MAXIMISING PROFIT POTENTIAL BY PROPERLY SIZING POSITIONS

Many traders begin trading by risking one lot (micro, mini or standard size) for each trade. For the purpose of this document, I am going to assume that the novice trader has already learned how to plan their entries and exits and have a TRADING PLAN.

Regardless of the magnitude of the trade, new traders tend to use the same size position for every trade. Therefore a trade with a 200-pip stop will carry 5 times the risk of a trade with a 40-pip stop. This means an uncontrolled variable can have a huge effect and can greatly adjust the results. To eliminate this variable all we have to do as traders is simply adjust the position size of a trade so that every trade carries with it a similar amount of risk. As I have written before I think that it is sensible to risk only 1% maximum of your account balance in any trade. This I think is an acceptable risk tolerance.

Calculating position is very easy. First take your account balance and multiply it by 1%.

A $10,000 account at 1% risk tolerance equals $100.00 per trade risk.

<u>TRADE EXAMPLE - 1:</u>

EUR/USD
Present Price: 1.3800.
Stop Loss level: Fibonacci level 1.3855 (allowing 15 extra pips for stop loss run potential). Stop Loss level is therefore1.3870 (70 pips in total)

$100 (risk tolerance) / 70 (pips stop loss) = 1.42.

Rounding down for this trade the maximum limit is 1 x mini lot.
Or
Using micro lots the maximum trade is 14 x micro lots.

TRADE EXAMPLE - 2:

AUD/USD
Present Price: 0.9280
Stop Loss: 0.9320 (40 pips in total)

$100 (risk tolerance) / 40 (pips stop loss) = 2.5.

Rounding down for this trade the maximum limit is 2 x mini lots.
Or
Using micro lots the maximum trade is 25 x micro lots.

As you can see as you trade down in position sizes the flexibility in approach increases. Trading mini lots does not allow you to trade the maximum risk available within your TRADING PLAN.

In the above example, you can trade 2 x mini lots to meet your TRADING PLAN guidelines. However, by trading in micro lots you are able to trade 25 micro lots to maximize your trade size and also your potential profits without breaking your risk tolerance as per your TRADING PLAN.
Additionally, let us assume that the trade limit target was 0.9210. 70 pips below the entry level and that this trade played out perfectly.
If you had just traded 2 x mini lots as per your options your profit would have been 70 x 2 = $140.00.
However, had you traded 25 micro lots your profit from the same trade maximizing your risk tolerance would have been 70 x 2.5 = $175.00 (25% more).

This is very simple and effective without breaking your TRADING PLAN guidelines.

If you have a larger account balance the same applies when trading down from Standard Lot sizes to Mini lots.

This is all about making your trading work for you. In my daily trading activity I trade all three-lot sizes and trade standard, mini and micro lots based upon the currency pair that I am trading and the type of trade that I have entered (FLASH, RADAR or FUNDAMENTAL). This gives me as much flexibility as possible with my trading.

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