The Entry Efficiency Diagnostic S5 Protocol. FOREXSHARED.COM

Phase 1: The Research Protocol

- **Central Problem Entity:** Pricing Inefficiency (Slippage & Waste).
- **Problem Statement:** The trader's entry and exit prices are not optimized for the asset's actual volatility, resulting in either unnecessary risk exposure (Stop Loss too wide) or missed profit potential (Take Profit too conservative).
- **Primary Objective:** To determine the precise "Wiggle Room" (Maximum Adverse Excursion) required for a winning trade, allowing for tighter stops and larger position sizes.

Phase 2: Variable Identification

We need to isolate the *price movement* relative to your *entry point*.

- **Independent Variables (The Metrics)** 📉
    - **Maximum Adverse Excursion (MAE):** The maximum number of pips the price went *against* you while the trade was open. (i.e., "How much heat did I take?").
    - **Maximum Favorable Excursion (MFE):** The maximum number of pips the price went *in your favor* while the trade was open. (i.e., "How much money was on the table?").
    - **Entry Trigger:** The specific signal used (e.g., "Pinbar close," "Trendline break").
- **Confounding Variables (The Controls)** 📌
    - **Asset Class:** Do not mix volatile pairs (e.g., GBPJPY) with stable pairs (e.g., EURCHF) in the same calculation unless you normalize for ATR (Average True Range).
    - **Timeframe:** You must stick to one execution timeframe (e.g., 15-minute chart) for the data to be comparable.

Phase 3: The Data Collection Log

Capture this data for your next **20-30 trades**. Most modern trading journals (like PsyQuation or Edgewonk) calculate this automatically, but doing it manually is more insightful.

Trade ID	Direction	Stop Loss (Pips)	MAE (Pips)	MFE (Pips)	Result (W/L)
#101	*Long*	*20*	*5*	*45*	*Win (+40)*
#102	*Short*	*20*	*18*	*2*	*Loss (-20)*
#103	*Long*	*20*	*3*	*25*	*Win (+25)*
#104	*Short*	*20*	*0*	*15*	*Breakeven*
...	...	...	...	...	...

Definitions:

- **MAE (Adverse):** If you went Long at 1.1000 and price dropped to 1.0995 before going up, your MAE is **5 pips**.
- **MFE (Favorable):** If you went Long at 1.1000 and price hit 1.1045 before you closed it, your MFE is **45 pips**.

Phase 4: Quantitative Analysis

This analysis reveals if you are paying for "safety" you don't need.

1. **The "Stop Loss Bloat" Test:**
    - Look **only** at your **Winning Trades**.
    - Calculate the **Average MAE** of your winners.
    - *Example:* If your Stop Loss is consistently **20 pips**, but your Winning Trades never go more than **8 pips** against you (Avg MAE = 8), you are "paying" for 12 pips of safety you don't use.
2. **The "Left on Table" Test:**
    - Look **only** at your **Losing Trades**.
    - Check their **MFE**. Did they go positive significantly (e.g., +15 pips) before turning around and hitting your stop?

    - *Diagnosis:* If yes, your trade management is too passive; you should have taken partial profits or moved to Break Even.
3. **Insight Statement:** Fill in the blank:
   "The data strongly suggests my Stop Loss is **[Too Loose / Too Tight]**. My average Winning Trade only endures **[X] pips** of drawdown, yet my fixed Stop Loss is **[Y] pips**."

Phase 5: The Testable Hypothesis (Optimization)

Now, convert that efficiency gap into profit.

- **Hypothesis (If Stop is Too Loose):**
    - "My hypothesis is that by **tightening my Stop Loss from 20 pips to 12 pips** (based on my Average MAE + Buffer), I can **increase my Position Size by 40%** without increasing my risk of being stopped out on valid setups."
    - *Mathematical Impact:* Risking $100 with a 20 pip stop = $5/pip. Risking $100 with a 12 pip stop = $8.33/pip. You just gave yourself a 66% raise on every winning trade without risking more money.
- **Hypothesis (If Entry is Late):**
    - "My hypothesis is that my entries are consistently late (Low MAE, low MFE). By switching from **Market Orders** to **Limit Orders** placed 5 pips 'better' than the breakout price, I can improve my Risk:Reward ratio by 0.5R."