

Multi-Layer Risk-Adjusted Trading System (L1, L2, L3)

Cascading profits, controlled risk, and
compound growth for investors

Strategy Overview

- The trading system is an algorithmic, multi-layer structure designed to grow capital by reinvesting profits into progressively higher-risk, higher-return strategies.
- Initial capital remains in the lowest-risk layer (L1), while only accumulated profits are deployed into L2 and L3.
 - This creates a closed risk loop: the investor's principal is protected by conservative risk limits, while upside is amplified via reinvestment of gains.

Logic of the Layered System (L1 → L2 → L3)

- Each layer represents a distinct risk/return profile built on the previous layer's results:
 - L1: Conservative base – low daily risk, stable monthly growth, capital protection focus.
 - L2: Moderate risk – funded by L1 profits, higher volatility, higher target ROI.
 - L3: Aggressive – funded by L2 profits, high risk/high reward, designed to maximize asymmetry.
 - Losses in higher layers reduce profits but do not materially threaten the original principal in L1.

L1 – Conservative Risk-Adjusted System

- Objective: protect capital and generate a stable, low-volatility return stream.
 - Risk per trade: $\sim 0.01\%$ – 0.1% of equity; total portfolio risk typically below 0.8% .
 - Typical profile (example from report): $\sim 29\%$ ROI over ~ 90 days, min. $\sim 5\%$ per month, max drawdown $\sim 0.5\%$.
 - Role in system: anchor layer; all higher-layer risk is funded by L1 profits, not initial capital.

L2 – Moderate Risk-Return Layer

- Objective: accelerate growth by increasing risk on already-earned profits.
 - Capital source: only profits transferred from L1.
 - Risk per trade and position sizing scaled up vs. L1; total risk can reach ~21% of L2 equity.
 - Example metrics: ~97%–100% ROI over ~90 days, max drawdown ~2.5%.
 - Role in system: growth engine with controlled but meaningfully higher volatility.

L3 – Aggressive, High-Conviction Layer

- Objective: maximize upside on accumulated profits with strictly defined risk ceilings.
 - Capital source: staged profits from L2.
 - Total risk can reach ~39%–41% of L3 equity; designed for strong but controlled swings.
 - Example metrics: ~290%–680% ROI over ~90 days, max drawdown ~5.5%–7%.
 - Role in system: optional aggressive overlay; losses impact profit stack, not original capital.

L1 vs L2 vs L3 – Risk and Return Profile

- Illustrative risk/return characteristics from the report:
 - L1: ~29% ROI, ~0.5% max drawdown → high capital protection, modest growth.
 - L2: ~97%–100% ROI, ~2.5% max drawdown → balanced growth vs. risk.
 - L3: ~290%–680% ROI, ~5.5%–7% max drawdown → high-growth, higher-risk profile.
 - From an investor perspective, the combined stack creates an efficient frontier-style curve: each step up the ladder increases both expected return and accepted risk, but only with profits.

Risk-Adjusted Metrics for Investors

- Key measures used to evaluate each layer and the combined system:
 - Return on Investment (ROI): $\text{Net Profit} / \text{Initial Capital}$ in the layer.
 - Maximum Drawdown: largest peak-to-trough equity decline; primary downside risk indicator.
 - Risk per Trade: $\text{position_size} \times \text{stop_loss_distance} / \text{equity}$; tightly controlled in L1, scaled in L2/L3.
 - Risk-Adjusted Return (conceptually Sharpe/Sortino): excess return divided by volatility or downside deviation; higher in L1, progressively more aggressive in L2, L3.

Cumulative System and Equity Curve Concept

- The full system can be visualized as a single cumulative equity curve where:
 - L1 provides a smooth, upward-sloping base.
 - L2 overlays a steeper curve funded by L1 gains.
 - L3 sits on top with the steepest, most volatile growth path.
 - For investors, this produces a diversified risk ladder: they can allocate to L1 only, or progressively include L2 and L3 depending on risk tolerance.
 - The cumulative chart (L1+L2+L3) demonstrates how reinvested profits compound over each 90-day cycle while keeping initial risk controlled.

Investor Implementation & Allocation Logic

- Different investor profiles can use the three layers in tailored ways:
 - Capital Preservation Investor: allocate mainly to L1, optionally a small share to L2.
 - Balanced Growth Investor: meaningful allocation to L1 and L2, with a capped L3 exposure.
 - Aggressive Investor: full stack (L1+L2+L3), accepting higher volatility in pursuit of outsized compounded returns.

Investor Implementation & Allocation Logic

Tuned Synthetic 90-Day Equity Curves: L1, L2, L3, Combined

