



Trading the Right Share Size for You

PRESENTED BY:

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Learning Objectives

- ✓ Understand the different options for determining share sizing
- ✓ Be able to make an informed decision on which method is right for you

Overview

- Basics – grounding ourselves
- Elements of trade sizing
- Why Size Matters
- Trade sizing – core methods
- (When) Should you trade partial size?
- How Can you Implement?
- Q&A

Scientist Discovered Why Most Traders Lose Money –

“95% of all traders fail” is the most commonly used trading related statistic around the internet. But no research paper exists that proves this number right. Research even suggests that the actual figure is much, much higher.

80% of all day traders quit within the first two years.

Among all day traders, nearly 40% day trade for only one month. Within three years, only 13% continue to day trade. After five years, only 7% remain. ¹

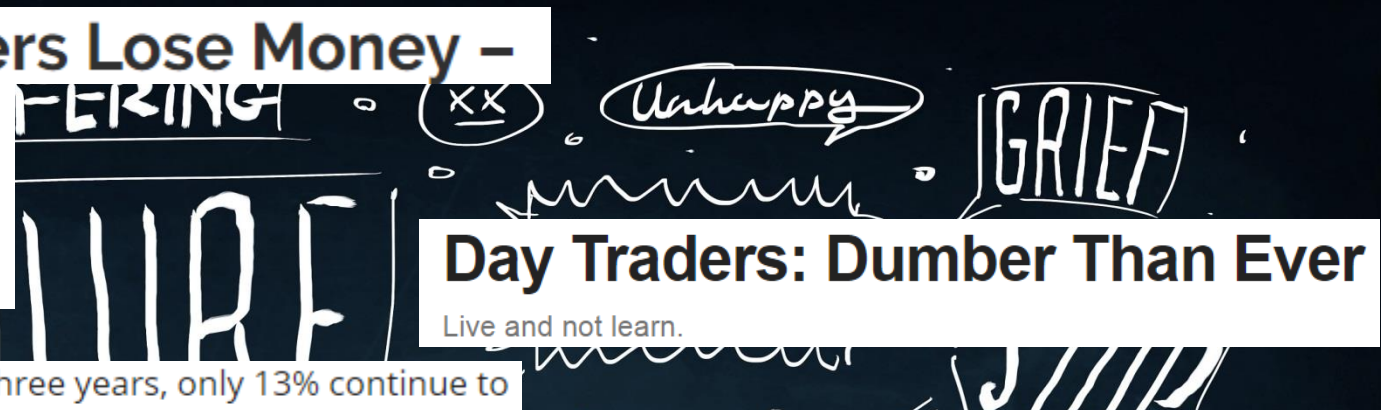
Why It Is So Hard to Make Consistent Money Day Trading

90% of day traders lose money

Perhaps you have heard the statistics before. Nine out of every ten people who enter the stock market as an active trader fails.

An analysis of trading-platform data shows that 80% of day traders are unprofitable over the course of a year

Field	First Year Failure Rate (%)
Real estate sales	86
Day trading	80
Training for a marathon	70
College	33
Restaurants	26



Day Traders: Dumber Than Ever

Live and not learn.

8 Reasons Why You Should Never Become A Day Trader

James Altucher, The Altucher Confidential
Nov. 8, 2010, 11:29 AM



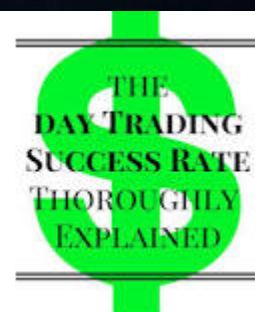
The dream is a lie.

Forbes

Day Trading: Smart Or Stupid?

The odds of day trading yourself to a profit are lower than you expect

You may have heard **90%** or **95%** of traders lose money, or some other seemingly high statistic. From what I've personally seen, this is accurate. While I traded for a day trading firm, about 10 people came in every couple months for trader training, or about 60 per year.



