

# WealthAlpha Master Guide

Chapter 4: Position Sizing Science + Sector Diversification

Prepared by Wealth Alpha — SEBI Registered Research Analyst

## Chapter 4: Position Sizing Science + Sector Diversification

WealthAlpha Advantage: Our AI ensures your portfolio respects position sizing and sector caps automatically — giving alerts if any stock >10% or sector >25%.

Position sizing determines how much of your money goes into each stock. Even the best ideas can destroy wealth if sized incorrectly. Sector diversification ensures no single theme can wipe out your portfolio.

### Position Sizing Models

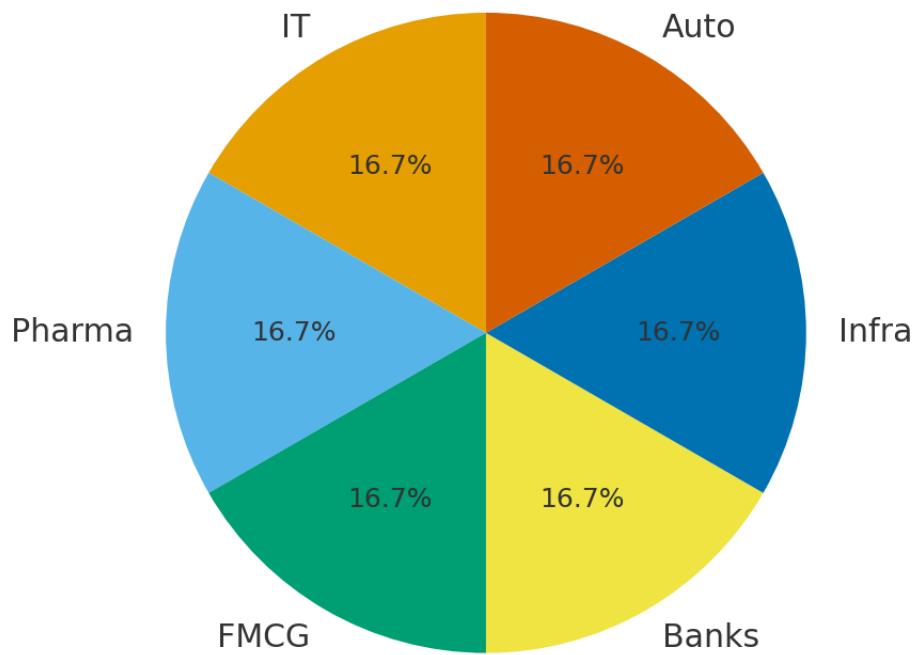
- Equal Weighting: Simple, but ignores conviction.
- Conviction-Based (10/5/2 Rule): 2–3 big ideas at 10%, several medium at 5%, many small at 2%.
- Risk-Based (2% Rule): Never risk more than 2% of capital on one trade.
- Kelly Criterion (Advanced): Sizing based on probability-weighted edge.

### Sector Diversification

Rules of thumb:

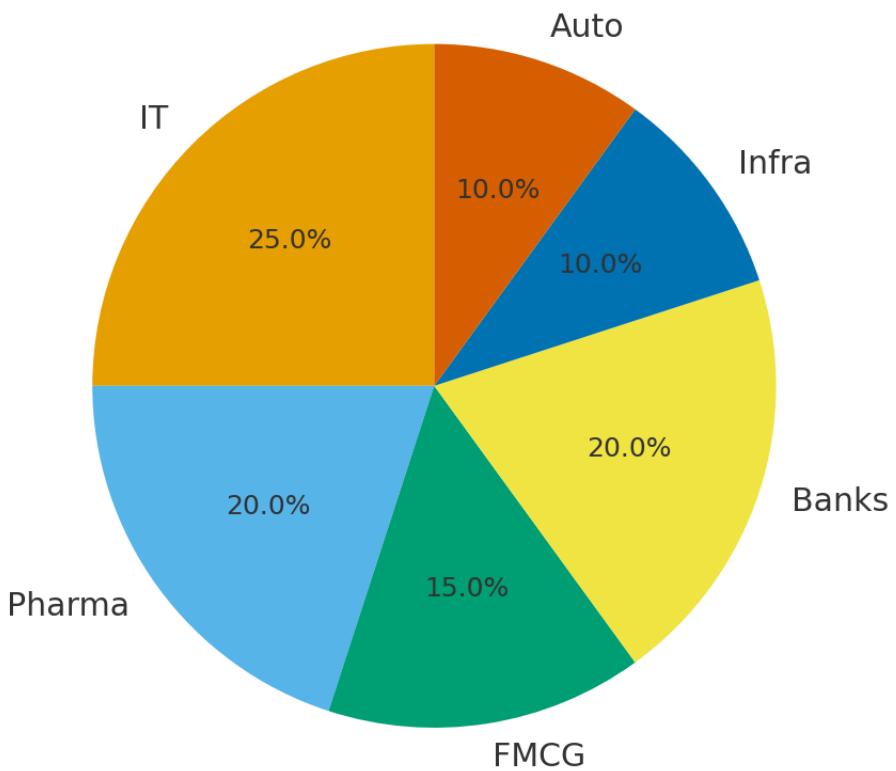
- Max 10% in one stock.
- Max 25% in one sector.
- Hold 8–12 stocks across 5–6 sectors.
- Mix cyclicals (Autos, Infra, Metals) with defensives (FMCG, Pharma, IT).

## Beginner Portfolio Allocation



Beginner Portfolio — Equal-weight sectors for stability.

## Advanced Portfolio Allocation



Advanced Portfolio — Tilted weights based on conviction and macro view.

### News Impact Matrix

News/Event	Positive Impact	Negative Impact
RBI Rate Cut	Autos, Housing, Banks (loan growth)	Debt funds (yields fall)
RBI Rate Hike	Banks (NIM expansion), IT (weak INR)	Autos, Real Estate (loan costs up)
Oil Price ↑	Oil producers	Aviation, Paints, Logistics
Strong Monsoon	FMCG (rural), Agri-linked	—
INR Weakness (USD↑)	IT/Pharma exporters	Import-heavy sectors (Auto OEMs, Refiners)
Budget Infra Push	Cement, Steel, Capital Goods	Bonds (fiscal risk)
US Recession	FMCG/Pharma defensives	IT, Export sectors

## DIY Action Kit

- Apply the 10/25 rule: ≤10% in stock, ≤25% in sector.
- Mix 60% core (defensive sectors) + 40% cyclical (growth sectors).
- Rebalance quarterly if weights drift.
- Hedge with Gold ETFs or SGBs (5–10%).

## Case Study

COVID-19 Crash 2020: Portfolios overweight on Aviation/Hotels fell 70%+. Diversified portfolios with FMCG/Pharma exposure recovered faster.