% of your total equity on any single trade

Stop Orders

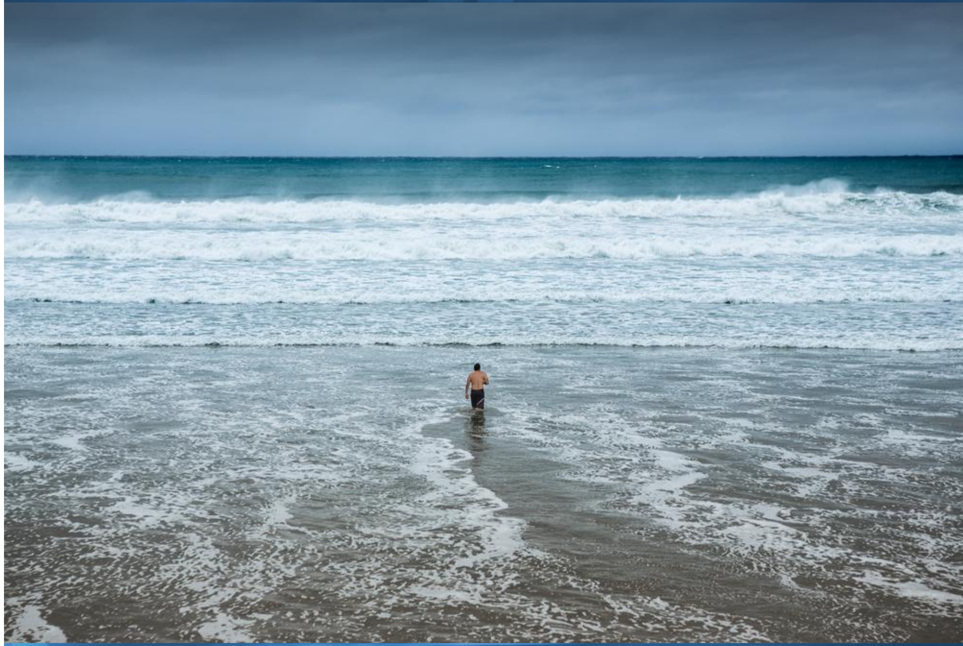
- Pick a stop loss where you will exit the trade, preferably based on technical analysis
- You should never take a trade without a stop loss
- You will learn how to pick a proper stop in the technical analysis lesson
- Failure to to obey your stop loss can result in major trading losses

Position Sizing

- Determine position size based on your max loss and stop order
- These variables will allow you to properly size into every trade
- Extremely important to take the proper position size
- Taking too much size can result in taking a greater than expected loss

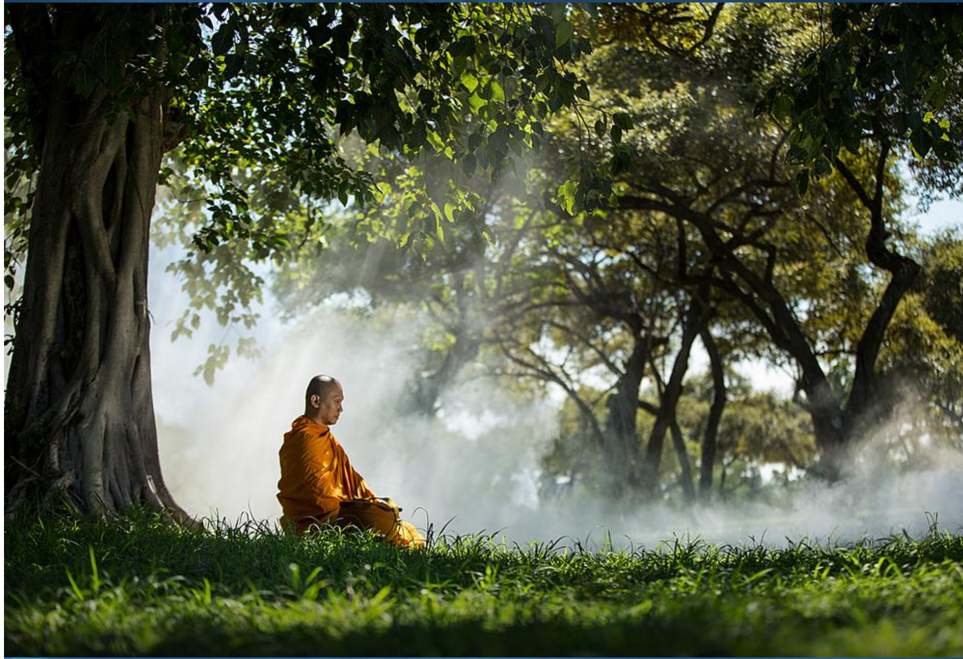
Emotional Detachment

- Never be emotionally attached with any single trade
- Major reason why most traders fail
- Taking too big of a position can cause you to become emotionally involved
- Cut down trade size by 80% if you are having issues being emotionally involved
- Increase trade size once you have improved your ability to remove emotion from the equation