Trading Plan



**Platform
Tools**



Technical Analysis

Fundamental Analysis



Trade Strategy

Risk Management

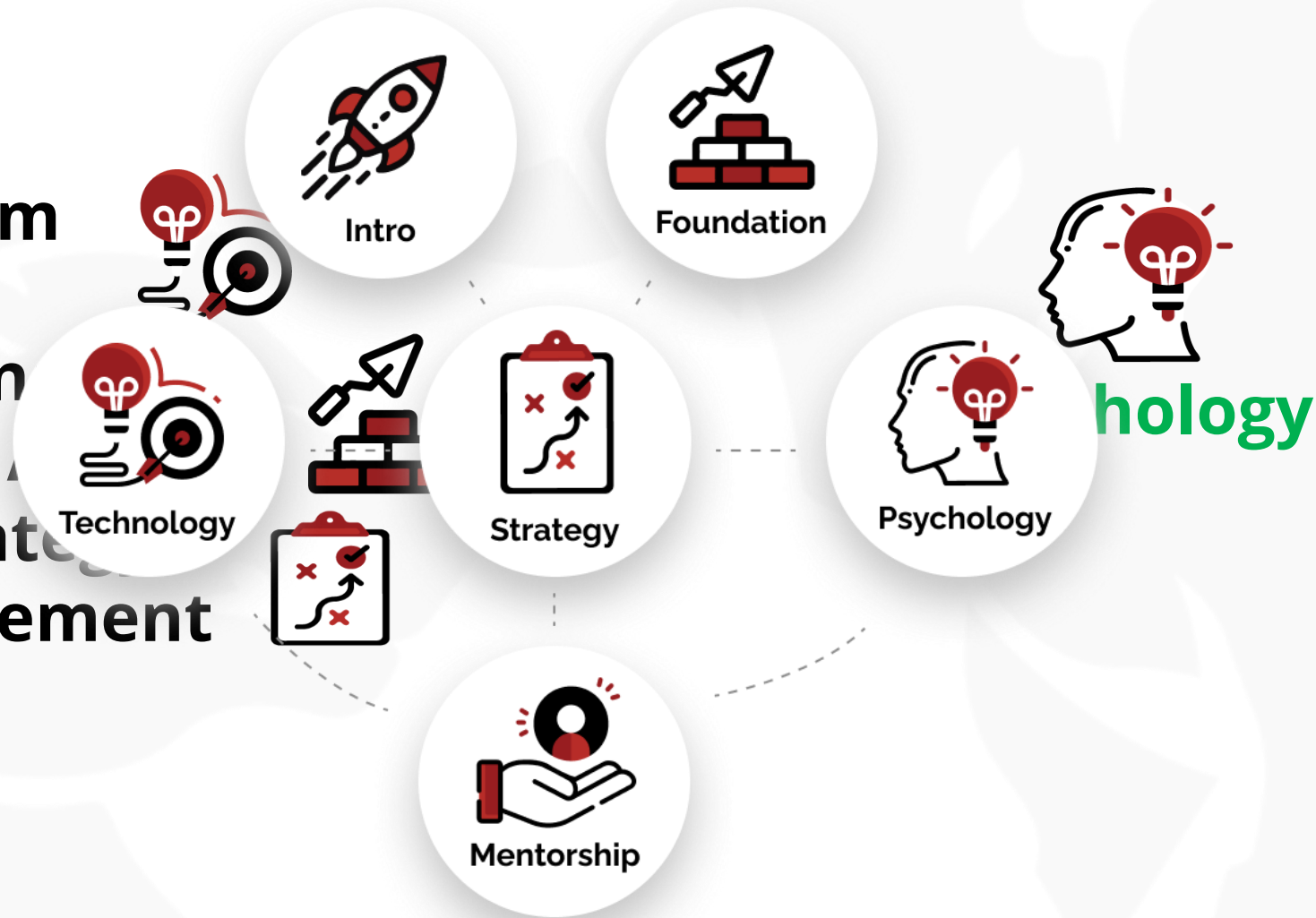


Psychology

Trading Plan



**Platform
Tools
Technical Analysis
Fundamental Analysis
Trade Strategies
Risk Management**





Trading Plan



**Platform
Tools**



Technical Analysis

Fundamental Analysis



Trade Strategy

Risk Management



Psychology

20%

80%

Terms that will be used

Buying Power (BP)	The capital in your trading account, <u>excluding</u> margin
Margin	Your total leveraged buying power (usually 2-5x your trading capital)
Risk (R)	How much of your capital are you willing to risk on any individual trade
Stock technicals	Technical analysis of a stocks price movement, with a focus on the technical levels used to determine risk
“in play”	An amount (of BP) that is being used on any active trade
Risk:Reward (r:r)	The return expected from any risk made (eg. If I risk \$100, I want a \$200 return = 2x r:r)

