

RED DOG

Risk

Management

A person is standing on the edge of a large, dark rock formation that juts out over a vast, hazy valley. The scene is bathed in the warm, golden light of a sunset or sunrise, with the sun low on the horizon behind the person. The background shows rolling hills and a valley filled with trees, all shrouded in a soft, atmospheric haze.

**A Pro
Trader's
Tactics &
Philosophy**

SCOTT REDLER 

ALL-ACCESS

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About Scott Redler



Scott Redler has been a professional trader since 1999.

After 8 years of successful trading, Scott co-founded T3 Companies, LLC in 2007 and began serving as Chief Strategic Officer of both T3 Live and T3 Trading Group.

As the financial crisis began, Scott became a recurring guest on CNBC, repeatedly warning investors of the danger ahead.

Today, Scott remains a professional trader, and regularly appears on CNBC, Bloomberg Television, and Fox Business.

His technical analysis work has been cited by media outlets including the Wall Street Journal, Reuters, MarketWatch, and Investor's Business Daily, among many others.

Scott has trained traders all around the world and has appeared in documentaries by the BBC and China's CCTV-2.

Through his [Redler Report](#), [Alpha Team VTF@](#), and [Redler All-Access](#) services, Scott helps traders, money managers, and individual investors view the markets through his eyes, and approach each day with a steady, measured approach.

Frequently Asked Questions

Q: Is Scott really a professional trader?

Yes, he is a licensed proprietary trader with T3 Trading Group, LLC, partner company to T3 Live. Scott is required to disclose his real positions in his Redler Report and Alpha Team VTF® services. He is not a “paper trader.”

Q: What positions is Scott holding?

As of 5/14/2021, Scott J. Redler was long AAPL, JETS, MBIO, MVIS, NCLH, SOXL, BTWN calls, GSAH calls, SLV calls, TTD calls, VIAC calls; is short AMZN puts, BA puts, QQQ calls, SLV calls, SPY calls, TTD calls

Q: Does Scott use simple or exponential moving averages in this report?

All moving averages in this report are exponential.

Q: How can I learn more about Scott’s services?

You can use these links:

[The Redler Report](#): Scott’s daily newsletter service

[Alpha Team Virtual Trading Floor@](#): His live trading room

[Redler All-Access](#): Both services together

If you have any questions, email our team at info@t3live.com. Let our team know you downloaded the “Red Dog Risk” eBook.

Q: Can I print this eBook out?

Yes! We encourage you to print it out. We recommend using your printer’s economy setting to minimize ink usage.

Welcome to Your “Red Dog Risk Management” eBook

Dear Traders,

Over the years, hundreds of traders have asked me to teach my Tier System for trade management.

And you’re about to learn it. But I wanted to go a step further and explain my whole philosophy around risk management.

Hence, this eBook was born!

Risk management is everything in trading.

Yes, you have to work hard to make money. And it helps to be smart.

But your ability to manage risk will determine how well you do.

However, I want to make something clear: the way I manage risk may not be right for you. Some of the things I do may seem weird to you.

But by explaining my attitude toward risk and sharing some of my tactics, you’ll gain insights on building your own risk management system.

I emphasize the word “system.”

Because the more you systematize risk management, the easier you’ll find it to make decisions and hopefully achieve better results.

Too many traders are flying by the seat of their pants and could really use a little order. That’s what this eBook is all about.

So turn the page and dig in!

-Scott

What Is Risk Management?

Risk is the possibility that you'll lose money in a trade or trades.

And risk management is the art and science of shifting the risks you take to maximize your wins and minimize your losses.

Upside potential and downside risk go hand-in-hand.

There is no free lunch.

I had my best year ever in 2020. Why? Because I took on more risk. I traded faster moving small and mid-cap stocks, I shorted a lot of options, and I took on a larger number of positions.

Two years ago, it was common for me to have less than 10 positions at a time.

These days, it's not unusual for me to have 40+ positions on at once.

And the more downside risk you accept, the more money you can make.

Of course, there's a flip side. The less downside risk you accept, the less money you can make.

In plain English, you have to understand when to put the pedal to the metal... and when to slam on the brakes.

That's what trading is all about. Because there are times when you get paid to take risk, and there are times when you get punished. I want you to understand both sides.

For example, if you got long stocks at the March 2020 bottom, it didn't really matter what you bought. Stock selection didn't matter as much as your willingness to hold your nose and buy.

