

## Money Management Calculation

In trading, Money Management is EVERYTHING.

The following are some money management rules that we use:

1. We risk a maximum of 10% of our Total Capital on any one trade
2. Inside this one trade, we have a maximum stop loss of 20%
3. As such, we risk a maximum of 2% of our Total Capital on any one trade.
4. At any one time, we will only have 4 open positions at any one time.

### Example 1:

Total Portfolio = \$10,000  
Maximum Amount per trade = \$1,000 (10% x \$10,000)  
Maximum Stop Loss = \$200 (20% x \$1,000)  
Maximum Risk on Total Capital = 2% (\$200 / \$10,000 = 2%).  
No. of Trade we will open at any one time = 1 (follow Kickoff Plan)

### Example 2:

Let's say our total portfolio is \$10,000. Our trading system tells us that AAPL is about to move up. Ssay AAPL is at \$100. We now have 2 choices:

1. buy AAPL 90 Call Option is trading at \$10, or
2. buy AAPL 100 Call Option is trading at \$ 6

Let us examine our 2 choices in more detail.

#### Choice 1: What if we buy = AAPL 90 Call that is trading at \$10

Total Portfolio = \$10,000  
Maximum Amount per trade = \$1,000 (10% x \$10,000)  
Maximum Stop Loss = \$200 (20% x \$1,000)  
Maximum Risk on Total Capital = 2% (\$200 / \$10,000 = 2%).

Buy AAPL 90 Call Options at price = \$ 10  
No of AAPL 90 Call Options = 1 contract (\$10 x 100 = \$1000 <= \$1,000)  
Maximum Stop Loss = \$200  
Maximum Stop Loss (Option Price)= \$2 (\$200/100 = \$2)  
Stop Loss Price on AAPL 90 Calls = \$ 8 (\$10 - \$2)

This means:

- We can buy 1 contract of AAPL 90 Calls Options at \$10
- We will exit this contract if the price of AAPL 90 Call Options drops to \$8
- Our maximum risk for this trade is \$200.

**Choice 2: What if we buy = AAPL 100 Call that is trading at \$6**

Total Portfolio = \$10,000

Maximum Amount per trade = \$1,000 (10% x \$10,000)

Maximum Stop Loss = \$200 (20% x \$1,000)

Maximum Risk on Total Capital = 2% (\$200 / \$10,000 = 2%).

Buy AAPL 100 Call Options at price = \$ 6

No of AAPL 100 Call Options = 1 contract (\$6 x 100 = \$600 <= \$1,000)

Maximum Stop Loss = \$120 (20% x \$600)

Maximum Stop Loss (Option Price) = \$1.20 (\$120/100 = \$1.20)

Stop Loss Price on AAPL 100 Calls = \$ 4.80 (\$6 - \$1.20)

This means:

- We can buy 1 contract of AAPL 100 Calls Options at \$ 6
- We will exit this contract if the price of AAPL 100 Call Options drops to \$4.80
- Our maximum risk for this trade is \$120