

What Is the 1% Rule in Trading?

The most quoted rule in trading is also the most misapplied — what it actually caps, how to run it trade by trade, and the four things it will not save you from.

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The 1% rule in trading says that no single trade should be able to cost you more than one percent of your account. It is the first rule most traders learn, the one most often repeated, and — judging by the accounts that blow up while their owners insist they were following it — the one most often misunderstood. The confusion is not about the number. It is about what the number is measuring, what has to be true before the rule means anything at all, and what it quietly leaves unguarded. This report is about running the rule in practice. The separate question of whether one percent is the right fraction for you is a decision we treat on its own terms in [how much to risk per trade](#).

AT A GLANCE

WHAT IT SAYS

Risk $\leq$ 1% of equity per trade

THE ARITHMETIC

Risk $\div$ stop distance = size

WHAT IT CAPS

The loss — not the position

BLIND SPOTS

Correlation, frequency, fees

PRECONDITION

A predefined stop

CRYPTO TWIST

Gaps, slippage, liquidation

01

What the rule actually caps

Start with the misreading, because almost everything that goes wrong downstream begins here. “Risking one percent” does not mean putting one percent of your account into a position. It means arranging the trade so that *if your stop is hit*, the realised loss equals one percent of your equity. The position itself is normally far larger than the amount at risk —

often many times larger — because the distance between your entry and your stop is usually a small fraction of the price.

That single distinction is the whole discipline. One percent is a budget for losses, not an allowance for capital deployed. A trader who reads it as the latter will hold positions far too small to matter when they are right, and a trader who thinks a large position automatically violates the rule has misunderstood which quantity the rule governs. The rule constrains the downside; the size is whatever the downside permits.

02

The arithmetic, in one line

Once the budget is fixed, position size stops being a judgement call and becomes division. Your risk amount is your equity multiplied by one percent. Your position size is that risk amount divided by the distance from your entry to your stop. Three inputs, one output, no discretion: $size = (equity \times 1\%) \div stop\ distance$.

The consequence is worth sitting with, because it inverts how most people size trades. A tight stop, close to entry, permits a *large* position — the same one-percent budget stretched over a short distance. A wide stop forces a *small* one. The budget never changes; the size floats to fit it. This is why the rule can govern every trade you take regardless of asset, volatility, or setup: it does not care what you are trading, only how far away you have decided you are wrong. The mechanics of turning that number into an actual order, including tiered entries, we cover in [position sizing and entry tiers](#).

03

No stop, no rule

The formula has a divisor, and if that divisor does not exist the rule collapses. Without a predefined level at which you exit — a price that says the reason for the trade is gone — there is no stop distance, no calculable size, and no cap on the loss. A trader without a stop is not risking one percent. They are risking whatever the market decides to take, and calling it a rule.

This is why the 1% rule is not really a sizing rule at all; it is a rule that *forces you to define your invalidation before you enter*, and prices the position off that decision. The stop must also be placed where the trade is genuinely wrong, not squeezed artificially close to justify a bigger position — a tight stop bought with wishful thinking simply converts one large loss

into a series of small ones. Where the level belongs, and how it relates to your target, is the subject of [the risk-reward ratio](#). And a stop you merely intend to honour is not a stop; a resting order is a rule, a mental note is an intention.

04

Which equity, and how often you recalculate

One percent of *what*, exactly? The standard answer is current equity — the live account balance including open profit and loss — recalculated as it moves, rather than the balance you started the year with. That choice matters more than it sounds. Sizing off live equity means the rule scales itself down automatically during a drawdown: as the account shrinks, one percent of it shrinks too, so losses get smaller as conditions get worse. It scales up the same way when the account grows. The brake is built in and requires no decision at the moment you are least able to make one.

Two practical frictions follow. The first is cadence: recalculating before every trade is correct but tedious, and most traders settle for updating at a fixed interval or after any material change in balance. The second bites small accounts hardest — when one percent of your equity is a very small sum, the position it permits may fall below an exchange's minimum order size, or the fees may swallow the trade. That is not a flaw in the rule; it is the rule telling you something true about the relationship between your account size and the trade you were considering.

The 1% rule does not make you money. It makes sure that being wrong repeatedly — which you will be — costs you a dent rather than the account. It is not an edge; it is what keeps you at the table long enough for an edge to matter.

05

What it does not protect you from

Here is where disciplined traders still get hurt. The rule governs one trade in isolation, and four things escape it entirely.

