

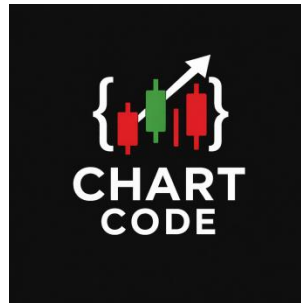


CHART CODE ACADEMY

Decode The Market Code

Position Sizing

The Skill That Separates Survivors

The exact math behind how much to risk per trade: the **1-2% rule**, fixed-rupee risk models, and how to calculate the right **quantity** from your stop-loss distance.

A FREE STUDY RESOURCE BY CHART CODE

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About This Guide

Position sizing decides how much capital to risk on a single trade, and converts that risk amount into an exact quantity using the distance to your stop-loss. It matters more than win rate, because an oversized position can wipe out an account even with a high win rate.

This guide covers:

- Why position sizing matters more than win rate
- The 1-2% rule and the fixed-rupee risk model
- The core formula, with a worked Nifty example
- Risk of ruin, and how to turn sizing into a repeatable habit
- Position sizing for futures and options, where lot sizes make it lumpy

Position Sizing

At a Glance: Position Sizing in Plain English

- Decide the **risk amount** first, before looking at quantity.
- Formula: **Quantity = Risk Amount ÷ (Entry Price – Stop-Loss Price)**.
- A wider stop-loss always means a smaller position for the same risk amount.

1. Why Position Sizing Matters More Than Win Rate

Core Concept



Visualising it: a 90% win-rate trader who risks 20% per trade is wiped out by one losing streak, while a 50% win-rate trader risking 1% per trade grows steadily.

Most new traders obsess over finding a strategy with a very high win rate. What often gets overlooked is that win rate alone means nothing without proper position sizing. A trader who wins 90% of trades but risks a large percentage of capital on each one can still be wiped out by a single unlucky losing streak. Meanwhile, a trader who wins only half the time but risks a small, consistent amount per trade can grow steadily and survive every losing streak along the way.

HOW TO READ IT

Position sizing is what determines whether an account survives long enough for a good strategy's edge to actually show up over many trades. It is not a detail to figure out later.

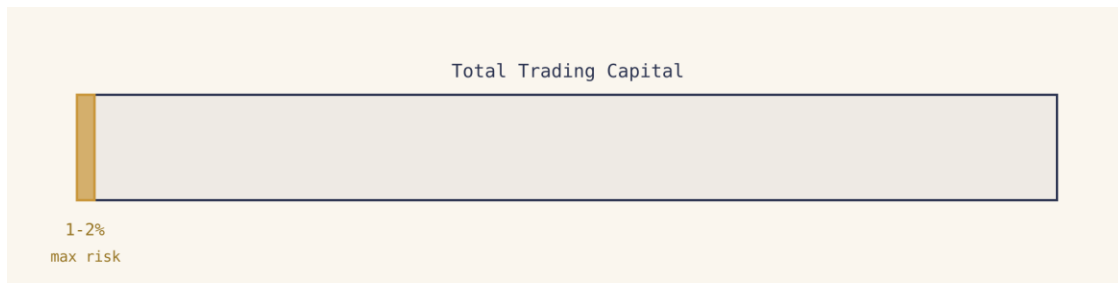
2. How to Actually Use This Guide (Before You Size Your Next Trade)

Position sizing is a calculation, not a feeling. Before opening any position, run it through three quick questions:

- **How much am I willing to lose on this specific trade?** A fixed rupee amount or percentage decided before entry, not after.
- **Where exactly is my stop-loss?** The sizing calculation depends entirely on this distance.
- **Does the resulting quantity still make sense?** If the math produces an unusually large or tiny position, double-check every number rather than rounding and moving on.

3. The 1-2% Rule

Percentage Model



Visualising it: a bar representing total trading capital, with only a thin 1-2% slice marked as the maximum risk on any single trade.

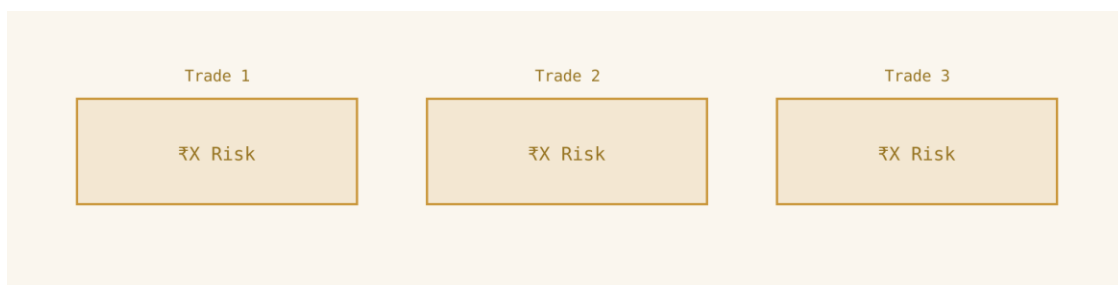
The 1-2% rule caps the amount of capital risked on any single trade to a small, fixed percentage of total trading capital: commonly 1% for a more conservative approach, or up to 2% for a slightly more aggressive one. If the trade is stopped out, the account loses only that small slice, keeping any single loss from meaningfully denting the overall capital base.

