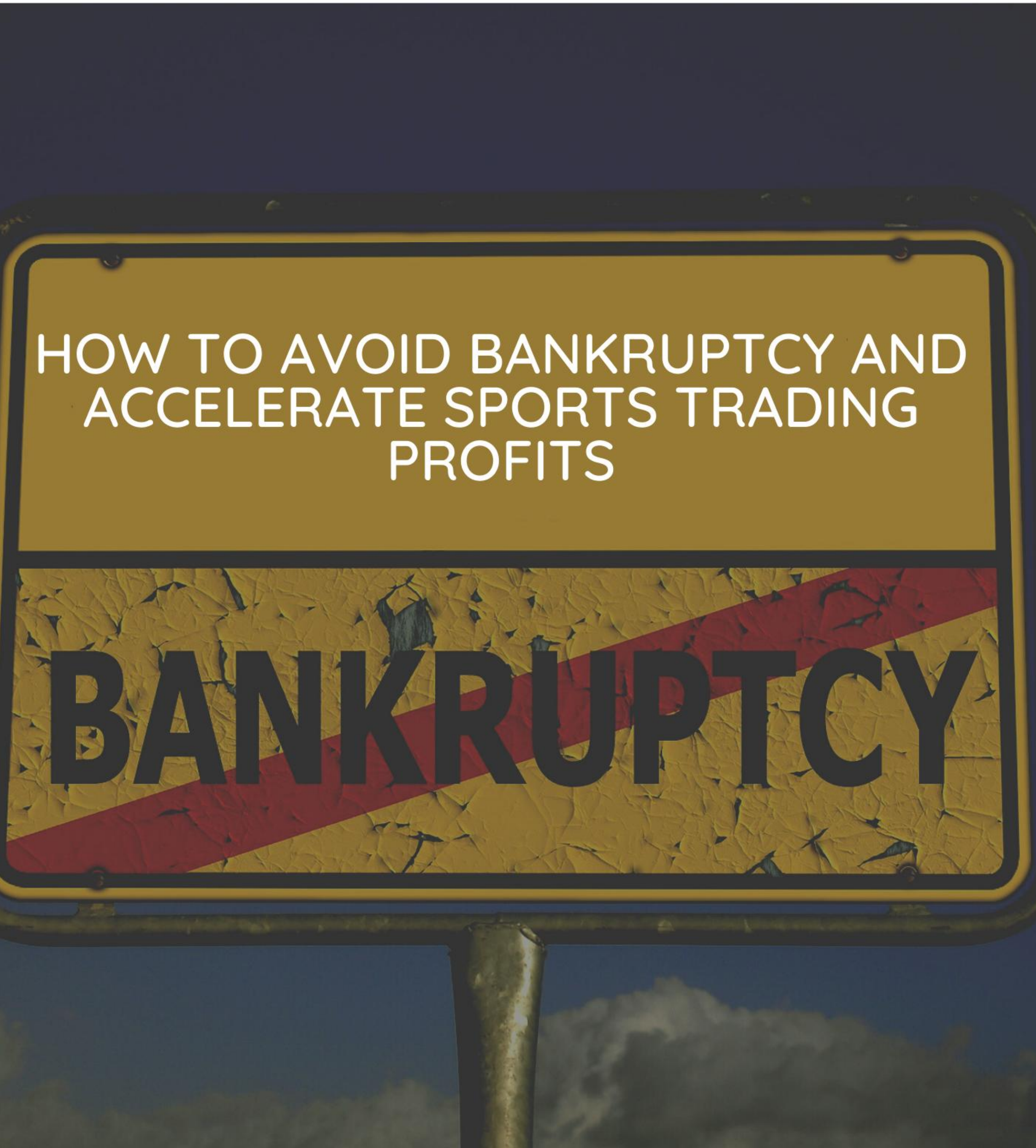
ProSportsTrader

Avoid Bankruptcy

HOW TO AVOID BANKRUPTCY AND ACCELERATE SPORTS TRADING PROFITS



Contents

1. Introduction

Hello and welcome to the guide that will hopefully change the perception of your trading. As already I have mentioned in a subscription email, a few years ago I have read Brent Penfold's book “The Universal Principles of Successful Trading: Essential Knowledge for All Traders in All Markets” which has opened my eyes. Before that time I was trying different strategies (which is fine by the way) and different money management approaches, but could not a success. This book realized me that to be profitable I need to focus not on winning, but on losing part, avoid silly mistakes, repeating the patterns, became patient, and most important to calculate the risk of ruin.

So, let’s get going with the **secret of trading**!