Sometimes, the talking heads on TV will say things like "low quality stocks" are leading the market. In reality, that means traders taking risk are getting paid big time.

The Starting Point: A Daily Game Plan

I believe the number one reason traders fail is because they don't prepare. And therefore, the best way to lower your risk is to increase your preparation.

Nothing aggravates me more than someone strolling onto the trading desk at 9 a.m., asking "what's moving?"

It's downright crazy to expect to make consistent money without a specific, daily game plan.

Some people think a plan means you can't adapt on the fly. Nothing could be further from the truth.

The more you prepare, the more flexible you become.

In [my Redler Report newsletter](#), I commonly list the levels I'm watching in 30-45 stocks, indices, and ETFs. That means when the opening bell rings, I have a pretty good idea of how I'll trade names like **Apple** (AAPL), **Tesla** (TSLA), and **Facebook** (FB).

So I don't have to think about them as much as if I was coming in cold.

That gives me a lot more mental bandwidth to react to whatever the day brings.

Say I'm long Apple and I believe it needs to hold \$125.

When it hits \$125, guess what happens? I'm ready to react. I'm not wondering what the key level is. It's burned into my brain.

And that could mean getting out, or even adding depending upon what I see.

Understand Your Trading Personality

There's a reason so many traders come from competitive fields like sports, martial arts, chess, and video games.

In activities like that, you are forced to make risk management decisions under pressure. That's one reason I'm glad my son competes in basketball, lacrosse, and track. It's training him to be a better decision maker.

When I competed in triathlons, I'd have to carefully manage my energy. If I pushed too hard during the swim, I may perform worse in the bicycle ride. And if I went too slow during the run portion, maybe I wouldn't hit my goal time.

And I had to make those types of decisions during heavy physical and mental stress.

That taught me an awful lot about what type of person I am.

I've learned that I'm generally pretty even keeled. I do a good job of not getting too high when I'm doing well, and not getting too low when I'm losing.

That means I can handle risk pretty well.

But if I'm being honest, earlier in my career, I should have trusted my ability to stomach risk more.

Because as I said before, the biggest reason 2020 was my best year ever was I took on more risk. Even in 2019, I'd only rarely short options. But in 2020, it was a core moneymaker for me.

If I was a more high strung person, I'd probably have been taking fewer positions, focusing on slower moving stocks, and I'd stop myself out of trades faster.

Think a lot about what type of person you are, especially in terms of how you handle stress.

Know What Stocks, ETFs, and Strategies You Can Handle

I love to say “know what you can handle.” Here’s the problem with people wanting to copy all of my trades.

You might not be able to handle the same kinds of stocks I trade. And you might not be able to handle some of the positions I’ve taken.

For example, I’ve gone home on Fridays with short call options positions in stocks like Tesla.

And that means I’d be at risk of losing tens or even hundreds of thousands of dollars if the stock opened up \$100 or \$200 on Monday.

Can you handle that? Maybe. And maybe not.

On the other hand, there are things I personally can’t handle.

Like I won’t take stock into earnings (more on this later) .

I also don’t trade futures, because I don’t have the stomach to watch the market 24 hours a day. And also because my wife would divorce me... :)

