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Decode The Market Code

Stop-Loss Discipline

Why Traders Skip It & How to Fix It

The **psychology** behind moving or removing stops, what it really costs, how to **place a stop and size a trade from it**, and a simple system to stick to your stops every time.

A FREE STUDY RESOURCE BY CHART CODE

Chart Code Academy — Stock Market Training Institute

Deepak Kevadia — Founder & Mentor, BSE NISM Certified

Boisar · Palghar · Maharashtra, India

www.chartcode.in | +91-95121 00588 | chartcode.in@gmail.com

About This Guide

A stop-loss is a pre-set exit price that caps the loss on a trade and defines its risk before you ever enter. Most traders know this; this guide is about **why they skip it anyway, and how to fix that**: the psychology behind moving or removing stops, what it really costs, how to place a stop and size a trade from it, and a simple system to stick to your stops every time. The examples are constructed with round numbers for teaching.

Stop-Loss: Why Traders Skip It & How to Fix It

1. Quick Answer: What Is Stop-Loss Discipline?

A **stop-loss** is a pre-set exit price that caps the loss on a trade and defines its risk before you ever enter. Most traders know this; the guide is really about why they skip it anyway, and how to fix that. These terms cover most of what you need to know:

Term	What it means
Stop-loss	A pre-set exit price that limits the loss on a trade and defines its risk.
R-multiple (1R)	The distance from entry to stop, used as the unit of risk; targets and results are measured in R.
SL vs SL-M order	An SL order becomes a limit order once triggered and may not fill in a gap; an SL-M order becomes a market order and fills, but with possible slippage.
ATR stop & structure stop	An ATR stop sits a multiple of Average True Range from entry, beyond normal noise; a structure stop sits just beyond the swing low or high where the trade idea is proven wrong.
Position sizing from the stop	Quantity equals capital times risk percent divided by the entry-to-stop distance — the stop is decided first, then the size.
Trailing stop & gap risk	A trailing stop moves only in the direction of profit; gap risk is the chance price opens beyond the stop so the exit fills at a worse price or not at all.

What you will learn

- Why traders skip or move their stops, and what it actually costs
- The difference between SL and SL-M orders, and where each fits
- How to place a stop using structure or ATR instead of a guess
- How to size a position from the stop, so risk stays consistent trade to trade
- How trailing stops work, and a system for sticking to your stops every time

2. What Is a Stop-Loss?

QUICK ANSWER

A **stop-loss** is a price, set before the trade goes wrong, at which you exit to limit the loss. It does two jobs: it **caps your loss** on a single trade, and it defines your **risk per trade (1R)**, the distance from entry to stop, which you use to decide how many shares or lots to buy. Traders skip or move stops mainly because of **psychology**: hope, loss aversion and ego. The fix is a system that decides the stop and size *before* you enter.

Almost every trader knows they should use a stop-loss. The problem is not knowledge but behaviour: at the moment a trade goes against you, the brain argues for waiting. This guide covers why that happens, what it costs, how to place stops sensibly and how to make yourself stick to them.

3. Why Do Traders Skip or Move Their Stops?

Reason	What you tell yourself	The fix
Hope and loss aversion	"It will come back, I'll only lose if I sell"	Place the stop order in the system the moment you enter, so the decision is already made
Ego	"Taking the loss means I was wrong"	Treat stops as the normal cost of doing business, not a verdict on you
Fear of being stopped out, then reversed	"They always hunt my stop, then it moves my way"	Place stops beyond structure or ATR noise, and cut position size instead of skipping the stop
Stops too tight	"Every stop I set gets hit"	Base the stop on the chart, then size from it
"Mental stops"	"I'll watch it and exit myself"	Mental stops rarely get executed. Use real orders or alerts
Sunk cost and averaging down	"I've lost so much already, adding will fix the average"	Ask: would I enter this trade fresh right now?

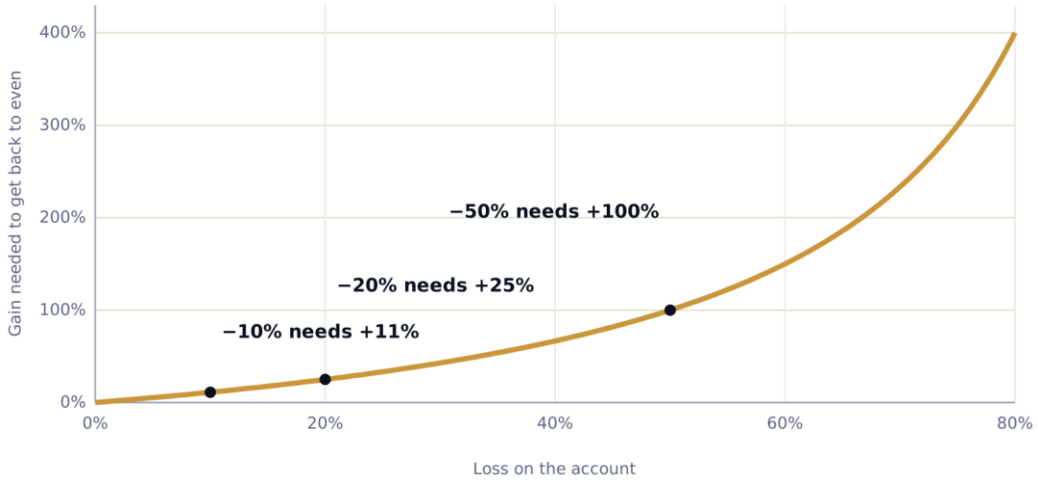
Loss aversion, the tendency to feel a loss roughly twice as strongly as an equal gain, is the engine behind most of these. It is explained in the Fear & Greed guide.

