Drawdown Risk Management Guide

The Mathematical & Execution Blueprint for Capital Preservation

Risk management is the single determinant of longevity in professional trading. This guide details the exact mathematical boundaries, position sizing formulas, and drawdown mitigation protocols used by institutional desks and top-tier funded traders.

1. Core Risk Parameters & Fixed Fractional Sizing

- Maximum Risk Per Trade: Never exceed 1.0% of current account equity (0.5% recommended during drawdown phases).
- Maximum Daily Loss Limit: Hard stop at 2.0% daily drawdown. If triggered, terminal is locked until next session.
- Maximum Trailing Drawdown Limit: Maintain a minimum 3.0% buffer above mandatory evaluation drawdown thresholds.
- Kelly Criterion Fractional Sizing: Optimal Risk = (Win Rate * R:R - Loss Rate) / R:R * 0.25 (Quarter-Kelly).

2. Position Sizing Formula Table

Account Size	Risk % (0.5%)	Risk % (1.0%)	Max Daily Loss (2.0%)
$10,000	$50	$100	$200
$25,000	$125	$250	$500
$50,000	$250	$500	$1,000
$100,000	$500	$1,000	$2,000
$200,000	$1,000	$2,000	$4,000

3. Falsification Protocol & Execution Rules

Every order intent must possess an explicit invalidation thesis prior to entry:

1. Technical Invalidation: Price closes past key market structure level on anchor timeframe.
2. Fundamental Invalidation: Macro news release conflicts with fundamental thesis direction.
3. Time-Based Invalidation: Trade fails to resolve within designated session window (London/NY close).