



Advanced Risk Management

PRESENTED BY:

Peter on October 4th, 2022

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Learning Objectives

- ✓ Seven risk lessons
- ✓ Calculating risk

Definition

risk
/risk/

noun

1.a situation involving exposure to danger:
"flouting the law was too much of a risk"

Similar possibility chance probability likelihood Opposite impossibility

verb

1.expose (someone or something valued) to danger, harm, or loss:
"he risked his life to save his dog"

Similar endanger put at risk put in danger expose to danger put on the line take a chance with imperil jeopardize put in jeopardy hazard gamble (with) bet wager chance venture

Definition

Risk is the possibility of something bad happening

Risk involves **uncertainty** about the effects/implications of an activity, often focusing on negative, undesirable consequences

Risk Lesson #1

Know how you get paid

How Do You Get Paid In Trading??

Taking risk

Planning

Earn money for time

Profits

system that generates consistency,
and statistically shows you generating
a multiple of your risk as gains

Providing value

Consistency

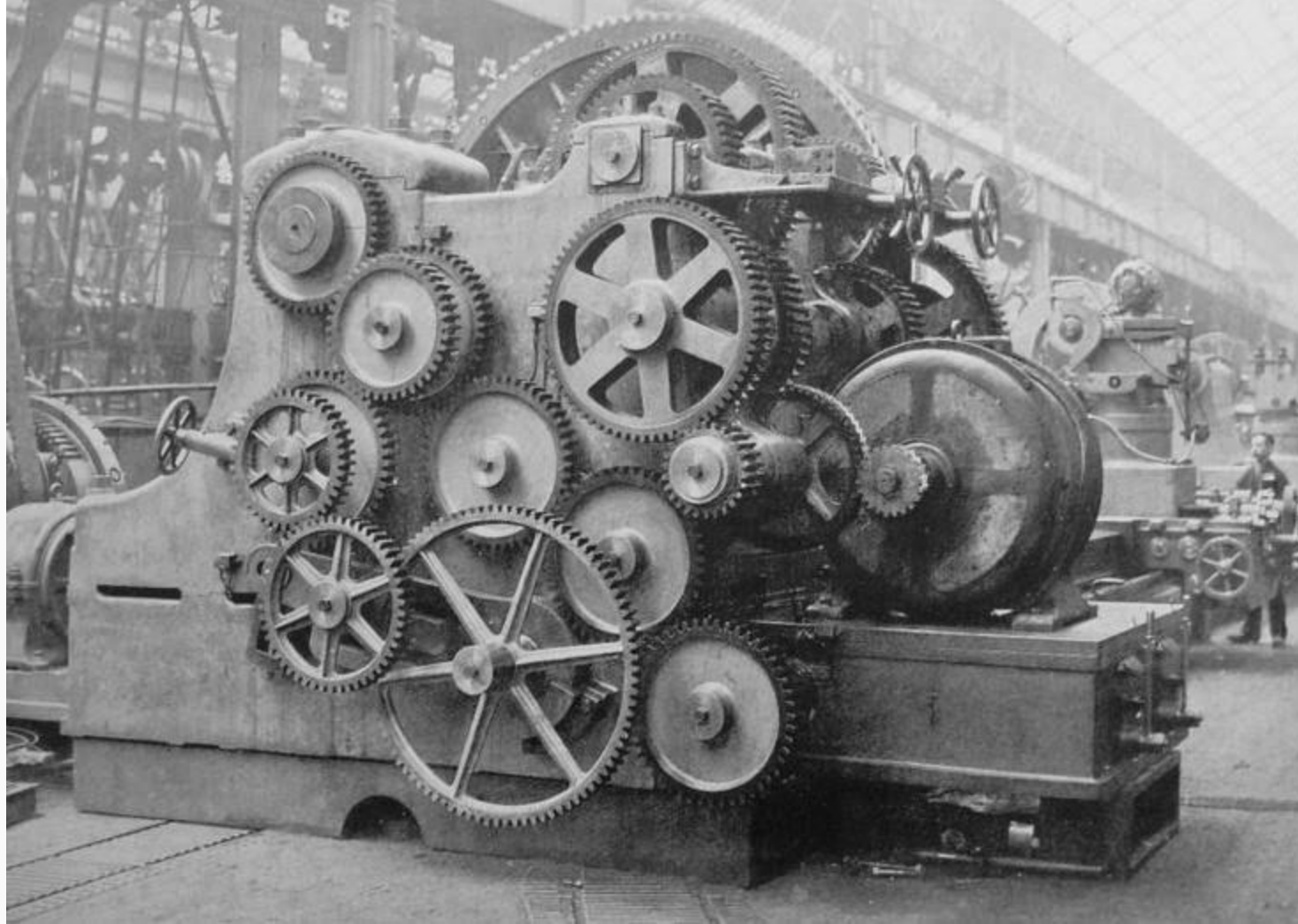
Partials

Exploiting price imbalance

How Do You Get Paid In Trading??



How Do You Get Paid In Trading??



