

Position Sizing – the Secret of Professional Traders



**MTPredictor Ltd. in association with
the Chicago Board of Trade (CBOT®)**

29 Sept 2006

By: Steve Griffiths
Managing Director
MTPredictor Ltd

www.MTPredictor.com

© MTPredictor. All rights reserved. 2006.

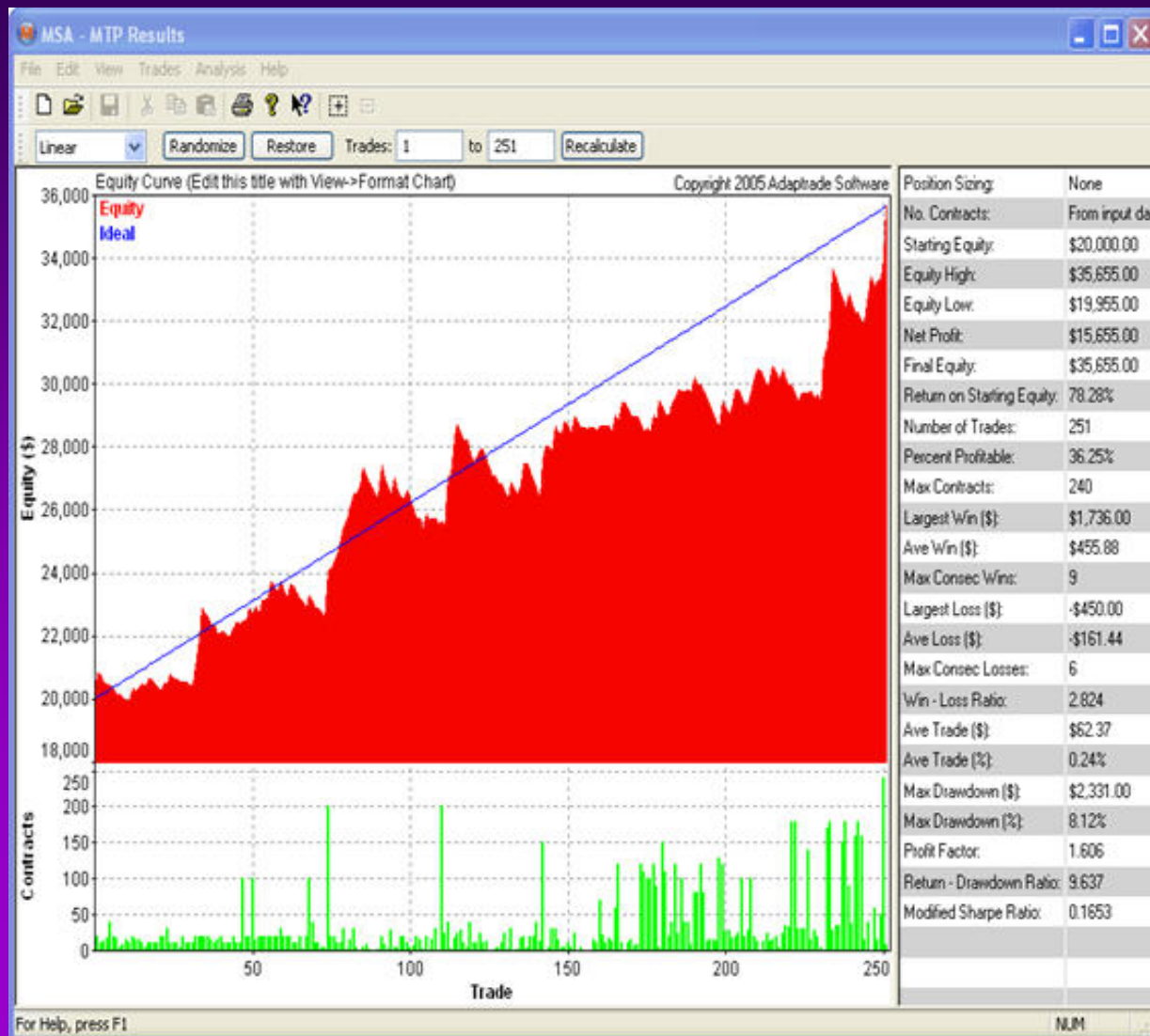
Contents

- Introduction
- Why Position Sizing is so important
- What is Position Sizing?
- Roundup and Questions

