

# Risk Management

*“You don’t need a perfect strategy.  
You need a strategy you survive long enough to perfect.”*

**Risk management is the discipline of controlling how much capital you put at risk on any single trade or sequence of trades.**

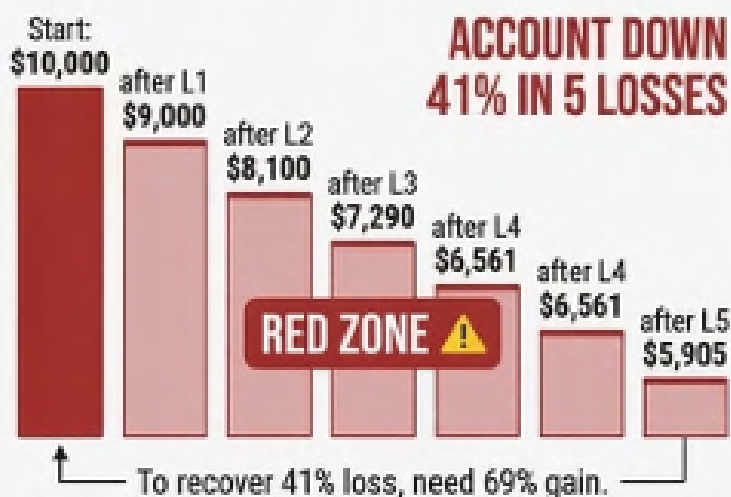
It is more important than entries, indicators, or any strategy you use. Even with a 40% win rate, you can remain consistently profitable if your risk is managed correctly.

Every professional trader operates with strict risk parameters — without exception. This section will show you how those principles work and how to apply them in your own trading.

## THE MATH OF SURVIVAL — WHY RISK MANAGEMENT WINS

### WITHOUT RISK MANAGEMENT

\$10,000 account risking 10% per trade over 5 consecutive losses.



### WITH 1% RISK MANAGEMENT

\$10,000 account risking 1% per trade over 5 consecutive losses.



*Same 5 losses. Different outcomes. Risk management is the only variable.*

# Horizon

## THE 1% RULE – THE FOUNDATION

Never risk more than 1–2% of your total account equity on any single trade.

\$10,000 account → maximum \$100–\$200 risk per trade.

\$50,000 account → maximum \$500–\$1,000 risk per trade.

This rule is NOT negotiable. It is the line between professionals and gamblers.

## RISK VS REWARD – THE MINIMUM

Every trade you take must have a minimum 1:2 Risk-to-Reward ratio.

Risk \$100 → Minimum TP = \$200.

Risk \$100 → Ideal TP = \$300 (1:3 RR).

With 1:2 RR, you only need to win 34% of trades to break even. With 1:3 RR, you only need to win 25% of trades to break even.

## POSITION SIZING – THE FORMULA

Lot Size = Risk Amount ÷ (Stop Loss Pips × Pip Value)

Example: \$100 risk • 20-pip SL • \$10/pip value = 0.50 lots

**NEVER** size your position first and calculate risk after.

**Always start with:** How much am I willing to lose on this trade?

## DRAWDOWN LIMITS – THE HARD STOPS

**DAILY DRAWDOWN LIMIT:** Stop trading when you lose 3% in one day.

**WEEKLY DRAWDOWN LIMIT:** Stop trading when you lose 5% in one week.

**MONTHLY DRAWDOWN LIMIT:** Reduce size when down 10% in one month.

These limits protect you from emotional revenge trading after losing streaks.

# Position Sizing

*'The lot size you trade is a direct expression of your discipline — or your lack of it.'*

Position sizing is the mathematical process of determining EXACTLY how many lots (or units) to trade on any given setup, so that a losing trade never exceeds your maximum risk amount. It connects your stop loss distance, your account size, and your risk per trade percentage into a single formula. Without correct position sizing, risk management is theoretical. With it, risk management becomes automatic and precise regardless of where your stop loss is placed.

## THE POSITION SIZING FORMULA

$$\text{LOT SIZE} = \text{Risk Amount} \div (\text{SL Pips} \times \text{Pip Value})$$