HOW TO READ IT

Because this model is based on a percentage of current capital, the actual rupee amount at risk automatically shrinks after a losing streak and grows after a winning one. The risk scales with the account itself.

4. The Fixed-Rupee Risk Model

Alternative Model



Visualising it: three consecutive trades, each risking the same fixed rupee amount regardless of recent results.

Instead of a percentage, some traders decide on a fixed rupee amount, say ₹2,000 per trade, and risk exactly that amount regardless of recent wins or losses, until they deliberately choose to revise it. This keeps the risk taken on any given trade predictable and easy to plan around.

HOW TO READ IT

Because this fixed amount doesn't automatically adjust, it needs to be manually revisited as capital grows or shrinks meaningfully. Otherwise the effective risk percentage can drift well away from the original intention over time.

5. The Core Position Sizing Formula

Formula

$$\text{Quantity} = \text{Risk Amount} \div (\text{Entry Price} - \text{Stop-Loss Price})$$

Risk Amount in ₹ · Entry and Stop-Loss in ₹ per unit

Whichever model decides the rupee amount to risk, the 1-2% rule or a fixed-rupee figure, this one formula converts that amount into an exact, tradeable quantity. It divides the total rupees willing to be risked by the per-unit distance between the entry price and the stop-loss price, giving a quantity that, if stopped out, loses exactly the intended risk amount and no more.

HOW TO READ IT

A wider stop-loss distance always produces a smaller position size for the same risk amount, and a tighter stop always produces a larger one. The formula automatically balances the two.

6. Worked Example: Sizing a Nifty Trade

Practical Example

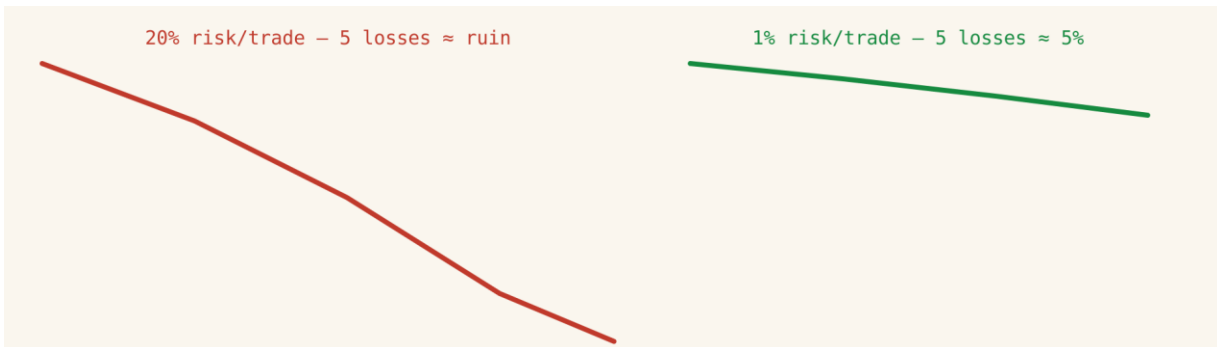
Step	Value
Total capital	₹2,00,000
Risk per trade (1%)	₹2,000
Entry price	₹24,500
Stop-loss price	₹24,450
Stop-loss distance	₹50 per unit
Quantity (₹2,000 ÷ ₹50)	40 units

HOW TO READ IT

If this position is stopped out, the loss comes to exactly ₹2,000, which is 1% of the ₹2,00,000 account, regardless of how many units were bought or sold, because the quantity was derived specifically to produce that outcome. For derivatives with a fixed lot size, the same rupee-risk figure is used to work out how many lots fit within it, rounding down where necessary.

7. Risk of Ruin

Why Oversized Bets Fail



Visualising it: at 20% risk per trade, five losses in a row is close to ruin; at 1% risk per trade, the same five losses cost about 5%.

