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You always hear people let your winners ride or cut your losers early. Easier said than done, right?

Well, it's a mathematical fact that implementing this will improve your trading profits

The math behind leaving runners on and cutting losers early ■■■

When trading, you have a 50/50 chance of being right. No matter which side of a trade you take, the stock can either go up or down.

There are certain indicators, levels, or other ways you can increase your odds of being right >50%, but you'll never get significantly higher

So, if our trading record is going to be ~50% right and ~50% wrong, how do we make money?

You HAVE to let your winners run and cut your losers early.

If your losers and winners are the same size (eg losers are -10% and winners are 10%), then you have to win 51% of your trades to make money

Example: you take 100 trades for $100. Winners win $10, losers lose $10. To profit, you need 51 winners (+$510) and 49 losers (-$490)

HOWEVER, if you let your winners run and cut your losers early, the # of trades you have to get right decreases

Example: you take 100 trades for $100. Winners win $20, losers lose $5. To profit, you need 21 winners (+$420) and 79 losers (-$395)

Instead of needing to win the majority of your trades (51%), you only need to win 21% to make money!

You can essentially lose 4 out of every 5 trades and still make money if you simply let your winners run and cut your losers

Now, this example was extreme to make a point, but hopefully you get it. If you risk/reward is:

2:1 (winners run 20%, losers stopped out at 10%), you only need to win 34%
3:1, 26%
4:1, 21%

You decrease the # of trades you need to hit by having your winners outweigh your losers

How can you implement this?

1) Have a rule on your stop losses. Personally, every trade I enter I immediately set a STOP order for -10%
2) Have a target profit level for winners. For me, I like the 2:1 risk/reward so once a trade hits 20% profits, I start to scale out

3) Have a trailing stop loss. Once I hit 10% profits, I move my stop loss to 0%. Every 10% increase, I increase the stop order 10%.

So when my trade hits 20%, I scale out part of my position and move my stop order for the rest to 10% profits

Mentally, it may be tough to set such a tight stop loss. Trades can definitely move down 10%, get stopped out, then go on to rip and be huge gains that I miss out on.

Remember, YOU CAN ALWAYS RE-ENTER.

If a stock breaks a key level and you enter, but then drops below by 10% and you get stopped out, that's okay.

1) Your thesis of it breaking the level is no longer valid
2) If it breaks above the level again, you can just re-enter

Hopefully this helps people put hard data to the advice of cutting your losers and letting winners run.

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