How Big Should Your Position Be?

One formula that decides how much a mistake costs: risk dollars divided by the distance to your stop.

Time
30 min

You need
Lessons 11, 12 and 19 + a calculator

Data
SPY daily, 2025–2026

Not financial advice. Examples are past data, shown to teach how to read a chart.

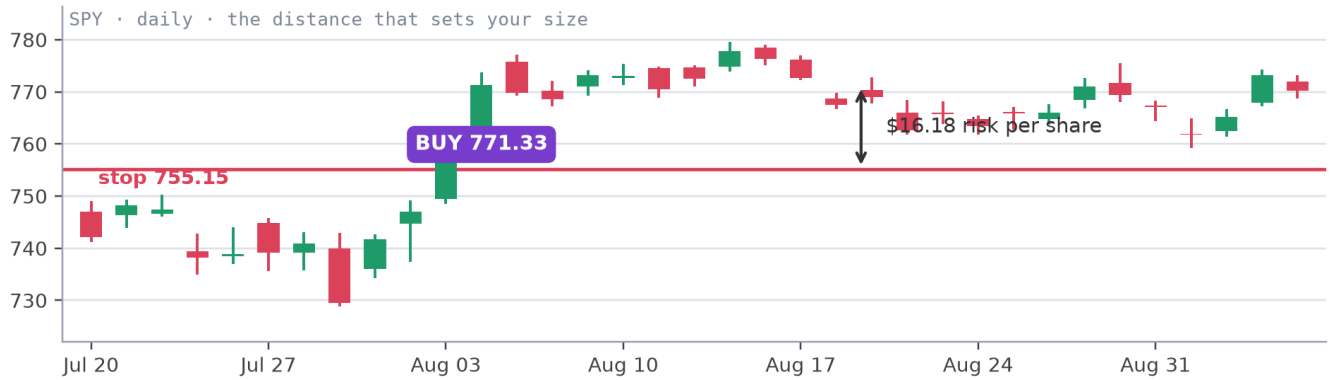
WHAT YOU WILL BE ABLE TO DO

Know the size before you know the entry.

1. **Calculate a position size** from three numbers: your account, the % you risk, and the stop distance.
2. **Explain why 1% survives and 10% does not,** with the arithmetic of losing streaks.
3. **Spot the leverage trap** using the worst days SPY actually had this year.

Shares = (account × risk %) ÷ (entry − stop)

Worked example — Aug 04 2026 breakout



STEP	CALCULATION	RESULT
1 · Risk dollars	$10,000 account × 1%	`$100.00`
2 · Risk per share	771.33 entry − 755.15 stop	`$16.18`
3 · Shares	$100 ÷ $16.18	`6.18`
4 · Position	6.18 × 771.33	`$4,767 (48% of the account)`
5 · If the stop is hit	6.18 × $16.18	`-$100.00 = -1.0%`

The entry price does not appear until step 2. **Size is decided by the stop, not by the entry.** You can be wrong, stopped out, and lose exactly what you planned.

CONCEPT 1 · THE ARITHMETIC OF BEING WRONG

Ten losses in a row is boring at 1% and fatal at 25%.

RISK PER TRADE	LOST AFTER 5 LOSSES	…AFTER 10	…AFTER 20	GAIN NEEDED TO RECOVER FROM 10
1%	4.9%	9.6%	18.2%	11%
2%	9.6%	18.3%	33.2%	22%
5%	22.6%	40.1%	64.2%	67%
10%	41.0%	65.1%	87.8%	187%
25%	76.3%	94.4%	99.7%	1676%