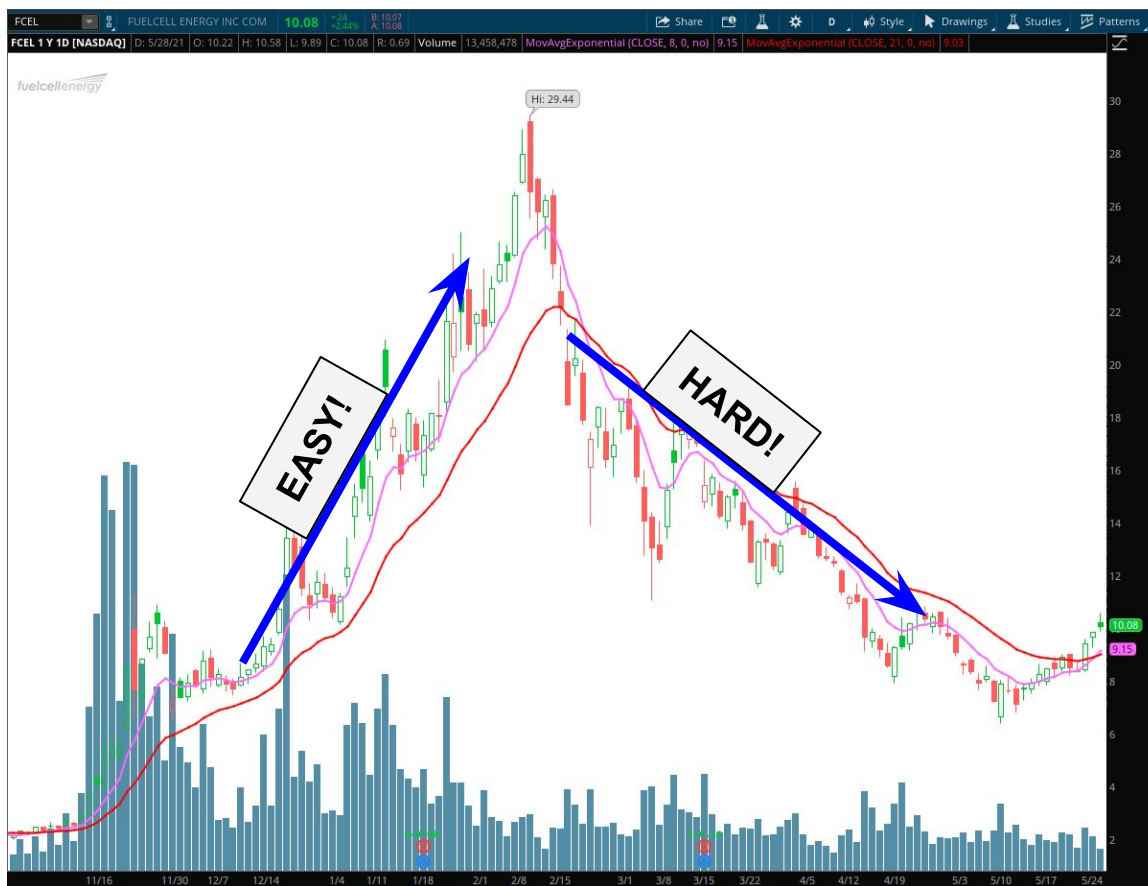
But here’s where things get tricky.

When you are making money, you can handle anything.

It’s only when you’re losing that you know what you can really handle.

Turn the page and you’ll see what I mean.

FCEL: Before and After



Take **FuelCell Energy** (FCEL). FuelCell was one of the hottest stocks in the world from late 2020 into early 2021.

When FCEL was going to the moon in, anyone could handle it. Because when you see yourself making another 5% or 10% every day, you don't feel anxiety. You feel euphoria.

After the boom? Not so much. How you handle the hard times tells you everything about what you can handle.

So look back at the times when you've lost money.

Were there times where you could handle the losses and carry on? Probably.

And there were probably also times when it felt like the end of the world.

If you think about how you handled those situations, you'll have a better idea of the names and strategies that make sense for you.

Figure Out a System for Losing Trades

I've had my shares of great trades. And I've also had my share of losers. It's part of the game. But how you handle losses could determine just how much money you make.

A lot of traders go on great runs, especially in powerful active sequences to the upside. And then they somehow manage to give it all back at the first sign of trouble. A trader might make \$100,000 on the ride up, and lose \$150,000 on the way down.

When I hear stories like that, it's typically the result of averaging down over and over and ignoring the trend. Many people lose a few thousand bucks and become obsessed with making it back, and the hole just gets bigger and bigger.

Me? Hypothetically, if I made \$100,000 during an uptrend and suddenly gave back \$25,000, I start thinking "how can I avoid being down \$35,000?"

I don't revenge trade, trying to make back what I lost. I just try to make the most out of what's in front of me.

What's gone is gone. The money is not coming back. So just try to be smart in your next decisions.

Now let's talk about how I lose.

My philosophy on stops is a little unusual. I almost never enter a physical stop order on my traders.

However, that doesn't mean I just let unsuccessful trades run.

I get out when the trade changes, and I rarely hesitate to do so.

My Personal Alarm System

As I said, I dump trades when they change. So it's not a typical system of stops. It's more of my personal alarm system. Let me give you an example with **Apple (AAPL)**. Here are 4 reasons the trade changed in late April-early May 2021.

1. Failed to hold up the day after a huge earnings report
2. The stock then lost the 8/21 day
3. The **QQQ's** were souring
4. Megacap tech was showing relative weakness

Other traders may use a specific dollar amount or percentage on a trade. And that may work for them. But I'm mostly looking for a change in trend, which is highly dependent upon moving averages, relative strength, and my gut instincts/feel.



