Twitter Thread by Nikita Poojary



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The most valuable aspect in trading you aren't using:

POSITION SIZING

Sizing is the key, you'll make big money only if you own a significant size without compromising on risk.

Here are 10 of them, and they are for free: ■

Collaborated with @AdityaTodmal

@AdityaTodmal 1/ For a faster growth, one needs to have a bigger size:

• What difference would it make if a stock moves by 300%?

• But then, what if you had only 1% capital allocation?

• Despite the stock performing spectacularly, your account won't reflect the same, due to small sizing.

@AdityaTodmal 2/ Three types of position sizing:

1. Fixed absolute Rupee amount that one is willing to risk.
2. % risk of the total capital.
3. Basis the edge.

Risk tolerance should be taken into consideration while determining appropriate position sizing.

@AdityaTodmal 3/ Fixed absolute Rupee Amount:

• Eg: Total capital is Rs. 10 lacs and the max risk per trade is Rs. 7500

• Lets say a stock is trading at 1200 and your SL is 1120 (i.e. your risk per unit us Rs. 1200-1120 =Rs. 80)

• Optimum qty: 7500/80 = 94 units

@AdityaTodmal 4/ Percentage risk of total capital:

• Lets say you want to risk 1% of the total capital on each trade.

• Considering the total capital of Rs. 10 lacs, you shall risk Rs. 10,000 i.e. 1% of 10lacs on each trade.

• Quantity to be traded/invested calculation remains the same.

@AdityaTodmal 5/ You can go for size without risking big:

• CMP: 1100
• SL: 1085

• If your max risk per trade is 1% of the total capital, this setup would allow you to allocate 73% of your total capital and still be within your 1% risk limit.

@AdityaTodmal 6/ You can go for size without risking big, example 2:

• CMP: 800
• SL: 791

• If your max risk per trade is 1% of the total capital, this setup would allow you to allocate 88% of your total capital and still be within your 1% risk limit.

@AdityaTodmal 7/ Smaller the stop bigger the size i.e. quantity

• To go for size without risking huge, you need to reduce your stop.

• To avoid getting stopped out on such small SL's, you need to bet only on proven edges.

@AdityaTodmal 8/ Sizing based on edge

• Examples:
- Triangle BO has the highest winning streaks, so go for 2% risk per trade on this edge.
- Volatility Contraction Pattern (VCP): is the next best, so can go for 1.5% risk per trade.
- Inside Bar, works for 50% of the time, so risk 0.75-1%.

@AdityaTodmal 9/ Bet big on your strong edge and less on average edge:

• Conviction on your edge drives sizing.

• To size based on your edge, you need to know what works for you and what doesn't.

• To understand what works for you you should dive into your trading journal.

@AdityaTodmal 10/ Risk management along with position sizing:

• Position sizing is not just the only key factor to be successful in this game.

• The important factors are to know when to go big, when to stay small and when to fold✂■

@AdityaTodmal Larry Hite has two basic rules about winning in Trading as well as in Life:

“Rule 1: If you don’t bet, you can’t win
Rule 2: If you lose all your chips, you can’t bet”

@AdityaTodmal If you enjoyed this thread, here's another one which might be helpful:

https://t.co/TgUggw9R2d

> 7 effective trading journal tools that you can use to make better decisions (instead of just maintaining a trading journal):\U0001f9f5
>
> Collaborated with @AdityaTodmal
>
> — Nikita Poojary (@niki_poojary) June 18, 2022

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