BHARATH SHIKSHA

Systematic Track

The complete curriculum book for Stage 2.

Seven modules. Twenty-three lessons. A 10-setup playbook framework. Backtesting integrity. Regime filters. Multi-timeframe alignment. The weekly review system that compounds discipline. Stage 2 takes Foundation's structural reading and turns it into a documented, repeatable playbook with honest expectancy.

ENROLLED-STUDENT EDITION · STAGE 2

COLOPHON

About this book

This is the official Stage 2 curriculum book of Bharath Shiksha. It is given to every student enrolled in the Systematic Track and is updated quarterly.

Stage 2 builds on Stage 1. Foundation taught you to read structure, count R-multiples, run a checklist, and journal trades. Stage 2 takes those primitives and converts them into a documented playbook of repeatable setups with regime filters, edge measurement, and an operational weekly review that catches drift before it becomes a habit.

Prerequisite

Foundation Track Capstone. Stage 1 graduation requires passing every gate quiz across the five Foundation volumes (70% threshold), submitting a completed companion worksheet for each volume, and completing the structured 30-day practice plan in Volume 5. Stage 2 enrolment is gated; without Foundation graduation, Stage 2 lessons assume a vocabulary you do not yet have.

What this book is not

This book does not name specific securities. It does not provide buy, sell, or hold recommendations. It does not project returns. It does not claim accuracy statistics on any live trading signal. All examples are anonymised and use a 30-day minimum data lag, consistent with the SEBI January 2025 circular distinguishing education from advisory.

How to read

Each lesson follows the Foundation template — idea, mechanics, example, exercise, mistakes — with the addition of a 'mechanic to add to your playbook' note at the end of each lesson. The playbook is the canonical Stage 2 deliverable. By the end of Module 7 your playbook should contain 5–10 setups, all documented in the format of Appendix A.

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FRONT MATTER

How to use this book

Read in order. Stage 2 is sequenced — every later module assumes the prior modules. The most common Stage-2 failure mode is starting Module 5 (trade management) without having actually built a 5-setup playbook in Modules 1–4. Trade management on undefined setups is exit theatre, not edge.

One module per two weeks

Stage 2 is designed to take 14–18 weeks at one module per fortnight. Faster is possible if you have weekend time; slower if you are running it alongside a full-time job. Lifetime access means the pace is yours.

The playbook builds across the book

Modules 1–4 add setups to your playbook. Module 5 adds management rules. Module 6 adds the review ritual. Module 7 adds the scaling rules. By the end of the book you have a complete Stage 2 playbook (Appendix A is the canonical template).

Pair with the lesson library and Stage 2 cohort

Each lesson has a matching video lesson and a cohort discussion thread. The book is canonical text; the videos are explanation; the cohort is accountability. All three layers compound. Most Stage 2 graduates run the book + videos + cohort weekly review together for the first 8 weeks, then drop one or another based on what works for their schedule.

Treat the exercises as non-optional

Twenty-three exercises across the book. Each exercise has you build, test, or audit something concrete in your own playbook. Skipping exercises produces a Stage 2 graduate who can talk about systematic trading but has no documented setup to point to. Do the exercises.

> **KEY IDEA**
>
> Stage 1 was a vocabulary. Stage 2 is a craft. Vocabulary you can learn by reading. Craft you build only by repeated, deliberate, journaled practice. The book gives you the structure; your weekly review is what compounds it.

CONTENTS

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FRONT MATTER

MODULE 1

Setup architecture

Three lessons that turn structural reading into a documented, repeatable setup. By the end of Module 1 you have the eight-field setup template that you will use for every setup in your playbook for the rest of your trading life.

Lessons in this module

MODULE 1 · LESSON 1.1

What is a setup?

A setup is a written, repeatable rule for entering and exiting a trade under a specific set of conditions. Two parts of that definition matter equally. Written, because if it is not written you cannot test it, audit it, or improve it — and your discretionary 'feel' will drift. Repeatable, because if it is not repeatable you cannot accumulate sample size, and without sample size you cannot tell whether the setup has edge or you got lucky.

What a setup contains

Every setup contains, at minimum, four things: an entry trigger (what specifically must happen for you to enter); a stop level (where the thesis is invalidated); a target or exit rule (when you take profit); and a context filter (when this setup is allowed to fire). Without any one of these four, you have an idea, not a setup.

Setup vs strategy

A strategy is a collection of setups plus the rules that govern when each fires, how risk is allocated across them, and how they interact. A single setup is one tactic; a strategy is the playbook. Stage 2 builds setups; Stage 3 builds strategy.

Why Foundation graduates rebuild from scratch

Most Foundation graduates have an intuition about which patterns work — hammers at support, breakout-retests, and so on. That intuition is valuable but is not a setup. The conversion from intuition to setup involves writing the four parts down explicitly, then trading the written version mechanically for 30 trades to compare actual outcomes against your intuition. Most students discover their intuition was 70% right and 30% wrong, and the 30% is exactly where the money was being lost.

KEY IDEA

A setup is a written, repeatable rule. Without writing, no audit. Without repeatability, no edge.

EXERCISE

Take your single highest-conviction Foundation pattern. Write it down using the four-part definition (entry trigger, stop, target, context). Show the written version to a Stage 2 cohort partner. If they cannot trade it from your description without asking clarifying questions, your writing is too vague — rewrite until it is unambiguous.

COMMON MISTAKES

ADD TO YOUR PLAYBOOK

Setup #1 in your playbook should be the one you wrote in this lesson's exercise. Title it precisely (e.g., 'Hammer rejection at four-test horizontal support, Indian large-caps, daily timeframe'). Generic names like 'breakout' fail the audit later.

MODULE 1 · LESSON 1.2

The eight-field setup template

Every setup in your Stage 2 playbook will be documented in eight fields. Below are the fields with the question each one answers. The template is a tool for forcing rigour, not bureaucracy — but you will discover, after writing your first three, that the discipline of filling all eight is what separates a Stage-2 setup from a Stage-1 idea.

Field 1: Name

A precise descriptor including the pattern, the level type, the market, and the timeframe. 'Bullish engulfing at swept liquidity, Nifty 50, 1H' is a name. 'Breakout' is not.

Field 2: Context filter

The market regime in which this setup is allowed to fire. Trend? Range? Specific volatility band? Intraday session window? If your setup fires in all regimes, it has no context — and context-less setups produce noise across the regimes where they don't apply.

Field 3: Entry trigger

The exact, observable, mechanical condition that activates the entry. 'Close above prior swing high after 5+ bars of consolidation, with volume above 20-day average' is mechanical. 'When it breaks out strongly' is not.

Field 4: Stop placement rule

The structural level beyond which the trade thesis is invalidated, plus the buffer applied. 'Below the most recent 5-bar swing low minus 0.5×ATR(14)' is mechanical. 'Below support' is underspecified — multiple supports are visible at any given moment.

Field 5: Position size rule

Per-trade risk percentage and the formula for computing share/lot count. Stage 1 default: 1% of account. Stage 2 conviction-tiered: 0.5% / 1% / 1.5% with explicit criteria for each tier.

Field 6: Target / exit rule

Either a fixed R-multiple target, a structural target (next major level), a trailing rule, or a multi-leg approach (partial exits at multiple R values). Whatever you pick, write the rule.

Field 7: Time stop

The maximum number of bars or days the setup is given before being closed regardless of P&L. Time stops kill drift; without them, low-conviction setups quietly become long-horizon non-decisions.

Field 8: Setup sample size and current expectancy

Updated weekly. Number of trades taken on this setup, current rolling 30-trade expectancy in R-multiples, and date of last review. This is the field that lets you fire dead setups.