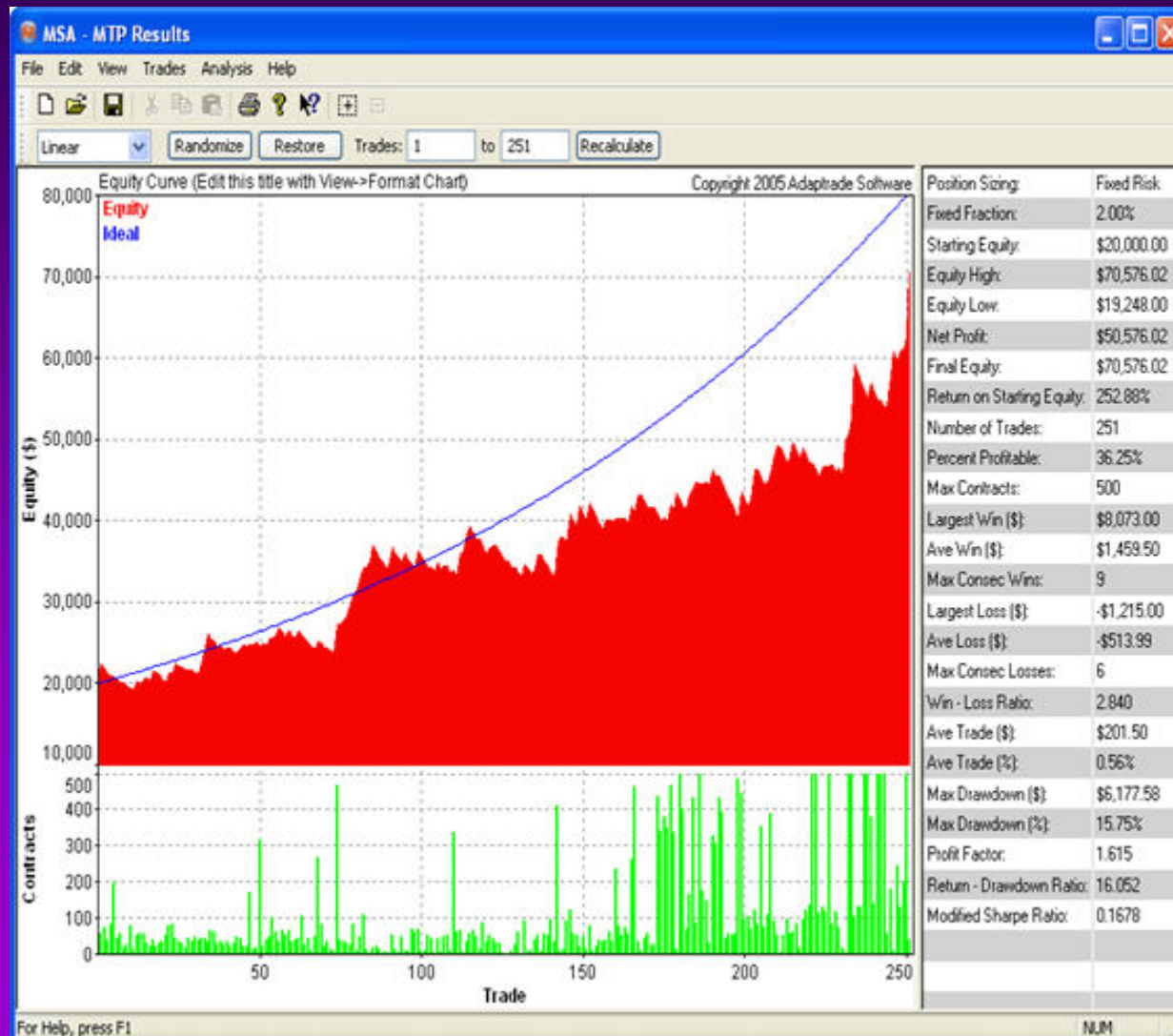
Introduction

- Why are you here?

Example 1



Example 2



Summary of Examples 1 and 2

- Initially, Chris made a return of +78% on his own trading account
- However, this was *increased* to nearer +252% by correct use of Position Sizing

What is Position Sizing?

