

# Risk to reward, trade planning & risk management

## Why Risk Management Matters

Effective risk management combined with TA is what separates consistent traders from gamblers. Losses are inherent in trading — thinking you'll never lose is like playing basketball and thinking you'll never miss a basket. The goal isn't to never lose; it's to manage losses so they don't destroy your account.

**"I've never lost a trade. I've either won it or I've learned from it."**

## Correct Risk vs Over Risk

If you're checking your portfolio constantly, can't sleep, and get defensive when someone says something negative about your holdings — you're over-risked and emotionally attached. Correct risk management means you're calm, composed, data-driven, and goal-focused. The trade is just another number.

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## The Five Possible Outcomes of a Trade

Every trade has exactly five possible outcomes — nothing else can happen:

1. **Break even** — no gain, no loss
2. **Win big** — the money makers
3. **Win small**
4. **Lose small**
5. **Lose big** — the account killers

**The goal: eliminate #5 (big losses).** If you eliminate big losses using stop losses, you're left with break even, small wins, small losses, and big wins. The small wins and small losses roughly cancel each other out. What's left? The big wins — your account growers.

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# The 1% Rule

**Never risk more than 1% of your account on a single trade.**

With a \$100,000 account, if you're wrong you lose \$1,000 (1%). You'd have to be wrong 100 times IN A ROW to blow your account. That's virtually impossible with any reasonable strategy.

# The Math That Changes Everything

**Losing strategy (no 1% rule):** 10 trades, won 6 out of 10 (60% win rate), but had three big losses of \$7-10K each. Result: **-\$1,000** despite winning 6 trades. Big losses wiped out big wins.

**Winning strategy (with 1% rule + 3:1 ratio):** 10 trades, won only 3 out of 10 (30% win rate). Every loss was \$1,000 (1%). Wins were \$3K, \$3K, and \$10K (3:1 minimum). Result: **+\$9,000** (9% account growth) despite winning only 3 trades.

**You can be right only 30% of the time and still make money.** This is the single most important concept in the course.

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# The 3:1 Risk-to-Reward Ratio

**Never take a trade that doesn't pay a minimum 3:1.** For every \$1 risked (stop loss), aim to make at least \$3 (take profit).

# How It Works

- **Entry:** \$100
- **Stop loss:** \$95 (risking \$5)
- **Take profit:** \$115 (reward \$15)
- **R:R = \$15 ÷ \$5 = 3:1 ✓**

This is like going to a casino where landing on black loses you \$100, but landing on red wins you \$300. You only need to be right 30% of the time to be profitable.

# Setting Stop Loss

Place your stop loss just beyond a **logical invalidation point** — below a pivot low or support level for a long trade. If price hits your stop, your trade thesis is genuinely invalidated (market structure is no longer bullish). The stop should go where, if hit, you're objectively wrong.

# Setting Take Profit

Use your toolkit: Fibonacci zag zones (382-618), horizontal resistance levels, measured move targets, channel boundaries. Look for where Fib levels align with other confluency points — that's your highest probability take-profit zone.

# Why You Can't Take Every Breakout

Not every breakout gives you a 3:1 trade. If price breaks out and your stop is too far from the entry relative to the target, the R:R might only be 0.8:1 — can't take it. But if price gives you a pullback/retest first, your stop can go under the retest pivot, often giving you 3:1+. This is another reason the breakout+retest strategy is so powerful — it improves your R:R.

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# Breaking the Myth: Cheap vs Expensive

**"Forget price. Focus on risk to reward."** This is the most important takeaway from the entire course.

A "cheap" asset at \$0.01 with a poor R:R is a BAD trade. An "expensive" asset at \$500 with a great R:R is a GOOD trade. Your goal is NOT to buy low and sell high — it's to **risk little and make more**.

You could pay MORE for an asset and make MORE money if the R:R is better. Bitcoin at \$100K with a 10:1 R:R is a better trade than Bitcoin at \$3K with a 2:1 R:R.

**Stop thinking: "What price did I pay?" Start thinking: "Where's my stop? Where's my target? What's my R:R?"**

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# The Recipe for Success — The Complete Trade Checklist

You've been given all the ingredients across 10 weeks. Now here's the recipe card.

## Non-Negotiables (Core Ingredients — Must Have ALL)

These are like flour, eggs, and milk for a cake. Without them, you don't have a trade.

| # | Non-Negotiable                  | Question                                                                                             |
|---|---------------------------------|------------------------------------------------------------------------------------------------------|
| 1 | <b>Market Structure</b>         | Is market structure on my side? (HH/HL for longs)                                                    |
| 2 | <b>Reversal Pattern</b>         | Was there a double top/bottom, non-failure swing, or failure swing before the structure change?      |
| 3 | <b>Volume Confirmation</b>      | Is volume confirming the move? (OBV supporting the breakout)                                         |
| 4 | <b>Support/Resistance Break</b> | Is it breaking through a major S/R level? (Dow Theory says you want it to break a significant level) |
| 5 | <b>Minimum 3:1 R:R</b>          | Does the trade pay at least 3:1? If not, don't take it                                               |

**If you can't tick all five → no trade.** Don't even look at the extras. No cake without the core ingredients.

## Negotiables (The Icing — Makes It Better)

Once you have all five non-negotiables, these increase probability:

**Signals/Blinkers (want at least 1, prefer 2):**

- RSI divergence before the reversal?
- OBV divergence before the reversal?

**Context:**

- What phase are we in? (Buy at beginning of public participation, not in excess)
- For swing/position trades, are we coming out of accumulation?

#### **Additional Confluency (the more the better):**

- Bouncing off or breaking through a Fibonacci level?
- Breaking a trendline resistance / bouncing off trendline support?
- Another chart confirming the same thing? (Index, sector, related asset)
- Fibonacci cluster zone?
- Base or consolidation prior to breakout?
- Candlestick reversal pattern? (Engulfing, morning star, hammer)
- Chart pattern? (Falling wedge, cup & handle, inverse H&S, flag)

#### **Stop Loss Validation:**

- Is the trade invalidated where the stop loss sits?
- Is the stop under the pivot low?

#### **Take Profit Validation:**

- Fib retracement to find the zag zone?
- Fib levels aligning with confluency points?

## The Bitcoin \$18K Trade — Recipe in Action

The educator's real trade demonstrated the full checklist:

1. ☐ Change of market structure (failure swing reversal)
2. ☐ Falling wedge pattern (bullish reversal)
3. ☐ Breaking back through major support (liquidity grab confirmed)
4. ☐ Breaking through the zag zone of the prior move (not just correcting the last leg)
5. ☐ Bullish divergence on weekly RSI
6. ☐ Bullish divergence on weekly OBV
7. ☐ Increasing volume on the breakout
8. ☐ 3:1+ R:R with stop under pivot and TP at Fib zone

Eight reasons to be in, one minor negative (daily OBV didn't confirm). Way more evidence for than against. That's the standard you're aiming for.

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## Key Mindset Shifts

- **Trading is not a get-rich-quick scheme.** It takes years to master, just like any skill. People happily go to university for 4 years eating two-minute noodles, but expect to

master trading in weeks

- **The data in your journal tells the truth, not your feelings.** If your journal shows you're better at swing trading than day trading, listen to the data
  - **Eliminate big losses and the rest takes care of itself.** Small wins and small losses cancel out. Big wins are your account growers. If you never have big losses, you'll grow over time
  - **You're becoming the casino, not the gambler.** The casino doesn't win every hand — it wins because the odds are stacked in its favour over hundreds of hands. That's what 3:1 R:R does for you
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