$$\text{Risk Amount} = \text{Account Balance} \times \text{Risk Percentage}$$

### EXAMPLE 1

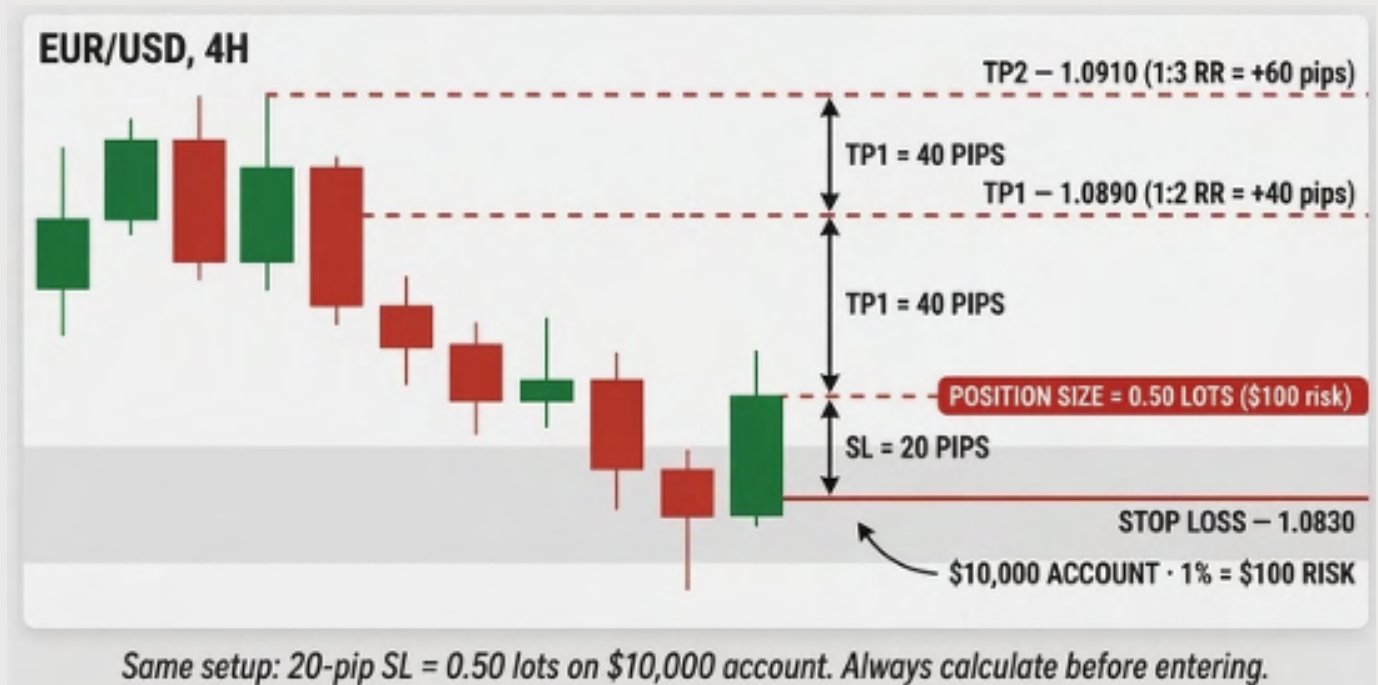
\$10,000 account · 1% risk · 20-pip SL · \$10/pip  
(Standard lot)  
Risk Amount:  $\$10,000 \times 1\% = 100$   
Lot Size:  $\$100 \div (20 \text{ pips} \times \$10)$   
=  $\$100 \div \$200 = 0.50$  lots

### EXAMPLE 2

\$5,000 account · 1% risk · 35-pip SL · \$10/pip  
Risk Amount:  $\$5,000 \times 1\% = \$50$   
Lot Size:  $\$50 \div (35 \times \$10)$   
=  $\$50 \div \$350 = 0.14$  lots

### EXAMPLE 3

GOLD (XAU/USD): \$20,000 account · 1% risk · \$3  
SL · \$1,001 lot/pip  
Risk Amount:  $\$20,000 \times 1\% = \$200$   
Lot Size:  $\$200 \div (300 \text{ pips} \times \$9.10)$   
= 67 mini lots



## PIP VALUE — QUICK REFERENCE

FOREX Major Pairs (EUR/USD, GBP/USD):  
Standard Lot (1.0): \$10 per pip  
Mini Lot (0.1): \$1 per pip  
Micro Lot (0.01): \$0.10 per pip

GOLD (XAU/USD):  
Standard Lot (1.0): \$10 per pip  
(\$0.01 move)  
Mini Lot (0.1): \$1 per pip

Note: Gold = \$10/pip per lot on \$0.01 price change

## VARIABLE SL — POSITION SIZING ADJUSTS

NARROW SL (10 pips) → LARGER lot size for same \$ risk  
WIDE SL (50 pips) → SMALLER lot size for same \$ risk

RULE: The dollar risk stays FIXED.  
The lot size CHANGES.

Never use the same lot size for every trade — your SL distance always changes, so your lot size must change too.

## PROP FIRM POSITION SIZING

Funded \$100,000 account, 1% daily DD limit = \$1,000 max daily loss.

Per trade risk: 0.5% of funded balance = \$500 per trade.

With 20-pip SL on EUR/USD:  
 $\$500 \div (20 \times \$10) = 2.50$  lots

CRITICAL: Prop firms have strict daily/max DD rules. Position size to the FUNDED account, not your small deposit.

