Trading in practise

a hands-on session

Teams

1. Quickly form into teams:-
   - of 3 or 4 people
   - in the seats where you are
   - (turn round and say hello to your team members).
2. Preferably also have:
   - ***Trading Work Sheet*** (or a piece of paper),
   - Pen (or pencil),
   - A calculator might be handy.

When trading shares:-

How to:

- Minimise our risk?
  (so we can sleep at night)
- Set the ***Stop Loss*** price level?
- Estimate our ***Price Target***?
- Calculate the ***Position Size***?

So, how do we do all this?

The “paper work”...

Trading in Practise

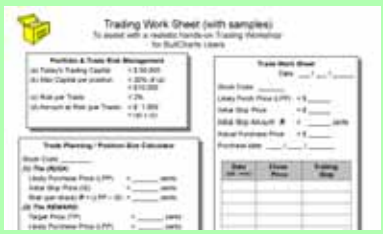
Session Purpose:

- To consider a realistic trading example using historical price data.
- To compare opinions, experiences, and understand how other people do it.
- Consider:
  - position size calculation,
  - initial stop loss,
  - trailing stop loss.

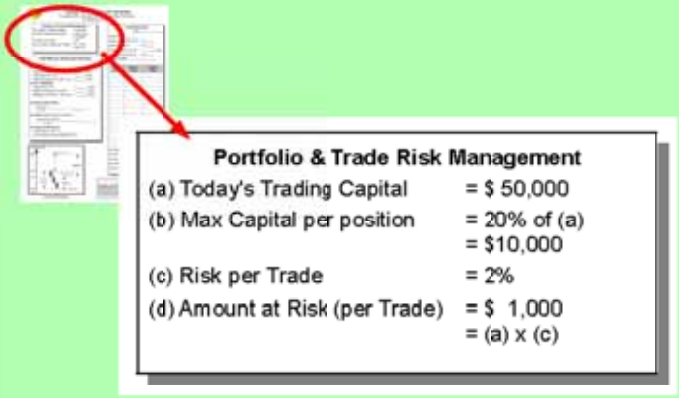
The Trading Worksheet

This one has several elements:

- Portfolio & Trade Risk Management
- Trade Planning / Position Size Calculator
- Pictorial Diagram
- Trade Work Sheet



Portfolio & Trade Risk Mgt

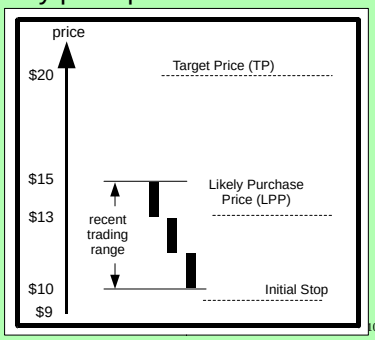


Portfolio & Trade Risk Management

(a) Today's Trading Capital	= $ 50,000
(b) Max Capital per position	= 20% of (a) = $10,000
(c) Risk per Trade	= 2%
(d) Amount at Risk (per Trade)	= $ 1,000 = (a) x (c)

Diagram explanation

1) Determine three key price points:
   - Target price = $20
   - Likely purchase (or entry) price = $13
   - Initial stop = $9.50



10

Position Size Calculator

Detail on next slide

Trade Planning / Position Size Calculator

Stock Code: _____

(1) The (R)ISK:
- Likely Purchase Price (LPP) = _____ cents
- Initial Stop Price (IS) = _____ cents
- Risk (per share) ***R*** = (LPP – IS) = _____ cents

(2) The REWARD:
- Target Price (TP) = _____ cents
- Likely Purchase Price (LPP) = _____ cents
- ***Reward*** (per share) = (TP–LPP) = _____ cents

(3) Reward:Risk Ratio

$\frac{Reward}{(R)isk}$ = _____ = _____

(4) Parcel size (number of shares)

$\frac{Amount\ at\ risk\ (\$)}{R(isk)}$ = _____ = _____

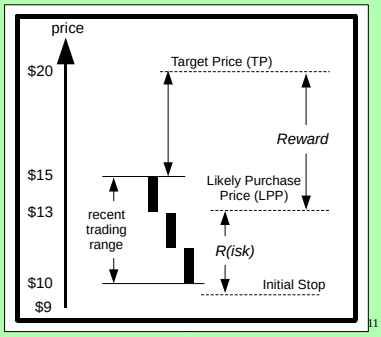
(5) Value of this parcel

Parcel Size x LPP = $ _____

Q: Is this parcel value less than (b) ?

