DAX • RISK MANAGEMENT

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IMPORTANT! DO NOT SKIP

Before moving on…

- The **risk management** concepts in this document are valid whatever instrument you trade.
- Most people treat **risk management** as a secondary topic in trading, when it's in fact **primary**
- We all know we shouldn't risk too much per trade, like 1% or similar, but is that enough?
- **What 90% of traders fail to do is manage their positions properly**, because of incorrect thinking.
- Most traders are usually **optimistic about a losing position** eventually turning in their favor…
- … whilst being overly **fearful about a winning position** turning against them… **wait, what?** 😐
- This is why **they tend to move their Stop Loss further away from the entry** when in a losing trade,
- … whilst they usually **cut their winners quickly** to protect their gain when in a winning trade.
- So, in both scenarios, they make the wrong decisions, because of fear, or desire to be right.
- To detach yourself from the 90% losing traders, you have to **flip these thought patterns!**
- By implementing the following **2 rules**, you're most likely going to improve as a trader.
- No more *"This trade is surely a winner, I'm not letting it hit my SL."*
- … and also no more: *"You can't go broke taking a profit!"*
- Non-sense, beta trader stuff, let's move on now…

RULE #1 – DON'T TOUCH THE SL UNLESS...

The “Captain Obvious”

- Never, ever...
- Never, ever **MOVE THE STOP LOSS FURTHER AWAY FROM THE ENTRY!**
- This is the most ridiculous, dangerous, unhealthy, braindead, beta noob action that you can perform in trading. Plus all other bad adjectives.
- That’s a trader’s way of saying *“I have no idea what I’m doing, I just pray it will work out eventually”*.
- **PRAYERS HAVE NOTHING TO DO WITH TRADING! GO TO CHURCH IF YOU WANT TO PRAY!**

When it’s OK to move your Stop Loss?

- With “Captain Obvious” out of the way, let’s see **when it’s perfectly fine to move your Stop Loss** from its original position:
- **Case #1:** The position is running positive, and you drag the SL <u>closer</u> to your entry to reduce the open risk.
- **Case #2:** The position is running positive, you already took partial profits at your first target and you move the SL to Break-Even.
- **Case #3:** The position is running positive, well away from your entry, and you move your SL in profit (Trailing Stop Loss).
- **Case #4:** The position is running positive, you add more size to the open position and adjust your initial SL to keep the same open risk.

So, to conclude...

- You have **4 cases** when it’s ok to touch your initial Stop Loss, and **1 case** (The “Captain Obvious”) when it’s not. **Is that really too hard to do?**
- I saw some broker stats saying that **60% of traders don’t even use a SL** to begin with. Also, **most traders lose more on their losing trades, than they make on their winning trades**. <u>By having a Stop Loss in place and following Rule #1 you’re already putting yourself in the top 40%</u> 😲
- Of course, needless to say, **keep your initial risk small, decent, don’t gamble it all on one trade** hoping for a Lambo next week. Grow up!

RULE #2 – ADD TO YOUR WINNING TRADES

From top 40% to top 10%...

- Ok, so congrats! By following Rule #1 you're already way ahead of the button-pressing monkeys calling themselves traders 💪
- However, as I already mentioned a few pages ago, you have to be prepared to do what the 90% don't. But why don't they?

Reason #1: Error 404 – Healthy mindset not found!

- First and foremost, the root cause is **FEAR**. Period. Most traders do NOT add to their winning trades out of FEAR.
- Fear of uncertainty, fear of loss, fear of being proven wrong - to be more precise.
- 90%'s mindset: "What if I add size and the market turns against my trade?"
- 10%'s mindset: "What if I don't add and the market keeps moving to my targets?"
- 90%'s mindset: "My trade is 10 points in profit, I better take something off the table."
- 10%'s mindset: "My trade is 10 points in profit, didn't hit any of my targets yet, I should find a place to add."
- 90%'s mindset: "My trade is 10 points in loss, I should add more size cause surely it will turn around and I can win more."
- 10%'s mindset: "My trade is 10 points in loss, I'm just waiting to take a minor loss or, if it goes green, then I should find a place to add."
- Notice a pattern here? The thought processes of the 10% are completely opposite to the ones of the 90%. Like `180 degrees` opposite.