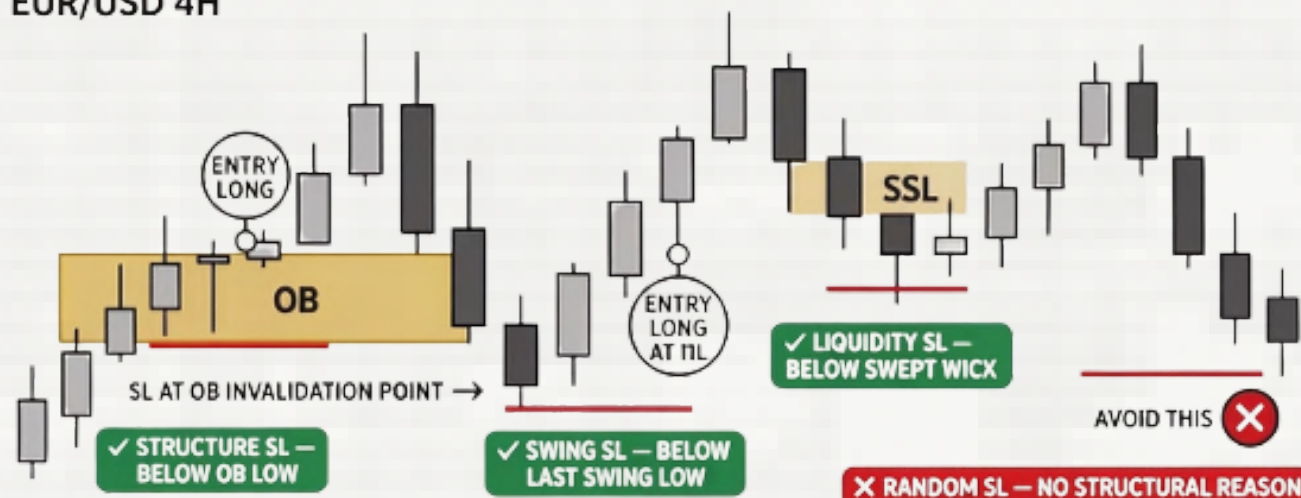
# Stop Loss Placement

*'A stop loss is not a sign of weakness. It is the proof that you have a plan.'*

A stop loss is a pre-defined price level at which your trade automatically closes for a loss – before that loss grows larger.

Correct stop loss placement is a SKILL, not a guess. The SL must be placed at a level that VALIDATES your trade idea – not at a random distance or a round number. If your trade idea is 'price bounces from this OB,' your final source is from this OB,' your SL goes where the OB would be validated. Structure placement = professional stop loss.

## EUR/USD 4H



### THE THREE VALID SL METHODS

- ① **STRUCTURE SL:** Place SL below/above the key level that validates the trade (OB bottom, FVG low, swing high/low). Most common in ICT trading.
- ② **WICK/LIQUIDITY SL:** After a stop sweep, place SL beyond the sweep wick. The sweep already happened – price shouldn't go back.
- ③ **ATR-BASED SL:** Use 1.0–1.5× the Average True Range for context on SL distance. Adjusts to volatility automatically.

### STOP LOSS MISTAKES — AVOID THESE

- ✗ **TIGHT SL IN HIGH VOLATILITY:** Gets triggered by noise before the real move.
- ✗ **MOVING SL AGAINST YOU:** 'Giving it more room' = breaking your rule = larger loss.
- ✗ **ROUND NUMBER SL:** '50 pips' or '100 pips' — institutions target these.
- ✗ **SL BEYOND YOUR MAX RISK:** If the correct SL placement exceeds your 1% risk — skip the trade. Size it properly or wait for a tighter entry.

# Risk-To-Reward Ratio

'Win rate is overrated. RR is overrated. Lets fix it'

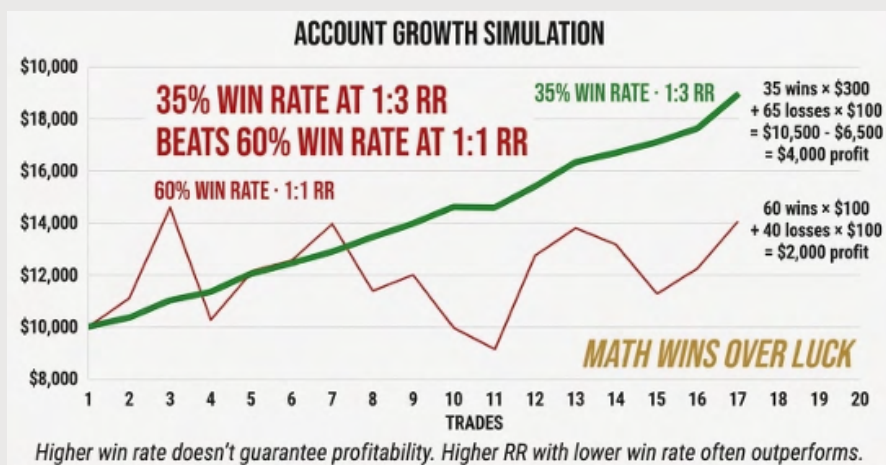
**Risk-to-Reward (RR) Ratio** expresses how much profit you target for every unit of risk you take.

A 1:2 RR means for every \$1 risked, you target \$2 profit. A 1:3 means target \$3 for every \$1 risked. The power of RR ratio is that it allows you to be **WRONG MORE THAN HALF THE TIME** and still be profitable. Understanding this mathematically is one of the most important mindset shifts in trading.

## THE BREAK-EVEN WIN RATE TABLE — HOW OFTEN DO YOU NEED TO WIN?

RR 1:1	→	Win 50% to break even • Win 55% to profit	
RR 1:2	→	Win 34% to break even • Win 40% to profit	← MINIMUM STANDARD
RR 1:3	→	Win 25% to break even • Win 30% to profit	← RECOMMENDED
RR 1:4	→	Win 20% to break even • Win 25% to profit	
RR 1:5	→	Win 17% to break even • Win 20% to profit	

## YOU CAN LOSE 7 OUT OF 10 TRADES AND STILL BE PROFITABLE AT 1:3 RR



### SETTING YOUR TAKE PROFIT LEVELS

**TP1 (1:1 RR):** Close 25-33% of position. Lock in breakeven on remaining.  
**TP2 (1:2 RR):** Close another 25-33%. Banking profits.  
**TP3 (1:3+ RR):** Let the remainder run to the next major liquidity pool (BSL/SSL).  
**Scaling Out Rule:** Never close 100% at TP1 on a strong setup – you leave the best part of the move on the table.

