RISK Control and MONEY Management Money management is like sex: Everyone does it,one way or another, but not many like to talk about it and some do it better than others.But there's a big difference: Sex sites on the Web proliferate, while sites devoted to the art and science of money management are somewhat difficult to find. There are many, many financial sites on the Web that let you track a portfolio of stocks on a glorified watch list. You enter in your open positions and you get a snapshot, or better yet a live, real-time update, of the status of your stocks based on the site's most recently available prices. Some sites, like Fidelity's,provide tools that tell you how your portfolio is allocated among various asset classes such as stocks, mutual funds, bonds and cash. While such sites get at the idea of money or portfolio management, the overwhelming majority fail to provide the tools required to answer the central question of money management: "When I make a trade, how much do I trade?" (Try and find the topic of money management on the Motley Fool site.) We'll discuss how to measure and manage trade risk and where to find the tools to help do it in a responsible and profitable manner. The key underlying concept is to limit how much money you are willing to let the market extract from your wallet when you make losing trades.When any trader makes a decision to buy or sell (short), they must also decide at that time how many shares or contracts to buy or sell — the order form on every brokerage page has a blank spot where the size of the order is specified. The essence of risk management is mak ing a logical

decision about how much to buy or sell when you fill in this blank. This decision determines the risk of the trade. Accept too much risk and you increase the odds that you will go bust; take too little risk and you will not be rewarded in sufficient quantity to beat the transaction costs and the overhead of your efforts. Good money management practice is about finding the sweet spot between these undesirable extremes. Figure 1 (below) shows the relationship between the long-term result of a series of trades and the amount of risk taken on a per-trade basis. If you risk too little on each trade,shown by the under trading zone, the returns will be too low to overcome transaction costs, small losses and overhead (quote feeds, electricity, rent, subscription to Active Trader magazine, etc.) and trading will be a losing proposition. Risk more and the returns will increase , but note that the potential d r a w d o w n (account losses you will need to endure to get the return — another cost of doing business) always increases as you incre a s e the per-trade risk. Returns continue to i n crease moving into the over trading zone. can be extremely high, and the margin of safety for dealing with unexpectedly high losing trades is very low. In other word s ,y o u ’ re getting into territory where one huge loser can blow you out. The best place to live on this curve is the spot where you can deal with the emotional aspect of equity drawdown required to get the maximum return. How much heat can you stand?
Money management is a thermostat — a control system for risk that keeps your trading within the comfort zone. It’s surprising that even

many active traders and investors have no idea what money management is about. They generally entertain a fuzzy notion that it has to do with setting stops, and that discipline is involved to make sure you execute the stops when they are hit, but speculative, maniacal extended leg of the bull market fueled by the dot.com land rush since 1997. This type of market — where making money consists of taking a ride on the back of the bull trend and buying the dips — tends to turn the merely bold (and possibly reckless)
into market geniuses. The perceived risk in stock market investing has been very low, so the need to manage that risk has not been a pressing concern. Why worry when it will always come back and you can make a killing if you buy more? More important to success than managing risk was the ability to charm your broker into getting you into the latest IPO allocation. **To read More,Please download the book. BY GIBBONS BURKE** Download This Book