Reason #2: "You can't go broke taking a profit!"

- Oh yes, you definitely can! If you lose more on your losing trades than you win with your winning trades, you're in for a surprise!
- This type of bad education and mindset is what keeps the stats so low when it comes to consistent traders. Choose your camp carefully!

HOW TO ADD TO POSITIONS?

There are 2 sub-rules for Rule #2, both of them are MANDATORY requirements before adding to a position!

Rule #2-1: Add only to a **WINNING** position!

- Remember it this way: *"Winners add to winners, losers add to losers."*
- Or, imagine you have two kids: one of them is misbehaving, the other kid is acting like an angel. Which one deserves a reward?
- STOP rewarding losing positions by adding size. Always add only to trades that are developing as you expected when placing the trade.

Rule #2-2: No matter how many times you add to a winning trade, **the overall risk should remain constant**!

- Of course, there will be times when the market moves so well in your favor you'll be tempted to add more and more to that position.
- However, you should always be mindful of the risk exposure of your position as well. Over-exposing yourself to risk just for the sake of adding size to a position is a double-edged sword. Markets can always make a U-turn against your position, either because of scheduled or unscheduled news events, or just because of normal market dynamics. **Therefore, you should ALWAYS adjust your overall risk exposure!**
- So, if your default risk per trade is $100 let's say, then no matter how many times you add to the position, the total risk should stay at $100. This can be achieved by simply doing the math and adjusting the Stop Loss levels of your positions so that they add up to $100 total risk.

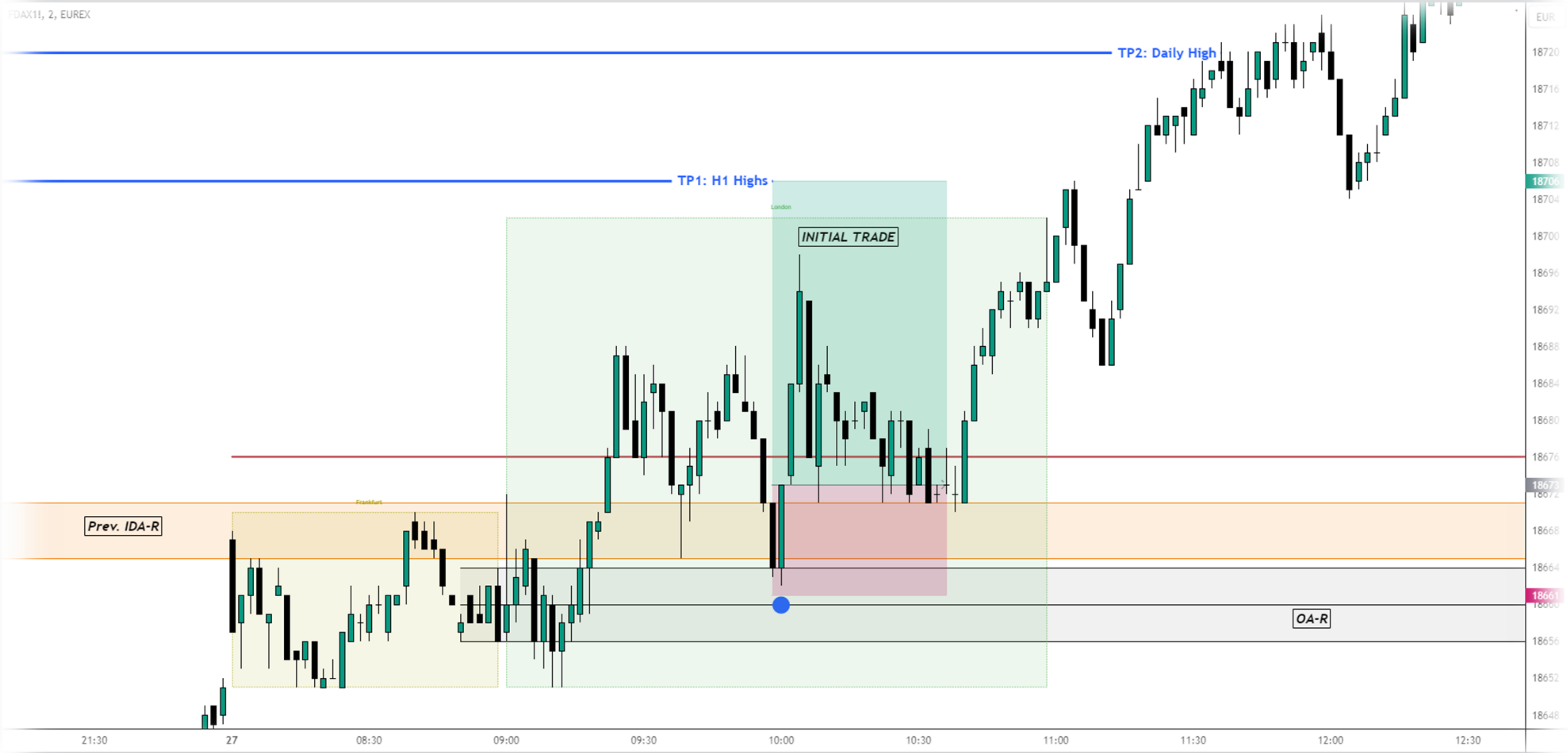
Ok, but WHEN to add to a winning position and how much?