2. Avoid bankruptcy

Trading, in general, is a risky business so **keep in mind that most traders fail** to lose large amounts of money in the process. It does not matter if it is stock exchange, forex or sports trading. The same patterns are noticeable. **Forget about The Dream to Get Rich Quick schemes**. You need to **focus on how to survive!** This is your Holy Grail – do not be beaten on exchange! You may hear or read on the internet or on different trading courses that you need to have **proper money management**. As a Trader **always protect your bank!** Pro Traders could use different strategies, sometimes opposing each other, but they cut their loss quickly, or they already being prepared to lose some percentage of their stake. The main reason to stop loosing on any exchange is to a defined process, to each trading session. You need to have clear entry and exit points. **Repeating the schemas many times and measure them** will give you the most important information about the particular strategy that you are using. Only countable things allow us to enter the market or not. It's like running a business, you must first calculate the costs and then the potential profits to determine the profitability of the business. Treat your trading like you were the boss of a big company that likes to invest a lot of money in a new risky product. To make up your mind to be involved in it you would probably ask your sales/analysis department to give you a detailed forecast report about it. To minimize loss, you need to know both the downside and the upside of a particular business. In a nutshell, you need to know how much money you will lose if it does not work as expected. Many traders recommend using lower stakes and increasing them when you will build up confidence and consistency. This is all true, but how you can measure your consistency? Simply **write down your trading results** in a spreadsheet. You have to also analyze your good entries and mistakes, and what is more important you have to be honest with yourself. As you become your boss you have to be disciplined and self-control. **A strong mindset is required**, or if you do not have it yet, then you will have to **change your habits** because **you will be losing money!** You need to overcome those obstacles. If you tried in the past match betting (surebets – if you do not know what it is, on my blog you can find an article about it) as I did, then it is difficult at the beginning to realize that losing trades is the part of trading. That could lead to another psychology problem related to lost confidence and being afraid of entering the market.

So what **trading secret** is all about? **It is a numbers game!** You certainly "feels" good being right a lot more than being wrong. Those "feelings" have to be measured to **avoid bankruptcy.**

Brent Penfold from IndexTrader.com.au, who has been trading successfully since the 1980s believes *"why people lose is essentially most people are clueless about this key concept, **Risk of Ruin**."*

If you think that you have a system which seems to be working, how the hell would you know that is destined to fail? Would you like to find out when becoming another trading statistic of bankrupt traders?

To get the answer, you need to calculate your Risk of Ruin and I am going to explain how it works in the 4th chapter. However before you will understand the formula, I will reveal my trading style.

3. My trading approach

As I have already mentioned, sports trading is the **numbers game**. It is not about backing favorite or underdog. **It is all about the price odds** that you will enter when an opening position on the market. **It is math** and nothing else. It took me about two years not only to realize it but also to implement it. You need to change your mindset, and start trading automatically and unconsciously. Below the list of things that helped me to become a successful trader:

3.1. Define clear entry and exit points

You need to **configure filters** which will be a trigger to your entry points. You need to know when to enter and exit the market whatever outcome is. Do your best to automate this process without thinking. If it helps you print a paper with entry & exit points with some photo of bankrupted man/woman or empty wallet and place it at the front of your desk, so your eyes would know what you need to follow to avoid silly mistakes. This chapter also includes "what if" solutions. You may encounter ISP downtime, unexpected Betfair market suspended for a few minutes. Be prepared to have a backup plan for those situations, like connect to market through mobile ISP instead of broadband, close opposite position on different exchange or bookie, etc.

3.2. Test your strategy

Measure your winning and losing trades. Make notes about bad entries, any useful information that had an impact on the price when your position was opened. Write down all your trading results in the spreadsheet. To calculate your win%, payoff ratio, **Risk of Ruin**, you need to have at least 30 samples, but I recommend you **to have 100 trades**, which will show you a smaller error margin. For testing purposes always **use small stakes**. Keep in mind that you have plenty of time, the exchange will be here today and tomorrow, do not rush. If you struggle or you do not have any strategy you can follow me on social media accounts and read my blog. **I will post different strategies that could be valuable for you**. However please keep in mind that let`s say watching Roger Federer in action does not mean that in one day you will start playing like a tennis professional if you know what I mean. **It requires practice, practice, again practice and be patient**. Remember you are the only one who opens a position on the market, so do not blindly follow other traders on chats on forums. If you have more than 1 strategy, test each independently! Do not listen to those who tell you that some of them may not work for you, but others will, and in the long term, you will be profitable. **Each strategy has to meet a 0% risk of ruin requirements.** Of course try them, measure and make up your mind if you like to add it to your portfolio. If you have let`s say 10 losing run, analyze it. If each of trade has been done correctly (proper entry & exit point based on your filters), then do no give up. As mentioned already a test of 100 trades should give you information about how a particular strategy works in your hands.

