

Where the stop goes

STOP PLACEMENT

A stop belongs at the price where the trade's idea is shown to be wrong, at a distance normal market movement will not reach by accident. Volatility measures like the average true range put a number on what movement is normal, and the position size then adapts to the resulting distance - the stop is never moved to suit the size you wanted.

A stop has one job: to take you out when the idea has failed. Every other consideration - the size you wanted, the round number nearby, the pain of the last stop-out - moves it away from that job.

What makes a stop level valid?

It sits beyond the price at which the trade's reasoning is dead. If you bought because a level held, the idea fails when that level gives way, and the stop belongs on the far side of it. Anywhere tighter and the market can take your money while your idea was still right; anywhere wider and you pay for room the idea never needed.

Validity has a second requirement: distance from ordinary noise. A level two pips beyond your entry may mark failure precisely, and it will still be hit by the routine back-and-forth module 2 taught you to expect within a session. A valid stop clears both bars - past the failure point, outside the noise.

How does volatility put a number on noise?

The average true range measures how far the pair has been travelling per bar, on average, lately. A stop inside one ATR of entry is a stop inside a normal bar's reach: it can be hit by nothing at all. Multiples of ATR are the conventional yardstick for clearing that reach, and the multiplier is a judgement the trader owns - larger buys more room and costs more size, through exactly lesson 2's arithmetic.

The worked example runs the full sequence: ATR to distance, distance to size, size to cash at risk. Note the direction of flow. Volatility set the distance, the distance set the size, and the risk fraction never moved.

What does a stop never do?

Fit the size. The moment a stop is dragged closer so a bigger position affords it, the trade's protection has been traded for its exposure - lesson 2's inversion, executed one pip at a time. And a stop set does not creep: moving a stop away from price as the trade loses is choosing a bigger loss while feeling like patience.

Worked example - figures in USD

EUR/USD's daily ATR is 0.008 in price terms. A 1.5x multiplier, a \$12,000 account and 1% risk.

1. Measure the noise: the pair's ATR is 0.008 in price terms. At a 1.5 multiplier, the stop needs 0.012 of room - about 120 pips.
2. Let the size adapt: at 1% of \$12,000, that distance affords 10,000 units - 0.1 lots.
3. The cash at risk stays \$120.00 whichever stop distance volatility demanded. The distance changed the size, and the risk fraction never moved.

Diagram: A stop inside the noise gets hit by the noise. The level that matters is where the reason for the trade stops being true.

View it in the web lesson: <https://ticksprout.com/learn/fx/risk-management/where-the-stop-goes>

What this means for you

For your next planned trade, write down the price at which the idea is wrong before you look at sizes. Then check the distance against the pair's ATR. If the failure point is inside the noise band, the entry is early or the idea is too fine for the timeframe - the answer lives in the trade, never in dragging the stop.

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

Check your understanding

1. What is the one job of a stop?

- a. To exit when the trade's idea is shown to be wrong
- b. To limit the position's size
- c. To lock in profit

Answer: a. The stop marks the idea's failure price. Size limiting is the sizing chain's job, and profit-taking belongs to targets - loading those onto the stop is how it ends up in the wrong place.

2. Why is a stop inside one ATR of entry a problem even when it marks the failure level precisely?

- a. Ordinary bar-to-bar movement can reach it with the idea still intact
- b. Brokers widen spreads near ATR levels
- c. It is not a problem - precision is everything

Answer: a. ATR measures routine travel. A stop inside that band gets hit by noise, charging you the full loss with the idea untested. Spreads have nothing to do with ATR levels - and precision about the wrong thing is not precision.

3. Volatility doubles, so the valid stop distance doubles. At a fixed risk fraction, what absorbs the change?

- a. The stop is halved to compensate
- b. The position size - it halves, and cash at risk holds still
- c. The risk percentage - it doubles

Answer: b. The chain runs risk-then-stop-then-size, so size is the variable that flexes. Halving the stop parks it in the noise, and doubling the fraction abandons the plan - both undo the system that keeps losses fixed.