

**Trading in  
practise**  
a hands-on session



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**When trading shares:-**

**How to:**

- Calculate the **Position Size?**
- Minimise our risk?  
(so we can sleep at night)
- Set the **Stop Loss** price level?
- Estimate our **Price Target?**

**So, how do we do all this?**

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**Session purpose**

- To consider a realistic trading example using historical price data.
- To share ideas and experiences.
- To compare opinions, and understand how other people do it.
- We will consider:
  - position size calculation,
  - initial stop loss,
  - trailing stop loss.

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## Teams

1. Quickly form into teams:-
  - of 3 or 4 people
  - in the seats where you are
  - (turn round and say hello to your team members).
2. Preferably also have:
  - **Trading Work Sheet** (or a piece of paper),
  - Pen (or pencil),
  - A calculator might be handy.

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## The paper work... “Trading Work Sheet”

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## The Trading Work Sheet

This one has several elements:

1. Portfolio & Trade Risk
2. Trade Planning & Position Size
3. Trade Work Sheet

The image shows a 'Trading Work Sheet' form with three red circles highlighting key sections. The first circle is around the 'Portfolio & Trade Risk' section, which includes fields for 'Today's Unfilled', 'Unfilled as a % of', 'Unfilled as a % of', and 'Amount for next day Trade'. The second circle is around the 'Trade Planning & Position Size' section, which includes fields for 'The "RISK" only', 'Reference Entry Price', 'Exit Price (stop)', 'Stop Price (stop)', 'Reference Entry Price (above)', and 'Amount for next day Trade'. The third circle is around the 'Trade Work Sheet' section, which includes fields for 'Date', 'Time', 'Symbol', 'Entry Price', 'Exit Price', 'Stop Price', and 'Trade Size'.

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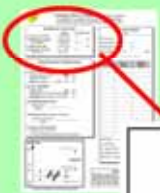
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## Portfolio & Trade Risk Mgt



	Sample	Your amount
(a) Today's CAPITAL	= \$ 50,000	\$.....
(b) Maximum Capital per position	= 20% of (a) = \$10,000	.....%
(c) Risk per trade	= 2% of (a)	.....%
(d) Amount "at risk" per Trade	= \$ 1,000 = (a) x (c)	\$.....

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## [R]isk per trade — 2% ?

NOTE:

- In this example we are using what is widely referred to as the "2 Percent Rule"; and
- We are using the amount of 2 percent; but
- A more conservative approach would be to use a value less than 2%, and perhaps as low as just 1%.

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## Position Size

Detail on next slide



Trade Planning / Position Size	
Stock Code: .....	
<b>(1) The "RISK" (w/R):</b>	
Preferred Entry Price	PEP = \$.....
Initial Stop Price	IS = \$.....
RISK (per share)	= (PEP - IS) = \$.....
<b>(2) The "REWARD":</b>	
Target Price	TP = \$.....
Preferred Entry Price (above)	PEP = \$.....
REWARD (per share)	= (TP - PEP) = \$.....
<b>(3) REWARD:RISK Ratio:</b>	
$\frac{REWARD}{RISK}$	= ..... = .....
<b>(4) Position Size (number of shares):</b>	
$\frac{Amount\ at\ risk\ [d]}{RISK}$	= ..... = .....
<b>(5) Value of this position:</b>	
Position Size x PEP = \$.....	
Q: Is this Position Value less than (b) above?	

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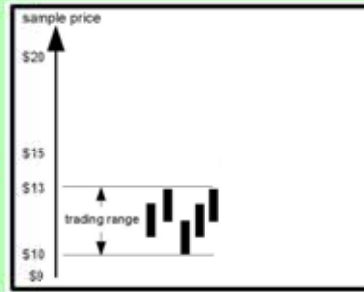
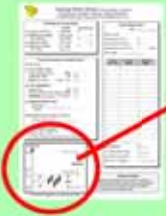
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## Diagram example

- Recent trading range \$10-\$13
- Anticipate a break out and rising trend.