How You Get Paid



How You Get Paid

Markets

- What the stock will do

Tactics

- Effectiveness of your strategy(ies)
- How much you are risking per trade
- How robust are your tools and processes

Execution

- How often you deviate from your strategy(ies)
- How often you do not adhere to your stop loss (+ve or -ve)
- How you manage the trade (i.e. partials, adding, exiting)

ACCEPT

REDUCE

AVOID

Risk Lesson #2

Think like an owner, not an employee

3 Scenarios

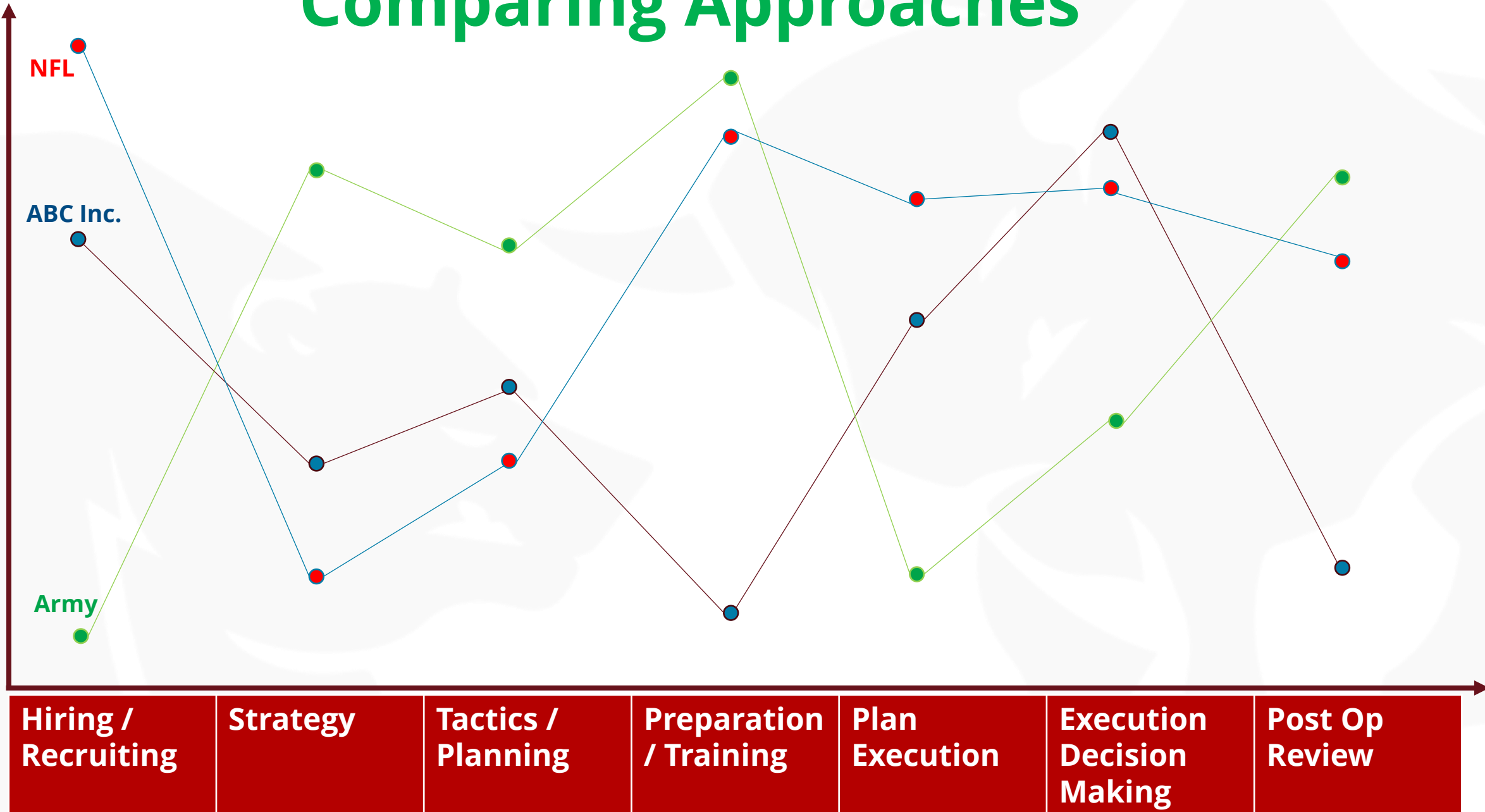


Comparing Approaches

Hiring / Recruiting	Strategy	Tactics / Planning	Preparation / Training	Plan Execution	Execution Decision Making	Post Op Review
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Comparing Approaches

