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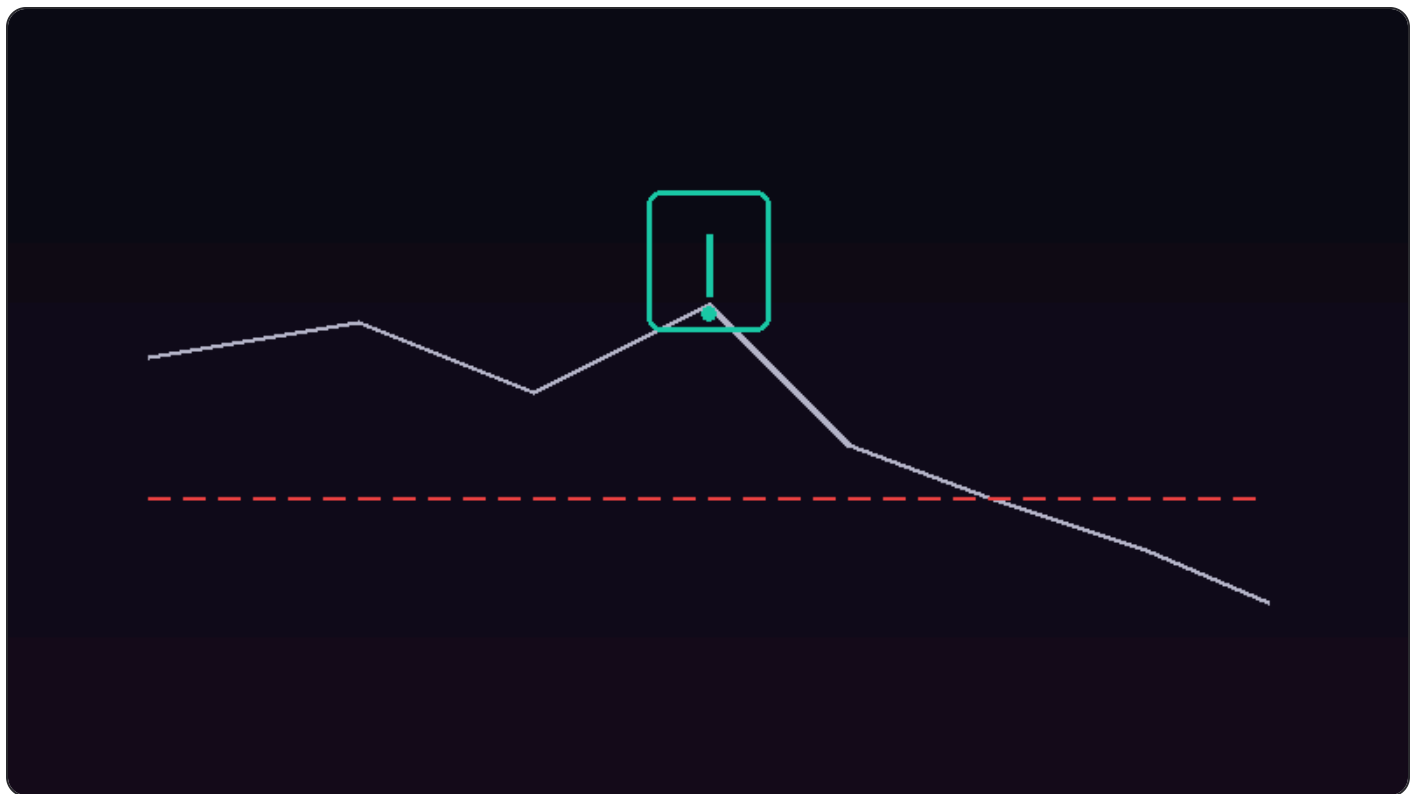
What Is a Stop Loss and How to Set One

The essential guide to stop losses — what they are, how to set them, different stop loss types, and why they are the most important risk management tool in trading.



Liquid
Editorial team

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A stop loss is an order designed to exit a position when the market moves against you. It is one of the most important tools in trading because it turns a vague risk

limit into an *executable* instruction.



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On leveraged perps, a stop loss is not optional discipline. It is how you try to exit **before liquidation** becomes the platform's forced exit.

STOP LOSS	LIQUIDATION	THE GAP BETWEEN	FILL RISK
Chosen	Forced	Buffer	Slippage
The exit price you set yourself	Exit triggered by the risk engine	Your stop should sit before liquidation	Stops can slip in fast markets

What Is a Stop Loss?

A stop loss triggers when a chosen price condition is met. For a long position, the stop is usually below entry. For a short position, the stop is usually above entry.

A SIMPLE BTC LONG WITH A STOP	
STOP HITS FIRST — RISK PLAN WORKS	
-\$1.5k	
Long BTC at \$65,000 with stop at \$63,500. BTC drops, the stop triggers, the position closes near the stop. You lose ~\$1,500 on a position you can re-enter when the setup is right.	
Entry	Stop
\$65,000	\$63,500
Exit fill	Loss
~\$63,490	-\$1,510
NO STOP — RISK PLAN DISAPPEARS	
-\$8.0k	

 Same entry, no stop. You wait, hope, widen risk, freeze. The position keeps bleeding. The exit eventually comes — but on the market's terms, not yours.