3.3. Realize that trading is math

I`m IT Guy, as you may read already in about section on my blog. This is also one of the reasons why I keep my trading structured like a developer or engineer creates a new feature in the program. Due to it, I`m expecting things to be done, or fail, there is no place to be in between, **no excuses that something partially works**. That`s why **I prefer markets that have less possible outcomes**, most likely only 2, or 3 for my strategies. Match winner markets in **tennis are perfect for trading due to its mechanical nature**. It is not rocket science to predict the price movements after 1 set was finished. **It is pure math** with small deviations of course. Based on that, **you can build up a strategy with most likely positive expectations.**

3.4. Psychology

Long story short – do not give up! Just repeat the process from the beginning. Chose strategy, test it, eliminate mistakes and start from the beginning. If after let`s say over 100 trades, **your system seems to be not working, maybe just switch to the opposite direction and measure those outcomes?** If it is not a mental problem, then it really should be so simple.

3.5. Back high, lay low

It is the best advice related to the entry point, but in my opinion, it requires additional attention. **Never Back on tennis or football match odds market below 2.25 and never Lay above 1.8. There is no value in it, just wait for the right price.** You may miss a few trades, but it is better to avoid them even they might be the winning trades at the end. **My approach in sports trading is to improve payoff ratio**, and if you do so, long term you should see better results.

4. Risk of Ruin Simulator spreadsheet

What is the Risk of Ruin?

Risk of ruin is the probability that you'll lose so much money you can no longer continue trading. This doesn't mean losing all of your trading capital, the ruined point is based on your risk tolerance, so ruin to you could be 30%, it could be 60% or it could be even 100%.

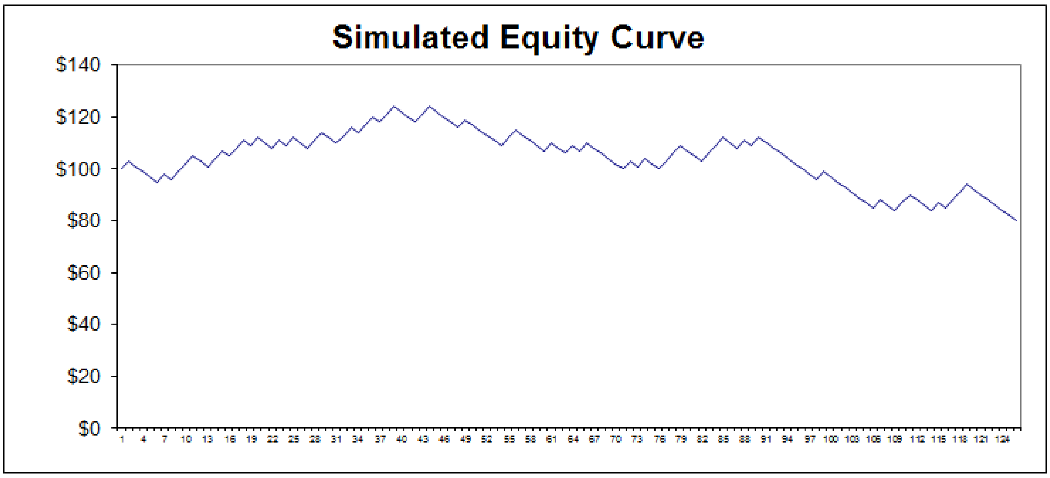
Risk of ruin is number one or the most important concept in trading – Brent Penfold

Calculating your own Risk of Ruin

The risk of ruin calculator kindly provided by Brent Penfold requires taking into consideration a few factors to be measured which needs to be filled in [yellow fields] by you. Below the example and explanation:

Risk of Ruin Simulator

Methodology Performance Profile		Simulate Risk of Ruin
Accuracy	41%	
Avg Win/Avg Loss Payoff Ratio	1,5	
Expectancy	*2%*	
Account Size		Risk of Ruin 70%
Starting Capital	$100	
Money Management		
Money Management approach	Fixed % Risk / Fixed $$ Risk	
Fixed Percentage Risked	1%	
Number of Units of Money	50	
Fixed $$ Dollar Risk Per Trade	$2	
Define Financial Ruin		
What % Drawdown = Ruin?	35%	



In this example I've entered the values for a trend following strategy:

- Accuracy (your probability of a win or the Win%.): 41%
- Avg Win/Loss Payoff Ratio ratio: 1.5
- Account size: $100
- Fixed Percentage Risked: 1% – not used in this example, as the money management approach is **Fixed $$ Risk**.
- Number of Units of Money: 50
- Fixed $$ Dollar Risk Per Trade: 2$
- Financial ruin (Drawdown): 35%

Please try to focus on below definitions and its explanation. **It is important to understand the basics**. It is back to school time☺, however, if you manage to work it out then **your trading will improve** to another level soon.