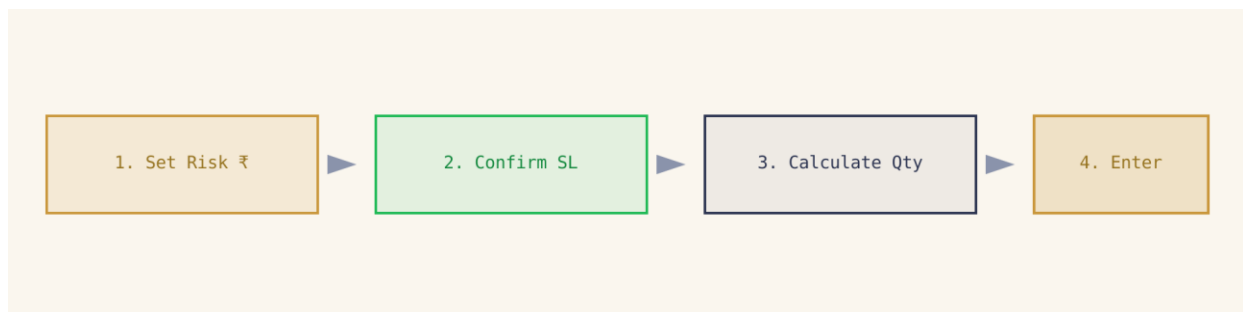
Losing streaks are a normal, expected part of trading, and even a genuinely profitable strategy will produce them. Risking a large percentage of capital per trade means a relatively short losing streak can be mathematically devastating: five consecutive losses at 20% risk per trade leaves very little capital remaining. The same five-trade losing streak at 1% risk per trade leaves the account only modestly smaller.

HOW TO READ IT

Position size determines how many consecutive losses an account can survive. It is a number worth calculating deliberately, rather than discovering by accident during an actual losing streak.

8. Building a Personal Position Sizing Checklist

Putting It Together



Visualising it: the four steps run before every trade: set the risk amount, confirm the stop-loss, calculate the quantity, then enter.

Turning the formula into a habit means running through the same four steps before every single trade: decide the rupee amount to risk, confirm exactly where the stop-loss sits, calculate the resulting quantity, and sanity-check that number before placing the order. Doing this consistently, even for trades that feel obvious, is what keeps position sizing a deliberate decision rather than an afterthought.

HOW TO TRADE IT

Keeping this calculation in a simple spreadsheet or a written trading journal, alongside the actual trade, makes it easy to review afterward whether the sizing discipline was actually followed.

9. Position Sizing for Futures and Options

The formula is the same, but lot sizes make it lumpy: you cannot buy half a lot. Always size from **risk**, never from the margin the broker asks for. Margin is the deposit to hold a position; risk is what you lose if your stop-loss is hit.

Futures example (illustrative numbers). Capital ₹5,00,000 and 1% risk gives ₹5,000. You plan a Nifty futures long at 25,000 with a stop at 24,900, so the risk is 100 points per unit. Assume a lot of 75 units (a hypothetical figure; NSE revises lot sizes, so check the current one). One lot risks $100 \times 75 = ₹7,500$, which is above your ₹5,000 limit. The honest answers are to skip the trade, trade a smaller contract, or use a defined-risk structure. Moving the stop closer just to fit the lot is not an answer unless the chart genuinely supports it.

Option buying example. A call costs ₹120 per unit and the lot is 75 units, so the full premium at risk is ₹9,000. If your plan is to exit at a 50% premium loss, the planned risk is ₹4,500, which fits inside ₹5,000. If you intend to hold to expiry with no exit rule, the risk is the full ₹9,000 and the trade does not fit the 1% rule.

Option sellers face a different problem: the loss is not capped by the premium, so size from the stop-loss or from the margin you can afford to lose.

When should you change your position size?

Recalculate your risk amount on a fixed schedule, such as the start of each week or month, using your current capital. Reduce size after a drawdown so one bad run cannot compound. Do not raise size because you just had a winning streak; that is how overconfidence enters the account.

10. Common Position Sizing Mistakes to Avoid

1. **Buying "round lots" without calculating risk:** Choosing a quantity because it feels convenient, rather than because it matches a deliberately chosen risk amount, removes any real control over potential loss.
2. **Sizing before setting the stop-loss:** The formula depends entirely on knowing the stop-loss distance first. Deciding quantity before that is set skips a required step.
3. **Increasing size after a losing streak to "catch up":** Enlarging risk per trade specifically to recover recent losses tends to accelerate further losses rather than reverse them.
4. **Forgetting to revise a fixed-rupee amount:** A fixed risk figure that made sense at a smaller account size can become far too large or far too small once capital has meaningfully changed.
5. **Widening the stop instead of reducing size:** Moving the stop-loss further away to "fit" a preferred quantity, rather than reducing quantity to fit the stop, quietly increases actual risk taken.
6. **Treating position sizing as optional on "high-conviction" trades:** A trade that feels unusually confident is exactly the situation where oversizing tends to happen. The formula should apply consistently, not selectively.

