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### How Much to Risk?

One of the questions a trader needs to answer is: How much do I risk on each trade? To answer this question you need to know the performance statistics of the strategy you are going to implement, or, even better, your own performance statistics, based on your trading results to date (or the last few months).

The statistics required are:

- % of profitable trades
- Profit Ratio: the ratio of the average profit per trade to the average loss per trade i.e. 2 (your average gain is 2 x your average loss)
- You will also need your starting capital

For example:

<b>% of Profitable Trades:</b>	<b>40%</b>
<b>Profit Ratio:</b>	<b>3</b>
<b>Starting Capital:</b>	<b>£10,000</b>

In order to test out the impact of risking different percentages of my starting capital, I have created a spreadsheet that allows me to input the above variables and the percentage to risk. Based on these figures I can simulate the results of 20 trades, over and over again, using randomly generated results that conform to the entered variables.

For example:

<b>% of Profitable Trades:</b>	<b>40%</b>
<b>Profit Ratio:</b>	<b>3</b>
<b>Starting Capital:</b>	<b>£10,000</b>
<b>Risk:</b>	<b>3%</b>

In this scenario, I am willing to risk £300 (3% of £10,000) on each trade. My average profit is £900 (£300 x profit ratio) and my average loss £300.

Profit	Draw-Down	Biggest Draw-Down
£1,200	-£1,800	-£1,800
£3,600	-£1,500	-£1,800
£8,400	-£1,200	-£1,800
£2,400	-£1,800	-£1,800
£4,800	-£900	-£1,800
£2,400	-£900	-£1,800
£6,000	-£1,200	-£1,800
£0	-£2,100	-£2,100
£6,000	-£900	-£2,100
£0	-£2,400	-£2,400
£6,000	-£900	-£2,400
£2,400	-£2,700	-£2,700
£3,600	-£2,100	-£2,700
£2,400	-£1,800	-£2,700
£2,400	-£1,200	-£2,700
£4,800	-£2,100	-£2,700
£1,200	-£2,100	-£2,700
£2,400	-£1,500	-£2,700
£2,400	-£1,500	-£2,700
£3,600	-£1,500	-£2,700

The results above represent 20 groups of 20 trades, so in the first set of 20 trades the system made a profit of £1200 and the draw down was -£1800 (the biggest fall from peak to trough in the trading account).

Over the entire 20 groups of trades we can see that the biggest draw down was £2,700, which is 27% of our starting capital. If we increased the percentage of capital to risk on each trade we would see an increase in profits and an increase in draw down.

What this spreadsheet allows me to do is test out the optimum percentage of trading capital to risk on a given system. I can vary the percentage until I have the right ratio of profit to risk that I am happy with.

To download a copy of this Excel spreadsheet, [right click on this link](#)

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