4. What Does Skipping the Stop Really Cost?

Losses are not symmetric. A 10% loss needs an 11.1% gain to get back to even, and a 50% loss needs a 100% gain. The deeper the hole, the harder the climb, which is why one unstopped loss can undo months of small wins.

Visualising It: The Gain Needed to Recover

The curve steepens quickly. Small losses are easy to recover from; large ones are not. Calculated: gain needed = loss ÷ (100% − loss).



Loss on the account	Gain needed to break even
5%	+5.3%
10%	+11.1%
20%	+25.0%
30%	+42.9%
50%	+100.0%
70%	+233.3%

A stop turns an open-ended risk into a known, small one. The point is not to avoid losses, since every strategy has them, but to keep each one small enough that your account and your confidence survive.

5. What Types of Stop-Loss Are There?

Type	How it works	Watch out for
Stop-loss limit (SL)	Trigger price plus a limit price; becomes a limit order when triggered	May not fill if price gaps through the limit, leaving you still in the trade
Stop-loss market (SL-M)	Becomes a market order when triggered	Fills, but slippage is possible in fast markets. Not available in every segment
Bracket or OCO-style orders	Entry with a linked stop and target, where your broker offers them	Availability and rules differ by broker; know how yours behaves
Price alert or "mental" stop	You get an alert and must act yourself	Easiest to ignore or postpone. Weakest form of discipline
Time stop	Exit if the trade has not worked within a set period	Frees capital and stops slow bleeds; works alongside a price stop

WORTH REMEMBERING

A stop-loss order is not a guarantee. If a stock gaps down overnight, or hits a lower circuit with no buyers, your exit may fill far below your stop or not at all. Gap risk is the reason to size positions small and to be careful with overnight positions in volatile stocks.

6. Where Should You Place a Stop-Loss?

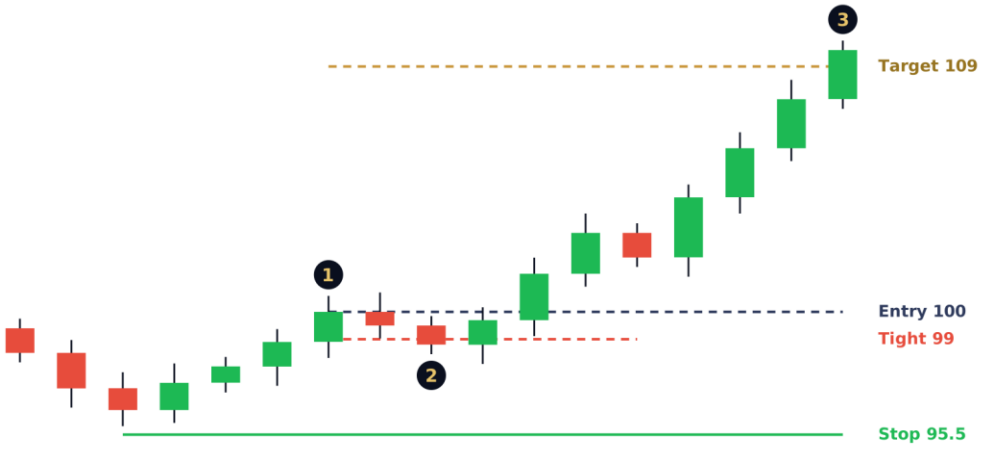
Place the stop where the trade idea is **proven wrong**, not where the loss "feels acceptable". Three common methods:

Method	How	Strength	Weakness
Structure	Just beyond a swing low (long) or swing high (short)	Tied to what the chart says	Can be far away on volatile stocks
Volatility (ATR)	Entry minus 1.5 to 2 × ATR(14)	Adapts to each stock's normal noise	Ignores chart levels unless combined
Fixed percentage	Entry minus a set % (for example 2%)	Simple	Ignores volatility and structure; often inside the noise

ATR (Average True Range) is the average of the last 14 candles' true ranges, a measure of a stock's normal movement. A stop closer than about one ATR is likely to be tagged by ordinary noise.

