

WealthAlpha Master Guide

Chapter 6: Risk Management Rules + Psychology

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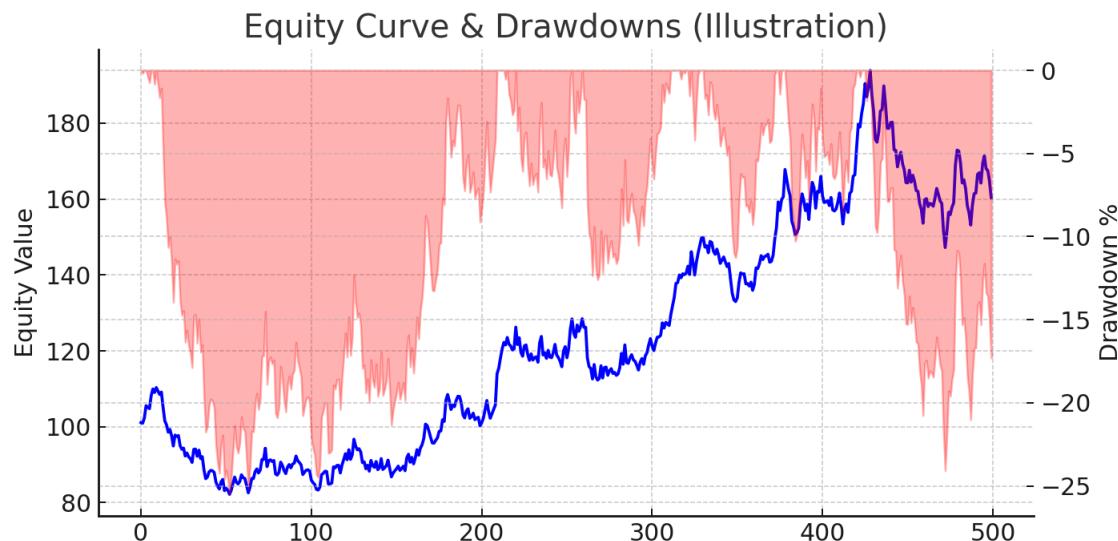
Chapter 6: Risk Management Rules + Psychology

WealthAlpha Advantage: Our AI risk engine tracks your portfolio's drawdown, position sizes, and stop-loss adherence in real-time — alerting you before risks spiral.

Risk management is about survival. While returns are uncertain, risks can be controlled. Combine position sizing, stop-losses, hedging, and diversification into a disciplined system.

Core Risk Rules

- 2% Rule: Risk no more than 2% of your capital per trade.
- Stop-Loss Discipline: Pre-set hard stops or ATR-based trailing stops.
- Diversification: Max 25% in one sector, 10% in one stock.
- Hedging: 5–10% allocation in gold/SGBs, use index puts selectively.
- Drawdown Limit: Max 20–25% portfolio drawdown tolerated.



Equity Curve with Drawdowns: Protect downside while letting profits run.

Psychology of Risk

Common biases to watch:

- Loss Aversion: Cutting winners early, holding losers too long.
- Overconfidence: Oversizing positions on conviction alone.
- Anchoring: Sticking to old price levels despite new info.
- Hope & Ego: Refusing to exit due to pride.

Practical Investor Habits

- Keep a trading journal: Record why you entered and exited.
- Pre-commit to stop-losses before buying.
- Use the Sleep Test: If position size keeps you awake, it's too big.

- Automate rules where possible to avoid emotional overrides.

Case Study: 2020 COVID Crash

Investors with diversified portfolios, strict stop-losses, and gold hedge fell 25–30% but recovered in a year. Those without risk rules saw 60–70% drawdowns and took years to recover.