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90% Traders use Stoploss but many of them don't know how to use it properly,

Everything you need to about deciding, placing and calculating a stop loss and position sizing..

A Thread■

In this thread, We will learn

1. Stop Loss placement.
2. Calculation of Stoploss.
3. Calculating Position Size.
4. Probably never get bankrupt trading.

We need a stop Loss to determine where should we cut or exit the trade.

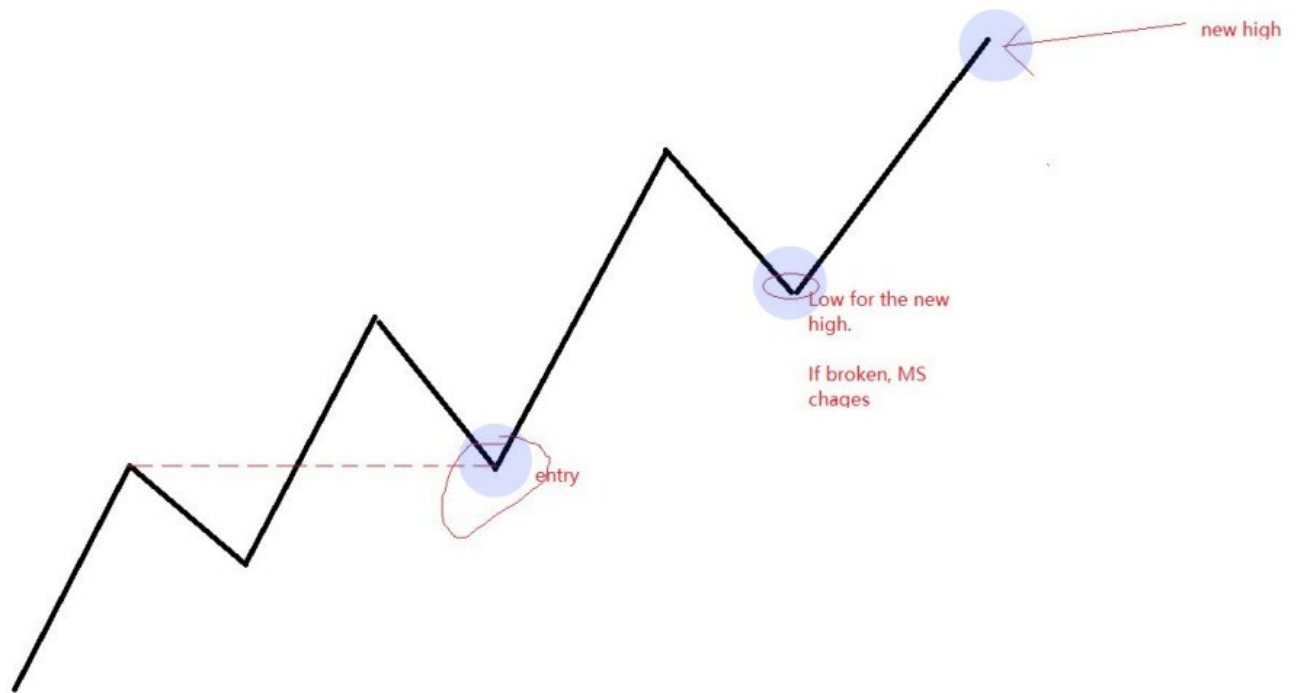
We exit the trade because the price structure starts

showing an opposite move than we had anticipated and hence it should no longer make sense to ride in the opposite direction.

Stop Loss is to be placed at that area where the market structure has turned in the opposite direction

To illustrate, in an uptrend market as illustrated below, if the Low from which a new high is made, gets broken, we can assume that the market structure is broken and the trend has changed.

If the above scenario happens, an SL at the level which changes the mkt strctr is logical.



SL is necessary

1. To find the area where the MS might change and hence it'll become illogical to keep a trade going whilst market structure is pointing a move in the opposite direction.
2. To calculate the Position Size of the trade.

