

FREE GUIDE

Risk Management Guide

How to decide what you can lose before you decide what you might make.

01

Risk before return

02

Process over prediction

03

Independence as the outcome

INSIDE THIS GUIDE

01 Capital suitability

02 Position sizing

03 Contract specs, margin and costs

04 Choosing your numbers

05 Exposure and drawdown

06 Prop-firm drawdown rules

07 Loss response

08 Printable risk tools

[START HERE](#)

Risk is decided before reward.

Most free risk guides stop at "risk 1% per trade". That is a useful guardrail, but it does not tell you what to do after two losses, how to handle an ES and an NQ position at the same time, or why a prop-firm drawdown shrinks while you are winning. This guide covers those decisions.

The order every trade decision follows

1. **Is participation suitable today?** Capital, account rules and your own readiness.
2. **Where is the trade wrong?** Define invalidation from the market, not from your account.
3. **What would it cost?** Ticks to the stop × tick value × contracts, plus costs.
4. **Does that fit your limits?** Per trade, open exposure, daily, weekly and drawdown.
5. **Only then: is the reward worth it?**

If a trade fails any step, the answer is no trade. That is a correct result, not a missed opportunity.

What's inside

Page	Section	You leave with
03	Capital suitability	A clear yes, reduce or no before the session
04	Position sizing	The formula and two worked examples
05	Contracts, margin and costs	A tick-value table and the margin trap
06	Choosing your numbers	Example limits and the maths behind them
07	Exposure, limits and drawdown	Soft and hard stops, a drawdown ladder
08	Prop-firm drawdowns	Static, intraday and end-of-day trailing
09	Loss response	A six-step sequence and a rule hierarchy
10	A losing week, worked through	What following the plan looks like on bad days
11–13	Printable risk tools	Checklist, Daily Risk Card, Operating Plan

All figures are in US dollars because CME contracts are priced in dollars. Examples are hypothetical and exist to show the method, not to suggest a result.

01 • RISK BEFORE RETURN

Start with the money, not the chart.

Before any setup matters, the capital has to be suitable for the risk. Futures are leveraged: a small price move can produce a loss larger than you expected, and in some cases larger than the account.

Risk capital is money you can lose without changing your life

Not risk capital

- Rent, bills and essential living costs
- Emergency savings
- Borrowed money or credit
- Money needed within the next year

May be risk capital

- Surplus savings after an emergency fund
- A sum you have already accepted could go to zero
- A prop-firm fee you can afford to lose in full

Three possible decisions

Decision	When it applies
Suitable	Capital is genuine risk capital, the plan is written and you are fit to trade today.
Simulation or reduced	The process is still being learned, results are being rebuilt, or readiness is below normal.
No trading	Financial pressure, missing plan, illness, tiredness, or a need for the money to work.

Worked example

A trader's plan allows a maximum loss of **\$100** per trade. Their chosen setup has a logical stop that would cost **\$180** with one contract. They feel sure about the trade.

Decision: no trade. Moving the stop closer to make it "fit" changes where the trade is wrong, not how much the trader can afford. Confidence is not a risk control.

No trade may proceed until the capital is suitable, invalidation is defined, the planned loss fits the limit and you can accept that loss in full.

02 · POSITION SIZING

Size comes from the stop, not from how you feel.

Ticks to stop = (entry - stop) ÷ tick size

Risk per contract = ticks to stop × tick value (+ costs)

Contracts = maximum risk ÷ risk per contract, **rounded down**

The sizing sequence

1. Confirm today's maximum risk
2. Mark invalidation on the chart
3. Set the stop just beyond it
4. Count ticks to the stop
5. Multiply by the tick value
6. Add fees and expected slippage
7. Divide your maximum risk by it
8. Round down to whole contracts
9. Verify the order before sending

Example 1 · ES (E-mini S&P 500)

Entry · stop	5,250.00 · 5,247.50
Distance	2.50 points = 10 ticks
Risk per contract	10 × \$12.50 = \$125
Maximum risk	\$275
Contracts	275 ÷ 125 = 2.2 → 2
Planned loss	\$250 before costs

Example 2 · MNQ (Micro Nasdaq-100)

Entry · stop	21,000.00 · 20,980.00
Distance	20 points = 80 ticks
Risk per contract	80 × \$0.50 = \$40
Allow 2 ticks slippage	+ \$1 → \$41
Maximum risk	\$100
Contracts	100 ÷ 41 = 2.4 → 2 (planned loss about \$82)

Prices are illustrative. Add your own broker's commission and exchange fees per contract.

