

# Risk Management

## Common risk factors

Any trading and investment activity poses certain risks.

The risk in this case is the possibility of unforeseen financial losses in an uncertain environment.

Every trader faces a market risk, which is essentially the possibility of the change of asset prices due to market rate fluctuations. There are also other risks that investors may not even be aware of:

- Operational risk is the possibility of financial losses due to technical errors during transactions, failures of information systems, equipment and computers, breaches of security, etc.
- Functional risk is the possibility of financial losses due to mistakes in building and managing an investment portfolio of financial instruments.
- Selective risk is the possibility of the wrong choice of investment object as compared to other options.
- Liquidity risk is the possibility of losses caused by the inability to free up the necessary amount of trading capital without any losses in a very short period of time due to market conjuncture conditions.

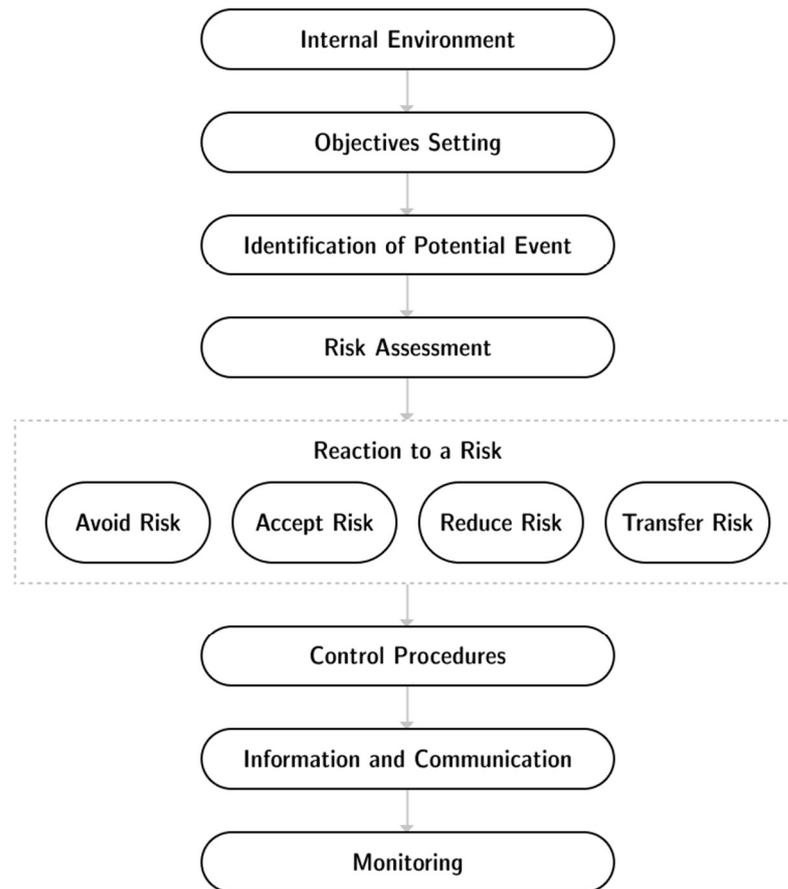
Risk management is the process of adopting and fulfilling a complex set of actions aimed at mitigating possible unfavourable results and minimizing possible losses.

## Overview of the HyperQuant risk management system

The HyperQuant risk management system is a SaaS solution. It is a unique system of professional risk control for financial markets' transactions.

System features are divided into separate components and can control and perform simultaneous operations for all attached accounts. Risk management strategies ensure the most flexible approach to the token holder's account asset management. Depending on the goals, the appropriate choice of strategy enables the best possible risk-and-yield ratio for a long-term period.

As part of a systematic approach to financial risk management, HyperQuant uses the best practices in risk management, which consist of the following elements:



*Picture 3. Risk management system based on COSO ERM methodology*

### **Trading risk management strategies of our platform**

The main task of risk management strategies is to save one's money to a maximum extent in loss-making transactions in order to use them in consequent profitable trades. Today, risk management and control systems get as much attention as trading systems and methods.

There are several risk management strategies to choose from, depending on the investor's risk tolerance; for example:

1. Conservative strategy

2. Combined strategy

3. Aggressive strategy

Let us take a look at an example with average conditions:

Conditions:

a) Maximum investment risk of a portfolio is 1.

b) Initial position size is 10 contracts.

The strategy earns +10% of profit to the account (1 risk step = max risk):

All three strategies transfer the risk to a zero-point. The size does not change.

The strategy earns +20% of profit to the account (2 risk step = max risk):

- The conservative strategy transfers the loss risk of +10% to the deposit. The size does not change and amounts to 10 contracts.

- The combined strategy transfers the loss risk of +5% to the deposit. The size is raised to 15 contracts.

- The aggressive strategy does not transfer the risk. It equals 20% of the deposit. The size is raised to 20 contracts.

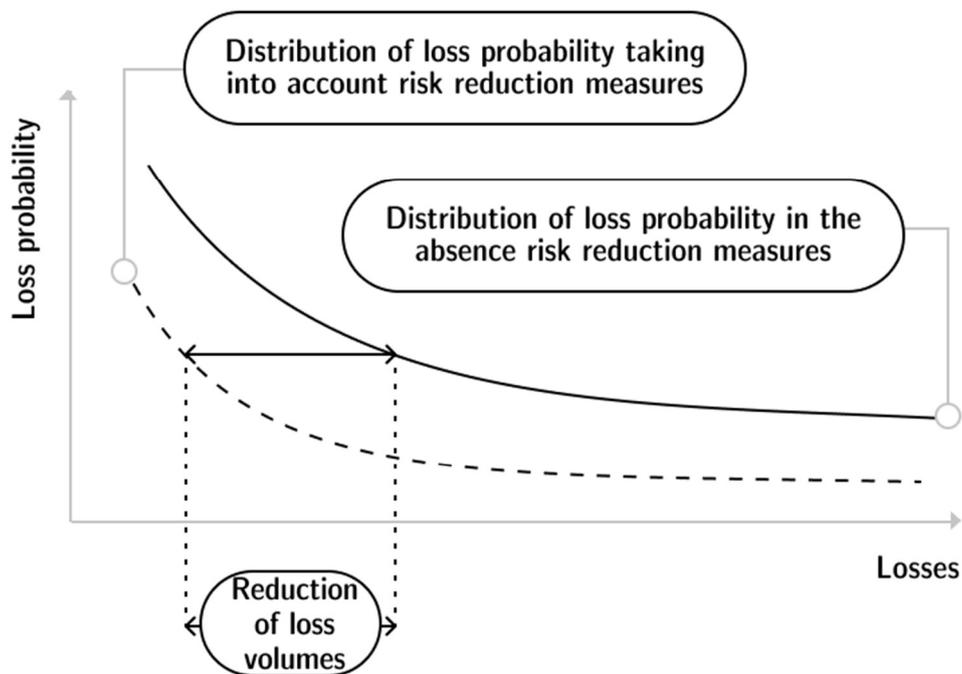
The strategy earns +30% of profit to the account (3 risk step = max risk):

- The conservative strategy transfers the loss risk of +10% to the deposit. The size does not change and amounts to 10 contracts.

- The combined strategy transfers the loss risk of +10% to the deposit. The size is raised to 20 contracts.

- The aggressive strategy does not transfer the risk. It equals 30% of the deposit. The size is raised to 30 contracts.

These conditions allow for the distribution of the loss probability, taking into account risk reduction measures, which is demonstrated in pic.1:



Picture 1. The risk management strategy