

FOREX COURSE 2020

PART II - UNDERSTANDING LOSSES
KNIGHTSBRIDGE TRADING ACADEMY



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Trading Academy

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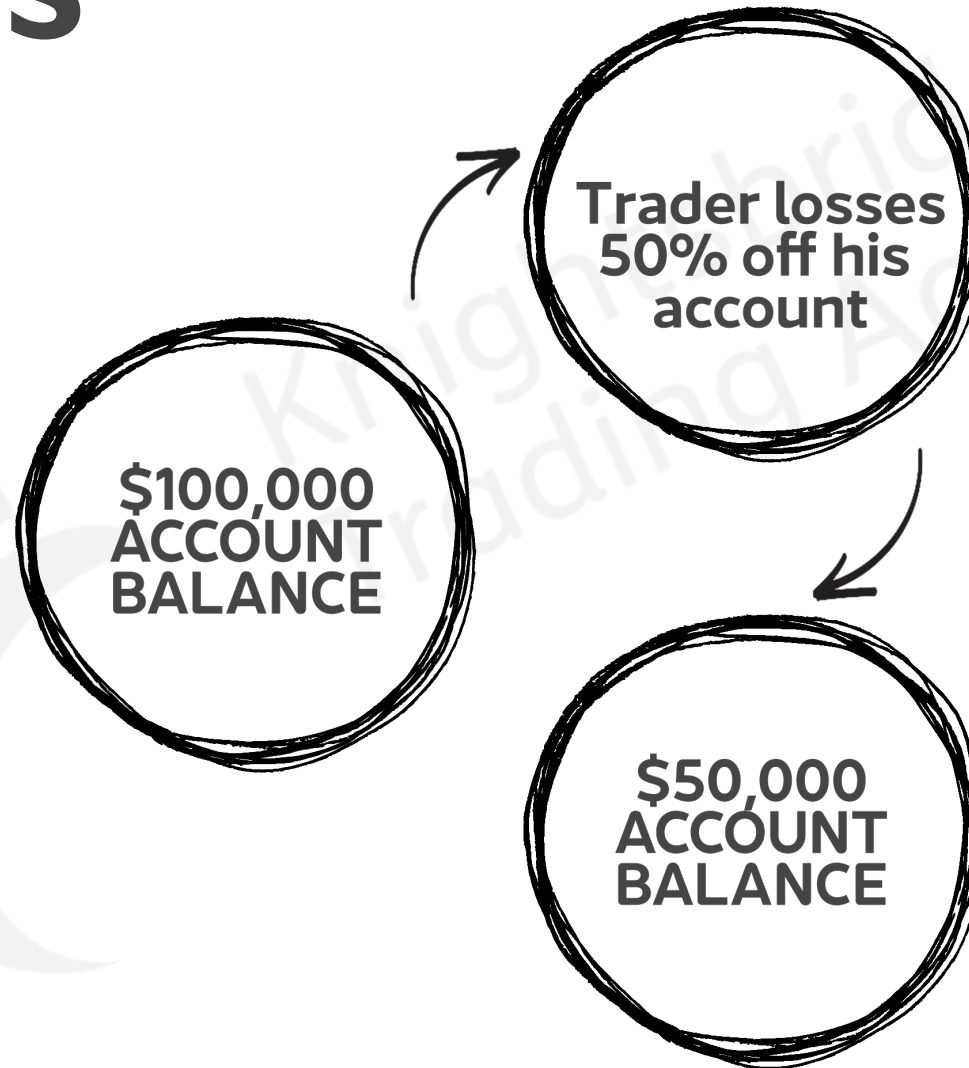
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UNDERSTANDING LOSSES

- The Most Important - **NEVER CHASE LOSSES.**
- Very basic section but massively important.
- The amount of capital at risk decreases after a losing trade.
- The amount of capital at risk increases after a winning trade.
- The money that you lose is harder to get back.
- Handle losses like a professional.

