The Topic On Stop Loss

Understanding Stop Loss in Forex Trading by The Doctor

1.1 What is stop loss? **Stop loss** is the trading **limit** of cutting or ending a trade position within the market prior a position has yet to open or after position is opened . Stop loss is generally used as a **risk protection** and **risk management** of a trading account if applied **wisely**. Stop loss is also another taboo that most retail traders or inexperienced traders cannot comply with due t**o fear of losing** to the market their **current profits accumulation** or initial investment **capital sum**. It's a generally a bacteria that can be harmful or helpful to the trader's overall **trading ethics** and their **mindset** which covers personality, psychology, emotions and experience of each individual.

On the overall questioning and reasoning of Stop loss in the trading market, The Doctor has a very harsh view and it's a **requirement and standard** for every professional and successful trader wannabe to adhere that having a stop loss within a trading plan is one of the most important aspects of trading and it's also what makes the trader complete, that is the fine line and the only difference between a **gambler and rogue trader.**

1.2 The Doctor shall explained the benefits and importance of stop loss in a trade plan as what's beneficial to a trader's health.

I) By placing stop loss, **risk** is identified before a trade is taken, a trader odd to know and understand how much he can **afford to lose** without getting emotional and irrational for his next *subsequent trades entries*. Risk management is the most important factors of any portfolio/account management.

A trader cannot decide how much he can win before a trade is taken, the market moves the way it wants, but a trader can limit his losses per day/week/month/time, so that he can move on into a new trade idea. Do note that a trade is not won, only until the position is closed at profits, trailing stops, and banked into the balance and strike off from the floating equity.

II) By placing stop loss, the trader can avoid a **BREAKOUT** scenario, a breakout scenario is usually when price hits and move along a certain direction in a very strong trend where RSI crosses 70 and 80 or 30 and 20, and continue to propel on a single direction, and price may not even return to resistance turns support or support turns resistance in near terms in matters or days due to strong fundamental events or steroid.

Figure 1.3, a recent 2012's EUR/USD breakout to the upside

1.3 Breakout often leads account to **margin call/stop out** most of the times, and the damage is far more than expected at most of the time, take a recent EUR/USD breakout a month plus ago from 1.24 into 1.30. If anyone recall it from 1.24 then 1.2650 then 1.2750 then 1.2880 then 1.2940 into 1.31.

III) similar as above, by not placing stop loss, a retail trader is often or not , not a trained hedge trader , does not know accounts management = multiple account trading-> some buy some sell at different entries and stop loss, risk profile into low, middle, high, scalping range and long term etc,, nor does forex options trading for hedging purposes.

Often or not the retail trader will either commit **collapsed trading**, opening new entries on subsequent price level in the **same direction**, the real danger would be accompanied with martingale method of increasing lot size at subsequent level, it won't be as bad if the trader can make good grid entries on at least 100-200 pips away on subsequent entries compared to one who does a new entry on few pips away or 20-50 pips away.

Accumulation of red pips in a direction will lead to margin call and account blow even faster.

It's only lucky if the trader is trading within a range bound of M or W in a fibo of 23.6 to 61.8 range, once a breakout across 61.8 and trader made his entry against the flow from 0 to 23.6 and subsequent levels of 50 and 61.8, hes leading his account to be blown even faster.

Trader can be emotional and berserk and loses his cool and decisive thinking/planning/trade plan.
IV) A trader may open too many positions in the same account of both long and shorts, resulting in **indecisiveness** to close which order first, and often or not its likely to be overall negative than positive reading. It would be even worst if trader open too many positions in every other accounts which make it more **harder to manage.**

1.4 By having stop loss, a trader is **not married to a trade**, he's neither bullish or bearish bias, but trade accordingly to plan and price, he get out if he is wrong earlier, and minimize **his losses and risks**, cutting losers shorts.

