# Golden Rules of Risk Management

## Alex Gerchik's Survival Algorithm

“In trading, the first lesson is not how to make money, but how not to lose it.

This strategy made Alex Gerchik one of the most consistent traders on Wall Street.

# Three Levels of Risk Calculation (Gerchik's Signature Approach)


## Level 1. Risk Amount ($)

Before launching your trading platform, identify your 'pain limits.' This is a fixed dollar amount that serves as your absolute baseline.

- **Tip:** Limit risk to 1%–2% of your total trading account balance per trade.
- **Example:** A $5,000 balance → Your maximum risk is $50.

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## Level 2. Technical Stop-Loss Order (Pips)

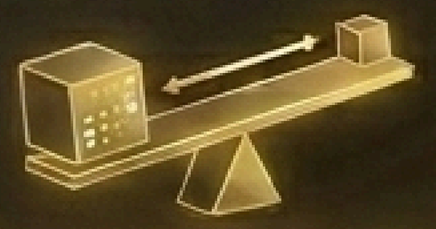
Identify the specific point on the chart where your trade idea is invalidated. This is a variable value that depends entirely on the current market environment.

**Note:** Always define your scenario for a specific asset, do your 'homework' first, and only then search for an entry point.

# Three Levels of Risk Calculation (Gerchik's Signature Approach)


**The Chief's Formula:**

$$\text{Lot} = \frac{\text{Risk (in \$)}}{\text{Stop-Loss Order (in pips)}}$$

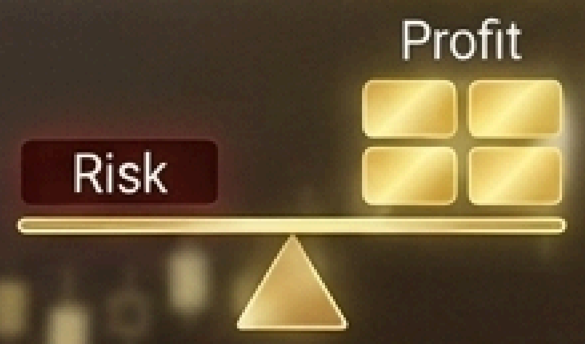


## Level 3. Position Sizing (Lot Size)

**Golden Rule:** The risk amount expressed in dollars must remain constant. If the technical SL required by the chart is wider, the lot size must decrease (inverse relation).

# Body Armor for Your Account Balance: Survival Parameters

**'Tomorrow Principle':** Always make sure that you have a 'tomorrow.' Never make trades that could send your entire capital down the drain after a single session.




**The 3-to-1 Rule:** Only enter if the potential profit is at least three times the risk. This ratio is the mathematical key to long-term growth.

**Loss Thresholds:**
Have a strict 'emergency brake' in place for daily and weekly losses. Once you reach it, stop trading immediately.

**Profit Protection:**
Never allow the market to take back more than 20% of the profit you have already made for the day.

**Be cautious with Break-even:**
Minimize the use of break-even stops. If more than 20–30% of your trades end in break-even, it undermines your expected value. Stick to either a hard SL or a TP.

# Scaling and Stats

Trading is about dealing with probabilities, and this requires hard data.

**Data Logging:**
Keep a trade journal and analyze your performance over at least three months. You cannot manage what you cannot measure.

**Gradual Growth:**
Increase your risk parameters only after you have had a consistently profitable week or month, and do so gradually. Suddenly raising volumes without relevant statistics to back it up is a recipe for losses.

**Analyzing 'Bad' Days:**
Use statistics to identify underperforming periods—such as Fridays—when it is statistically better for you to stay away from trading altogether.

# Automated Protection: Risk Manager

‘A trader is human, and humans are prone to making emotion-driven mistakes.’
To get rid of the human factor and its impact, Gerchik recommends using automation.

### Blocking Tilt:

This handy tool automatically disables trading on the platform if your loss threshold is exceeded.

### Blacklist:

Limit trading access to assets that systematically underperform in your strategy.

### 24/7 Discipline:

After configuring your rules, the software applies them automatically without emotional decision-making.

Follow Gerchik's principles if you wish to navigate market volatility and build long-term success in trading.

**Trade with Risk Manager**