PURPLE TRADING

CapitalGuard

Why do we have CapitalGuard?

As a regulated European broker, we at Purple Trading are committed to the safety of client capital. The technical function CapitalGuard, which is included in all the strategies we offer, is proof of this.

It is essential for an investor to be able to eliminate risk and avoid unpredictable losses. We developed CapitalGuard with the intention of offering investors a technology that would do just that.

What is CapitalGuard?

It is a technical function that monitors the development of equity on a specific managed account connected to a strategy. If the maximum allowable drawdown loss is exceeded, CapitalGuard will disconnect the account from the strategy and automatically close all trading positions in that managed account and clear all pending orders. This effectively prevents further potential losses.

How does CapitalGuard work?

Based on the tracking of trades, deposits, and withdrawals, CapitalGuard calculates the High Water Mark (HWM) for a given managed account.

The HWM is the highest equity achieved, which is used to track the highest account balance achieved for client accounts. The HWM is recalculated with each balance transaction in such a way that the drawdown on the account before the balance transaction and after the balance transaction remains the same.

Example 1: Let's start simple

A client has CZK 1 million in his account. This is the highest provisional balance in the account, and therefore it is our HWM. CapitalGuard is set at 20%.

If this account loses CZK 10,000 due to a bad trade, it will be a 1% loss. The highest balance in the account was CZK 1 million, so our HWM is CZK 1 million. However, if there is an open profit of CZK 100 000 and the equity of the account jumps to CZK 1.1 million, the new HWM will be CZK 1.1 million. Seems simple enough, right? But there is a catch.

Example 2: Let's get closer to reality

We have CZK 1.1 million in our client account from the previous example. However, the client then deposits another CZK 1 million. Since we have closed the previous open profit of CZK 100,000 and have no active trade opened at the moment, the situation is not too complicated for now - the new HWM is CZK 2.1 million But frankly, the life of an investor can be complicated, so let's adapt our example to that.

We currently have a balance of CZK 2.1 million in our account, but with the next trade, we will lose CZK 200,000 from the account lowering the total account balance to CZK 1.9 million.HWM is still CZK 2.1 million and DD (drawdown) is 9.5% (loss / HWM = 200 000 / 2 100 000).

However, what will be the HWM when the client deposits CZK 10 million which will increase our total balance to CZK 11.9 million? Logic would suggest that we simply add 1.9 million and 10 million, and get an HWM of CZK 11.9 million. But is this the correct approach?

Let's check DD, we had no other trades, which means that DD should not have changed at all. In an account with a balance of CZK 11.9 million, we have a loss of CZK 200,000, so the DD would be 1.7% (loss / HWM = 200,000 / 11,900,000). This would lead to a reduction in the overall loss rate due to the new deposit, which must not happen simply because investors' money would be exposed to increasingly higher risk. We must therefore calculate the new HWM so that the DD remains unchanged at 9.5%.

Let's look at it from a different angle. At the moment we have 11.9 million in our client account. and a 9.5% loss. In mathematical terms, it is 100 - 9.5% = 90.5%, so the amount of CZK 11.9 million is 100 - 9.5% = 90.5%. But how much is 100% (HWM)? If we crunch the numbers in the calculator, we will get CZK 13 149 171 (100 % / 90.5 % * 11.9 million).

Here you can clearly see that the new HWM changes with the balance operations on the managed account. Hence, it is very difficult for a trader to keep track of the current HWM, precisely because of the constant deposits and withdrawals and changing equity that occur in the client account. However, this is no reason to panic, as at Purple Trading we recalculate the current HWM value with every balance operation.

How to find out what is your current drawdown on a managed client account?

As before, if an investor believes that a strategy is no longer suitable for him or her, he or she may decide to reconsider his or her decision and disconnect from the strategy.

At Purple Trading, we understand that sufficient information is required to make such a decision. Therefore, if the loss in your managed account exceeds 70% and/or 90% of the CapitalGuard value listed for each strategy in PurpleZone, we will automatically send you a notification to your registered email.

For the sake of illustration, we will look at the above thresholds as drawdown values. In this example, our capital is CZK 10,000 and CapitalGuard is set at -20% on the strategy. The maximum loss can therefore be CZK 2,000.

- In the case of a 14% drawdown, our capital is worth CZK 8600 which is 70% of the CapitalGuard value. At this point, you will receive the first email notification.
- In case of an 18% drawdown, our capital is worth CZK 8 200 which is 90% of the CapitalGuard value. At this moment you will receive a second email notification.

In case you want to know your drawdown value and not wait for the above-mentioned notifications, simply contact us and we will be happy to provide you with the current value.