MASTER CLASS

STOP LOSS

LEARN WHEN TO ABANDON A TRADE AND AVOID BANKRUPTCY

Written by

EMPERORBTC

TWITTER - @EMPERORBTC

TELEGRAM - EMPERORBTCTA

INTRODUCTION

My aim is to keep this tutorial as short as possible.
Zero theory. Only 100% practical concepts.

After you finish reading this whole document, you would have mastered.

1. Stop Loss placement.
2. Calculation of SL.
3. Calculation of Position Size.
4. Probably never get bankrupt trading.

We need stop Loss to determine where should we abandon the trade.
We abandon the trade because the price structure starts showing an opposite move than we had anticipated and hence it should no longer make sense to ride in the opposite direction.

Stop Loss is to be placed at that area where the market structure shows a higher probability to continue on the opposite direction.
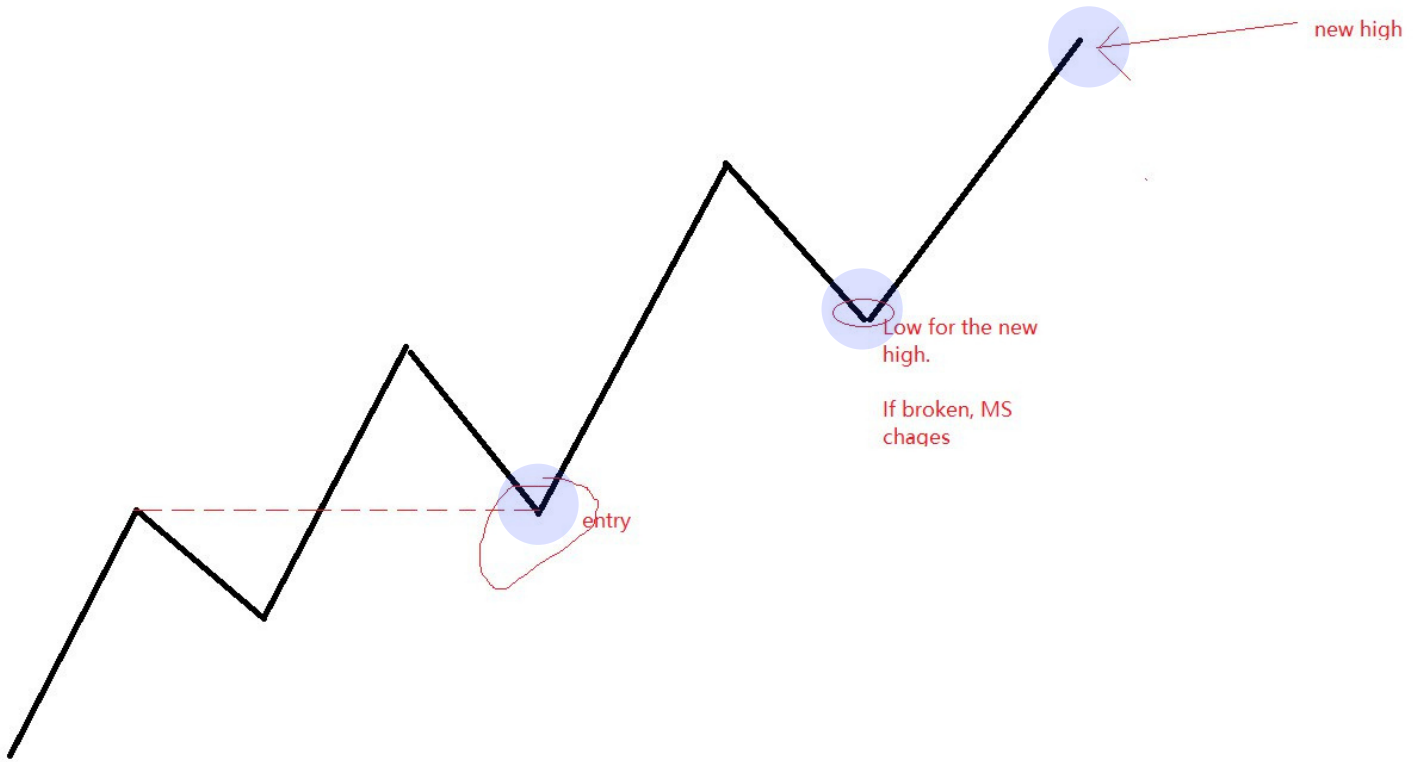
To illustrate, in an uptrend market as illustrated above, if the Low from which a new high is made, gets broken, we can assume that the market structure is broken and the trend has changed.
If the above scenario happens, a SL at the level which changes the MS is logical.