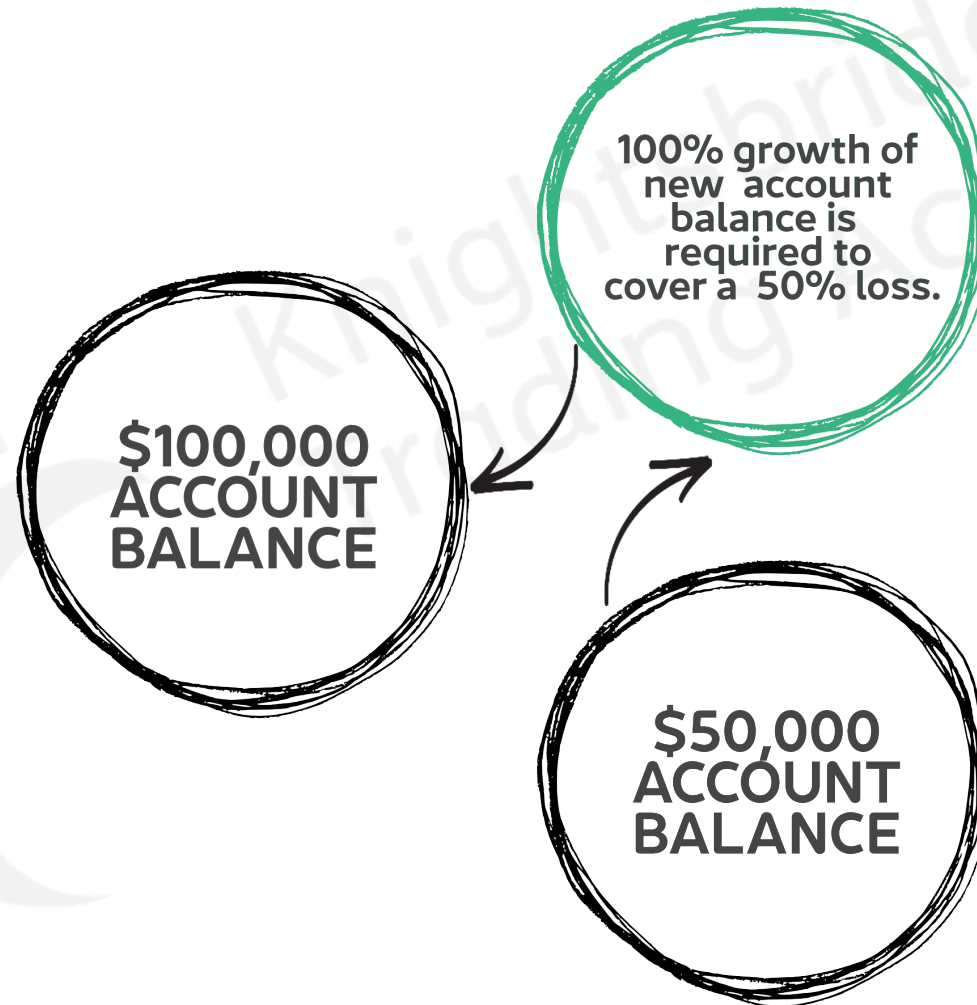
UNDERSTANDING LOSSES



UNDERSTANDING LOSSES



UNDERSTANDING LOSSES



UNDERSTANDING LOSSES

WOW, that is a
sobering thought!

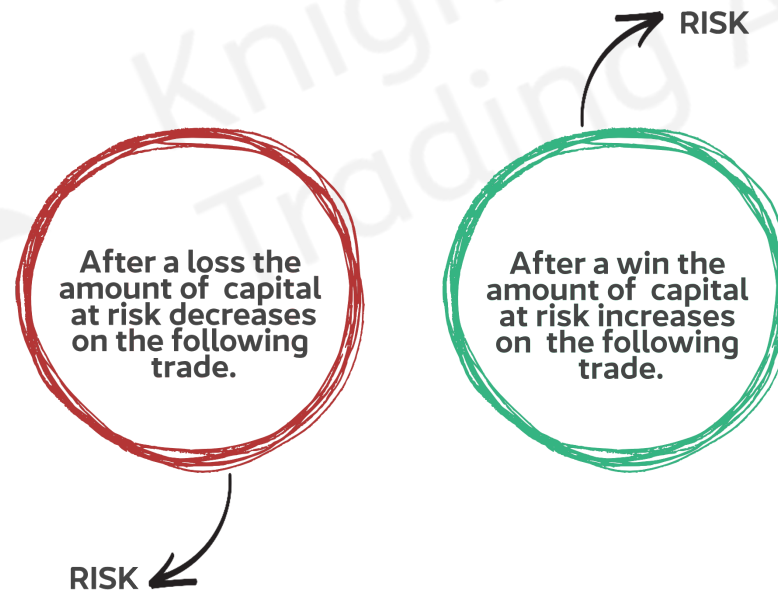
100% growth of
new account
balance is
required to
cover 100% of
losses.