- Position Sizing is also known as Money Management and Bet Sizing
- The *science* of how much to risk on your trades
- For example, a fixed 2%

Example 3

- Consider a sample portfolio of US \$20,000
- 2% of \$20,000 = \$400
- Ideally, only risk a *maximum* of \$400 on each trade
- Calculate how many lots/shares you can trade for each individual set-up

Example 3 CBOT® mini-sized Dow future



Example 3 (cont'd)

```
Formula Output

YM Z6 5 min - 09/07/2006 13:55

Trade Entry Calculations:
-----

TS3 Entry SELL: 6 YM Z6 at 11473 Stop
Protective stop: Buy at 11486 Stop, Total Risk: $390.00

Profit Targets and Risk/Reward Calculations:
-----

Minimum Wave C Profit Target is: 11420.75, Profit: $1567.53, Risk/Reward: 4.02
Typical Wave C Profit Target is: 11404.32, Profit: $2060.49, Risk/Reward: 5.28
Typical Wave 3 Profit Target is: 11353.70, Profit: $3579.01, Risk/Reward: 9.18
Maximum Wave 3 Profit Target is: 11257.27, Profit: $6471.91, Risk/Reward: 16.59

Risk for 1 share/contract/lot: $65.00

Risk Disclaimer and Disclosure Statement:
-----

Trade at your own risk. The information provided here is of the nature of a general
comment only and neither purports nor intends to be, specific trading advice. It has
been prepared without regard to any particular person's investment objectives,
financial situation and particular needs. Information should not be considered as an
offer or enticement to buy, sell or trade. You should seek appropriate advice from
your broker, or licensed investment advisor, before taking any action. Past
```

Summary of Example 3

- Here you should trade 6 lots for your 2% (\$400 on a \$20,000 account) initial money risk
- Result - a profit of approx \$1,600 or $+4x$ the initial risk

Example 4 CME® E-mini S&P500 future



Example 4 (cont'd)

```
Formula Output
ES Z6 5 min - 09/07/2006 13:55
Trade Entry Calculations:
-----
TS3 Entry SELL: 4 ES Z6 at 1312 Stop
Protective stop: Buy at 1314 Stop, Total Risk: $400.00
Profit Targets and Risk/Reward Calculations:
-----
Minimum Wave C Profit Target is: 1304.89, Profit: $1421.12, Risk/Reward: 3.55
Typical Wave C Profit Target is: 1302.94, Profit: $1812.82, Risk/Reward: 4.53
Typical Wave 3 Profit Target is: 1298.08, Profit: $2784.01, Risk/Reward: 6.96
Maximum Wave 3 Profit Target is: 1288.08, Profit: $4784.79, Risk/Reward: 11.96
Risk for 1 share/contract/lot: $100.00
Risk Disclaimer and Disclosure Statement:
-----
Trade at your own risk. The information provided here is of the nature of a general
comment only and neither purports nor intends to be, specific trading advice. It has
been prepared without regard to any particular person's investment objectives,
financial situation and particular needs. Information should not be considered as an
offer or enticement to buy, sell or trade. You should seek appropriate advice from
your broker, or licensed investment advisor, before taking any action. Past
```

Summary of Example 4

- Here, for the same initial risk (\$400), you would have traded only 4 lots
- Maintains a *constant* initial risk across all your markets and trades

Summary of Example 4

- So why is this so important?
- Only now can your profits relate directly to your losses

Roundup

- The key to a *successful* trading approach: keep the losses small relative to the profits
- Correct Position Sizing is the only way to achieve this over multiple trade set-ups, markets and timeframes

ABC correction

- The ABC correction helps you achieve this goal
- Trade entry is very specific and can be restricted to trades that meet the *essential* criteria of...

1. Keeping the initial risk small

2. Carrying a high profit/initial risk potential

Contact Information

CBOT®

www.cbot.com

Cathryn Lyall

clyall@cbot.com

MTPredictor™

www.mtpredictor.com

FREE Trading Course, MTPredictor Reports™ & Bulletin Board

Email: sales@mtpredictor.com

Tel: +44 (0) 20 8977 6191

Trade at your own risk. The information provided here is of the nature of a general comment only and neither purports nor intends to be, specific trading advice. It has been prepared without regard to any particular person's investment objectives, financial situation and particular needs. Information should not be considered as an offer or enticement to buy, sell or trade. You should seek appropriate advice from your broker, or licensed investment advisor, before taking any action. Past performance does not guarantee future results. Simulated performance results contain inherent limitations. Unlike actual performance records the results may under or over compensate for such factors such as lack of liquidity. No representation is being made that any account will or is likely to achieve profits or losses to those shown. By purchasing the MTPredictor program, you acknowledge and accept that all trading decisions are your own sole responsibility, and MTPredictor Ltd, MTPredictor.com or anybody associated with MTPredictor Ltd including S. E. Griffiths, cannot be held responsible for any losses that are incurred as a result