

When your stop is not your risk

WORST-CASE RISK

A stop caps your loss only while prices move continuously; across weekends, news releases and thin sessions, price can jump past the stop and fill it at the first quote on the far side. When a position is held through such a window, the honest risk per trade is the plausible gap distance, not the stop distance - and the position sized on the stop alone is oversized by the difference.

Module 3's slippage lesson priced a gap after it happened. This lesson moves the same arithmetic to the only place it earns money: before entry, as a sizing input.

When is the stop's promise good?

Whenever the market can trade every price on the way down. In continuous, liquid hours a stop fills at or within a pip or two of its level, and lesson 2's sizing chain - built on stop distance - is telling the truth.

The promise breaks where quoting breaks: the weekend close, the seconds around scheduled releases, the thin hours module 2 mapped. Price does not travel through the intervening levels; it reappears somewhere else, and a stop inside the jump fills at the far side. The stop was honoured. The distance was not.

How does the worst case become a sizing rule?

Run lesson 2's chain with a different denominator. Instead of the stop distance, use stop plus the plausible gap for the window you intend to hold through - what the pair has actually jumped across comparable weekends and releases, which module 2's calendar work lets you look up rather than guess. The chain then produces a smaller size, one whose worst case lands inside your lesson 1 fraction.

The alternative rule is flatness: close before the window, hold no position across it, and keep the larger size the continuous-hours arithmetic allows. Both rules are coherent. Sizing on the stop while holding through the gap is the only combination that lies to you.

What does the choice cost?

The gap-sized position is smaller, so continuous-hours wins are smaller too - that is the premium paid for surviving the discontinuity. The flat-over-weekends rule pays instead in missed moves that happen without you. The worked example prices what the unpriced third option costs when it goes wrong, and that number is the one to weigh the premiums against.

Worked example - figures in USD

A 0.4-lot EUR/USD position, stop 30 pips away, held into a weekend that opens 22 pips beyond the stop.

1. The continuous-hours plan: a 30-pip stop at \$4.00 per pip prices the intended loss at \$120.00.
2. The window: the weekend opens 22 pips beyond the stop, and the stop fills at the first quote - 52 pips from entry.
3. The honest bill: \$208.00, of which \$88.00 was never in the plan. Sizing on stop-plus-gap for held-through windows puts this trade's worst case back inside the chosen fraction; staying flat over the window removes it entirely.

What this means for you

Decide, per window, which rule is yours: size for the gap, or be flat for it. Write the rule into the plan lesson 9 assembles, and let the calendar - not the position you happen to be holding on Friday afternoon - trigger it. The one unavailable option is the default one: full size, held through, stop trusted.

Try it yourself with the gap-cost calculator: <https://ticksprout.com/tools/gap-cost>

Check your understanding

1. When does a stop's loss cap hold?

- a. Always - that is what stops are for
- b. While the market trades continuously through the stop's level
- c. Only during the London session

Answer: b. A stop fills at its level when every intervening price trades. Across gaps - weekends, releases, thin books - price jumps the level and the stop fills beyond it. That is a property of markets, not of any one session.

2. What is the honest risk denominator for a position held deliberately through a weekend?

- a. The stop distance
- b. The stop distance plus a plausible gap for that pair and window
- c. The margin requirement

Answer: b. Held through a discontinuity, the realistic worst case includes the jump - so the sizing chain should divide by it. The stop alone understates it, and margin is collateral arithmetic from module 3, not a risk measure.

3. Which combination is incoherent?

- a. Smaller size, held through the weekend
- b. Full continuous-hours size, flat before the weekend
- c. Full continuous-hours size, held through the weekend

Answer: c. The first pays for the window with size, the second pays with missed exposure - both are priced decisions. The third takes the window for free and sends the bill to the account when a gap lands, which is the trap this lesson closes.