

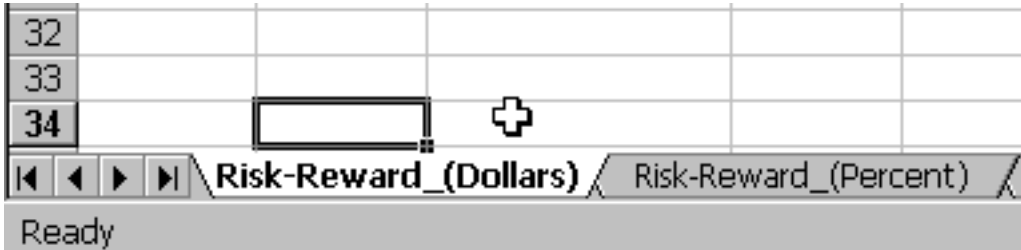
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The Matrix Spreadsheet: Instructions

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● Using the Risk/Reward Matrix

The Risk / Reward worksheets are contained in the first two tabs of the "Matrix" Workbook:



The first tab is to calculate your risk/reward in dollar terms, and the second is for calculating your risk/reward in terms of account percentage. Both worksheets operate similarly.

For example, the "dollar" worksheet requires three inputs in the yellow boxes: average loss/risk per trade (in dollars), the ratio of the size of winners to the size of losers, and transaction costs (slippage, commission) per trade:

How big is your average loss (your risk per trade)?	\$500
What is the ratio of size of winners to losses?	1.5
Transaction costs (dollars)?	\$100

In the above example, the trader estimates an average loss at \$500, the average win at \$750 (1.5 times the average loss) and transaction costs of \$100 per trade.

The spreadsheet calculates the corresponding expectations for the average trade according to different win percentages:

Win Pct	Ave. Win/Loss In Dollars
30	\$225.00
35	\$162.50
40	\$100.00
45	\$37.50
50	\$25.00
55	\$87.50
60	\$150.00
65	\$212.50
70	\$275.00
75	\$337.50
80	\$400.00

We can see from this example that if the trader was only right 50% of the time, but won \$750 when correct and lost \$500 when wrong, and paid \$100 in transactions costs, then he would still do better than breakeven (he would on average make \$25 per trade).

● Using the Probability of Ruin Worksheet

The third tab on the "Matrix" workbook contains the "Probability of Ruin" (POR) worksheet:

\$625	\$738	\$850
0%	0%	0%
\$750	\$875	\$1,000

cent) Probability of Ruin

This worksheet requires four inputs from the user: average loss, starting account size, account size at "success," and account size at "failure."

Please input the following values:

Average Loss:	\$500
Starting Account:	\$50,000
What is "Success"?	\$100,000
What is "Failure"?	\$25,000

In the above example, the trader's average loss is \$500 (including transactions costs) and he/she begins with \$50,000. The trader wishes to double the account (success) but will quit upon a 50% drawdown (failure).

The spreadsheet calculates the risk of ruin depending on the size of wins and the

percentage of wins:

Average Win	Percentage of Winning Trades								
	30%	35%	40%	45%	50%	55%	60%	65%	70%
	100%	100%	100%	100%	100%	100%	100%	100%	0%
\$250	-\$275	-\$238	-\$200	-\$163	-\$125	-\$88	-\$50	-\$13	\$25
	100%	100%	100%	100%	100%	100%	0%	0%	0%
\$375	-\$238	-\$194	-\$150	-\$106	-\$63	-\$19	\$25	\$69	\$113
	100%	100%	100%	100%	67%	0%	0%	0%	0%
\$500	-\$200	-\$150	-\$100	-\$50	\$0	\$50	\$100	\$150	\$200
	100%	100%	67%	0%	0%	0%	0%	0%	0%
\$750	-\$125	-\$63	\$0	\$63	\$125	\$188	\$250	\$313	\$375
	100%	9%	0%	0%	0%	0%	0%	0%	0%
\$1,000	-\$50	\$25	\$100	\$175	\$250	\$325	\$400	\$475	\$550
	14%	0%	0%	0%	0%	0%	0%	0%	0%
\$1,250	\$25	\$113	\$200	\$288	\$375	\$463	\$550	\$638	\$725
	0%	0%	0%	0%	0%	0%	0%	0%	0%
\$1,500	\$100	\$200	\$300	\$400	\$500	\$600	\$700	\$800	\$900
	0%	0%	0%	0%	0%	0%	0%	0%	0%
\$1,750	\$175	\$288	\$400	\$513	\$625	\$738	\$850	\$963	\$1,075
	0%	0%	0%	0%	0%	0%	0%	0%	0%
\$2,000	\$250	\$375	\$500	\$625	\$750	\$875	\$1,000	\$1,125	\$1,250

Taking a look at the first column where the trader wins only 30% of the time, we see that even if the trader wins \$1000 when he/she is correct, ruin is (close to) 100% certain. However, if the trader can increase their average win to \$1250, the risk of ruin is only 14%.