Risk, Stops and Position Size

The stop defines the trade and the size follows from it. This guide covers where a stop belongs, how to think in R rather than currency, and the behaviour that decides what your results actually look like.

01 Why the stop comes first

A trade has two prices before it has a size. The price you enter at, and the price at which you are wrong. Everything else — how many contracts, how many lots, how much of the account is exposed — is arithmetic that follows from those two numbers. Get that order wrong and you are no longer trading the chart. You are trading your balance.

The common mistake runs the other way. You decide the size first, usually out of habit or because the setup feels convincing, and then look for somewhere to put the stop that keeps the loss comfortable. That produces a stop placed at whatever distance the account can absorb. Price has no knowledge of your account. A level that exists only because of your balance will be traded through at the ordinary pace of a normal session, and you will be removed from a trade whose premise was still intact.

The stop is a statement about the chart. It is not a statement about your account.

The protected swing

Most entries are taken because a specific move began at a specific place. There is a swing high or swing low that the market had to respect for your reason to hold — the origin of the leg you are trading, the extreme that was defended, the point beyond which the story you told yourself is simply no longer true. That is the protected swing.

Your stop belongs beyond it, not on it. Beyond means past the extreme with a small allowance for spread, for the wick that overshoots by a tick, and for the ordinary noise of the instrument you are trading. Sitting exactly on the swing is the same as sitting on every other stop in the market, and a wick that overshoots by a tick takes all of them.

Two placements to avoid

- Round numbers. They are convenient for humans and therefore crowded. A cluster of stops at an obvious figure is a pool of liquidity, and you do not want your stop to be part of it. If the level that invalidates your trade happens to be near a round number, place the stop beyond both, not at the number.
- A fixed point distance used everywhere. Volatility is not constant across instruments, sessions or days. The same fixed distance is a very wide stop in a quiet hour and a very tight one in a fast one. Let the structure set the distance and let size do the adjusting.

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> Be honest about what this buys you. A stop beyond the protected swing will still be hit, sometimes often, and placing it correctly does not prevent that. What it gives you is a loss that means something: when it triggers, the reason you entered has genuinely been removed, rather than your account size having been guessed at by the market.

02 R as a unit

One R is the distance from your entry to your stop, expressed in money. It is whatever you decided to risk on that trade. Every outcome is then measured in multiples of it: a trade that goes your way by twice the stop distance is a 2R outcome, one that hits the stop is minus 1R, and one closed halfway to the stop is minus 0.5R.

Thinking in R does two useful things. It makes trades comparable across instruments, sessions and account sizes, so a result on an index and a result on a metal can sit in the same column. And it strips the currency figure out of the decision, which is where most of the emotional pressure lives. You are not deciding whether to lose a sum of money. You are deciding whether to spend one unit of risk.

Working the size out

1. Take your account size. Use the balance you actually trade, not a notional figure.
2. Choose the fraction you risk per trade and fix it. This is a decision you make once, away from the chart, not per trade.
3. Multiply the two. That gives the money budget for this trade — your 1R.
4. Measure the distance from entry to stop in the instrument's own units, then convert it to money per unit of size using the instrument's value per point or per tick.
5. Divide the budget by the risk per unit. That is your position size. Round down, never up.

The numbers below are illustrative and chosen to be easy to follow. Substitute your own.

	TRADE A	TRADE B
Account	10,000	10,000
Fraction risked	1%	1%
Money budget (1R)	100	100
Entry to stop	20 points	50 points
Value of one point per contract	2	2
Risk per contract	40	100
Size = budget ÷ risk per contract	2.5, rounded down to 2	1
Money actually at risk	80	100

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Nothing changed between the two trades except the distance to the stop, and the size moved to absorb it. That is the whole mechanism. The wider stop is not a bigger risk; it is a smaller position. Rounding down leaves you slightly under budget, which is the direction you want to err in.

> Two practical points. Costs — spread, commission and any slippage on the exit — come out of the same budget, so a stop-out usually costs a little more than a clean 1R; assume that rather than being surprised by it. And if the smallest size your broker allows already risks more than your chosen fraction, the trade is too large for the account. Skip it or find a smaller instrument. Do not stretch the fraction to make the trade fit.

03 The behaviour that decides outcomes

Placement and arithmetic are the easy half. What separates one person's results from another's, using the same model on the same chart, is almost always conduct over a long run of trades rather than skill on any single one.

Risk the same fraction every time

Sizing up on the trades that feel strong is the most expensive habit in trading. Conviction is not something you can measure before the fact, only after, and the trades that feel most obvious are frequently the crowded ones. Vary your risk and your largest positions will land, at some point, on your least reliable reads. Fix the fraction and the question disappears entirely.

Never widen a stop

Moving a stop further away converts a defined loss into an undefined one. It is the single change that turns a normal losing trade into the kind that damages an account. The only adjustments worth making are ones that reduce risk, and even those cost you — moving to break-even removes you from trades that would have reached their target. Pick a rule, write it down, apply it the same way whether you are up or down on the week.

Understand what management costs

If you trail a stop or scale out, you will hand some open profit back to the market. That is not a mistake in your execution; it is the fee for staying in long enough to catch the trades that keep going. If you cannot tolerate giving anything back, use a fixed target and accept that some trades will run on without you. Both approaches are defensible. What is not defensible is switching between them mid-trade based on how the current position feels.

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Take the setups consistently

Skipping the ones that look untidy feels like discipline. It is actually an untested filter applied under pressure, and it removes trades from your record without telling you which ones. If you want a filter, define it in advance, in writing, and apply it to every trade including the ones you would rather take. Otherwise take what the model gives you.

A single loss is not evidence either way; only a long, honestly kept record is.

Be clear-eyed about the mechanism. A raid or sweep on its own is roughly a coin flip — liquidity gets taken all day and much of it means nothing. The close back through is what you are waiting for, but it does not make the trade more likely to work: at a 2R target, entries like these reach it about 1 time in 3, roughly what chance gives. Losing streaks longer than you expect are normal, even when results are random. Size so that a normal run of them is survivable and dull. Keep a record of the fraction risked, the stop distance and whether you followed your own rule, and review the process rather than the result.

More free guides and the full model breakdowns: whop.com/the-distilled-indicator — or follow @DistilledTrades.

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