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# *Gambler’s fallacy*

## *where we believe that an outcome is more or less likely,****based purely on a series of past events that in reality are not connected with each other****. E.g. Tom’s drinking habits had nothing to do with his success at the blackjack table.*

## Many investors think that the trend will reverse at some point, simply because of the amount of time the trend has been ongoing. This can lead us to stop letting our winners run, **taking profit too early and holding on to our losses for too long**, sure that the trend will reverse.

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# Common Mistakes

1. Not taking any profits into cash (especially for taxes).

2. Endlessly averaging into altcoins without an exit plan/invalidation.

3. Margin trading when things slowed down.

# 

# Trade with a Plan:

## develop a complete **trading plan** from entry to exit before you even open a position because:

## Greed encourages you to not take out profit and fear encourages you to not cut a losing position because you are worried the price will bounce

<https://www.investopedia.com/articles/trading/04/042104.asp>

# Risk Management

## **Only Risk 1% of Capital Per Trade**

That means that the distance between the entry point and stop-loss point, multiplied by the position size, can't be more than 1% of the account balance. This rule governs position size, because position size is the only unknown and needs to be calculated. The trader may opt to risk 2%, 5%, or 1.5%.

Assume a trader has a $50,000 account. That means they can risk $500 per trade (1% of $50,000). They get a trade signal that says to buy at $35 and place a stop loss at $34. The difference between the entry and stop loss is $1. Divide the total amount they can risk by this difference: $500 / $1 = 500 shares. If they buy 500 shares and lose $1, they lose $500 which is their maximum risk. Therefore, if they want to risk 1%, they buy 500 shares.

## **Risk Level**

How much of your [portfolio](https://www.investopedia.com/terms/p/portfolio.asp) should you risk on one trade? he amount of risk can vary, but should probably range from around 1% to 5% of your portfolio on a given trading day. That means if you lose that amount at any point in the day, you get out of the market and stay out and fight another day.

## **Risk/Reward Ratio?**

<https://www.investopedia.com/terms/r/riskrewardratio.asp>

### **Correlated or Uncorrelated Assets**

# Future Topics:

[passive income guide](https://koroushak.substack.com/p/passive-income-guide)

Nansen to get signals on wallets

[All in One Guide to Using Leverage](https://www.youtube.com/watch?v=j3NBuYjT6zE).

[Only Stop Loss Guide You’ll Ever Need](https://www.youtube.com/watch?v=IW35ezx4-rs).

Book: <https://www.amazon.co.uk/Signal-Noise-Art-Science-Prediction/dp/0141975652>

Book: <https://www.amazon.co.uk/Trade-Your-Way-Financial-Freedom/dp/007147871X>

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