How to pick your share size – Five main methods



1. Fixed Size
2. Percentage of Account BP
3. Fixed Dollar
4. Percentage of BP Risk
5. Fixed Risk



Risk Management – Why Size Matters

Trade #1



- 100 shares
(\$28.9k BP @ ~\$289/sh)
- \$0.01 spread
 - Stock moves \$1 (+0.3%)

Result: **\$98**
(\$1 increase + spread)

ATR - \$4.07 (25%)

Trade #2



- 50 shares
(\$24.3k BP @ ~\$487/sh)
- \$0.50 spread
 - Stock drops \$2 (-0.4%)

Result: **-\$150**
(\$2 drop + spread)

ATR - \$20.56 (10%)

Risk Management – Why Size Matters

Trade #3



- 1000 shares
(\$22k BP @ ~\$22/sh)
- \$0.01 spread
 - Stock moves \$0.30 (+1.3%)

Result: **\$280**
(\$1 increase + spread)

ATR - \$0.90 (30%)

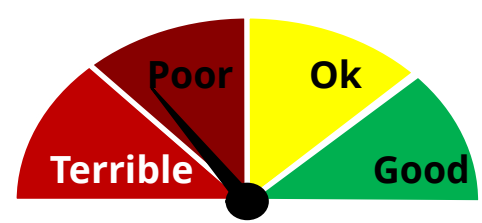
Trade #4



- 200 shares
(\$8k @ ~\$40/sh)
- \$0.05 spread
 - Stock drops \$1.5 (-0.4%)

Result: **-\$320**
(\$1.5 drop + spread)

ATR - \$5.58 (27%)



Method Type

Risk management

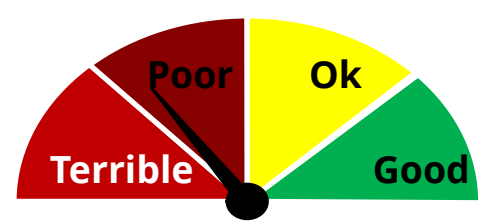
How does it work?

Description on the method

PROs	CONs
Good stuff	Bad stuff
Good stuff	Bad stuff
Good stuff	Bad stuff
Good stuff	

Risk Management Strategies:

1. Approach idea
2. Approach idea



Risk management

1. Fixed Size

How does it work?

Trade a fixed number of shares on every trade

(e.g. 100, 200 or 1000 shares)

PROs	CONs
No calculations! Fixed shares	Highly variable risk
Easy to understand	Does not consider risk taken
Very easy to script	Difficult to manage risk:reward across trades
	No consideration of the stock technicals

Risk Management Strategies:

1. Only trade stocks with similar \$\$ value
2. Have full, $\frac{1}{2}$ and $\frac{1}{4}$ size options based on



2. Percentage of Account BP

How does it work?

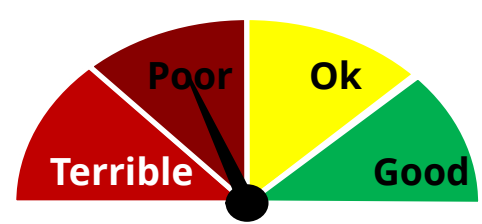
Calculate # of shares based on a fixed percentage of your Account value or Buying Power (BP)

(e.g. 50% of BP on a \$30k account with a \$100 stock is 150 shares)

Risk Management Strategies:

1. Update script daily to fix BP amount
2. Have full, $\frac{1}{2}$ and $\frac{1}{4}$ size options based on

PROs	CONS
Known BP in play	Highly variable risk
Can (must) be scripted	Does not consider risk taken
	Difficult to manage r:r across trades – changes every trade
	Calculations change on every trade
	Variable # shares will be taken
	No consideration of the stock technicals



Risk management

3. Fixed Dollar

How does it work?

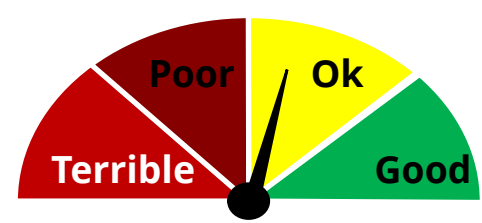
Always trade a fixed amount of BP

(e.g. \$10k of BP on every trade with a \$100 stock is 100 shares
($\$10,000 / \$100 = 100$ shares))

PROs	CONS
Simple calculations	Highly variable risk
Easy to understand	Does not consider risk taken
Can be done manually or be scripted	Variable # shares will be taken
	No consideration of the stock technicals

Risk Management Strategies:

1. Have full, $\frac{1}{2}$ and $\frac{1}{4}$ size options based on



Risk management

4. Percentage of BP Risk

How does it work?