The first and most dangerous is **correlation**. Ten positions, each sized to risk one percent, are not ten independent one-percent risks if they all move together — and in crypto they frequently do. In a sharp market-wide drawdown they behave like a single ten-percent trade.

The fix is a second ceiling on *total* open risk across the book, not a tighter per-trade number. The second is **frequency**: the rule says nothing about how many times a day you may apply it, and a trader taking many one-percent risks in a session can lose a great deal while never once breaking it. The third is **costs** — fees, spreads and, on leveraged positions, funding payments are not part of the stop distance but are absolutely part of the loss, so the realised figure runs above the budgeted one. The fourth is the gap between **intended and realised** loss: your stop is a request, not a guarantee, and in a fast or thin market it fills below where you asked.

06

When one percent is the wrong number

Treat one percent as a widely used convention rather than a solved optimum. It is durable because it sits well below the level at which a normal losing streak threatens the account, and because it is small enough that most people can actually hold to it under pressure — but it was not derived from your strategy, your win rate, or your account.

The honest way to hold it is as a *ceiling* rather than a target: a limit you never exceed, not a quota you must fill on every idea. Traders who take many trades a day, or who run several correlated positions at once, often need a smaller figure; a beginner learning execution may reasonably start smaller still, since the first months are tuition rather than income. Sizing frameworks that try to derive an optimal fraction mathematically, such as [the Kelly criterion](#), tend to output numbers most people cannot emotionally sustain, which is precisely why a flat, conservative convention has outlived the theory in everyday practice. The number matters less than fixing it in advance and holding it when a trade feels certain.

07

Why crypto strains the rule

Every weakness above is amplified here. Crypto trades continuously, so there is no closing bell to bound the damage and no session break in which to reassess — a stop can be triggered at any hour, and the position you sized carefully in the evening can be tested while you sleep. Thin order books on smaller tokens mean slippage is a routine cost rather than an exception, so the fill you get in a violent move can sit meaningfully worse than the level you set. Sharp, discontinuous moves do the same thing more brutally: price can travel through your stop rather than stopping at it, and the one-percent loss you budgeted arrives as something larger.

Leverage is where the rule is most often quietly abandoned. A liquidation price is not a stop loss — it is the exchange closing your position to protect itself, and it typically costs you the entire margin committed rather than your intended one percent. If your stop sits beyond your liquidation level, the rule is decorative. High volatility also forces genuinely wide stops, and a wide stop under the one-percent budget mathematically produces a small position; traders who dislike that answer tend to tighten the stop to justify size, which is the same mistake in reverse. Add exchange outages during exactly the volatility that triggers stops, funding costs on perpetuals, and the fact that a position denominated in a stablecoin carries its own counterparty exposure, and the gap between the budgeted loss and the realised one widens further than it ever would in a slower market. These frictions sit alongside the broader defences covered in our note on [risk-management strategies](#).

08

Making it operational

The rule fails in practice for mundane reasons, so treat it as a checklist rather than a belief. Before entry: know your current equity, know the level that invalidates the trade, divide, and size to the answer — in that order, never sizing first and reverse-engineering a stop to fit. Place the stop as a resting order at the moment you enter, not later. Keep a second ceiling for total open risk across correlated positions, and stop adding when it is reached.

Afterwards, record the loss you actually took, not the one you planned. The distance between those two numbers is the honest measure of whether you are following the rule or merely quoting it — and in crypto, where slippage and gaps are ordinary, that gap is the number worth watching. A rule you audit is a risk control; a rule you assume is a slogan.

“For which of you, intending to build a tower, sitteth not down first, and counteth the cost, whether he have sufficient to finish it?”

LUKE 14:28

Methodology & Sources

This report explains a named convention and how to execute it; it contains no win rates, expected returns, fee, funding, slippage, or volatility figures, and no claim that any risk fraction is optimal. The one and two percent conventions are long-standing practitioner

rules of thumb popularised in trading literature rather than empirically derived constants, and are presented as such. The sizing identity — risk amount divided by stop distance equals position size — is arithmetic, not a forecast. Points on slippage, gaps, liquidation, funding and exchange availability are directional and vary by venue, pair, and market conditions. This is the execution companion to our treatment of [how much to risk per trade](#), which handles the separate question of choosing the fraction itself and the risk-of-ruin mathematics behind it.

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