

A taxidermy specimen of a lioness attacking a gazelle. The lioness is on the left, with its mouth open and paws on the gazelle's back. The gazelle is on the right, facing right. The background is a plain, light-colored wall.

Rob Booker

Yo, Trader! Are You SOL?

The Most Important Number in Trading

The average trading account: up a little bit, then back down a little bit. Maybe a big gain here and there.

Then down a *lot*. Maybe the entire account is lost. Trading — whether it's forex, stocks, bonds, baseball cards or coffee beans — is largely a losing game for most people who try.

Why is trading a one step forward, ten steps back experience for most people?

The most important number in risk management isn't the number everyone focuses on. It's the SOL number.

That's right. The SOL number. Your SOL Quotient, or SOLQ, is your risk management IQ. It's more important than your win percentage. More important than the size of the average win compared to the average loss (a false measure of security comes from a so-called "2:1" risk to reward system, but more on that later). More important than your "profit factor," or any other metric that I've ever seen.

Here's the deal: I've studied over 25,000 trades, from over 2,000 traders, over the past 4 years. And I found a number that matters more than anything else. And the other metric — the profit factor and all those other numbers — were interesting, and sometimes useful. But they weren't very good at forecasting the overall eventual success of a trader.

At least not like the SOL Quotient. Here's the calculation:

NET PROFIT / MAXIMUM LOSS

That's it. Your net profit divided by your maximum loss. But what does that mean? How do you get those numbers in the first place?

The best first step towards learning your SOL Quotient is to do some testing. You can backtest manually, by moving the charts forward one candle at a time and logging your results, or you can use backtesting software like Forex Tester or Tradestation.

You'll need at least 30 trades, and optimally 50, to work from. This is not a sample set large enough to develop an entire trading system, but it is the minimum necessary to calculate your SOL Q.

One assumption here is that you actually did some testing. You can also calculate your SOL Quotient from your live trading results.

Once you have 30-50 trades, you simply look over those results and you calculate your net profit – the total amount gained over the course of your results. Then, using over the same data set, you look for the single largest loss. Then you divide your net profit by your largest loss. And that's your SOL Quotient.

In the expanded edition of this eBook, coming in mid-June 2007, we'll look at some specific examples. But for now I just want to take one more moment of your time, and explain why I believe this number has made a huge difference in the success of thousands of traders.

A higher SOL Number is better. Why?

When you are focused on keeping your SOL Quotient high, you are trying to maximize your wins, and you are constantly attempting to reduce the size of your losses. For instance, with your SOL Quotient in mind, you will be far less likely to let a losing trade run for a long time, knowing that if you let it become a massive loss, you are going to have to divide that number into your net profit. It's the same thing you have heard so many times: the best traders keep their losses small and their winners big. This oft-repeated mantra of risk management proved to be true in my research.

Let me say this a different way: a high SOL number means that your net profit was so great that it was many times larger than your biggest loss. A high SOL number means that your biggest loss has a very minimal effect on your total net profit. The fact of the matter is that you are *going* to have losing trades. But what will those losing trades do to your net profit?

You want to be able to experience losses without wiping out your net profit. It's not about the average win or average loss. It's really about the *biggest* loss as a percentage of your net profit.



Who the Crap is Rob Booker?

I'm a currency trader. I wrote [Adventures of a Currency Trader](#), published by John Wiley & Sons in February 2007. It has now sold about 3 copies world-wide (give or take 2,000). [Here is a photo of me](#). Just kidding. My new book, *For the Love of Money*, will be published in May 2008.

Send this eBook to Someone You Love

It's easy. Just attach it to an email and send it to your favorite trader who doesn't know his SOLQ from a hole in the ground. **An expanded version of this eBook will be available around June 15, 2007.** Hybrid fuel cells not included.

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