

# What is Risk management

**Risk management in trading** is the system you use to **protect your capital first**, before thinking about profit.

It answers one main question:

**How much can I lose if this trade is wrong — and still survive to trade tomorrow?**

## 1 Why risk management is more important than strategy

A **bad strategy + good risk management** can survive

A **good strategy + bad risk management** will eventually blow the account

Professional traders think like this:

*“Losses are normal. Account destruction is not.”*

## 2 The core elements of risk management

### ◆ 1. Risk per trade

This is the **percentage of your account you risk on ONE trade**.

Common rules:

Beginners: **0.5% – 1%**

Intermediate: **1% – 2%**

Very aggressive: **3%+ (dangerous)**

📌 Example:

Account = \$10,000

Risk = 1% → **max loss = \$100 per trade**

## ◆ 2. Stop Loss (SL)

A **stop loss** is the price level where you accept being wrong.

No SL = no risk management

SL is decided by **structure**, not emotion

Good SL placement:

Below support / above resistance

Beyond liquidity

Outside the structure break

Below Lows in Up trend

Above highs in Down trend

## ◆ 3. Position sizing

Position size connects:

Account size

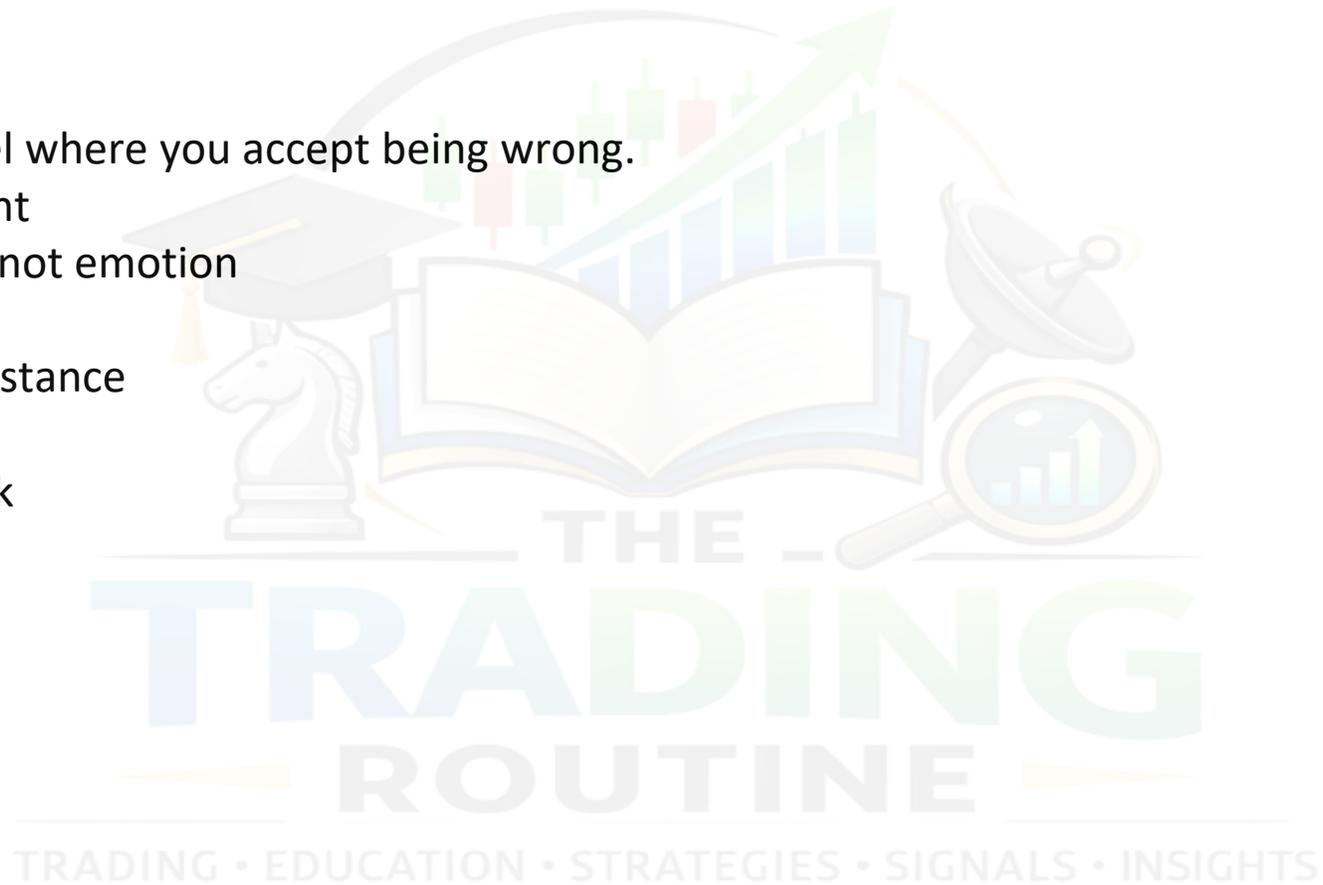
Risk %

Stop loss distance

📌 Formula (simple):

Position Size = (Account × Risk %) ÷ Stop Loss (points)

This keeps **every trade equally dangerous**, not random.



#### ◆ 4. Risk–Reward Ratio (RRR)

This compares **what you risk vs what you gain**.

Common professional ratios:

1 : 2

1 : 3

1 : 4

📌 Example:

Risk \$100

Target \$300

→ RR = **1:3**

You can be **wrong more often than right** and still win overall.

#### ③ Drawdown control (very important)

Drawdown = how much your account drops from its peak.

Rules professionals use:

Max daily loss: **2–3%**

Max weekly loss: **5–8%**

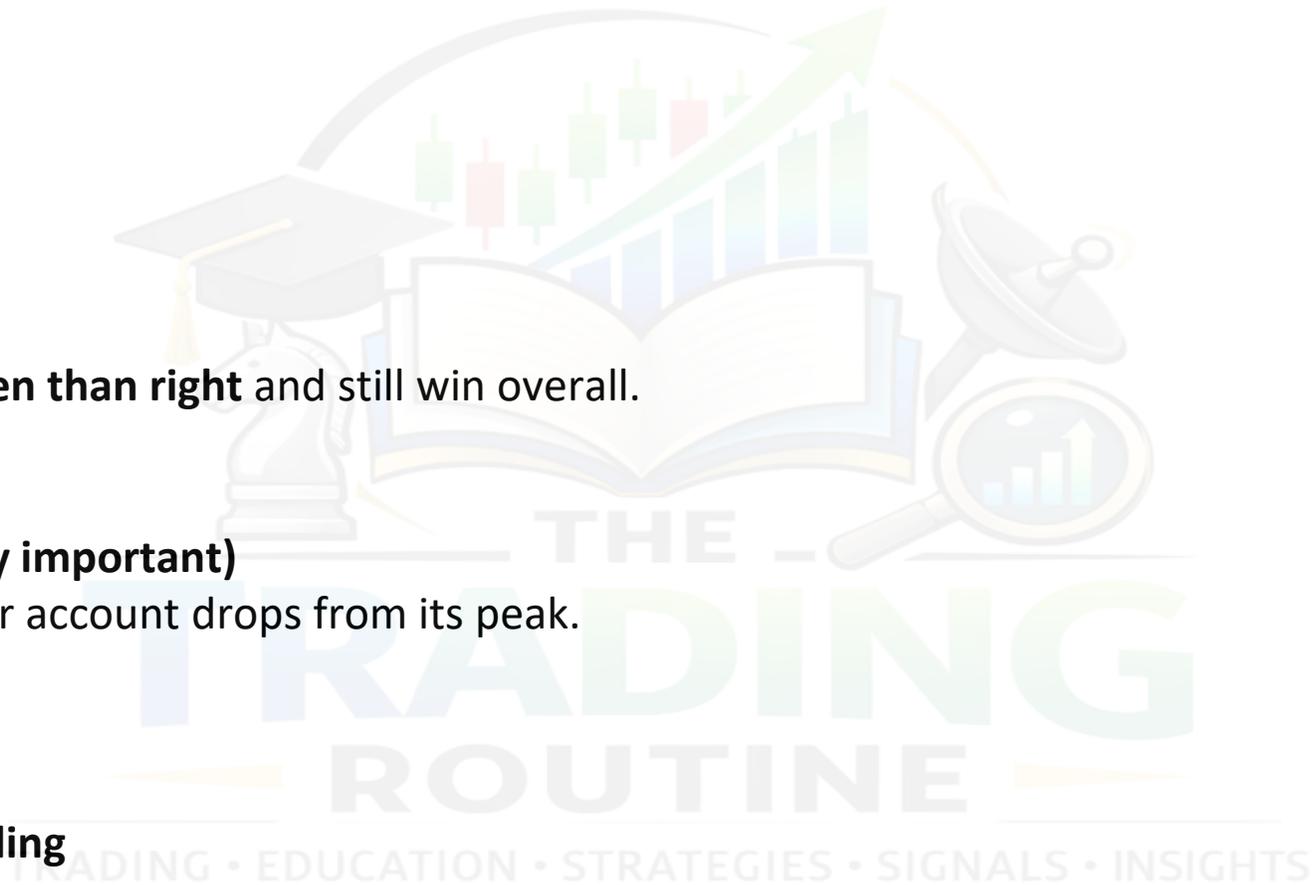
After 2–3 losses → **stop trading**

This prevents:

Revenge trading

Emotional decisions

Account death



#### 4 Risk management vs emotions

Risk management:

Removes fear