Note-The above trend is illustrative of Bitcoin's move to 64. I have not used any technical jargons of Market Structure to avoid confusion.

DEAR FAMILY,

I am working hard to produce world class and free trading tutorials, free as it should be in a community.

I have collaborated with Delta to help me to hire more people while keeping it free and open.

You can help to keep the content coming by signing up for Delta at

http://delta.exchange/EmperorBTCand trading there.

It will cost you nothing and keep the education free for everyone. You will get a 30,000 dollar bonus for depositing and trading there.

Thank You.

TO CONCLUDE

Stop Loss is necessary

1. To find the area where the MS might change and hence it'll become illogical to keep a trade going whilst MS is pointing a move on the opposite direction.

2. To calculate the Position Size of the trade. This is the most important use of SL which many ignore. SL placement is the most important tool in Risk Management which is the backbone of trading.

TO QUICKLY ILLUSTRATE.

Let's say the total Capital with us is 100K.

We want to risk only 1% of our Capital i.e. 1000 dollars.

The distance between the current price and the price where the MS will change i.e. The place where we want to place our SL is 4%.

Entry

Distance from entry to SL = 4%

Stop Loss
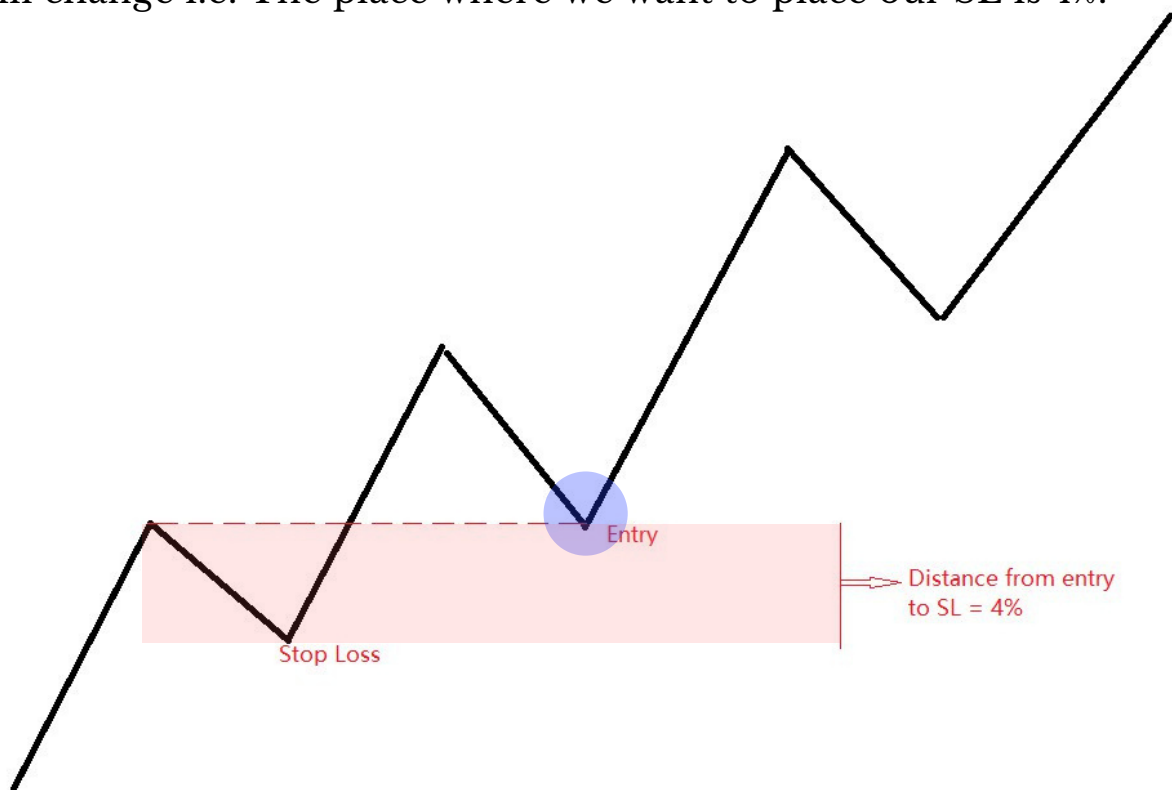
Hence our Position Size can be
1000 dollars divided by 4%
Which gives a position size of 25000 Dollars.

