

## **Module 1 – Chapter 13 – Position Sizing for Successful Trading**

Position sizing is a crucial aspect of trading that, while not a "technical indicator" in the traditional sense, plays a pivotal role in managing risk and optimizing potential returns. Proper position sizing ensures that traders do not expose too much of their capital to any single trade, regardless of their confidence in a given trade setup.

Position sizing refers to determining the amount of an asset to buy or sell in a particular trade. It's about deciding how much of your capital you're willing to risk on any given trade. By managing this aspect efficiently, traders can control their potential losses and ensure they don't lose a significant portion of their trading capital.

### **What it is and what it shows**

Position sizing helps traders:

- 1) **Manage Risk:** By only risking a small percentage of your trading capital, you ensure that no single trade can significantly draw down your account.

2) Maintain Emotional Discipline: By knowing and accepting the potential loss before entering a trade, traders can maintain emotional stability, reducing the chance of rash decisions based on fear or greed.

3) Achieve Consistency: Using a consistent position sizing method allows traders to achieve more predictable results over time, rather than having wide fluctuations in account equity.

### **How to trade it**

Several methods and guidelines can help traders determine appropriate position sizes:

1) Fixed Percentage Method: With this method, traders decide to risk a fixed percentage of their capital on each trade. For instance, if your capital is Rs.10, 000/- and you decide to risk 5%, you'd risk Rs.500/- on any given trade.

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2) Amount Method: Here, a trader decides to risk a fixed amount on each trade, irrespective of the account size. This method can be less adaptive as the account grows or shrinks.

Example: Regardless of account size, you might decide always to risk Rs.1000/- per trade.

3) **Mental Stops vs. Hard Stops:** While deciding your position size, determine if you're using a mental stop or a hard, automated stop. Hard stops automatically sell the position at a predetermined price, while mental stops require manual execution and can be prone to emotional decisions.

In conclusion, proper position sizing is essential to manage risk and trade sustainably. Always predetermine your risk and position size before entering any trade.

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