WARRIOR TRADING

CHAPTER 2: RISK MANAGEMENT

Risk Management

Today You Will Learn

- What Is Risk Management?
- Types of Risk
- Importance of Max Loss & Goal Setting
- Market Structure & Risk Management
- Risk Reward Multiple Approach

Risk Management

The cornerstone of ANY trading strategy where consistent and successful results originate

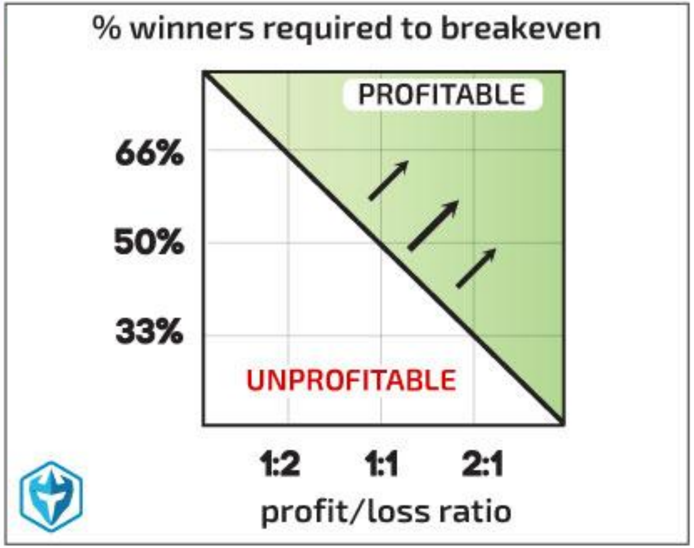
As traders, we are constant risk managers hyper focused on proper trade management to yield successful results

Risk Management is critical as just a few outsized losses can eliminate a number of winning trades and ultimately erode an entire strategy and edge

Learning to control risk is equally, if not more, important than learning how to be profitable

Risk Management

REWARD	RISK	BREAKEVEN WIN RATE %
1	50	98%
1	10	91%
1	5	83%
1	3	75%
1	2	67%
1	1	50%
2	1	33%
3	1	25%
5	1	17%
10	1	9%
50	1	2%



Aim for a 2:1 profit loss ratio & 60% accuracy!

WARRIOR TRADING

PROFIT TRIFECTA

THREE CRITERIA TO LIVE BY FOR TRADING PROFITABLY

Have Consistent Weeks of Profit

Not Profitable	0 weeks
Beginner Trader	1 weeks
Intermediate Trader	2 weeks
Advanced Trader	4 weeks
Professional Trader	6+ weeks

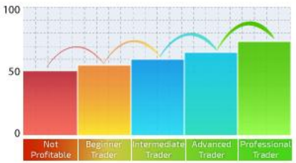
3 TIPS FOR CONSISTENCY

Trade the best, leave the rest
Less is more, quality vs quantity
Track your trades, know your metrics

Know Your Trade Win Percentage

Not Profitable	50%
Beginner Trader	55%
Intermediate Trader	60%
Advanced Trader	65%
Professional Trader	70% +

Win % required for success



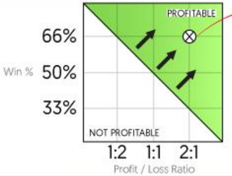
JUST 20%

Is what Separates a Non-Profitable Trader from a Professional Trader

Understand Your Profit / Loss Ratio

Not Profitable	below 1:1
Beginner Trader	1:1
Intermediate Trader	1.5:1
Advanced Trader	2:1
Professional Trader	2:1 or better

P/L Ratio required for success



GOAL

Have a 2:1 P/L ratio & win 65% of your trades for ultimate success

WARRIOR TRADING

PROFIT TRIFECTA

THREE CRITERIA TO LIVE BY FOR TRADING PROFITABLY

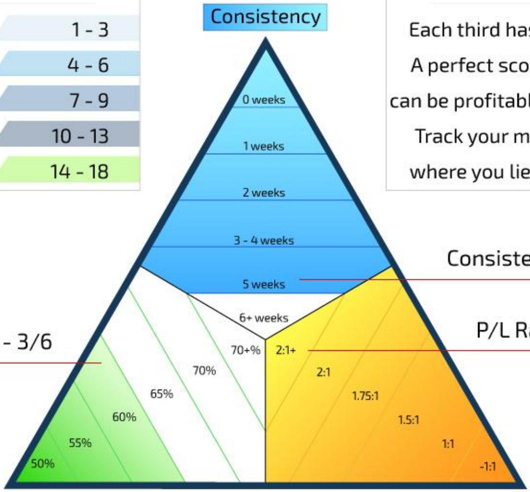
Mike's Profit Trifecta Score = 14

TRADING LEVELS

Not Profitable	1 - 3
Beginner Trader	4 - 6
Intermediate Trader	7 - 9
Experienced Trader	10 - 13
Professional Trader	14 - 18

HOW IT WORKS

Each third has a total of six points. A perfect score is 18, however one can be profitable with a lower number. Track your metrics to understand where you lie in the Profit Trifecta.