\$100,000
ACCOUNT
BALANCE

\$50,000
ACCOUNT
BALANCE

UNDERSTANDING LOSSES

A successful money management strategy recognises that the money you lose is harder to get back. The practical way to minimize the chance of losing a large percentage of your account is to **decrease risk after losses and increase risk after wins.**



Our trade sizing ratio understands this concept and provides a fail – proof way of making sure this is done professionally for you.

UNDERSTANDING LOSSES

NEVER CHASE
LOSSES!

It is **LETHAL**...



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PART 12 - TRADING SIZES
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TRADING SIZE – THE RATIO

ACCOUNT RISK (1% of trading account)

TRADE RISK (points of risk)

TRADING SIZE – THE RATIO

ACCOUNT RISK (1% of trading account)

TRADE RISK (points of risk)

- Trade risk is the number of points that you are risking on your trade.
- The difference between your entry price and your stop loss is your trade risk (your stop loss is the exit price that you have predetermined in case the move goes against you).
- In general, this figure should be a natural result of executing a specific strategy.
- Fund traders must master this ratio with extreme discipline.
- **Irrelevant for binary options trading as no trade management is required.**

TRADING SIZE – THE RATIO

ACCOUNT RISK (1% of trading account)

TRADE RISK (points of risk)

=

VALUE OF
POINT

1.4515

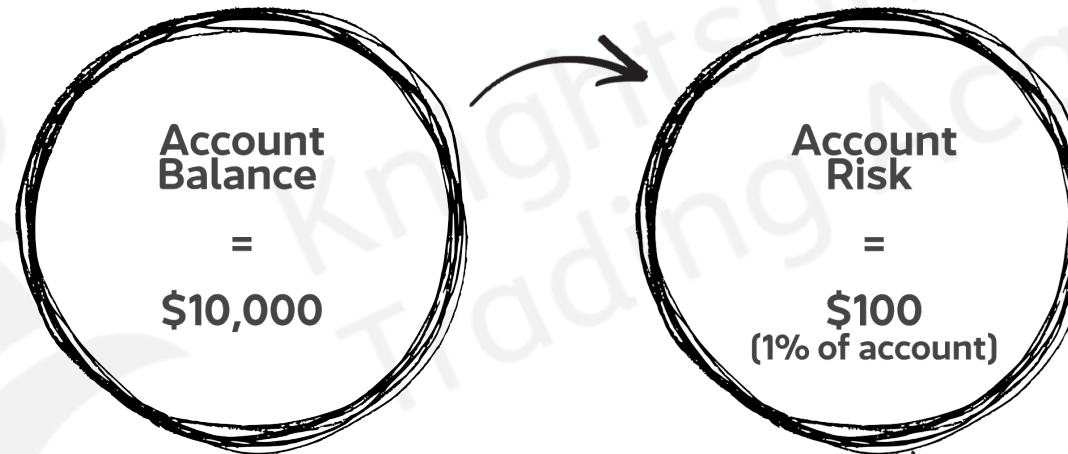
TRADING SIZE – THE RATIO

ACCOUNT RISK (1% of trading account)

TRADE RISK (points of risk)

