

Risk Management *Blueprint*

Most traders don't fail because their analysis is bad. They fail because one bad run wipes them out. This is the arithmetic of staying in the game.

01 · THE 1% RULE

Risk a fixed fraction

Decide the most of your account you'll lose on any single trade, commonly 0.5–1%. That number, not the setup, decides your size.

$$\text{Risk amount} = \text{Account} \times \text{Risk \%}$$

₹5,00,000 × 1% = ₹5,000 at risk per trade.

02 · POSITION SIZING

Let the stop set the size

Put your stop where the idea is proven wrong. Then size so that hitting the stop costs exactly your risk amount.

$$\text{Quantity} = \text{Risk amount} \div (\text{Entry} - \text{Stop})$$

₹5,000 ÷ (₹1,000 – ₹975) = 200 shares.

03 · R-MULTIPLES

Measure in R, not rupees

1R is what you risked. A trade that makes twice the risk is +2R; a full stop-out is –1R. R lets you compare trades of any size.

$$R = (\text{Exit} - \text{Entry}) \div (\text{Entry} - \text{Stop})$$

04 · EXPECTANCY

Does the system pay?

Your average result per trade, in R. If it's positive over a large sample, the process has an edge; if not, no amount of discipline will save it.

$$E = (\text{Win\%} \times \text{Avg win R}) - (\text{Loss\%} \times \text{Avg loss R})$$

45% × 2R – 55% × 1R = +0.35R per trade.

05 · REWARD-TO-RISK VS WIN RATE

The break-even win rate

REWARD : RISK	1 : 1	1.5 : 1	2 : 1	3 : 1	4 : 1
Win rate needed to break even (before costs)	50%	40%	33.3%	25%	20%

Brokerage, taxes, slippage and spreads all push these numbers higher. Always include costs.

06 · THE DRAWDOWN TRAP

Losses are *asymmetric*

The deeper the hole, the harder the climb. This is why capping risk matters more than finding winners.

DRAWDOWN	GAIN NEEDED TO RECOVER	LOSING TRADES AT 1% RISK TO GET THERE*
-10%	+11.1%	11
-20%	+25.0%	23
-30%	+42.9%	36
-50%	+100%	69
-75%	+300%	138

*Consecutive full losses, compounding at 1% of the current balance. At 5% risk per trade, a -50% drawdown takes only about 14 losses.

07 · CIRCUIT BREAKERS

Rules that stop the bleeding

- **Daily loss limit:** stop trading for the day at -2R to -3R.
- **Weekly limit:** pause and review at -5R to -6R.
- **Max trades per day:** pick a number and keep to it.
- **After 3 losses in a row:** step away for the session.
- **Monthly drawdown -10%:** halve your size until you recover.

08 · LEVERAGE & DERIVATIVES

Know your real exposure

- Size on the **notional** value, not the margin you post.
- Options buyers can lose 100% of premium; option sellers can lose far more than the premium received.
- Overnight gaps can jump straight past a stop-loss.
- SEBI studies show most individual F&O traders lose money. Treat leverage with respect.

09 · PRE-TRADE RISK CHECK

- Where exactly is my invalidation (stop), and why there?
- Is my quantity calculated from the stop distance, not from a feeling?
- Is the total open risk across all positions within my limit (e.g. 3-5%)?
- Am I within today's loss limit and trade count?
- Have I included costs, and does the reward-to-risk still make sense?