Once we enter a position with 25000 dollars and place our SL at 4% of the current price, we will only lose 1000 dollars.

To prevent having a so much of value on exchange, you can use leverage to prevent having too much exposure.
Eg. You know you only want to risk 1000 dollars in a trade.
You know your position size is 25000 in this MS
(1000 divided by the distance to SL i.e. 4%)
So instead of having 25K of position on spot, you can use 1K as collateral and open a position with 25X leverage.

In a leverage Position,
Capital at Risk = 1000
Position Size 25,000
SL 4%
If the Price moves in the opposite direction by 4%, you will only lose 1% of your portfolio that is 1K.

I have explained how to use SL to determine Position Size and how to use Spot and Leverage to manage your positions.

I hope the basic uses of SL are clear to you.

Let's now begin with this Master-Class.

.

BASICS OF STOP LOSS

99% of the traders fail because they don't understand Stop Loss. Stop Loss is the most important topic to prevent liquidation and avoiding bankruptcy.

This is all you need to master stop loss.

There are only 2 tools in trading which will prevent you from blowing up your account:

1. Risk Management
2. Stop Loss

If you don't follow the rules of the above, YOU WILL FAIL. Period. In this article, we will master Stop-Loss, in detail.
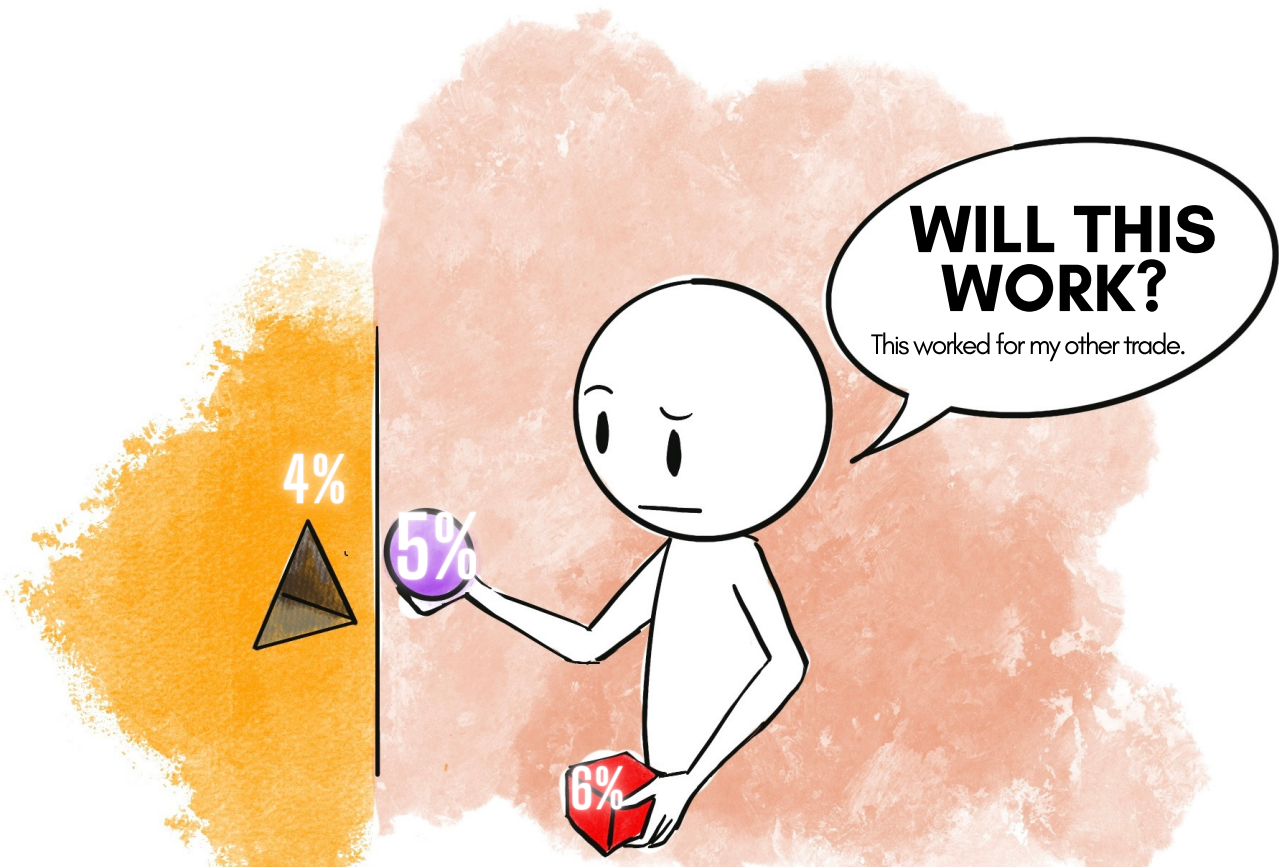
DIFFERENT CHARTS = DIFFERENT SL

A common fallacy amongst traders is that Stop Loss has to be a certain fixed percent of loss. Eg. Fixing Stop Loss at 5%. This is a very bad idea.

Stop loss should be based on TA alone.

Every setup is different and a fixed SL won't work.

STOP LOSS = INVALIDATION LEVEL

Entry is made ONLY as per TA on a valid reason for a directional move. Once the reason for the entry has been lost, the trade must be exited.