Win% - You need to know how many winning & losing trades you had. To get this number you simply divide the number of winning by the total number of winning & losing trades.

How to calculate Win%?

Average win% = number of winning trades / (number of winning trades + number of losing trades)

Payoff ratio - Win/Loss ratio, or the size of the wins compared to the size of the losses, to give a true indication of how a strategy performs. In simple words, it is an average profit per trade divided by the average loss per trade.

How to calculate the payoff ratio?

Average win = Total Gain/number of winning trades
Average loss = Total Loss/number of losing trades

Payoff ratio = Average win / Average loss = (Total Gain / number of winning trades) / (Total Loss / number of losing trades)

Expectancy - is a calculation that shows what the typical profit is for each trade placed. If it's negative, the strategy is a loser. If it's positive, the strategy is a winner. The calculation combines how many trades are typically won with the average loss on losers and the average gain on winners.

How to calculate trade expectancy?

Expectancy = (Win % x Average Win Size) – (Loss % x Average Loss Size)

Account Size – it is your bank.

Fixed Percentage Risked – your stake is % amount of your bankroll. In a nutshell, you will risk % percent of your capital, if you decide to use this approach.

Number of Units of Money – the number of units that are used to calculate your flat stake size. In a nutshell, you divide your trading bank into units. In each match, you trade you will never risk more than 1 unit.

Fixed $$ Dollar Risk Per Trade – This flat stake is used in every trade. It is calculated based on your account size divided by the number of units. In this example it is equal 2$(bank 100$ / 50 units).

Financial ruin (Drawdown) – You will not be able to trade this system if it has a drawdown greater than 35% so that is the point of "ruin".

Using the free Risk of Ruin simulator

When you open the simulator, there are a few values explained above and you need to enter them based on your trading strategy. (If it prompts you to enable the macros you will need to say yes otherwise the simulator won't work).

Push the 'Simulate Risk of Ruin" button and the simulator will make **a single run** of trades based on your Win% and Payoff ratio until it reaches either the % Drawdown limit or the equity curve reaches 10,000 trades or $200 million, in which case it is assumed Ruin has been avoided.

Immediately we can see with Accuracy of 41% and Pay off ratio of 1.5 the Expectancy is 2% so the system itself has a positive expectancy but the Risk of Ruin is 70%. Keep in mind this is only a single run, so I've **run 10 simulations** and you can see the results can often be worse with some runs:

Simulation run	Risk of ruin %
1	70
2	67
3	0
4	68
5	86
6	63
7	71
8	73
9	64
10	78
Average	**64**

The average Risk of Ruin over 10 simulations was 64% which is a guarantee we will meet the ruined point of 35% drawdown at some stage in the future. As you can see from the simulations test, 3rd run had positive value 0. That`s why you need to run it at least a few times to be sure that randomized trading results that will occur in the future will give you the most appropriate outcomes.

Any number above 0% is a guarantee that a person will eventually go bust. It is just a matter of time – Brent Penfold

Reducing your Risk of Ruin

There are 3 ways to reduce Risk of Ruin without adjusting the Drawdown level:

1. Increase the Accuracy to a higher Win%,

2. Improve the Payoff ratio so the winning trades are even larger than the losing trades,

3. Reduce the amount of money risked on each trade.

Let`s assume in your particular strategy you are not able to improve your win% or payoff ratio, so the only thing would be to decrease stakes. Currently, stake per trade is 2$, let's see how the risk of ruin changes if we reduce the risk to 1$ per trade:

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Risk of Ruin Simulator

Methodology Performance Profile
Accuracy 41%
Avg Win/Avg Loss Payoff Ratio 1,5
Expectancy *2%*

