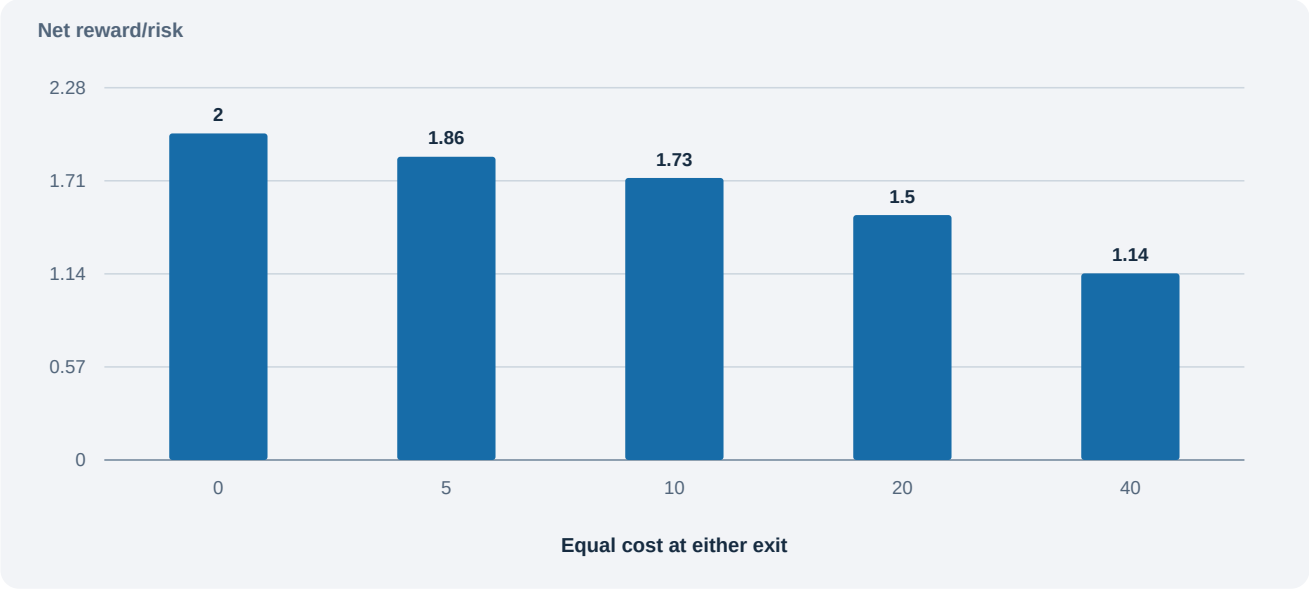
Reward-to-risk after estimated costs

Risk and sizing | Original synthetic example | Edition 2026-11-26

When a trade has a planned winning exit and losing exit, costs reduce the favorable net result and enlarge the adverse net result. A gross target-to-stop ratio can therefore overstate the net ratio.

FORMULA Net reward/risk = (target gain - costs) / (stop loss + costs)

SCENARIO 01: Gross target gain 200; planned stop loss 100



WORKED EXAMPLE

Cost 10 yields (200 - 10) / (100 + 10) = 1.73. Both outcome amounts include the cost.

COMMON MISTAKE

Subtracting costs from the target while leaving the stop outcome unchanged applies inconsistent accounting.

BEFORE YOU USE THE CALCULATION

1. Use total trade-level currency amounts.
2. Check target gain exceeds costs.
3. Stress different costs at the two exits.

COMPARE TWO MORE INPUT SETS

Scenario 05: Gross target gain 300; planned stop loss 140. Cost 10 yields (300 - 10) / (140 + 10) = 1.93. Both outcome amounts include the cost.

Scenario 10: Gross target gain 425; planned stop loss 190. Cost 10 yields (425 - 10) / (190 + 10) = 2.08. Both outcome amounts include the cost.

Synthetic values are not historical market data. Educational material; trading can result in substantial losses.