Risk per trade: the number you choose first

> **RISK PER TRADE**
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> Risk per trade is the fraction of your account you will lose if a single trade hits its stop, chosen as a fixed percentage before any chart is opened. It is the first number in every position-size calculation and the main input in whether a losing streak is survivable, because a fixed fraction shrinks in money terms as the account shrinks and can never empty it in one run of ordinary bad luck.

Module 3 ended with a bill you can compute before entering. This module starts with a different number you choose before entering: how much of your account a single wrong trade is allowed to take.

Most beginners meet this question backwards. They pick a position size that feels reasonable, watch the account move, and discover afterwards what they were risking. The order is the error. The risk comes first, and everything else in this module is arithmetic that follows from it.

Why a percentage rather than an amount?

A fixed money amount ignores the account it comes from. The same loss is a rounding error on one balance and a wound on another. A fixed percentage scales itself: as the account falls, the money at risk falls with it, and as it grows, the risk grows in proportion.

That self-scaling is the survival property. Lose a fixed fraction repeatedly and the account decays gradually; lose a fixed amount repeatedly and the account hits zero on schedule. Lesson 6 prices this exactly, and lesson 7 turns it into a probability.

What does the choice actually control?

Sequences. Any single trade's loss at any sensible fraction is absorbable. What the percentage controls is what eight losers in a row do - and eight losers in a row is an ordinary event for methods with ordinary win rates, which module 5 will make plain. A run that dents one account destroys another, and the only difference between them was this number, chosen at the start.

The choice also sets your relationship with lesson 2's arithmetic: given a stop distance, your percentage is what decides the position's size. Traders who feel their size is imposed on them have it inverted - the size is the output.

Worked example - figures in USD

An account of $12,000, a chosen risk of 1% per trade, and a EUR/USD setup whose stop sits 25 pips away.

1. Choose the fraction first: 1% of $12,000 fixes the money a wrong trade may take at $120.00.
2. The trade's stop sits 25 pips away. At $10.00 per pip per lot, the risk budget buys 0.48 lots - 48,000 units of the base currency.
3. Whichever way the trade resolves, the chosen number did its work at entry: a stop-out costs $120.00 and no more, and a winner's size was set by the same rule that capped the loser.

Diagram: The same ten losses at two risk fractions. The fraction decides how much of the account a streak can reach. View it in the web lesson: https://ticksprout.com/learn/fx/risk-management/risk-per-trade-the-number-you-choose-first

What this means for you

Write your percentage down before your next chart is open, and treat changing it as a decision with a reason, never a reaction to the last trade. The number is yours to choose; what is not optional is having chosen it. Lessons 6 and 7 give you the arithmetic to judge whether the number you wrote is one your account can live with.

Try it yourself with the position-size calculator: https://ticksprout.com/tools/position-size

Check your understanding

1. What does a fixed-fractional risk rule hold constant across trades?

a. The money lost per losing trade
b. The fraction of the current account lost per losing trade
c. The position size in lots

Answer: b. The fraction is fixed; the money it represents moves with the account, falling in a drawdown and rising in growth. Fixed money amounts and fixed lot sizes both break that self-scaling, which is the property the rule exists for.

2. Why does the risk percentage matter more across a losing streak than on any single trade?

a. Single losses at a sensible fraction are absorbable; the percentage decides what a run of them compounds to

b. Because winning trades refund previous losses

c. It doesn't - each trade is independent

Answer: a. The percentage compounds across a sequence: the same eight-loss run is a dent at one fraction and a crater at another. Independence of trades is exactly why streaks must be planned for, not a reason to ignore them, and winners refund nothing automatically.

3. In the sizing chain, which of these is an output rather than a choice?

a. The risk percentage

b. The stop distance

c. The position size

Answer: c. You choose the risk fraction, and the trade's structure sets the stop. Size is what the two of them compute. Treating size as the choice and back-fitting the others is the inversion this module spends two lessons undoing.