KEY IDEA

Eight fields. Every setup. Every time. The template is the discipline.

EXERCISE

Take Setup #1 from Lesson 1.1's exercise and fill in all eight fields. Print the result. Tape it to your monitor. The first three trades on Setup #1 will be filled out against this exact specification — every field referred to before each trade.

COMMON MISTAKES

ADD TO YOUR PLAYBOOK

Add the eight-field template to the front page of your playbook. Setup #1 fills it out completely. By Module 7 you will have 5–10 such filled templates.

MODULE 1 · LESSON 1.3

From Foundation reads to Stage 2 setups

Foundation taught a structural read in 60 seconds: trend or range, where in the structure, any breakout in progress. Stage 2 turns those reads into setups. The conversion has a specific pattern that students often miss: a structural read describes the chart, while a setup adds the conditions for action. The same read may correspond to multiple setups, or to none.

The read-to-setup mapping

For each Stage 2 setup, ask: which Foundation read does this setup require to be possible? A breakout-retest setup requires the 'breakout in progress' read. A bullish-hammer-at-support setup requires the 'in pullback to last support' read. A range-traversal setup requires the 'in range' read. The Foundation read is the precondition; the Stage 2 setup adds the trigger, stop, target, and management rules on top.

Common Stage 2 setup families

Most Stage 2 students start with three setup families: trend-continuation (entries on pullbacks within an established trend); range-traversal (entries near range boundaries with rejection); and structural-break (breakout-retest setups). These three cover roughly 70% of the actionable opportunities in a typical Indian-equity-index trading week. Specialised setups (volatility-contraction breakouts, gap-fill plays, sector-rotation) come later.

Why three setups, not ten

New Stage 2 students often want to document ten setups immediately. This is a mistake. Three deeply-mastered setups outperform ten shallow ones because mastery means you can recognise the setup quickly, judge the context correctly, and execute the trade mechanically — and that speed/accuracy is what produces edge. Ten setups means each one gets one-third the practice; the per-setup expertise drops below the threshold that distinguishes signal from luck.

The 30-trade rule

Each Stage 2 setup is traded mechanically for 30 trades — paper or live, but ideally a mix — before you make any modifications. 30 trades is the minimum sample size where expectancy estimates start to stabilise (still noisy but directional). Modifying a setup before 30 trades is overfitting to recent variance.

> **KEY IDEA**
>
> Foundation reads describe the chart. Setups describe the action. Three deeply-mastered setups beat ten shallow ones every time, by the math of focused practice.

EXERCISE

Identify three Foundation reads that you actually saw and acted on in the past month (live or paper). For each, write the corresponding Stage 2 setup using the eight-field template. You now have three candidate setups for your playbook. Trade them mechanically for the next 30 each before modifying.

COMMON MISTAKES

ADD TO YOUR PLAYBOOK

Setups #1, #2, #3 are now in your playbook. Modules 2–4 add edge measurement, regime filters, and multi-timeframe alignment. Modules 5–7 add management, review, and scaling. By Module 7 your playbook is complete; until then, you are mid-build.

MODULE 2

Edge measurement

Four lessons on backtesting integrity and honest expectancy. Most retail backtests are statistically wrong; this module fixes that. By the end you can audit your own and others' backtests for the four biases that distort retail results, and compute expectancy in a way that does not lie to you.

Lessons in this module

MODULE 2 · LESSON 2.1

Why retail backtests are usually wrong

Most retail-built backtests have at least one of four biases that materially distort results. Knowing the biases lets you both audit your own work and immediately discount most marketing-driven backtest claims you'll see online. Each of the four below is independently fatal to the integrity of a result; in combination, they typically add 15–35 percentage points of false win rate.

Bias 1: Look-ahead

Using data in the backtest that wasn't actually available at the time of the simulated decision. Common version: using the day's closing price as the entry while pretending you entered intraday. Subtle version: using a moving average that includes today's bar in its computation. Cure: every value used in a decision must be computable strictly from data available before the bar of decision.

Bias 2: Survivorship

Backtesting on only currently-listed stocks ignores delisted ones. Indian equities have delistings every year; testing only on Nifty-500 current constituents systematically removes the worst performers. Cure: use a point-in-time index membership database (or accept that your backtest is biased and adjust expectations downward by 5–15 percentage points).

Bias 3: Data-snooping

Trying many parameter combinations and reporting the best. With 100 parameter combinations and a noise-only signal, you can produce 'positive' results purely by chance roughly 5% of the time at any single threshold. Cure: pre-register the parameter set before testing; test on out-of-sample data; apply multiple-testing corrections. Walk-forward analysis (next lesson) is the structural cure.

Bias 4: Costs

Forgetting brokerage, STT, GST, slippage, and impact. Indian round-trip costs at retail scale are typically 0.1–0.2% of position value. A strategy producing 0.5% per trade in raw returns loses 20–40% of its edge to costs. Cure: model costs explicitly and pessimistically. If your strategy survives 2× the realistic costs, it has structural edge.

KEY IDEA

Four biases. Look-ahead. Survivorship. Data-snooping. Costs. Most retail backtests fail at least one. Auditing for all four is the single largest research-quality improvement you can ship.

EXERCISE

Take any backtest result you have produced or seen marketed in the past year. Run it through the four-bias checklist explicitly. Note which biases are present. Most backtests fail at least one. If yours fails any, the result is overstated by an amount you cannot precisely quantify but that is almost certainly large.

COMMON MISTAKES

ADD TO YOUR PLAYBOOK

For each setup in your playbook, document which biases your backtest controls for. If you haven't backtested yet, that's fine — paper trading is a forward-looking alternative that automatically avoids look-ahead and survivorship. Costs still apply.

MODULE 2 · LESSON 2.2

Walk-forward analysis and out-of-sample

Walk-forward analysis is the structural cure for data-snooping bias. The idea: split your historical data into multiple windows, optimise the setup parameters on the first window, test on the next, then slide forward. The 'walk' simulates what would have happened if you'd actually been deploying the setup live and re-tuning it periodically as more data accumulated.

In-sample vs out-of-sample

In-sample (IS) data is what you used to develop and tune the setup. Out-of-sample (OOS) data is data the setup has never seen. The OOS performance is the only honest estimate of forward performance. IS results are nearly always biased upward — the setup has been (consciously or unconsciously) tuned to the data it was developed on.

The IS/OOS gap

A typical retail tuning produces IS results 20–40% better than OOS. Some particularly overfitted setups produce IS results 100%+ better than OOS — meaning the IS performance is essentially noise, and the strategy has zero forward-looking edge. The IS/OOS gap is itself a diagnostic: small gap (under 15%) suggests robustness; large gap (over 30%) suggests overfitting.

Walk-forward mechanics

Pick a window length (e.g., 2 years for daily-bar setups). Optimise on the first 2 years. Test on year 3. Roll forward: optimise on years 2–3, test on year 4. Continue. The aggregate of all out-of-sample test years gives you the walk-forward equity curve. This curve is your honest forward-looking estimate.

When walk-forward isn't necessary

If your setup has no tunable parameters — pure rule-based with no thresholds you optimised — walk-forward is overkill. Most Stage 2 setups have at least 1–3 parameters (RSI threshold, stop multiplier, MA length), and walk-forward is appropriate. As you scale to Stage 4 quantitative work the parameter count rises and walk-forward becomes mandatory.

> **KEY IDEA**
>
> Walk-forward analysis simulates the live experience of trading and re-tuning over time. The OOS result is the honest expectation. IS results are story; OOS results are signal.

EXERCISE

Take Setup #1. Identify all parameters (anything you tuned numerically: stop multiplier, ATR period, RSI threshold, etc.). Outline a walk-forward test: window length, optimisation criterion, evaluation metric. You don't need to actually run the test in this exercise — just outline. Stage 4 covers Python implementation. The outline forces you to confront how many parameters you actually have, which is usually more than you thought.

