Twitter Thread by Mitesh Patel



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Position size in trading.

Google for credit and debit spread.

Position size in trading.

Base capital 50L

Future contract lot average value 7L.

I will buy or sell only 1 lot naked overnight with 50L capital.

In worst condition if 10% gap up/down move against my position then loss will be 70K on 7L contact value.

On my total capital of 50L it is only 1.4% of my capital. That I can recover with balance capital in next 7 or 10 days.

If base capital is 10L and you are doing 1 lot naked overnight then loss is 7% of your capital. And that 7% loss will hurt you more.

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If you have less capital say 10L and you want to take overnight FO position then do following for risk management.

Example for long position.

1. Either buy call with max loss of 20k.
2. Do debit spread (buy call and sell call for long position to minimise risk)
3. Do credit spread (sell put and buy put)
4. Or sell only put of strike 5% below current price.
5. Buy future and buy put to minimise risk. But in this case if stock is not moving and slowly coming down then time decay in put will also hurt you.

This is only for single stock. You can keep rest capital in different stocks also.

Remember probability of all stocks going against you by 10% is very very less.