02 • POSITION SIZING, CONTINUED

If one contract doesn't fit, the trade doesn't fit.

Maximum risk **\$200**. NQ setup with a 20-point stop: $80 \text{ ticks} \times \$5 = \$400$ per contract. $200 \div 400 = 0.5 \rightarrow$ **zero contracts**.

The same idea in MNQ costs \$40 per contract, so up to 5 contracts would fit. Choosing the micro is a legitimate decision. Tightening the stop or taking one NQ "just this once" is not.

Contract reference

Contract	Market	Tick size	Tick value	Per point
MNQ	Micro Nasdaq-100	0.25	\$0.50	\$2
NQ	E-mini Nasdaq-100	0.25	\$5.00	\$20
MES	Micro S&P 500	0.25	\$1.25	\$5
ES	E-mini S&P 500	0.25	\$12.50	\$50
MGC	Micro Gold	0.10	\$1.00	\$10
GC	Gold	0.10	\$10.00	\$100
MCL	Micro WTI Crude Oil	0.01	\$1.00	\$100
CL	WTI Crude Oil	0.01	\$10.00	\$1,000

CME contract specifications as of October 2026. Always confirm with CME Group and your broker before trading; specifications can change.

Margin is not risk

Margin is the deposit your broker holds to let you open a position. It says nothing about how much you can lose. A low day-trading margin makes it easy to open far more size than your plan allows. Size from your stop and limits, never from available margin.

Costs and gaps are real

Commissions and exchange fees are charged per contract, each way. Fast markets can fill a stop several ticks worse than planned, and markets can open beyond your stop after a halt or weekend. Build a slippage allowance into every calculation.

03 • CHOOSING YOUR NUMBERS

Small risk keeps you in the game long enough to learn.

An **R** is one unit of planned risk: the amount you lose if a trade hits its stop. Writing limits in R keeps them the same when your account size changes.

Example starting points

Control	Example starting point
Risk per trade (1R)	0.25–0.5% of risk capital while learning; no more than 1% once the process is proven
Open and pending risk	No more than 2R in total. ES and NQ in the same direction count as one idea
Attempts per session	3 at most
Daily soft stop	After 2 consecutive losses: step away, re-check readiness
Daily hard stop	–2R to –3R realised: no new exposure for the day
Weekly protection point	–5R: reduced risk or simulation until reviewed

These are illustrations to adapt, not personal recommendations. Your own limits belong in your Risk Operating Plan (page 13).

Ten losses in a row

Risk per trade	Account after	Drawdown
0.5%	95.1%	4.9%
1%	90.4%	9.6%
2%	81.7%	18.3%
5%	59.9%	40.1%

Each loss taken as a percentage of the remaining balance.
Long losing streaks happen even to sound strategies.

The climb back

Loss	Gain needed to recover
10%	11.1%
20%	25.0%
30%	42.9%
40%	66.7%
50%	100.0%

Recovery gets harder faster than the loss grows.

Reward is decided last. A target only matters once the loss has already passed every limit.

04 • EXPOSURE, LIMITS AND DRAWDOWN

One correctly sized trade is not enough.

Risk is controlled at four levels: each trade idea, total open and pending exposure, daily and weekly participation, and drawdown from your equity high.

Worked example • correlated exposure

Open ES long, **\$80** to stop. Open NQ long, **\$90** to stop. Working ES order that would add **\$70**. Simultaneous exposure limit: **\$200**.

Open risk is \$170. If the order fills, it becomes \$240, and both indices tend to move together, so this is one concentrated bet, not diversification. **Cancel or reduce the pending order** before it can fill. An open profit on one position does not create new room.

