

# How to **unleash greater power** onto your investments using

FREE Money Management Software  
and Position Sizing models.



Obtain your FREE copy of the software today at <http://www.stator-afm.com>

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## 1. Introduction

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Congratulations on downloading a great little utility that is going to help you become a more efficient and profitable trader/investor.

This guide only serves as an introduction to the concept of position sizing, as the topic is very extensive and wide ranging. If you want to obtain additional information please visit the Stator - Advanced Finance Management portfolio management knowledge base.

A great place to start is [www.stator-afm.com](http://www.stator-afm.com)

We aim to give you a good explanation of each position sizing model which the Money Management Calculator employs. Hopefully you take this powerful new knowledge and apply it directly to your trading and investments. You will be surprised at the results.

### **Don't make another investment until you read the following:**

It doesn't matter if you are an established trader or looking to make your first trade, without Stator you are ignoring an easy way to increase your trading/investment performance!

.....and it's **not hard work** or time consuming to realise your potential.

**Stator is an investment management software solution** designed to:

- Help identify weakness in your trading plan so you can turn weakness into strength.
- Save you time and effort when it comes to portfolio management.
- Allow you to make wiser, more profitable investment decisions.
- Tailor a portfolio management solution suited to your custom needs.
- Let you spend more time building wealth.
- and much more, read on to find out more...

For more details visit [www.stator-afm.com](http://www.stator-afm.com)

## 2. Using the Money Management Calculator

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After you have downloaded the Money Management Calculator you will notice it is small in size and rather simple looking. Well, that's exactly the way we wanted to make it. Simple to use but powerful enough to fit nicely into any investors toolbox.

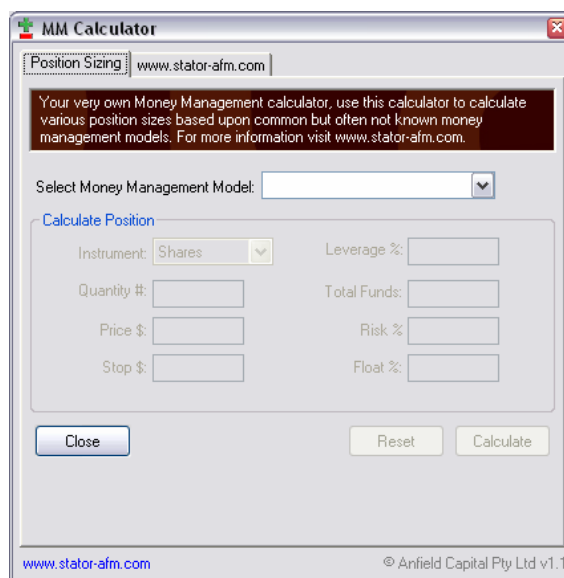
The file you have downloaded is called MMCalculator.exe. If you don't have the calculator at this stage you should quickly go and download it from [www.stator-afm.com](http://www.stator-afm.com) follow the instructions at the bottom of the page and download.

The calculator is only around 150KB in size, so it should only take around 30 seconds with a standard dial-up connection.

You may find it useful to place a link to the calculator on your desktop so you can easily open the calculator when you need it.

### The main screen

The money management calculator will open and display the main position sizing screen. From this screen you calculate various position sizes based upon the money management models provided. A picture of the main screen is shown below.