COMMON MISTAKES

ADD TO YOUR PLAYBOOK

For each setup, record: number of tunable parameters, length of walk-forward window, and IS/OOS gap. A gap below 15% is robust. A gap above 30% means re-design the setup.

MODULE 2 · LESSON 2.3

Sample size and the variance budget

How many trades do you need before you can claim a setup has edge? More than retail typically thinks. The mathematics of sample size matter directly to playbook decisions: when to retire a setup, when to scale up risk, when to declare an edge proven.

The 30-trade floor

Below 30 trades, expectancy estimates are dominated by single-trade variance. Two consecutive stop-outs in your first 10 trades can move your visible expectancy from positive to negative even though the underlying edge is unchanged. The 30-trade floor is where the noise level starts to drop below the signal level for a typical Stage 2 setup.

The 100-trade confidence threshold

Below 100 trades, your expectancy estimate has a confidence interval roughly ±0.4R wide for a typical retail-grade setup. That means your true expectancy could be 0.2R higher or lower than your point estimate, and you cannot distinguish between them statistically. At 100 trades, the interval narrows to ±0.2R; at 300 trades, ±0.12R. Decisions about scaling capital should wait for the 100-trade threshold.

Variance budget

Variance budget is how much P&L variance you can absorb without breaking discipline. A setup with 1.5R win and -1R loss at 50% win rate has standard deviation per trade of about 1.25R. Across 30 trades the cumulative variance produces drawdowns up to roughly -8R as a two-standard-deviation lower bound. If 8R loss represents 8% of your account, you need to be psychologically prepared to absorb 8% drawdown without modifying the setup. If 8% drawdown would force you to modify, your variance budget is too small for the setup at current size.

Implications for setup count

If you're running three setups simultaneously and want each to reach 100 trades, that's 300 trades total. At 5 trades per week (typical Stage 2 swing pace), that's 60 weeks (over a year) to fully validate three setups. Reality: most setups are validated/refuted in 30–60 trades for obvious cases, and the 100-trade threshold matters only for borderline cases.

> **KEY IDEA**
>
> 30 trades is the minimum signal. 100 trades is the confidence threshold. Variance budget is what you can absorb without breaking discipline. All three numbers are computed from your specific setup; using rules of thumb produces wrong-sized risk.

EXERCISE

For each of your candidate setups, compute the variance budget given your current account size and 1% per-trade risk. Write down the largest drawdown (in % of account) you can absorb without modifying the setup. If that number is smaller than the realistic two-sigma drawdown for the setup, either reduce risk or reduce setup count. The math should be conservative; psychology will be less generous than the math.

COMMON MISTAKES

ADD TO YOUR PLAYBOOK

Add 'variance budget' to your setup template — the % drawdown you can absorb at current sizing. If a setup ever delivers a drawdown deeper than your stated budget, the rule is: cut size by half until expectancy recovers.

MODULE 2 · LESSON 2.4

Expectancy honestly computed

Expectancy is the average rupees (or R) you make per trade across many trades. It is the single number that tells you whether your setup has edge. Computing it correctly requires discipline: averaging only the trades you actually took (not the ones you wished you had), weighting wins and losses honestly, and updating weekly.

The formula

Expectancy = (Win rate × Average winning R) – (Loss rate × Average losing R). Example: 55% win rate × 1.5R average win – 45% loss rate × 1.0R average loss = 0.825 – 0.45 = +0.375R per trade. Across 100 trades, that is +37.5R cumulative expected outcome.

Why R, not rupees

Speaking in rupees mixes apples (small accounts) and oranges (larger accounts). R-multiples normalise across account sizes and across setups. Your expectancy in R is comparable across your own setups, across other traders' results, and across time. Rupees-only expectancy is marketing; R-multiple expectancy is operational.

Update cadence

Update expectancy weekly. Compute on a rolling 30-trade window (not all-time). The rolling window is what catches setup degradation: an all-time positive expectancy can still hide a recently-negative rolling window. The rolling expectancy is the operational signal for setup health; the all-time number is for context only.

Decision thresholds

Rolling 30-trade expectancy above +0.2R: setup is healthy, continue at planned size. Between 0 and +0.2R: setup is marginal, reduce size to 0.5% per-trade until clarity emerges. Below 0: setup is broken, cut size to 0% (paper-only) and investigate. These are operational rules, not statistical proofs — they're calibrated to keep you safe while the longer sample accumulates.

KEY IDEA

Rolling 30-trade expectancy in R-multiples. Updated weekly. The single number that decides setup health.

EXERCISE

Compute expectancy in R for every trade you have taken under any setup in the last 90 days. Tag each trade by setup. Compute rolling 30-trade expectancy per setup. The setup with the most negative rolling expectancy is your candidate for retirement. The setup with the most positive is your candidate for size increase (subject to Module 7's scaling rules).

COMMON MISTAKES

ADD TO YOUR PLAYBOOK

Field 8 of your setup template tracks current rolling expectancy. Updated every Sunday during weekly review. The setup expectancy column is the operational dashboard.

MODULE 3

Regime filters

Three lessons on the regimes in which your setups should and should not fire. Foundation taught that a hammer in the middle of nothing is just a hammer. Stage 2 makes the 'middle of nothing' concept mechanical — through trend, volatility, and breadth filters that gate setup activation.

Lessons in this module

MODULE 3 · LESSON 3.1

Trend regime

Trend regime is the binary or trinary classification of whether the higher timeframe is trending up, trending down, or ranging. Most Stage 2 setups perform very differently across these three regimes — and the same setup that produces +0.5R in a trend can produce –0.3R in a range. The regime filter prevents activation in the wrong regime.

How to define trend regime

Several mechanical definitions work. The simplest: price above 200-day SMA AND 200-day SMA rising over last 30 days = uptrend. Price below 200-day SMA AND falling = downtrend. Otherwise = range. More sophisticated definitions use Donchian channels or ADX, but the simple SMA definition captures 80% of the regime classification accuracy at zero parameter complexity.

How to apply the filter to setups

For each setup, document explicitly which trend regime it requires. Trend-following setups fire in trends only. Mean-reversion setups fire in ranges only. Some structural-break setups fire only in trends but in opposite-direction trends (i.e., a long setup in a downtrend regime is the structural-break candidate). The filter is a hard gate: if the regime is wrong, the setup does not fire — even if everything else aligns.

Regime instability and transitions

Trend regimes are most reliable in the middle of their tenure (week 3 of a 6-week trend) and least reliable at the boundaries (regime transitions). At transitions, all setups should be treated with caution: reduce size by half, or skip the trade entirely. The Foundation rule 'when in doubt, do nothing' applies double during transitions.

KEY IDEA

Trend regime is a hard gate. Setup design must specify which regime allows activation. Activating in the wrong regime is a discipline failure, not a strategy variation.

EXERCISE

For each setup in your playbook, write down the trend regime in which it is allowed to fire. Then audit your last 30 trades on each setup: how many fired in the correct regime? How many in the wrong regime? The wrong-regime trades are likely your worst performers; cut them and your setup expectancy improves without changing anything else.

COMMON MISTAKES

ADD TO YOUR PLAYBOOK

Field 2 (context filter) of your setup template includes trend regime explicitly. Update the regime read at the start of each trading week.

MODULE 3 · LESSON 3.2

Volatility regime

Volatility regime classifies whether the market is in a low-vol, normal, or high-vol period. Setups perform differently across volatility regimes for two structural reasons: stops scale with ATR (so position sizes scale inversely), and pattern reliability changes (rejection candles are more reliable in low-vol regimes than high-vol).

