



POSITION SIZING



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INTRODUCTION:

Ever blown up an account? Yeah, me too...

It's a rite of passage, right?

But seriously, most of those "kaboom" moments come down to one thing: wonky position sizing.

This cheat sheet is your secret weapon to conquer the forex beast (and keep your capital intact!). We're gonna break down the essential position sizing strategies in a way that's actually, you know, fun.

So, buckle up, grab your favorite beverage, and let's get started!

Here's what we have:

- Steady Eddie
- Daredevil
- Smooth Operator
- Math Whiz

THE "STEADY EDDIE"

This is the classic, reliable method. You risk a fixed percentage of your trading cash on each trade. Think of it as the "responsible adult" of position sizing.

Formula (Don't worry, it's not scary):

$$\text{Position Size (units)} = \frac{(\text{Account Balance} \times \text{Risk Percentage})}{(\text{Stop Loss in Pips} \times \text{Pip Value})}$$

Example (Let's get real):

- Account Balance: \$10,000 (Woohoo!)
- Risk Percentage: 2% (Smart and sensible)
- Stop Loss: 50 pips (Gotta have an exit strategy!)
- Pip Value (EUR/USD, 1 standard lot): \$10 (The magic number)
- Position Size: $(\$10,000 \times 0.02) / (50 \times \$10) = 4$ standard lots (Boom!)

Pros:

- Easy peasy
- Keeps your risk in check
- Grows with your account (like magic!).

Cons:

- Doesn't consider market craziness (volatility).
- Doesn't consider your performance.

THE "DAREDEVIL"

You trade the same number of lots every time, no matter what. It's like riding a rollercoaster blindfolded, exhilarating, but potentially disastrous.

Explanation:

Pick a lot size and stick to it, come hell or high water.

Example:

Always trading 2 standard lots of EUR/USD (YOLO!).

Determining Lot Size:

This requires some serious backtesting or historical data analysis. Don't just pick a number out of thin air! Pick a number that your system suggests.

Pros:

- Super simple (almost too simple).

Cons:

- Doesn't adapt to your account balance or market volatility.
- You could end up overexposed or underexposed.
- Basically, it's risky business.

THE "SMOOTH OPERATOR"

This method adjusts your position size based on how wild the market is acting. It's like a surfer reading the waves, you ride the smaller ones cautiously and maybe go bigger on the calmer ones.

Explanation:

Use a volatility indicator, like the Average True Range (ATR), to measure market craziness.

Average True Range (ATR):

Tells you how much the price is bouncing around. High ATR = crazy market; low ATR = chill market.

Volatility Scaling:

Trade smaller when things are wild and potentially bigger when they're calm.

Example:

If the ATR is 50 pips (market's a bit wild), you might use a smaller position size. If it's 20 pips (market's sleepy), you might go a bit bigger.

Pros:

- Sophisticated risk management
- Adapts to market conditions like a chameleon.

Cons:

- A bit more complex
- Needs accurate volatility readings.

THE "MATH WHIZ"

The **Kelly Criterion**. This is a mathematical formula to find the theoretically perfect position size. Think of it as the trading equivalent of rocket science.

Formula (Simplified, because math is hard):

$$\text{Kelly \%} = \frac{(\text{Win Probability} \times \text{Average Win}) - (\text{Loss Probability} \times \text{Average Loss})}{\text{Average Win}}$$

Yeah, I know...

Explanation:

It uses your win/loss probabilities and average win/loss amounts.

Caveats:

This thing is super sensitive. Even tiny errors in your estimates can lead to HUGE problems. Plus, it can suggest massive position sizes that are just plain crazy.

Why it's probably not for you:

It's complex, risky, and most traders don't have accurate enough data to use it effectively. We're including it for educational purposes only. Don't try this at home, kids (unless you track your performance meticulously).

Kelly Criterion Example (Let's Get Mathematical!):

- **Your Stats:**

- Win Probability: 52% (You win 52% of your trades)
- Average Win: 34 pips
- Loss Probability: 48% (You lose 48% of your trades)
- Average Loss: 20 pips

- **Kelly Says: (Let's do the math!)**

- Convert probabilities to decimals:
 - Win Probability = 0.52
 - Loss Probability = 0.48

- **Plug the values into the Kelly formula:**

$$\frac{(0.52 \times 34) - (0.48 \times 20)}{34} = 0.237$$

- **Convert the decimal to a percentage:**

- Kelly % = $0.237 \times 100\% = 23.7\%$

If you have \$10,000, Kelly wants you to risk \$2,370 on your next trade. (Gulp!)

Pros:

- Growth potential, it can launch your account to the moon (if you have perfect data and nerves of steel).
- It is very adaptable

Cons:

- One wrong number, and it goes haywire
- Can suggest crazy big bets
- Needs math skills and crystal ball predictions (most of us don't have those).
- Best left to the pros (or math geniuses with a gambling problem).

THE SHOWDOWN

The **Kelly Criterion**. This is a mathematical formula to find the theoretically perfect position size. Think of it as the trading equivalent of rocket science.

Strategy	Risk Man.	Simplicity	Adaptable	Scalability	Fun Factor	Risk Factor
Steady Eddie	Excellent	High	Low	High	High	Low
Daredevil	Moderate	Very High	Very Low	Low	Medium	High
Smooth Operator	Advanced	Moderate	High	High	Medium	Low
Math Whiz	Highly Variable	Low	Low	Very High	Low	Extreme

Woohoo! You made it to the end!

High five for conquering the forex beast (or at least its position sizing secrets)! Now go forth and trade like a pro (but don't forget to manage your risk!).

Wanna hang out?

We do a daily forex newsletter! Check it out here:

- <https://mail.tradedelicious.com/>

Disclaimer: Forex trading is a wild ride. This cheat sheet is just for fun and education. Don't blame me if you lose your shirt (or your Lambo).