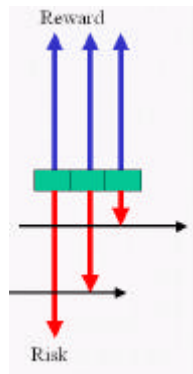
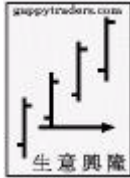


Risk, Stop Loss and Position Size

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Share Trading, Market Trading Tactics, Chart
Trading, Better Stock Trading, Snapshot
Trading, Trend Trading



Risk Myths

- Traders think they understand risk
- High reward means high risk.
- Financial industry risk management theory suits all.
- Risk is managed by diversity.
- Setting a stop loss is easy, or a waste of time.

Where is the risk?

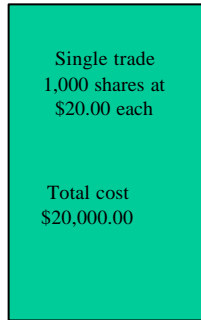
The life of a trade or investment has three stages

	the investor?
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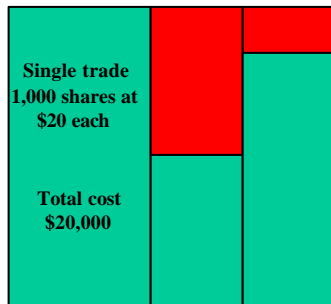
Understanding how much is at risk

- How much is at risk?
- \$20,000?
- Less than \$20,000?



What really is at risk?

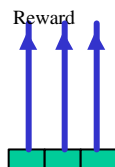
Overnight disaster.
Stock opens at
\$10.00. You exit at
\$10.00. How much
do you lose?
How much do you
keep?



Risk and reward

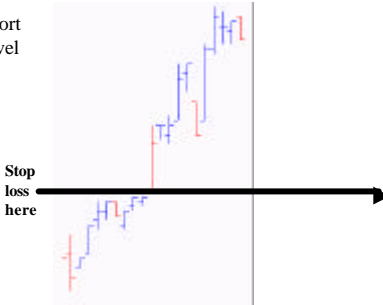
Popular theory says high
reward equals high risk

High reward equals high risk



Using chart based stops

Set the chart based support and use as a stop loss level
 How far can price fall?
 Is risk the same?
 Is the stop too tight?
 The position of the support level does not change. The closer the entry point to support, the smaller the financial injury



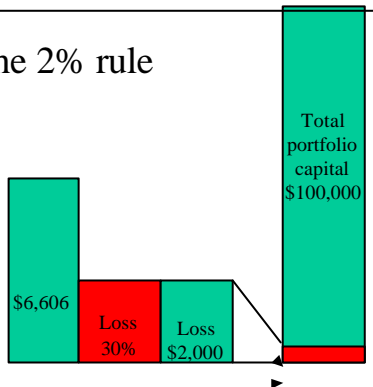
2% Rule

Limit risk on any one trade to no more than 2% of total trading or portfolio capital

Using the 2% rule

- Portfolio capital \$100,000
- 5,560 shares @ \$1.09 each for a total cost of \$6,606
- Stop loss exit \$0.76

Sell on stop.
 Loss is 30%
 Convert loss to a percentage of capital



Assess the loss on a trade in dollars and convert to a percentage figure of total trading capital

2% math and position size

Calculate theoretical maximum position size
 Always start with portfolio and trade risk
 Enter preferred entry price
 Enter stop loss price - support
 Maximum position size calculated

Calculate practical position size.
 This is always equal to or less than the maximum size.
 Adjust number until dollar size is acceptable to you
 Some figures do not change
 Cost and risk are calculated

EQUITY DETAILS	
Equity name	AVJ
Maximum # of shares	50,000
Purchase price	
Full cost	
RISK PARAMETERS	
Equity risk @ 2%	\$2,000
Risk on this trade	\$2,000
Stop loss exit price based on full cost	

Stop loss point falls

Charts and finance

Confirm trend break
 Verify trend break using a count back line
 Set stop loss conditions
 2 vital figures for risk management



Matching figures to risk and size

Proposed entry 85 Stop loss 80
 Total trading capital \$100,000 so risk is \$2,000
 Risk on this trade is \$2,000
 Find the solution for the maximum number of shares that can be purchased that puts at risk not more than 2% of total trading capital

EQUITY DETAILS	
Equity name	Max size
Maximum # of shares	
Purchase price	
Full cost	
RISK PARAMETERS	
Equity risk @ 2%	
Risk on this trade	
Stop loss exit price based on full cost	