By having stop loss, if a trader is wrong and if he did not have a good trading day/week, can re-plan before he enters the market again with the **remaining % of his account to fight another day.**

A trader must learn to keep his losses small, and ride on his profit, it's OK and alright if a trader keep hitting **stop loss**, which means the trader must learn to identify even better and sharper entries. At least the positive side is that he would take a **longer time and more losing trades** before his account reached margin call or stop out. And in each failure/losses he actually **gain experience**. A trader should not begin trading with the mindset of " **OH i am going to rape the market** ", the real fact is most retail trader are getting **slaughtered instead.**

If a trader keep hitting stop loss and losing his account liquidity, then that's the time he should find and learn/master a new trading plan that **suits his personality.** A trader should thank god, hes not the few that blows their accounts over and over again **over the initial profits accumulation or lucky head start. As seen on figure 1.3** , we do not want to be in a situation where we are**tanking a negative trade from 1.20-1.23** and price lead all the way up to 1.3 and we are gloomy that it may never return in the**short period.** If a trader is **selling**, that's making it worst with the **negative swaps rates accumulated everyday of the trading week.**

1.5 He lacks the skills/knowledge/technique should continue to explore or learn instead of jumping into the market as a **Centenarian person** who buys a particular shares and hope to see its value rise back one day. But the saying goes, **the stronger get stronger**,**the weaker get weaker**, a old thinking trader does not admit he is wrong and until it get extinct. As mentioned, it's in the pattern, if a trader is lucky to trade withing a M or W, if hes red and wrong, he can wait for his position to be break even or green if he has the leverage and patience to do so and it has to be in certain pairs only.

The strong get stronger and weak get weaker is actually saying " **Trend is your friend** "
" **Please do not fight trend** "

The chances of a trader not using a stop loss is the same as **gambling** on a direction, but if he keep changing sides and take mere pips from the market through scalping with a poor R R and lack of sniping techniques, his overall losses will be greater than his small fishes that he had farmed. A scalper without stop loss can farm every 1-12 pips and accumulates maybe 30-40 pips a day, **if he was trading in range market**. But **once a breakout happens**, and his positions get stucked, he can be in red of 100-500 pips until it blows. The more entries he's making **against the flow of trend** is also likely to get its red pips accumulated in a matter of time leading to **over-leveraging.**

Therefore, on the side note, identifying a **breakout point or probability** is important while market is in a range. So a trader don't jump into a position very quickly once a **pivot has been hit** and thinking **counter-trend trade** is going to work.

Obeying ABCD/Smart stop loss/Manual stop loss
1.6 The trader must respect the rule and high probability of resistance turns support, support turns resistance when the market goes against him and retrace back to former support/resistance near point, he must cut losses at that point given a chance, or be blow away by breakout again.

There are ample times that the market is lenient and will likely to be lenient as well, if a trader has been trading against the flow and held onto **negative positions. Often or not,** the price would actually retraced back to former resistance/support, or near there after the consolidation phase.

As breakout may slipped into a consolidation phase before it continues it's trend, so if price do even reach consolidation phase above the breakout point, the trader should cut his losses at that point, that's smart stop loss, and its manual and not easily hunted.

However, it's alot harder said to be done without a stop loss in place before the trader is taken. As trader's ***desires and emotions*****may not agree to himself** of cutting the position while given the chance, as he would actually thinks that trend will reversed in his favor which is a very **wrong attitude.**

As seen on figure 1.6, before the price has even come down to resistance turns support, the doctor's has set a target profit or new pending buy limits on the line of former resistance. As this is the common practice in the market.

Common practice

Professional traders usually make their positions on **supply or demand aka wick or pin** of the candlestick, but there are still probability that breakout may happen. So if the trader actually committed a position on the wick on resistance as since on point B. He may expects in the near future as fundamental/trend starts to change slightly before a reversal is considered, he can cut his positions when it was going against the trend in a breakout of maybe 100 pips away. That's when the probability of price returning back to former resistance, and of 23 Oct 2012, the price did turned back to 1.0295 at the breakout point of former resistance area.

So due to this **psychology and concept**, most bearish positions are actually out of the trading market and continues to help the bull market because of **1 less bearish taker.** If the reversal do happens, the professional traders would actually use a **sell stop position i**nstead of holding onto their existing positions, as sell stop is a future position compared to a counter-trend position on limits which make sell stop a trend following position.

A trader should note that it only takes a single breakout to clear the trader's account most of the time and damaged his trader's health. Or stop him from thinking straight to make better entries and positions.