Simulate
Risk of Ruin

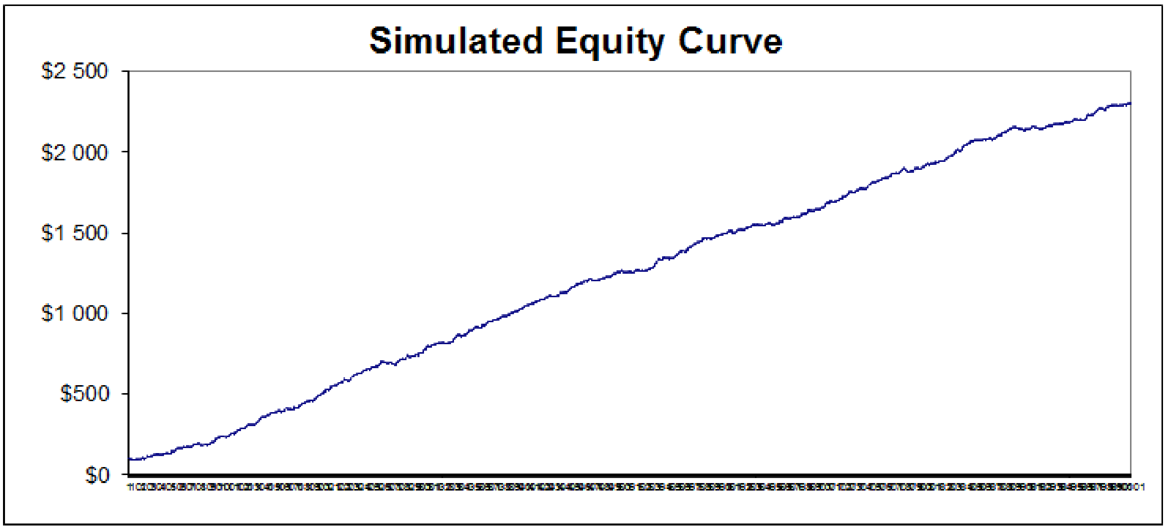
Account Size
Starting Capital $100

Risk of Ruin
0%

Money Management
Money Management approach
Fixed % Risk
Fixed $$ Risk

Fixed Percentage Risked 1%
Number of Units of Money 100
Fixed $$ Dollar Risk Per Trade $1

Define Financial Ruin
What % Drawdown = Ruin? 35%



Over **10 runs, the risk of ruin for each run was 0%** so a 1$ risk per trade is a more appropriate level of risk for this strategy. Of course, this is no guarantee these are the results that will be achieved in the future but at least there is a better chance of survival by recognizing the risk level was too high and reducing it to a level that is statistically more likely to succeed.
To summarise the results:

- Starting with a 2$ risk per trade produced an average Risk of Ruin over 10 simulations of 64%,
- Reducing the risk per trader to 1$ per trader produced a Risk of Ruin of 0% over 10 simulations.

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5. Test Strategy spreadsheet

This simple spreadsheet calculates the **payoff ratio** & **win%** for you**.** To fill in you just type your new trade including date, event (match), lay or back odd, unit stake size. When trade is over you provide the outcome (WIN/LOSS) and Profit/Loss. The other values are automatically calculated for you.

Date	Match	Lay Odd	Back Odd	Unit stake size	Outcome	Profit / Loss	Total Profit	Notes
2020-01-01	football match between	1,5		1	WIN	2	2	e.g good entry point
2020-01-02	football match between	1,5		1	LOSS	-1	1	e.g bad entry point
2020-01-03	football match between		3	1	LOSS	-1	0	
2020-01-04	football match between		3	1	LOSS	-1	-1	
2020-01-05	football match between		3	1	WIN	2	1	e.g bad entry point

AVG WIN	AVG LOSS	PAYOFF RATIO
2,00	1,00	2

Total WIN	Total Loss	WIN %
2,00	3,00	40%

I hope this helps you to track your trading results and analyze them. It is good to do some extra notes about particular trades, like bad entry, odds did not move at all, etc.

Remember to **test at least 100 trades** so it gives you enough information about a particular strategy. The first judgment you can make after 30 trades, however, please do not rush, you deal with your money, so take care of them.

6. Conclusion

I`ve hoped, you have a better idea of what you need to focus on when getting into successful trading.

Successful trading is *essentially based on understanding the math which is your 0% risk of ruin* – Brent Penfold

Trading is the numbers game*, so play with numbers as simply as possible* – Jules, CU Green Trader

Ps. If anything in this eBook is unclear, or you have more questions please contact me:

https://prosportstrader.com/contact/

7. Bonus

Just to show you how Risk of Ruin calculator works, I`ve recorded a video that is available under this link: https://prosportstrader.com/risk-of-ruin-simulator.
How to test your strategy is available under the link: https://prosportstrader.com/test-strategy.

Good luck,

Jules, **CU Green!**