

Template: Risk Management Implementation Checklist for Proprietary Trading

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Based on Article: "Understanding Risk Management in Proprietary Trading"

Website: <https://thetraderinyou.com>

A practical checklist to guide proprietary traders in implementing effective risk management techniques.

Checklist Items:

1. Define Per-Trade Risk

Decide on a fixed percentage or dollar amount of capital to risk for each trade. Ensure this is documented for consistency.

Reference Section: What Is Risk Management in Proprietary Trading?

2. Translate Strategy to Position Size

Use the strategy's win rate and average win/loss ratios to calculate an optimal position size that keeps drawdown levels manageable.

Reference Section: What Is Risk Management in Proprietary Trading?

3. Set Stop-Loss Orders

Establish stop-loss orders as a control mechanism to limit potential losses on trades. Ensure these are recalibrated to reflect changes in market structure.

Reference Section: How Does Risk Management Work? (Mechanics & Processes)

4. Conduct Pre-Trade Checks

Perform liquidity, correlation, and max exposure checks before placing a trade to ensure it aligns with predefined risk parameters.

Reference Section: How Does Risk Management Work? (Mechanics & Processes)

5. Calculate Position Size

Compute the position size using the formula: $\text{dollar risk} = \text{risk\%} * \text{equity}$, and size accordingly at entry – stop loss.

Reference Section: How Does Risk Management Work? (Mechanics & Processes)

6. Monitor Trade Performance

Regularly check the running P&L against limits and adjust the position as needed based on stop/target levels.

Reference Section: How Does Risk Management Work? (Mechanics & Processes)

7. Perform Post-Trade Reviews

After closing a trade, conduct a review to analyze execution quality, adherence to rules, and document any lessons learned.

Reference Section: How Does Risk Management Work? (Mechanics & Processes)

8. Track Portfolio-Level Metrics

Maintain oversight of overall Value at Risk (VaR), rolling drawdowns, and correlation amongst positions to manage broader risks effectively.

Reference Section: What Is Risk Management in Proprietary Trading?