### RR VS LIQUIDITY TARGETS

**The best TP placements are at ICT Liquidity Pools** – not at arbitrary RR levels:  
 → Next major swing high (BSL) = natural TP  
 → Prior week's high or low = natural TP  
 → Daily FVG above or below = natural TP

**RULE:** Calculate your RR after marking your natural TP. If natural TP gives less than 1:2 → SKIP the trade. The market needs to give you at least 1:2 for it to be worth the risk.

### RR VS LIQUIDITY TARGETS

**Scalp (1M-5M):** Minimum 1:2 RR (tight SL = tight TP acceptable)  
**Intraday (15M-1H):** Minimum 1:2 to 1:3 RR  
**Swing (4H-Daily):** Minimum 1:3 to 1:5 RR

**Higher timeframe** = higher RR potential = wider SL = fewer trades  
**Lower timeframe** = lower RR = tighter SL = more setups  
**But smaller gains per trade**

# Drawdown Management

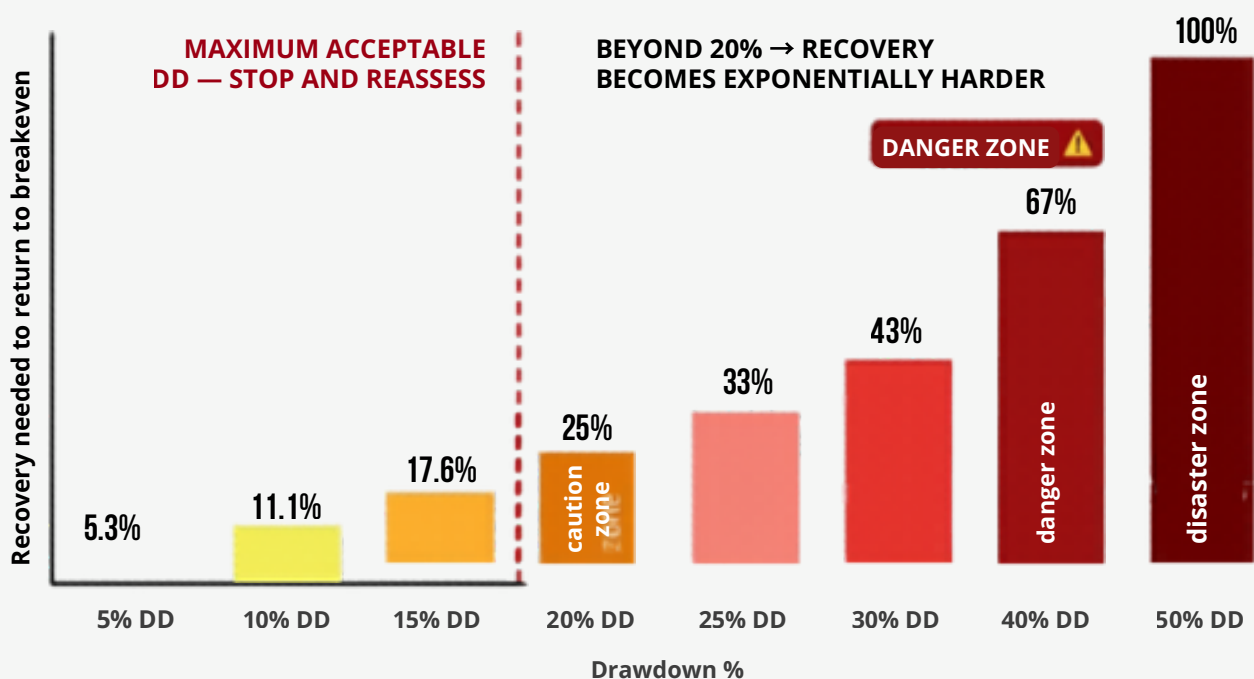
*“Every Trader has downfalls. The difference is, how deep they go and how fast you recover.”*

Drawdown is the percentage decline from your account’s peak equity to its lowest subsequent point. A 20% drawdown means your £10,000 account fell to £8,000 at its worst point since the last high.

Drawdown is unavoidable — even the best traders experience it. The real question isn’t if it will happen, but how you manage your behaviour and risk when it does.

How you handle drawdown is what separates disciplined traders from those who lose control

## THE MATH OF DRAWDOWN RECOVERY — WHY 20% IS THE HARD LIMIT BEBAS NEUE



10% drawdown needs 11% to recover. 50% drawdown needs 100% to recover. The math is brutal. Stay shallow.

# Drawdown Management



## THE THREE DRAWDOWN LIMIT

**DAILY DD LIMIT (3%):** If you lose 3% of your account in one calendar day → **STOP TRADING**. Close the platform. Come back tomorrow. This prevents the “5 consecutive loss days” nightmare.

**WEEKLY DD LIMIT (5%):** If you're down 5% for the week by Wednesday → trade only on Friday with 50% size. **MONTHLY DD LIMIT (10%):** Down 10% in a month → **STOP**. Reduce position size by 50% for the next month. Investigate what went wrong.