Removes greed

Creates consistency

If you feel:

Panic → risk is too high

Greed → no rules

Revenge → broken system

👉 That means **risk management is failing**, not you.

#### 5 A professional mindset

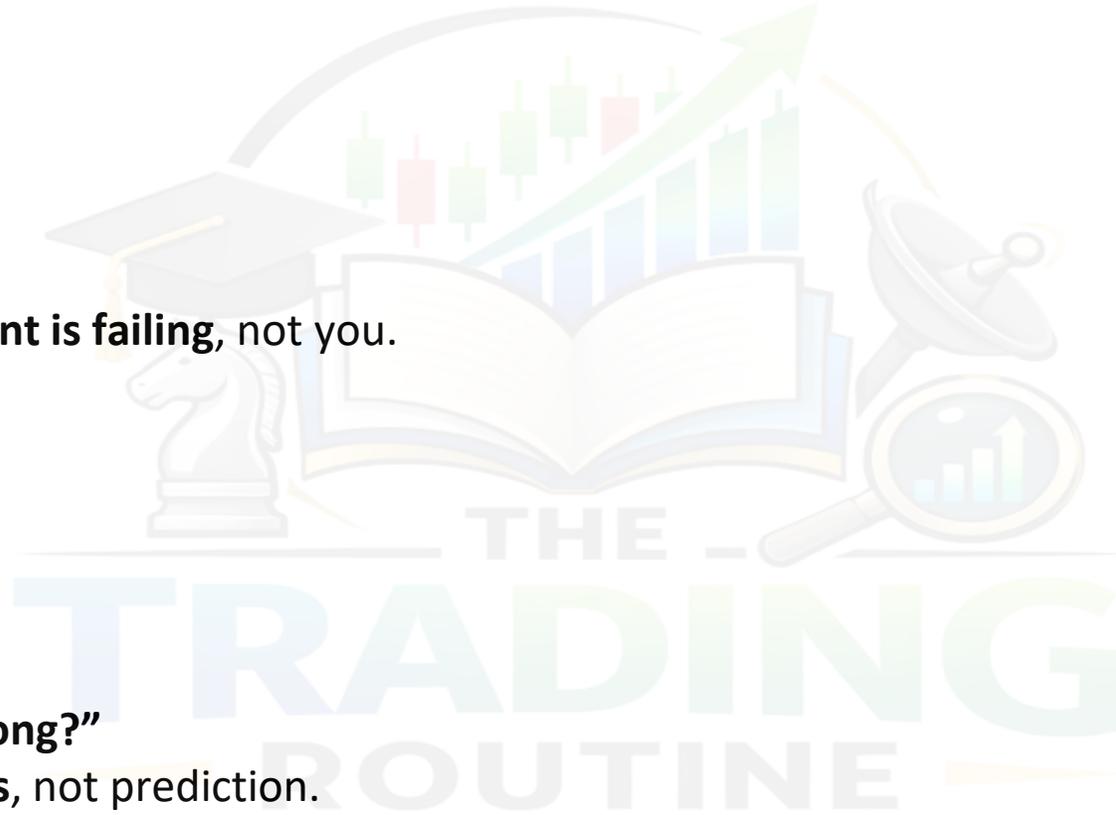
Professionals don't ask:

“How much can I make?”

They ask:

“**How much can I lose if I'm wrong?**”

Trading is a **probability business**, not prediction.



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## 6 Simple professional rule set (example)

Risk 1% per trade

Minimum RR = 1:3

Max 2 trades per day

Stop after 2 losses

Never move SL against yourself

This alone puts you **above 80% of retail traders.**

## 🔑 Final truth

You don't get rich by winning big.

You get rich by **not losing big.**



# What is **Fibonacci Retracement** in trading?

**Fibonacci Retracement** is a technical tool used to **identify potential pullback (retracement) levels** during a trend.

It helps traders answer one key question:

**Where might price pull back before continuing the trend?**

It is based on **Fibonacci ratios**, which appear repeatedly in markets due to **human behavior and institutional algorithms**.

## **The most important Fibonacci levels**

You will mainly use these levels:

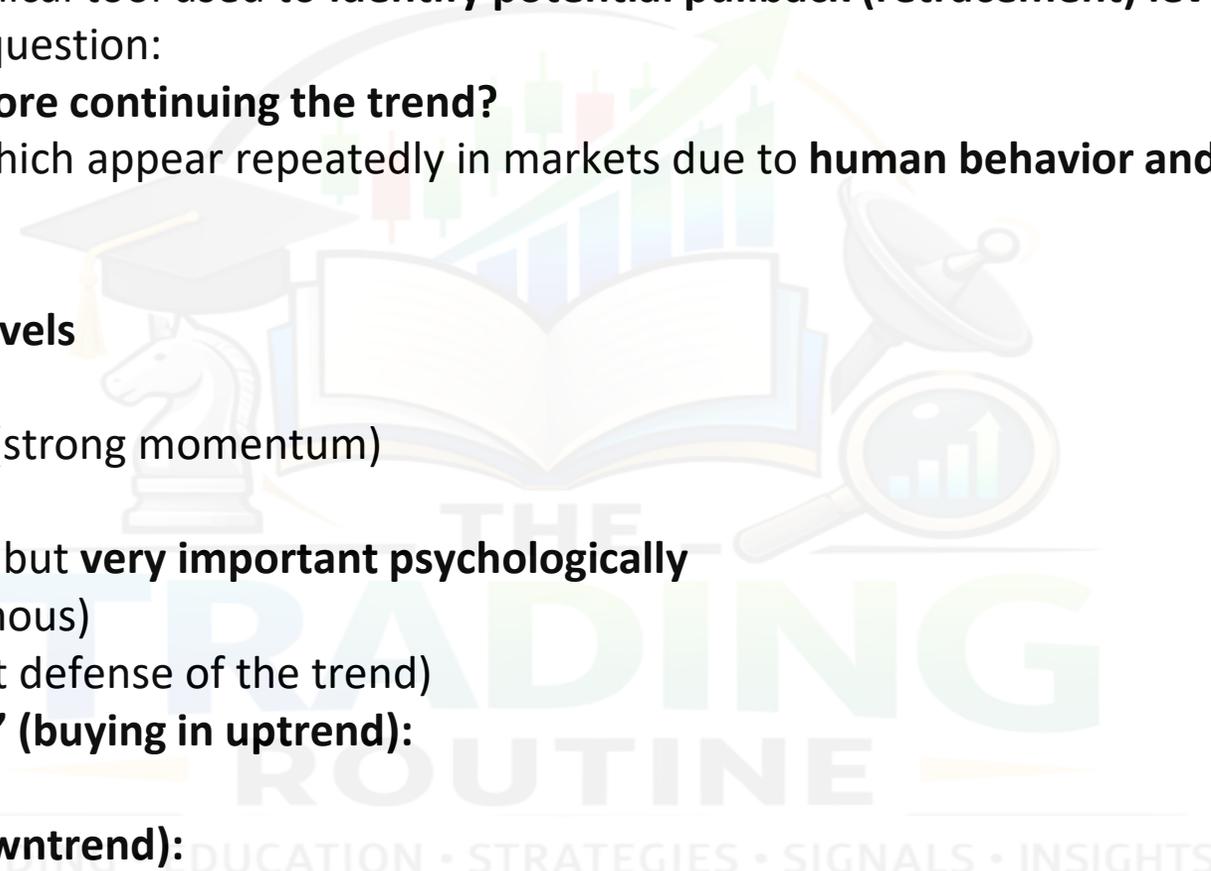
- **23.6%** → very shallow pullback (strong momentum)
- **38.2%** → light correction
- **50%** → *not a Fibonacci number*, but **very important psychologically**
- **61.8%** → golden ratio (most famous)
- **78.6%** → deep retracement (last defense of the trend)