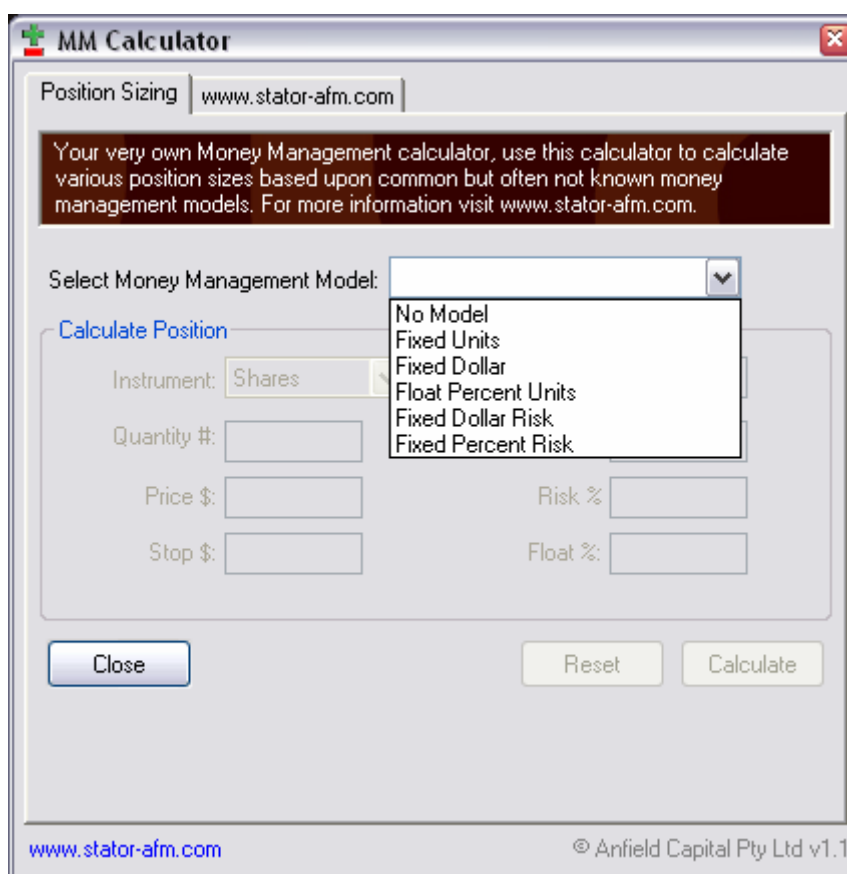
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### 3. Calculating your first position size

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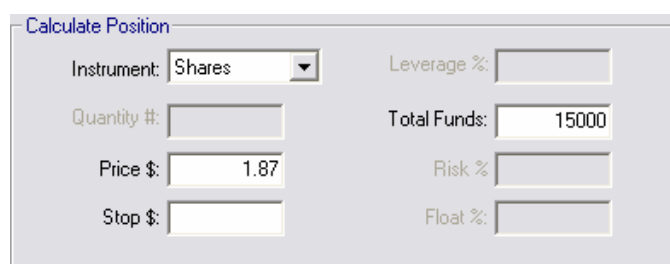
You're now ready to calculate your very first position size. Step one is to select the money management model you wish to use to calculate the position size.

Select the money management model from the dropdown provided as shown below.



After you select the money management model the calculator will make elements of the calculator enabled for data. For this example we are going to calculate a position based upon the Fixed Dollar model. Go ahead and select this model from the calculator.

You will notice the fields Instrument, Total Funds, Price \$ and Stop \$ are enabled. Let's assume that you are going to purchase \$15,000 worth of shares and the price of the shares is \$1.87.

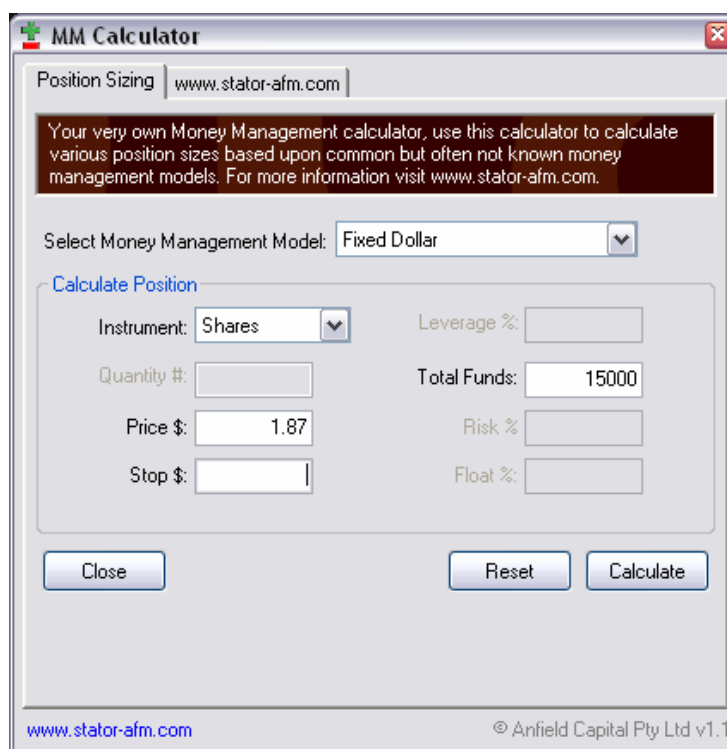


The image shows a 'Calculate Position' form with the following fields and values:

Instrument:	Shares	Leverage %:	
Quantity #:		Total Funds:	15000
Price \$:	1.87	Risk %:	
Stop \$:		Float %:	

Enter these in the fields provided. \$15,000 in the Total Funds field and \$1.25 for the Price field. We are now ready to calculate the position size.