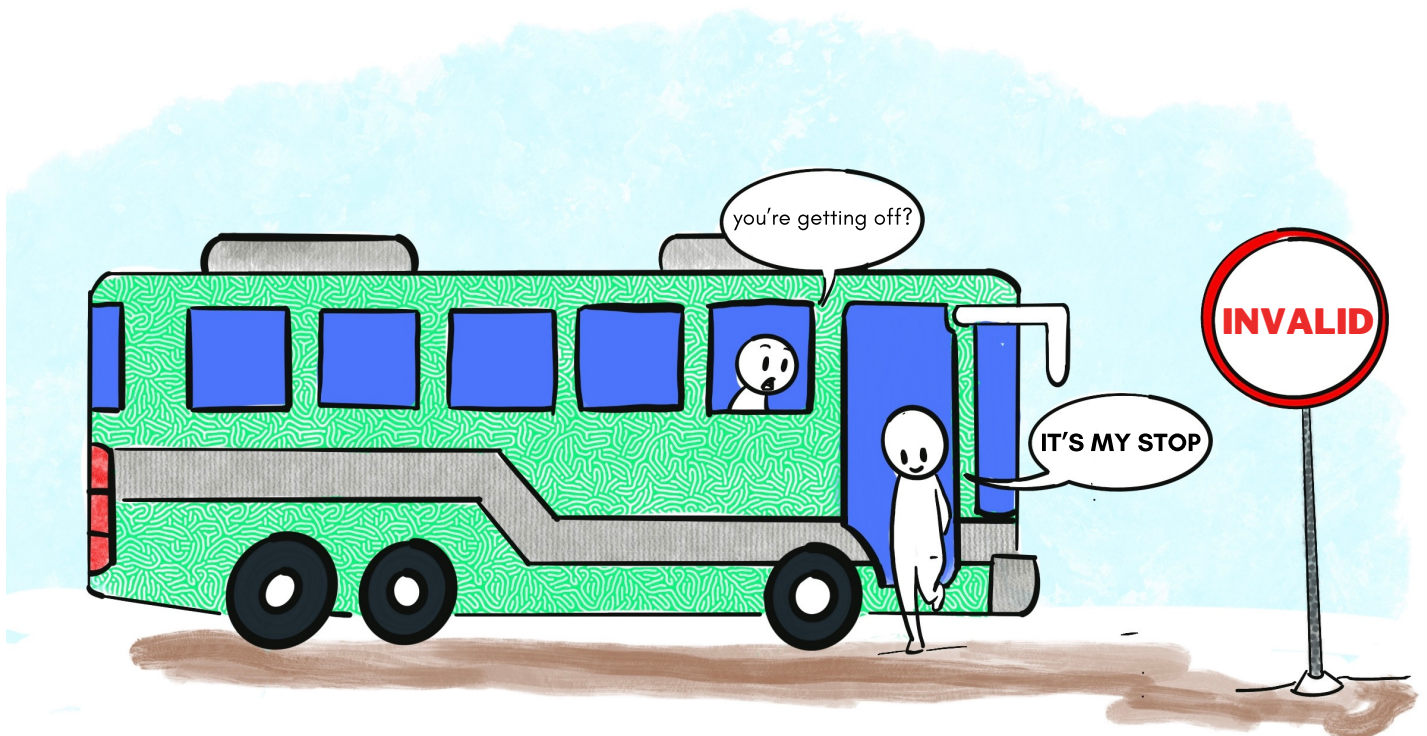The event at which the reason for entry ceases to exist is the invalidation level.

Entry example.

Invalidation Point reached? GET OUT!

Stop Loss is a tool to be ABSOLUTELY used as soon as the setup reaches an invalidation point.
Always establish the invalidation point before entering a trade.

As soon as the invalidation event turns true, EXIT without a second thought.

EmperorBTC published on TradingView.com, August 29, 2020 12:33:41 EDT
BATS:MCD, 1M 214.91 ▲ +2.72 (+1.28%) O:194.33 H:216.71 L:193.59 C:214.91

MCDONALDS CORPORATION, 1M, Cboe BZX
Vol

Support gets tested too many times.
Lower high is formed.
Support breached with volume expansion.

High   Lower High

Stop Loss
Trade exited in Loss

Re-test   Breach

Support Formulation

Once the reason for the entry has been lost, exit the trade as the premise for the entry no longer exists.

