

Trading Risk Management Blueprint

Free educational guide

CorporateTrader

No guaranteed returns • Verify important information

Risk begins before entry

Define account risk, entry, invalidation point and maximum position size before placing a trade. A stop order can reduce planned loss but gaps and slippage may cause a worse execution price.

Position-size formula

Permitted risk equals account value multiplied by risk percentage.
Position size equals permitted risk divided by the absolute distance between entry and stop. Contract multipliers, lot sizes, currency conversion, brokerage and taxes may change the final quantity.

Risk and reward

For a long trade, reward divided by risk is target minus entry divided by entry minus stop. For a short trade the distances reverse. A 1:2 setup has a theoretical breakeven win rate of about 33.3% before costs, but the target may not be reached with that frequency.

Portfolio-level controls

Several positions can be exposed to the same market factor. Add open risk across correlated trades. Set limits for one instrument, one sector and total portfolio risk. Decide what happens after a daily or weekly loss limit is reached.

Record and review

Record the planned setup before entry, actual fills, fees, slippage, exit reason and whether rules were followed. Evaluate expectancy over a meaningful sample rather than judging one trade. Separate process quality from outcome.

Failure modes

Moving a stop farther away, adding to a losing position without a rule, trading larger after a loss and relying on an unverified signal can increase risk. This guide is educational and cannot prevent trading losses.