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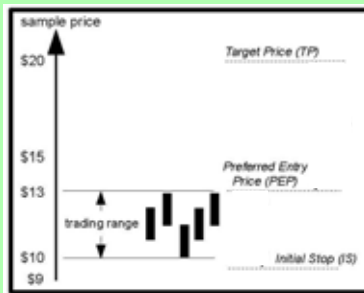
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## Diagram explanation

1) Determine three key price points:

- Target price = \$20
- Likely purchase (or entry) price = \$13
- Initial stop = \$9.50



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## Diagram explanation

2) Calculate:

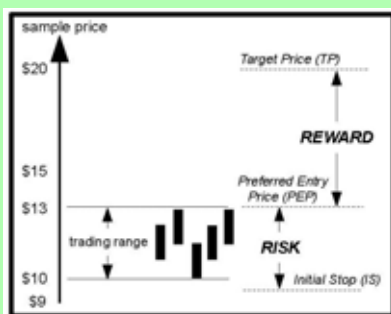
- Reward amount
- Risk amount

3) Calculate:

- Reward/Risk Ratio

4) Ideally:

- greater than 2



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## Diagram explanation

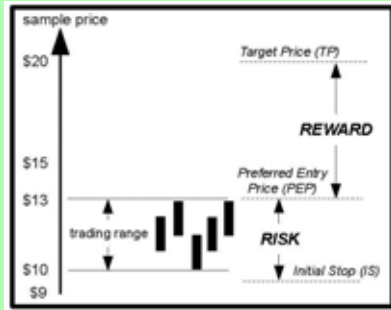
Reward/Risk Ratio

= \$7 / \$3.50

= 2

The greater the reward, the better the ratio.

Great if 3, 4 or 5+



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## Trade Work Sheet

Can enter the details onto the Work Sheet



Trade Work Sheet		
Date: ___/___/___		
Stock Code: .....		
Actual Entry Price = \$.....		
Initial Stop Price (IS) = \$.....		
Initial Stop Amount: R = ..... cents		
Entry date: ___/___/___		
Date (dd - mm)	Close Price	Trailing Stop

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## Case Study Exercise #1

(are we ready?)

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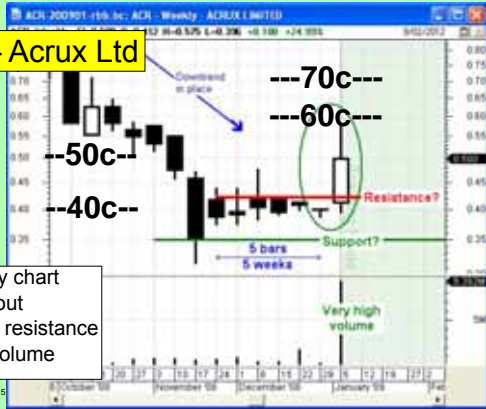
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## Let's take this trade!

ACR — Acrux Ltd



- Weekly chart
- Breakout
- Above resistance
- High volume

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## The planning steps

We have a trading “system”  
(ie. a Trading Strategy)

Our “system” says --> “GO!”  
We have decided to take the trade.

So: position size?  
initial stop loss? etc.

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## The bigger picture



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## The planning steps

In the next slides we will:

1. Estimate Preferred Entry (purchase) Price
2. Set Initial Stop Loss position
3. Calculate the **RISK**
4. Estimate Target Price
5. Calculate the possible **REWARD**
6. Calculate the REWARD / RISK ratio.