How to measure

India VIX is the cleanest single measure for index-context regime. For individual stocks, use ATR(14) divided by closing price as the relative volatility ratio; classify into terciles (bottom third = low-vol, middle = normal, top = high-vol) using a 6-month rolling baseline.

Regime effects on setups

Trend-following: works across all volatility regimes; high-vol regimes produce wider stops and smaller position sizes for the same risk %. Mean-reversion: works best in low-to-normal vol; in high-vol regimes, mean reversion fails frequently because the 'mean' itself is moving. Breakout: works in low-vol-to-vol-expansion transitions; rarely works in high-vol regimes (too much noise overwhelms structural levels).

The vol-expansion exception

One specific regime worth treating separately: vol expansion from low to high. This is when many of the highest-conviction Stage 2 setups fire (volatility-contraction breakouts, compression-then-break patterns). The explicit rule: setups fire when current vol is expanding from a recent low base, not when current vol is already high. The trigger is the change, not the level.

KEY IDEA

Volatility regime gates setup activation and scales position size. Both effects are structural, not optional. Most retail ignores volatility regime; that's why most retail blow-ups happen in regime transitions.

EXERCISE

For each setup in your playbook, document the volatility regime in which it is allowed. Audit your last 30 trades on each setup against this filter. Note how many wrong-regime trades existed; expectancy on right-regime trades alone is your honest setup expectancy.

COMMON MISTAKES

ADD TO YOUR PLAYBOOK

Add to setup template Field 2: required volatility regime. Update the regime read at start of week using India VIX (for index setups) or ATR-ratio (for individual stocks).

MODULE 3 · LESSON 3.3

Breadth and macro regime

Breadth measures how many stocks are participating in a market move; macro regime captures the broader market context (risk-on vs risk-off, etc.). Both are derivative filters that refine the trend and vol filters. For Stage 2 students they are optional — most setups don't need them. But they materially improve discrimination on the borderline cases.

Breadth measures that matter for retail

Advance-Decline (AD) line: count of advancing minus declining stocks each day, accumulated. Rising AD line in a rising market: broad participation, healthy trend. Falling AD line in a rising market (negative breadth divergence): narrow leadership, fragile. Stage 2 application: in negative breadth divergence regimes, reduce size on long setups by 50%.

Macro regime indicators

India VIX above its 6-month average AND USDINR weakening AND bond yields rising = risk-off. Inverse = risk-on. Stage 2 application: in risk-off regimes, mean-reversion long setups in Indian equities are higher-conviction; trend-following long setups are lower-conviction. Treat the regime as a sizing modifier, not a hard gate.

When to use which

Breadth filter: useful for index-level setups (Nifty 50, Bank Nifty). Optional for individual-stock setups. Macro filter: useful for setups that hold beyond a single trading session. Optional for intraday setups (intraday window is too short for macro to matter).

KEY IDEA

Breadth and macro regimes are refinement filters, not primary filters. Use them to discriminate between borderline cases, not to manufacture confidence on weak setups.

EXERCISE

Pick one of your existing setups. Add a breadth or macro filter to it. Audit your last 30 trades on the setup against the new filter. Note whether trades that would have been excluded by the new filter were systematically worse than trades that would have been kept. If yes, the filter is improving discrimination; if no, the filter is overhead.

COMMON MISTAKES

ADD TO YOUR PLAYBOOK

Optional fields on your setup template. Use only for setups where you have specific reason to believe the filter improves discrimination. Audit before adopting.

MODULE 4

Multi-timeframe alignment

Three lessons on combining higher-timeframe context with lower-timeframe trigger. Most Stage 2 setup failures look like single-timeframe successes that happen to be in conflict with the timeframe above. Aligning timeframes is not a magic improvement — it's a filter that removes the worst trades.

Lessons in this module

MODULE 4 · LESSON 4.1

Why timeframes disagree

A 1-hour chart can be in an uptrend while the daily chart is in a downtrend. This isn't a contradiction — it's structural. Different timeframes capture different participants' decisions. The 1-hour reflects intraday traders; the daily reflects swing traders; the weekly reflects positional and institutional. When the timeframes disagree, you have to choose whose decisions you're trading with — and most retail picks the lowest timeframe by accident.

The conflict signature

Daily downtrend + 1H uptrend = retail traders chasing a counter-trend bounce while institutions remain net sellers. The bounce can run for hours or even days. The downtrend reasserts itself eventually because the larger participant pool dominates. Retail entries on the 1H uptrend produce a high win rate on small targets and rare-but-large losses when the downtrend resumes.

Why retail picks the wrong frame

Lower timeframes provide more setups (more bars = more entry opportunities). They also provide faster feedback (a 1H trade resolves in hours vs days for daily). Both feel good operationally. But the participant pool on lower timeframes is smaller and more retail-heavy, which means the edges are more crowded and more vulnerable to higher-timeframe regime change.

The right frame for your setup

Each setup has a 'natural' frame. Pattern-based setups (hammer, engulfing) work best on the frame at which the patterns were originally documented (typically daily). Volume-based setups (VWAP, profile) work best intraday because volume profiles reset daily. Trend-continuation setups work best on the frame that defines the trend you're following. Document the natural frame in your setup template and only enter on that frame.

KEY IDEA

Different timeframes reflect different participant pools. Disagreement between frames is normal; the question is whose pool you trade with. Answer it explicitly per setup.

EXERCISE

Take a setup you currently trade. Identify the frame on which you actually pull the trigger and the frame on which the trend you're following lives. If they're different, this lesson applies. Either trade on the trend frame (and accept the lower trade frequency) or document explicitly that you're trading the lower-frame counter-trend (and accept the math that comes with it).

COMMON MISTAKES

ADD TO YOUR PLAYBOOK

Field 1 (Name) of your setup template explicitly includes the timeframe. 'Bullish engulfing at swept liquidity, Nifty 50, 1H' commits you to the 1H frame; switching frames mid-setup means you're trading a different setup.

MODULE 4 · LESSON 4.2

Three-timeframe alignment

Three-timeframe alignment uses three frames simultaneously to filter setups. The standard Stage 2 mapping: weekly = regime, daily = setup, 1H = trigger. The setup fires only when all three are aligned. This is a hard filter — not a preference, not a soft signal.

Weekly: regime

The weekly chart establishes the trend regime that gates which setups fire. If the weekly chart shows higher highs and higher lows, only long setups are allowed. If the weekly is in a clean downtrend, only short setups (or no trades). Range weekly = mean-reversion setups only (or no trades, depending on your playbook). The weekly check is updated once per week — at Sunday weekly review.

Daily: setup

The daily chart is where the actual setup pattern manifests. The bullish engulfing at structural support, the breakout-retest, the range-traversal entry — these are daily-frame patterns by default. The daily check is updated daily, typically pre-market.

1H: trigger

The 1-hour chart provides the entry trigger — the precise moment to pull the trigger. If the weekly and daily are aligned for a long setup but the 1H is currently in a corrective pullback, wait for the 1H to confirm (close above the most recent 1H swing high, for example) before entry. The 1H trigger reduces entry timing variance.

When alignment fails

If only two of three frames align, the setup is in a degraded state. Two options: skip the trade, or take it at half size. Most students skip; advanced students take at half size and track the expectancy of two-of-three vs three-of-three setups separately. The data nearly always shows three-of-three is meaningfully more profitable.

KEY IDEA

Weekly = regime. Daily = setup. 1H = trigger. Three-of-three is the high-conviction signal. Two-of-three is degraded. One-of-three is no signal.