If the entry was made because of a support being confirmed, but if the support gets broken, the reason for the entry no longer exists and hence, a stop loss must be entered
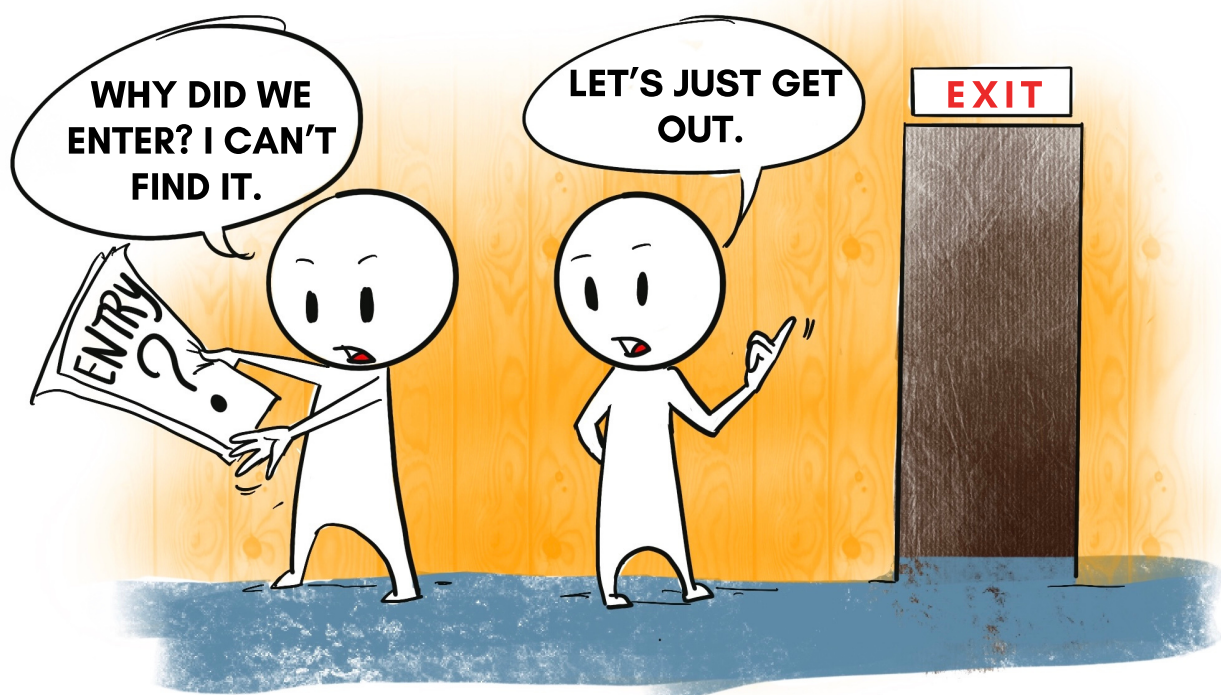
Let us understand placing the stop Loss with the help of few examples.

I will only be using simple Support/Resistance reasons for entry to keep it simple.

1. Placing SL during consolidation Break-out.

Note- I Place it a little below the invalidation level to prevent stop hunts.

In the above example, the entry is made after a consolidation Breakout (with volume).

The stop Loss is placed at the bottom of the consolidation.

Rest of the events are self explanatory.

Important Note.

I don't post a stop Loss Order. I manually exit when the invalidation level is reached.
This Prevents hunting by any scam wicks.