Investment



The Trading Approach

Investment

Army

Hiring /
Recruiting

Strategy

Tactics /
Planning

Preparation
/ Training

Plan
Execution

Execution
Decision
Making

Post Op
Review

The Trading Approach

Investment

Trading

You

Trading
Strategy

TradeBook

Simulation
practice

Live Trading

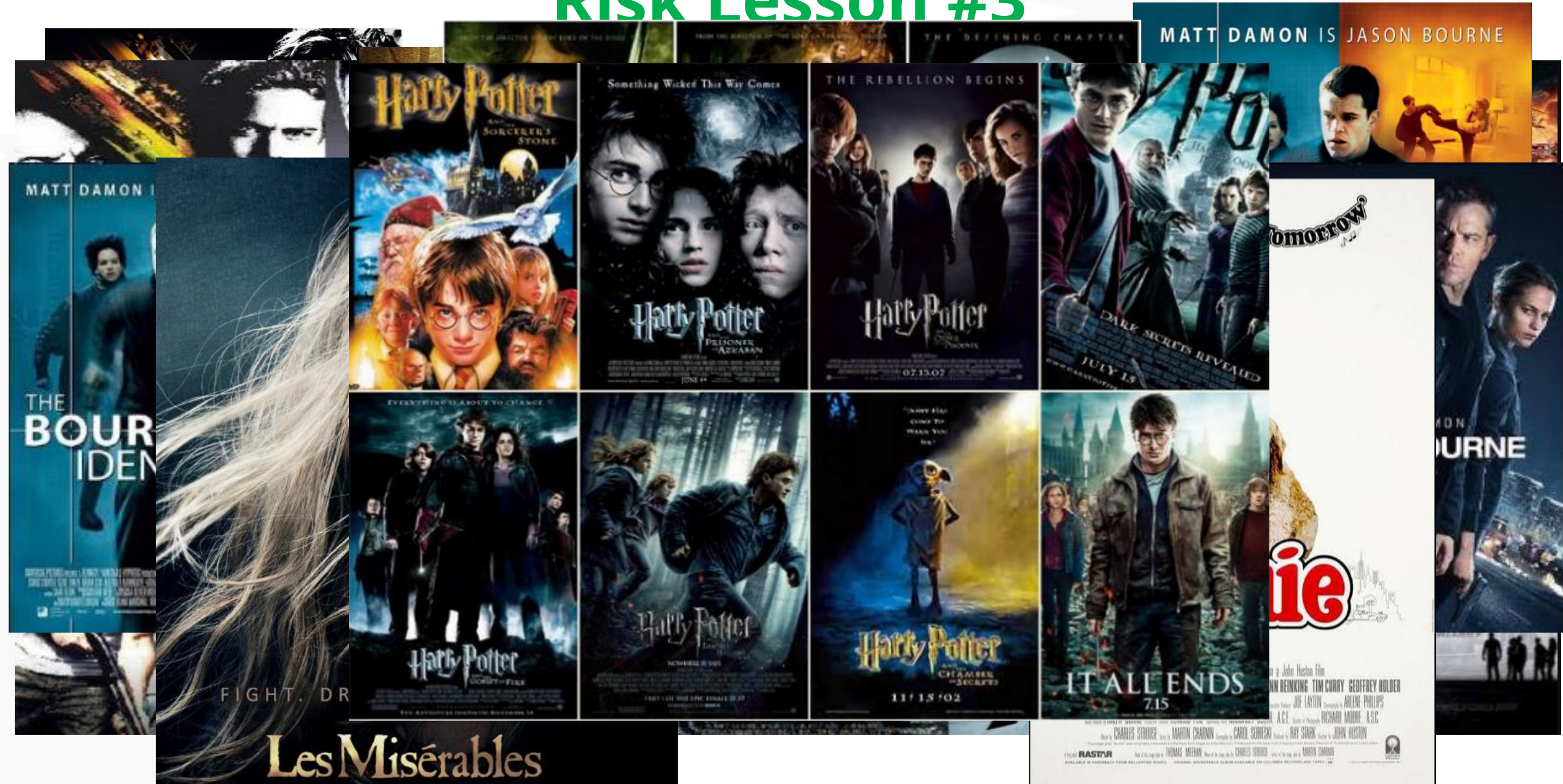
Trade
Manage-
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Trade
Analysis

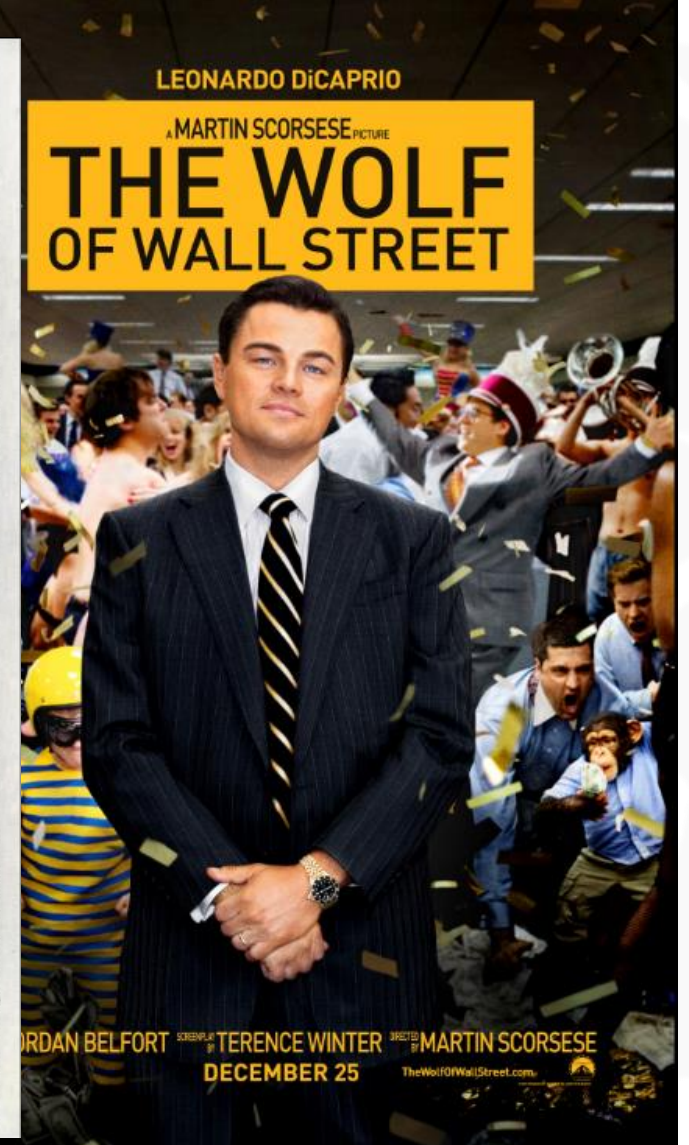
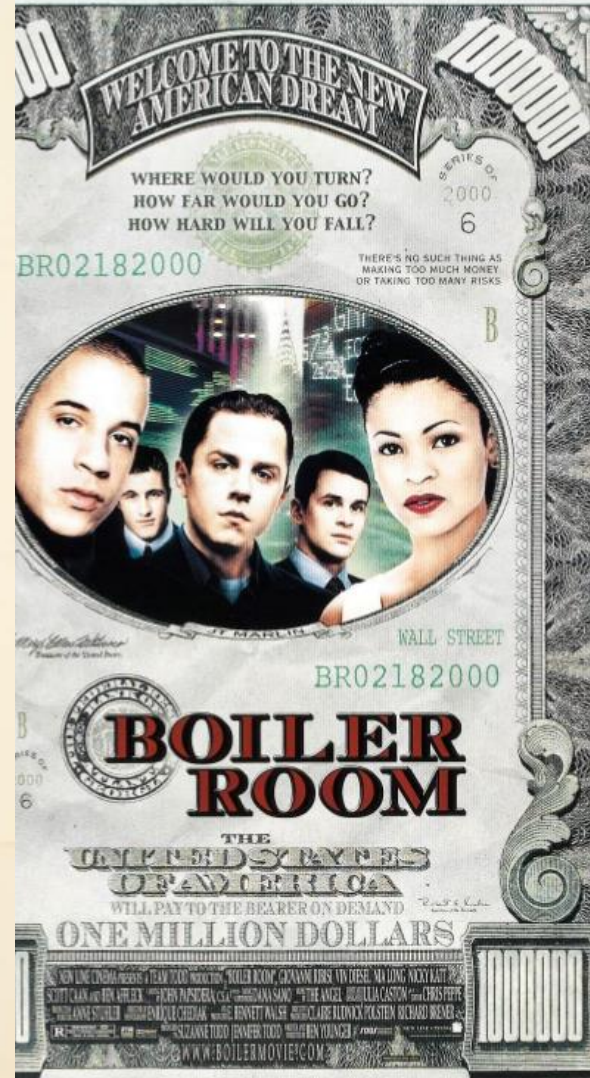
Risk Lesson #3

