

Advanced Risk Management Checklist

Signal Pilot Education Hub

Advanced Risk Management Checklist

From Lesson 25: Advanced Risk Management

Use this checklist for Kelly Criterion, dynamic sizing, and institutional risk protocols.



Daily Risk Assessment

Account Status Check

- [] **Current equity:** \$__
- [] **Peak equity (all-time high):** \$__
- [] **Drawdown:** _% = $(\$ - \$) / \$$ ____
- [] **Daily P&L:** \$__ (____%)

Risk Limits

- [] **Max risk per trade:** ____% (1-2% normal)
 - If DD 0-10%: 2% max
 - If DD 10-15%: 1.5% max (reduce 25%)
 - If DD 15-20%: 1% max (reduce 50%)
 - If DD > 20%: STOP TRADING
 - [] **Portfolio heat:** ____% (sum of all open positions)
 - Must be < 6-8%
 - If > 8%: Close weakest position
 - [] **Max daily loss:** 3% = \$__ (if hit, close all & stop)
 - [] **Max weekly loss:** 5% = \$__ (if hit, no new trades until Monday)
-



Position Sizing Calculation

Method 1: Kelly Criterion (Optimal Size)

Your strategy stats:

- [] Win rate: __% (from last 50-100 trades)
- [] Average R:R: __:1 (from journal)

Kelly formula:

- Kelly % = $(\text{Win Rate} \times \text{Avg R} - (1 - \text{Win Rate})) / \text{Avg R}$
- Full Kelly: __% (usually 20-40%, TOO aggressive)
- **Quarter Kelly:** __% (recommended: use 1/4 to 1/2 Kelly)

Example:

Win Rate: 60%, Avg R:R: 2.5:1

$\text{Kelly} = (0.60 \times 2.5 - 0.40) / 2.5 = 0.34 = 34\%$

Quarter Kelly = 8.5%

But per-trade limit = 2% → Use 2% (lower of two)

My Kelly calculation:

- Full Kelly: _%
- **Quarter Kelly:** %
- Per-trade limit: _%
- **Use:** % (LOWER of Kelly vs. limit)

Method 2: Equity-Based Dynamic Sizing

- [] **Base risk %:** 2% of current equity (not fixed \$)
- [] **Current equity:** \$__
- [] **Risk for next trade:** \$__ \times 2% = \$__

Benefit: Automatically scales down during drawdowns, up during wins

Method 3: ATR-Based Volatility Adjustment

- [] **Target risk:** \$__ (2% of account)
- [] **Asset ATR:** \$__
- [] **Position size:** \$__ \div \$__ = __ shares

Example:

Target risk: \$200

SPY ATR: \$4.00

Position: \$200 / \$4 = 50 shares

Method 4: Setup Quality-Based Sizing

- [] **Setup grade:** A+ / A / B / C
- [] **Risk allocation:**
- A+ (Perfect): 2.0% (all factors aligned)

- A (Excellent): 1.5% (HTF + MTF aligned)
- B (Good): 1.0% (partial alignment)
- C (Marginal): 0% (SKIP)

My setup grade: _ → **Risk:** _%



Drawdown Protocol

Drawdown Tiers & Actions

Drawdown	Action	Position Size	Setup Quality
0-10%	Normal (no change)	100% (2% risk)	A/B setups
10-15%	Caution	75% (1.5% risk)	Review trades
15-20%	Warning	50% (1% risk)	A-grade ONLY
20-25%	Critical	25% (0.5% risk)	Or stop trading
> 25%	Shutdown	0% (STOP)	Full review

Current tier: _ → **Action:** _____

Recovery Protocol

When drawdown < 10% again:

- [] Week 1-2: Stay at reduced size (verify stability)
- [] Week 3-4: Scale to 75% size (if consistent profitability)
- [] Week 5+: Return to 100% size (if 3 consecutive profitable weeks)

Don't rush back to full size after one winning week!