Click on the “Calculate” button to determine the exact number of shares to purchase. The calculator will display the result in the bottom section of the calculator as shown in the picture below.



The image shows a window titled 'MM Calculator' with the following details:

- Position Sizing: [www.stator-afm.com](http://www.stator-afm.com)
- Select Money Management Model: Fixed Dollar
- Calculate Position section:
  - Instrument: Shares
  - Quantity #:
  - Price \$: 1.87
  - Stop \$:
  - Leverage %:
  - Total Funds: 15000
  - Risk %:
  - Float %:
- Buttons: Close, Reset, Calculate
- Footer: [www.stator-afm.com](http://www.stator-afm.com) © Anfield Capital Pty Ltd v1.1

You have successfully calculated a position size using the calculator. This uses a fairly simple money management model to calculate the position size.

Experiment with various money management models and see how you go analysing the results. In the following sections we will explain each model to illustrate how they work.

## 4. The Stop Loss

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The **stop loss** is a pre-determined price that will signal an exit for the trade. The stop loss is the point at which you will exit the trade "no questions asked". A stop loss will help preserve your capital to make sure you can trade another day.

*If the trade stop is hit by the current price, exit the trade "no questions asked".*

A stop loss is usually calculated before a trade is opened. Various trading systems will employ the use of a **trailing stop loss** to signal an exit on the trade. Trailing stop losses ratchet up as the share price moves up, this has the effect of locking in profits once the trade has moved in your favour. Remember, a stop loss is a mechanism which will signal the exit of a trade.

A basic example of employing a stop loss is provided below.

*John has decided to buy \$20,000 worth of "XYZ" shares with his \$50,000, he has decided that he does not want to risk more than 1.5% of his capital on the trade. The current share price of "XYZ" is \$2.00.*

*John calculates that he is going to risk \$750 on this trade (1.5% x \$50,000). John then buys 10,000 shares of "XYZ" at \$2.00.*

*John sets his stop for this trade to equal a loss of \$750 (i.e. the price which will realise John a loss of only \$750). John's stop for this trade is \$1.925 ( $(\$20,000 - \$750) / 10,000$ ), if the share price were to drop to \$1.925, John would immediately sell his holding in "XYZ".*

The **trailing stop loss** is a stop loss which moves in accordance to the share price and provides an exit point for the trade.

If you can imagine the share price constantly rising, you would want to preserve some of the unrealised profit. You can do this with the use of a trailing stop loss, the same concept of a stop loss still applies. That is, the trade is immediately exited when the current price reaches the trailing stop loss price.

The most important thing to remember about the stop loss is its importance in signaling an exit point for any trade. Many believe the exit is far more important than the entry, whichever way you look at the stop loss it will:

- ✓ Determine when you should exit the trade
- ✓ Lock in profit or fixed loss for each trade
- ✓ **Preserve your capital to ensure you can trade another day!**

## 5. Position Sizing Models

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The following position sizing models are some of the more popular models used by many traders and investors, you may even find that you have used various models when determining the optimal number of units to purchase.

### Fixed Units

A very simple model which calculates the total purchase price for the parcel. This model cannot be described as a position size model as the number of units are known prior to calculation.

For example an application of this model would be the purchase of 10,000 shares of ABC at \$3.50. Applying the Fixed Units model we calculate that the total parcel size for this purchase is going to be (10,000 x \$3.50) \$35,000 before any additional costs such as brokerage etc.

**Formula:** Total Parcel Cost = Quantity x Price

### Fixed Dollar

This is the Fixed Units model in reverse. Another simple application of a position size model. The Fixed Dollar model calculates the number of units to purchase based upon knowing the price and total parcel cost.

