



Semester : VIII

Subject : AIFB

Academic Year: 2024-25

Example:

Portfolio peak = \$50,000

Lowest value = \$35,000

Solution:

$$MDD = \frac{50,000 - 35,000}{50,000} \times 100$$

$$MDD = \frac{15,000}{50,000} \times 100 = 30\%$$

The portfolio experienced a 30% drawdown.

By using these risk measures, traders and investors can quantify potential losses, evaluate volatility, and improve portfolio management.

STOP LOSS:-

A stop loss helps traders limit their losses by automatically closing a trade when the price reaches predetermined level.

Example 1: Fixed Stop Loss (Stock Trade)

A trader buys 200 shares of ABC Ltd. at \$100 per share and sets a stop loss at \$90.

Given Data :

Entry Price = \$100

Stop loss Price = \$90

Shares bought = 200



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$$\begin{aligned}\text{Loss per share} &= \text{Entry Price} - \text{Stop Loss Price} \\ &= 100 - 90 = \boxed{10}\end{aligned}$$

$$\begin{aligned}\text{Total Loss} &= \text{Loss per share} \times \text{Total shares} \\ &= 10 \times 200 = \boxed{2000}\end{aligned}$$

If the stock price falls to \$90, the stop loss triggers and the trader loses $\boxed{\$2000}$.

Volatility based stop loss (ATR) method.

A trader buys Tesla stock at \$250, using the ATR (Average True Range) method with an ATR of \$5 and a multiplier of 2.

$$\begin{aligned}\text{Stop Loss} &= \text{Entry Price} - (2 \times \text{ATR}) \\ &= 250 - (2 \times 5) = 250 - 10 \\ &= \boxed{240}\end{aligned}$$

If Tesla stock drops to \$240, the stop loss triggers.