Diagram explanation

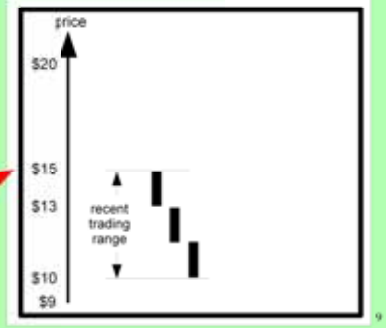
2) Calculate:
   - Reward amount
   - Risk amount
3) Calculate:
   - Reward/Risk Ratio
4) Ideally:
   - greater than 2



11

Diagram explanation

- Recent trading range $10-$15
- Anticipate a rising trend.



9

Diagram explanation

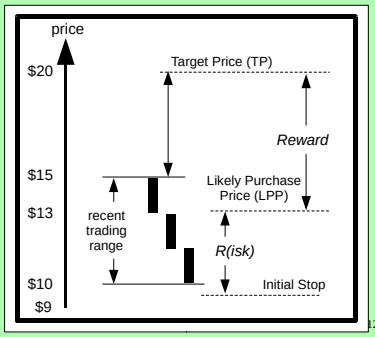
Reward/Risk Ratio

= $7 / $3.50

= 2

The greater the reward, the better the ratio.

Great if 3, 4 or 5+



12

Trade Work Sheet

Can enter the details onto the Work Sheet

The planning steps

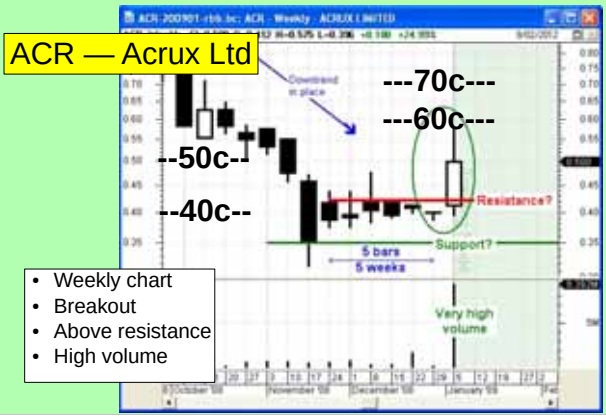
Our system says --> "GO!"
We have decided to take the trade, and we will do the following in the next slides:

1. Estimate likely entry (purchase) price
2. Set Initial Stop Loss position
3. Calculate the **RISK**
4. Estimate Target Price
5. Calculate the possible **REWARD**
6. Calculate the REWARD / RISK ratio.