Reducing position size and risk

Proposed entry 85 Stop loss 80
 Total trading capital \$100,000 so risk is \$2,000
 Risk on this trade is \$2,000

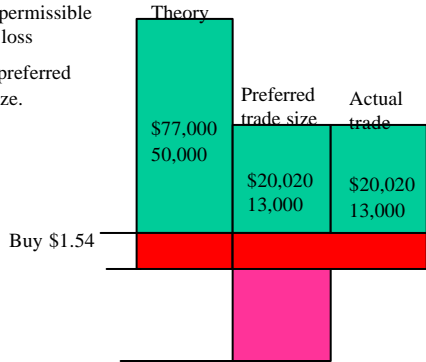
Find the solution that suits your preferred trading size (eg\$20,000)
 equal to or less than the maximum permissible size – (eg\$34,000)

EQUITY DETAILS		Preferred size
Equity name		
Maximum # of shares		
Purchase price		85
Full cost		
RISK PARAMETERS		\$2,000
Equity risk: @ 2%		
Risk on this trade		
Stop loss exit price based on full cost		80

Using position size reduce loss

Maximum permissible theoretical loss

Calculate preferred position size.



Stop loss boosts returns

Stop loss risk improves results without improving your trading skill
 16 real trades, 62% success rate. Profits from each trade do not change.

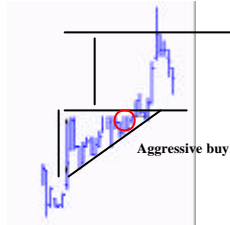
- Lose 10% of trading capital on each losing trade
- Lose 5% of trading capital on each losing trade
- Lose 2% of trading capital on each losing trade

STOCK CODE	COST TO BUY	\$\$\$ PROFIT	%/YR PROFIT	WIN/LOSS	\$\$\$ PROFIT
SPR	\$20,000				
NAC	\$19,833	\$4.90	2.09	WIN	\$4.90
SRO	\$20,000	\$0.00	0.00	WIN	\$0.00
NACHWHL	\$20,100				
TRUKWAL	\$20,000	\$6.20	3.10	WIN	\$6.20
TAN	\$20,000	\$3.97	19.85	WIN	\$3.97
SMC	\$20,205	\$3.42	16.89	WIN	\$3.42
FBG	\$20,204	\$2.06	10.20	WIN	\$2.06
TLBMOJ	\$20,750	\$7.00	34.74	WIN	\$7.00
FRG	\$20,202				
SBC	\$20,201				
SMC	\$19,896	\$4.41	2.22	WIN	\$4.41
ADY	\$19,895	\$6.50	32.51	WIN	\$6.50
NAG	\$20,100	\$2.60	12.44	WIN	\$2.60
PHO	\$20,425				
CS	\$19,896				



Risk and reward ratios

- Risk is known with a stop loss
- Reward is uncertain
- Better trades have a risk/reward ratio greater than 3
- Setting a reward target is easy with a pattern trade

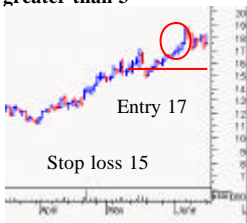


Objective is to find three figures Entry, Risk and Reward

Trend risk and reward ratios

- Risk is known with a stop loss
- Reward is uncertain
- Better trades have a risk/reward ratio greater than 3

Setting a reward is difficult with a trend trade. We must make a reasonable estimate.



Objective is to find three figures Entry, Risk and Reward

Calculating risk and reward ratios

Three figures

Entry price

Stop loss price

Reward

Calculate risk/reward ratio

Planned entry price	17	17
Planned profit exit	20	20
Planned stop loss exit	15	15
Trade reward	3	4
Trade risk	2	1
Trade risk/reward ratio		

Objective is to find three figures Entry, Risk and Reward

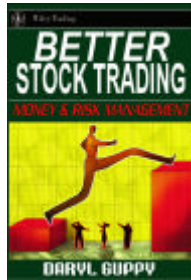
Selecting better trades

The risk/reward ratio is used to choose between competing trading opportunities

	Trade 1	Trade 2	Trade 3
Planned entry price	17	16	17
Planned profit exit	20	20	24
Planned stop loss exit	15	15	15
Trade reward	3	4	7
Trade risk	2	1	2
Trade risk/reward ratio			

TRADERS MANAGE RISK

- Reduce risk by entering close to properly calculated chart based stop loss points
- Explore other money management and risk management strategies in BETTER STOCK TRADING
- Use the spreadsheet templates from www.guppytraders.com
- Follow real time trades and risk management in our weekly newsletter






TUTORIALS IN APPLIED TECHNICAL ANALYSIS 生意興隆