The Tier System

Traders often ask about my Tier System, so I've decided to include it with this report. This section is from the 2021 Market Outlook Report, which retailed for \$495. So I hope you enjoy this lesson.

As an active trader, my goal is to consistently net money. The key word is "consistently." I'm not trying to nail every absolute top and bottom of a move.

Instead, I'm trying to balance maximizing cash flow with managing my downside risk. That's why I use what I call a "Tier System" for scaling in and out of trades.

By standardizing position sizes, we keep things simple and take emotion out of the equation.

And most importantly, a Tier system can stop you from putting too much risk on a single trade. I think having 3 Tiers makes sense for most traders.

The first part of the equation is to figure out your maximum position size. Let's just call it 1,000 shares for the sake of argument (some traders use dollar amounts).

Here's how I'd break down the 3 Tiers:

Tier 1: Up to 33% of Max Position Size (or 330 shares)
This is a feeler to test the waters.

Tier 2: Up to 67% of Max Position Size (or 670 shares)
The pattern triggers and gets in motion. You feel confident it can stretch for a few days.

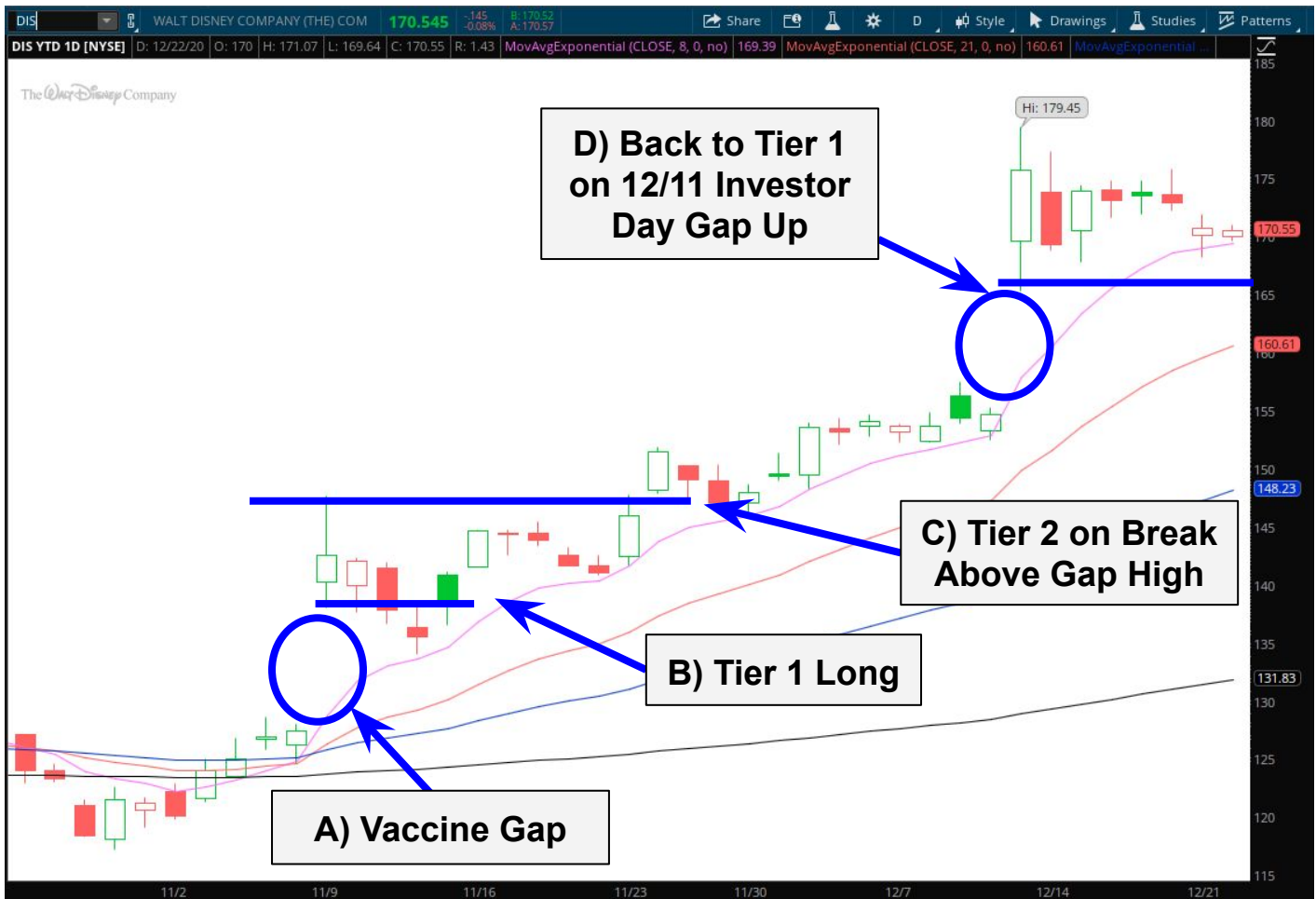
Tier 3: Up to 100% of Max Position Size (or 1,000 shares)
Should be extremely rare. The stock looks great on multiple time frames, and you know it well.