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Entry	Stop
\$65,000	None
Eventual exit	Loss
\$57,000	-\$8,000

The goal is to define the loss while the trade is still rational. Without a stop, traders often wait, hope, widen risk, or freeze as the position gets worse.

A Stop Is Not a Guaranteed Fill

 THE MOST IMPORTANT CAVEAT

A stop loss does **not** guarantee you exit at the exact stop price. In fast markets, price can gap or move *through* the stop level. The final fill depends on liquidity, order type, trigger source, order-book depth, and market speed. A stop is **risk control**, not insurance.

Stop Market vs. Stop Limit

Most platforms offer two common stop types — and the right one depends on whether you prioritise *certainty of exit* or *certainty of price*.

TWO STOP TYPES, TWO FAILURE MODES	
Stop market	Stop limit

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Stop market

Stop limit

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For leveraged perps, stop market orders are often safer for pure risk control because *exiting matters more than getting the perfect price*. Stop limits leave you exposed if the market keeps moving past your limit.

Trigger Price · Mark, Last, or Index

A stop can trigger from different price sources depending on the venue:

THE THREE COMMON TRIGGER SOURCES			
TRIGGER	What it is	Best for	Watch out for

Mark-price triggers can reduce false stops from one odd last trade. Last-price triggers can respond faster to actual traded momentum. **There is no universally best trigger** — know

which one your platform uses.



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Stop Loss vs. Liquidation

Liquidation is the platform reducing or closing your position because margin has fallen below requirements. A stop loss is your *own* planned exit.

KEY TAKEAWAY

A good stop should trigger **before** liquidation. The gap between stop price and liquidation price is your emergency buffer. If your stop is only a few ticks away from liquidation, it is not doing enough — a fast move can blow through the stop and leave liquidation as the real exit.

How to Place a Stop

Good stops are tied to the trade thesis, volatility, and leverage. The four common framings:

FOUR WAYS TO CHOOSE WHERE THE STOP SITS			
APPROACH	How you pick	Strength	Weakness

The strongest approach combines these: a logical invalidation level, volatility awareness, and a position size that keeps the dollar loss acceptable.



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Position Size Comes Before Stop Placement

A common mistake is choosing a position size first and forcing the stop to fit. Better sequence:

SIZE FROM THE RISK, NOT THE OTHER WAY AROUND	
01	Define the trade idea Why does this work? What needs to be true for it to play out?
02	Identify the invalidation level Where does the chart say the idea is wrong? That's the stop.
03	Measure entry-to-stop distance In dollars per unit and as a percentage of entry.
04	Decide maximum dollar risk What is the most you'll accept losing on this trade? Pick a number before you size.
05	Size the position from that risk Position size = max dollar risk ÷ entry-to-stop distance. If that size is smaller than you wanted, the trade needs too much room for your risk budget.

If the resulting position is smaller than you wanted, that is information. The trade needs too much room for the amount you wanted to risk.

Funding and Stops

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Funding changes your effective breakeven over time. If you are paying **funding**, your account equity declines **even if price is flat**. On high leverage, that can bring liquidation closer and make a tight stop less effective.

For multi-day positions, account for expected funding payments, trading fees, slippage, whether funding could flip, and how close liquidation sits behind the stop.

Common Stop Loss Mistakes

× SIX COMMON STOP-LOSS MISTAKES

Stops too tight — exiting good trades before they have room to work. **Stops too wide for the position size** — a wide stop is fine *only* if the position is smaller. **Moving the stop away** — usually means the original risk plan has been abandoned. **No reduce-only setting** — a stop intended to close shouldn't accidentally open the opposite side. **Ignoring liquidity** — thin markets can slip far through stop levels. **Ignoring liquidation** — your stop must sit far enough from liquidation to be useful.

Trailing Stops

A **trailing stop** moves in your favour as price moves in your favour. If you are long and price rises, the trailing stop rises behind it. If price reverses by the chosen trailing distance, the stop triggers.

Trailing stops can help protect gains without manually updating the order. They work best in trending markets — they perform poorly in choppy ones where normal pullbacks trigger exits.

Not every venue supports trailing stops. If it does, understand whether the trail is based on mark price, last price, percentage distance, or absolute price distance.

Further Reading

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- [Liquid docs: liquidations](#)
- [Liquid docs: leverage](#)
- [Liquid docs: funding rates](#)
- [What Is Liquidation and How to Manage It](#)

Trade Perps with Stops on Liquid

Liquid lets you review leverage, liquidation price, and risk before confirming a trade.

- **Create your account.** Sign up with email or connect a wallet.
- **Fund your account.** Use supported funding methods or crypto deposits.
- **Set the stop before entry.** The risk plan should exist before the trade does.
- **Monitor the position.** Adjust only when the trade improves or your thesis changes — not because taking a loss feels uncomfortable.

Frequently Asked Questions

What is a stop-loss order?



What is the difference between a stop market and a stop limit order?



Where should I place my stop loss?



Can a stop loss fail to execute?

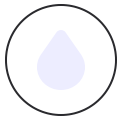


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