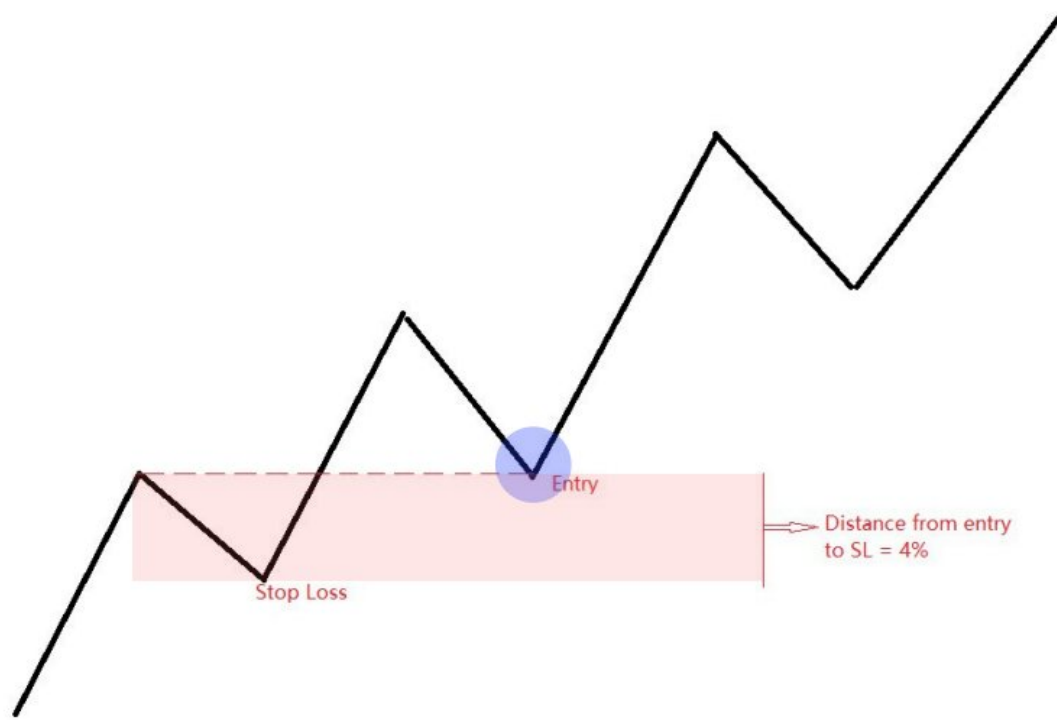
This is the most important use of SL that many ignore. SL placement is the most important tool in Risk Management which is the backbone of trading..

To quickly illustrate- lets see an example

Let's say the total Capital with us is 100K.

We want to risk only 1% of our Capital i.e. 1K

The distance between the current price and the price where the MS will change i.e. The place where we want to place our SL is 4%.



Hence our Position Size can be INR 1000 divided by 4% Which gives a position size of 25000 Rupees.
Once we enter a position with 25000 Rupees and place our SL at 4% of the current price, we will only lose 1000 rupees.
In margin trading also, the same method works

99% of the traders fail because they don't understand Stop Loss. SL is the most important topic to prevent liquidation and avoid bankruptcy.

This is all you need to master stop loss.

BASICS OF SL

There are only 2 tools in trading that will prevent you from blowingup your account

1. Risk Management
2. Stop Loss

If you don't follow the rules of the above, YOU WILL FAIL. Period. In
In this Thread, we will master Stop-Loss, in detail.



DIFFERENT CHARTS = DIFFERENT SL

A common fallacy amongst traders is that Stop Loss has to be a certain fixed percent of loss.

Eg. Fixing Stop Loss at 5%.

This is a very bad idea.

Stop loss should be based on TA alone.

Every setup is different and a fixed SL won't work.



STOP LOSS = INVALIDATION LEVEL

Entry is made ONLY as per TA on a valid reason for a directional move. Once the reason for the entry has been lost, the trade must be exited.

The event at which the reason for entry ceases to exist is the invalidation level.

Entry example.



Invalidation Point reached? GET OUT!

Stop Loss is a tool to be ABSOLUTELY used as soon as the setup reaches an invalidation point.

Always establish the invalidation point before entering a trade.

As soon as the invalidation event turns true, EXIT without a second thought.



Once the reason for the entry has been lost, exit the trade as the premise for the entry no longer exists.

If the entry was made because of a support being confirmed, but if the support gets broken, the reason for the entry no longer exists and hence, a stop loss must be entered



Let us understand placing the stop Loss with the help of a few examples.

I will only be using simple Support/Resistance reasons for entry to keep it simple.

1. Placing SL during consolidation Break-out.

Note- Place it a little below the invalidation level to prevent stop hunts

In the below example, the entry is made after a consolidation Breakout (with volume).
 The stop Loss is placed at the bottom of the consolidation.
 Rest of the events are self-explanatory.



Placing stop loss with

- Resistance Support Zone recognition
- Break-out
- Re-test Confirmation
- Resistance Zone Flip
- Break-out confirmation



Stop Loss is a very controversial topic as some traders don't like to place a SL order as it could lead to stop loss hunting. Some traders swear by a strict stop loss order being placed as soon as an entry is placed including me.

Conclusion

1. Stop Loss is based on Market Structure of the setup and the % of SL is different for every trade.

2. Stop Loss is placed where the MS will probably change. If MS changes, we'll be rising the opposite trade.

SL = Invalidation Level.

3. SL should be based only on TA, the chart. Nothing else.

4. Find the SL before you enter a trade and choose your position size based on it.

5. You can plan your SL as in system or manually as your system.

This whole thread is based on a document named Master Class on stoploss by EmperorBtc..