Calculate # of shares based on the BP **risk** you are willing to take

(e.g. 0.5% BP risk on a \$30k account with a \$0.50/share risk is 300 shares
($0.5\% \times \$30,000 / \$0.50 = 300$ shares))

Risk Management Strategies:

1. Update script daily to fix BP amount

PROs	CONS
Controlled risk	Complex calculations
Can (must?) be scripted	Variable # shares will be taken
Considers stock technicals	Must recalculate for each trade
Requires up-front r:r calculations	Calculations change on every trade



5. Fixed Risk

How does it work?

Calculate # of shares based on a ***fixed risk value*** for the trade

(e.g. \$100 fixed risk with a \$0.50/share risk is 200 shares
($\$100 / \$0.50 = 200$ shares))

Risk Management Strategies:
Incorporated

PROs	CONS
Very well controlled risk	Requires manual consideration of BP
Can be manual or scripted	Variable # shares will be taken
Considers stock technicals	Must recalculate for each trade
Requires up-front r:r calculations	

How To Implement

1. Think about which of the described method above 'intuitively' feels best to you
2. Review your Tradebook strategy(ies) and evaluate which method will best integrate to your strategy(ies)
 - base on risk, ability to implement, etc.
3. Test the approach in SIM
 - Try stocks with different prices (eg. \$20/share - \$200/share)
 - Set-up hotkeys (if you want them)
 - Evaluate the outcomes
4. Evaluate and re-evaluate...don't be afraid to experiment and try

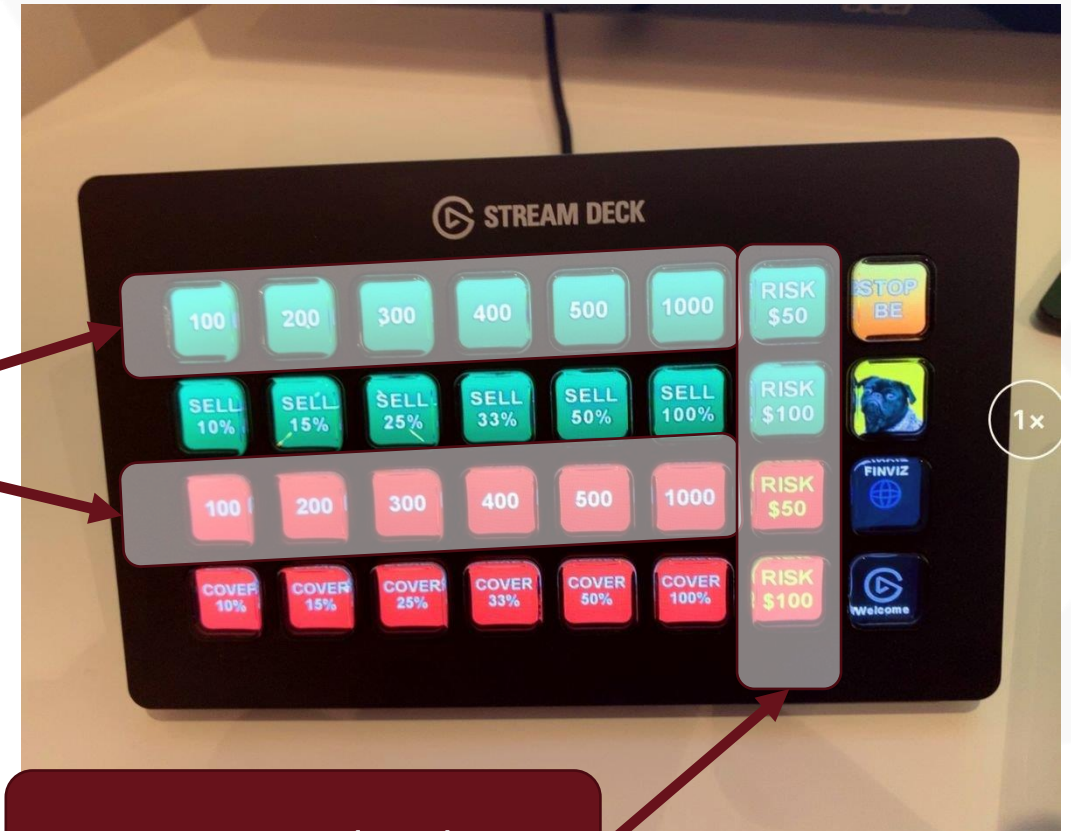
Note on Hotkeys

- The BearBullTrader forums have great info on setting up hotkeys to help you manage your share size.
- You can also reach out to Kyle on our team