**Act like a leader
and not a (rogue) agent**

Risk Lesson #3



Risk Lesson #3



Risk Lesson #2



Risk Lesson #3

**In real life, rogue agents die,
destroy their lives and/or end
up in prison**

Be the boring leader!!

Risk Lesson #4

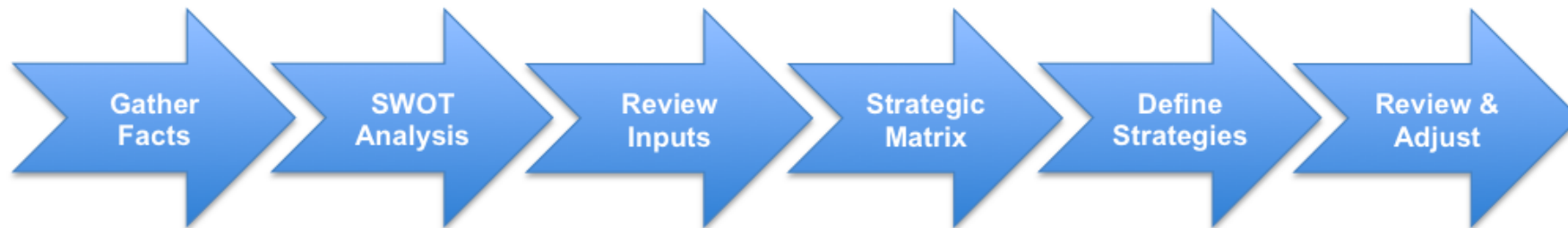
**Create a plan and execute it
flawlessly**

3 Scenarios



Business Planning

Strategic Plan Process



Gather Inputs

- From all Stakeholders
- Customer analysis
- Competitor analysis
- Industry analysis
- Environmental
- Company performance
- Company strategies

SWOT Analysis

- External Analysis
 - Opportunities
 - Threats
- Internal Analysis
 - Strengths
 - Weaknesses
- Strategic Questions
- Strategic Issues

Review Inputs

- All Stakeholders
- Review Inputs
- Review SWOT Analysis
- Define 3-4 key statements

Strategic Matrix

- All Stakeholders
- Define Strategies to address SWOT combinations:
 - Opportunities vs Strengths
 - Opportunities vs Weaknesses
 - Threats vs Strengths
 - Threats vs Weaknesses