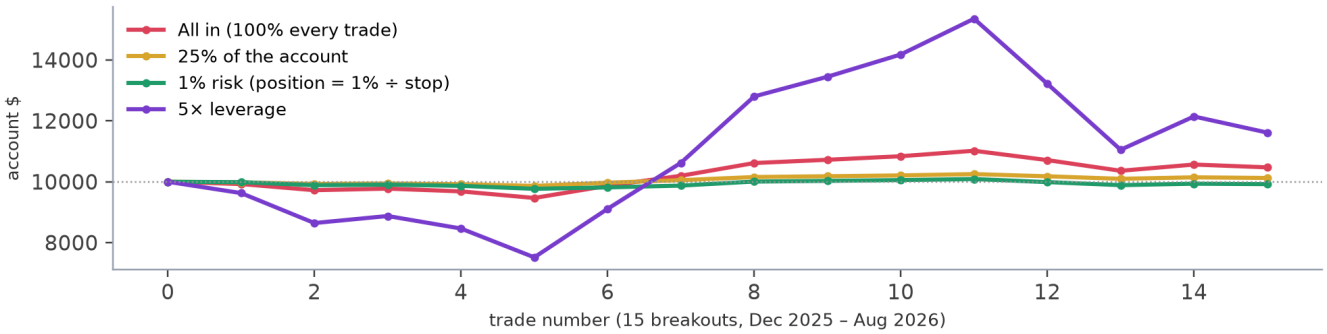
Losses compound the wrong way: lose 50% and you need +100% to get back; lose 90% and you need +900%. At 1% risk even twenty straight losses leaves 82% of the account. At 10% risk, ten leaves 35%.

7 of 15
breakouts this year lost money over 10 sessions

2
longest run of losers in that sequence

4
hit the stop (planned -1R)

What Lesson 12's breakouts would have done to an account



SIZING METHOD	ENDING $	MAX DRAWDOWN	WORST SINGLE TRADE
All in (100% every trade)	$10,473	6.0%	-$351
25% of the account	$10,124	1.5%	-$83
1% risk (position = 1% ÷ stop)	$9,922	2.3%	-$101
5× leverage	$11,615	28.0%	-$2,166

Stops: below the 10-day low − ¼ ATR, exit at the stop or on day 10, no costs. **Honestly:** in this mild year all-in and leveraged made more, with far larger drawdowns. Sizing does not make a weak system strong; it decides how much of a bad stretch you survive — and March (−9%) is when it matters.

CONCEPT 2 · THREE TRADES, THREE SIZES

The wider the stop, the smaller the position — same dollars at risk.

TRADE ($10,000, 1% RISK)	ENTRY	STOP	DISTANCE	SHARES	POSITION	LOSS IF STOPPED
Supertrend flip Apr 08 (Lesson 11)	676.01	639.81	5.4%	2.76	$1,868	$100
Breakout Aug 04 (Lesson 12)	771.33	755.15	2.1%	6.18	$4,767	$100
Breakout Dec 11 (Lesson 12) · tight stop	689.17	685.70	0.5%	14.51	$10,000 (cap)	$50

The Supertrend flip had the widest stop (5.4%), so the position is only $1,868. The Dec 11 breakout had a stop just 0.5% away, which would call for $19,878 — more than the whole account. That is the **cap**: a position can never be larger than your cash (unless you borrow). With the cap you risk only $50, not $100. A stop that tight is usually inside daily noise (Lesson 19) — the formula is telling you the trade is not worth taking.

The same Aug 04 trade for four different accounts

ACCOUNT	RISK %	RISK $	SHARES	POSITION
$2,000	2%	$40	2.5	$1,907
$10,000	1%	$100	6.2	$4,767
$25,000	0.5%	$125	7.7	$5,958
$100,000	0.5%	$500	30.9	$23,833

Small accounts

A $2,000 account risking 2% risks $40 and can afford only 2.5 shares of SPY. Fractional shares or a cheaper instrument may be the only way to size correctly.

Bigger accounts

Risk % falls as the account grows: 0.5% of $100,000 is $500, a larger dollar loss than 1% of $10,000 but a smaller blow to the account.

CONCEPT 3 · THE LEVERAGE TRAP

Leverage does not change the formula. It changes how close the edge is.

