



# Short-Term Strategies, Position Sizing and Risk Management



# Risk Management

- Source of funds
- Personal circumstances (personal debt)
- Risk tolerance and personality type
- Trading Instruments.
- Gearing, reality vs. myth
- Discipline and strategy
- Managing expectations, greed vs. fear.

# Trading Instruments

- Equities, conservative, relatively expensive.
- CFD's and SSF's – more aggressive and cheaper
- Currencies – very aggressive
- Options – complicated.



# Managing a Market Shift

- Volatility
- Average True Range
- A shift of fundamentals
- A shift of sentiment

# Volatility



# Volatility



# Average True Range

- A measure of volatility
- Does NOT indicate anything about possible direction
- ATR reflects the degree of interest or disinterest in a move
- A bullish reversal with an increase in ATR would show strong buying pressure and reinforce the reversal
- A bearish support break with an increase in ATR would show strong selling pressure and reinforce the support break

# Average True Range





# Average True Range



# Fundamental Shift

- **Quantitative Easing 1 (QE1, December 2008 to March 2010)**[\[edit\]](#)
- "On November 25, 2008, the Federal Reserve announced that it would purchase up to \$600 billion in [agency](#) mortgage-backed securities (MBS) and [agency](#) debt.
- On December 16, the program was formally launched by the FOMC. On March 18, 2009, the FOMC announced that the program would be expanded by an additional \$750 billion in purchases of agency MBS and agency debt and \$300 billion in purchases of Treasury securities.

# Fundamental Shift



# Fundamental Shift

- **Quantitative Easing 2 (QE2, November 2010 to June 2011)**, On November 3, 2010, the Fed announced that it would purchase \$600 billion of longer dated treasuries, at a rate of \$75 billion per month. That program, popularly known as "QE2", concluded in June 2011.
- **Quantitative easing 3 (QE3)**, On September 13, 2012, the Federal Reserve announced a third round of quantitative easing (QE3).<sup>[7]</sup> This new round of quantitative easing provided for an open-ended commitment to purchase \$40 billion agency mortgage-backed securities per month until the labour market improves "substantially".
- **Quantitative easing 4 (QE4)**, The Federal Open Market Committee voted to order a fourth round of quantitative easing (QE4) on December 12, 2012. This round authorized up to \$40 billion worth of agency mortgage-backed securities per month, and \$45 billion worth of longer-term Treasury securities.<sup>[10]</sup>

# Fundamental Shift



# A shift in sentiment

- When there is an anticipation of shift in fundamentals, there is usually a shift in sentiment.
- Volatility and ATR are good indicators of such a shift.

# A shift in sentiment



# Position Sizing

- The most important factor in risk management.
- Too small leads to ambivalence and is not worth the effort relative to costs.
- Too large leads to anxiety and can cloud your judgment.



# Position Sizing

- Position size needs to be adjusted relative to market conditions and volatility.
- When volatility increases, position size needs to be adjusted lower.

# Position Sizing

- I start by looking at potential loss.
- Loss is based on two things:
  - A technical level and
  - Absolute figure relative to a/c size.

# Technical level



# Technical level



# Absolute figure relative to a/c size

- CFR gave buy signal at 4600
- Stop Loss is 4400
- Potential loss is 200
- If A/c is R100K, loss should be no more than 1.5% of total capital.
- Therefore  $R1500/200 = 750$  shares can be bought.

# Two simple strategies

- 3 moving averages. 20,50,200
- Breakouts



# 3 moving averages. 20,50,200



# Breakouts





# Questions?