Discipline

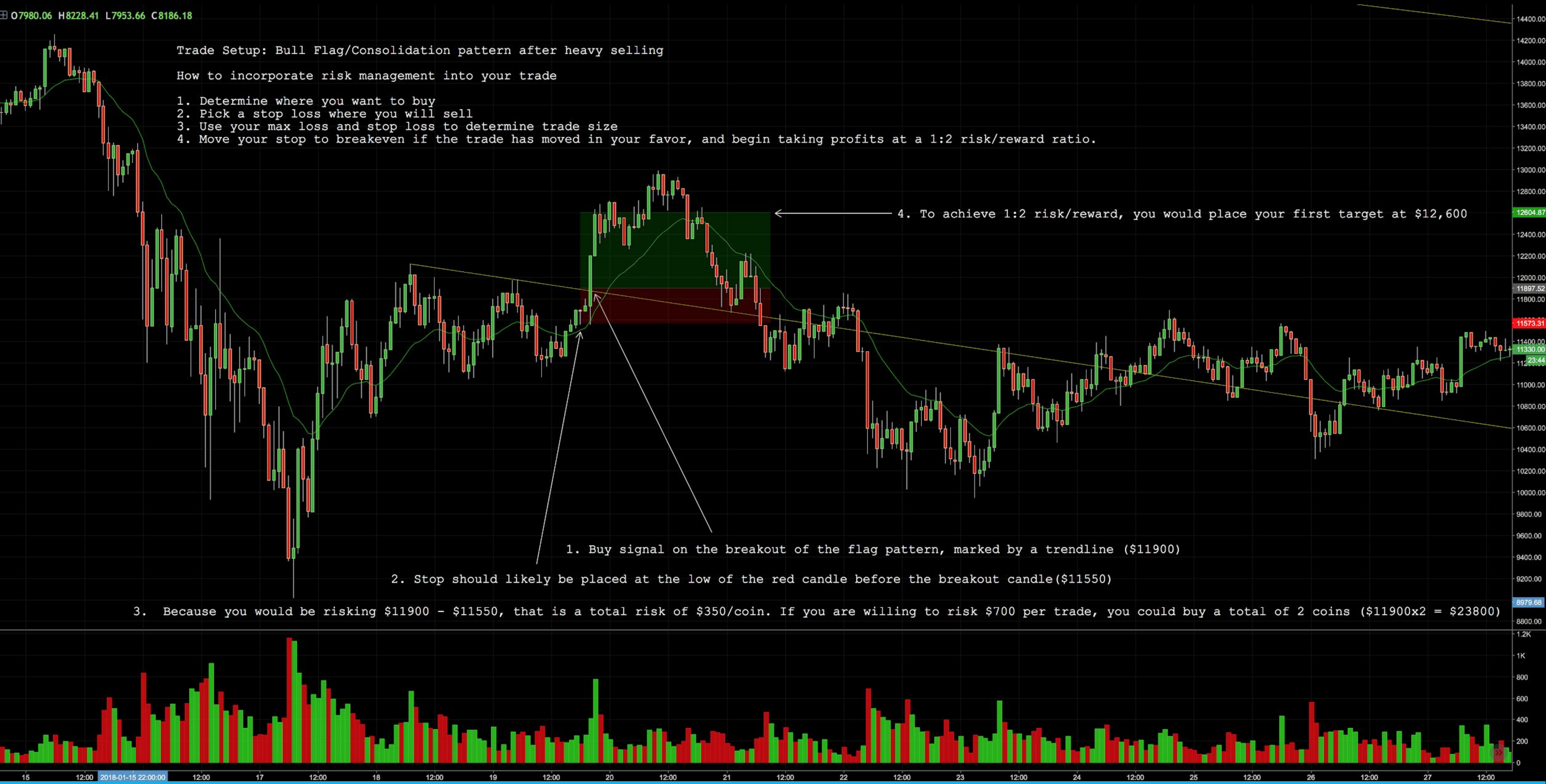
- You must always have the discipline to cut a losing trade
- Failure to be disciplined about cutting losing trades can lead to large losses
- Very important quality of successful traders
- Improve trading discipline by:
    - Meditation
    - Exercising
    - Emotional Conditioning