Consistency score - 5/6

P/L Ratio score - 6/6

Trade Win % score - 3/6

Trade Win %

Profit Loss Ratio

Set Rules & Build A Foundation For Success

1 Set a MAX Loss per Trade

2 Set a MAX Loss per Day

3 Set a MAX # of Losers per day

Positions

Symbol	Position	P&L per Share	Intraday Marked P&L
ANF	0	0.00	-419.75

4 Types Of Risk for Large Cap Trading

Exposure Risk

Volatility Risk

Fear & Hesitation Risk

Impulse Risk

Exposure Risk

Exposure risk simply refers to the amount you of capital you have deployed in the market for any given period of time. The longer your capital is “exposed” the more risk you effectively take on

Fortunately, as day traders, we are able minimize exposure risk by holding stocks for very short periods of time

Fewer trades results in less exposure risk, thus practicing the skill of patience is a key component to mitigating risk

Wait for highly predictable trade setups and then be aggressive

Volatility Risk

Volatility risk refers to the unpredictable change in a stock's price, specifically related to the breadth of a trading range

While we as day traders are in search of stocks with increased volatility, we also must exercise caution due to the inherent increased amount of risk

What is considered volatile?

Stocks that have lower floats, lighter volumes, and wider spreads typically will alert you to extremely volatile trading action

Fear & Hesitation Risk

Fear is a result of the unknown and it is because the unknown involves the potential loss of money which ultimately causes hesitation

The key issue with fear & hesitation is the effect in the decision making process

Trading often requires split second decision making that if hesitant could often mean the difference between a profit or loss

Know where YOUR EDGE lies and be confident in that approach

Impulse Risk

Impulse risk, or more commonly known as revenge trading, is a very dangerous behavior and often the demise of many new traders

Revenge trading involves making impulsive trading decisions normally after going into the red and becoming too aggressive in attempt to recoup those losses

It is a much more sustainable approach over the long term to accept the initial loss and end your trading day

"Don't let today affect too much of tomorrow"

Importance of Max Loss

Max Loss refers to the maximum amount of capital you are willing to risk on any given trade

Max loss parameters are crucial to success in that they cap your losses and prevent over trading which can lead to massive drawdowns

You will want to aim to be risking 1-2% of your total account value per day

For example, for a $25K account you will aim to risk a total of $500 per day, ideally splitting up that risk between 1-3 trades

Being Wrong is Part of Success

Get comfortable with being wrong as it is an important part in your progression

It is not uncommon to be wrong 30-40% of the time and still remain very profitable when you are quick to exit trades for small losses

Strive to keep your risk as tight as possible and if the trade is not acting as you had expected, it likely is time to exit

Importance of Goal Setting

Goal setting refers to establishing *realistic & achievable* milestones for your current level of experience

Goals are equally important to risk management and a critical first step in becoming successful

Goals help trigger new behaviors, guide and align focus, and sustain momentum by continuing to improve performance

You can't manage what you can't measure and you can't improve on something you don't properly manage

4 Important Questions

What role does Market Structure play?

Where will my exit orders for both profits & losses (stops) be placed?

What is the proper sizing for the position?

Where is the precision entry?

What Is Market Structure?

The historical data on a chart which is comprised of the tick by tick movements in price, i.e., candlestick charts

This is where we identify the advanced technicals, i.e., Pivots, Trendlines, Swing high/low, Gaps, etc.

Importance Of Market Structure

Market structure is critical in the risk management decision as this is how to determine the proper technical points both entry and stop placement

Understanding where the imbalances occur in the market is imperative to successful trading outcomes

ALWAYS begin **YOUR** risk management approach by determining where in the market structure the trade is finished

Risk Management Approach

Risk Reward Multiple Approach

2:1, 3:1, 4:1, etc

Percentage Risk Reward Approach

2%:1%, 3%:1% 4%:2%, etc

Risk Reward Multiple Approach

Most commonly used amongst the vast majority due to its ease of rapid calculation and ability to scale with the price and volatility of any stock

An "all in one" solution as it provides for proper stop placement while simultaneously calculating for appropriate position sizing

In order to maintain a profitable strategy one must strive to achieve a minimum of a 3:1 Risk Reward Ratio

Risk Reward Multiple Approach

Let's take a look at a few examples:

If your stop on a trade is $0.50, then you would require a minimum of $1.00 of profit to equal a 2:1 Risk Reward Ratio

If your stop on a trade is $0.25, then you would require a minimum $0.75 of profit to equal a 3:1 Risk Reward Ratio

Risk Reward & Appropriate Sizing

When utilizing the Risk Reward Multiple approach you will also have the ability to calculate an appropriate position size to align with your risk profile

For example, let's imagine you have a max loss per trade of $200. Your stop loss placement on this trade is $0.50. This results is a position size of 400 shares.

P=mL/sL where P=position, mL=max loss, and sL=stop loss

Percentage Risk Reward Approach

Very similar approach to the Risk Reward Multiples in that you are still aiming for 2:1, 3:1, etc., with the only difference being that percentages are being utilized in place of multiples

Tends to be a more rapid calculation and being that it is percentages the numbers scale relative to stocks of all price ranges, thus making decisions easier and more efficient; my preferred approach

Percentage Risk Reward Approach

Let's take a look at a few examples:

If you are trading a \$20 stock, you may use a 1% stop loss with a 2% profit target. So, a \$0.20 cent stop with a \$0.40 cent profit target

If you are trading a \$100 stock, you may use a \$.5% stop with a 1% profit target. So, \$0.50 cent stop with a \$1.00 profit target

Adjust the % based upon your risk parameters and sizing

Where is the Precision Entry?

Precision entries are critical in reducing risk

A precision entry is the point at which the stock is beginning the resolution of the preceding pattern

The goal with a precision entry is to enter a trade as it is moving in the planned direction to reduce the risk of an initial unfavorable move

"Get on the train as it is leaving the station"

No Trades?!

Sometimes, the best trade is NO Trade!

There will be several trading days where I do not take a trade because the action is unfavorable and nothing meets my criteria

It is OK to have a NO Trade day

While you may feel as if you are not doing anything, however, you are developing one of the most important and valuable skills, PATIENCE