Margin lets you hold a position larger than your cash. The formula still holds, but a stop that is hit now costs a multiple of your risk — and many brokers close you out long before your stop if the account falls too far. Here is what SPY's **worst moves this year** (from the previous close to the lowest low) would have done to the account at each leverage, if you were fully invested:

LEVERAGE	ACCOUNT WIPED AT A SPY DROP OF	WORST 1 DAY (-2.8%)	WORST 5 DAYS (-4.9%)	WORST 20 DAYS (-8.3%)
1×	-100%	-3%	-5%	-8%
2×	-50%	-6%	-10%	-17%
5×	-20%	-14%	-24%	-42%
10×	-10%	-28%	-49%	-83%
20×	-5%	-57%	-97%	wiped out

At 10× the worst 20-day stretch (-8.3%) is 83% of the account; at 20×, the worst single day (−2.8%) is 57% — and brokers do not wait. Remember what this is: one calm index in one year. Worse happens, and it happens faster than you can click.

> **Leverage is not extra size on the same risk — it is a smaller stop room.** If a 5× position leaves a 2% stop distance, you are risking 10% of the account on one idea. The rule from page 1 still applies: risk dollars first, then size; if the size needs leverage you do not have, the stop is too tight or the idea is too small.

Rule: risk 1% (0.5% on bigger accounts) · shares = risk $ ÷ (entry − stop) · never above 100% of the account · never move the stop to fit the size.

FOUR WAYS BEGINNERS LOSE WITH POSITION SIZE

Common mistakes

1. **Sizing by feeling.** "About $5,000 feels right." With a 2.1% stop that is a $105 risk; with a 6% stop it is $300. The feeling does not know the stop.
2. **Raising size after a loss.** The urge after a loss is to size up to win it back. Ten losses at 5% risk leave 60% of the account; at 10% they leave 35% (page 2). Size comes from the rule, not from the last trade.
3. **Averaging down.** Adding to a loser while the stop is unchanged multiplies your risk past the plan. A second entry needs a second, smaller risk budget.
4. **Forgetting that costs are real.** Commissions, spreads and slippage come off every trade. With a 0.5% stop they are a large share of your risk; another reason not to trade tight stops.

Before you enter — tick all five

- [ ] Risk % of the account is written down (1%, or 0.5% for a big account).
- [ ] Stop price is decided by the idea (Lesson 19), not by the size I want.
- [ ] Shares = risk $ ÷ (entry − stop). I calculated it; the position is ≤ 100% of cash.
- [ ] I know the dollar loss if the stop is hit, and I accept it before entering.
- [ ] Total open risk across all trades is ≤ 3–5% of the account.

Your sizing log — three trades

SYMBOL · DATE	ACCOUNT	ENTRY	STOP	SHARES	POSITION	$ AT RISK

DRILL · 10 MINUTES · NO PEEKING

Three trades. Do the five-step calculation.

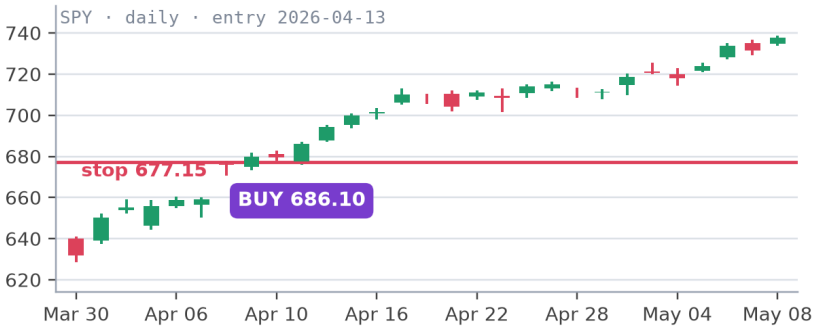


Chart 1 · Account **$10,000**, risk **1%**. Entry and stop are on the chart. Risk $? Risk per share? Shares? Position $ and % of account? Capped?



Chart 2 · Account **$5,000**, risk **2%**. Entry and stop are on the chart. Risk $? Risk per share? Shares? Position $ and % of account? Capped?

