Where the stop goes on an index

> **STOP PLACEMENT**
>
> Choosing the level at which the position is wrong. On an index the choice is complicated by a series whose open is an auction, whose overnight range was made in thin conditions, and whose two most watched levels are visible to everyone looking at the same chart.

The stop goes where the idea is wrong. Everything else - how much that costs, how many contracts it permits - follows from it, which is why placement comes before sizing in thinking and after it in arithmetic.

Placing it against structure, not against a number

A stop 20 points away because 20 is a round number is a stop placed against nothing. A stop beyond the level that would tell you the read was wrong is a stop placed against the idea.

The second usually costs more, which is exactly why people choose the first. Sizing is the correct response to an expensive stop, not moving it closer.

The index-specific placements to avoid

Just beyond the overnight high or low: thin-session extremes that everyone can see, made on little participation.Inside the opening auction's likely range, when the auction has not happened yet.At a round index level, for the same reason as anywhere else - it is where everyone else is.

None of these are forbidden. They are crowded, and a crowded level is one where the price is most likely to trade briefly and move on.

Which series you placed it on

Module 2 lesson 3 made the point and it is a risk question here: a level drawn on a cash-session chart does not know about hours your position was live. If you hold overnight and your platform quotes around the clock, place stops on the series you are actually trading.

What placement cannot do

It cannot make a stop work at a price that never traded. That is the next lesson, and it is the limit of everything in this one.

Check your understanding

1. Your idea needs a stop 60 points away and that is more than you want to risk. What is the correct response?

a. Move the stop closer to fit the risk
b. Size the position down so 60 points costs the budgeted amount
c. Take the trade without a stop

Answer: b. The stop belongs where the idea is wrong. Sizing is the variable that adjusts; moving the stop closer changes what you are testing.

2. Why is just beyond the overnight low a crowded place for a stop?

a. Brokers target those levels
b. It is a visible extreme made on thin participation, and everyone is looking at the same chart
c. Overnight prices are not real

Answer: b. Not forbidden - crowded. A level everyone can see is one where price is most likely to trade briefly and carry on.