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## Determine your RISK



Consider:

- Preferred Entry Price (PEP)
  - Initial Stop Loss (IS)
  - RISK per share = R
- (fill out the "paper work")

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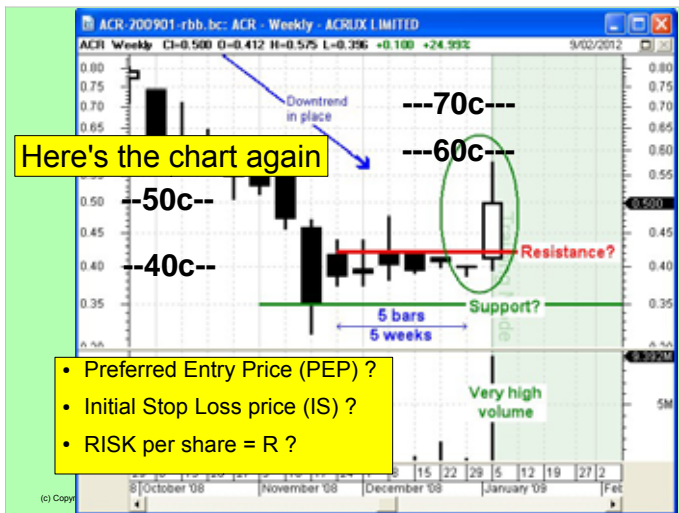
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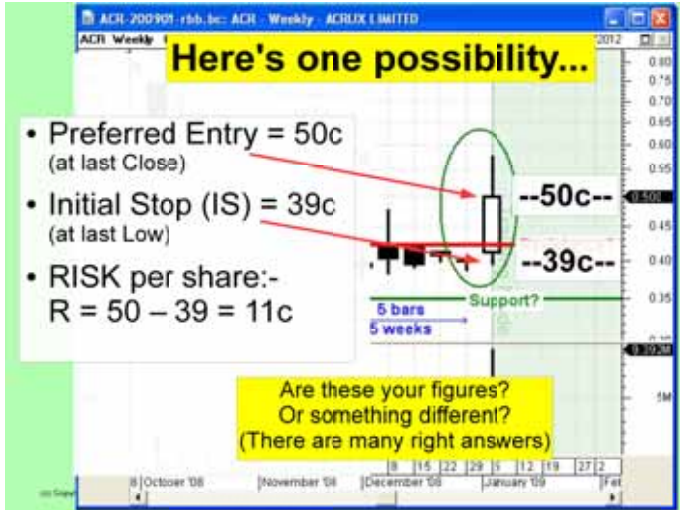
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**Amount at "risk"**

Note down your  
**Risk amount**  
(cents per share)  
Item (1) on the sheet  
**(eg. 11 cents)**

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**Target Price?**

What is  
your estimate for  
the **Target Price?**  
(see chart on next slide)

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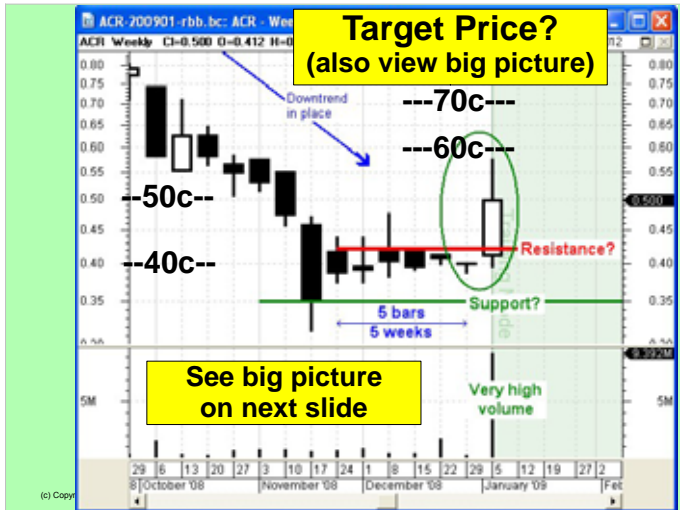
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# Trading in Practise - A hands-on workshop




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## More paper work...

Estimate your REWARD (item (2) on sheet):

- Target Price (TP) = ?
- Preferred Entry Price (PEP) = ?