EXERCISE

For each of your top-3 setups, document the three-timeframe alignment requirement explicitly. Then audit your last 30 trades on each setup: how many were three-of-three aligned? How many two-of-three? How many one-of-three? Compare expectancy across the three buckets. Use the data to decide whether to enforce three-of-three as a hard rule or accept two-of-three at reduced size.

COMMON MISTAKES

ADD TO YOUR PLAYBOOK

Add to setup template Field 2: required three-timeframe alignment. Update weekly view Sunday, daily view daily, 1H view at trigger time.

MODULE 4 · LESSON 4.3

Pulling the trigger on aligned setups

Even with three-timeframe alignment, the actual entry decision can fail through hesitation, wrong order type, or wrong execution pace. Stage 2 separates 'decision to take the trade' from 'execution of the trade' — and treats each as a separate skill.

Order types

Limit orders at the structural level: best for breakout-retest and pullback-bounce setups. You sit and wait; the level either fills your order or it doesn't. Stop-orders above/below the trigger level: best for breakout setups where you want to enter only on confirmation. Market orders at trigger close: best for high-conviction setups where you accept slippage as the cost of certainty. Pick the order type per setup; don't switch mid-trade.

Pre-trade checklist (Stage 2 version)

Foundation's 10-question checklist plus three Stage-2 additions: (i) is the setup three-of-three aligned? (ii) does the regime filter pass? (iii) is the rolling 30-trade expectancy on this setup currently positive? Three additional questions, mechanically checked, before each entry.

Execution pace

Most retail enters too fast on alignment (they see the alignment, they enter, the trigger hasn't actually fired yet). Or they enter too slow (the trigger fires; they wait for 'one more candle to confirm'; the entry is now 0.5R further from the structural level, ruining R:R). Both errors are corrected by mechanical rules: enter at the close of the trigger candle, with a market or stop order pre-placed. No 'one more candle' allowed.

Mental rehearsal

Before each trading week, walk through the entry sequence for each setup that could fire that week. Visualise the alignment, the trigger, the order placement, and the immediate post-entry state. Mental rehearsal reduces in-the-moment hesitation and improves execution consistency. It's the difference between professional and amateur execution at every level of trading.

KEY IDEA

Three-timeframe alignment plus regime filter plus positive rolling expectancy plus pre-rehearsed order sequence equals a Stage 2 entry. Anything less is a Stage 1 entry that happens to be on a Stage 2 setup.

EXERCISE

Take Setup #1. Write the entry sequence in detail: alignment check, regime filter check, rolling expectancy check, order type, exact order placement, post-entry behaviour. Print it. Trade against it for the next 10 trades. By trade 10, the sequence runs in your head in seconds.

COMMON MISTAKES

ADD TO YOUR PLAYBOOK

Append the entry sequence to each setup in your playbook. Print and rehearse weekly. By the time you have 10 setups documented, the entry sequence is automatic.

MODULE 5

Trade management

Four lessons on what happens after entry. Most Stage 2 setup expectancy is built or destroyed in trade management, not in entry — yet most retail focus is on entry. By the end of Module 5 your playbook contains explicit rules for scaling in, scaling out, time stops, trailing stops, and re-entries.

Lessons in this module

5.1 Scaling in and out

5.2 Time stops and partial profits

5.3 Trailing stops the right way

5.4 Re-entries and continuation rules

MODULE 5 · LESSON 5.1

Scaling in and out

Scaling refers to adding to or reducing position size during the trade rather than entering and exiting at a single price. Done right, scaling improves risk-adjusted returns by letting you size up on confirmed continuation. Done wrong, scaling becomes a slow-motion blow-up where you average down on losers.

The scaling-in rule

Scale in only after the original thesis has confirmed. For a breakout-retest setup: enter half-size on the retest candle close; add the second half only after a structural higher-high confirms continuation. The total risk on entry remains 1% of account (full position would-be risk); the partial position is 0.5% risk; the second half adds another 0.5%. Never scale in such that total risk exceeds your per-trade rule.

The scaling-out rule

Scale out at predetermined R-multiple targets. Standard Stage 2: half off at +1.5R, half off at +3R, with stop trailed to break-even after first scale-out. This protects locked-in profit while letting the runner play out. Stage 3+ adds more sophisticated scale-out logic; Stage 2 uses the standard 50/50 split as default.

Why most retail scales wrong

The default retail behaviour is to add to losers (averaging down) and cut winners early (loss aversion). Both destroy expectancy. Scaling-in rules force you to add only after confirmation; scaling-out rules force you to hold winners to predetermined targets. Both rules are mechanical safeguards against your own worst impulses.

KEY IDEA

Scaling in only after confirmation. Scaling out at predetermined targets. Both are mechanical rules that protect you from yourself.

EXERCISE

Take Setup #1. Document explicit scaling-in and scaling-out rules. Run them through the next 10 trades. Track the difference between actual outcomes and what would have happened with a single-entry, single-exit approach. Most students see a small but consistent improvement; some see no improvement and revert to single entries. Either is fine — what matters is that the choice is deliberate, not drift.

COMMON MISTAKES

ADD TO YOUR PLAYBOOK

Field 6 (target / exit rule) of your setup template specifies the scaling logic. Setups without scaling state 'single entry, single exit' explicitly.

MODULE 5 · LESSON 5.2

Time stops and partial profits

A time stop is a maximum holding period beyond which the trade is closed regardless of P&L. It exists because some setups are time-limited: a breakout that hasn't followed through within N bars is no longer a breakout, it's a non-event. Continuing to hold drains capital that could be deployed elsewhere.

Time stop calibration

Calibrate time stop to the typical hold time of winning trades on the setup, doubled. If winning trades on Setup #1 typically resolve within 5 days, the time stop is at 10 days. The doubling provides slack for unusual but still-valid trades while cutting off the long-tail non-events. Time stops shorter than 1× winners' average will cut some winners; longer than 3× is generally pointless (long-horizon trades degrade for other reasons).

Partial profits at time milestones

A useful refinement: instead of hard time-stop at N bars, take partial profit at N bars. Example: at 7 days into the trade, if not yet at first scale-out target, close 50% at market, trail remaining 50% with structural stop. This keeps you in the trade if it's still working, while removing the dead-money risk of fully holding.

Time stop interaction with scaling

If you scaled in to a setup at days 2 and 4, and the time stop is at day 10, the time stop applies to the full position. Don't extend time stops because you 'recently added'. The time stop is set per-setup, not per-add.

KEY IDEA

Time stops are calibrated to the setup, applied mechanically, and extended only by deliberate playbook update — never mid-trade.

EXERCISE

Audit your last 30 trades on Setup #1. What is the median hold time of winning trades? What is the median hold time of losing trades? What is the time-stop you would have benefitted from? Use the data to calibrate the time stop, then enforce it for the next 10 trades.

COMMON MISTAKES

ADD TO YOUR PLAYBOOK

Field 7 (time stop) of your setup template is calibrated from your own data, not from rules of thumb. Recalibrate quarterly using fresh data.

MODULE 5 · LESSON 5.3

Trailing stops the right way

A trailing stop is a stop that moves in the direction of the trade as the trade progresses. Done right, a trailing stop locks in profit while leaving room for normal noise. Done wrong, a trailing stop gets stopped out on every minor pullback, killing the average winning trade.

Two trailing methods

Method 1: structural trailing. Move stop to below most recent N-bar swing low (for longs). Updates only when a new structural low forms. Robust; rarely whipsaws. Method 2: ATR trailing. Stop at close minus 2×ATR (for longs). Updates daily. More dynamic; more whipsaws but stays tighter to price. Pick one method per setup; don't switch mid-trade.

