Optimising position size

Introduction

When it comes to investing in the share market, many investors and traders get a little confused because of the conflicting information they hear from a variety of sources. And sometimes the conflicting information comes from highly regarded professionals in the finance advice industry.

One of the issues is to do with *position size*. That is, how much money do we commit to any one position in the market? There are a number of ways to consider this, and there are many different opinions to help guide our decisions. So how can we make sense of it all?

Furthermore, many investors don't realise that it's possible to significantly increase profits on the winning positions by carefully optimising the *position size* for each parcel of shares. That is, if we always invest the same amount of money into each position, we are potentially limiting the profits that are available.

This Article in Brainy's series on Share Trading and Investing (number ST-4050) helps to put a few things into perspective, to bring some clarity to the fog, especially with regard to *position sizing*.

Table of Contents

Overview

Firstly, exactly what do we mean by ***position size***? Well, this refers to the "size" of a share parcel, but it can refer to either the *number of shares*, or the *dollar value* of the parcel. For instance, let's say we want to buy a parcel of shares in Australia's largest company (ie. largest by market capitalisation, and based on today's share price this is Commonwealth Bank CBA). And let's say that we have $10,000 available to invest in this one share market position. Based on CBA's share price today (29 April 2014) where it traded at about $79, we could have bought about 126 shares, at a value of $9,954. So the *position size* is 126 shares, with a *position size value* (today) of $9,954.

Some people argue that a very important consideration when buying a parcel of shares is to very carefully consider the *position size*. Some of the points to consider include:-

(a) For every share parcel that we buy, is it okay to make them all the same size? That is, assuming we have about $100,000 to invest, is it reasonable to divide this up into, say, ten equal amounts, and invest $10,000 into each of ten different companies? Or is there a better way?

(b) If we only have a total of, say, $10,000 available for investment, is it okay to simply invest half of this in each of two companies? That is, $5,000 in each of two parcels?

(c) If we only have a total of, say, $10,000 available to invest and we want to spread the risk by *diversifying*, is it okay to invest only $2,000 in each of five companies (for example)?

(d) We keep hearing about *diversification*. How much should we diversify our investments?

These considerations are discussed in the following paragraphs, and elsewhere under the heading of *risk management*.

** - The two words *trading* and *investing* are often used somewhat interchangeably.

Unfortunately,
the remaining pages of this article
are not available for free.

Some of the eBook Articles are available for free,
including the Table of Contents pages,
and the Introduction and Overview pages.

These articles take a lot of time, experience,
knowledge and expertise to compile.

However, there is some good news.

You can subscribe as a Toolbox MEMBER
and have unlimited access to all Articles,
plus a whole lot more.

Visit: www.robertbrain.com

Robert writes and updates Articles on three topics:

- ✔ Share Trading & Investing
- ✔ Technical Analysis
- ✔ BullCharts (charting software)

See a list of Articles in the free section of the Toolbox:
www.robertbrain.com/members-area/articles.html
(the green shaded articles are free)