Position-sizing Effects on Trader Performance : An experimental analysis Non-academic literature on stock and futures trading emphasizes the importance of “money management”, here defined as "how much of available capital is to be allocated in a specific market position", also called position size. The effect of position size was experimentally studied by letting two groups trade fictitious capital through a series of trades, with only one variable available for manipulation by the participants, that is, how much of available capital to be put at risk in each and every trade. The treatment group had received a three-hour lecture in position sizing, risk management, and psychological biases, whereas the control group did not. The results showed that participants in the treatment group lost all their money to a lesser extent ($p < .01$) than those in the control group. However, the treatment group did not gain significantly higher profits than the control group. Traders being able to gain money over the long run were taking smaller positions than losing and bankrupt traders were ($p < .0001$). By receiving a theoretical education, without any practical training, the risk for a trader of going bankrupt when trading simulated stocks was decreased to a tenth. Buying and selling stocks and derivatives have increased enormously over the last decade. An occupation, earlier restricted to a few well-situated capital owners, has now become almost a national movement, involving a majority of the Swedes. There are reports estimating 80% of the Swedes, 16 years of age and above, to be shareholders, directly in the markets or indirectly by pension funds (Modig, 2001). The stock market is a popular subject of discussion at work, at home, and in the tabloids. Media are reporting of people gaining huge amounts in the markets, but also giving hindsight descriptions of how one could have made millions, or more recently, how much capital that was lost in the latest decline. During the last quarter of 1999 and first quarter of 2000, when stock market indices around the Western world soared to new highs, there seemed to be one question on everyone’s mind; what stock should I buy to get the best profit? However, since March 2000, during the decline, the focus has somewhat changed to how one should avoid getting ruined. Why do some people succeed in the markets, while others are going bankrupt? Some possible clues can be found when reviewing the psychological research that has been made within the domain of behavioral finance. When participants of the markets are studied in real life, they seem to present a number of shortcomings, one of them can be characterized as overconfidence (Scott, Stumpp & Xu, 1999).Camerer and Lovallo (1999) found that overconfidence presented by business managers leads to excessive business entry. When the results were based on the participants' abilities, individuals tended to overestimate their relative success and enter more frequently. This was not because of irrational information processing or neglecting the competition they were up against. They were just overconfident about their relative skill. Studies made by Kahneman and Tversky (1973) show that humans have a tendency to overestimate the probability of one’s forecasts. Among other reasons, such as a prolonged bull-market, huge financial resources and numerous media reports of rising markets and big gains, an overconfidence effect could be a contributing factor to the great 4 number of “new” and inexperienced investors entering the stock and derivatives markets. **Author Johan Ginyard To read More,Please download the book.** Download This Book