## THE DRAWDOWN RULE: ½ YOUR SIZE

**WHEN DOWN 5%:** Reduce position size to 0.5% per trade (half normal).

**WHEN DOWN 10%:** Reduce position size to 0.25% per trade (quarter normal).

**WHEN DOWN 15%:** STOP TRADING. Paper trade for 2 weeks. Re-read your rules.

**WHEN RECOVERING:** Return to full size ONLY after recovering to previous high and holding it for 5+ consistent trading days.

## PSYCHOLOGICAL DRAWDOWN PROTOCOL

After 3 losses in a row: Take a 24-hour break – mandatory, no excuses.

Review each losing trade: Was it a valid A+ setup, or emotional entry?

If 2+ were emotional entries → reduce size for 5 trading days.

If all 3 were valid setups that just didn't work → continue at normal size.

**The goal: separate the quality of the decision from the outcome of the trade.**

# Scaling In & Out

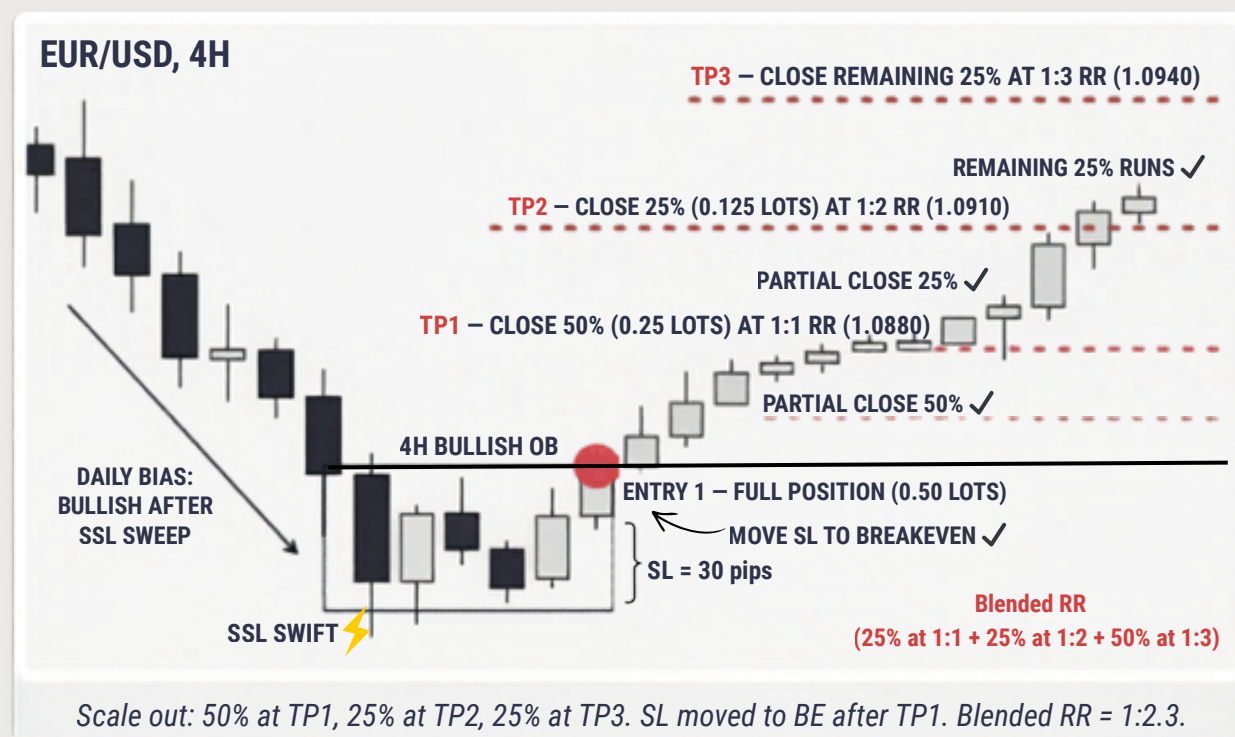
*“The entry is one decision. Managing the trade after is a different skill”.*

Scaling refers to the practice of opening or closing your position in multiple parts rather than all at once.

**SCALING IN** means adding to a winning (or confirmed) trade in stages.

**SCALING OUT** means closing portions of your position as it moves in your favor – locking in partial profits while keeping part of the trade running.

Done correctly, scaling improves your average entry price, maximizes profits on your best trades, and reduces psychological pressure.



## SCALING OUT – THREE METHODS

METHOD A (CONSERVATIVE): 50% at TP1, 50% at TP2. Simple, locks in profit early.

METHOD B (STANDARD): 33% at TP1, 33% at TP2, 33% at TP3. Balanced approach.

METHOD C (AGGRESSIVE): 25% at TP1, 25% at TP2, 50% at TP3. Maximizes on strong moves.

RULE: Move SL to breakeven AFTER TP1 is hit – the remaining position is now 'free'.

## SCALING IN – WHEN AND HOW

Scaling in = adding a second position after the first is confirmed profitable:

(u) Enter initial position (0.5% risk) at primary entry.

(u) After TP1 hit and SL at BE, if price retests a key level → add second position (0.5% risk).

(u) Total exposure now 1% risk – but first position is 'free'.

RULE: Never scale in to a LOSING position. Only add to WINNERS.