REWARD per share  
= [Target Price] — [Preferred Entry Price]

**Note down your REWARD amount...**  
(cents per share)  
Item (2) on the sheet

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### More paper work...

Estimate your REWARD (item (2) on sheet):

- Target Price (TP) = ? (eg. \$1)
- Preferred Entry Price (PEP) = ? (eg. \$0.50)

REWARD per share  
= [Target Price] — [Preferred Entry Price]  
(eg. \$1.00 — \$0.50 = 50 cents per share)

**Note down your REWARD amount...**  
(cents per share)  
Item (2) on the sheet

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### Reward to Risk Ratio

Calculate your:

$$\frac{\text{Reward}}{\text{Risk}}$$

Item (3) on the sheet  
(eg. 50c / 11c = 4.5 )

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### Position Size

Position size (the number of shares to buy):

$$\frac{\text{Total amount at risk}^*}{\text{[R]isk per share}}$$

(eg. \$1000 / 11 cents = 9,090 )

\* Total amount at risk in this study  
= 2% of \$50,000 = \$1,000

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## Value of this parcel

The Position Size x PEP = \$ \_\_\_\_\_  
(eg. 9,090 x 50c = \$4,545 )

QUESTION:  
Is this parcel value less than item (b)??

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## Trade Work Sheet

On right hand side of the Trade Work Sheet:

- If we place the trade, record the Actual Entry Price on the sheet.
- Complete the details at the top of the Trade Work Sheet.
  
- Now let's go forward a week or two....

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(now view the charts .... )

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# Trading in Practise - A hands-on workshop



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# Trading in Practise - A hands-on workshop



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# Trading in Practise - A hands-on workshop



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# Trading in Practise - A hands-on workshop



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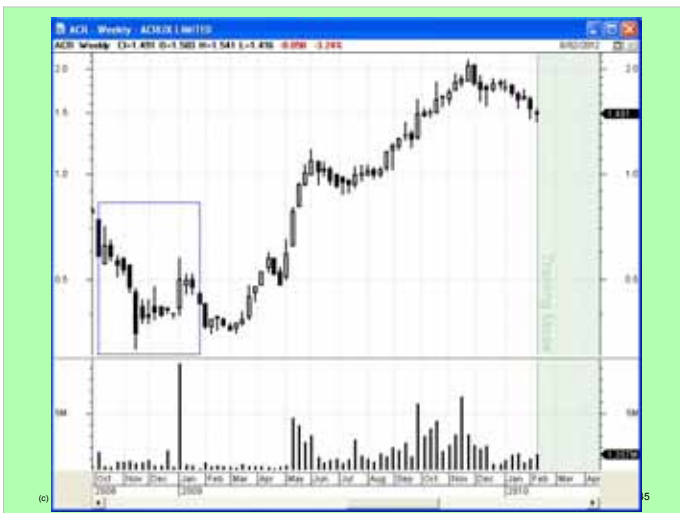
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# Trading in Practise - A hands-on workshop



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# Trading in Practise - A hands-on workshop



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# Trading in Practise - A hands-on workshop



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That's all for now

That's all the price action we have for now.

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Conclusion & Wrap UP

- Where did you end up?
- Was your Stop hit?
  
- Conclusions?
- Comments?

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Example #2 follows, if there is time.

Otherwise... Thank You

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## Case Study Exercise #2

(needs access to interactive charts)

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### Let's run BullScan

- Run scan as at Friday 20 March 2009 (ie. after the bear market bottom)
- Weekly
- Scan the list of stocks in:
  - Small Ordinaries, or
  - S&P/ASX 300, or
  - All Ordinaries

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### Scan Results



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## Initial Stop Loss?

Determine Initial Stop Loss; but how?

- Under recent price action? About 27c ? or 26.5c ? or other?



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## Let's intend to trade — Target?

Determine the **Price Target**, but how?

