Position Sizing

The Holy Grail of Risk Management

Generated for Rudi by Idrael

1. The Golden Rule

Professional traders don't focus on profits first. They focus on RISK. The most widely accepted rule in day trading is: **Never risk more than 1% of your capital on a single trade.**

Why? Because even with a 1% risk, you can survive a losing streak of 10 trades (down ~9.6%). If you risk 10%, a bad week can wipe you out.

2. The Formula

Calculate your position size based on where your STOP LOSS is, not how much money you want to make.

$$\text{Position Size} = \frac{\text{Account Risk (\$)}}{\text{Stop Loss Distance (\$)}}$$

3. Example Calculation

Step 1: Account Risk
Account = $10,000. Risk = 1%.
Risk Amount = $100.

Step 2: Trade Setup
You want to buy BTC at $60,000.
Your technical Stop Loss is at $59,500.

Step 3: Stop Distance
Distance = Entry - Stop
$60,000 - $59,500 = $500 per BTC.

Step 4: Position Size
Size = Risk / Distance
$100 / $500 = 0.2 BTC

Result: You buy 0.2 BTC ($12,000 value). If price hits stop, you lose exactly $100.

4. The Truth About Leverage

Leverage does NOT change your position size calculation. It only reduces the margin (collateral) needed.

In the example above (0.2 BTC = $12,000 position):

- 1x Leverage: You need $12,000 cash.
- 10x Leverage: You need $1,200 cash.
- 50x Leverage: You need $240 cash.

BUT THE RISK IS THE SAME ($100) IN ALL CASES IF STOP IS HIT!

Summary Cheat Sheet

Conservative Risk:	**0.5% - 1% per trade**
Aggressive Risk:	**1% - 2% per trade**
Gambling:	**> 2% per trade**

"Amateurs think about how much they can make. Professionals think about how much they can lose."