## BREAKEVEN STOP – THE MOST IMPORTANT MOVE

After TP1 is hit: immediately move your SL from its original placement to your ENTRY PRICE.

This ensures: even if the trade reverses → you exit at breakeven (0 loss).

The remaining position is then traded 'on the house' – it cannot hurt your account.

This single habit removes enormous psychological pressure from trade management.

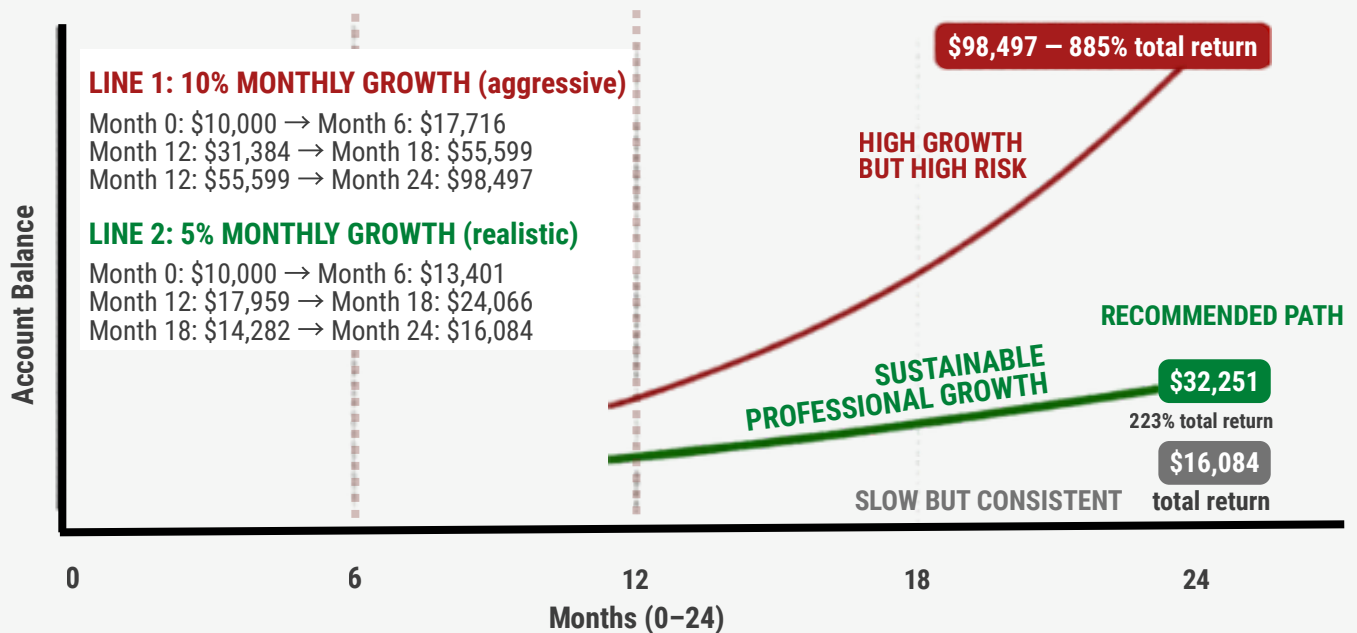
# Growth & Compounding

*"No weekly hype — just long-term results that speak for themselves."*

**Compounding** is the process of reinvesting your profits back into your trading capital — so that each subsequent trade risks a slightly larger dollar amount as your account grows. At 1% risk, a \$10,000 account and a \$15,000 account will trade different lot sizes — because 1% of \$15,000 is \$150, not \$100.

**Compounding means your wins grow your dollar risk automatically, accelerating account growth.** This is how professional traders turn consistent small edges into large accounts over time.

## COMPOUND GROWTH SIMULATION — \$10,000 STARTING ACCOUNT



*5% monthly compounded over 2 years = 223% growth. Boring? Yes. Life-changing? Also yes.*

### WHAT IS 5% MONTHLY REALISTIC?

5% monthly = approximately 0.5% per trade at 10 trades/month with 1:2 RR and 50% win rate.

OR: 1% per trade at 5 trades/month with 1:3 RR and 35% win rate.

This is not about taking 20+ trades per month. It's about taking 5-10 HIGH QUALITY A+ setups and executing them perfectly. Quality over quantity is the only sustainable path.

### THE PATIENCE PRINCIPLE

Month 1-3: Your results will look small. \$10,000 → \$11,500. That's \$1,500. Feels insignificant.  
 Month 12-18: The same percentage starts looking real. \$25,000 → \$28,750. That's \$3,750.  
 Month 21-24: Now it's serious. \$80,000 → \$92,000. That's \$12,000 in one month — from the same 5% edge.

**THE LESSON:** Most traders quit before the compounding becomes impressive. Don't be them.

### WHEN TO INCREASE POSITION SIZE

**RULE:** Increase your lot size proportionally as your account grows.  
 Example: Start at 0.10 lots per \$1,000 risk capital. At \$15,000: trade 0.15 lots per 1% risk. At \$20,000: trade 0.15 tsas 1% risk. At \$20,000: trade 0.20 lots per 1% risk.  
**NEVER:** Jump to larger lots because you "feel confident." Only increase with account growth. Ego-based sizing = fastest way to undo compound growth.