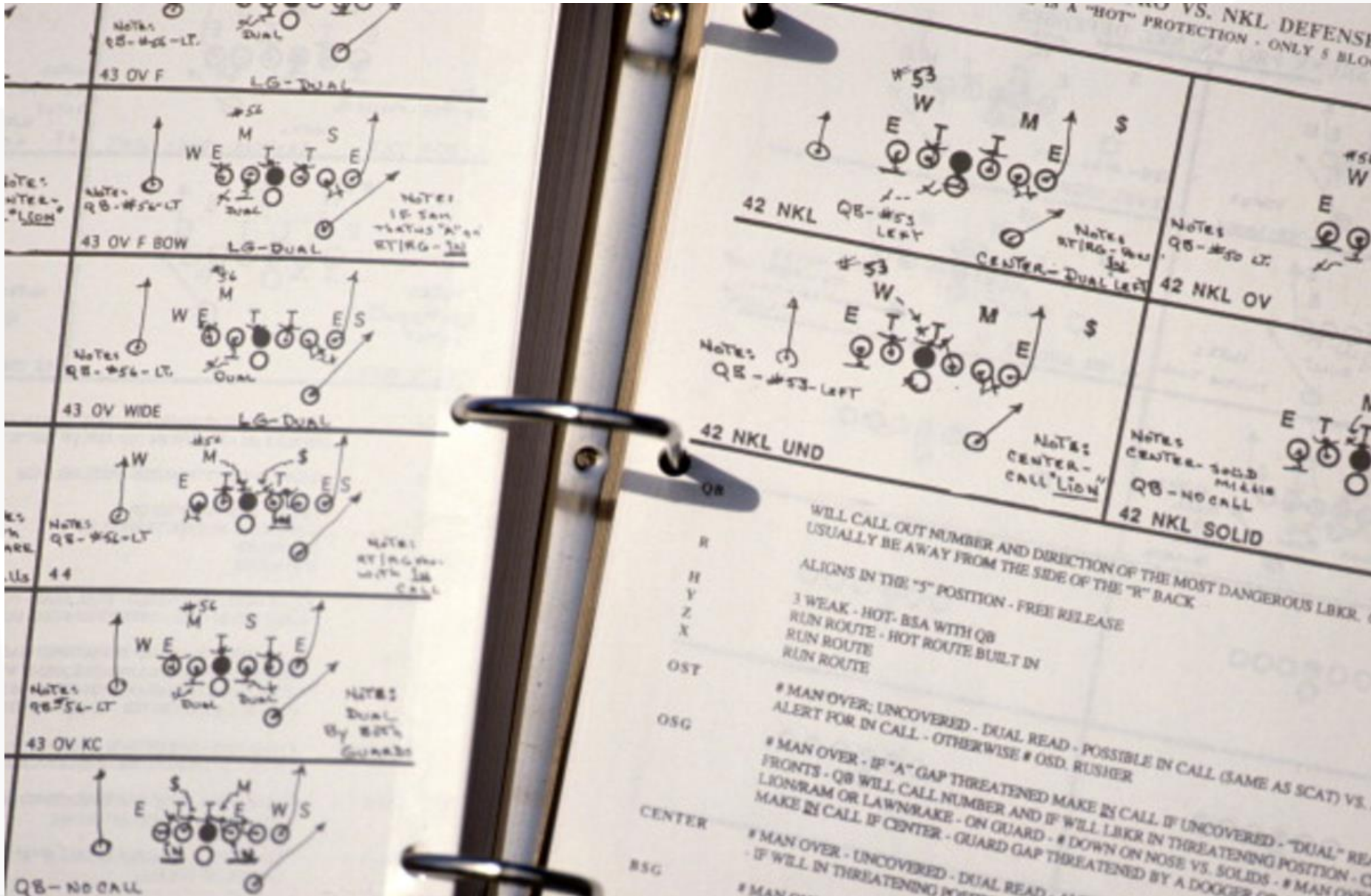
Define Strategies

- Objectives
- Key Strategies
- Short and Long Term Goals
- Operational Plans

Final Reviews

- All Stakeholders
- Review Strategies
- Review Goals
- Review Plans
- Adjust as necessary

NFL Playbook



US Army Operations Process

The Operations Process

The Army's framework for exercising mission command is the operations process -- the major mission command activities performed during operations: Planning, preparing, executing, and continuously assessing the operation.



Central idea . . .

Commanders, supported by their staffs use the operations process to drive the conceptual and detailed planning necessary to understand, visualize, and describe their operational environment; make and articulate decisions; and direct, lead, and assess military operations.

guided by . . .

Principles

- Commanders drive the operations process
- Apply critical and creative thinking
- Build and maintain situational understanding
- Encourage collaboration and dialogue

Strategic Trading Plan

Tradebook

Trading Plan – Mountain Pass (Double Top/Bottom reversal)

This is a Trend Reversal Pattern that can occur at the end of a low of the day.

The key characteristics of the Mountain Pass are:

1. Is the end existing
2. Sets a new high/low
3. Fails to set a 2nd new high/low
4. Pulls in, then crosses
5. Hopefully goes to the next high/low

This pattern is best played on the 1, 2, 5, 15, 30, 60, 120, 240, 480, 960, 1920, 3840, 7680, 15360, 30720, 61440, 122880, 245760, 491520, 983040, 1966080, 3932160, 7864320, 15728640, 31457280, 62914560, 125829120, 251658240, 503316480, 1006632960, 2013265920, 4026531840, 8053063680, 16106127360, 32212254720, 64424509440, 128849018880, 257698037760, 515396075520, 1030792151040, 2061584302080, 4123168604160, 8246337208320, 16492674416640, 32985348833280, 65970697666560, 131941395333120, 263882790666240, 527765581332480, 1055531162664960, 2111062325329920, 4222124650659840, 8444249301319680, 16888498602639360, 33776997205278720, 67553994410557440, 135107988821114880, 270215977642229760, 540431955284459520, 1080863910568919040, 2161727821137838080, 4323455642275676160, 8646911284551352320, 17293822569102704640, 34587645138205409280, 69175290276410818560, 138350580552821637120, 276701161105643274240, 553402322211286548480, 1106804644422573096960, 2213609288845146193920, 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Business Planning



Strategic Trading Plan

TRADER'S BUSINESS PLAN

Mission Structure

VISION

Drafting a business's vision statement is an important step in the creation of a business plan. It is one part of the owner's dream for the business and another part the path the owner is taking for their business in the future. The vision statement is generally written with long-term perspective in mind. The statement should be well-written and compacted into one or two descriptive and precise sentences about your desire for pursuing trading as a career.

MISSION STATEMENT

A mission statement is a key tool that can be as important as your business plan. It captures the essence of your trading goals and the business from which support them. Equally important, your mission statement signals what your business is all about to yourself. Answering these questions will help you create a vivid picture of your business plan:

- ☐ Who is going to buy your support network?
- ☐ When are you available to trade?
- ☐ What are your long-term goals?
- ☐ Who are you going to learn from?
- ☐ Why do you want to day trade?
- ☐ What capital is available to you?

