

Module 3: Strategy & Risk Management

Evoin Sparks Trading Academy

Introduction

You've learned the basics of **financial markets** and how to use **technical analysis**.

Now comes the most crucial part: **Strategy & Risk Management**.

Even the best traders fail without discipline. This module will help you design strategies and protect your capital — the foundation of long-term success in **Indian Stock Markets, Forex, and Crypto trading**.

1. Why Do We Need a Strategy?

- Avoids emotional decisions.
 - Brings consistency to trading.
 - Provides a roadmap to follow in different market conditions.
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2. Components of a Trading Strategy

1. **Market Selection** – Stock, Forex, or Crypto.
 2. **Timeframe** – Intraday, swing, or positional.
 3. **Entry Rules** – Conditions for opening a trade.
 4. **Exit Rules** – Conditions for closing a trade (profit or loss).
 5. **Risk-Reward Ratio** – Aiming for higher rewards than risks.
 6. **Position Sizing** – How much capital to allocate per trade.
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3. Popular Trading Approaches

- **Trend Following:** Ride the market direction (e.g., using Moving Averages).
- **Breakout Trading:** Enter when price breaks key support/resistance.
- **Swing Trading:** Capture short- to medium-term moves.
- **Scalping:** Quick trades, small profits multiple times.
- **Algorithmic/Rule-Based Trading:** Automated systems (advanced).

4. Risk Management Principles

a) Capital Preservation

- First rule: *Don't lose big money.*
- Protect your trading capital at all costs.

b) Stop Loss

- Predetermined price level where you exit a losing trade.
- Prevents small losses from becoming disasters.

c) Risk per Trade

- Ideal risk: **1–2% of total capital per trade.**
- Example: With ₹1,00,000, risk only ₹1,000–₹2,000 per trade.

d) Risk-Reward Ratio (RRR)

- Aiming for at least **1:2 ratio** (risk ₹1 to make ₹2).
- Higher RRR improves long-term profitability.

5. Psychology in Risk Management

- Control emotions like greed, fear, and impatience.
- Stick to your plan even during losing streaks.
- Remember: **Discipline beats strategy.**

6. Risk Management in Different Markets

- **Indian Market:** Manage leverage in F&O; avoid overtrading intraday.
- **Forex Market:** High leverage available → use caution.
- **Crypto Market:** Volatility is extreme → stop loss and position sizing are essential.

7. Backtesting & Journaling

- **Backtesting:** Test strategies on past data.
- **Trading Journal:** Record trades to learn from mistakes and improve.

Summary

In this module, you've learned:

- Why a trading strategy is important.
- How to build a trading plan.
- Essential risk management tools (stop loss, RRR, position sizing).
- The role of psychology in successful trading.

With these three modules, you now have the **foundation for becoming a disciplined trader**. The journey doesn't end here — keep practicing, learning, and refining.

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