NEXT STEP

Calculating position size correctly is the foundation. Combining it with a full trading plan and journal is the next skill we build hands-on in our structured courses at Chart Code, offline in Boisar or live online anywhere in India.

11. Your Position Sizing Confirmation Checklist

Before placing any trade discussed in this guide, run through this five-point check:

- **Risk Amount Decided First** — Have you fixed the rupee amount (or percentage) you're willing to risk before looking at quantity?
- **Stop-Loss Confirmed** — Is the exact stop-loss price already decided, based on the chart, not chosen after the fact?
- **Quantity Calculated, Not Guessed** — Was the position size actually calculated using the formula, rather than rounded to a convenient number?
- **Result Sanity-Checked** — Does the resulting quantity look reasonable relative to total capital, rather than unusually large or small?
- **Consistent With Every Other Trade** — Is this the same sizing process you'd use on any other trade, regardless of how confident you feel about this one?

EDUCATIONAL CONTENT ONLY

Position sizing is risk management, not a promise of profit. SEBI's own studies of individual derivatives traders have found that a large majority lose money, which is why capping risk per trade matters. This guide is for learning and is not investment advice or a recommendation to buy or sell any security. Trading in shares, futures and options involves risk of loss. Check current lot sizes, margins and contract specifications from NSE India, and investor education from the SEBI Investor Website (investor.sebi.gov.in).

12. Quick Reference: Percentage vs Fixed-Rupee Model

Feature	1-2% rule	Fixed-rupee model
Risk amount	A percentage of current capital	A set rupee figure, e.g. ₹2,000
After a losing streak	Risk shrinks automatically	Stays the same until manually revised
After a winning streak	Risk grows automatically	Stays the same until manually revised
Best for	Traders who want risk to scale with the account	Traders who want a simple, predictable number to plan around

Key terms used here: Stop-Loss · Lot Size · Risk-Reward Ratio · Leverage.

13. Frequently Asked Questions

Should I increase my position size as my account grows?

Recalculate the risk amount from your current capital on a fixed schedule, for example monthly, so size grows slowly with the account. Cut size after a drawdown, and do not raise it just because of a winning streak.

What is position sizing in trading?

Position sizing is the discipline of deciding exactly how much capital to risk on any single trade, and calculating the exact quantity to buy or sell based on that risk amount and the distance to the stop-loss.

It answers the question "how much," separately from the question of "when" to enter.

What is the 1-2% rule in trading?

The 1-2% rule caps the amount of capital risked on any single trade to roughly 1% to 2% of total trading capital. If a trade is stopped out, the account loses only that small percentage, rather than a large chunk that would take a long stretch of winning trades to recover from.

How do I calculate position size from a stop-loss distance?

Divide the rupee amount you're willing to risk on the trade by the per-unit stop-loss distance (entry price minus stop-loss price, in rupees). The result is the quantity (number of shares, or lots for derivatives) that keeps your total risk equal to the amount you decided to risk.

Why does a high win rate not guarantee trading success?

A high win rate can still be wiped out by oversized position sizing. A trader winning 90% of trades but risking a large percentage of capital on each one can still be ruined by the rare losing streak, since a handful of oversized losses can erase many small wins. Position sizing determines whether an account can survive that streak.

Should position size be based on a percentage of capital or a fixed rupee amount?

Both approaches are used. A percentage-based model automatically scales risk down after losses and up after gains, compounding both growth and drawdowns. A fixed-rupee model keeps the risk amount constant regardless of recent performance, which some traders find easier to plan around, though it needs to be manually revised as capital changes meaningfully.

What is a good position size for a beginner trader?

Most beginners are guided toward risking about 1% of total trading capital per trade, following the 1-2% rule. That keeps any single stopped-out trade from meaningfully denting the account, while the trader is still learning.

What is risk of ruin in trading?

Risk of ruin is the mathematical chance that a losing streak wipes out an account, and it rises sharply as the percentage risked per trade increases. At a small risk per trade, even a long losing streak leaves most of the capital intact; at a large risk per trade, a handful of losses can be enough to end the account.

Does position sizing work the same way for futures and options?

The same formula applies, but for derivatives the risk amount is converted into a number of lots rather than shares, since futures and options trade in a fixed lot size. The quantity is rounded down to the nearest whole lot that fits within the risk amount.

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