

# The Consistency Key: A Full Risk Management Model for Forex & Futures

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## What Does Risk Management Really Mean?

Risk management is the process of identifying, assessing, and controlling risks associated with an trading activities. It involves the identification and analysis of risks, followed by the implementation of strategies to minimize the impact of those risks, It is essential to any business, as it helps to protect the organization from financial losses and other negative impacts.

### Risk Calculation

When trading, risk is calculated by taking into account the amount of money that can be lost in a single trade, the number of trades that can be made, and the probability of success for each trade. This means that if you have \$10,000 in your account, you should not risk more than \$100 per trade. This is a good rule of thumb that will help you to protect your capital and limit your risk.

→ **Variables :**

1. **Account balance :** The amount of money in your account.
2. **Percentage Risk :** The percentage of your account that you are willing to lose.  
→ **Risk in Amount \$ :** The amount of money by \$ that you are willing to lose.
3. **Stop Loss Size:** The amount of pips'points your stop loss is set to.
4. **Pip  $\wedge$  Point Value :** The amount of money that is equivalent to one pip or one point of currency.

Here's an example of bad risk Management with a 8 losses in a row - If you think this not going to happen to you... you're going to be very disappointed friend.

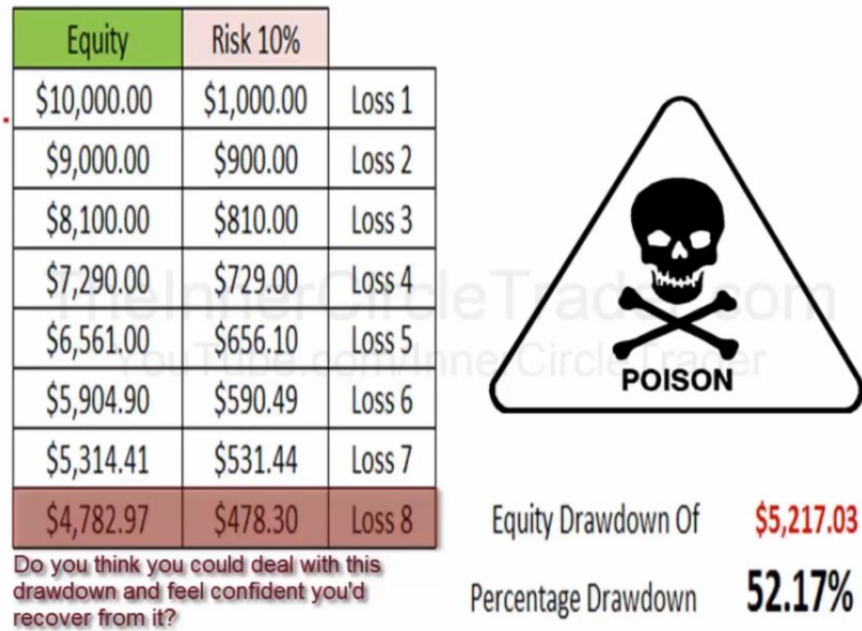


Figure 1: Example of why risk management is important

### Why Sound Money Management is Important?

In the presented scenario, where two traders started with \$10,000 each, the difference in risk management strategies becomes evident. While Trader A, who adhered to a 1% risk per trade, experienced a cumulative loss of only \$493, equivalent to a modest 4.93% decrease in equity after five losing trades, Trader B, who risked 5% per trade, faced a substantial cumulative loss of \$2,262, representing a significant 22.62% reduction in equity. This stark contrast underscores the critical importance of prudent risk management practices, such as limiting risk to less than 1% per trade, to preserve capital and navigate volatile market conditions effectively...

	Scenario A (1% Risk)	Scenario B (5% Risk)
<b>Equity - Start</b>	\$10,000	\$10,000
Losing Trade #1	\$9,900.00	\$9,500
Losing Trade #2	\$9,801.00	\$9,025
Losing Trade #3	\$9,702.00	\$8,574
Losing Trade #4	\$9,604.00	\$8,145
Losing Trade #5	\$9,507.00	\$7,738
Cumulative Loss - \$	( \$493 )	( \$2,262 )
Cumulative Loss - %	-4.93%	22.62%

Table 1: Example of 2 types of risk management.

### Position Sizing

## What Separates Professional Traders From You?

Combinations of — [ Win/Loss Over 10 Trades ]  
With **2:1** Risk To Reward

WINS	LOSSES	WIN RATE	Pips Won	Pips Lost	Net Pips	Avg. Net
10	0	100%	1000	0	1000	100
9	1	90%	900	(50)	850	85
6	2	80%	800	(100)	700	70
7	3	70%	700	(150)	550	55
6	4	60%	600	(200)	400	40
5	5	50%	500	(250)	250	25
4	6	40%	400	(300)	100	10
3	7	30%	300	(350)	-50	-5
2	8	20%	200	(400)	-200	-20
1	9	10%	100	(450)	-350	-35
0	10	0%	0	(500)	-500	-50

# Position Sizing

→ **The Variables**

- Risk Percentage: 1%
- Account Size: \$10,000
- Risk Amount = Account Size  $\times$  Risk Percentage
- Risk Amount =  $\$10,000 \times 0.01 = \$100$