TIMELINE

A timeline should be used to manage the progression from your initial decision to start trading, to your trading education and simulation training program, to meeting your end goal of live trading. This timeline is essential to tracking the various tasks that need to be completed in each step of your journey. It is continuously updated as progress is made to ensure your trading business does not become stagnant. It sets benchmarks to evaluate progress and keep the focus on how much has been accomplished.

SWOT ANALYSIS

STRENGTHS	WEAKNESSES
What do you do well?	What could you improve?
What unique resources do you have?	When do you have fewer resources than others?
How do others see your strengths?	What are others likely to see as weaknesses?
OPPORTUNITIES	THREATS
What opportunities are there to you?	What threats exist to you?
What risks could you face without you?	What are you doing to avoid those risks?
How can you grow your business?	What threats do you face that you cannot control?

Resources

TOOLS & SERVICES

- High-speed Internet Service**
You need a reliable internet provider that offers top speed internet.
- Broker**
You need a high-quality discount broker. Your broker is your vehicle to trade.
- Trading Platform**
Fast trade execution is the key for day traders to be successful. You need to be able to move in and out of trades quickly.
- Scanners**
Thousands of stocks are moving in the market every single day, but finding a setup that is both consistent and a good fit is really hard. Trade ideas software for scanning the market is a great tool for finding the best trades.
- Community of Traders**
Trading alone is very difficult and can be emotionally overwhelming. To allow with you ask your questions? Online communities are excellent places for meeting like-minded traders. They can be powerful learning tools.

JOURNAL

A trading journal is a tool to keep track of all of the trades you have made. A lot of the benefits of a trading journal is that it allows you the ability to monitor your progress, areas where you struggle, and to assist in determining what areas you need to improve in. The trading journal can be as detailed as you would like, but at a minimum a trading journal should include the following information for each trade:

- ☐ Stock
- ☐ Entry, stop loss, profit target
- ☐ Time of the trade
- ☐ Size
- ☐ What you did well
- ☐ What you did not do well
- ☐ What you can improve on
- ☐ A punchy phrase memo

MONEY AND RISK MANAGEMENT

- I will risk _____ % of my account per trade.
- I am allowed to scale up my size after being consistent.
- My daily profit target is _____ % of my account.
- My max loss is _____ % of my account.
- I have platform risk controls enabled: ☐ Y ☐ N
- I am allowed to take a max of _____ trades per day.
- My break-even win accuracy is _____ %.
- I stop trading if wind down when the clock reads _____.

STRATEGIES AND PATTERNS

- I don't trade the first _____ minutes after the Open.
- I trade stocks with at least _____ million share float.
- I prefer to trade stocks with a price range at:

- \$ _____ (min)
- \$ _____ (max)

TRADE MANAGEMENT

- I take _____ % off my position on each partial exit point.
- I move my stop to break-even after taking partials: ☐ Y ☐ N
- I seek a realized return of _____ times the amount I risk (avoid small gains).

- My stop losses are ☐ Manual ☐ Hard

My main message are _____

See TradeBook for more info

Planning

ACTION PLAN

The action plan explains how you will operate and manage your trading business. It addresses the bulk of activities that do not relate directly to your trading plan. Some of these activities include:

- Setting up your trading station
- Developing a community
- Developing educational plan
- Purchasing a time planner
- Choosing a broker, platform, and internet provider
- Establishing accountability relationships
- Investing in a machine
- Analyzing statistics from your trading
- Developing your own TradeBook

EDUCATIONAL PLAN

Creating an educational plan gives you a visual picture of what you will need to accomplish over a period of time and provides you with an idea of how long it will take to meet your trading goals. It is important to know what is required as you progress through the learning curve. Having a well thought-out plan allows you to manage expectations throughout your journey.

Sample Educational Plan:

- Month 0 - 2**
Learn (Read, Watch, Listen)
Month 3 - 5
Plan (Create Goals, Review Journal, Trading Plan, Risk Management)
- Month 6 - 8**
Practice (Develop a Routine, Track Losses, Review Statistics, Trading Plan, Review Goals)
- Month 9 - 10**
Play (Trade Live, Trade Case, Improve Position, Strategies, Trading Plan, Review Goals)
- Month 11 - 12**
Perform (Trade Live, Improve Routine, Optimize, Trading Plan, Review Goals)

Objectives

GOALS

Identify daily, weekly, monthly, quarterly, and yearly goals (and make progress on them) assists in maintaining a positive emotional attitude toward the ups and downs of learning to day trade. Ensure you have SMART goals:

- Specific**
Each goal set is direct, detailed, and meaningful.
- Measurable**
Each goal set is quantifiable to track progress or success.
- Attainable**
Each goal set is realistic; you have the tools and resources to attain it.
- Relevant**
Each goal aligns with your business plan.
- Time-based**
Each goal has a deadline.

TRADING RULES

Rules are developed outside of market hours when we have a slow head and are not under pressure or distractions. These rules are made to safeguard us when our mind is clouded and our emotions are at their peak. Rules are our friends who will protect us from ourselves.

- 1. Day trading is not a strategy to get rich quickly.
- 2. Day trading is not sleep. It is a serious business and you should treat it as such.
- 3. Day traders do not build positions overnight; if necessary, you must set with a limit to make sure you do not lose too much overnight.
- 4. Always ask "Is this stock moving because the overall market is moving, or is it moving because it has a unique fundamental catalyst?"
- 5. Success in day trading comes from risk management. Holding low-risk entries with a high potential reward. The maximum win-loss ratio should be 2:1.
- 6. Your income will dry up and melt away the less you exchange. View only plan as a day trader is to maximize risk. The current bid is not suitable day trader without excellent risk management skills, even if you are the master of many effective strategies.
- 7. Retail traders trade only stocks in the high relative volume index that have fundamental catalyst and are being traded regardless of the overall market.
- 8. Experienced traders are like guerrilla soldiers. They jump out at you right before they pull back, and go out.
- 9. Volume confirmation, where the close is greater than the open, indicates buying pressure. Filled candlesticks, where the close is less than the open, indicate selling pressure.
- 10. Indicators only indicate, they should not be allowed to dictate.
- 11.

