**Money Management Strategies for Serious Traders T**raders can typically describe the methods they use to initiate and liquidate trades. However,when forced to describe a methodology for the amount of capital to risk when trading, few traders have a concrete answer. Some make vague references to experts that recommended risking one or two percent of portfolio equity on any trade. Others rely on intuition to determine when to increase position size on a particular trade, always risking different amounts. Experienced traders learn that as important as it is to have an effective method to determine when to trade, it is equally important to develop a methodology to determine how much to risk. A trader that risks too much; increases the chance that they will not survive long enough to realize the long run benefits of a valid trading strategy. However, risking to little creates the possibility that a trading methodology may not realize its' full potential. Therefore, while a positive expectation may be a minimal requirement to trade successfully, the way in which you exploit that positive expectation will in large part determine your success as a trader. This is, in fact, one of the greatest challenges for traders. At RINA Systems, we have had the fortune of working with many experienced traders, and in that process we became increasingly aware of the need for sound methods for applying money management strategies. In fact, it seems that as traders reach a certain level of comfort with a system they begin to realize that a sound money management approach is missing from their trading strategy. Our work in this area has led us to research several strategies for determining position size and ways in which to add to, decrease, and stop out positions. Many of these strategies are well known and readily available in the public domain and others are hybrids that we have built from improving concepts already available. Once you understand the importance of money management, the opportunity to modify many of the well-known strategies to meet your needs is endless. It is our belief that there is really no “black box” formula for money management. That is,different trading strategies and systems require different approaches to money management. In addition, we must always consider the trader’s ability to implement a money management strategy given their tolerance for risk and other psychological factors. For example, several strategies that emphasize optimizing the amount of capital to invest often deliver substantial draw downs. Few traders are comfortable suffering through a draw down of fifty, sixty, or seventy percent, which is not unheard of for some aggressive strategies. Therefore, it is essential to match the theoretical drawdown with the traders risk tolerance. Finally, and not insignificant, is that a trader’s capitalization may effect their ability to execute a strategy. Even in cases where it might be preferable for a system to utilize a money management strategy, an under capitalized trader may be unable to implement the strategy due to lack of funds. In this situation the trader would be unable to derive the potential benefits of the strategy. Therefore, apart from the effectiveness of a particular strategy on a given trading methodology, there are two important variables: the psychological preferences of the trader and their level of capitalization. If either of these two factors do not support the money management strategy employed, then it is unlikely the trader will be able to use the strategy effectively. Though seemingly insignificant, this point cannot be overemphasized because as many strategies are developed over large histories of data (in many cases 10 or 20 years of data). The trader needs to have the confidence to remain with the strategy even if positive results do not come immediately. We believe that you will benefit from the strategies presented in this workshop. In addition, we hope we will create a greater awareness to evaluate what type of money management system you are using. Hopefully, we will spur your imagination when thinking about ways in which to use money management. We find that many traders focus too much of their creativity on their trading logic. They would be well advised to devote some attention to determine position size if they are going to take full advantage of their trading methodology. It should be noted that all traders are using some form of money management. Some, though,are not conscious of what type of strategy or method they are using and simply trade by the seat of their pants. Other traders use thoroughly tested strategies to determine position size as well as when to add or liquidate positions which are consistent with their risk tolerance. It is our hope that you will find yourself among the latter group. **To read more,Please download the book.** **By David C. Stendahl** Download This Book