Soft stop, hard stop, breach

Level	Response
Soft stop	Pause, review, continue only at the same or lower risk
Hard stop	No new exposure for the rest of the day
Weekly protection	Reduced risk, simulation or formal review
Serious breach	Stop immediately, whatever the P&L

Write down whether each limit uses realised P&L, open equity or both, when your trading day starts, and how several accounts combine. Limits do not reset after a winning trade.

The drawdown ladder

01

Normal

Planned risk permitted.

02

Caution

Pre-set trigger hit.
Cut risk (e.g. by half),
review more often.

03

Protection

Stop live trading.
Simulation and review
only.

04

Restart

Return only once your
written evidence is
met.

Drawdown is a protection problem before it is a recovery problem. Never increase risk to win it back.

05 • PROP-FIRM AND FUNDED ACCOUNTS

Your real account is the distance to the floor.

A "\$50,000" evaluation is not \$50,000 of risk capital. What you can actually lose is the gap between your balance and the firm's loss threshold, often only \$2,000. Size from that gap, never from the headline balance.

Three common drawdown types

Type	How the floor moves
Static	Fixed at a set level. It never moves up.
Intraday trailing	Follows your highest balance <i>including open profit</i> , in real time. A winning trade you give back still raises the floor.
End-of-day trailing	Recalculated from your closing balance only. Intraday swings don't move it.

Many firms stop the trail once it reaches a set level, for example the starting balance or starting balance plus \$100. Daily loss limits may be "soft" (the day ends) or "hard" (the account fails). Rules differ between firms and change over time.

Worked example • \$50,000 account, \$2,000 trailing drawdown

Event	Peak	Floor	Room
Start	\$50,000	\$48,000	\$2,000
Trade runs to +\$800 open, closes at +\$200 (intraday trailing)	\$50,800	\$48,800	\$1,400
Same trade, end-of-day trailing	\$50,200	\$48,200	\$2,000
Peak reaches \$52,100; trail locks at start + \$100	\$52,100	\$50,100	\$2,000

Room is measured from the current balance (\$50,200 in rows 2 and 3, \$52,100 in row 4). Hypothetical figures.

Under intraday trailing, a winning trade that gave back most of its profit cost **\$600 of room**. Profits only build a cushion once the trail stops moving.

Read your firm's current rulebook before every new account. A profit target is never a reason to raise risk.

06 • LOSS RESPONSE

A loss is information. What you do next is the risk.

A loss doesn't mean the decision was poor, and a profit doesn't prove the process was right. The first job after a loss is to protect the next decision.

After every loss, in this order

1. Confirm you are flat and protective orders are cancelled or correct.
2. Record the result and the actual risk taken.
3. Take a short physical pause away from the order controls.
4. Classify it: valid loss, process error or serious breach.
5. Check daily loss, attempts, open exposure and readiness.
6. Continue, reduce, reset or stop, as your written plan says.

Classification	What it looks like	Response
Valid loss	Setup, size, entry, stop and management all followed the plan	Record it. Another trade only if a fresh setup appears and limits allow
Process error	Late entry, wrong quantity, unverified order, unplanned management	Correct the cause and take the planned pause first
Serious breach	Removing a stop, passing a hard limit, hiding a trade, trading after a mandatory stop	Session over. Formal review before resuming

When rules conflict, the stricter wins

1. Legal, broker, exchange and firm rules
2. Account protection and hard stops
3. Personal risk limits
4. Strategy and execution rules
5. Discretionary preferences

Watch for

Revenge intent: trading mainly to undo a loss.

Recovery intent: needing the next trade to fix the day or the week.

Either one means readiness is not green.

A profitable breach is still a breach. Resuming takes evidence, not a promise to be more careful.

07 • A LOSING WEEK, WORKED THROUGH

What following the plan looks like on bad days.

Hypothetical MNQ trader. 1R = \$100. Daily hard stop -2R. Caution trigger: -3R in a week, which halves risk. Weekly protection point -5R.

