Anatomy of a Losing Trade

Every guide shows you the ones that won. This one is about the ones that did not, because how a setup fails teaches more than how it wins.

A correct trade can lose

This is the hardest idea to actually absorb, as opposed to nod along to. If a model reaches its target one time in three, then two of every three correct executions lose. Those two are not mistakes. At a 2R target, one in three is roughly what chance gives, so losing two in three is not a sign that anything is broken, and winning one in three is not a sign that anything works.

So the question after a loss is never *what did I do wrong?* It is a better one: was this a good trade that lost, or a bad trade that was always going to? Those need completely different responses, and confusing them is how traders wreck a sound process.

> **Judge the decision by what you knew when you made it, not by what happened afterwards.**

The four ways it goes wrong

FAILURE	WHAT ACTUALLY HAPPENED
The good loss	Every condition was met. Price simply did not continue. Nothing to fix.
The forced setup	One condition was missing and you counted it anyway: the close was "nearly" through, the level was "roughly" right.
The broken context rule	The entry was textbook, but it ignored a context rule you had written down in advance. Whether that rule helps is a separate question; breaking it mid-trade is not how you find out.
The good read, badly managed	The read was right. The stop was moved, the target was cut, or the position was too big to hold.

> Only one of those four is fixable by changing your rules. Two are fixed by following the rules you already have, and one is not a problem at all. Most traders respond to all four by changing the rules.

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PROCESS

Reading a loss honestly

Work through it in this order, and write the answers down before you look at the outcome again. The order matters: checking the entry first is how you end up justifying it.

1. **What was your context read?** Not what you hoped. What the higher timeframe actually showed at the moment you clicked, and whether your own rules said to take the trade.
2. **What was the target?** If you cannot name the level you were aiming at, there was no target, only a direction.
3. **Was the confirmation real?** A close back through the level, or a candle that looked close enough on the chart you were staring at.
4. **Where was invalidation, and why there?** Beyond the structure that would prove you wrong, or at the number that made the size feel comfortable.
5. **Did you hold the plan?** Same stop, same target, same size as when you entered.

If the first four answers are clean and the fifth is yes, you have a good loss. File it and move on. There is nothing to learn from it, and hunting for a lesson that is not there is how a sound set of rules gets tinkered into a broken one.

> The tell for a forced setup is that you had to describe it to yourself while entering. A setup that meets its conditions does not need narrating.

What the losses are actually for

A run of losses tells you something a run of wins never can: whether your invalidation is where you think it is. If your stops are being taken and price then goes where you expected without you, your invalidation may be sitting inside the noise. But a wider stop changes the size, not the odds: move it out and the trade simply needs a smaller position to risk the same amount.

If your stops are taken and price keeps going against you, they are in the right place and doing their job. That is the outcome you want from a loss.

> **A stop that gets hit and then proven right is not a bad stop. It is the only kind worth having.**

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PROCESS

The habits that survive a losing run

- **Risk the same amount on every trade.** You cannot know in advance which trade will be the one that reaches its target. Sizing up on conviction guarantees your largest position is on your least tested read.
- **Do not re-enter to get it back.** The trade after a loss is the most emotionally expensive one you will take all week, and it is rarely a setup.
- **Count in samples, not in trades.** Ten results tell you almost nothing. Judge a model over a run long enough for the arithmetic to mean anything, and put its hit rate next to the chance line: at a 2R target, about 1 in 3.
- **Expect streaks.** Losing runs longer than feels reasonable are normal, even when results are random. A streak is not evidence either way; only a long, honestly kept record is.
- **Keep the record before the outcome.** Write the reason for the trade at entry. Afterwards, memory rewrites it, reliably and in your favour.

Why we publish this

Anyone can show you winners. A screenshot of a winner proves nothing except that winners exist. What tells you whether a process is honest is how it describes its losses, and how it compares its results with chance. So this is how we describe ours.

Try it

Take your last ten losing trades. Put each one into one of the four rows on page one before you look at the chart again. Count how many were good losses.

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