Risk Lesson #4

strategic business

**Create a plan and execute it
flawlessly**

Risk Lesson #5

**Accept risk within your plan,
but focus it where YOU choose**

Accepting and Taking Risk

"Life is all about taking risks. If you never take a risk, you will never achieve your dreams."

-Anonymous

"He who is not courageous enough to take risks will accomplish nothing in life."

-Muhammad Ali

"Take the risk or lose the chance"

-Anonymous

"There can be no great accomplishment without risk."

-Neil Armstrong

"The biggest risk is not taking any risk. In a world that is changing really quickly, the only strategy that is guaranteed to fail is not taking risks."

-Mark Zuckerberg

Focusing Your Risk

Investment

Trading

Increased Risk

You

Trading
Strategy

TradeBook

Simulation
practice

Live Trading

Trade
Manage-
ment

Trade
Analysis

Risk Lesson #6

**Any risk within your plan is
good risk.
Any other risk is bad risk**

Planned Risk

Financial Risk

Daily maximum loss
Daily risk-per-trade

Psychological Risk

Loss of confidence
Failure to execute

Planned Risk

What risks can you identify?

Execution mistakes
Impulsive decisions
Self doubt
Changing tradebook
Lack of prep
No strategy
Not trusting yourself
Lack of patience
Over confidence

Planned Risk

Mon, Oct 3rd

My watchlist: **\$AMD, \$NCLH, \$AMC**
secondary: **\$DKS, \$OCGN, \$SOXY, \$JWN**

x / x – XX% trades taken

Note

Pre-Trading Checklist:

1. Stretch
2. Mindfulness moment
3. Affirmations
4. Pre-market pause

Today's goals:

- Today I am going to target a 'perfect' day:
 - Take only A/A+ set-ups
 - Take all the trades
- No partials until >1R and b/e at 1R
- TALK OUT LOUD!

Missed trades:

- XX short \$xx

\$0

Today's targets

Per trade risk: \$ 200
Profit target: **\$500**
Daily stop-loss: **-\$400**

Mental state: None

Trading effectiveness: None

What happened today: What prevented/allowed me to trade

Breaks: 1) time / 2) time

Planned Risk

Financial Risk

**Create a plan that addresses
ALL
the risk elements that matter to
you and allows you to execute on
your overall trading plan(s).**

Psychological Risk
Daily maximum loss
Daily risk per-trade
Failure to execute

Calculating Your Risk

Most investment banks and proprietary trading firms use highly complex measurements for performance and risk

- **The Sharpe ratio**
- **The Sortino ratio**
- **The Adjusted Sortino ratio**
- **Gain to Pain (GPR) ratio**
- **Value at Risk (VAR)**

Calculating Your Risk



Calculating Your Risk

**For retail traders, only 2
measures matter:**

**Daily Maximum Loss
&
Profitability**

Calculating Your Risk

Daily Maximum Loss

$$= 100 / \text{Win Rate}\% * (\text{Risk per Trade})$$

Note: Consider your desired daily trading volume and your emotional handling of losses before finalizing.

Calculating Your Risk – Profitability Calc

		Win Rate										
Payoff Ratio		25%	30%	35%	40%	45%	50%	55%	60%	65%	70%	75%
	1	-50%	-40%	-30%	-20%	-10%	0%	10%	20%	30%	40%	50%
	1.2	-45%	-34%	-23%	-12%	-1%	10%	21%	32%	43%	54%	65%
	1.4	-40%	-28%	-16%	-4%	8%	20%	32%	44%	56%	68%	80%
	1.6	-35%	-22%	-9%	4%	17%	30%	43%	56%	69%	82%	95%
	1.8	-30%	-16%	-2%	12%	26%	40%	54%	68%	82%	96%	110%
	2	-25%	-10%	5%	20%	35%	50%	65%	80%	95%	110%	125%
	2.2	-20%	-4%	12%	28%	44%	60%	76%	92%	108%	124%	140%
	2.4	-15%	2%	19%	36%	53%	70%	87%	104%	121%	138%	155%
	2.6	-10%	8%	26%	44%	62%	80%	98%	116%	134%	152%	170%
	2.8	-5%	14%	33%	52%	71%	90%	109%	128%	147%	166%	185%
	3	0%	20%	40%	60%	80%	100%	120%	140%	160%	180%	200%

