Lecture 24

Money Management

Money management: The process of budgeting, saving, investing, spending or otherwise in overseeing the cash usage of an individual or group. The predominant use of the phrase in financial markets is that of an investment professional making investment decisions for large pools of funds, such as mutual funds or pension plans.

Importance of Money management

Money Management example:

Percentage Gain Required To Make Back Losses

% Of Account Lost	% Gain Required To BE
-20% Loss	+25% Gain
-30% Loss	+43% Gain
-40% Loss	+67% Gain
-50% Loss	+100% Gain
-60% Loss	+150% Gain

Rule of thumb

- Maximum risk per position should never exceed 5%.
- If you have $10,000. The maximum that you can lose should be 500$
- 2% is ideal.
- There is a very real probability that you take 10 losing trades in a row.

The importance of taking losses

You are paid to take losses.

Taking profits is easy. Anyone can do that. Taking losses is hard. Only the traders that are able to do what is hard for them to do become successful.