

TRADING DESK NOTES · RISK MANAGEMENT SERIES

CAN SLIM / VCP DISCIPLINE

EVERYTRADE FREE BONUS #1

The Math of Professional Trading

Why amateurs count percentages, professionals count R — and the exit discipline that separates a paper gain from a banked one.

PART 1

The Magic of R-Multiples

The single unit of measurement that turns trading from gambling into a business.

What 1R Actually Means

R stands for initial risk — the dollar amount you stand to lose if a trade fails exactly as planned and you exit at your stop, no excuses, no hoping. It is fixed the moment you enter the position. It does not move. It is not redefined after the fact to make a losing trade feel smaller. Every gain and every loss you ever take is measured as a multiple of this one number.

Variable	Value	Calculation
Entry Price	\$100.00	—
Stop-Loss Price	\$90.00	Entry – Stop = \$10.00 risk/share
Position Size	100 shares	\$1,000 total capital at risk
1R (Initial Risk)	\$1,000	Locked in at entry. This is your unit.

From this point forward, a move to \$110 is not "up 10%." It is +1R. A move to \$130 is +3R. A stop-out at \$90 is a clean, planned –1R — not a disaster, not a referendum on your ability, just the cost of doing business.

Why Percentages Are an Amateur's Yardstick

Percentage thinking is seductive because it feels intuitive, and that is exactly the problem. "I'm up 12%" tells you nothing about how much capital was actually exposed to get there, nothing about whether the risk was sized consistently with your last ten trades, and nothing about whether the win was worth the risk taken to achieve it. A 12% gain on a position where you risked 8% of capital is a mediocre outcome dressed up to look impressive. A 12% gain on a position where you risked 1% is a different business entirely.

R-multiples force consistency. Because every trade risks a comparable, predefined unit, every outcome — win or lose — can be stacked against every other outcome on a single, honest scale. This is the language institutional risk desks actually use, because it is the only one that scales across position sizes, account sizes, and instruments without lying to you.

INSTITUTIONAL RULE

Percentages measure the trade. R measures the trader.

Positive Expectancy at a 40% Win Rate

This is the number that should be tattooed on every CAN SLIM trader's monitor: you can be wrong six times out of ten and still run a highly profitable book — provided your winners are structurally larger than your losers. This is the entire mathematical justification for cutting losses at –1R fast and letting winners compound into 2R, 3R, and beyond. Expectancy, not win rate, is what pays the bills.

Outcome	Frequency	Avg R	Contribution
Winners	40% (4 trades)	+3R	+1.20R
Losers	60% (6 trades)	–1R	–0.60R
Expectancy / Trade	—	—	+0.60R

EXPECTANCY FORMULA

$(\text{Win}\% \times \text{Avg Win R}) - (\text{Loss}\% \times \text{Avg Loss R}) = \text{Expectancy per trade}$. Here: $(0.40 \times 3) - (0.60 \times 1) = +0.60R$ per trade. Run that over 100 trades at a consistent 1R position size and the math does the heavy lifting — you don't need to be right often, you need to be right big and wrong small. This is precisely why Minervini-style VCP setups with tight stops below the pivot are not optional risk hygiene — they are the engine that makes a 40% hit rate profitable at all.

PART 2

Selling Into Strength

The exit discipline that converts open profit into realized capital — before the market takes it back.

Taking Partial at 2R and 3R

A stock exploding out of a VCP base on heavy volume is giving you a gift: liquidity at a good price. Professionals do not wait for a pullback to "confirm" the move before taking action — they sell a portion of the position directly into the strength, while buyers are aggressive and the bid is thick. A common institutional framework: trim 25–33% of the position at +2R, another tranche at +3R, and let the remainder ride with a trailing stop to capture any further trend continuation.

Action	Price	R-Level	Result
Initial Entry	\$100	0R	1,000 shares, stop at \$90
Trim 1/3	\$120	+2R	Realized: \$6,667 profit banked
Trim 1/3	\$130	+3R Open-	Realized: \$10,000 profit banked
Trail Remainder	Runner	ended	Final 1/3 rides with rising stop

Why This Beats Waiting for a Pullback

Waiting for a pullback to take profit is a bet that the market will be polite enough to give you a second chance at a good price. Often it will not. Strength is the most reliable liquidity event in the life of a winning trade — volume is high, spreads are tight, and there are willing buyers on the other side of your sale. A pullback, by contrast, is exactly when liquidity dries up, spreads widen, and the same sharp move that built your profit can erase 2R or 3R of it within days. The math is asymmetric in your favor only if you act while it's in your favor. An open +3R gain is not profit — it is an unrealized number that the market is fully entitled to take back to breakeven or worse. Selling into strength converts a theoretical number on a screen into capital in the account, which is the only thing that actually compounds.

The Psychological Edge

Banking partial profits at 2R and 3R does something a pure spreadsheet model can't capture: it removes the trader's ego from the remaining decision. Once real profit is locked in, holding the runner becomes a free option rather than an emotional referendum on being "right." This is what lets a trader sit through normal volatility on the back third of a position without panic-selling at the first red candle — the trade has already paid for itself.

It also breaks the single most expensive habit in retail trading: watching a +3R winner round-trip back to breakeven, then selling at 0R out of sheer exhaustion. That trader did the hardest part — finding and holding a real winner — and was paid nothing for it. Selling into strength is how professionals make sure that never happens.

BOTTOM LINE

Losers are cut at $-1R$ without negotiation. Winners are harvested into strength at +2R and +3R without gree Everything else is noise.

Doing this math by hand, on every trade, is where most traders quietly give up the discipline. A dedicated trading journal that auto-calculates R-multiples, expectancy, and partial-exit levels the moment you log entry and stop removes the friction — and friction is the enemy of consistency. The fastest path to thinking in R instead of percent is to stop doing the arithmetic yourself.