IQIC - Portfolio Construction

#9: Position Sizing

What is Position Sizing?

Position sizing determines how much of your portfolio goes into each investment.

Weight = [Position Value / Total Portfolio Value] * 100

Example:

$1,200 position / $10,000 portfolio = **12% weight**

The investment represents **12% of the portfolio.**

Why Position Size Matters

Same return, different portfolio impact

Suppose Stock A falls 20%.

Portfolio 1:
10% invested in Stock A → Portfolio impact = -2%

Portfolio 2:
50% invested in Stock A → Portfolio impact = -10%

Simple relationship: Position weight * Investment Return = Portfolio Contribution

Larger positions amplify both gains and losses.

Equal vs. Unequal Weighting

Equal Weighting: Each investment receives same allocation

E.g. 10 stocks → 10% each

Unequal Weighting: Investment receives different allocation

E.g. 30% / 25% / 20% / 15% / 10%

Weights may reflect:

- Strategy Signals
- Risk
- Conviction
- Volatility

Make Position Sizing Systematic

Quantitative strategies often use predefined rules for position sizes

Examples:

- **Equal Weight:** 10% per investment
- **Maximum position:** No investment above 20%
- **Signal-based:** Stronger signals receive larger weights
- **Risk-based:** Riskier investments receive smaller weights

Before trading, ask: **How will our strategy determine how much capital goes into each investment?**

Additional Resources

1. **Fidelity - Techniques for Managing Positions: Article Link**
   a. An article exploring position size, concentration, and ways investors can manage portfolio risk
2. **Fidelity - What should be the size of my position?: Slideshow Link**
   a. A short educational slide resource showing how position size can be calculated from portfolio size and acceptable risk