

RISK MANAGEMENT

- Risk Reward Formula
- Stop Loss Formula
- Risk Amount Formula
- Position Size Formula
- Contract Size Formula
- Win Rate Formula

R:R = Risk Reward For LONGS

- The reward-risk ratio is equivalent to the reward (take profit) divided by the risk value(stop loss).
- Usually represented by a ratio or a number.
 - Example: 4:1 = 4 to 1 risk reward. (or 4 R:R)
- Represents how much potential profit you make by how much you stand to lose with the trade.

FORMULA:

(Target — Entry)

(Entry — Stop Loss)

R:R = Reward/**Risk**

Pair: BTC/USD

TRADE: LONG

Entry Price: \$3500

Target Price: \$3850

Initial Stop Loss: \$3450

Reward: $\$3850 - 3500 = \350

Risk: $\$3500 - 3450 = \50

R:R Ratio = $\$350 / \$50 = 7$

R:R = Risk Reward For **SHORTS**

- The reward-risk ratio is equivalent to the reward (take profit) divided by the risk value(stop loss).
- Usually represented by a ratio or a number.
 - Example: 4:1 = 4 to 1 risk reward. (or 4 R:R)
- Represents how much potential profit you make by how much you stand to lose with the trade.

SIMPLE FORMULA FOR SHORT TRADE:

(Entry - Target)

(Stop Loss - Entry)

R:R = Reward/**Risk**

Pair: BTC/USD

TRADE: **SHORT**

Entry Price: \$3850

Target Price: \$3500

Initial Stop Loss: \$3950

Reward: $\$3850 - 3500 = \350

Risk: $\$3950 - 3850 = \50

R:R Ratio = $\$350 / \$50 = 7$

STOP LOSS

- The point at which you will exit the trade for a loss because your trade idea is wrong.

ENTRY - EXIT

ENTRY

STOP LOSS

EXAMPLE:

LONG TRADE

Entry = \$8,000

Exit = \$7,500

STOP LOSS CALCULATION

$$\frac{8000 - 7500}{8000} = 6.25\%$$

RISK AMOUNT CALCULATION

- The amount of money you are willing to lose expressed as a whole value in BTC or USD.
- Allows you to quickly calculate your position sizes.

FORMULA:

Portfolio Size X Risk Per Trade

RISK AMOUNT CALCULATION

EXAMPLE

Using USD

- Portfolio Size: \$10,000
- Risk Per Trade: 1%

EXAMPLE

$10000 \times .01 = \$100$ Risk Amount

Using BTC

- Portfolio Size: 5 Bitcoin
- Risk Per Trade: 1%

EXAMPLE

$5 \times .01 = .05$ BTC Risk Amount

POSITION SIZE CALCULATION

- Percentage Of Your Portfolio To Risk When Factoring in the Stop Loss.
- Divide that money amount by the price of the crypto.
- This gives you your lot size to purchase to manage your risk.
- Number of lots/contracts you buy or sell.

Risk Amount

Distance to Stop Loss

POSITION SIZE CALCULATION

EXAMPLE

Pair: BTC/USD

Portfolio Size: \$10,000

Risk Per Trade: 2%

Stop Loss % = 4%

$\$10,000 \times .02$ (2% risk)

.04 (4% Stop Loss)

POSITION SIZE = \$5,000

POSITION SIZE CALCULATION

INSERT INTO
QTY USD

The screenshot displays a trading interface with the following elements:

- Order type tabs: **Limit** (selected), Market, Conditional.
- Leverage: 10.00x (highlighted in yellow), with a slider ranging from 1x to 100x.
- Order Price USD: 7147.5
- Qty USD: 5000 (indicated by a red arrow from the text 'INSERT INTO QTY USD')
- Position size indicators: 25%, 50%, 75%, 100%.
- Order Value: 0.69954529 BTC
- Available Balance: 7.35435171 BTC
- Buy/Long button (green) with cost: 0.0710 BTC
- Sell/Short button (pink) with cost: 0.0709 BTC
- Options: Post-Only, Reduce-Only
- Dropdown menu: GoodTillCancelled

ORDER COST FORMULA

WITH LEVERAGE

TO DETERMINE YOUR CONTRACT SIZE WITH LEVERAGE, JUST DIVIDE YOUR POSITION SIZE BY THE AMOUNT OF LEVERAGE

1X = 1.42 Bitcoin

3X = .47333

5X = .284

10X = .142

20X = 0.071

50X = 0.0284

100X = 0.0142

WIN RATE

CHEAT SHEET

- How many trades you won over a specific time period.
- Most common time frames traders measure are weekly/monthly/quarterly/annually.

Number of Winners

Total Number of Trades

EXAMPLE

- 45 Winning Trades
- 25 Losing Trades
- 70 Total Trades

$$\frac{45}{70} = 64.3\% \text{ W/R}$$