

Forex explaining Risk Reward Ratio

It is well known to all traders that risk is the inevitable part of trading but if it can be resolved by risk-reward ratio. It's a good way to get out of the giant of trade risk smartly.

The risk reward ratio is one of the ratios that manage the risk involved in Forex trade. These ratios are used to determine the versatility of the trading systems that are implemented while trading at the trading platform.

More specifically, this ratio helps to analyze the intensity of risk involved in any trade that signifies how much money a trader can loose in one particular trade. It also compares the loss involved in the trade and the potential of profit in any trade.

For instance, risk reward ratio of 10:20 ticks implies that a trade was putting 10 ticks into risk to earn 20 ticks. This ratio could be prearranged as 1:2 or as 50% and it is calculated as $((10/20)*100) = 50$, that means risk is around 50% of the possible profit.

The lower risk reward ratio means that the trailing trade will loose less capital as compared to the amount that can be earned by the winning trade.

This let the winning Forex trades to surmount the losses that are acquired by the lost trades. For understanding let's take an example of a risk reward ratio of 25% means that one winning trade can surmount four loosening trades.

In contrary to this, a risk reward ratio of 75% means that one winning trade can surmount the losing trade.

The risk reward ratio when used in combination with other risk management strategies to get more diversified and better results of the Forex trade.

Like the win-loss risk ratio, that compares the number of losing and winning trades and the break-even percentage that gives the number of winning trade points that are required to break the even trade point.

The article gives a tool to manage the trade risk and calculate the potential profits from the possible Forex trades.

About the Author

I am Avelin and have keen interest in financial investments and matters related to [Forex](#) trade. I am working in Forex trading and financial investments for Finexo.com.

Source: <http://www.forexarticlecollection.com>