Day	What happened	Decision	Week
Mon	Two valid losses, -\$100 each	Daily hard stop reached. Done for the day	-\$200
Tue	Valid win +\$200. Then a late entry loses -\$100	Process error. Pause, note the cause, no more trades	-\$100
Wed	Two valid losses, -\$100 each	Hard stop. Week at -3R: Caution state , risk halved to \$50	-\$300
Thu	At \$50 risk: one 2R win +\$100, one loss -\$50	Within limits. Done for the day	-\$250
Fri	No setup met the playbook	No trade. Weekly review instead	-\$250

What the review finds

The plan did its job

A week with six losing trades cost 2.5R. The -5R protection point was never reached, and size was cut automatically on Wednesday, before the damage could grow.

The fix is specific

Five of the six losses were valid. The one process error, Tuesday's late entry, is the only thing to correct. The strategy is not rewritten on five days of data.

Returning to Normal

The trader writes the return condition before Monday: for example, ten trades in Caution state with full plan adherence, then back to \$100 risk. The condition is evidence they can check, not a feeling that things are better.

The goal of a bad week is to finish it able to trade the next one.

08 • PRINT AND USE

Pre-trade checklist

Every box ticked, every trade. One empty box means no trade.

Before the trade

- ☐ Capital and account are suitable today, and I am fit to trade
- ☐ Today's limits are written down and have not changed since the session began
- ☐ Daily loss so far, plus open and pending risk, leaves room for this trade
- ☐ The setup is in my playbook and the context supports it
- ☐ Invalidation is defined from the market, and the stop sits beyond it
- ☐ Contracts were calculated with costs and slippage, then rounded down
- ☐ This trade doesn't double up on a correlated position I already hold
- ☐ I can accept this loss in full without needing the next trade

Before you press send

- | | |
|---|--|
| ☐ Correct contract and expiry month | ☐ Correct direction: buy or sell |
| ☐ Quantity matches the calculation | ☐ Order type and price are correct |
| ☐ Stop attached at the planned price | ☐ Account selected is the right one |

After the trade

- ☐ Flat confirmed, or stop and target orders checked
- ☐ Result, actual risk and classification recorded in the journal

09 · PRINT ONE PER SESSION

Daily Risk Card

Fill in the top half before the session opens. The numbers don't change once you start.

Date	Account	Instrument(s)
_____	_____	_____
Risk state: Normal / Caution / Protection	1R today (\$)	Max attempts
_____	_____	_____
Daily soft stop	Daily hard stop	Week to date (R)
_____	_____	_____

Sleep

Good · Fair · Poor

Focus

Clear · Distracted

Money pressure

None · Some

Readiness

Green · Amber · Red

Amber means reduced risk at most. Red means no live trading today.

Trades

#	Setup	Contracts	Risk (\$)	Result (R)	Valid / Error / Breach	Running total
1						
2						
3						
4						
5						
6						
7						

End of session

Rules followed? Yes / No: which one?

Tomorrow's state

One thing to repeat, one thing to fix

10 • YOUR ONE-PAGE PLAN

Personal Risk Operating Plan

Decide these when you are calm, outside market hours. Change them only at a scheduled review, never during a session.

Approved capital and accounts**1R in Normal state****1R in Caution state****Max open and pending risk****How correlated positions count****Max attempts per session****Daily soft stop and its response****Daily hard stop****Weekly protection point and response****Caution trigger****Protection trigger****Evidence needed to restart****What counts as a serious breach****When I review this plan****After every loss**

Flat • record • pause • classify • check limits •
continue, reduce, reset or stop.

If rules conflict

The stricter rule wins. No target, forecast or
recent result outranks a hard limit.

Signed

Date

Next review

NEXT STEPS

A plan on paper is the start. Following it is the skill.

Most traders don't fail for lack of a setup. They fail because limits get renegotiated mid-session. The aim of everything at CM Futures is a trader who can run their own process without needing anyone else's calls.

FREE**Position Size Calculator**

Enter your instrument, stop distance and maximum risk to get the contracts that fit, rounded down. Then allow for your own fees and slippage, as on page 4. At cmfutures.ie/resources.

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