So I'm looking to scale up or down by 300-400 shares.

So if I'm in Tier 2 of a long and want to take profits, I can go back to Tier 1 by selling that amount of stock.

Tier System Example: DIS

Let's take a look at how a Tier System could have been used to trade **Disney** (DIS) in November and December 2020.



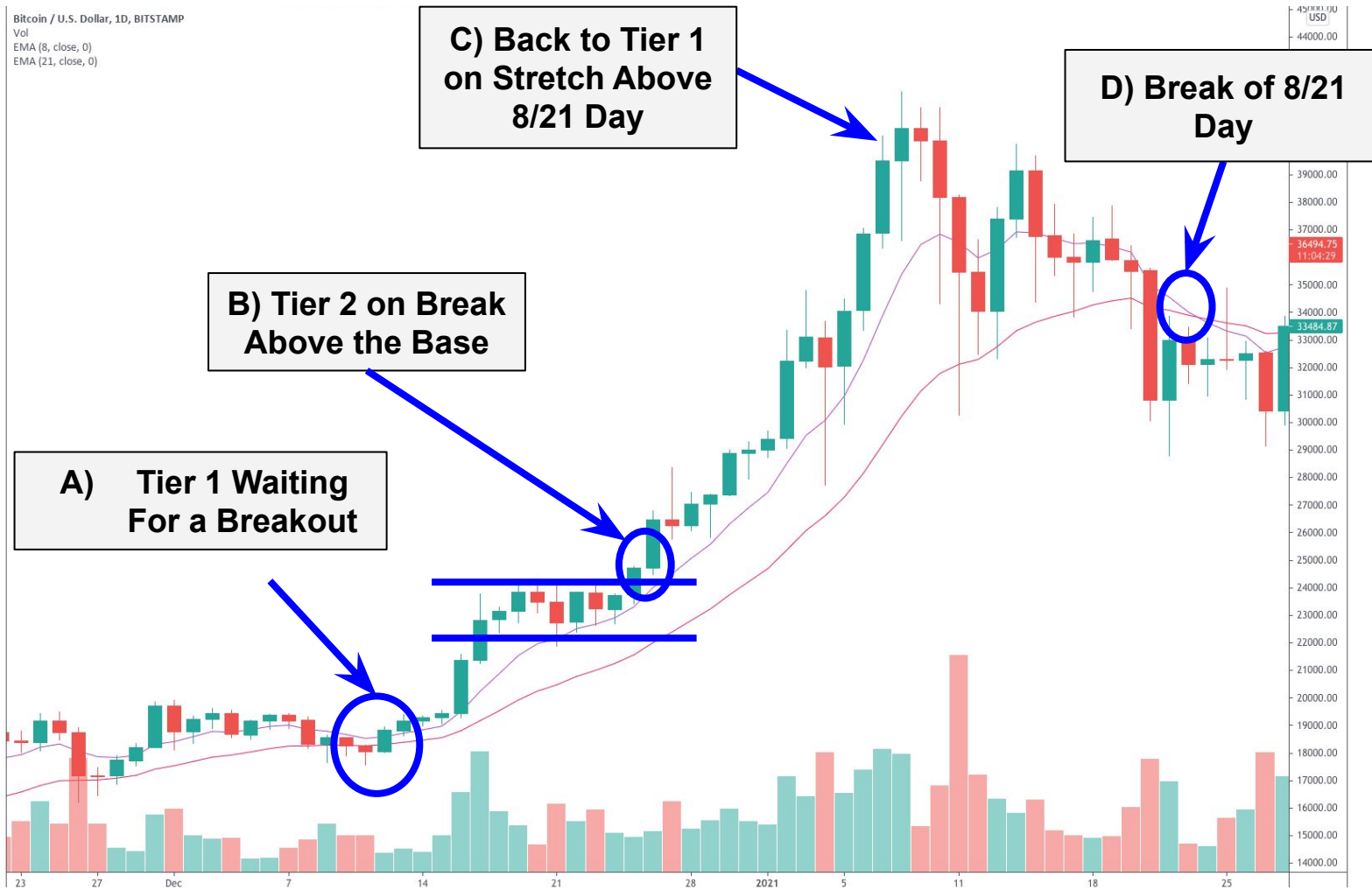
On November 9, Disney gapped up on **Pfizer's** (PFE) vaccine announcement since traders assumed this would allow Disney theme parks to open soon.

