

Trading Insights 1b - How much money?

Trading Insights

A series of workshop sessions
for ATAA members

Session 1(b) How much money?

Material compiled and presented
by Robert Brain



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Version 2b

About this material

This set of presentation slides was prepared for a presentation/workshop at the ATAA Melb meeting in March 2020. It took about 20 mins.

The basic set of slides is intended to be available to ATAA members on the ATAA website www.ataa.asn.au

If we run out of time to go through this material, audience members are encouraged to re-visit the set of slides.

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Trading Insights — About

This series of sessions entitled “Trading Insights” comprises 12 topics, to be covered two at a time in an ATAA chapter meeting.

Two topics will be covered for about 20 minutes each in any one session.

The session presenter might not be a subject matter expert, and might rely on experienced audience members to supplement the discussion.

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Trading Insights — Who is this for?

- This Trading Insights series is intended for:
- (a) Newbies to trading/investing, and
 - (b) Intermediate and advanced traders/investors;
 - (c) ATAA members and prospective members.

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Trading Insights — Purpose

- (a) To help provide a head-start into trading/investing for “newbies”.
- (b) To help intermediate and advanced traders/investors to tweak their approach and strategies by sharing their own knowledge and experience, and picking up some clues and re-thinking their approach.
- (c) To educate the “newbies” to trading and investing about HOW to go about it.
- (d) To provide ideas and considerations about trading/investing, to help progress their journey.
- (e) To highlight the traps and pitfalls.

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In this insights session...

- (a) “What to trade?” (Mark Umansky)
- (b) “How much money do I need?” (Robert B)

The following slides will provide some information and discussion-starting comments on the above topics.

The presenter might be more a *moderator* and not a *subject matter expert*, so **your input** will be greatly appreciated for the benefit of everyone present.

On the following slides, this is your prompt to contribute to the discussion...



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How much money? (Robert)

“How much money do I need to get started?”

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How much...? — Assumptions

When considering how much money we need to get started with investing/trading, ***there are some decisions to make first...***

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Assumptions = Trading Rules

We will:

- 1) Trade/invest only in shares;
- 2) Trade shares on the ASX (2,000+ qualify);
- 3) Utilise **reasonable risk management** including ... (see next slide)

This is reasonable because a majority of ATAA members (investors/traders) are **ASX "trend traders"**.

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Assumptions = Trading Rules

Utilise **reasonable risk management** including:

- 1) Minimum position size = \$2,000
- 2) Stocks trading at least \$40,000 value/day (about 600+ qualify)
- 3) Maximum 10 positions in total (KISS)
- 4) Each position < 10% of total capital (reduce risk)
- 5) Assume Win/Loss ratio > 40%
- 6) Have a reasonable **Exit Strategy / Stop Loss**.

But why? — See following slides ...!

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Why limit to 10 positions?

- Some experts suggest that it is harder to monitor and keep track of more than about 10 positions. So limiting to 10 makes it more manageable.
- However, this is more risky than having up to 20 positions where the greater diversification will mean that if one company goes totally belly-up you have lost a smaller portion of total capital.

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How much money?

QUESTION: Is \$500 enough?

- Many investors / traders try to start with as little as \$500 (for **each share parcel**);
- If the brokerage to buy \$500 worth of shares is \$20, and another \$20 to sell, that's **\$40 total brokerage**; and this will be an 8% hit before we see profits;
- Q: Which stocks **go up by 8%** in a reasonable time frame? (they are hard to find in advance)

QUESTION: Is \$500 enough?

continued .../

How much money?

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- If the brokerage to buy \$500 worth of shares is \$20, and another \$20 to sell, that's **\$40 total brokerage**; and this will be an 8% hit before we see profits;
- Q: Which stocks **go up by 8%** in a reasonable time frame? (they are hard to find in advance)

ANSWER: \$500 per position is not enough.

- Actually, \$2,000 is a more reasonable amount per position, **BUT .../**

How much money?

BUT:...

- \$2,000 minimum per position, and
- Each position =< 10% of available capital and maximum of 10 positions in total,
- We will need \$20,000!
- OR: We will have fewer than 10 positions which will mean a **higher risk** (due to less diversification — what if one stock goes belly-up?)

How much money?

A note about Exit Strategies:

- The purpose is to have a pre-determined plan for the conditions that will trigger an exit;
- To **protect trading capital**;
- To **lock in profits** before they are whittled away.

=> We can't be successful 100% of the time.

=> The best loss is the first and smallest.

=> Minimise losses and maximise profits.

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How much money?

Stock liquidity is a consideration:

- We want to be able to sell a position quickly, and not just **hope** that a buyer will come along.
- One possible metric is:
Take a **position size < 5%* of daily \$ turnover**
(ie. less than 5% = less than 1/20th)
- That is, for a position size = \$2,000
we want $20 \times \$2,000 = \$40,000$ daily *value*
(5% of \$40,000 = \$2,000 and only about 600 stocks qualify)
* – A more conservative value is 2%

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How much money?

1) For our risk management metrics:

- Minimum position size = \$2,000
- Stocks trading at least \$40,000 value/day
(about 600+ qualify)
- Max 10 positions in total
(less than 10 means less diversification)
- Each position =< 10% of total capital

2) Minimum capital =

10 positions x \$2,000 = \$20,000

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Is this reasonable?

Is the sum of \$20,000 a reasonable amount?

- Consider taking several consecutive losses, it only takes a couple of losses to put a big **dent in your confidence**.
- If losing this much money is not an issue, then you will be able to sleep at night.
- A minimum win/loss ratio of 40% is reasonable; ie. only 4 wins out of 10 positions!!
Losses are inevitable, and nobody gets 100%

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What if we have less?

What can we do if we have less than \$20,000?

- Perhaps \$10,000 might be a bare minimum provided:
 - Reduce the position size (but *brokerage* and *slippage* will eat chomp away at the profit)
 - Accept that the risk is higher and utilise a quality stop loss / exit strategy to **quit losses early**
 - Monitor the positions more seriously (use "alerts")
- Try a different instrument (eg. CFDs), BUT the risks are different and greater!!

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What if we have more?

What to do if we have more than \$20,000? say \$100,000:-

- Simply use the same rules multiplied by 10.
- That is:
 - Minimum position size could be up to $\$2,000 \times 10 = \$20,000$ (with 5 positions in total)
 - OR:
\$10,000 per position x 10 positions to optimise our "trading rules".

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How much...? — SUMMARY

So, how much money do we need to invest/trade in “shares”?

- \$10,000 might be enough
- \$20,000 could be better
- \$100,000 is more ideal.

NOTE: This can be considered an opinion, and other people might have different opinions. There are multiple correct answers, and different answers for different instruments.

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Trading Insights

Stay tuned for discussions on:

- | | |
|--------------------------|----------------------------------|
| (a) Stock universe | (a) Brokers and their fees |
| (b) Other instruments | (b) Position sizing |
| (c) Buy signals | (c) Initial stop loss |
| (d) Trend trading (more) | (d) Risk management |
| (e) Other strategies | (e) Trading plans and strategies |

“Trading Insights” segments in Melbourne Chapter meetings in 2020

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About this material

This set of presentation slides was used in a workshop in the ATAA Melbourne meeting in March 2020.

The basic set of slides is intended to be available to ATAA members on the ATAA website www.ataa.asn.au

The members of Brainy’s Share Market Toolbox can also download these slides plus the more detailed Speaker Notes from the Share Market Toolbox www.robertbrain.com/presentations/

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