Risk per trade, in money before points

> **RISK PER TRADE**
>
> The amount of money you accept losing if a position goes wrong, decided before the trade exists. On an index it must be set in money and then converted into points, never the reverse - because points are not money and the same number of points is a different loss to every reader.

Everything in this module runs on one number, and choosing it is the only genuinely subjective decision in the whole sequence.

Money first, points second

A trader who decides "I will risk 30 points" has decided nothing about their account. Thirty points is £30 on one contract and £1,500 on another, and both are the same sentence.

So the order matters: choose the money, then let the stop distance and the contract size tell you how many contracts that buys. Reversing it means the account is sized by the chart instead of by you.

Choosing the number

A percentage of the account rather than a fixed sum, so the risk shrinks as the account does. Somewhere between a quarter of a percent and two percent covers most considered choices, and the argument for the low end is arithmetic rather than temperament - module 4 of the FX track works through what a run of losses does at each level.

What matters more than the exact figure is that it is the same figure every time. A risk that expands when you feel confident is not a risk policy; it is a way of taking your largest position on your least examined idea.

The index-specific complication

On an index, three things stand between your money and your points, and all three can change without you doing anything.

The contract size, which is a property of the wrapper you chose.The exchange rate, if the index settles in a currency your account does not hold.The gap risk, which means the loss can exceed the stop - lesson 4.

The first two are arithmetic and the next lesson does them. The third is the reason this module exists at all.

Check your understanding

1. Why must risk be set in money before points?

a. Points are harder to calculate

b. The same number of points is a different loss to every reader, depending on contract size and currency

c. Brokers quote risk in money

Answer: b. Thirty points is £30 on one contract and £1,500 on another. Deciding in points decides nothing about the account.

2. What is wrong with risking more when you feel confident?

a. Nothing, conviction should be expressed in size

b. It puts the largest position on the least examined idea

c. Brokers penalise variable sizing

Answer: b. Confidence is not evidence. A risk that expands with feeling is a way of concentrating capital exactly where the reasoning is thinnest.