Twitter Thread by Shree Ram Raut



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Position Size, inputs requested;
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1. ***Number of bets is inversely proportion to chances of winning.***
2. ***Do not lose more than 2% of total capital on a Single trade.***
3. ***Diversify your trades into sectors, stocks, large caps, mid-caps, small caps.***
4. ***Let your winners run, cut your losses.***
5. ***Have risk reward ratio of 1:2, 1:3 and many more.***

Hi,

if you have been in the business of speculation, you must have heard most of the above sentences and many of you must have been following the same for running your business successfully.

You might have read those principles in books or have heard from your mentors, teachers, friends.

Have you ever come or got a mathematical model or equation to?

i. *define the number of stocks that you should hold!*
ii. *define the Risk Reward Ratio*
iii. *fix how much total number of trades that you should take for the expected return? And there are many unanswered questions have been left unanswered.*

Feel free to share your models if you have made your own mathematical computations.

I have tried to detail a simulation model that I follow to check the optimal situation for the corpuses:

(have simulated the position sizing)

Table 1:

#	#	A	B	C	D	**
1	Total Capital	₹ 5,00,000	₹ 5,00,000	₹ 5,00,000	₹ 5,00,000	*input*
2	Max trade at any time	1	5	10	15	*input*
3	Position Size (Per trade allocation)	5,00,000	1,00,000	50,000	33,333	
4	Per trade Max Risk	5%	5%	5%	5%	*input*
5	Per Trade SL	₹ 25,000.00	₹ 5,000.00	₹ 2,500.00	₹ 1,666.67	
6	Winning Expectancy	50%	50%	50%	50%	*input*
7	Per trade SL of capital	5.00%	1.00%	0.50%	0.33%	
8	Expected Reward Per trade	15%	15%	15%	15%	*input*
9	Expected Return Per Year	60%	60%	60%	60%	*input*
10	Total trades in a year to achieve expected return	12	60	120	180	
11	Number of trades to be taken Monthly	1	5	10	15	

Table 2:

Decision Matrices	A	B	C	D
Risk/per trade-max 2% of total capital (Row 7)	✗	✔	✔	✔
Expected trade in a Month (Row 11)	1	5	10	15
Trade Exit {SL (5%) or target (15%)}	Every Month	Every 6th day	Every 3rd day	Every 2nd day
Trade Exit Feasibility	✔	✔	Low Probability	Very Low Probability
Overall Feasibility		✔		

Summary:

Looking at the above tables, ***Model B*** *appears to be the optimal trade diversification/position sizing for the said:*

1. *Risk (5%)*	2. *Winning Expectancy (50%)*
3. *Reward (15%)*	4. *Expected Return (60%)*

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