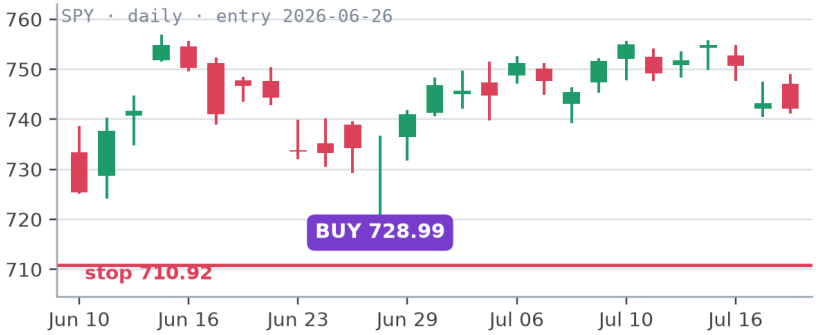


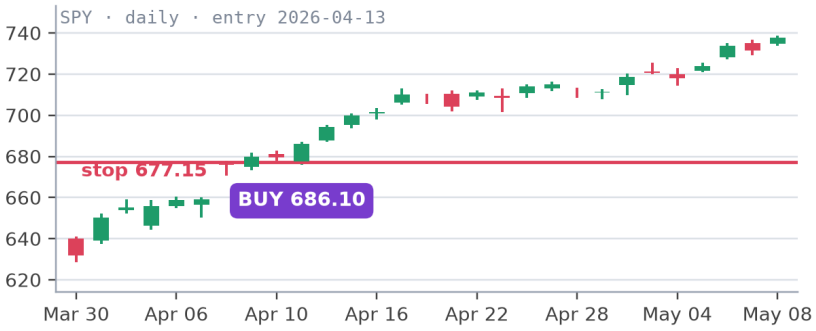
Chart 3 · Account **$25,000**, risk **0.5%**. Entry and stop are on the chart. Risk $? Risk per share? Shares? Position $ and % of account? Capped?

Then on TradingView

Use the **Long position** tool on a recent swing trade in **SPY**. Read the risk/reward box, then check it against your own formula. Log the trade in fillscope.com with its planned stop and initial risk filled in; the Risk Engine section works from those fields.

ANSWER KEY

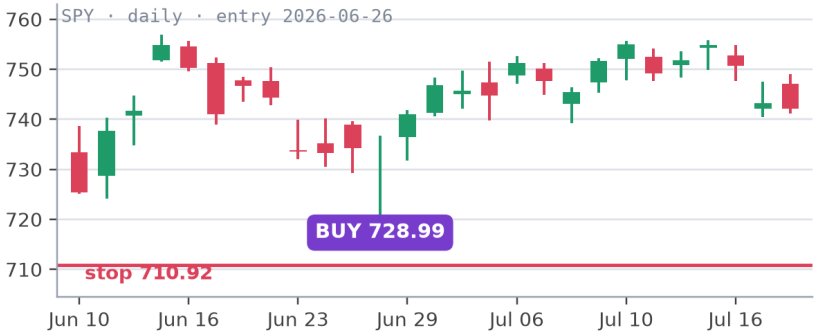
The five-step answers



$10,000 at 1%: risk $100. Risk per share $8.95 (1.3%). Shares 11.17. Position $7,663 = 77% of the account. Stop hit → −$100.



$5,000 at 2%: risk $100. Risk per share $12.55 (1.7%). Shares 6.81. Position $5,000 = 100% of the account (capped). Stop hit → −$86.



$25,000 at 0.5%: risk $125. Risk per share $18.07 (2.5%). Shares 6.92. Position $5,043 = 20% of the account. Stop hit → −$125.

Journal template (copy into fillscope.com)

DATE	SYMBOL	ACCOUNT · RISK %	RISK $	RISK/SHARE	SHARES	POSITION $

Next: Lesson 21 — Risk management basics Risk/reward, expected value, and what a losing streak looks like in numbers.

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