- Honestly, adding to winning trades is a very subjective topic, since it can be done in a million different ways. For instance, some people prefer to add every X points as the market goes in their favor. Others choose to wait for a retracement of a certain "depth" before committing new size. One may also choose to add once the market reclaims certain levels of support/resistance, or, in our case here, retests of key-levels that price exceeds, e.g. bullish reclaim/retest of an IDA-R or OA-R Mid level whilst in a long position. And, also you can use the candles themselves and their shape and size to decide to add more once a strong candle closes. At the end of the day, it all comes down to how you personally read the market structure, how you evaluate the emerging candlestick patterns, as well as your trading experience.
- In time – I repeat, in **TIME** – you will develop this experience, this discretionary evaluation skill and, ultimately, what they call the "gut".
- Also, you can ask yourself how much to add. Well, considering an initial size of 10, you can choose to first add 5, then 2.5 etc. (aka **pyramiding**), or you can keep it **linear** by adding the same size each time (10, 10, 10 etc.). This really boils down to your aggressiveness as a trader, your risk tolerance and how well you can adjust the Stop Loss levels of each position, so you don't end up over-exposed (**Rule#2-2!**).
- Of course, **the linear approach is more aggressive**, and you'll have to adjust your SLs way more tightly in order to preserve the risk exposure.

EXAMPLE OF ADDING TO YOUR WINNING TRADES

Consider the trade in the figure below.

