Twitter Thread by Aamodh



Aamodh
@GoldenDustbin

Having grown my Zerodha account 5x in last 19 months since I started systematic intraday options trading, felt I am eligible enough to share my principles around below topics that helped me scale up.

A thread on my style of position sizing, compounding and handling drawdown ■

My money management principles first:

1. Do not risk more than 1% capital per trade
2. Account for DD while sizing position
3. Do not reduce position size while on a losing streak
4. Increase position size during winning streak
5. Compound capital daily to scale up quick and big

Why cap rupee risk at 1% capital per trade?

- We can be wrong in any trade and got to cut losers short
- Intraday price action is random and can be irrational

Market can stay irrational longer than a trader can stay solvent

Risking <1% per trade■■odds of trader staying solvent

Why account for impending DD upfront while sizing position?

- because I do not want to reduce position size while on a losing streak, but I also want to increase position size while on winning streak

- because when DD happens I am not disappointed as I already factored that in

Why do I not want to reduce position size in a losing streak?

- Because if I do, I will need 25% gain to recover from 20% DD which is an uphill task

- If I factored in 20% DD upfront for sizing position, then I need only 20% gain (not 25%) to recover from 20% DD

Table 1 Loss/Recovery Figures	
Percent Loss of Position	**Percent Gain Needed to Get Back to Even**
-5%	5.3%
-10%	11.1%
-15%	17.6%
-20%	25.0%
-25%	33.3%
-30%	42.9%
-35%	53.8%
-40%	66.7%
-45%	81.8%
-50%	100.0%
-55%	122.0%
-60%	150.0%
-65%	186.0%
-70%	233.0%
-75%	300.0%
-80%	400.0%
-85%	567.0%
-90%	900.0%

Why do I increase position size on a winning streak?

- There will be phases when our strategy aligns well with price action regime in the market. Go full throttle then.

- When you get an over full of half volleys, you gotta make hay, hit'em outta da park and party hard baby■

Now, why compound capital daily?

- I factored in DD while sizing position
- I factored in taking probabilistic approach to trading by risking <1% per trade

Now what holds me back from reinvesting the profit ASAP in the business that generated it? Nothing!

So I compound daily

Example with 1% risk per trade, 16.7% max DD

Day 1:
-capital: 12L
-expected DD: 2L
-risk per trade: 10k

If day 1 was 1L profit:
Day 2:
-capital: 13L
-expected DD: 2.2L
-risk/trade: 10.8k

If day 1 was 1L loss:
Day 2:
-capital: 11L
-expected incremental DD: 1L
-risk/trade: 10k

If DD goes beyond historical max DD that I factored in, then by virtue of risking fixed % of capital per trade I reduce position size while on losing streak.

This makes sense to me logically as I would like to go on risking lesser per trade just in case the s/m lost its edge.

Following this methodology I have gone through 8.77% DD in 3 days and scaled back up to equity high without reducing size.

I risk max 4% per day, max 0.5% per trade and factor in 15% DD.

From risking 20k per day in Jul'20, have scaled up to more than 10x that in this style.

In this tweet thread I just shared stuff the way I do it.

This of course does not mean that it is flawless or the best way to size position, handle DD while scaling up.

The intent was just to provide food for thought to those on the lookout for it!

Hope it helped someone.

Seems growing "account" 5x got more focus than rest of the thread ■

Guys,
1. I am not claiming 400% return in 19 months■

2. My account growth on starting capital has 3 components:
- trading profit
- unrealized investment profit
- small inorganic growth from salary savings