1.7 Price have the tendency to move up and down, it fluctuates in all different time frame and have either bullish/bearish patterns or side way in different timezone and volatility.
Asian, Europe and US session all has different volatility, it's important to use stop loss in high volatility or stay out of trade to only use buy sell stops with tight stop. As buy sell stops

position often occurs in strong trend of breakout, and unlikely to be against the trend, and it also has to be depend on fundamental aspects and session volatility.
Retailer must learn risk management and account protection, to prevent becoming a prey in this market.

Risk reward management
An example only,
1.7.1 A trader can be wrong 7 times on a mere stops of 10 pips, but once he rides on profits of 3x80 or even 3x50, he already compensate for his earlier losses.

Not marrying a trade
Ride on profits
keep losses small

3 basic rules to dominate.

Learn to snipe instead of spam like machine gun

Chief Trader Management Concept

1.7.2 Let me share a trading idea to trader out there, if you have wallet management profile, meaning that you can temporary stored your money in the wallet instead of having all the money and equity in your account. Perhaps says, you have $10,000. Your hard stop can be $1000. So your account is actually $1000 and your wallet profile has a remaining $9,000.

The chief trader starts his trading day by managing a group of 20 traders. Each traders are given 30 Pip points to trade per day. So before they even begin, the trader actually have this psychology and mindset in themselves.

I come to work, i have nothing to lose, i am not afraid to lose. But how can i maximize my profits? and my longevity in the Market. So every individual trader starts to plan their own trading plan and stop loss assessment.

The chief trader has told every trader that they each have 30 pips on their hand, do whatever they can to make any profits above that, and trader will be given/rewarded the 80% of the profit he made.

As we all know, every trading day, session, hours are different and their volatility and movements are different as well. It's important to plan and understand the motions of each range we are trading.

So on the side note, the chief trader have ruled that if at any one point the trader commit a loss of 30 pips, they are stopped out, they will return home or out of office until the next trading day to restart with a 30 pips again.
With this concept and approach, the trader will have lesser emotions attached. He would want to be build a winning position and hopes that breakout may happens in his favor. So hypothetically, this was what happened.

Out of 20 traders.

8 traders were stopped out. Resulting in a loss of 240 pips on the management.
7 traders had break even with a average of 10 pip wins. Resulting in a gain of 70 pips.
5 traders had miraculously stampede a average win of 80 pips. Resulting in a gain of 400 pips.

So the overall management was 470 pips - 240 pips = 230 pips.

And the chief trader made 20% of 230 = 46 pips.

While the 5 traders made 64 pips each.

1.7.3 The lesson learnt from 1.7.2 is about **risk diversification** and **risk management**, that the chief trader did not handle his accounts to 1 trader but to 20 odd person. Every individual have a different mood every day, different luck, different views and perspectives of the market and different conditions of their trading plan. So it is about sustaining a healthy trader's health which managed well their psychology and emotions. The market will be there for 24/5 per week for the remaining days ahead.

A retailer can learn to make his account into many shares into many trades with stop loss, into many person, and each with a trading plan, and tries to maximize their profits at the end of the day.

HARD STOP/recuperation of trader's health

1.8 He must have a hard stop trading plan to himself that he must **promised himself i**f his trading edge do **suffers** because obviously the current system/methods he's utilizing is not performing in the **current market situation.** The hard stop shall act as a account protection and **freeze** the trader from committing further losses as if a bank account is frozen.

After that, the trader should step out from trading for at least **1-2 weeks** to whine out his emotions and psychology factors that's affecting him negatively if it did happen which probably will as we are all human.

After the trader has taken the fear and **resentfulness** away from his **mentality**, he should step back not to trading immediately as yet, but to review what happened and what went wrong in his trading plan with the current market condition to analyze and write up some backup plan or new strategy or etc. After which, when the trader feels he's ready, he then can step back into trading.

We should view each trading period as monthly/quarterly before yearly. We want to strike a balance with positive returns with a positive and optimistic **trader's health** on a yearly basis, so much such, we may have **bad months**, **good months** but overall we should be performing above **break even** to every trader's expectations and target which should be in **achievable range** to each of their own preference.