$$\text{Payoff Ratio} = \frac{\text{Average Winner}}{\text{Average Loser}}$$

Calculating Your Risk – Profitability Calc

Win Rate

Payoff Ratio

	10%	15%	20%	25%	30%	35%	40%	45%	50%	55%	60%	65%	70%	75%	80%	85%	90%	95%
1	-80%	-70%	-60%	-50%	-40%	-30%	-20%	-10%	0%	10%	20%	30%	40%	50%	60%	70%	80%	90%
1.2	-78%	-67%	-56%	-45%	-34%	-23%	-12%	-1%	10%	21%	32%	43%	54%	65%	76%	87%	98%	109%
1.4	-76%	-64%	-52%	-40%	-28%	-16%	-4%	8%	20%	32%	44%	56%	68%	80%	92%	104%	116%	128%
1.6	-74%	-61%	-48%	-35%	-22%	-9%	4%	17%	30%	43%	56%	69%	82%	95%	108%	121%	134%	147%
1.8	-72%	-58%	-44%	-30%	-16%	-2%	12%	26%	40%	54%	68%	82%	96%	110%	124%	138%	152%	166%
2	-70%	-55%	-40%	-25%	-10%	5%	20%	35%	50%	65%	80%	95%	110%	125%	140%	155%	170%	185%
2.2	-68%	-52%	-36%	-20%	-4%	12%	28%	44%	60%	76%	92%	108%	124%	140%	156%	172%	188%	204%
2.4	-66%	-49%	-32%	-15%	2%	19%	36%	53%	70%	87%	104%	121%	138%	155%	172%	189%	206%	223%
2.6	-64%	-46%	-28%	-10%	8%	26%	44%	62%	80%	98%	116%	134%	152%	170%	188%	206%	224%	242%
2.8	-62%	-43%	-24%	-5%	14%	33%	52%	71%	90%	109%	128%	147%	166%	185%	204%	223%	242%	261%
3	-60%	-40%	-20%	0%	20%	40%	60%	80%	100%	120%	140%	160%	180%	200%	220%	240%	260%	280%
3.2	-58%	-37%	-16%	5%	26%	47%	68%	89%	110%	131%	152%	173%	194%	215%	236%	257%	278%	299%
3.4	-56%	-34%	-12%	10%	32%	54%	76%	98%	120%	142%	164%	186%	208%	230%	252%	274%	296%	318%
3.6	-54%	-31%	-8%	15%	38%	61%	84%	107%	130%	153%	176%	199%	222%	245%	268%	291%	314%	337%
3.8	-52%	-28%	-4%	20%	44%	68%	92%	116%	140%	164%	188%	212%	236%	260%	284%	308%	332%	356%
4	-50%	-25%	0%	25%	50%	75%	100%	125%	150%	175%	200%	225%	250%	275%	300%	325%	350%	375%
4.2	-48%	-22%	4%	30%	56%	82%	108%	134%	160%	186%	212%	238%	264%	290%	316%	342%	368%	394%
4.4	-46%	-19%	8%	35%	62%	89%	116%	143%	170%	197%	224%	251%	278%	305%	332%	359%	386%	413%
4.6	-44%	-16%	12%	40%	68%	96%	124%	152%	180%	208%	236%	264%	292%	320%	348%	376%	404%	432%
4.8	-42%	-13%	16%	45%	74%	103%	132%	161%	190%	219%	248%	277%	306%	335%	364%	393%	422%	451%
5	-40%	-10%	20%	50%	80%	110%	140%	170%	200%	230%	260%	290%	320%	350%	380%	410%	440%	470%
5.2	-38%	-7%	24%	55%	86%	117%	148%	179%	210%	241%	272%	303%	334%	365%	396%	427%	458%	489%
5.4	-36%	-4%	28%	60%	92%	124%	156%	188%	220%	252%	284%	316%	348%	380%	412%	444%	476%	508%
5.6	-34%	-1%	32%	65%	98%	131%	164%	197%	230%	263%	296%	329%	362%	395%	428%	461%	494%	527%
5.8	-32%	2%	36%	70%	104%	138%	172%	206%	240%	274%	308%	342%	376%	410%	444%	478%	512%	546%
6	-30%	5%	40%	75%	110%	145%	180%	215%	250%	285%	320%	355%	390%	425%	460%	495%	530%	565%

Calculating Your Risk

Risk Management Cycle

- 1. Calculate (or estimate) your Profitability**
- 2. Calculate (or invent) your Daily Max Loss**
- 3. Trade for 1 month**
- 4. (Re)calculate your Profitability**
- 5. Review all plans and decide what to change!**
- 6. Repeat**

Calculating Your Risk – Profitability Calc

		Win Rate										
Payoff Ratio		25%	30%	35%	40%	45%	50%	55%	60%	65%	70%	75%
	1	-50%	-40%	-30%	-20%	-10%	0%	10%	20%	30%	40%	50%
	1.2	-45%	-34%	-23%	-12%	-1%	10%	21%	32%	43%	54%	65%
	1.4	-40%	-28%	-16%	-4%	8%	20%	32%	44%	56%	68%	80%
	1.6	-35%	-22%	-9%	4%	17%	30%	43%	56%	69%	82%	95%
	1.8	-30%	-16%	-2%	12%	26%	40%	54%	68%	82%	96%	110%
	2	-25%	-10%	5%	20%	35%	50%	65%	80%	95%	110%	125%
	2.2	-20%	-4%	12%	28%	44%	60%	76%	92%	108%	124%	140%
	2.4	-15%	2%	19%	36%	53%	70%	87%	104%	121%	138%	155%
	2.6	-10%	8%	26%	44%	62%	80%	98%	116%	134%	152%	170%
	2.8	-5%	14%	33%	52%	71%	90%	109%	128%	147%	166%	185%
	3	0%	20%	40%	60%	80%	100%	120%	140%	160%	180%	200%

$$\text{Payoff Ratio} = \frac{\text{Average Winner}}{\text{Average Loser}}$$

Calculating Your Risk

Where to look for issues:

- Adherence to (Tradebook) rules
- Mental preparedness
- Average winner
- Win Rate
- Partialling approach
- Stock selection
- Trade timing (time of day and duration)

Risk Lesson #7

**It's all on you.
DO NOT blame anyone, or
anything, else**

Seven Risk Lessons

- 1. Know how you get paid**
- 2. Think like an owner**
- 3. Act like a leader**
- 4. Create a plan and execute it**
- 5. Purposely focus your risk**
- 6. Planned risk is good**
- 7. It's all on you**

Questions