When to start trailing

Most retail starts trailing too early. The rule: don't trail until at least 1R of profit is banked or until the trade has held above the entry level for at least N bars (where N is the setup's typical hold time). Earlier trailing kills runners; later trailing leaves money on the table when continuation fails.

Trailing during scaling

If you've scaled in and out, your effective stop applies to the remaining open position. Trailing logic stays the same: structural lows for the remaining position. The math gets slightly more complex but the discipline doesn't change.

KEY IDEA

Pick one trailing method per setup. Start trailing only after structural confirmation. Move forward only. Mechanical rules survive emotion; ad-hoc trailing does not.

EXERCISE

Pick one of your existing setups. Add a trailing stop rule using either method. Backtest (mentally, against your last 30 trades) which method would have produced better results on this specific setup. Set up the rule and follow it for 10 trades. Re-evaluate.

COMMON MISTAKES

ADD TO YOUR PLAYBOOK

Add to setup template Field 6: trailing method (structural / ATR / none) and the specific parameter (e.g., 'structural — most recent 5-bar swing low').

MODULE 5 · LESSON 5.4

Re-entries and continuation rules

What happens when you exit a trade and the setup conditions re-fire shortly after? Re-entries are the most-misjudged area of trade management. Most retail re-enters too eagerly (FOMO-driven) or refuses to re-enter at all (scarred by the prior exit).

The re-entry rule

Re-entry is allowed if and only if all original setup conditions re-fire AND the original stop was not hit but rather a partial profit or trailing stop was triggered. If the original stop was hit, the re-entry must wait for either (a) the next trading day or (b) a structural higher-low that confirms a new setup, whichever is later.

Continuation vs new setup

If you scaled out at +1.5R and the trade continues to +3R after your trailing stop took you out, that wasn't a re-entry opportunity — it was a continuation that you missed. Don't chase back in at +3R. Wait for the next clean setup. Chasing is FOMO with extra steps.

Trade-day re-entry budget

On any single trading day, limit re-entries to 1 per setup. If you exited and re-entered Setup #1 once, no further re-entries on Setup #1 today. This rule prevents the death spiral of stop-out, re-enter, stop-out, re-enter where you bleed risk-budget on a setup that's not currently working.

KEY IDEA

Re-entry is allowed only when original setup conditions re-fire AND the prior exit wasn't a stop-loss hit. Chasing is FOMO with extra steps. Discipline survives by mechanical rules.

EXERCISE

Audit your last 30 trades. How many were re-entries? Of those, how many came from disciplined re-entries (original conditions re-fired) vs FOMO re-entries (chasing the move)? The two categories should have very different expectancies. Use the data to refine your re-entry rule.

COMMON MISTAKES

ADD TO YOUR PLAYBOOK

Add to setup template Field 6: re-entry rule. Most setups: 'one re-entry per day, only after fresh setup confirmation'. Stricter setups: 'no re-entries within session'.

MODULE 6

Weekly review system

Three lessons on the operational ritual that compounds Stage 2 discipline. The weekly review is where insights from individual trades aggregate into improvements in the playbook. Without it, Stage 2 is a collection of disconnected weekly outcomes; with it, Stage 2 compounds into expertise.

Lessons in this module

MODULE 6 · LESSON 6.1

The 45-minute weekend ritual

Every Sunday, 45 minutes, immovable. The weekly review is the highest-leverage 45 minutes in your trading week. Done well, it compounds; done poorly or skipped, the rest of the week's discipline drifts. The 45-minute window is calibrated: long enough to do the work properly, short enough that you'll actually do it every week.

The five-step ritual

Step 1 (10 min): tag every trade from the past week by setup. Step 2 (10 min): compute or update rolling 30-trade expectancy per setup. Step 3 (10 min): identify the week's biggest execution deviation from playbook (largest variance from setup template). Step 4 (10 min): review next week's calendar (earnings, macro events, holidays); identify which setups are allowed and which are not. Step 5 (5 min): write three sentences about what you'll change next week.

Why exactly 45 minutes

Less than 45 minutes: not enough time to do the work properly; the review becomes performative. More than 60 minutes: review becomes time-consuming enough that you'll skip it during busy weeks, and the streak of consecutive reviews is what compounds. 45 minutes is the sustainability sweet spot for adult students with day jobs.

The streak matters more than any single review

12 consecutive weekly reviews compounds more discipline than 12 sporadic reviews across a year. Prioritise the streak. If you're going to skip the review, skip it consciously and schedule a make-up the next day; don't let it slide into 'I'll do it next week' (you won't).

KEY IDEA

45 minutes. Every Sunday. Five steps. The streak compounds; the streak is sacred.

EXERCISE

Schedule the weekly review in your calendar as a recurring 45-minute Sunday slot for the next 12 weeks. Print the five-step ritual and tape it next to your trading station. Run the ritual this Sunday — even if you took zero trades this week (in which case the review is shorter, but the habit is established).

COMMON MISTAKES

ADD TO YOUR PLAYBOOK

Print Appendix C (weekly review template) and use it every Sunday. After 12 weeks, the ritual runs from memory; print the template anyway, because the act of printing renews the commitment.

MODULE 6 · LESSON 6.2

Drift detection

Drift is the slow, unconscious modification of setup rules in response to recent outcomes. After three consecutive winners, you start taking trades that don't quite meet the criteria. After three losers, you start adding extra confirmation requirements that weren't in the setup. Drift is the single largest threat to Stage 2 expectancy.

How drift shows up

Three signatures. (1) Trades you took that don't pass the setup's eight-field template — even subtly. (2) Setup parameters you informally tightened or loosened mid-week. (3) Position sizes that drifted upward on conviction or downward on stress. All three are catalogued during the weekly review's Step 3 (largest execution deviation).

The 1-in-30 rule

Across 30 trades on any single setup, expect roughly 1 trade where you'll have drifted from the setup template. This is normal — humans drift. The rule: catch it in the weekly review, tag the trade as 'drift', do not modify the setup based on the drift trade's outcome (it's unrepresentative). If you catch more than 3 in 30 trades, the drift is systemic, and the setup template needs sharpening (clearer language, more mechanical rules).

The audit trail

Maintain a 'drift log' — a separate page in your journal where every drift trade is noted with the specific deviation, the trade outcome, and a one-line lesson. The drift log becomes the single most useful artefact across your first year of Stage 2 trading. Most students discover their drift falls into 2-3 patterns (e.g., 'I add extra criteria when I'm feeling loss-averse; I drop criteria when I'm feeling confident').

KEY IDEA

Drift is normal. Cataloguing drift is the discipline. Eliminating drift is the long-term goal; reducing it from 5 in 30 to 1 in 30 is the realistic Stage-2 milestone.

EXERCISE

Start a drift log this week. Append every drift trade to it. After 90 days, audit the drift log for patterns. Most students discover their drift is highly predictable — 2-3 patterns repeating. Once named, the patterns become observable in the moment, which is the first step to interrupting them.

COMMON MISTAKES

ADD TO YOUR PLAYBOOK

Add a Drift Log section to your trading journal. Sample row: 'Trade #47, Setup #2, drifted by entering before volume confirmation; trade lost 1R; lesson: volume confirmation is non-optional even on high-conviction setups.'

MODULE 6 · LESSON 6.3

When to retire a setup

Setup retirement is a deliberate decision to stop trading a setup based on data. It's harder than retail expects because retiring a setup feels like admitting the work was wasted. The frame to use: every setup retirement is a decision to redeploy attention to setups with better expectancy. Nothing is wasted; resources are reallocated.

The retirement criteria

Three independent criteria, any one of which triggers retirement. (1) Rolling 30-trade expectancy below 0R for 3 consecutive weekly reviews. (2) Setup has not fired in 60 days (the regime it was designed for has disappeared). (3) The setup's variance budget has been exceeded (drawdown deeper than your stated tolerance, even if expectancy still positive).

