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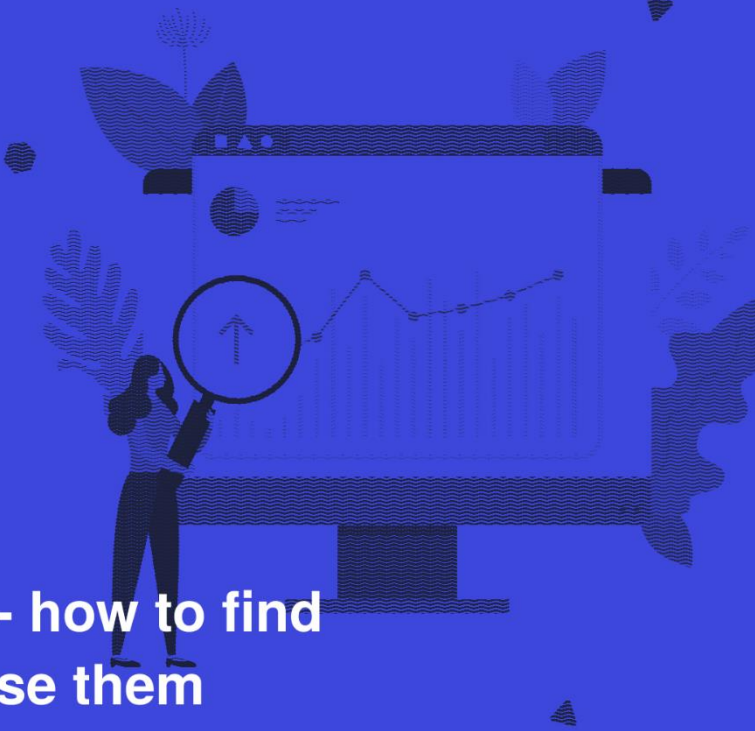
Stop Loss (SL) orders - how to find SL levels and how to use them

Losing trades are inevitable, even with a solid win rate.

We have to accept that reality and prepare ourselves to minimize the impact of the losing trades. And that means using the right trade size as well as Stop Loss (SL) orders.

Stop-loss (SL) order is a risk management tool used in trading to automatically sell or close out a position when the price of an asset reaches a specified level.

It is designed to limit potential losses by exiting a trade if the price moves against the trader's position beyond a certain point (Stop Loss level).

But where do we place a stop loss order? How do we determine the right level?

We recommend using one of the following three approaches, or possibly a combination:

1. Place a stop loss order just below the prior swing low.
2. Place a stop loss order below the nearest key level.
3. Use Reward-Risk-Ratio (RRR) of 2 to 1 to determine your Stop Loss (SL) level.

Methods for Placing Stop Loss Orders

Prior Swing Low Approach:

➢ Common strategy to manage risk and protect against losses.

➢ Examples: GRT (The Graph) and DUSK (Dusk Network).

➢ Place SL just below the prior swing low.

Stop Loss @ $0.147
(below prior swing low)

Stop Loss @ $0.24
(below prior swing low)

Nearest Key Level Approach:

➤ Sometimes, the prior swing low may not be ideal.

➤ Example with RPL (Rocket Pool), trading in a Sideways Channel. Here, we would be inclined to BUY when price approaches the Channel support zone (~$25.50). But that level also happens to be near the prior swing low! Hence, that's not a good point to place SL because we want to BUY near support not SELL it.

➤ Place SL below the key support level, avoiding interference with potential buying zones.

Reward-Risk Ratio Approach:

➤ Useful when prior swing low is too far, risking excessive loss.

➤ Example with LINK (Chainlink), breaking out of a Sideways Channel (see next page chart).

➤ The nearest swing low is almost at $13.50, that's a 21% downside risk. That's too much.

➤ **Calculate potential profit and set SL to maintain a 2 to 1 Reward-Risk Ratio.**

➤ In the case of LINK trade setup, our price target is $20 (nearest resistance), which implies potential profit of $3 ($20 - $17).

➤ Use 2:1 RRR to set the Stop Loss (SL) => $3 / 2 = $1.50. Stop Loss (SL) level should be Entry Price – Max Loss = $17.50 - $1.50 = $16.00

ChainLink/Tether, 1D, BINANCE O18.15 H19.75 L17.81 C19.57 +1.42 (+7.80%)
Volume (SMA, 9) 8.938M
MA (200, close, 0, SMA, 9) 10.99

Sideways Channel ($13 - $17)

Breakout

Resistance Zone @ $20.00

Support Zone @ $17.00

Stop Loss @ $16 (using 2:1 RRR)

Support Zone @ $13.00

200 SMA

19.57

10.99

8.938M

Stop-loss orders are crucial tools for protecting capital and limiting potential losses in trading.

Adhere to stop-loss levels rigorously for effective risk mitigation.

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Additional educational materials:

- Trading Risk Management: https://altfins.com/knowledge-base/trading-risk-management/

- How To Profit Or Hedge Risk In a Downtrend?: https://altfins.com/blog/profit-or-hedge-risk/

- Connecting To Exchanges: https://altfins.com/knowledge-base/connecting-to-exchanges/

- Excel file for risk management (RRR, trade size, margin): https://altfins.com/wp-content/uploads/2024/03/Risk-mngt-altFINS-Trading-Education-Course.xlsx

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We are building a comprehensive and yet intuitive platform that enables coin screening and analysis using traditional technical analysis as well as alternative on-chain data, and trade execution across exchanges. The combination of trade idea discovery and trade execution is truly unique in the crypto trading space.

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