- Account risk is the amount of money you are risking on your trade.
- 1% of your account is the **maximum** amount to risk on any trade – less than 1% is fine as long as you consistently risk roughly the same amount.
- Account risk is always worked out as a percentage of your account.
- This figure must always be objectively decided .
- **No shortcuts here.**

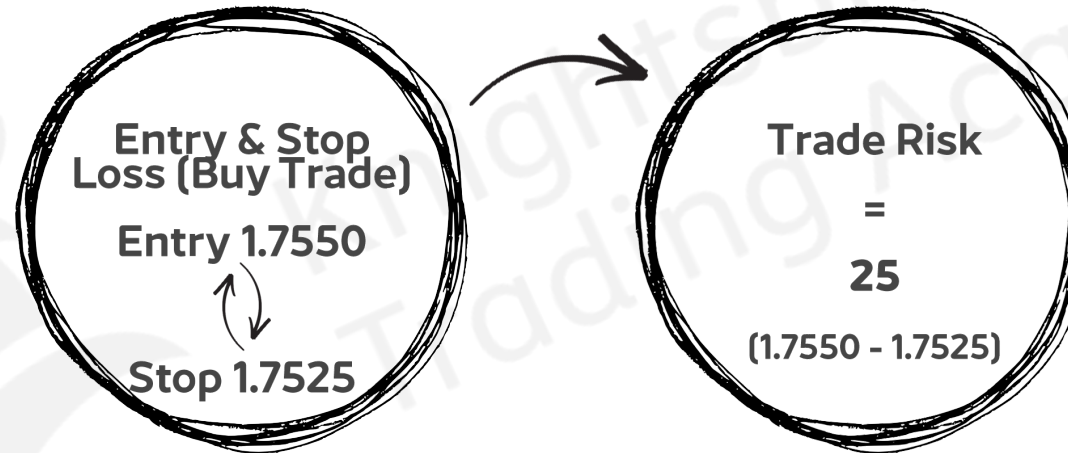
TRADING SIZE – EXAMPLE



ACCOUNT RISK = \$100

TRADE RISK (points of risk)

TRADING SIZE - EXAMPLE



ACCOUNT RISK = \$100

TRADE RISK = 25 points

TRADING SIZE – EXAMPLE

ACCOUNT RISK = \$100

TRADE RISK = 25 Points

=

Value of point
\$ 4

TRADING SIZE – EXAMPLE



Value of point
\$ 4

ENTRY 1.75500

↑
\$4 of profit
for every
upward point
movement.

TRADING SIZE – EXAMPLE



Value of point
\$ 4

ENTRY 1.7550

↓
\$4 of loss for
every downward
point movement.

TRADING SIZE – EXAMPLE

- How many consecutive trades must be lost to wipe out an entire trading account when risking 1% per trade?



TRADING SIZE – EXAMPLE

- How many consecutive trades must be lost to wipe out an entire trading account when risking 1% per trade?



Impossible...

TRADING SIZE – EXAMPLE

- We must use the power of compounding in our favour, both when we are winning and when we are losing.
- This is what **risking a 'percentage'**, as opposed to a **'nominal amount'**, does for us!

TRADING SIZE – CUMULATIVE RISK

- The maximum amount of capital risk on any individual trade is 1%.
- The cumulative risk for any set of active trades is 3%. This figure **must never be exceed**. Anything more than 3% exposure to the financial markets is too much.

TRADING SIZE - EXAMPLE

ACCOUNT RISK = ?

TRADE RISK = ?

\$10,000 Account Balance



TRADING SIZE - EXAMPLE

ACCOUNT RISK = \$100 (\$10,000 x 1%)

TRADE RISK = ?