The retirement process

Stop trading the setup live; mark it 'retired' in the playbook with the date and reason. Continue paper-trading for 60 more days to confirm the retirement decision. If the setup recovers in paper-trading, consider re-introducing at half-size; if it stays flat or worsens, the retirement is confirmed. The paper-trade-after-retirement step is what distinguishes data-driven decisions from emotional ones.

Setup count after retirement

If retiring a setup drops you below 3 active setups, prioritise developing a replacement. Three is the minimum for Stage 2 — fewer setups means fewer trades, less sample size, less expectancy stability. The replacement setup goes through the same Module 1–4 development process as any other.

KEY IDEA

Three retirement criteria. Three weeks of negative expectancy. 60 days of dormancy. Variance budget exceeded. Mechanical, not emotional. Retirement frees attention for setups with better expectancy.

EXERCISE

Audit your active setups against the three retirement criteria. If any setup meets the criteria, retire it this week. Document the retirement, start the 60-day paper-trade audit, begin work on a replacement setup if you've dropped below 3 active. Most students discover they have at least one setup that should have been retired weeks ago.

COMMON MISTAKES

ADD TO YOUR PLAYBOOK

Add a 'Retired Setups' section to your playbook. Each retirement entry includes: setup name, retirement date, criteria triggered, paper-trade audit window, and final decision date.

MODULE 7

Capital scaling

Three lessons on growing capital responsibly through positive cycles and protecting capital through drawdowns. Stage 2 capital scaling is mechanical, not emotional — driven by rolling expectancy metrics and risk-of-ruin math, not by feel.

Lessons in this module

MODULE 7 · LESSON 7.1

Variance budget and risk-of-ruin

Variance budget is the maximum drawdown you can absorb without breaking discipline. Risk-of-ruin is the probability that a sequence of losses takes your account below the level at which you can no longer trade meaningfully. Both numbers are computed, not felt.

Variance budget calibration

For Stage 2, variance budget should be 8-15% of account. Below 8%, the budget is too tight — normal Stage 2 drawdowns will exceed it and you'll be forced to over-react. Above 15%, the budget is too loose — you'll have absorbed too much pain by the time the budget is hit, and the discipline cost will be high. 10% is the canonical Stage 2 number.

Risk-of-ruin computation

Risk-of-ruin = probability of N consecutive losses, given win-rate W and per-trade risk R. At 1% per-trade risk and 50% win rate, risk of 8 consecutive losses (8% drawdown) is roughly 0.4%. At 2% per-trade risk and 50% win rate, same drawdown reaches in 4 losses (16% account drawdown), with probability ~6%. The non-linearity is the entire reason 1% per-trade risk is the Stage 2 standard.

When risk-of-ruin gets serious

If you're running 3 setups simultaneously with 1% risk each, your maximum simultaneous risk is 3% (rare but possible). Stress-test your account: can you absorb 3 consecutive 3% losses (9% drawdown)? At 1% per-trade risk this is the realistic worst-case for Stage 2 across a single bad week. If 9% drawdown would force you to break discipline, your variance budget is too tight for your trading scale.

KEY IDEA

Variance budget is computed, not felt. 10% drawdown is the canonical Stage 2 number. Risk-of-ruin math is non-linear in per-trade risk percentage; this is why 1% is the standard.

EXERCISE

Compute your current variance budget (in % of account). Stress-test against three plausible scenarios: (1) 5 consecutive single-setup losses; (2) 3 consecutive multi-setup days with all active setups losing; (3) the Black Swan day where everything stops out simultaneously. If any scenario exceeds your variance budget, reduce per-trade risk until all three fit.

COMMON MISTAKES

ADD TO YOUR PLAYBOOK

Add to your playbook front page: current variance budget, current per-trade risk, computed risk-of-ruin for 8 consecutive losses. Update at every weekly review.

MODULE 7 · LESSON 7.2

Scaling up after a positive cycle

Scaling up means increasing per-trade risk after demonstrated edge. Done right, it accelerates compounding. Done wrong, it gives back gains during the inevitable next drawdown. The Stage 2 scaling-up rules are mechanical, designed to capture upside without abandoning the variance budget.

The four-quarter rule

Increase per-trade risk by 25% only after four consecutive quarterly reviews show: (1) rolling 30-trade expectancy positive on at least 75% of active setups; (2) account at all-time high or within 5% of it; (3) no major regime change occurring (e.g., not in a post-Black-Swan recovery). Four quarters is roughly 12 months — slower than retail wants, but this is the timeline at which the data is robust enough to justify size increase.

Scaling-up math

If current per-trade risk is 1%, the four-quarter increase takes it to 1.25%. The next increase (after another four quarters meeting criteria) takes it to 1.56%. Then 1.95%. Then you're at the 2% Stage 2 ceiling and further increases require Stage 3 multi-strategy structure. The geometric growth is intentional — small increases compound into meaningful scale over years.

When to skip a scale-up

Even if all four-quarter criteria are met, skip the scale-up if: you've recently changed setups significantly (your current setups don't have 12 months of data); you're in a major life transition (job change, move, family event) that affects discipline; or your weekly review streak has broken. Each is a soft factor that overrides the hard math.

KEY IDEA

Four consecutive quarters of positive expectancy + ATH-or-near + no regime shift = warranted 25% scale-up. Mechanical math. Slower than retail wants. Right answer.

EXERCISE

If you've been Stage 2 for at least four quarters, audit your data against the scaling-up criteria. If all criteria pass, the scale-up is mechanically warranted; if not, identify which criterion is failing and what would need to change. If you've been Stage 2 for less than four quarters, this lesson is a forward-looking tool — file it and revisit when eligible.

COMMON MISTAKES

ADD TO YOUR PLAYBOOK

Add to weekly review Step 5: quarterly check on scaling-up criteria. The check runs 13 times per year; only one of those (the fourth-quarter check) actually triggers an action. The other 12 are confirmations that the criteria aren't yet met.

MODULE 7 · LESSON 7.3

Scaling down after a drawdown

Scaling down means reducing per-trade risk after a drawdown. The mechanical rule is harder to follow than scaling up — emotionally, retail wants to size up to recover the loss faster. The math says size down to extend runway and let the eventual recovery happen at a sustainable pace.

The 5%-drawdown rule

When account is in 5% drawdown from all-time high, reduce per-trade risk by 33%. From 1% to 0.67%. Continue at reduced size until rolling 30-trade expectancy returns to positive across 75% of active setups. Then return to original size; do not scale up beyond original until back at all-time high.

The 10%-drawdown rule

At 10% drawdown, reduce by another 33% (from 0.67% to 0.45%). Pause new setup entries; trade only the highest-expectancy active setup; treat the period as recovery rather than growth-seeking. The reduced trading frequency is intentional — fewer trades while data is ambiguous protects capital.

The 15%-drawdown rule

At 15% drawdown, full pause. No live trades for 14 days. Use the period to audit: which setups failed, why, what regime is in play, what changed in your discipline. Many Stage 2 students discover the 15%-drawdown audit reveals a regime change they hadn't noticed (their trend setups stopped working because the trend regime ended). Resume only after audit complete and a written re-engagement plan is in your playbook.

Scaling down is harder than scaling up

Scaling up feels like reward; scaling down feels like punishment. Both are mechanical responses to data. The discipline of scaling down is what protects your capital across the inevitable drawdowns of a multi-year Stage 2 career. The students who never scale down typically blow up; the students who scale down mechanically compound.

KEY IDEA

5% drawdown: cut size 33%. 10% drawdown: cut another 33%. 15% drawdown: pause for 14 days. Mechanical rules survive emotion. Scale-down is what protects multi-year compounding from single-year drawdowns.