#1 – Fixed Share Size

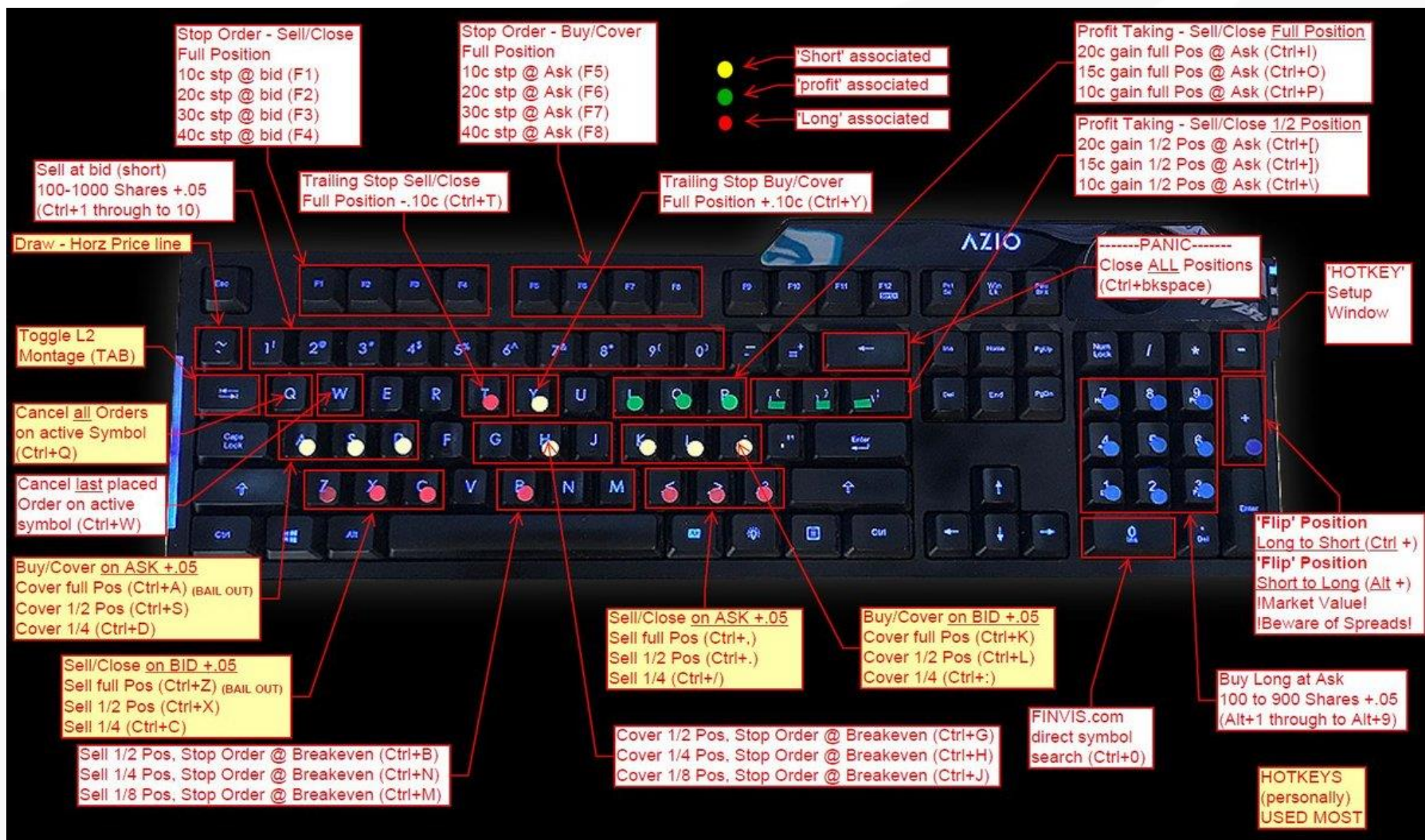
Pop Quiz:

What 2 share size methods are programmed into this Stream Deck?



#5 – Fixed Risk

Note on Hotkeys



Questions