\$10,000 Account Balance



TRADING SIZE - EXAMPLE

ACCOUNT RISK = \$100 ($\$10,000 \times 1\%$)

TRADE RISK = 20 points (0.8785 - 0.8765)

\$10,000 Account Balance



TRADING SIZE – EXAMPLE

ACCOUNT RISK = \$100 ($\$10,000 \times 1\%$)

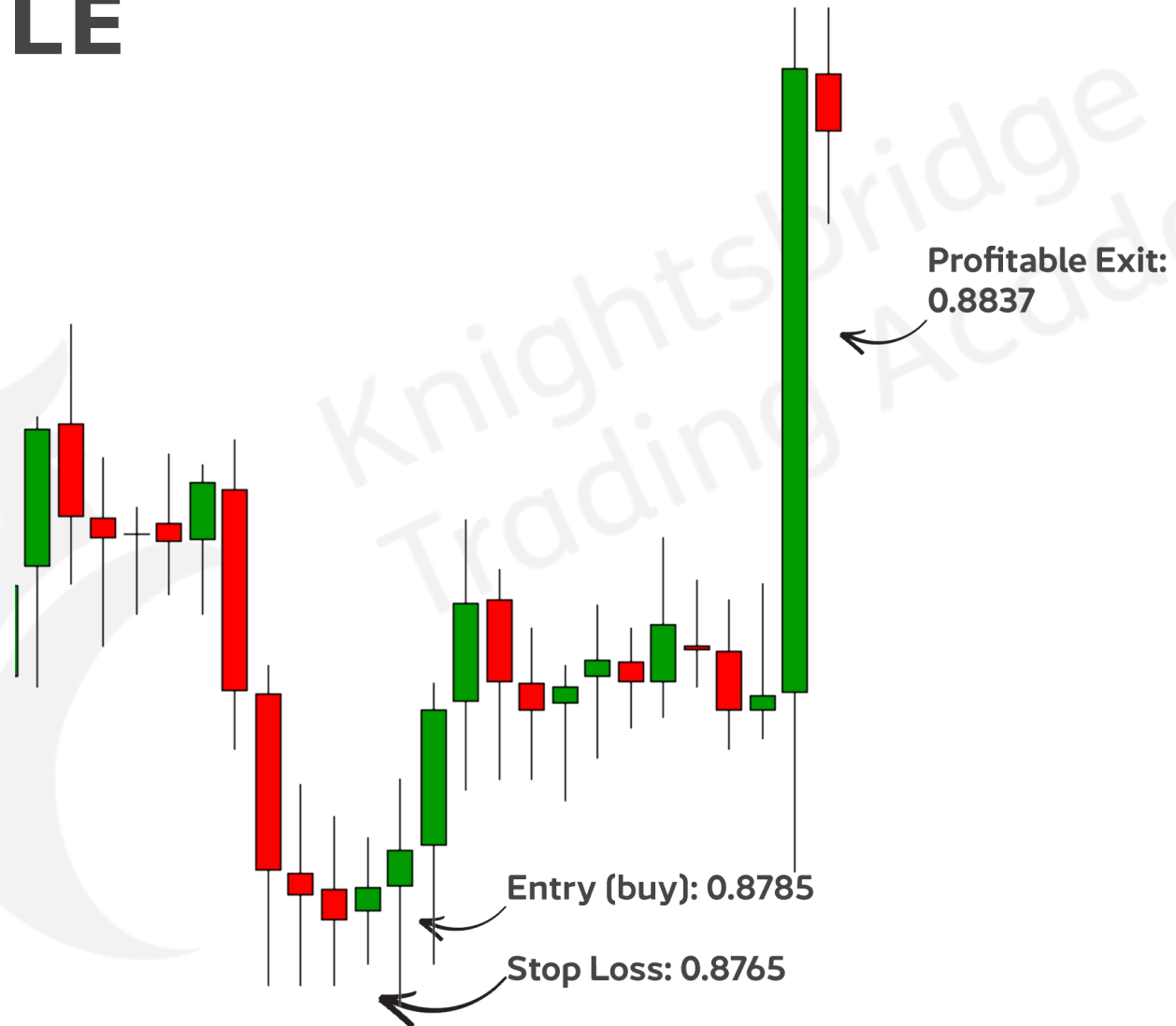
TRADE RISK = 20 points (0.8785 - 0.8765)