- A) The stock gapped up after earnings and held it.
- B) We take a Tier 1 long after it reclaims the \$138 low of the Nov. 9 gap bar.
- C) Move to Tier 2 when the Nov. 9 high gets taken out at \$147.68.
- D) Go back to Tier 1 after the stock gaps up on the bullish Investor Day.

Disney actually hit a high of \$179.45 on the 12/11 Investor Day Gap Up. But if I'd been long the stock, I'd have been going back to Tier 1 on the open. So I would have left some money on the table. But remember, Disney very well could have peaked at the open and sold off. By keeping a Tier, I could lock in profit while still having some upside exposure.

Tier System Example: BTC

Now let's take a look at **Bitcoin** (BTCUSD), one of my biggest wins in early 2021.



I'm going to dissect the December 2020 to January 2021 part of Bitcoin's big run, showing how you could have managed a position.

- A) Take a Tier 1 long in anticipation of a breakout
- B) Go to Tier 2 on the break above the bull flag
- C) Take profit and reduce to Tier 1 on the big move above 8/21 Day
- D) Sell or reduce further on break of 8/21 day

As you can see, with Bitcoin, you could have taken a feeler in anticipation, and then added after it cleared the bull flag. Afterwards, you could have reduced when the chart went parabolic, and again when it lost the 8/21 day. By the way, I have a Bitcoin eBook coming out soon, so keep an eye out -- we'll dig even deeper into Bitcoin!

How I Use the 8 & 21 Day Moving Averages to Manage Risk

I have two primary approaches to the market: a Portfolio Approach and a Tactical Approach.

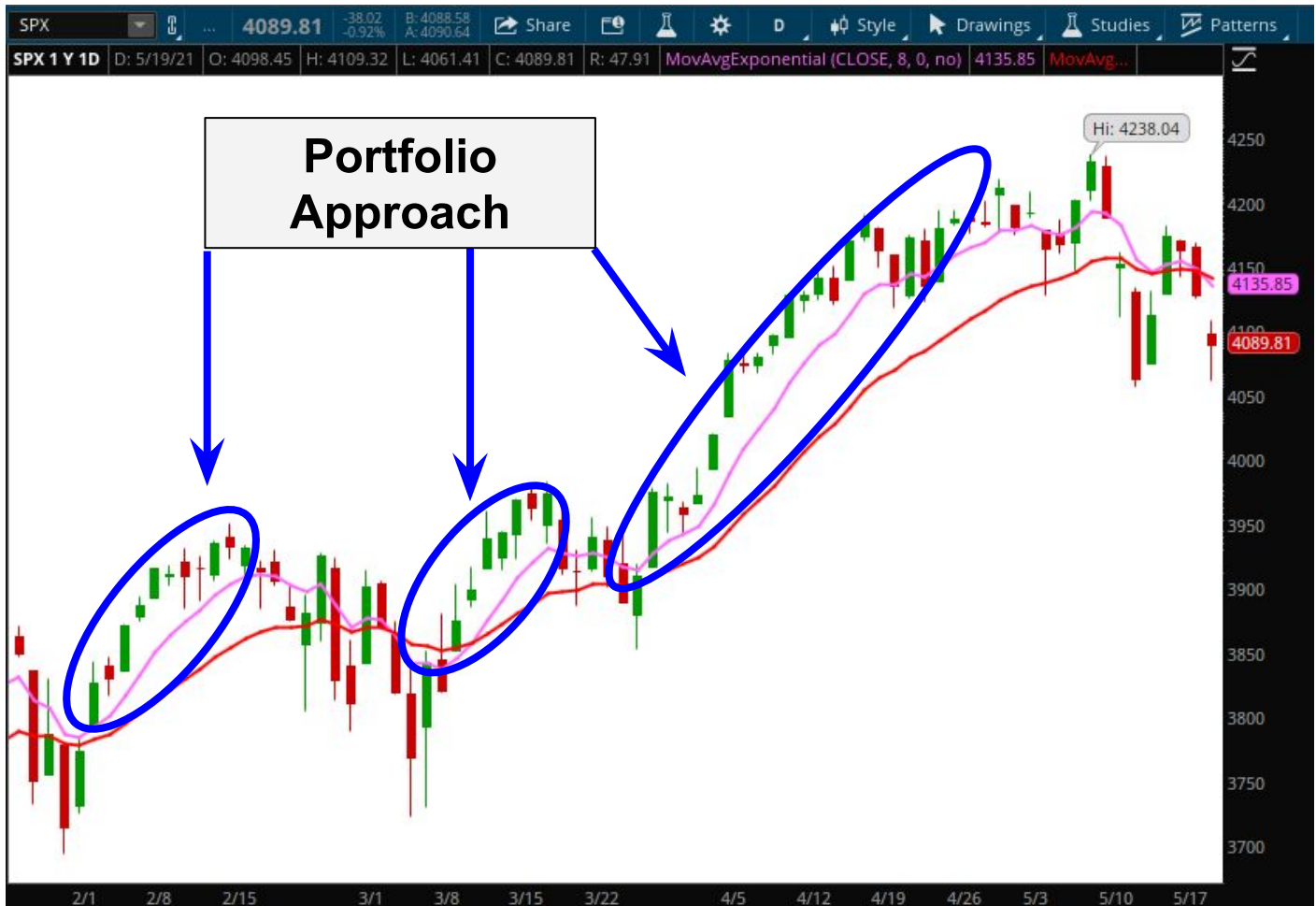
When the SPY is trending above the 8 & 21 day moving averages, I am typically in what I call a Portfolio Approach. I'll usually have 15-35+ long positions in individual stocks showing relative strength. Occasionally, I'll also hold call options.