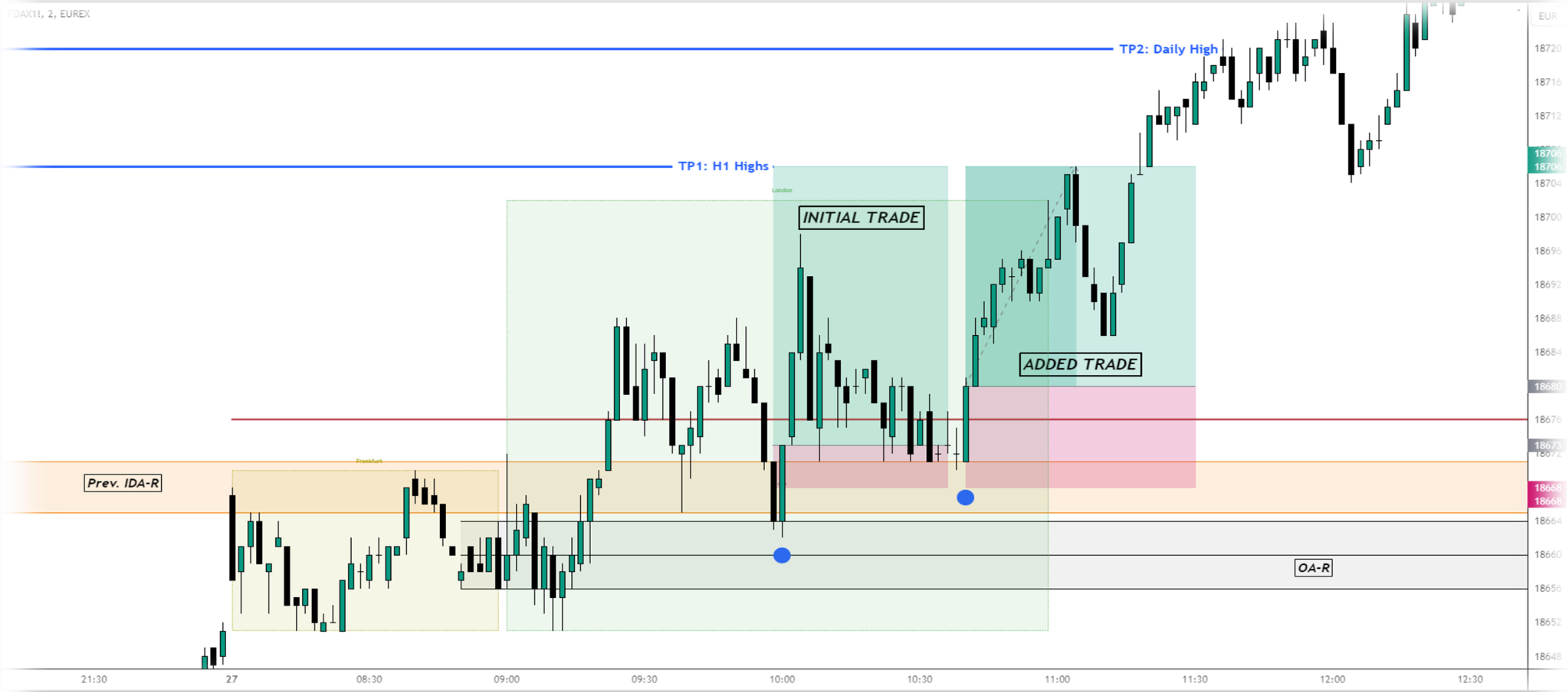
- Market context is bullish. Long trade during the London Opening Session, after bullish LTF test of current OA-R and previous IDA-R.
- The entry is on the M2 timeframe, after the green candle marked with a blue circle has closed. Assuming two logical targets above.



EXAMPLE OF ADDING TO YOUR WINNING TRADES (CONT.)

Consider the trade in the figure below.

- Price fails to reach the first logical target and retraces. The SL is still in the original position, below the low of the candle and IDA-R.
- Price retests the IDA-R level, then we see the M2 bullish candle marked with the second blue circle. Retest confirmed, adding to position.
- Notice that **a)** second position is added whilst the first position is **positive** and b) SLs of the trades are adjusted to **preserve risk exposure**.



OTHER IMPORTANT CONSIDERATIONS

A few things to keep in mind...

- If you're new to adding to positions, **take it slow**. Don't be a hero on day 1!
- Always – and I really mean **always** – follow the rules outlined in this document.
- Never become over-exposed regarding your overall risk per position! Again, don't be a hero.
- Properly adjusting the Stop Loss levels of all positions (initial & added) can prove to be difficult.
- If I'm trading via TradingView or other platforms except MT5, I do it mentally and manually.

How I semi-automate my risk management, whilst properly adding to positions?

- If I'm trading via MetaTrader5, **I have developed my own Trade Manager for trading the DAX**.
- This EA does all the math for me – position sizing according to risk, adjusting SLs etc.
- Basically, I just configure the amount of money I want to risk on a position.
- Then, I set my SL and enter the initial position with the **correct size**, in just a few clicks.
- I configure the EA to enable me to add via **pyramiding** or in a **linear** fashion.
- Whenever I want to add, I just press **A** to open a new position with desired size.
- Then I simply press **Z** to adjust the SL of all positions in order to preserve risk.
- **You can download this EA for free at traderfdax.com. Test it on a demo account.**

THANK YOU

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