Value of point
\$5

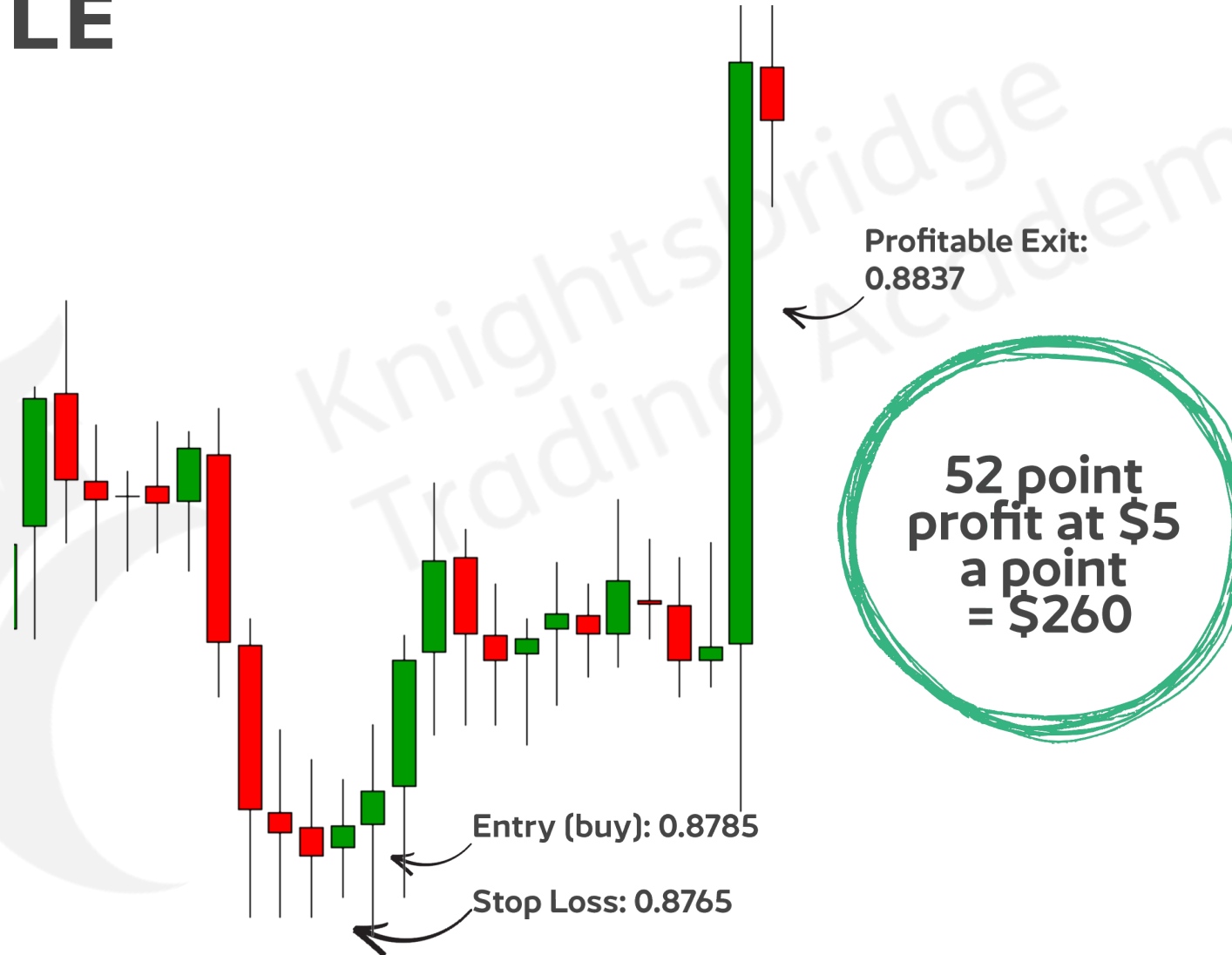
\$10,000 Account Balance



TRADING SIZE - EXAMPLE



TRADING SIZE - EXAMPLE



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PART 13 – REWARD TO RISK
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REWARD TO RISK

- **Would you** risk your house for the sake of winning a pair of trousers?



REWARD TO RISK

- **ABSOLUTELY NOT!** Why?