When the SPY breaks the 8 & 21 day moving averages, I typically get in a Tactical Approach.

I start taking profits, especially with weaker names, and I may even put on a short **SPY** hedge.

Portfolio Approach	Tactical Approach
SPY trending above the 8/21/50/200 day moving averages	SPY breaks the 8 & 21 day moving averages
4-12 long positions on with plenty of tech exposure	Start taking profits in leftover longs and weaker-looking names, start looking for potential shorts
No short hedge unless we get extended	Hedge with SPY short

8 & 21 Day Moving Averages Chart Example



Here's a chart of the SPX with its 8 & 21 day moving averages.

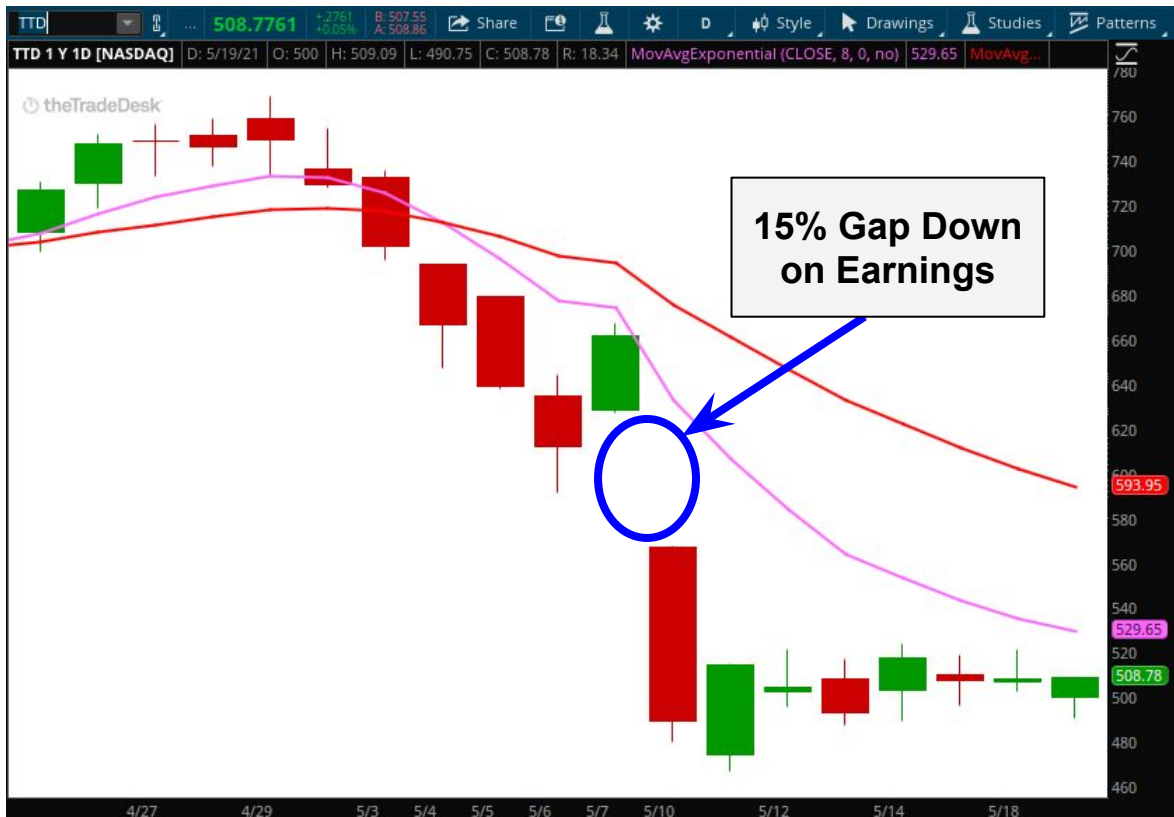
At the most basic level, when the SPX is trending above the 8 & 21 day, I'm trying to be long stocks showing relative strength. That's my Portfolio Approach.