For example an application of this model would be to decide to invest a total of \$15,000 in ABC stock. The current price of ABC stock is \$3.50. Using the Fixed Dollar model we can calculate the number of units to purchase.

The number of units to purchase is ( $\$15,000 / \$3.50$ ) 4,285. You will always have to round the number of units down to the nearest whole number.

**Formula:** Quantity = Total Parcel Cost / Price

## Fixed Percent Units

This model will calculate the optimal number of units to purchase based upon a specified percentage of your overall trading/investing float. The Fixed Percent Units model is a further extension of the Fixed Dollar model described above. This model introduces two new concepts, the total trading/investment float and the float percentage.

### Total trading/investment float.

This is predominantly defined as the total amount of funds you have set aside for trading, irrespective if you have any money allocated to trades or not.

### Float Percentage (Float %).

This is a percentage of your total trading/investment float that you have decided to allocate to this trade.

For example, you have decided to invest \$100,000 in total. Of this \$100,000 you have decided to allocate 5% to purchase some stock in ABC. The share price for ABC is currently at \$3.50.

First we determine that the total purchase cost for this trade is going to be (5% of \$100,000) \$20,000. Applying this to the model we can calculate that we need to purchase ( $\$20,000 / \$3.50$ ) 5714 shares.

**Formula:**  $\text{Quantity} = (\text{Total trade/investment float} \times \text{Float \%}) / \text{Price}$

**Stator - Advanced Finance Management is investment management software designed to strengthen you as an investor.**

In no time at all you will be on your way to:

- Utilising Advanced Portfolio Management to improve, tune and constantly evaluate your trading plan.
- Being organised with all your valuable portfolio data, never lose time administering your portfolio again.
- Spend more time creating wealth.
- Add "all around" strength to every aspect of your trading plan.
- Have total control.

For more details visit [www.stator-afm.com](http://www.stator-afm.com)

## Fixed Dollar Risk

This model will calculate the optimal number of units to purchase based upon a specified risk amount for the trade. This money management model introduces two new concepts called the Stop Loss and Risk Dollar.

### Stop Loss.

As previously mentioned above the stop loss acts as a signal to exit the trade. A stop loss can be a price which will trigger an immediate exit from the trade. Stop losses help to preserve capital and provide a calculated approach to trade management which helps many traders/investors overcome the effects of trading psychology. It is essential for this money management model for the stop loss to be determined before the trade is entered.

### Risk Dollar.

The risk dollar equates to the total amount of money which is going to be lost if your stop loss is activated. The stop loss is a price which triggers an exit from the trade. Integral to this model is the acknowledgement that the stop loss is a good trigger and it will result in you losing a certain amount of your money. Always remember that a stop loss will help preserve your money so that you can trade another day.

For example, you have decided to purchase some shares in ABC with the current share price at \$3.50. You have decided that you are willing to risk \$1,500 on this trade and set an initial stop loss of \$3.20 for the trade. The Fixed Dollar Risk model will calculate the number of units to purchase which will result in losing only \$1,500 if the stop loss is triggered.

The Fixed Dollar Risk model does this in the following way.

1. It determines the price difference between the share price and the stop loss price ( $\$3.50 - \$3.20 = \$0.30$ ).
2. It will equate the \$1,500 to this 30c. ( $\$1,500 / \$0.30 = 5,000$ )

The optimal number of units to purchase is 5,000.

### Testing the model

You can perform a simple test on this model to check its validity. It is also useful to do this until you become more comfortable with this method of calculating positions. To test is a simple matter of determining the total parcel cost which in this example is ( $\$3.50 \times 5,000$ ) \$17,500. Secondly determine the total parcel cost at the stop loss value which is ( $\$3.20 \times 5,000$ ) \$16,000. Lastly the difference between these two amounts should be the risk dollar.

**Formula:** Quantity = Risk Dollar / (Current Price - Stop Loss)

## Fixed Percent Risk

This model is a further extension of the Fixed Dollar Risk model. This model uses a percentage of the total trade/investment float to determine the risk dollar. This approach is useful if you intend upon reinvesting all profits back into the market (pyramid profits) as the risk dollar will increase or decrease relative to the total amount of funds you have to invest.