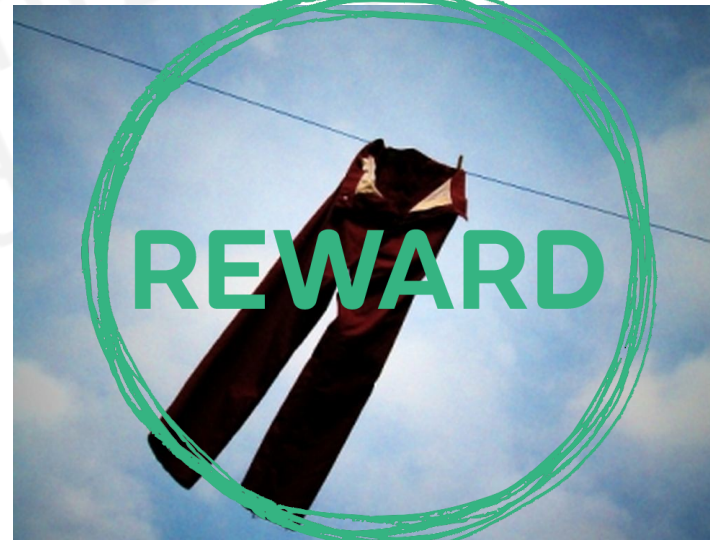
REWARD TO RISK

- It is just not worth the risk.



REWARD TO RISK

- It is just not worth the risk.



REWARD TO RISK

- Would you risk a pair of trousers for a house?



REWARD TO RISK

- **OF COURSE** you would! It is well worth the risk for the potential reward.



REWARD TO RISK – RATIO

TRADE REWARD (points of potential profit)

TRADE RISK (points of risk)

REWARD TO RISK – RATIO

TRADE REWARD (points of potential profit)

=

TRADE RISK (points of risk)

RATIO

Must be equal to, or greater than,
1:1 to warrant a trade.

REWARD TO RISK – RATIO



TRADE REWARD (points of potential profit)

TRADE RISK (points of risk)

- Trade reward is the number of points that you are looking to collect on your trade.
- This is the difference between your entry price and your target price (your target price is the predetermined exit of the trade for a profit).
- In general, this figure should be a natural result of executing a specific trading strategy.
- Fund traders must master this ratio with extreme discipline.
- **Irrelevant for binary options trading as no trade management is required.**

REWARD TO RISK – RATIO

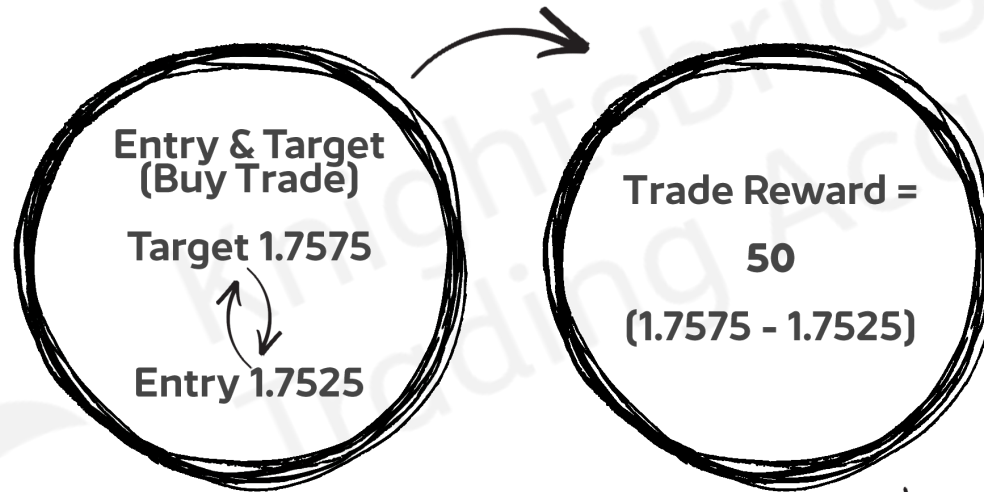
TRADE REWARD (points of potential profit)

TRADE RISK (points of risk)