And when the 8 & 21 day break, I move to a Tactical Approach. That's when I'm taking down long exposure, thinking about shorts, and minimizing damage.

I'm okay with losing some money during downtrends because my goal is to always make up for it on the next uptrend.

But I am not okay with blowing my account up.

Earnings and Events



Earlier, I talked about how I don't take stock into earnings reports. Other traders do it and it works fine for them. It's just not my style.

When I want to trade earnings or a specific event, I'll use options. Most of the time, it's long calls or call spreads, because I'm usually looking for longs. So I know exactly how much I'll lose if things go really wrong. And the leverage of options can give me a really big payoff if things go my way.

The **Trade Desk** (TTD) reported earnings on May 10, 2021. Let's say I had a good feeling about that report. So let's assume I was long 1,000 shares from \$650.

After the numbers hit, TTD gapped down to \$567.42 at the open, which was pretty close to the high of the day. For the sake of argument, let's say I got out at \$565.

I'd be down \$85,000 (\$85 per share loss X 1,000 shares).

On the other hand, I could have bought \$10,000 to \$20,000 worth of long call options or call spreads. Even though I'd have 100% downside risk, I know my dollar risk. With the stock, I could be down \$10,000 or \$100,000.

Manage Your Personal Life



The Redler Clan - What Really Matters to Me

When we think about risk, we tend to focus too much on things like trade and portfolio management, stop losses, stocks vs. options, etc.

But I've also seen traders lose massive amounts of money after major life changes. And I'm not talking about obvious things like drug and alcohol abuse.

I mean divorces. Health problems. Family squabbles.

The emotional weight of things like this can absolutely wreck your trading.

We can only control what we can control. Sometimes bad things happen and we can only do our best to deal with the consequences.

But if you're feeling upset about a fight with your spouse or if you're ignoring a nagging health issue, do your best to deal with it.

You may actually solve the problem, AND it will probably help your trading because you'll have one less thing hanging over your head.

Think about the alternative. You're still stressed... and you're losing money.

Your 3 Missions

I have 3 simple missions for you.

1. Reflect

You must reflect on your biggest losses. And think about how they made you feel. Think about whether you're willing to ride those out again or if you need to be more strict.

2. Create Your Own Tier System

I recommend using a simple 3-tier system for scaling in and out of trades, based on dollar amounts or share sizes.

3. Create a simple set of rules

Sit down and write out a set of rules, and put them where you can see them. There's nothing wrong with putting post-its on your monitor. You want to reinforce your rules, which can include things like "do not buy stocks into earnings" or "don't trade crypto stocks because they're too unpredictable."

Again, I'm not here to tell you what your rules should be.

I simply shared mine to give you an idea of what a system can look like.

Risk management is not a one-size fits all thing.

We all have different account sizes, trading styles, personalities, and life circumstances.

And You're Done!



My Son Chace and I in Arizona

I hope you enjoyed reading this eBook as much as I enjoyed writing it.

And I hope you're on your way to viewing risk in a healthier, more holistic way.

If you're interested in joining my services, you can read about them here:

[The Redler Report](#): my daily newsletter service

[Alpha Team Virtual Trading Floor@](#): my live trading room

[Redler All-Access](#): both services together

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