📌 **Professional “discount zone” (buying in uptrend):**

**50% – 61.8%**

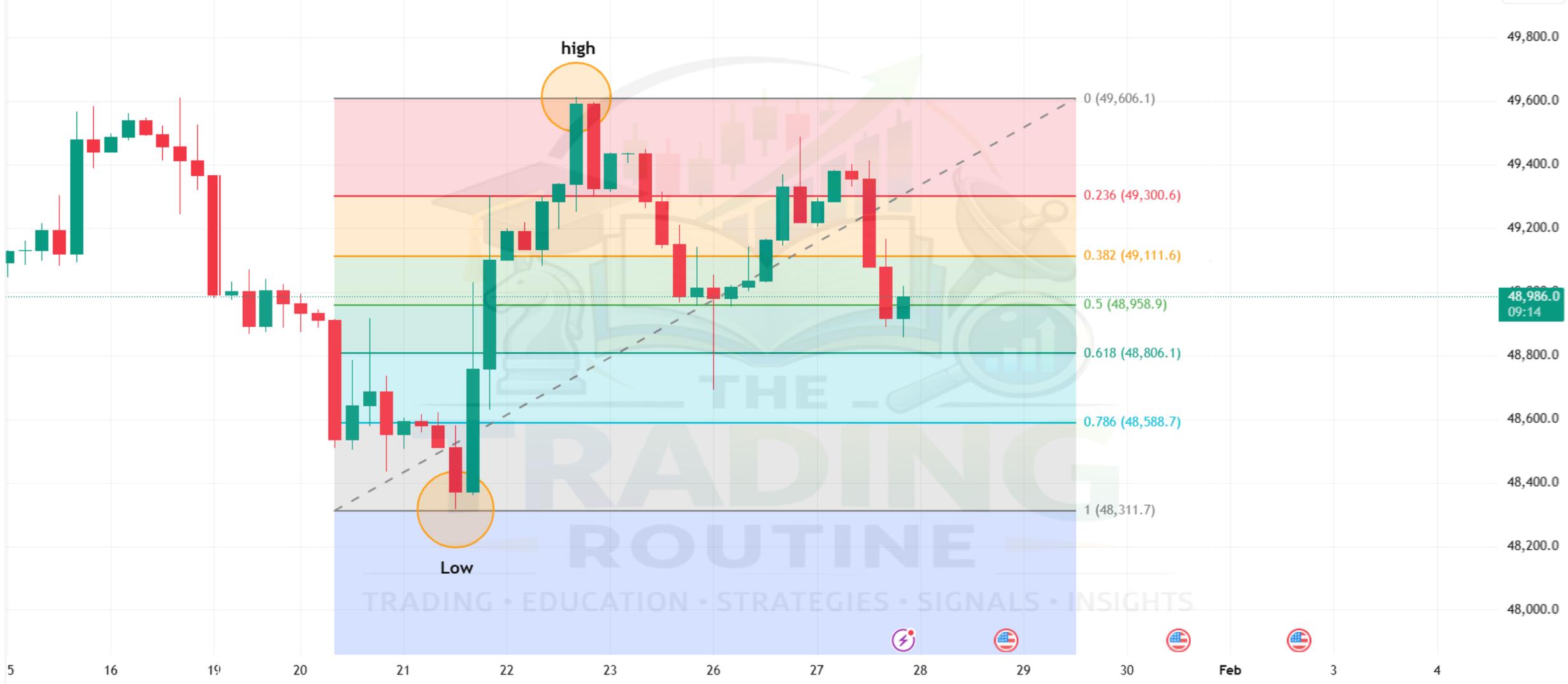
📌 **Premium zone (selling in downtrend):**

