NAIJAFX

Template: Risk Assessment Framework Planning Worksheet

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Based on Article: "Building a Robust Risk Assessment Framework for Trading Strategies"
Website: https://nairafx.ng

A practical worksheet template to help traders build a robust risk assessment framework for their trading strategies.

Checklist Items:

☐ **1. Define Key Risks**
Identify and document the potential risks that could impact your trading strategy, including market, execution, liquidity, currency, and operational risks. For each risk, describe its possible trigger and financial effect.
Reference Section: Start With a Clear Risk Definition

☐ **2. Set Risk Limits**
Establish written risk limits for your trading strategy. Define limits for risk per trade, maximum daily loss, maximum weekly loss, and maximum drawdown to ensure you have a clear framework before testing your strategy.
Reference Section: Set Risk Limits Before Testing a Strategy

☐ **3. Create a Risk Inventory**
Develop a risk inventory that catalogs each identified risk along with its trigger and response plan. This inventory will serve as a practical guide during trading.
Reference Section: Build a Nigerian risk inventory

☐ **4. Implement a Position Sizing Formula**
Use the formula 'Position size = account risk ÷ stop distance' to determine how much capital to risk per trade based on your risk limits, ensuring you manage your exposure effectively.
Reference Section: Set Risk Limits Before Testing a Strategy

☐ **5. Conduct Stress Tests**
Stress-test your risk framework against real market conditions to evaluate how your strategy performs under pressure. Simulate adverse scenarios to identify weaknesses.
Reference Section: Stress-Test the Framework Against Real Market Pressure

☐ **6. Monitor and Adjust**
Regularly review your trading performance against your risk limits and risk inventory. Make adjustments as necessary to stay within acceptable risk levels.
Reference Section: Turn the Assessment Into a Working Risk Framework

☐ **7. Document Warning Signals**
Create a list of warning signals for each risk limit that triggers a defined action. This helps in maintaining discipline during trading and ensures timely responses to adverse conditions.
Reference Section: Set Risk Limits Before Testing a Strategy

☐ **8. Review Broker Conditions**
Include broker verification and assess trading conditions to prevent operational risks. Ensure that your broker's conditions align with your trading strategy and risk framework.
Reference Section: Behavioural and compliance risk