### Risk Percentage (Risk %).

This value represents the percentage of your total trade/investment float that you are willing to risk on each trade. Similar to the risk dollar which is a static value the risk percentage is fluid and will adjust to the amount of money you wish to invest.

An example of this is if you have decided to purchase some shares in ABC with the current share price at \$3.50. You have decided that you have \$100,000 to invest in shares and are willing to risk 1.5% on this trade. You set an initial stop loss of \$3.20 for the trade. The Fixed Percent Risk model will calculate the number of units to purchase which will result in losing only \$1,500 if the stop loss is triggered.

The Fixed Percent Risk model does this in the following way.

1. It determines the price difference between the share price and the stop loss price ( $\$3.50 - \$3.20 = \$0.30$ ).
2. It determines the risk dollar based upon the total trade/investment float and the risk percentage value you have defined. In this example it is ( $\$100,000 \times 1.5\%$ ) \$1,500.
3. It will equate the \$1,500 to the 30c difference. ( $\$1,500 / \$0.30 = 5,000$ )

The optimal number of units to purchase is 5,000.

### Testing the model

You can perform a simple test on this model to check its validity. It is also useful to do this until you become more comfortable with this method of calculating positions. To test is a simple matter of determining the total parcel cost which in this example is ( $\$3.50 \times 5,000$ ) \$17,500. Secondly determine the total parcel cost at the stop loss value which is ( $\$3.20 \times 5,000$ ) \$16,000. Lastly the difference between these two amounts should be the risk dollar, which in turn will be the risk percentage of the total trade/investment float.

### **Formula:**

Quantity = (Total trade/investment float x Risk %) / (Current Price - Stop Loss)

## 6. Leveraged Instruments

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The calculator will also calculate position sizes for leveraged instruments. To enable this select “Leveraged” from the Instrument dropdown. The calculator will require you to enter a leverage percentage.

## 7. Closing Notes

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We certainly hope you take the opportunity to employ position sizing in your everyday trading or investing. It is a very powerful risk management technique.

Stator - Advanced Finance Management is a complete portfolio management solution. It has been designed by investors for investors. For more information on this innovative, affordable portfolio management solution, visit the website at [www.stator-afm.com](http://www.stator-afm.com) for more information.

### **Stator - Advanced Finance Management.**

#### **It's for everyone, YOU included!**

Stator is investment management software suited to any investor who wants to **take overall control of their investments**. Ideally you would want to constantly improve your trading plan in the market, Stator provides all the tools necessary to do this. Are you going to take the opportunity?

Stator is suited to the following investor types:

- Income Generating Investors** - benefit from the ability to track income from dividends and trusts, both historically or forecasted. Income reports make sure you are tracking all your income generating investments. Great for cash flow forecasting or just plain management of income received.
- Long Term Traders** - benefit from being able to track your historical trading performance, generate graphs and reports to cover all aspects of your performance. Improve your performance by understanding those areas which need improving.

✓ **Mechanical System Traders** - benefit from finally having a tool that enables tracking of your trading system to the same level of sophistication employed when you backtested your trading system. Enjoy an abundance of statistics, reports, graphs to keep a close eye on your trading.

✓ **Beginner Investors** - just starting out? Don't spend thousands of dollars trying to find a portfolio management solution, Stator has been designed to provide advanced features in an easy to use format. Start off by managing your portfolio with a new innovative solution which aims to put you in control of your investments at all times. Start off on the right foot!

✓ **Amateur Investors** - by adopting excellent portfolio management you will be in the enviable position to increase your investment potential. By utilising all the features of advanced portfolio management you will be spending less time administering your portfolio. Enjoy the fruits of your investments by having the time and knowledge to make wiser decisions.

✓ **Portfolio Managers** - benefit from being able to easily control many investors. The level of sophistication makes Stator comparable to highly priced enterprise software platforms. Stator can scale up to any size.

After using Stator for a short period you will become an:

✓ **All around better trader/investor** utilising "self-evaluation" techniques to trade/invest better than ever before.

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In this day and age an abundance of investment management software programs offer features which have not been carefully designed and thought out, with you, the investor in mind.

Stator - Advanced Finance Management is investment management software designed by investors for investors.

With Stator - Advanced Finance Management you finally have the opportunity to experience portfolio management the way it should be.