**50% – 61.8%**



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## How to draw Fibonacci Retracement (step by step)

### ◆ In an UP trend (looking to BUY)

1. Identify a **clear impulse move**

1. From a **swing low** → **swing high**

2. Select Fibonacci tool

**3. Click on the LOW**

**4. Drag to the HIGH**

Now you wait for price to pull back into:

•38.2%

•50%

•61.8%

You **do NOT buy blindly.**

You wait for confirmation.

### ◆ In a DOWN trend (looking to SELL)

1. Identify a **clear impulse move**

1. From a **swing high** → **swing low**

2. Select Fibonacci tool

**3. Click on the HIGH**

**4. Drag to the LOW**

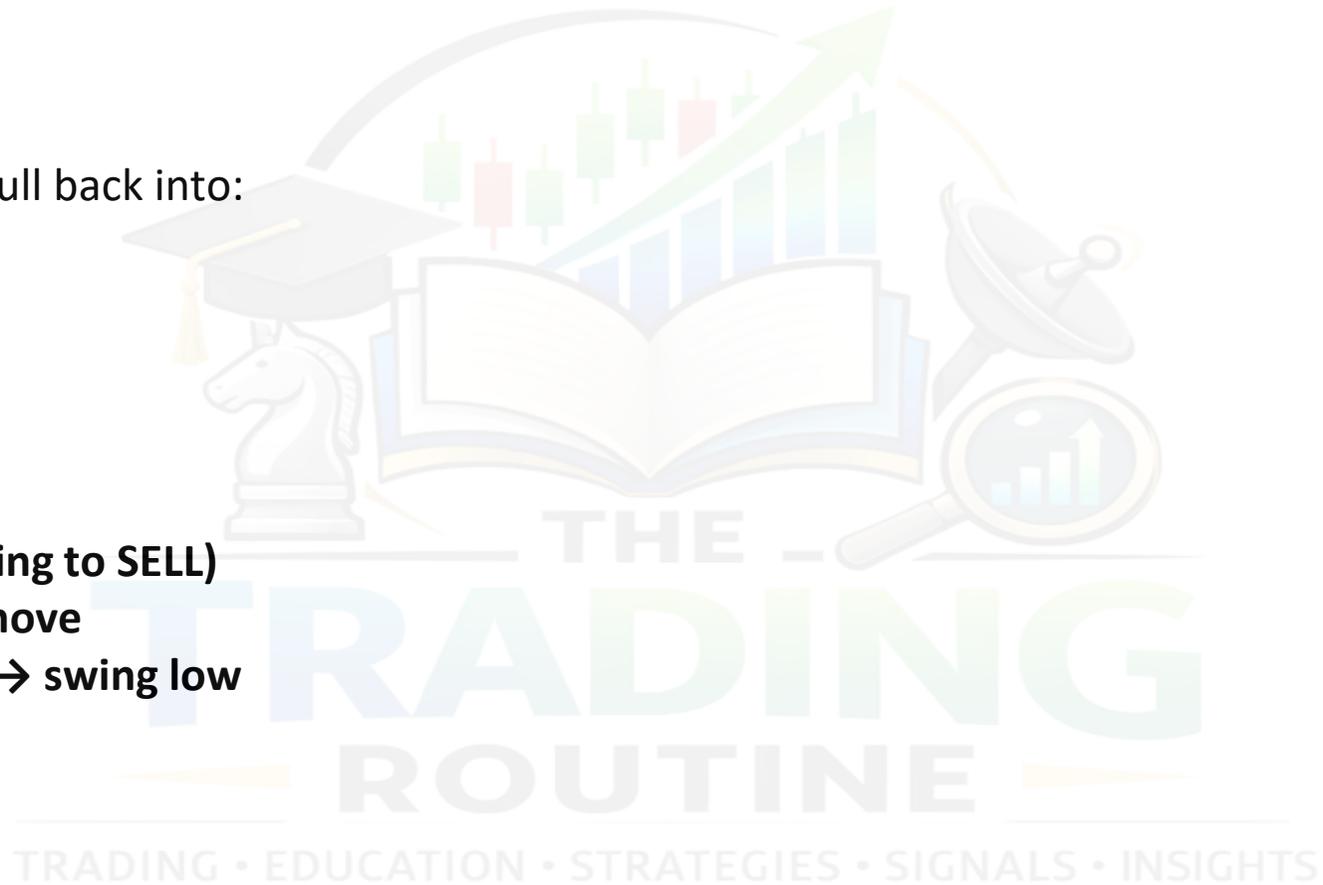
You look for price to retrace into:

•50%

•61.8%

•78.6%

Again → confirmation first.



# When entries are required ?

Before entering any trade, we must ask ourselves:

## 1. What is the market doing?

Is the market:

In an **uptrend**?

In a **downtrend**?

Or moving **sideways (range)**?

We only trade when the market has a **clear direction**.

## A) If the market is in an UPTREND

1. Confirm that price is making:

1. Higher Highs (HH)
2. Higher Lows (HL)

2. Identify and mark the **last impulsive wave** of the uptrend (from the most recent higher low to the higher high).

3. Wait patiently for the price to **retracement (pull back)**.

4. Draw the Fibonacci retracement:

1. From the **low of the wave**
2. To the **high of the wave**

5. Focus on the **discount zone**:

1. 50%
2. 61.8%

1. Do **not** enter immediately.

Wait for confirmation, such as:

1. Bullish candlestick patterns (engulfing, pin bar, strong close)
  1. Break of minor structure on lower timeframes
  2. Bullish pattern completion (only if aligned with trend)

2. Enter the **BUY trade** after confirmation.

3. Place the stop loss:

1. Below the **low of the current wave**
2. Below the market structure

4. Set the take profit:

1. Minimum **Risk–Reward ratio of 1:2**
2. Target previous highs or liquidity zones

## B) If the market is in a DOWNTREND

1. Confirm that price is making:

1. Lower Lows (LL)
2. Lower Highs (LH)

2. Identify and mark the **last impulsive bearish wave** (from the most recent lower high to the lower low).

3. Wait for the price to **retracement upward**.

4. Draw the Fibonacci retracement:

1. From the **high of the wave**
2. To the **low of the wave**

5. Focus on the **premium zone**:

1. 50%
2. 61.8%

1. Do **not** enter immediately.

Wait for confirmation, such as:

1. Bearish candlestick patterns
2. Rejection from resistance
3. Break of minor bullish structure on lower timeframes
4. Bearish pattern aligned with the trend

2. Enter the **SELL trade** after confirmation.

3. Place the stop loss:

1. Above the **high of the current wave**
2. Above the market structure

4. Set the take profit:

1. Minimum **Risk–Reward ratio of 1:2**
2. Target previous lows or liquidity areas

## c) If the market is **SIDEWAYS (RANGING)**

There is **no clear trend**

Market structure is unclear

Fibonacci levels are unreliable

 **Action:**

We **do not trade**

We wait for:

- A clear breakout

- A confirmed new trend

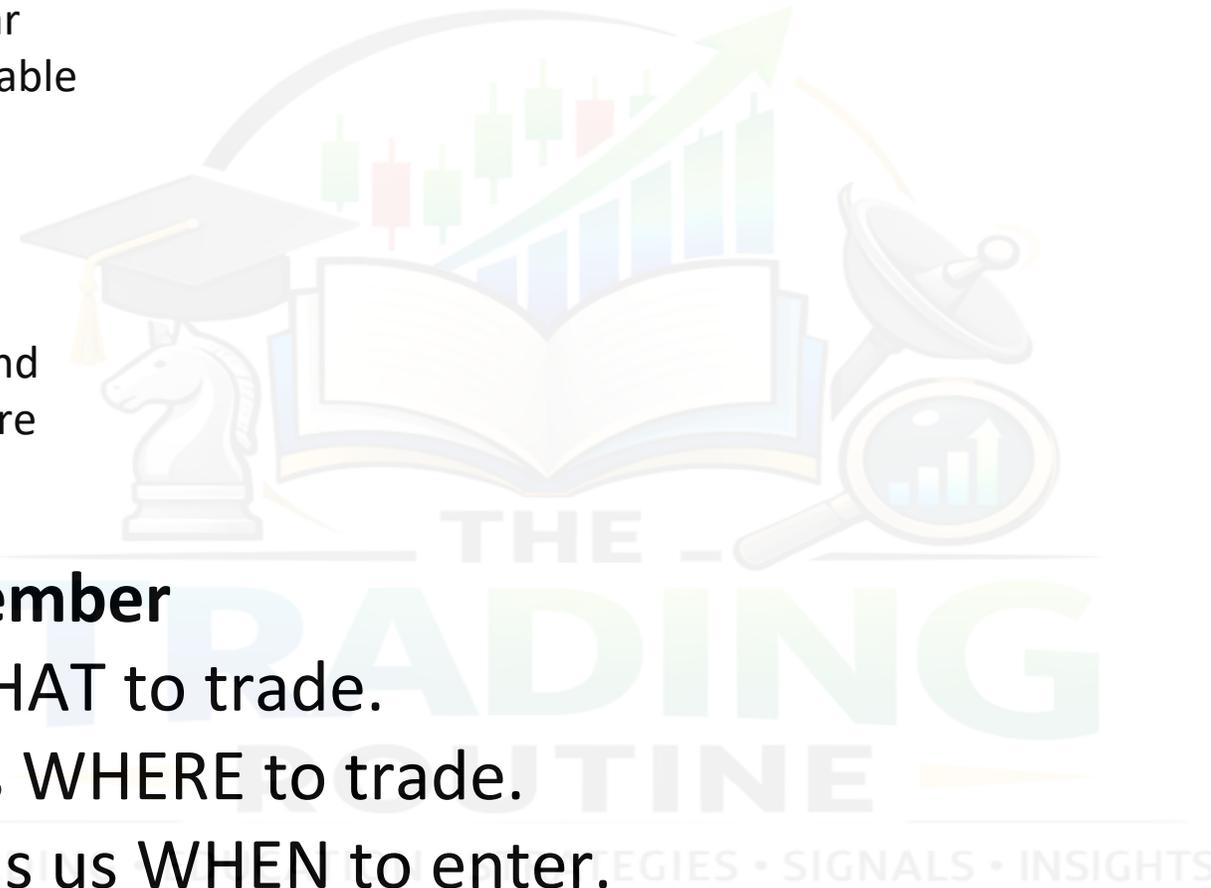
- Clean market structure

### **Key rule to remember**

Trend tells us **WHAT** to trade.

Fibonacci tells us **WHERE** to trade.

Confirmation tells us **WHEN** to enter.



# Notes :