- 1) Measure Rule? (ie. extend triangle range)
- 2) Recent overhead resistance?
- 3) Fibonacci retrace? (see next slide)
- 4) other?



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## Price target — Fibonacci retrace?

Fibonacci extension of recent range? or a retracement of the big fall (not shown)?



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## Complete the paper work

Determine your RISK:

- Preferred Entry (Purchase) Price (PEP)
- Initial Stop (IS)
- **RISK** per share

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## More paper work

Determine your REWARD:

- Target Price (TP)
- Preferred Purchase Price (PEP)
- **REWARD** per share

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## Reward to Risk Ratio

$$\frac{\text{Reward}}{[\text{R}]isk}$$

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## Position Size

Position size (the number of shares to buy):

$$\frac{\text{Amount at risk}}{[\text{R}]isk}$$

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## Value of this parcel

The Position Size x PEP = \$ \_\_\_\_\_

QUESTION:

Is this parcel value less than item (b)??

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## Trade Work Sheet

- If we place the trade, record the Actual Entry Price on the sheet.
- Complete the details at the top of the Trade Work Sheet.
  
- Now let's go forward a week or two.... and study the actual, interactive price chart...

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(now flip to BullCharts .... )

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### Monitor trade, revise stop

- Determine Trailing Stop; but how?
  - P-SAR
  - Wilson ATR Trailing Stop
  -

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### SUMMARY

- With trade management, risk management and paper work.
- HOW DID WE GO?

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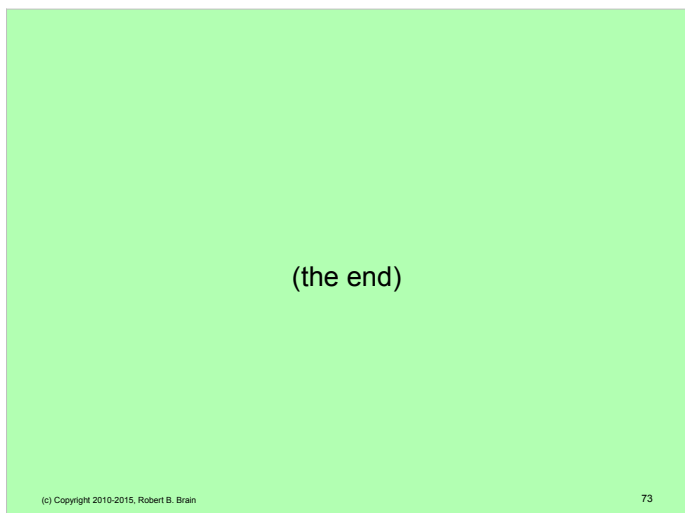
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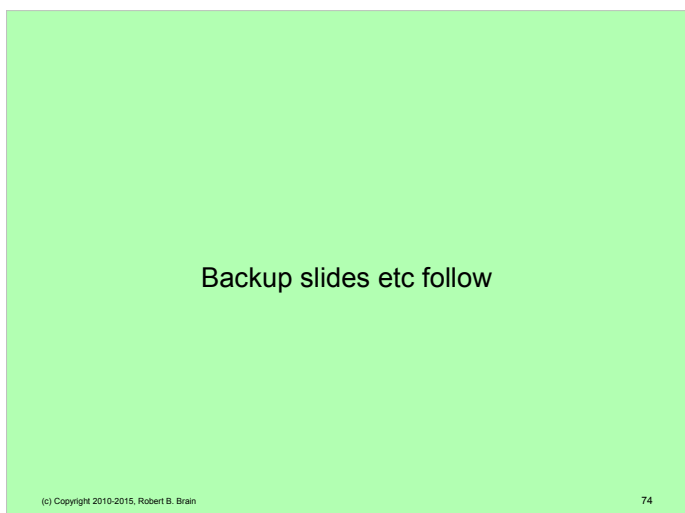
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