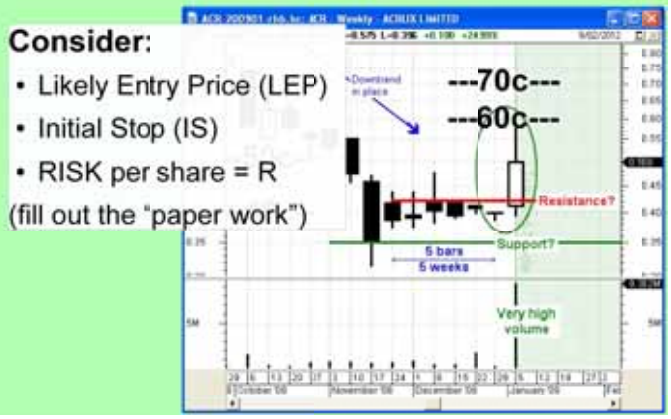
Case Study Exercise #1

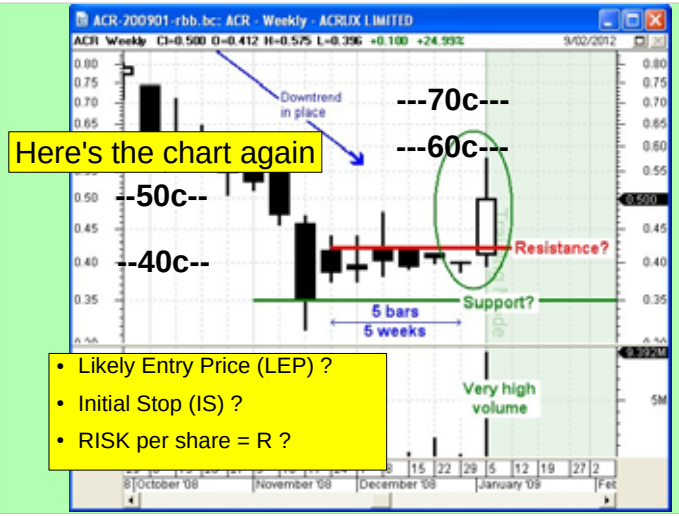
The bigger picture

Let's take this trade!



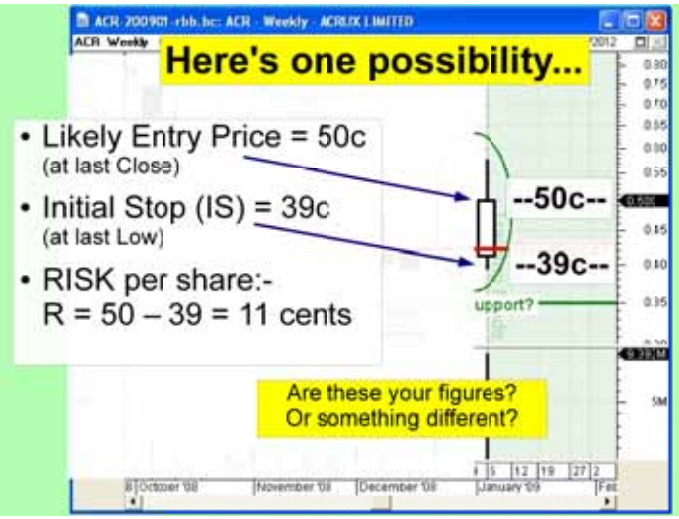
Determine your RISK

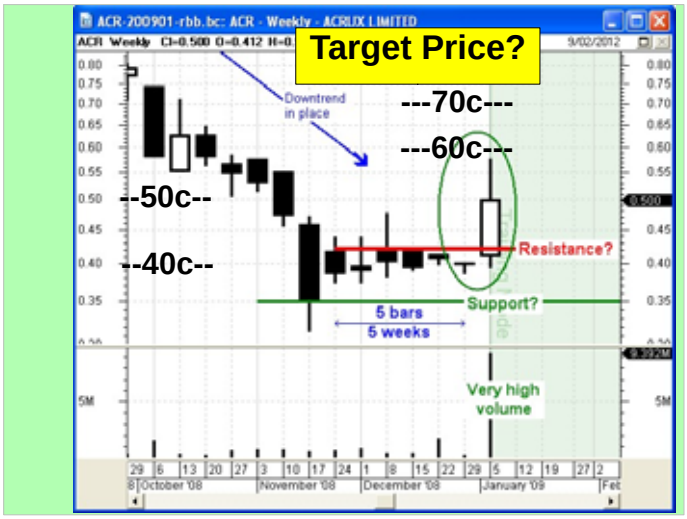




Target Price?

What is
your estimate for
the **Target Price**?
(see chart on next slide)





Target Price?

Note down your
Risk amount
(cents per share)

The bigger picture

More paper work...

Estimate your REWARD:

- Target Price (TP) = ?
- Likely Entry Price (LEP) = ?

REWARD per share
= [Target Price] — [Likely Entry Price]

Note down your REWARD amount...
(cents per share)

Value of this parcel

The Parcel Size x LEP = $ _____

QUESTION:

Is this parcel value less than item (b)??

Reward to Risk Ratio

Calculate your:

$$\frac{\text{Reward}}{\text{Risk}}$$

Trade Work Sheet

- If we place the trade,
  note the Actual Entry Price.
- Complete the details at the top of the
  Trade Worksheet.
- Now let's go forward a week or two....

Position Size

Position size (the number of shares to buy):

$$\frac{\text{Total amount at risk}}{\text{[R]isk per share}}$$

Total amount at risk in this study
= 2% of $50,000 = $1,000

(now view the charts ....)

That's all for now

That's all the price action
we have for now.

Conclusion & Wrap UP

- Where did you end up?
- Was your Stop hit?

- Conclusions?
- Comments?