Placing stop loss with

- Resistance Support Zone recognition
- Break-out
- Re-test Confirmation
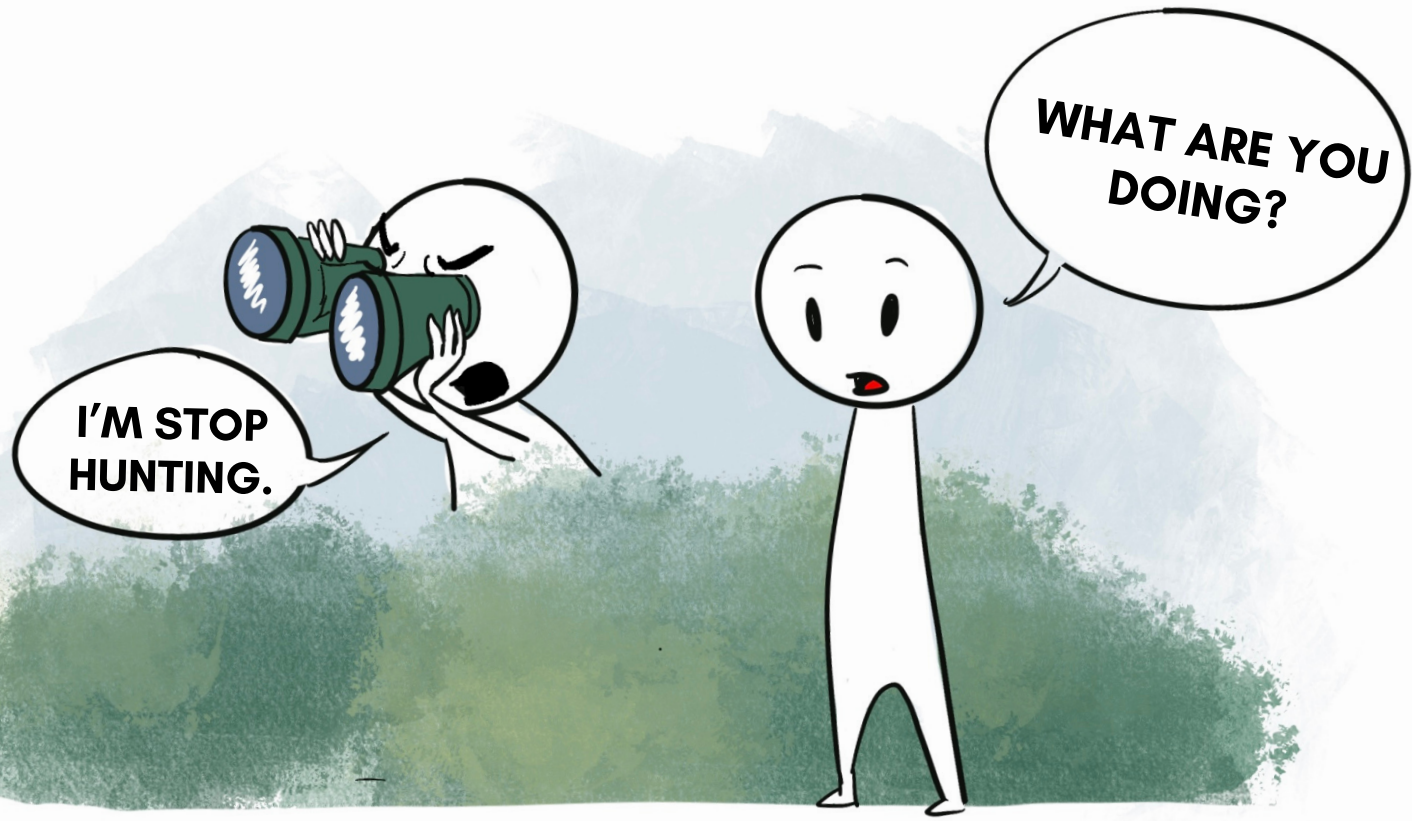- Resistance Zone Flip
- Break-out confirmation

STOP HUNTING

Stop Loss is a very controversial topic as some traders don't like to place a SL order as it could lead to stop loss hunting.

Some traders swear by a strict stop loss order being placed as soon as an entry is placed.

The solution to this dilemma is discussed in the following pages.

- Place the SL BELOW the invalidation point to avoid SL hunting by wicks.

- Exit the trade on invalidation with using SL manually AFTER the invalidation is confirmed to avoid stop loss hunting.

  I personally exit manually after invalidation is confirmed to prevent SL hunting.

CONCLUSION

1. Stop Loss is based on Market Structure of the setup and the % of SL is different for every trade.

2. Stop Loss is placed where the MS will probably change. If MS changes, we'll be rising the opposite trade.
SL = Invalidation Level.

3. SL should be based only on TA, the chart. Nothing else.

4. Find the SL before you enter a trade and choose your position size based on it.

5. Exit with a SL manually to prevent SL hunting wicks. However if you aren't at your computer, you can place a SL order.

P.S. Don't be in a rush to move your SL to break-even. This leads to your market participation without any benefit. We will learn about this concept Part 2 of Trading Bitcoin Master-Class.

Read the document again, Practise it with Support/ Resistance and place SL at Invalidation.

Every setup needs it's unique SL. Read the charts, adapt to different setups. Practice, Practice, Practice.

This concludes the Master Class on Stop Loss. Read this again to understand the concepts.

Stop Loss prevents you from getting bankrupt.

I hope you liked this document and found it useful, especially the charts and illustrations.

We are constantly improving and working towards delivering good tutorials. You can help keep these tutorials free by signing up and trading here: **http://delta.exchange/EmperorBTC**

Thank you and a lot of love,

Yours,

EmperorBTC