Twitter Thread by TraderLion ■



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A Guide to Position Sizing

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To perform in the market, position sizing needs to be the main focus.

This is what ultimately separates the good from the great.

It will make no difference on your account if you have a 100% gain in a name with only 1% of your equity.

It will make a huge difference on your account if you have a 100% gain in a name with 20%+ of your equity.

There are 2 consistent ways to position size in the markets ■

1■■ Position Size Based on Risk
2■■ Position Size Based on Number of Edges

1■■ Position Size Based on Risk

Before you take a position in a stock, you must know how much you are willing to lose on a trade.

We recommend never risking more than 1% of your overall account equity on any single trade, especially if you are in the consistency phase.

Example 1:

■■ Buy Point: $100
■■ Stop Loss: $99
■■ Total Risk: 1%

If your max risk per position is 1% of your overall equity, this setup would allow you to take a 100% equity position and still be within your rules if the trade goes against you.

Example 2:

■■ Buy Point: $50.50
■■ Stop Loss: $49.00
■■ Total Risk: 3%

If your max risk per position is 1% of your overall equity, this setup would allow you to take a 33% equity position and still be within your rules if the trade goes against you.

You must still be focused on taking your best setups and capitalizing on your best edges, but understand that your position size is based on allotted risk.

2■■ Position Size Based on Number of Edges

To position size based on # edges, you must have a great grasp as to what your edges are in the market.

■Strongest edges = biggest size
■Weakest edges = lowest size

Examples:

■■ Highest Volume Ever: Up to 25% of equity
■■ Volatility Contraction Pattern (VCP): Up to 20% of equity
■■ IPO Base Breakout: Up to 15% of equity

With the rules above, you could have up to 60% of your equity in a name meeting those three characteristics.

You must still trade with a risk first mindset though, knowing where you will exit the trade and how much of your account you are risking if the trade goes against you.

Things to Remember:

■■ Conviction drives Position Sizing
■■ $STUDY of your edges is the only way to build conviction
■■ Whatever style you choose, you must do it consistently

We also have a great presentation that @anishsikri gave on this topic.

You can find that here ■

https://t.co/hcAKEG8WX1

@anishsikri If you found this thread to be helpful, please like & retweet the first tweet!

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Let us know how you position size in the comments below ■