- Trade risk is the number of points that you are risking on your trade.
- This is exactly the same figure that is used in the trading sizing ratio.
- Your trade risk is the difference between your entry price and your stop loss (stop loss is the exit price that you have predetermined in case the move goes against you).
- In general, this figure should be a natural result of executing a specific trading strategy.
- Fund traders must master this ratio with extreme discipline.
- **Irrelevant for binary options trading as no trade management is required.**

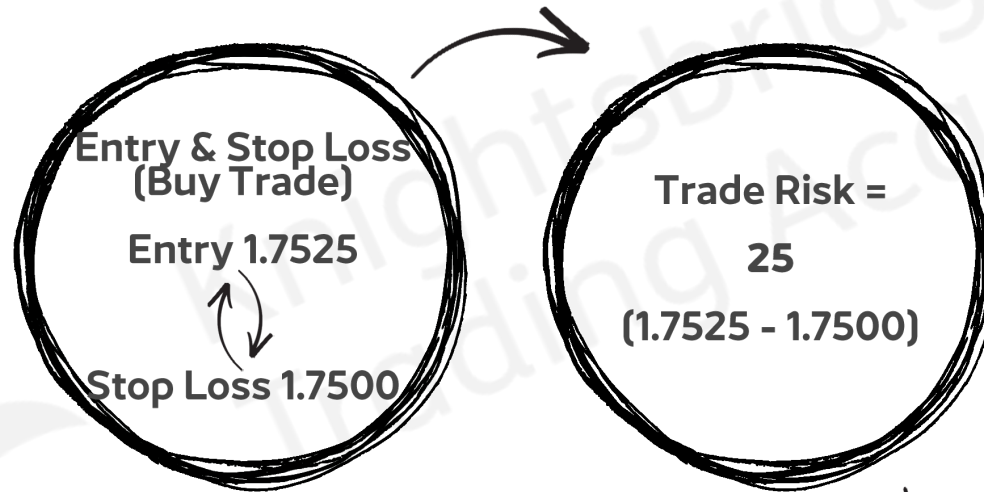
REWARD TO RISK – EXAMPLE



TRADE REWARD = 50 Points

TRADE RISK (points of risk)

REWARD TO RISK – EXAMPLE



TRADE REWARD = 50 Points

TRADE RISK = 25 Points

REWARD TO RISK – EXAMPLE

TRADE REWARD = 50 Points

TRADE RISK = 25 Points

=

Reward To
Risk Ratio

2:1

REWARD TO RISK – EXAMPLE

- **EUR / USD** buy trade :

- Entry – 1.3550

- Target – 1.3590

- Stop Loss – 1.3530

- What is your reward in terms of points?

- What is your risk in terms of points?

REWARD TO RISK – EXAMPLE

- **EUR / USD** buy trade :

- Entry – 1.3550

- Target – 1.3590

- Stop Loss – 1.3530

- What is your reward in terms of points? **40 points**

- What is your risk in terms of points? **20 points**

REWARD TO RISK – EXAMPLE

TRADE REWARD = 40 Points

TRADE RISK = 20 Points

=

Reward To
Risk Ratio

2:1

REWARD TO RISK – EXAMPLE

- **EUR / USD** buy trade :

- Entry – 1.3550

- Target – 1.3500

- Stop Loss – 1.3575

- What is your reward in terms of points?

- What is your risk in terms of points?

REWARD TO RISK – EXAMPLE

- **EUR / USD** buy trade :

- Entry – 1.3550

- Target – 1.3500

- Stop Loss – 1.3575

- What is your reward in terms of points? **50 points**

- What is your risk in terms of points? **25 points**

REWARD TO RISK – EXAMPLE

TRADE REWARD = 50 Points

TRADE RISK = 25 Points

=

Reward To
Risk Ratio

2:1

REWARD TO RISK – EXAMPLE



In some cases, you will be able to check your reward:risk ratio just by looking at the trade.

REMEMBER, the reason you are doing this is to ensure that your potential reward is at least as big as your potential loss.

REWARD TO RISK – EXAMPLE



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