Advanced Stop Loss Strategies

Stop Type Selection

- [] **ATR-Based Stop** (gives room for volatility)
 - Entry: \$__
 - ATR: \$__
 - Stop: $\$ \pm (1.5 \times \$) = \$$
- [] **Structure-Based Stop** (invalidates setup)
 - Swept low/high: \$__
 - Stop: \$__ (below + buffer)
- [] **Time-Based Stop** (if no movement in X candles)
 - Expected move within: __ candles/hours
 - If stalled: Exit at \$__ (even if breakeven)
- [] **Trailing Stop** (lock in profits)
 - Initial stop: \$__
 - Move to breakeven at: \$__
 - Trail at: __ points behind price

Stop type used: ___ **Stop price:** \$__



Risk of Ruin Analysis

Current Risk of Ruin

Formula (simplified):

- RoR $\approx ((1 - \text{Win Rate}) / \text{Win Rate})^{\wedge} (\text{Account Risk} / \text{Position Risk})$

My stats:

- [] Win rate: _%
- [] **Position risk:** _% per trade
- [] Risk of Ruin: ____% (should be < 1%)

Example:

Win Rate: 55%, Risk: 2%

$\text{RoR} = (0.45 / 0.55)^{(100/2)} \approx 0.01\%$ (very safe)

Win Rate: 55%, Risk: 10%

$\text{RoR} = (0.45 / 0.55)^{(100/10)} \approx 40\%$ (DANGER!)

Reduce Risk of Ruin:

- [] Lower per-trade risk (2% → 1%)
- [] Improve win rate (better setups)
- [] Increase R:R (better targets)
- [] Diversify (uncorrelated positions)



Regime-Based Risk Adjustment

Volume Oracle regime:

- [] **Trending:** 2% risk (high edge, with trend)
- [] **Ranging:** 1% risk (lower R targets, reduced edge)
- [] **Volatile:** 0.5% risk OR sit out (unpredictable)

Current regime: __ → **Risk adjustment:** ____%



Pre-Trade Risk Checklist

STOP. Before every trade, verify:

- [] Position size calculated (risk %, ATR-based) ✓

- [] Stop loss defined (structure/ATR) at \$_
- [] R:R \geq 2:1 verified (target \$_ vs. stop \$_)
- [] Portfolio heat after entry < 8% (current: _%)
- [] **Drawdown < 15%? (current: %)**
- [] Setup grade: A/B (if C, skip) ✓
- [] Emotional state: CALM (not FOMO/revenge) ✓

If ANY box unchecked → AVOID ENTRY



Institutional Risk Rules

Daily Loss Limit

- [] Max daily loss: 3% = \$_
- [] Current daily P&L: \$_
- [] If hit -3%: Close all positions, done for day ✓

Weekly Loss Limit

- [] Max weekly loss: 5% = \$_
- [] Current weekly P&L: \$_
- [] If hit -5%: No new trades until Monday ✓

Monthly Drawdown Limit

- [] Max monthly DD: 10% = \$_
- [] Current monthly DD: _%
- [] If hit 10%: Reduce to 50% size for rest of month ✓



Post-Trade Review

Risk management execution:

- Position size correct (calculated correctly)? Yes / No
- Stop loss placed immediately after entry? Yes / No
- R:R achieved as planned? Yes / No
- Portfolio heat stayed below 8%? Yes / No
- Drawdown protocol followed? Yes / No

What went right:

- _____

What could be improved:

- _____

Lesson learned:

- _____

Win/Loss: _ R-multiple: _



Weekly Risk Review

Every Sunday, calculate:

- [] Win rate this week: _% (**target: 55-65%**)
- [] Avg R this week: R (target: 2.0+)
- [] Max daily loss hit? Yes / No (if Yes: Why?)
- [] Portfolio heat exceeded 8%? Yes / No (if Yes: Why?)
- [] Drawdown increased? From _% to %
- [] Risk management rules broken? Yes / No (if Yes: Which?)

Action plan for next week:

- _____

Remember:

- 3-tier risk: Per-trade (1-2%), Portfolio (6-8%), Drawdown (< 20%)
- Use 1/4 to 1/2 Kelly (NOT full Kelly)
- Dynamic sizing adjusts for equity, volatility, quality
- Drawdown > 15% → Reduce size 50%
- Drawdown > 20% → STOP trading
- Daily loss > 3% → Close all, done for day

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