EXERCISE

Document your three drawdown thresholds and the corresponding actions. Print them. Stick to the rules even when the math feels punitive. The scaling-down ritual is the highest-leverage discipline mechanism in your trading career — protect it.

COMMON MISTAKES

ADD TO YOUR PLAYBOOK

Add to playbook front page: current drawdown level (in %) and corresponding action. The action is automatic, not optional. Update at every weekly review.

APPENDIX A

10-setup playbook template

Each setup in your Stage 2 playbook is documented in the eight-field template below. Print 10 copies; fill out one per active setup. The completed playbook is the canonical Stage 2 deliverable. By the end of Module 7, your playbook contains 5–10 filled templates.

Field	Specification
1. Name	Pattern, level type, market, timeframe (precise descriptor)
2. Context filter	Trend regime + volatility regime + macro/breadth (if applicable)
3. Entry trigger	Mechanical, observable condition that activates entry
4. Stop placement rule	Structural level + buffer (in ATR units)
5. Position size rule	Per-trade risk % + formula for share/lot count
6. Target / exit / trailing rule	Fixed R, structural, trailing method, scaling logic
7. Time stop	Maximum holding period (calibrated to setup data)
8. Sample size + current expectancy	Trades to date, rolling 30-trade R-multiple, last review date

Sample filled template — Setup #1

Field	Value
Name	Bullish hammer at three-test horizontal support, Index A, daily timeframe
Context filter	Weekly uptrend; volatility regime in middle tercile; not within 7 days of major macro event
Entry trigger	Daily candle closes as bullish hammer (small upper body, lower wick ≥2× body, close in upp
Stop placement rule	Below most recent 5-bar swing low minus 0.5×ATR(14)
Position size rule	1% account risk; conviction-tier 1.5% if all three timeframes aligned
Target / exit	Half off at +1.5R; trail remaining via structural lows; time stop at 12 days
Time stop	12 days
Sample size	47 trades; rolling 30-trade expectancy +0.42R; last review 2026-04-25

APPENDIX B

Backtest integrity checklist

Before claiming a setup has edge, walk through this checklist. Each unchecked item is a potential source of overstated results. Three or more unchecked items: the result is unreliable.

- **Look-ahead bias controlled.** Every value in entry decision is computable from data strictly before the bar of decision.
- **Survivorship bias controlled.** Backtest uses point-in-time index membership; delisted stocks are not silently excluded.
- **Data-snooping bias controlled.** Parameters were pre-registered; out-of-sample testing was performed; multiple-testing correction applied where parameters were tuned.
- **Costs modelled pessimistically.** Brokerage + STT + GST + slippage + impact at minimum 2× realistic estimates.
- **Walk-forward analysis performed.** If setup has tunable parameters, walk-forward validates with rolling re-optimisation.
- **Sample size sufficient.** Minimum 30 trades for any expectancy claim; minimum 100 trades for any decision about scaling capital based on the result.
- **IS/OOS gap analysed.** Gap less than 15% suggests robust setup; gap above 30% suggests overfitting; investigate.
- **Result audited by second person.** Cohort partner, mentor, or curriculum staff reviewed the methodology — not just the result.
- **Setup template explicit.** All eight fields documented before backtest; the backtest implements exactly the documented setup, no more.
- **Failure modes documented.** The conditions under which the setup is expected to underperform are written down; you know in advance which regime changes will hurt this setup.

> **REMINDER**
>
> A backtest that fails three or more items above is not necessarily wrong — it just isn't yet trustworthy. Improve methodology and re-run before scaling capital based on the result.

APPENDIX C

Weekly review template (printable)

Print this page. Fill it out every Sunday. 45 minutes total. Each section has a target time. Sticking to the time budget is what makes the ritual sustainable across years.

Step	Time	Question	Notes
1	10 min	Tag every trade from this week by setup	
2	10 min	Compute / update rolling 30-trade expectancy per setup	
3	10 min	Identify the largest execution deviation from playbook	
4	10 min	Review next week's calendar; identify allowed/disallowed setups	
5	5 min	Write three sentences about what to change next week	

Drift log — append below

For each drift trade this week (trade where you deviated from the setup template), note: trade #, setup, specific deviation, outcome, one-line lesson.

Trade #	Setup	Deviation	Outcome	Lesson

Quarterly check (do once every 13 weeks)

- Rolling 30-trade expectancy positive on at least 75% of active setups? (Y/N)
- Account at all-time high or within 5%? (Y/N)
- No major regime change in progress? (Y/N)
- Weekly review streak unbroken? (Y/N)
- Eligible for 25% scale-up? (Yes only if all four above are Yes)

APPENDIX D

Glossary

Stage 2-specific terminology. Foundation glossary terms are not repeated here; refer to the Foundation Track Curriculum Book Appendix D.

Term	Definition
Backtest	Simulation of a setup's performance on historical data.
Drift	Slow, unconscious modification of setup rules in response to recent outcomes.
Drift log	Journal section recording each drift trade with deviation, outcome, lesson.
Edge	Structural reason a setup makes money over time; measurable, repeatable.
Expectancy	Average rupees (or R-multiples) per trade across many trades; the scoreboard.
Forward test	Setup performance on data collected after setup design was finalised; honest test.
In-sample	Data used to develop and tune a setup; performance here is biased upward.
Out-of-sample	Data the setup has never seen; honest performance estimate.
Playbook	Collection of documented setups + rules governing their interaction.
Regime filter	Mechanical rule gating when a setup is allowed to fire (trend / volatility / macro).
R-multiple	Trade outcome expressed as multiple of planned risk; normalises across account sizes.
Rolling expectancy	Expectancy computed over the last N trades; catches setup degradation faster than all-time.
Scaling in	Adding to a position after entry, conditional on confirmation.
Scaling out	Reducing position size at predetermined targets while letting remainder run.

Term	Definition
Setup	Written, repeatable rule for entering and exiting a trade; eight-field documented.
Setup retirement	Deliberate decision to stop trading a setup, based on data, with paper-trade audit.
Strategy	Collection of setups + rules governing their interaction; Stage 3 deliverable.
Survivorship bias	Backtesting on currently-listed stocks while ignoring delisted ones; biases results upward.
Time stop	Maximum holding period for a trade; closes the trade regardless of P&L.
Trailing stop	Stop that moves in the direction of the trade as it progresses.
Variance budget	Maximum drawdown absorbable without breaking discipline; 8-15% of account at Stage 2.
Walk-forward	Backtest methodology with rolling re-optimisation; structural cure for data-snooping.

APPENDIX E

Compliance & disclaimers

SEBI compliance

Bharath Shiksha is an educational publisher. Per the SEBI January 2025 circular distinguishing education from investment advisory, the entire scope of this book is education in setup architecture, edge measurement, regime filters, multi-timeframe alignment, trade management, and capital scaling. The book does not provide investment advice, does not name specific securities in any context, does not provide buy/sell/hold recommendations, does not project returns, and does not claim accuracy statistics on any live trading signal.

Examples and data lag

All historical examples used in this book are anonymised — referenced as 'Index A', 'Stock A', and similar — and are presented with a minimum thirty-day data lag. Examples illustrate methodology; they are not invitations to replicate any specific historical trade.

Risk warning

Trading and investing in financial markets involve substantial risk of loss. Past performance of any setup, methodology, or instrument does not guarantee future results. The skills taught in this book reduce avoidable losses; they do not eliminate market risk. Stage 2 is the intermediate stage of a multi-stage curriculum; it does not by itself prepare students for leveraged products (Stage 3+), systematic deployment (Stage 4+), or fund management (Stage 6+).

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