Position Sizing & Risk Budgeting

PRO PRACTICE WORKSHEET

Work through these by hand or with a spreadsheet. There's no wrong answer, the goal is just practice.

Section 1 - Size a 2-Asset Book by Risk

You have $200,000 to split between an asset with 8% volatility and one with 24% volatility. Using the lesson's formula, calculate the risk-budgeted dollar size for each.

Section 2 - Compare to Equal-Dollar Sizing

Using the same two assets, what would equal-dollar sizing look like instead? How much more risk would the higher-volatility asset contribute?

Section 3 - Think About Correlation

If your two risk-budgeted assets are highly correlated (move together), how might that change how much real diversification benefit you're getting?

Section 4 - Set an Overall Risk Budget

Before allocating across positions, how would you decide the total portfolio risk target in the first place?

Section 5 - Plan for Volatility Shifts

If a regime shift (previous lesson) doubled one asset's volatility overnight, how would its risk-budgeted dollar size need to change?