Visualising It: A Stop Inside the Noise vs a Stop Beyond It

Entry at 100. A tight stop at 99 is hit by a normal pullback. The stop at 95.5, below the swing low, holds, and the trade reaches its 2R target at 109. Constructed example for teaching, not a live chart.



1. **Entry** at 100, with the structure stop at 95.5 (4.5 points of risk = 1R).
2. **Ordinary pullback** dips below the tight stop at 99: that trader is stopped out. The structure stop is untouched.
3. **Target** of 2R (109) is reached. Same idea, different stop, opposite result.

The lesson is not "wider is always better". A wider stop means smaller size for the same rupee risk. The stop is chosen by the chart; the position size adapts to it. See the candlestick basics in the Candlestick Charts guide for identifying swing points.

7. How Does the Stop Decide Your Position Size?

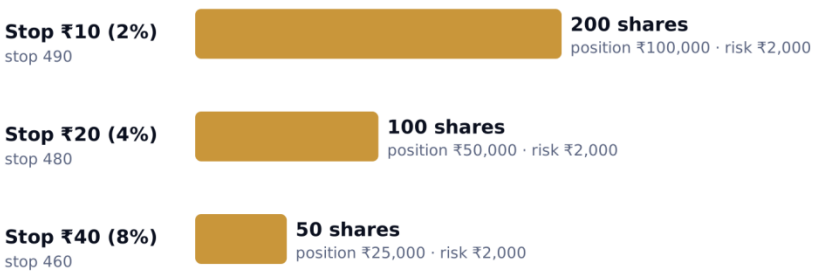
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Quantity = (Capital × Risk %) ÷ (Entry − Stop)
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Worked example, with capital of ₹200,000, risk of 1% per trade (₹2,000), entry at ₹500, and an ATR(14) of ₹12:

Step	Calculation	Result
Rupee risk allowed	200,000 × 1%	₹2,000
Stop distance	2 × ATR = 2 × 12	₹24
Stop price	500 − 24	₹476
Quantity	2,000 ÷ 24, rounded down	83 shares
Actual risk	83 × 24	₹1,992
2R target	500 + 2 × 24	₹548

Visualising It: Same Rupee Risk, Different Stop Distance

Every bar risks about ₹2,000. A wider stop simply means fewer shares. Calculated at a share price of ₹500 and capital of ₹2,00,000.



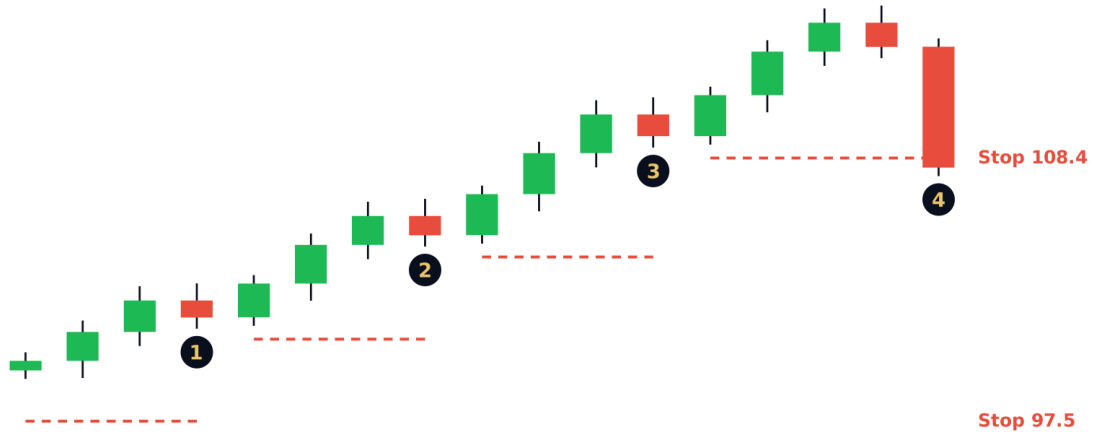
This is why "the stop is too wide" is never a reason to skip it: you adjust the quantity, not the stop. Leverage changes the arithmetic of margin, but not the rule; see the Futures Trading guide.

8. How Do Trailing Stops Work?

A **trailing stop** moves in the direction of profit as the trade works, locking in gains. A common structure-based version raises the stop just below each new higher low. The golden rule: **a stop only ever moves toward profit, never away from it**.

Visualising It: Trailing the Stop Under Higher Lows

Entry is near 100 with the stop at 97.5; it is raised three times. Price finally drops through the last stop at 108.4 and the trade exits well in profit. Constructed example for teaching, not a live chart.



1. **First higher low:** stop raised to 100.9.
2. **Second higher low:** stop raised to 104.3.
3. **Third higher low:** stop raised to 108.4, above the entry.
4. **Exit:** price falls through 108.4; the stop closes the trade with most of the move banked.