# Portfolio Heat & Correlation

*“If your trades move together, it’s not five positions — it’s one big risk”.*

**Portfolio heat** is the total percentage of your account currently at risk across ALL open positions simultaneously.

**Correlation** refers to how similarly two instruments tend to move — a highly correlated pair means two 'separate' positions are actually expressing the same directional bet.

Understanding both concepts prevents accidentally overleveraging yourself through multiple positions that all lose together when market conditions shift.

## COMMON INSTRUMENT CORRELATIONS

HIGH POSITIVE CORRELATION (MOVE TOGETHER):

EUR/USD + GBP/USD ~0.85 correlation → same USD weakness/strength driver  
 AUD/USD + NZD/USD ~0.88 correlation → both commodity currencies  
 XAU/USD (Gold) + Silver ~0.78 correlation → precious metals

NEGATIVE CORRELATION (MOVE OPPOSITE):

USD/JPY vs Gold ~0.70 → USD strength = Gold weakness  
 EUR/USD vs USD/CHF ~0.88 → near-perfect inverse

LOW/NO CORRELATION (independent)

EUR/USD vs USD/JPY ~0.10 → different drivers  
 Gold vs Bitcoin ~0.25 → largely independent

## PORTFOLIO HEAT EXAMPLE

44%

180px

<p><b>SCENARIO 1</b> <b>OVER-HEATED (AVOID)</b></p>	<p>EUR/USD long (1% risk) long (1% risk)</p>	<p>GBP/USD long (1% risk)</p>	<p>=</p>	<p>3% HEAT BUT 2.8% CORRELATED EXPOSURE – ACTUAL RISK – 8%</p>	<p>USD WEAKNESS BET x3 ✗</p>
<p><b>SCENARIO 2</b> <b>BALANCED (RECOMMENDED)</b></p>	<p>EUR/USD XAU/USD long (1% risk)</p>	<p>USD/JPY short (1% risk – where USD short aligns with EUR/USD) long (0.5% risk)</p>	<p>=</p>	<p>2.5% HEAT – DIVERSIFIED EXPOSURE ✓</p>	<p>USD WEAKNESS BET x3 ✗</p>
<p><b>HEDGED</b></p>	<p>EUR/USD XAU/USD long (1% risk)</p>	<p>USD/CHF</p>	<p>=</p>	<p>NEAR-PERFECT HEDGE – NET EXPOSURE – 0 (POINTLESS)</p>	

## MAXIMUM PORTFOLIO HEAT RULES

### CONSERVATIVE:

Maximum 2% total heat (2 trades × 1% each)

### STANDARD:

Maximum 3% total heat (3 trades × 1% each, uncorrelated)

### AGGRESSIVE:

Maximum 5% total heat (but only with 3+ independent instruments)

### RULE:

wlow-wasts → ışıklı çiv or Bıktarring

Never have more than 2 highly correlated positions open simultaneously.

If all your positions move with USD – you have ONE position on USD.

## THE CORRELATION TEST

Before opening a second position, ask:

Is this instrument correlated with my existing  
 If both trigger their stop losses simultaneously in a news event – what is my total loss?  
 Does this position DIVERSIFY or DOUBLE DOWN my exposure?

If the answer to ① is 'double down' → either don't take it OR reduce each position to 0.5%.

## GOLD CORRELATION - IMPORTANT

Gold (XAU/USD) correlates with:  
 → USD weakness: rises when USD falls (DXY drops)  
 → Equity fear: rises when stocks sell off sharply  
 → Geopolitical risk: rises on uncertainty

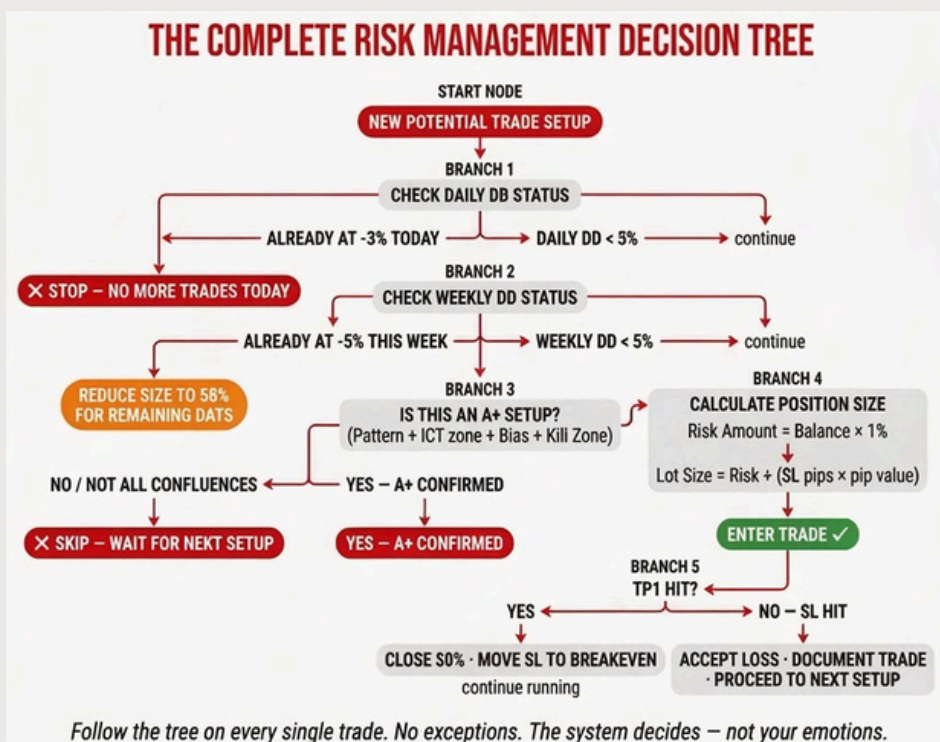
If you're long EUR/USD (bearish USD) AND long XAU/USD → you have a double USD-bearish bet.  
 Reduce each to 0.5% if holding both simultaneously. Or only trade one at a time.

