INSTITUT FÜR HÖHERE STUDIEN INSTITUTE FOR ADVANCED STUDIES

ÖKONOMETRISCHES FORSCHUNGSSEMINAR ECONOMETRIC RESEARCH SEMINAR

(M. Deistler, W. Polasek)

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BRAIN Trading System: On the Importance of Position Sizing, Predefined Risk, and a Logical Exit Strategy in Portfolio Management

ABSTRACT

The main areas of how to trade portfolios that are traditionally discussed extensively are price forecasting and what and when to buy.
The most overlooked part of trading is that the approach of reacting to price action is far superior to reacting to fundamental news, market rumors, anecdotes or advice.
Historical backtesting of Mechanical Trading Systems has inherent advantages. It assists portfolio managers in determining an optimal position sizing* method (how much of your trading capital to bet on a single trade), evaluating risk quantification tools (loss of capital is predetermined prior to the trade), and exit strategies ("Should I stay or should I go?"). Several Portfolio Management examples will be demonstrated with the BRAIN Trading System, results of a position sizing game will be analysed and discussed.

* Position sizing is also called money management, asset allocation, portfolio heat, portfolio allocation, cash flow management, trade management, capital management, position management, size management, bet size selection, lot size selection, or even risk control, equity control, and damage control.

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