

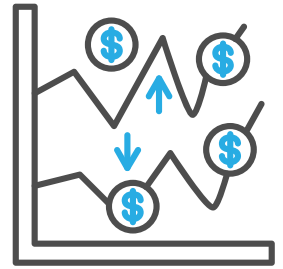
# Optimum Position Sizing

TRADING  
ALWAYS  
INVOLVES  
UNCERTAINTY

There's no way to guarantee profits, no matter how skilled or experienced you are.

Losses are inevitable, and sometimes those losses can be unexpectedly large. The challenge for every trader is to protect their capital from significant losses while still allowing themselves the opportunity to benefit from winning trades.

This is where position sizing comes in.



## POSITION SIZING IS THE PROCESS OF DECIDING HOW MUCH CAPITAL TO RISK ON EACH TRADE.

It's a key tool for managing risk and ensuring that no single loss, or even a series of losses, can wipe out your account. By following certain principles, traders can use position sizing to safeguard their capital and aim for steady, long-term growth.

## CORE PRINCIPLES OF POSITION SIZING

- ✓ Never let a single loss knock you out of the market.
- ✓ Limit the impact of consecutive losses.
- ✓ Reduce unnecessary choices and stick to clear rules.
- ✓ Aim for consistent results over time.

## Calculating Optimal Position Size WITH EXPOSURE + RISK BASED POSITION SIZING METHOD

The optimal approach to position sizing involves two key steps:

- a) limiting the maximum amount or percentage you can allocate to a single stock or sector, ensuring diversification; and
- b) determining how much you are willing to lose on a single trade, usually expressed as a percentage of your total capital.

You simply decide, for example, "No trade will be more than 20% of my portfolio and in no way I will lose 1.5% of my total capital on a single trade." This prevents overexposure to one trade or sector and at the same time doesn't make a large dent on your capital.

| Position Size Calculator                                            |            |          |
|---------------------------------------------------------------------|------------|----------|
| Total Trading capital                                               | ₹1,000,000 |          |
| Maximum capital exposure on each trade                              | 20%        | ₹200,000 |
| Maximum acceptable loss on total capital                            | 1.5%       | ₹15,000  |
| Planned BUY Price                                                   | 500        |          |
| Planned STOP LOSS                                                   | 475        | 5.0%     |
| Max Capital per trade as per max. capital exposure (A)              | ₹200,000   |          |
| Max Capital per trade as per max. acceptable loss on each trade (B) | ₹300,000   |          |
| Thus, Maximum Position Size (lower of A and B)                      | ₹200,000   |          |
| Maximum Stop Loss that you will incur                               | ₹10,000    |          |
| Number of shares to be bought                                       | 400        |          |

Lets assume that you have a capital of ₹10 lakhs. You decide that you do not want to have an exposure of 20% to each trade. Thus, your max. exposure is ₹2 lakhs. Plus, you cannot risk more than 1.5% of the total capital on each trade, which means a maximum permissible loss of ₹15,000 every time you trade.

You find a good trading opportunity using **Pro-Setups Dashboard** for a stock that is trading at ₹500 and decide a stop loss of ₹475 (i.e. 5%).

Based on your stop loss of 5%, you can invest ₹3 lakhs (₹15,000/5%) in this trade. But your max. capital per trade limit is ₹2 lakhs, which is stricter. Thus, you buy 400 shares (₹2 lakhs/₹500 per share).

This Position Sizing calculator is available on our website [www.pro-setups.com/blog](http://www.pro-setups.com/blog).

## VOLATILITY BASED POSITION SIZING METHOD

This method adjusts position size according to the volatility of the asset, often using indicators like **Average True Range (ATR)**. You take smaller positions in highly volatile assets and larger ones in stable assets, so your risk stays consistent regardless of market swings. Let's say that in the above example, the 14-day ATR of a stock is ₹20, and you want to keep a Stop Loss of twice the ATR i.e. ₹40 (₹20 x 2) i.e. 8%. In such a scenario, your position size will be ₹1,87,500 (lower of ₹15,000/8% or ₹2 lakhs). You will be buying 375 shares.

**Position sizing is a fundamental aspect of trading.** While stock selection and timing are vital, how much you risk on each trade ultimately determines your long-term survival and profitability. Notable traders like Minervini and Dan Zanger have repeatedly emphasized that position sizing and risk management are not static rules but dynamic processes. *Let's turn to the next page to read a conversation between Amit and Rohit on the importance of optimum position sizing.*



# Optimum Position Sizing

Amit, an amateur trader, seeks clarification on position sizing by posing his questions to his friend Rohit, a professional trader.

Hi Rohit, I've been trading for an year now, but I keep hearing about the importance of position sizing. Honestly, I'm confused. Isn't it just about how much money you put into each trade?



**Amit**  
Amateur trader

**Rohit**  
Pro trader

Great question, Amit! Position sizing is indeed about how much capital you allocate to each trade, but it's much more strategic than just picking a number. It's the cornerstone of risk management and can make or break your trading journey.

I just divide my capital equally among a few stocks. Sometimes I go bigger if I feel confident about a trade. Is that okay?



That's a common approach for beginners, but it can be risky. Position sizing should be dynamic, not just based on your confidence in a trade. It should reflect your experience level, the market environment, and your recent trading results.

Dynamic? What do you mean?



Let's break it down. When the market is favorable and you're on a winning streak, you can gradually increase your position size. But if you're experiencing losses or the market is choppy, you should reduce your size to protect your capital. You size up when things are working for you, and step back down when things aren't working.

So, if I lose a few trades in a row, I should trade smaller?



Exactly. It keeps your losses manageable and helps you stay in the game. Many traders blow up their accounts because they keep trading big during losing streaks.

How do I know what size is right for me?



It depends on your experience. As a beginner, I'd suggest limiting your position size to about 8-10% of your total capital per trade. Focus on learning, managing risk, and keeping your portfolio simple - maybe 8-10 stocks at most.

But I see some pros taking huge positions - like 20-30% of their capital in one trade or even high leverage! Shouldn't I try that to make bigger gains?



That's a big mistake many new traders make. Those pros have years of experience and a proven track record. They know how to cut losses quickly and manage their emotions. If you try to mimic them too soon, you'll likely end up with big losses. In fact, one of the biggest mistakes is trading too large, especially after a few wins. It's tempting to think you're on a hot streak and take high leverage, but that's when risk can spiral out of control.

Should I always trade the same size, or does it change with each trade?



It should change. If you're on a losing streak or the market feels uncertain, reduce your size - maybe test the waters with a smaller "tester" position. When you're winning and the market is rewarding your setups, you can gradually increase your size. But always listen to your equity curve and the feedback the market gives you.

I have to admit, I've got anxious after a couple of losing trades and to recover my losses, went bigger on the next one, only to lose more!



That's classic! Emotional trading often leads to oversized positions. It's a common mistake to not reduce position size after a losing streak. Many amateurs keep trading the same size, or even increase it, trying to recover losses quickly. That's a fast track to blowing up your account.

How do I track if I'm ready to size up?



Track your trades and your equity curve. If you're consistently profitable and handling losses well, you can consider increasing your size. But if your curve is heading down, cut back.

Thanks, Rohit. I'll keep these points in mind and work on my discipline.

You're on the right track. **Trading is a marathon, not a sprint.** Good habits now will pay off in the long run.