# Complete Risk System

“Rules without a system are forgotten. A system runs automatically even when emotions are running high”

A **complete risk management system** brings all your rules together into one clear plan that you follow every time you trade.

It removes guesswork — you already know how much to risk, where your stop loss goes, and when to stop after losses. Instead of deciding in the moment, everything is pre-defined. This section puts all the rules into one simple checklist you can follow consistently.



## PART 08 RULES – CONDENSED

- ✓ Never risk > 1–2% per trade
- ✓ Position size = Risk\$ ÷ (SL pips × pip value)
- ✓ Minimum 1:2 RR – never less
- ✓ SL at structural invalidation, never random
- ✓ Stop if down 3% in one day
- ✓ Stop if down 5% in one week
- ✓ Scale out: 50% at TP1, move SL to BE
- ✓ Max portfolio heat: 3% total across all positions
- ✓ No highly correlated double positions
- ✓ Increase lot size ONLY with account growth

## THE RISK JOURNAL – TRACK EVERYTHING

### After every trade, record:

- ✓ Entry price · SL price · TP price
- ✓ Lot size · Dollar risk · Dollar gain/loss
- ✓ Was setup A, B, or C grade?
- ✓ What did I do well? What could I improve?

**WEEKLY REVIEW:** Check average RR, win rate, and total DD.

**MONTHLY REVIEW:** Is the system producing positive expectancy?

### After every trade, record:

- ✓ Entry price · SL price · TP price
- ✓ Lot size · Dollar risk · Dollar gain/loss
- ✓ Was setup A, B, or C grade?
- ✓ Was SL placement structural?
- ✓ What did I do well? What could I improve?

**WEEKLY REVIEW:** Check average RR, win rate, and total DD.

# Risk Summary

*“Everything you need to know about Risk Management on one page”.*

## THE MASTER REFERENCE CARD

### PART 08 — COMPLETE RISK MANAGEMENT REFERENCE

#### POSITION SIZING

Formula: Risk\$ = (SL pops × pip value)  
 1% risk on \$10K = \$100  
 20-pip SL on EUR/USD = 0.5 lots  
 Adjust EVERY trade – never fixed lots  
 Increase only with account growth

#### DRAWDOWN LIMITS

Daily: Stop at -3%  
 Weekly: Stop at -5%  
 Monthly: Reduce size at -10%  
 Total: Never exceed -20%  
 After 3 losses: 24-hour break

#### TRADE MANAGEMENT

Minimum RR: 1:2  
 Ideal RR: 1:3+  
 Scale out: 50% at TP1  
 Move SL to BE after TP1  
 Never widen SL after entry

#### PORTFOLIO RULES

Max heat: 3% total open risk  
 Max 2 correlated positions  
 No same USD bet twice  
 Prop firm: use 0.5% per trade  
 Weekly equity review – mandatory

## MONTHLY SCORECARD CARD

### MY MONTHLY RISK SCORECARD

MONTH: \_\_\_\_\_ STARTING BALANCE: \$ \_\_\_\_\_  
 ENDING BALANCE: \$ \_\_\_\_\_ MONTHLY RETURN: \_\_\_\_\_  
 TOTAL TRADES: \_\_\_\_\_ WIN: \_\_\_\_\_ LOSSES: \_\_\_\_\_ WIN RATE: \_\_\_\_\_  
 AVERAGE RR ACHIEVED: \_\_\_\_\_ MAXIMUM DD THIS MONTH: \_\_\_\_\_  
 RULES BROKEN: \_\_\_\_\_ REASON: \_\_\_\_\_  
 IMPROVEMENT FOCUS FOR NEXT MONTH: \_\_\_\_\_

**COMPLETE THIS EVERY MONTH. DATA IS THE ONLY ANTIDOTE TO EMOTIONAL TRADING.**

## THE COMPOUND GROWTH COMMITMENT

Print these numbers. Put them on your wall:

5% monthly for 12 months =  
 10,000 → \$17,959 (80% gain)

5% monthly for 24 months =  
 10,000 → \$32,251 (223% gain)

5% monthly for 36 months =  
 10,000 → \$57,964 (480% gain)

These are not fantasy numbers. 5% monthly is achievable with 5 – 10 quality trades per month at 1:3 RR and 40% win rate. The math works. Do you?

## THE RISK MANAGEMENT OATH

I will never risk more than 1% of my account on any single trade.

I will always place my stop loss before I calculate my profit target.

I will stop trading the moment I hit my daily drawdown limit.

I will not revenge trade after a loss.

I will not increase my size because I ‘feel confident.’

I will treat every trade as if it is the next trade in a series of 100.

Signed: \_\_\_\_\_