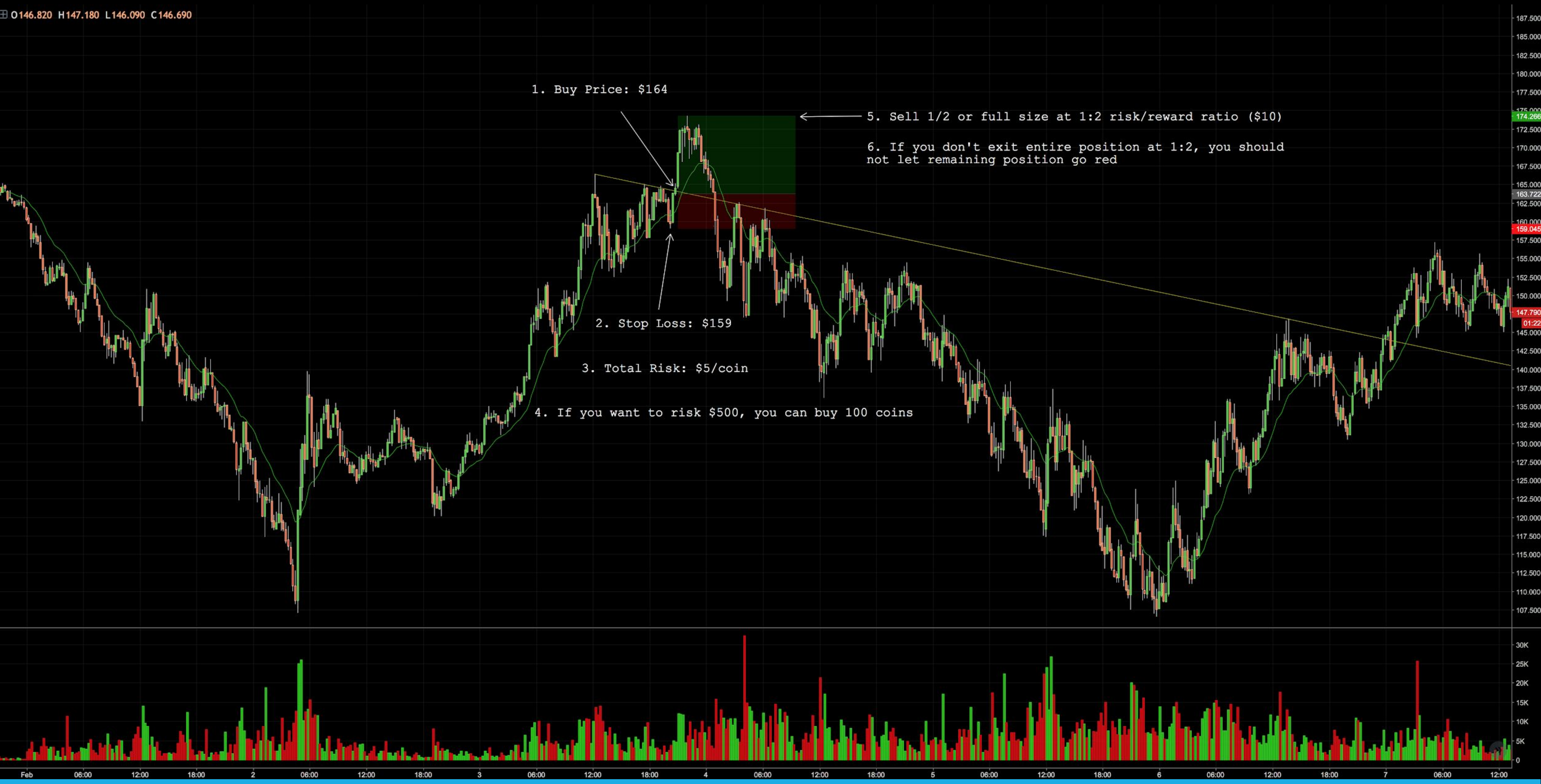
Trading the Best Opportunities

- Aim for trades that offer high risk/reward ratios
- Risk $100 to make $200 minimum (1:2 Risk/Reward Ratio)
- You will minimize your risk by taking only the best trading setups available
- Increased risk of loss on improper trading opportunities
- Education, screen time, and experience will help you pick better trades

Examples of Risk Management



WARRIOR TRADING


O146.820 H147.180 L146.090 C146.690
1. Buy Price: $164
5. Sell 1/2 or full size at 1:2 risk/reward ratio ($10)
6. If you don't exit entire position at 1:2, you should not let remaining position go red
2. Stop Loss: $159
3. Total Risk: $5/coin
4. If you want to risk $500, you can buy 100 coins

END OF WEBINAR