Once the stop moves above your entry, the trade can no longer lose money, but do not move it to breakeven too early: trades need room to breathe, and a stop at breakeven right after entry is inside the noise.

9. How Do You Fix the Habit of Skipping Stops?

1. **Decide the stop before you enter.** Write entry, stop, target and size on paper. No stop, no trade.
2. **Size from the stop.** Use the formula so the rupee risk is fixed no matter where the stop is.
3. **Place the order immediately.** Enter the stop as a real order right after the entry fills. Use bracket or OCO-style orders where your broker offers them.
4. **Only move stops toward profit.** Never widen a stop. If you feel the urge, that is the signal to close, not to negotiate.
5. **Set a daily loss limit.** If you hit it, stop trading for the day.
6. **Track stop discipline in your journal.** Mark each trade "stop honoured" or "stop moved". Review the count weekly; the goal is a streak of honoured stops.
7. **Start smaller.** If a stop still feels unbearable, your size is too large. Cut it until a loss is boring.

10. Common Stop-Loss Mistakes

1. Moving the stop away from price: It converts a planned small loss into an unplanned large one. Never widen a stop.

2. Choosing size first, stop second: Decide the stop from the chart, then size the position to fit your risk.

3. Placing stops at obvious round numbers: Many stops cluster there. Put yours a little beyond the level.

4. Using only a mental stop: It is easily ignored under pressure. Enter a real order or set an alert.

5. Averaging down a loser: Adding to a losing trade raises risk on a mistake. Exit instead.

6. Ignoring gap risk: A stop does not protect against overnight gaps or circuit locks. Keep positions small.

NEXT STEP

Stop-loss placement, position sizing and risk management are taught hands-on in our MarketEdge Pro course at Chart Code, offline in Boisar or live online anywhere in India. New to charts? Start with the Candlestick Charts guide.

11. Your Stop-Loss Checklist

- **Stop set from the chart** — Is the stop where the idea is proven wrong, beyond normal noise?
- **Size from the stop** — Have I calculated quantity so the rupee risk is my fixed percentage?
- **Order placed** — Is the stop entered as a real order or alert, right after entry?
- **Reward versus risk** — Is the target at least 2R away, so a few wins can pay for several stops?
- **Gap and event risk** — Am I holding overnight or through results, and is the size small enough to survive a gap?

EDUCATIONAL CONTENT ONLY

This guide explains risk-management concepts and is not investment advice. A stop-loss does not guarantee your exit price: gaps, fast markets and circuit limits can cause fills worse than your stop, or no fill at all. The examples are constructed with round numbers. Trading involves risk of loss; never risk money you cannot afford to lose.

12. Frequently Asked Questions

What is a stop-loss and how does it work?

A stop-loss is an exit price you set before or right after entering a trade. If price reaches it, the position is closed, which caps the loss on that trade. A stop-loss order is triggered when the market touches your stop price and then tries to exit, but it does not guarantee the exact exit price, especially in fast or

gapping markets.

Where should I place my stop-loss?

Place it where the trade idea is proven wrong, and outside normal market noise. Common methods are just beyond a swing low or high (structure), a multiple of Average True Range from entry (volatility), or a fixed percentage. A stop placed inside ordinary pullbacks gets hit too often. Decide the stop first, then size the position from it.

What is the difference between SL and SL-M orders?

A stop-loss limit (SL) order has a trigger price and a limit price; once triggered it becomes a limit order, so it may not fill if price gaps through the limit. A stop-loss market (SL-M) order becomes a market order when triggered, so it fills but possibly at a worse price. Which order types are allowed varies by segment and broker, so check what yours offers.

Why does price reverse right after my stop is hit?

Often the stop was inside normal noise or at an obvious level where many stops cluster. Widen it using structure or ATR and reduce the position size to keep the rupee risk the same. Also accept that a stop that is never hit is probably too wide: some stopped trades are simply the cost of doing business.

Do I need a stop-loss when buying options?

An option buyer's maximum loss is the premium paid, so the loss is already capped. Many traders still use a stop or a time exit, because a premium can decay to zero without ever hitting a disaster level. Option sellers and futures traders face open-ended losses and should always have a stop or a hedge.

How much should I risk on each trade?

There is no universal number and this is not advice, but many risk frameworks cap the loss on any single trade at 1% to 2% of trading capital. The stop distance and the position size together decide the rupee risk, so the same risk can be taken with a tight stop and large size or a wide stop and small size.

Get in Touch

CHART CODE ACADEMY

Website: www.chartcode.in
WhatsApp / Phone: +91-95121 00588
Email: chartcode.in@gmail.com
In person: Boisar, Palghar, Maharashtra 401501
Online: live sessions from anywhere in India

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