RRR, or risk/reward ratio

It is used to think that when you plan a trade, ratio of planned risk (R) to planned reward should be between 1/2 - 1/3. In that case trading will be profitable even trader is right in 40-50% of the deals only. That is great: you get three dollars as an income while venture one dollar only. You should be right in 40% of the deals and you can choose a yacht!

Textbooks recommend to act this way but what to do if in reality opened position moved to positive side concerning planned target and we reached 2R level of income? Does it have a sense to follow initial plan to get 3R if it can lead to risk to loose everything that was reached or even worse, to turn the income into a loss?

To make a ruling of a deal during the trading process is a second major task of well-thought trading plan after all. If not to decrease a risk then trader turns RRR against himself. If stop-loss is not removed and level of income reaches 2R, the difference between reached level and stop-loss amounts already 3R. If in that case you tend to follow a previous plan then ratio turns upside-down and you risk with three R estimating to get 1R only.

Characteristics of a deal are very likely to be in the highlight during development of the trade as well as a behavior of a market you chose but not a previously set ratio income/loss. Trader should be ready to ride a trend on a distance of more than 3R if the deal goes the supposed way and capitalize cases when market is ready to give you both 4R and 5R.

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