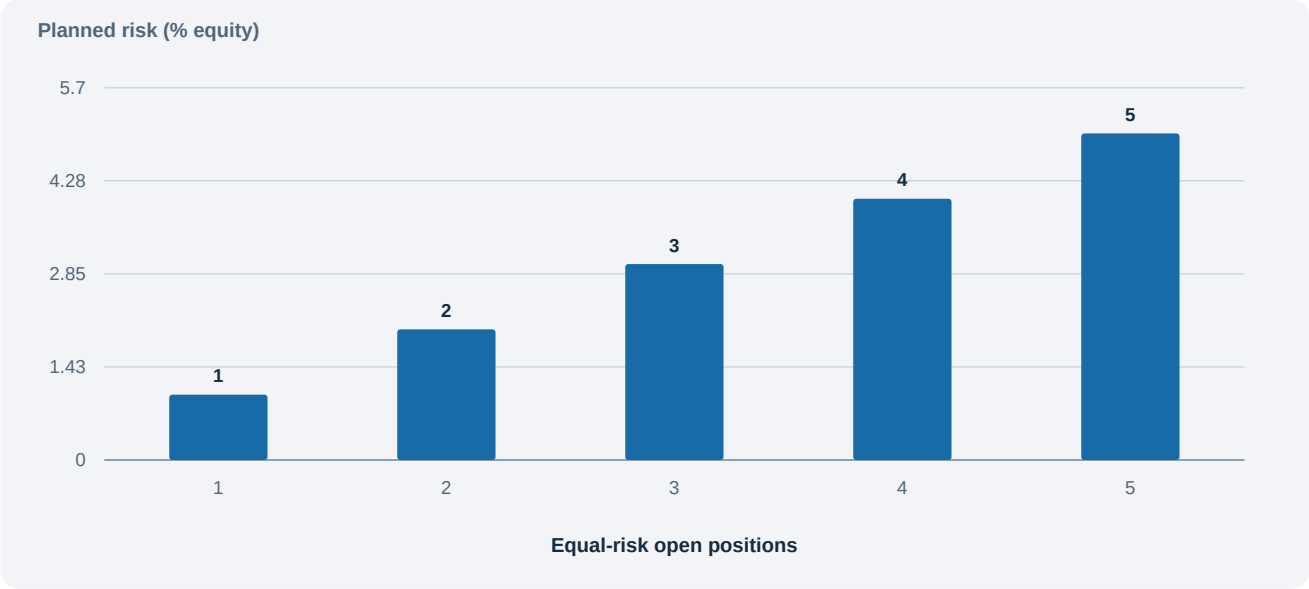
Adding planned open risk

Risk and sizing | Original synthetic example | Edition 2026-11-26

Portfolio heat is the sum of planned losses across open positions divided by account equity. This simple total does not capture co-movement or gap losses.

FORMULA Heat = sum(planned position losses) / equity

SCENARIO 01: Each position risks 250; equity 25000



WORKED EXAMPLE

Three positions sum to 750 planned loss, or 3% of 25000. Correlation is not modeled.

COMMON MISTAKE

Adding expected profits to offset open loss budgets hides the losses that may occur together.

BEFORE YOU USE THE CALCULATION

1. Use one equity denominator.
2. Include every open position.
3. Run a simultaneous-loss stress case.

COMPARE TWO MORE INPUT SETS

Scenario 05: Each position risks 1000; equity 65000. Three positions sum to 3000 planned loss, or 4.62% of 65000. Correlation is not modeled.

Scenario 10: Each position risks 5000; equity 115000. Three positions sum to 15000 planned loss, or 13.04% of 115000. Correlation is not modeled.

Synthetic values are not historical market data. Educational material; trading can result in substantial losses.